

legalTAPS

AXCELASIA GROUP

The Changing Face of Legal Practice for Corporate Law Firms

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The legal profession has been evolving slowly but the pace picked up tremendously in the last two decades because of the forces of globalization. To be sure, the profession is not exempted from GATS or the General Agreement on Trade in Services. Malaysia, a major trading nation in the WTO, is a member of GATS. Malaysia has been a beneficiary of the global trading system and there is pressure and expectations for it to replicate the success in services.

Trade in goods and services demands legal services whether such trade is domestic or international in nature. Corporate law firms serve the needs of business, big and small. With a relatively open economy and with continuing pressure to open up further, the legal profession faces the same competitive forces that other industries face. Banks have to grow and merge to compete before

the doors on banking liberalization are flung open wider. Manufacturers know they have less time left to operate behind tariffs and trade protections.

Law firms in Malaysia have been cloistered and shielded from much of this changing landscape but they may be at the cross-roads now. Malaysia remains one of the few major trading nations which do not have foreign lawyers in their midst. How long more will this last and should it last for much longer? The nature of practice amongst law firms in Malaysia has also not seen the dynamic forces which have buffeted the profession in other countries.

The changing landscape is not only a matter of having foreign lawyers. Law firms have been organized as LLPs (limited liability partnerships) and LLCs (limited liability corporations) for some time now in many jurisdictions. In Australia, rules have changed so much that a law firm was listed on a stock exchange with public shareholders. Several other countries are also considering laws to allow non-lawyers to own shares in law corporations. Law is no longer just a profession and particularly so for corporate law firms. To be honest, it has not been as





corporate firms have to be 'partners' to their clients whilst upholding the highest level of professional standards and ethics.

A law firm in Malaysia is still organized as a partnership (or as a sole-proprietorship), the forces of competition from foreign lawyers are just peeking through, and changes are taking place at a glacial pace.

That is however not entirely desirable. The profession's general apathy to change is inviting change to come from outside the profession. Recently, the Central Bank of Malaysia initiated a proposal to admit foreign lawyers to support the Malaysian International Islamic Financial Centre business. What if the Federation of Malaysian Manufacturers or MITI (Ministry of International Trade & Industry) comes forward to say foreign law experts in anti-dumping should be admitted into Malaysia? The profession cannot be led by the nose but must lead in such affairs.

In Singapore, the Ministry of Law thinks more room should be given to foreign lawyers to practise Singapore law, A report by a committee set up in 2006 has been accepted in December 2007 and incremental but firm changes will take place with the ultimate aim of further enhancing Singapore's competitive edge as a financial centre and trading nation.

In China, the advent of Chinese law firms as formidable

firms in their own right attests to the wisdom of allowing foreign competition even in a developing nation context. South Korea is mulling an FTA with the United States and liberalization of legal practice is on the negotiating table.

We believe the profession should embrace change and manage it with proper signposting to allow members to prepare for it. In the meantime, the best advice is to benchmark ourselves against the best in the world, improve capacity and strengthen our depth and expertise. When changes come, we will embrace it. We will be ready for that challenge and everyday in our work, we look forward to delivering high quality practical legal advice and support for our clients' growing business within Malaysia and beyond.

Tay & Partners' performance in 2007 has been very satisfying and I dare say outstanding. Our partnership rank grew to 12 partners with David Lee being promoted with effect 1 January 2008. Congratulations to David. We will continue to grow and we thank our clients for their confidence in us and we pledge to do our utmost again and again for them.

WE TAKE THIS OPPORTUNITY TO WISH ALL A SUCCESSFUL 2008.



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Reducing Share Capital – Curate’s Egg?

Keen followers of Malaysian corporate scene will tell you over teh tarik in SS2, Petaling Jaya or a nice chilled bottle of Shiraz in Desa Sri Hartamas, Kuala Lumpur the extraordinary but exciting news reported in most local Chinese dailies for the past couple of months. The news emanates from a corporate exercise proposed to be carried out by an unlisted public company. Its board of directors had decided to distribute to all shareholders the unlisted public company’s shares in a public listed company and consequentially, reduce the paid up share capital of the unlisted public company. All shareholders will stand to gain and receive free floated shares on completion of the proposed distribution of shares. However, dissenting directors in the board of directors had their preference. A public tirade then erupted between directors. Unlike the one in Anfield between Rafael Benitez and his American employers (which is on the verge of resolution), the argument between directors did not, and looked unlikely, in the near future to abate.

