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## Dismissal for Poor Performance

Poor performance or its synonymous words such as unsatisfactory performance, incapability, inefficiency or plain inaptitude is one of the main grounds in which the employers may dismiss an employee. However, the correct approach in this delicate issue must be addressed, failing which the Court is apt to rule in favour of the dismissed employee much to the chagrin of the employers.

### Poor Performance is not Misconduct Per Se

It is interesting to note that Yang Arif Mohd Amin Firdaus Abdullah ruled in **Eruthiam Arokiasamy v BM Enterprise Sdn Bhd** (Award No. 622 of 2006) [2006] 2 ILR 852 that :

*"...based on the sole ground given in the Termination Letter, namely "due to your work attitude or lackadaisical attitude," the claimant had not committed any misconduct to justify a dismissal. A workman who does not show enough care or enthusiasm in his work but nonetheless plods on with the work does not necessarily commit misconduct."*

Whilst the employers do have a legitimate and reasonable expectation that its employees will perform their task in accordance to an acceptable, reasonable standard, the evaluation of whether an employee is a poor performer is a very subjective test. Employees do come from different backgrounds and the Court would take

into account various factors in deciding whether there is actual poor performance.

### Burden of proof

It is incumbent upon the employers to show evidence on a balance of probabilities and not mere allegation that the termination is justified on grounds of poor performance. However, a single act of incompetency or inefficiency does not warrant the summary dismissal of the said employee.

Yang Arif Rajendran Nayagam in **Galaxy Portfolio Sdn Bhd v Suradi Sulaiman** (Award No. 158 of 2006) [2006] 1 ILR 187, Industrial Court Kuala Lumpur in his Award quoted the case of Lord Donaldson in **Construction & Allied Trades Technician Union v Brain** [1981] 1 RLR 224

*"the employer has to show why in fact he dismissed the employee. This is no great burden upon the employer, since he will know why he dismissed the employee".*

### Held

The company had failed to prove the allegations of poor performance against the claimant. In any event, even if there had been such poor performance, there is no evidence that the company had ever informed the claimant, who is still on probation, of his shortcomings, or had given him any opportunity to improve himself. In the circumstances, the dismissal was without just cause or excuse.

## Oral or Written Warnings?

It goes without saying that written warnings are the most compelling evidence to show that the company had informed the employee of his shortcomings. Employers should also ensure that the written warning was duly received and accepted by the employee.

The difficulty with oral warnings is the production of such witnesses to prove that such warnings were in fact issued. The relevant witnesses may have since passed away, left the company, worked abroad, turned hostile towards the company etc.

More often than not, the company will have to incur further expenses in securing the attendance of these witnesses. As such, it may turn out to be a very costly affair for the company in defending the said dismissal.

Faiza Tamby Chik J in **Paari Perumal v. Abdul Majid Hj Nazardin & Ors**, High Court of Malaya, Kuala Lumpur [Civil Appeal No. R2-11-71-99] [2000] 4 CLJ 127 held that the magistrate erred when she accepted the evidence for the defendants that they were dissatisfied with the plaintiff's performance because nothing to this effect was included in the statement of defence. In any event, the absence of any warning letters for unsatisfactory performance supported the plaintiff's submission that the allegations regarding his poor performance were mere afterthoughts.

## Is Domestic Inquiry a Pre-requisite?

The Industrial Court in **Wearne Brothers Services Sdn Bhd v Yuen Ah Man** (Award 188 of 1982) ruled that:

*“It was argued that the allegation against the claimant being one of inefficiency, it was required of the company to hold a domestic inquiry as dismissal was effected as a punishment for his failure to improve his work*



*performance. I am of the view that inefficiency is not misconduct, which necessitates an inquiry. The Company Secretary decided to terminate the services of the claimant based on the feedback from and appraisals by the managers. In addition, he discussed the matter with some senior executives. He should have given an opportunity to the claimant to state his case.”*

From the above observation, it is clear that there is no necessity to hold a domestic inquiry prior to a dismissal for misconduct solely on grounds of poor performance.

## Fair Procedure / Due Process

In **Rohimi Yusoff v. Alfa Meli Marketing Sdn Bhd & Anor** [2001] 6 CLJ 177, High Court, Kuala Lumpur, Faiza Tamby Chik J made an observation of **IE Project Sdn Bhd v. Tan Lee Seng** (Award No. 56/198)

*“An employer should be very slow to dismiss upon the ground that the employee is found to be unsatisfactory in his performance or incapable of performing the work which he is employed to do without first telling the employee of the respects in which he is failing to do his job adequately, warning him of the possibility or likelihood of dismissal on this ground and giving him an opportunity of improving his performance. It is for the employer to find out from the employee why he is performing unsatisfactorily or warn him that if he persists in doing so he may have to go. There is no record of any such warnings. On the contrary I am satisfied that the Claimant had performed his task to the best of his ability.”*

## The Facts of Rohimi Yusoff

The applicant was employed by the 1st respondent ('the company') as 'Marketing Manager'. Soon after, the applicant's employment was terminated. The Industrial Court concluded that the termination of the claimant was with just cause or excuse and had dismissed the claimant's claim. The said court was satisfied from the evidence that it was because of the claimant's inability to generate business for the company as that was the sole purpose and object of the claimant as 'Marketing Manager'. Hence, the applicant's instant application for an order of certiorari to quash the award and for an order of mandamus for a rehearing before another chairman of the Industrial Court.



## Held

The claimant was dismissed without any warning and was working with the company for 10 weeks only. It was too early to say that the claimant had failed to generate business during that period.

Therefore, this decision of the High Court in Rohimi Yusoff had re-emphasized the principle that an employer should accord sufficient time and opportunity for the employee to improve, otherwise the employer may be in violation of fair procedure/due process as discussed above.