This paper is not an attempt to add spice to the factual events or to rebut or support any of the arguments propounded by the directors. It is neither a case study nor an article aimed at providing any insight into the events that took place, although the firm was engaged to handle the proposed capital reduction exercise. Instead, this paper is design to introduce and perhaps, highlight pertinent features and procedures of capital reduction.

The Companies Act 1965 (“the Act”) permits a company having a share capital to reduce its share capital in any way. Capital can be reduced, for example, by extinguishing or reducing the liability on any share issued by the company that has not been paid up or by paying off paid up share capital that is in excess of the needs of the company. In the case of the latter, the company may simply cancel part of the paid up share capital. As an illustration, for every RM1.00 fully paid share, RM0.50 can be repaid to shareholders, rendering each share at a par value of RM0.50. The total paid up share capital will be reduced accordingly so as to paint the true picture of the financial position of the company. The company may also elect to cancel any paid up share capital that is not adequately represented by available and realisable assets due to losses on fixed assets or losses on investments made. Doing so will similarly reflect the realistic financial position of the company.

It is important to stress that redemption of preference shares is not a method of reducing share capital. Similarly, the purchase of its own shares by a public listed company does not constitute a reduction in share capital. Sections 61 and 67A of the Act expressly exclude those instances as reduction of capital notwithstanding the hint of similarity.



As mentioned in the paragraph above, flexibility is conferred on a company when it embarks on a capital reduction exercise. As per Lord Herschell LC in the English case of **British & American Trustee & Finance Corporation v Couper [1894] AC 399**, “... the statute has not prescribed the manner in which the reduction is to be carried out, nor has it prohibited any method of effecting that object.”. The Act adopts a similar approach. The Act inflicts no restrictions. It provides no specific manner under which capital reduction must be carried out although a handful of methods are identified. In this radical and volatile corporate world, flexibility is most welcomed by its players. Conservatives, on the other hand, will naturally exercise caution and offer resistance, citing flexibility as the root of all abuse. They would argue that abuses usually lead to deleterious conclusions. The question begs whether a company that embarks on such exercise is actually embarking on a good or bad exercise.

At first glance, it would appear that complete freedom is given to companies. However, after much scrutiny, one would infer that reduction of capital cannot really be carried out by a company free from due compliance with the law and the obligation of obtaining the requisite prior approvals. These approvals are considered in detail below.



a) Articles of Association

First, the company must be authorised by its Articles of Association to reduce its share capital. For companies that adopt the prescribed Table A of the Act as its Articles of Association, that authority is conferred by Article 42, where it is expressly stated that:

“The company may by special resolution reduce its share capital, any capital redemption reserve fund or any share premium account in any manner and with, and subject to, any incidental authorised and consent required by law.”

b) Shareholders’ Approval

Statutorily, the company is further required to obtain the approval from shareholders by way of a special resolution. A special resolution is deemed obtained when a majority of not less than three fourths (¾) of such members being entitled to attend and vote in person or, if permitted, by proxy at a general meeting held after a notice of not less than 21 days have been given to all shareholders.

c) Court’s Approval

In addition to the approval from shareholders by way of a special resolution, the reduction of capital must also be approved by the Court. An application via a petition must be made by the company to the Court in accordance with the Companies (Reduction

of Capital) Rules 1972. The Court, in considering the application, must essentially be satisfied that the reduction of capital is proper and that interest of creditors is not prejudiced by the order sought. It is germane to emphasise the lack of necessity for the Court to be satisfied that the reduction of capital is commercially viable. In the English case of ***Ex Parte Westburn Sugar Refineries Ltd [1951] AC 625***, the company had sought to reduce its share capital by paying off “any paid up share capital which is in excess of the wants of the company”. Amongst others, the House of Lord held that *“how much of the paid up share capital of the company could dispense with for the future was a domestic matter which the shareholder and their managers must decide among themselves. If the amount which they had decided on worked no injustice to creditors or to shareholders, the court should not be concerned to know the precise figure by which the company’s capital was surplus to its requirements”*.