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*... an employer should accord sufficient time and opportunity for the employee to improve, otherwise the employer may be in violation of fair procedure / due process ...*

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The legal principles enunciated in Rohimi Yusoff have been further entrenched in **Sidel Industry (M) Sdn Bhd v Thanusia Malar Raja Gopal** (Award No. 8 of 2006) [2006] 1 ILR 116 and **Swai Lin v MRTS-Atlantik (M) Sdn Bhd (Award No. 688 of 2006)** [2006] 2 ILR 910 just to name a few more recently decided cases.

Yang Arif Hariraman Palaya in **Steven Ferenc Palos v. Ogilvy One Worldwide Sdn Bhd & Anor (Award No. 2316 of 2005)** [2006] 1 ILR 61 Kuala Lumpur Industrial Court held that:

- (i) taking into consideration the entire evidence, there is no sufficient evidence to substantiate the claim that the claimant was guilty of poor performance.
- (ii) the claimant had never been told that because of his areas of weaknesses, i.e. poor performance and his attitudinal problem, a dismissal of him was being

considered. At no point did the company ask the claimant to explain or raise any issue as to whether his attitudinal problem and poor performance would be harmful to the harmonious client relationship and the proper functioning of the company.

- (iii) the claimant should have been given every opportunity to discuss the situation of his work performance before he was terminated. The company could have given him a warning in writing and even suspended him before taking action to dismiss him. This the company failed to do.

## Probationers

It is trite law that a probationer enjoys the same rights as a permanent or confirmed employee and his services cannot be terminated without just cause or excuse as per the judgment of the Court of Appeal in **Khaliah bte Abbas v. Pesaka Capital Corp Sdn Bhd** [1997] 3 CLJ 827.

## Summary

In view of the fact that poor performance does attract the same consequence as misconduct, the case law has constantly upheld the principle that the employer should adhere to the following before taking the drastic step of dismissing the employee:

- (i) informing the employee of the respects in which he is failing to do his job properly;
- (ii) warning him of the possibility or likelihood of his termination on grounds of poor performance; and
- (iii) giving the employee sufficient time and opportunity to improve his performance on the job.



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# Intellectual Property Assets as Wealth-Creation Tools and Spinner of the Economy - Part 2

In the first installment of this two-part article that appeared in the November/December 2006 issue of LegalTAPS, the topic of management of intellectual property ('IP') assets was discussed, highlighting the importance of having in place an IP management system at the heart of a corporate body to properly and effectively manage these valuable intangible assets in order to pump economic vitality through its veins. We also highlighted the mechanism of an IP asset management system and how IP assets are valued using different methodologies.

The second and concluding part of the article will discuss some of the methods of commercialisation of IP assets currently practised amongst the more IP-savvy of conglomerates and individuals in Malaysia and what lies ahead in the area of exploiting and commercialising IP assets.

## Commercialisation of IP Assets

It is understandably easy to neglect the presence of IPs within the corporate fabric of a company and as a corollary, the value of IP assets to the overall financial position of a company is not realised, IP assets being intangible and not as visible a contributor to the wealth-creation process as their tangible cousins. Traditional forms of investment and enterprise may beget dollars and cents on the face of the financial statements of brick-and-mortar businesses (and will continue to do so) but the tide has changed on that front as IP assets are proving themselves to be equally effective wealth-creation tools (if not more effective).

The common forms of commercialising IP assets are licensing, franchising and the sale and purchase of IP rights. Getting the IP assets to work for a company rather to let them remain in the passive form of paper protection are prudent means of generating extra income for a company and indeed with trade marks, commercial use either by the proprietor or licensee is even vital to the survival of the trade mark in ensuring that it is not susceptible to being removed, expunged or cancelled on the grounds of non-use.

Two means of commercialisation of IP assets which are currently more commonly exploited by entities in Malaysia (and

which are earning the parties involved in the transactions substantial wealth) - licensing and franchising - will be discussed here. An overview of what we can expect in the arena of commercialisation of IP assets in the near future will be touched upon thereafter.

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*The common forms of commercialising intellectual property assets are licensing, franchising and the sale and purchase of intellectual property rights.*

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## Licensing

Large multi-national corporations like The Coca-Cola Company (which consistently ranks first place in polls on most valuable brands in economic denomination) realises value from its portfolio by exploiting its valuable trade marks through licensing and marketing agreements. Many other corporations have also jumped on the bandwagon and realised their IP portfolios through third party licensing arrangements: Texas Instruments and IBM are prime examples of corporations which derive significant additional income from collecting royalties on licensed IP rights to third parties which are keen to use their patented innovations in their products. Indeed many large technology companies and consumer goods manufacturers have cross-licensing deals in respect of their intellectual assets (mainly patent on cutting-edge hardware) with their competitors worth millions of dollars in order to utilise intellectual assets of each other to generate individual wealth.



What IP rights can be licensed? Trade marks, industrial designs, copyright, confidential information and know-how etc can be licensed. It is pertinent to have in place a licence agreement and possibly a non-disclosure agreement (where sensitive IP rights are being commercialised) to govern the rights of the licensor and the licensee vis-à-vis the use of the IP right and how the IP right can or cannot be used. A licence basically gives permission to the licensee to perform the acts that are otherwise off limits to third parties and protected by the exclusive right of the owner of the IP right (licensor).

Apart from generating extra income to a company, licensing provides the following commercial benefits :-

- (a) for the licensee, it is a way of saving on capital out-lay in that an entity does not have to incur large sums of money to set up production units, manufacturing plants or research and development facilities in order to produce a particular product. It merely has to seek a license from a company with the relevant product or process patent and/or know-how which is willing to license out its patent/know-how. For the licensor, IP licensing is an income-generating machine;
- (b) a product made under licence translates to savings for the end-users as costly research and development is eliminated from the equation and the costs of labour, material, etc are reduced;
- (c) IP licensing, particularly in respect of licensing (or cross-licensing) of patents, results in better products being developed because further patented features obtained by license may be added to an existing product;
- (d) a competitive edge may be obtained against competitors with the improved product as a result of additional features (acquired through patent licensing) or through an enhanced distribution network already paved by the IP right that was acquired for use under licence (trade mark licensing).

## Franchising

In general terms, franchising is a method of marketing and distributing based on a two-party relationship between the franchisor (i.e. the person or company leasing the rights to the business name and system) and the franchisee (the person who purchases it). The rights in question is for the purpose of conducting a business using the trade marks and trade names of the proprietor/franchisor based on a specified system (business, marketing and operations strategies), at a specified location and for a predetermined length of time. Depending on



the franchise system involved, the franchisee will undergo a period of training where the franchisor's way of doing things are taught, for example, standards of quality, service, value, formulas and specifications for menu items, method of operation and inventory control techniques.

What types of franchise systems are there? Generally, there are three main types of franchise systems in practice:-

- (a) trade mark/trade name franchise - this system gives the franchisee the right to manufacture products by utilising the trade mark, trade name, logo, trade dress and other distinctive elements owned by the franchisor.
- (b) product distribution franchise - this is where the franchisor grants the franchisee the right to sell and distribute products which are produced by the franchisor.
- (c) business format franchise - the franchisee is given the right to use the trade mark, distribute the franchisor's manufactured goods, and the right to duplicate the whole business system as adopted by the franchisor. The valuable McDonald's franchise is shaped on this concept.

Franchising has tremendous commercial benefits for the individual (be it the franchisor or the franchisee) which will impact positively upon the economy if harnessed effectively. Briefly, some of the benefits are:-

- (a) the reduction of risk in a company's investment in a franchise as franchises, being more often than not based on established and well-known concepts and brands, get up and running faster and see profits more quickly or inversely, is not as susceptible in going into the red as a business which has to start from ground zero in terms of monetary and goodwill-development.
- (b) increase in the effectiveness of a franchisee's operation management as leasing a franchise allows a franchisee to tap into a proven managerial know-how base.

- (c) enable market expansion without the need to invest a large capital to achieve that result. Let others (i.e. the franchisees) do the leg-work and try and test the market is the motto here.

Foreign franchisors who have successfully established themselves in Malaysia include Kentucky Fried Chicken and McDonald's and local franchisors who have successfully made an impact on the Malaysian business scene and overseas are Secret Recipe and Rotiboy (which is fast gaining a loyal following in Thailand).

### The Future of Commercialisation of IP Assets

Towards achieving developed nation status, our financial and accounting sectors have to prepare themselves and develop a structure to take on more sophisticated forms of commercialising IP assets. Concepts like "IP-backed securitisation", "collateralisation of IP assets" and "mortgaging of IP assets" may still be alien to or unaccepted by our financial sector as trading tools but are already accepted (albeit still fairly recent) forms of securing loans and raising capital in countries like USA, UK and Japan. Nearer to our shores, our neighbour, Thailand has embraced such progress. It was reported that from November 2003, The Small and Medium Enterprises Development Bank of Thailand will take the value of patents, trade marks and other IP rights into account when deciding its lending policy in individual cases (Managing Intellectual Property, October 2003). The Thai bank has made headways in the financial scene in this region as being one of the first (if not the first) to accept IP rights as collateral in loan applications.

How do such innovative concepts of commercialisation of IP assets work? Perhaps their basic mechanics may be fleshed out by way of some exciting examples of the form of their use in USA.



### Securitisation of IP Assets

In 1997, rock star, David Bowie securitised future royalties to be earned from his song catalogue by issuing David Bowie IP-backed bonds to raise capital to the tune of US\$55 million.

Further examples of IP-based securitisation loans based on licensing revenues include a loan granted in 1999 to Bill Blass in the amount of US\$24 million, a loan to Athlete's Foot of US\$33 million in 2003 from securitising its franchise resources and the securitisation of copyright in a film portfolio by DreamWorks in 2002 which raised US\$1 billion to refinance outstanding credit facilities.

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*Intellectual property securitisation is typically possible in respect of future royalty payments from licensing of patents, trade marks and copyrights.*

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Securitisation is one way in which the "originator" can raise finance but it requires a substantial revenue stream derived from IP assets, such as royalty or licence revenue. Securitisation normally refers to a method of structuring financing involving the pooling together of different financial assets with identifiable and predictable cashflows, transferring the same to investors and the subsequent issuance of securities backed by those assets. In a nutshell, the concept involves the selling by the "originator" (the entity whose receivables was transferred to the issuer) of its rights in the cashflow-generating asset(s) to the issuer in return for a lump sum payment backed by the IP-based security.

IP securitisation is typically possible in respect of future royalty payments from licensing of patents, trade marks and copyrights.

### Collateralisation of IP Assets

This is another form of commercialisation of IP assets to raise financing and one which may prove to be less complicated than IP securitisation. This form of financing allows a company or individual to leverage the asset value in patents, trade marks, copyrights, trade secrets, know-how etc (that is, the IP assets themselves, rather than the revenue stream derived from the IP assets, as is the case with IP securitisation) to raise capital.



In IP collateralisation, a lender extends credit based on the IP asset portfolio held by an individual or company, particularly the disposal value of the IP that is owned.

Recent examples of collateralised transactions involving IP assets is a US\$300 million loan made to Michael Jackson by Fortress Investment Group which was secured by a song catalogue that includes Beatles' hits as part of the collateral to allow the one time King of Pop to refinance hundreds of millions of dollars in loan to keep him from the brink of bankruptcy.