To be successful in the application to the Court, it is essential to show to the Court there was just and equitable treatment of shareholders and interests and rights of creditors of the company were safeguarded and protected by the shareholders when they voted in favour of the reduction of capital. These were repeated by Lord Normand in the aforesaid case of ***Ex Parte Westburn Sugar Refineries Ltd [1951] AC 625*** when his Lordship pronounced that *“[T]he general rule is that the prescribed majority of the shareholders are entitled to decide whether there should be a reduction of capital, and, if so, in what manner and to what extent it should be carried into effect. When the reduction is consequent on a change in the method of carrying on the company’s business it is for the shareholders to decide to what extent its capital is in excess of its wants and on the adequacy of the consideration for the reduction of their share capital, but the powers of the shareholders must be exercised so as to safeguard the rights of creditors, the just and equitable treatment of shareholders, and the interest of the investing public”*. In pronouncing the rule, Lord Normand reaffirmed the principles enunciated in the decided cases of ***British & American Trustee & Finance Corporation v Couper [1894] AC 399***, ***Poole v National Bank of China Ltd [1907] AC 229*** and ***Caldwell & Co Ltd v Caldwell 916 SC (HL) 120***, just to name a few.

As a fortiori for creditors’ protection, the Act allows every creditor, being entitled to any debt or claim which is admissible in proof against the company, to appear in Court to object to the grant of an order of reduction if the reduction is designed around diminution of liability in respect of unpaid share capital or to pay shareholders any part of the paid

up share capital. In those instances, unless there is satisfactory supporting affidavit to aver that the company has no creditors, the Court will order a list stating the identity of creditors and the quantum of their debts to be prepared. The Court may also publish a notice fixing a date on which creditors not included in the list of creditors may make a claim to be so entitled to be entered into the list. Creditors on the list who object to the reduction must be paid and settled by the company before any order for reduction can be issued. Despite having said that, the Court has the inherent powers to dispense with the consent of the creditor if the company admits to the debt or claim and is willing to account and provide for the full amount of the debt or claim. It is only upon the Court's satisfaction that:

- the company has no creditor; or
- where creditors exist, every creditor, being entitled to object, has consented to the reduction
- where creditors exist, every creditor's debt or claim has been discharged or repayment thereof by the company has been secured

would the order confirming the reduction of capital be granted.

The Court will not hesitate to punish any officer of the company who wilfully conceals the names of any creditor entitled to object or who wilfully misrepresents the nature or the amount of the debt or claim of the creditors or who aids and abets to such concealment or misrepresentation. The punishment is imprisonment for 5 years or a fine of RM30,000.00.

d) Regulator's Approval

Suffice to add that in the case of public companies desiring to reduce share capital by distributing its assets (as opposed to cash), they have an added obligation of procuring and securing the approval from the Securities Commission. This obligation, previously imposed by the Securities Commission Act 1993, is now found in Section 212 of the Capital Markets and Services Act 2007 following the recent change of securities law.

From the foregoing, it is clear that whilst companies are statutorily conferred with flexibility when reduction of capital is contemplated, such flexibility is not absolute. Instead, it is governed by intrinsic and stringent procedures and compliance requirements readily imposed by law to ensure that reduction of capital of companies is not abused by any single shareholder or persons acting in concert with him. With those features in place and implemented by the powers that be, reducing capital can be seen after all to be an exercise designed to ultimately benefit all, be it shareholders or creditors.



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Absence from work

Employers are generally concerned with the attendance of employees who are hired to perform the respective tasks expected out of the said employment. A company will not function properly in the event its employees decide to come in to work at their own whim and fancy. An employee who habitually absents himself from work without any reasonable excuse commits a misconduct that may lead to dismissal.

The law on absenteeism

The Federal Court in **Pan Global Textiles Bhd Pulau Pinang v Ang Beng Teik [2002] 1 CLJ 181** held :

“No employee can claim as a matter of right leave of absence without permission and when there might not be any permission for the same. Remaining absent without any permission is gross violation of discipline. Hence, continued absence from work without permission will constitute misconduct justifying the discharge of a workman from service (OP Malhotra on The Law of Industrial Disputes).”

(A) Medical leave

Under the **Employment Act 1955, section 60(F)**

- (2) *An employee who absents himself on sick leave -*
- (a) *which is not certified by a registered medical practitioner or a medical officer as provided under subsection (1) or a dental surgeon as provided under subsection (1A);*
 - or
 - (b) *which is certified by such registered medical practitioner or medical officer or a dental surgeon, but without informing or attempting to inform his employer of such sick leave within forty-eight hours of the commencement thereof, shall be deemed to absent himself from work without the permission of his employer and without reasonable excuse for the days on which he is so absent from work.*

Therefore, an employee who absents himself on medical leave is statutorily required to inform his employer of such sick leave within 48 hours of the commencement of the said leave and his failure to so inform his employer shall be deemed to be absence from work without reasonable excuse : **Malaysia Airlines System Bhd v Julais Stephen [2005] 3 ILR 34.**



The facts of **Julais Stephen** are as follows :

The claimant was dismissed by the company on the allegation that he had absented himself from work on two occasions, i.e. on 3-4 April 1999 (“the first occasion”) and from 6-8 April 1999 (“the second occasion”) without obtaining prior permission.