Part of a loan made to BCBG Max Azaria Group, a manufacturer and retailer of apparel, footwear and accessories was secured by a guarantee issued by a credit enhancement firm based on collateralisation of its trade marks.

In the UK, in the form of pledging of registered trade mark, a registered trade mark may be pledged to secure a claim and this is put on a statutory footing by the UK Trade Marks Act in that a pledge can be created by making an entry concerning the pledge in the register on the basis of a notarised agreement for the establishment of the pledge between the proprietor of the trade mark and the pledgee.

It allows for a registered trade mark to be encumbered with a pledge such that the person for whose benefit the pledge is established (the pledgee) has the right to satisfaction of the claim secured by the pledge against the pledged trade mark. If a claim secured by a pledge is not satisfied, the pledgee is entitled to satisfy the claim by way of selling the encumbered trade mark at a compulsory auction.

## Conclusion

In conclusion, it can be seen that IP assets when managed and used properly are indeed valuable tools to generate economic growth. It is reassuring that the government is giving due

recognition to this concept by educating the public and industry about IP first and foremost and of the potential in store in harnessing IP assets to exploit their full capabilities as financial tools and not merely viewing them as cost-intensive passive tools to protect against infringement. In short, IP assets can be used as both a shield and a sword by those who know how to wield them to derive their fullest potential.

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*... the (Malaysian) government is giving due recognition ... by educating the public and industry about IP ... and of the potential in store in harnessing IP assets to exploit their full capabilities as financial tools ...*

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It has been said that intellectual capital has emerged as a leading asset class amongst industrialised nations around the world which have gradually shifted from being reliant on their labour and manufacturing intensive sectors to knowledge-based sectors. Therefore, with knowledge of this growing trend, our nation must act to push forward the economic frontiers as we know them for the betterment of the wealth-generation process of individual corporations and the nation at large. The general mindset has to be geared towards adapting to the innovative trends in the financial arena and laying the foundation and structure to prepare for the coming tide of new forms of wealth-creation tools and structures to our shores.



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# Why not Mediation?



Mediation is a voluntary process whereby an impartial third party known as the ‘mediator’ assists parties in disputes to resolve their differences and work towards an amicable settlement. One can only proceed with mediation if all the parties agree to it.

The Malaysian Bar Council has taken measures to encourage ‘mediation’ as an alternative dispute resolution (‘ADR’) mechanism between parties by setting up an ADR Committee entrusted with the task of training members of the legal profession to be mediators. In 1999 the Bar Council also set up the Malaysia Mediation Centre (‘MMC’) in Kuala Lumpur and Penang. The MMC is a body established with the objective of promoting mediation as a means of ADR, and to provide a proper avenue for successful dispute resolutions. These Centres operate under a set of Mediation Rules and Code of Conduct formulated for a variety of matters relating to mediation, including the cost of such mediation process. The MMC also has the responsibility to provide mediation workshops and training programmes for lawyers in the practice of mediation. The Alternative Dispute Resolution (ADR) Committee is responsible for the proper functioning and implementation of the MMC’s objectives.

The MMC offers mediation services, assists and advises on how to get the other side to agree to mediation if one party has shown interest, and provides mediation training for those interested in becoming mediators and accredits and maintains a panel of mediators.

The mediators of the MMC are subject to a code of conduct which requires impartiality and confidentiality. The MMC has its own rules for purpose of accreditation of mediators. The mediators must be practising members of the Malaysian Bar of at least seven (7) years standing and have completed at least 40 hours of training, conducted and organised by MMC, and must have also passed a practical assessment conducted by the MMC’s appointed trainer.

The MMC will recommend a suitable mediator acceptable to the parties, by taking into account the nature of the dispute, expertise of the mediator and other special requirements of the parties.

## When would Mediation be Suitable?

The parties should always consider mediation as their first choice for resolving their disputes. Mediation works best if parties have a genuine desire to resolve their differences, have a give-and-take attitude, are prepared to discuss their problems and are willing to work towards finding a solution. Mediation is especially useful when there is a continuing relationship between the parties, or when the relationship is important to them. It is also suitable for disputes where there is room for compromise. On the other hand, where parties are not willing

to settle the matter and insist on their views, positions or legal rights, mediation would not be appropriate.

## Is Mediation Cheaper than Litigation?

Mediation is certainly a much cheaper, more informal and flexible method of resolving disputes. It is also faster. The mediation process could take a few hours to few days until the matter settles or concludes, depending how complicated the matter is.

The cost of the mediation process is as follows:-

Quantum of Claim	Mediator's Fee per Party
RM100,000 and below	RM500 per day or part thereof
RM100,001-RM250,000	RM750 per or thereof
RM250,001-RM500,000	RM1,000 per day or part thereof
RM500,001-RM750,000	RM1,250 per day or part thereof
RM750,001-RM1,000,000	RM1,500 per day or part thereof
RM1,000,001-RM2,000,000	RM2,000 per or part thereof
RM2,000,001-RM3,000,000	RM2,500 per day or part thereof
RM3,000,001-RM5,000,000	RM3,000 per day or part thereof
RM5,000,001-RM10,000,000	RM4,000 per day or part thereof
Above RM10,000,000	RM5,000 per day or part thereof

**NB:** The mediator’s Scale of Fees is subject to change from time to time  
 Administrative Charge-RM300\*\*  
 \*\* The Administrative Charge and Room Rental Rates are shared by the parties on an equal basis.  
 (Source: MMC)

## Mediation has been Recognised and Promoted in Many Countries

Mediation has not received much publicity in Malaysia. Even the smallest claims are often brought before the courts. More seminars and workshops would need to be conducted to educate the public as well as lawyers on the benefits of mediation.

**Lawyers** should try to encourage their clients to have their disputes resolved through mediation. Meanwhile, clients should be made aware of the benefits of mediation. In the US, lawyers would be committing legal malpractice if they fail to explore opportunities with their clients. Even in Australia, lawyers may be found guilty of negligence if they fail to advise their clients of the availability of mediation in settling disputes. Lawyers should also be encouraged to adopt mediation clauses in their contracts and agreements.

The **judiciary** may also play an important role in fostering disputants to use mediation as a means of resolving disputes. In England, lawyers representing parties in all High Court actions are required to lodge a pre-trial checklist, which would indicate whether they have discussed with their clients the possibility of attempting to resolve the dispute by any of the

alternative dispute resolutions. In 1996, the Singapore Mediation Centre was set up at the Singapore International Arbitration Centre. When a case is filed in court, the registrar may refer parties to pre-court based mediation or arbitration. In 2000, the Chief Justice of Singapore announced the latest service for online mediation and virtual e-commerce dispute resolution, the purpose of which is to establish a comprehensive dispute resolution framework for e-commerce and online transactions. Most of the American courts have rules that require cases to be referred to mediation first before they can be listed for trial. Retired judges should also be encouraged to become mediators. Their knowledge and experience would be appreciated in the mediation process.

The **legislative** role in promoting the use of mediation as a means of resolving disputes is by no means any less significant. In 1998, the US Congress recognised ADR and mediation by amending Title 28 of the United States Code (federal statutory law) with respect to the ADR process. On 1 August 2000, the Supreme Court Act of New South Wales was amended to allow matters to be referred to mediation even without the consent of the disputants. In New Zealand, as announced by the Attorney General in 2000, mediation has become the primary source of dispute resolution (as opposed to litigation) in New Zealand. In England, a new procedural code was enacted as a fillip to alternative dispute resolution. There have been a number of recent decisions where parties have been penalised for their reluctance to mediate.

Mediation is an alternative dispute resolutions to reduce the backlog of cases in the courts. Therefore, the **government** should encourage mediation as an ADR by establishing institutions for training people on mediation or other ADR procedures. Mediation courses should be promoted in universities and institutions of higher learning to create a new breed of trained people who would be capable mediators. In Singapore, a specialised workshop is organised to train lawyers with the skills required for mediation.

### Duty of Parties to Reach Settlement

Mediation allows the parties to discuss their views and needs in the process. In order to resolve the problems faced by disputants, a basic understanding and appreciation of the fundamental concepts of mediation is vital. Lack of such commitment would make mediation meaningless and inefficient as a means of resolving problems.

### How do Parties reach a Settlement?

Parties reach a settlement on their own. The mediator's role is to facilitate the process of reaching that goal. The mediator will draw up the terms of the settlement and if the dispute is in Court the terms ought to be recorded before the judge to secure the position of the parties.

### Do we still need Lawyers in Mediation?

In most mediation, we do not need to have a lawyer to participate directly. Nonetheless, there are some cases in which we may still need to turn to a lawyer for advice, i.e. cases



involving substantial property or legal rights and their review on any settlement agreement before the disputants sign on it.

### How can a Lawyer Help with Mediation?

**Propose Mediation to the Other Side** - Lawyers can help by proposing mediation to the opponents' lawyers. This is helpful especially when the lawsuit has turned nasty and disputants are not ready to swallow their pride and ask the other side to come to the bargaining table.

**Help to find a Mediator** - Chances are good if a lawyer can propose a mediator who is experienced to handle the dispute.

**Explain and complete Mediation Paperwork** - Lawyers can help to write statements describing the dispute and explaining how parties would like to resolve it. Lawyers can also explain on mediation documents.

**Prepare Parties for Mediation** - Lawyers can explain how the mediation process works, help the parties to organise their thoughts into a coherent story for the mediator and make suggestions of things to tell to the opponent as well as things that the other party might want to keep.

**Evaluate Settlement Options** - Lawyers can help to evaluate the terms based on the chances of succeeding in court, the value of the claims and legal arguments for and against the position. Lawyers can also alert the parties to potential problems with the proposed settlement.

**Write a Binding Agreement** - When disputants reach an agreement in mediation, lawyers can help by putting the said agreement in writing. Lawyers can make sure that the written agreement reflects the settlement reached during the mediation, and that the agreement can be enforced if either party does not honour its terms.

### Conclusion

Mediation plays a paramount role in our society and is an alternative choice to going to court to resolve problems. As Woodrow Wilson once said, "a dispute is a problem to be solved, together, rather than a combat to be won."



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# Acquisition of Properties in Malaysia by Foreigners - Recent Rulings

On 1st November 2006, the Foreign Investment Committee ('FIC') relaxed one of its rules and now permits foreigners to acquire a property exceeding the value of RM250,000 without having to apply for approval from the FIC. However, this is subject to the property being acquired for own personal use, and not for purposes of renting out or investment.

In other words, if a foreigner intends to acquire a piece of property (be it a house, commercial unit or a piece of land) of any value exceeding RM250,000 for his own occupation or use, he does not have to apply to the FIC for prior approval.

This ruling, although much welcomed, was not enough to encourage foreigners to acquire property (residential or otherwise) in Malaysia in view of the qualification that the property must be for own use and not for rent.



In another bid to boost the property market, the FIC further relaxed the ruling on the 21st of December 2006, by lifting the qualification in respect of residential property. Effective 21st December 2006, foreigners can acquire any residential property exceeding RM250,000 per property without having to apply for any FIC approval. There is no limitation on how many residential properties a foreigner can acquire.

However, the qualification on non residential property still remains. A foreigner who wishes to buy a non residential unit exceeding RM250,000 for investment purpose and not for his own use, will still have to apply to the FIC for approval.

Apart from the issue of FIC approval, as land matters come under the jurisdiction of the State in which the property is situated, the acquisition of any property (whether residential or otherwise) by any foreigner is also governed by the rules



or guidelines of the State in which the property is situated. A foreigner is any person who is a non citizen of Malaysia or a company with 50% or more of its shareholdings foreign owned.

Certain states impose a levy fee for granting the approval to a foreigner to acquire property other than industrial property. The levy fees currently imposed for each property approved by some of the states are as follows:

- 1) Johor state .....RM10,000;
- 2) Perak state..... RM5,000;
- 3) Melaka state..... RM3,000;
- 4) Penang state .....RM1,000

Some states like the Selangor state and the Pahang state, and the Federal Territory of Malaysia (of which Kuala Lumpur, Putrajaya and Labuan are part of) which is governed by the federal government of Malaysia, do not impose any levy fee.

Although the FIC will consider applications for acquisition of agricultural land, certain states like Johor and Melaka have clear written guidelines that no approval will be granted for acquisition of agricultural land by a foreigner. It is therefore prudent to seek legal advice prior to committing to a purchase.

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# Restrictions Emasculated

It was only in November that the Central Bank of Malaysia (BNM) first revealed a hint of things to come. It had then lifted the number of prospective acquiring parties that shareholders of a licensed banking institution are permitted to negotiate at any particular time. Before that refreshing announcement, BNM had a policy of restricting substantial shareholders of local banking institutions licensed under the Banking and Financial Institution Act 1989 (BAFIA) to talk and negotiate to only one party at a time on any possible acquisition or disposal of stake in the licensed banking institution. Following the announcement, BNM will now, upon receipt of an application, allow concurrent negotiations by shareholder with multiple parties at any single point of time.



BNM appears to be far from done. Amidst the exciting news surrounding the mega mergers in the plantation sector in the business section of most local dailies, BNM supplied more exciting announcements at the turn of this year.

The latest announcement was two fold. First, BNM lifted investment restrictions of licensed banking institutions. Previously, licensed banking institutions were allowed to acquire 5% of shares in any company listed on the stock exchange only. By removing that cap, licensed banking institutions are henceforth allowed to invest up to 25% of their capital base in all types of shares, viz, shares listed on the stock exchange, preference shares, shares not listed on the exchange and foreign equities.

Secondly, licensed banking institutions are now free to hold shares in other licensed banking institutions, albeit with a limit. Before 2007, BAFIA totally prohibits one licensed banking institution from holding shares in another licensed banking institution or its subsidiary. With this announcement, licensed

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*The latest announcement was two fold. First, BNM lifted investment restrictions of licensed banking institutions. ... Secondly, licensed banking institutions are now free to hold shares in other licensed banking institutions, albeit with a limit.*

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banking institutions are allowed to hold up to 5% stake in other licensed banking institutions.

As a whole, the announcements were well received by most quarters in Malaysia. Apart from demonstrating the maturity of the Malaysian finance system and its transition into a more de-regulated environment, the moves made by BNM also confer on licensed banking institutions greater flexibility in respect of their investment policies and activities inside and outside of Malaysia. Evidently, 2007 only promises more excitement from BNM. Entrepreneurs and investors alike can only expect more encouraging and welcoming news from the Governor's office in Jalan Dato Onn, especially, in the sector of Islamic Finance. Watch this space for more updates.

*Note: This article was recently published in issue 7.2 of the Asian Legal Business.*



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# ATMD - From Across the Causeway

## Future Enterprises Pte Ltd v McDonald's Corp



This was an appeal to the Singapore High Court by Future Enterprises Pte Ltd ("Future") against the decision of the Principal Assistant Registrar ("the PAR") of the Intellectual Property Office of Singapore.

This was not the first time the parties had crossed swords. Previously, the parties had battled over Future's application for registration of three marks, namely:-

- (a) "MacNoodles & device" for "instant noodles";
- (b) "MacTea & device" for "instant tea mix";
- (c) "MacChocolate & device" for "instant chocolate mix".

In the previous litigation, Future emerged victorious, with the Singapore Court of Appeal dismissing the oppositions filed by McDonald's Corp ("McDonald's") against the above marks.

In the current proceedings, Future had filed an application to register the mark MacCoffee ("the MacCoffee mark") for the following Class 30 goods:-

Coffee; tea; cocoa; coffee based beverages; artificial coffee; cappuccino; cereal preparations (including instant cereal in powder form), ice cream, prepared meals, confectionery, namely candies, sweets, lollipops, liquorice, lozenges, pastilles; cakes, bread, biscuits, jellies (confectionery) and puddings; pastries; snack foods products made from processed flour preparations and potato flour; cookies; snack food products made from corn; snack bars containing dried fruits and nuts (confectionery); cereal-based food bars; rice crackers; muesli bars; wafers.

McDonald's filed an opposition against the mark based on its prior registration for McCAFE in Class 30 ("the McCAFE mark") for:-

edible sandwiches, meat sandwiches, pork sandwiches, fish sandwiches, chicken sandwiches, biscuits, bread, cakes, cookies, chocolate, coffee, coffee substitutes, tea, mustard, oatmeal, pastries, sauces, seasonings, sugar.

The PAR allowed the opposition on the ground that the MacCoffee mark was similar to the McCAFE mark such that there was a likelihood of confusion on the part of the Singapore public. The PAR was of the view that:-

- a) the MacCoffee and McCAFE marks were visually, aurally and conceptually similar;
- b) the goods were similar; and
- c) a substantial number of average Singaporeans would be likely to be confused by the MacCoffee mark.

### Similarity of Marks

In the Grounds of Decision issued by the PAR, the PAR said that:-

*"The E in McCAFE has an accent above it (the diacritical mark), but visually this is a difference which likely to be unnoticed by the average consumer. The marks begin with the letter M which stands for Mc in the Opponents mark and Mac in the Applicants mark and end with the words café and coffee. In both marks, the capital letter C in the centre divides the first and second parts of the marks such that the impression is not of one word but of two words put together... Considering the total visual impression of the marks McCAFE and MacCoffee, I am of the view that there are sufficient visual similarities to override the differences submitted by the Applicants - that the prefixes Mc and Mac and the suffixes Cafe and Coffee are different...Aurally, both marks have three syllables. The two prefixes are homonymous and synonymous... The concept between the two marks is similar. Whether they relate to the beverage or the place where such beverage is sold and consumed, the idea of coffee is evoked in the minds of the public."*

Future had submitted that a café is understood by English speaking Singaporeans as a place where one drinks coffee and coffee is understood as a reference to the drink. McDonald's submitted that café also means coffee in French. The PAR held that an average person will be slow to notice the difference between the words café and coffee in terms of the meaning of the words. This is especially so since the mark McCAFE is registered for coffee and may be used on coffee. Additionally, it is not the conceptual difference between café and coffee that should be considered but the conceptual difference between McCAFE and MacCoffee.

The High Court judge agreed with the PAR's basis of comparison of the marks based on the three hallmarks of similarity, namely the visual, aural and conceptual aspects.

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*... an average person will be slow to notice the difference between the words café and coffee in terms of the meaning of the words. ... It is not the conceptual difference between café and coffee that should be considered but the conceptual difference between McCAFE and MacCoffee.*

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### Similarity of Goods

Although Future's application for registration was originally for a broader class of goods, at the end of its submissions before the PAR, it indicated that it was willing to restrict the specification of goods to "instant coffee mix" only. The PAR therefore decided the opposition before her on the basis that if the application succeeded, it would be allowed with such a restriction as to the specification of goods because, if the broader original specification of goods was considered, the goods of the parties would be more similar. On that basis, she held that the goods of both parties were similar if not identical as the MacCoffee and McCAFE marks included coffee.

The High Court judge agreed with the PAR's assessment that the basic product in both cases is coffee. Accordingly, the goods are similar.



### Likelihood of Confusion

The High Court judge held that both Future's and McDonald's goods (assuming that McDonald's does make use of the McCAFÉ trade mark "in a normal and fair manner") are likely to appear in the same shopping mall, suburban or otherwise. The Court held that the type of customers likely to purchase Future's goods is also not likely to be vastly different from those of McDonald's goods.

Like the PAR, the High Court judge was satisfied that there exists a likelihood on the part of the public.

The High Court accordingly upheld the decision of the PAR and dismissed Future's appeal.

This victory in Singapore is certainly the latest feather to the cap of the American fast food restaurant in its attempts to weed out companies riding on its goodwill.



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*ATMD - From Across the Causeway*

# Do Costs Always “ Follow The Event ”?



It is widely accepted that generally, in litigation and arbitration, costs “follow the event” i.e. a successful party is entitled to be compensated by the unsuccessful party for costs incurred in the proceedings.

There are, however, exceptions to this rule and this article aims to discuss some of the exceptions.

It is worthwhile to note, at the outset, the general principles governing the award of costs in dispute resolution proceedings:

- (a) Costs are in the discretion of the court or tribunal
- (b) Costs generally follow the event.
- (c) However, sometimes the court or tribunal can be persuaded that some other order should be made, for example, where the terms in a “sealed offer” or Calderbank Offer”, “Payment into Court” or “Offer to Settle” are relevant.
- (d) Where there are certain special circumstances or exceptions (which we will refer to below), the court may also deviate from the general rule and order the successful party to bear the whole or part of its own costs and/or pay the whole or part of the unsuccessful party’s costs.

## “Special Circumstances”

Two instances of “special circumstances” which allow the court to depart from the “costs follow the event” rule are as follows:

1. Where the successful party raises issues or makes allegations on which he fails, and that has caused a significant increase in the length or cost of the proceedings; he may be deprived of the whole or part of his costs.
2. Where the successful party raises issues or make allegations improperly or unreasonably, the court may not only deprive him of his costs but also order him to pay the whole or a part of the unsuccessful party’s costs.

Courts have in previous cases interpreted these two instances to include:

- \* Unsatisfactory conduct by a party in the course of the litigation, such as non-compliance with directions made.
- \* Unreasonable or obstructive conduct leading to wasted time at an oral hearing, protracted proceedings, or increased costs by the other party.
- \* Gross exaggeration of claims.
- \* Failure by the successful party on issues on which a large amount of time was spent.
- \* Extravagance in the conduct of the hearing, for example, employing an excessive number of counsels or expert witnesses, and furnishing unnecessary evidence over irrelevant issues or excessive evidence over non-substantive issues.
- \* Unreasonable refusal to accept an offer made by one party before or during the proceeding to compromise the dispute.

In a nutshell, the court in exercising its discretion may consider (a) conduct which protracts time taken for the litigation, or (b) conduct which increases the expenses by the other party.

The court in **Jet Holding Ltd and Others v Cooper Cameron (Singapore) Pte Ltd and Another** [2006] SGHC 20 explained the reason for departing from the general rule:

*“Courts have been known to deprive a successful party of full costs because it was responsible for some “wasted costs”. The court’s approach as to costs is intended to influence the manner in which litigants advance or defend their case. Litigants have to be focused and selective in the points taken, for it is decidedly foolhardy to assume that they will be able to recover full costs as long as they win.”*

The same sentiments were expressed in **Khng Thian Huat and another v Riduan bin Yusof and another** [2005] 1 SLR 130:

*“[A] successful party may be deprived of his costs in full or in part, if [his] conduct has been sufficiently blameworthy. Disallowing his entitlement to costs is one way that the court can effectively express its view of the misconduct of the successful party during the pre-litigation or litigation process and show its displeasure. In an exceptional case, the court may even order the successful party to pay the costs of the unsuccessful party.”*

Ultimately, the decision on costs is in the discretion of the judge upon considering the “special circumstances” of each case. However, the judge is not exempt from complying with rules of natural justice (such as giving both parties the right to be heard) and the duty to act judicially. The High Court cautioned in **Denis Matthew Harte v Dr Tan Hun Hoe & anor** [2001] SGHC 19:

*“How then is the discretion on award of costs to be exercised? ...*

*Although the court has an unfettered discretion to make whatever cost order the justice of the case demands, this discretion obviously cannot be exercised arbitrarily, or on extraneous grounds and irrelevant considerations. It must be exercised judicially guided by established rules and principles.”*

## Complex Cases

“Costs following the event” may be a useful overall guide in straightforward and simple cases. However, where parties are divided on a multitude of legal, jurisdictional or complex factual issues which are difficult to determine, a strict arithmetic allocation of costs based on the outcome of the case may not produce a just result.

Firstly, it is rare for the successful party to have been wholly successful on all the issues in dispute. In arbitration, where no party has substantially prevailed, arbitrators commonly order each party to bear its own costs and half of the procedural costs.

Secondly, even where the court decides to order some contribution towards the successful party’s costs, there is the problem of deciding upon what basis, and when, this contribution should be assessed.

The “loser-pays” rule does not seem to have emerged as



the universally recognised principle for the treatment of costs in international commercial arbitration. The most widely used “truly international” arbitration rules do not require a tribunal to award costs to the successful party. For example, the International Chambers of Commerce (ICC) Rules are silent on cost allocation inasmuch as Article 31(3) does not offer any criteria determining which party should bear the costs of arbitration. In the absence of any guidelines in the ICC Rules, the matter is left to the absolute discretion of the arbitrators. Article 40(1) of the UNCITRAL Rules adopts the principle that costs follow the event with regard to procedural costs. However, Article 40(2) omits any reference to the outcome of the proceedings with regard to legal costs. Rather, it expressly states that the tribunal is free to decide on such costs as it sees fit, suggesting that as far as legal costs are concerned, the outcome on the merits does not serve as the prevailing yardstick.

Therefore, in cases where the number and complexity of issues simply do not justify the application of an unspecific “costs follow the event” rule, judicial pragmatism coupled with “intuitive fairness” may be a better method to apportion costs.

In **Khng Thian Huat**, the High Court recognised that:

*“The usual direction is for costs to follow the event. However, in some cases such as this, there is no clear demarcation as to which party has been successful on an overall basis. A sterile issue-based approach or a pure time-based approach might create mathematical partisanship that will not embrace the entire spectrum of discretionary factors inherent in trial proceedings. The assessment of costs ought not to be a clinical scientific exercise divorced from considerations of intuitive fairness. The court almost invariably ought to “look at all the circumstances of the case including any matters that led to the litigation”.*



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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 Announcements and News



**Geraldine Chan** joins the Corporate & Commercial Practice Group as a Senior Associate. Geraldine has experience working on cross border transactions within the Asian region relating to acquisition of shares, assets or businesses of companies, mergers and acquisitions of or by private and public limited companies, and issuance of private debt securities.



**Genevieve Lau** joins the Corporate & Commercial Practice Group as an Associate. Genevieve practises in the area of corporate, commercial and financial related work and due diligence exercises.



**Sia Teng Teng** joins the IP & Technology Practice Group as an Associate. Teng Teng practises in the areas of Intellectual Property Laws.



**Leonard Yeoh**, our Partner in the Litigation and Dispute Resolution Practice Group presented a paper on Termination Management Process at a conference on 'Employment Law & Contracts' organised by Asia Business Forum at the JW Marriott Hotel in Kuala Lumpur from 10 to 11 January 2007. Leonard chaired the first day of the conference on Construction Contracts organised by Asia Business Forum from 5 to 6 February 2007 at the JW Marriott Hotel in Kuala Lumpur.



**Asmet Nasruddin**, our Partner in the Dispute Resolution Practice Group attended the UNCITRAL - Kuala Lumpur Regional Centre for Arbitration Conference on '30 years of the UNCITRAL Arbitration Rules' from 21 to 22 November 2006 at the Prince Hotel in Kuala Lumpur. He presented a paper on Alternative Dispute Resolution at a conference on Construction Contracts organised by the Asia Business Forum from 5 to 6 February 2007 at the JW Marriott Hotel in Kuala Lumpur. Asmet attended the 10th International Bar Association International Arbitration Day in Madrid on 2 March 2007 and has been appointed to the International Bar Association's Arbitration Sub-Committee on Recognition & Enforcement of Arbitral Awards. He has also been appointed to represent the Malaysian International Chamber of Commerce & Industry on the Malaysian Standards Body (SIRIM)'s Industry Standards Committee for Organisational Management.



**Su Siew Ling**, our Partner in the IP and Technology Practice Group was a panelist at a seminar jointly organised by the Federation of Malaysian Manufacturers, the US Embassy and the US Patent and Trademark Office, on the economic importance of IP to enhancing the Malaysian economy, held at Wisma FMM in Kuala Lumpur on 23 January 2007. She was also the chairperson at a conference on 'Key Strategies to Manage and Protect Your IP' on 12 March 2007, held at the JW Marriott in Kuala Lumpur.