The claimant’s justification, in relation to the first occasion, was that he had to rush back to Sabah to attend to his mother who was ill and that he had been ill on the second occasion.

Held :

Based on the claimant’s demeanour when giving evidence and on the evidence itself, it was proven that the claimant never obtained prior permission from the company for his absence from work/duty on the first occasion or, notified or genuinely attempted to notify the company promptly of the reason for his absence.

The Company’s uncontroverted evidence was that, in the event of an employee of the company becoming sick, the employee (or if he is too sick, someone else on his behalf) is required to inform his superior or departmental head immediately or at the earliest opportunity. Even if the employee obtains a medical leave from a doctor but does not inform the company thereafter, the employee would be considered as absent without reasonable excuse. Here, although the claimant knew of the aforesaid requirement he nevertheless failed to take concrete steps to notify the company of his absence on the second occasion. By virtue of **section 60F(2)** of the **Employment Act 1955** the claimant was deemed to have absented himself from work without the permission of his employer and without reasonable excuse for the days on which he was absent from work.

The Company had already given the claimant several opportunities to redeem himself and to change his conduct of absenteeism, but when the claimant committed the acts of misconduct of being absent from work on the first and second occasion repeatedly without permission and/or notification, which breached **ss. 15(2)** and **60F(2)** of the **Employment Act 1955**, there was no alternative but to dismiss the claimant.

(B) **The deeming provision under the Employment Act 1955**

Section 15(2) of the Employment Act 1955 provides that :

*“An employee shall be deemed to have broken his contract of service with the employer if he has been continuously absent from work for more than two consecutive working days without prior leave from his employer, **unless** he has a reasonable excuse for such absence and has informed or attempted to inform his employer of such excuse prior to or at the earliest opportunity during such absence.”*

It is clear from reported cases that breach of contract and termination are separate issues. Whether the employer is justified in terminating the employee will be dependant on the facts and circumstances of each case.

KC Vohrah J in the High Court case of **Dharmaraja @ Abd Malik a/l Abd Wahab v Asian Ceramic Sdn Bhd [2000] 2 MLJ 282** held that :

*“If there is an absence of two consecutive days that does not mean that the contract of employment comes to an end automatically nor does it entitle the company to dismiss an employee as of right. **The circumstances surrounding the absence must first be considered.**”*

Therefore, before any form of punishment is meted out against the employee, the employer should investigate the case.

The facts of **Dharmaraja** are as follows :

The claimant was an employee of the respondent. There was a meeting on 27 May 1994 between company witness and the claimant with a few other kiln operators. The meeting resulted in the claimant leaving the factory premises. The claimant returned to work on 30 May 1994 at 3pm but was not allowed entry into the factory. By a letter dated 28 May 1994, the company stated that the claimant had by his conduct dismissed himself from the service with the company. The claimant claimed that his dismissal was without just cause or

excuse. The Industrial Court found in favour of the company. The claimant applied for an order of certiorari to quash the decision of the Industrial Court.

Held :

Allowing the order for certiorari, in order for section 15(2) of the Employment Act 1955 to apply, the employee must be **absent from work for two continuous working days**. The letter by which the claimant was deemed as having dismissed himself was dated 28 May 1994. At that date, two continuous days had not passed. In fact, the claimant had returned to work on 30 May 1994 but was refused entry into the factory. The Chairman took into account 29 May 1994 and 30 May 1994 as consecutive days. The Chairman wrongly took into account 29 May 1994 as being a working day when it was a Sunday. There was also a failure to take into account that the claimant was contacted by the company's director, who directed the claimant to return to work on 30 May 1994 and that the claimant followed the instruction.

Reference is now made to **Cycle & Carriage Bintang Bhd v Kong Yuen Hoong [2006] 2 ILR 1445**, the claimant in this case is a habitual absentee. He did not inform his employer either personally or through anyone of his absence from work nor seek prior approval for his absence or apply leave for his absence. The Kuala Lumpur Industrial Court Chairman, **Mr. Chairman Chew Soo Hoo** ruled that :



“...Accepting that the claimant could be unwell having to visit Chinese physician, that, however, does not relieve him of his fundamental duty as an employee to inform his employer of his illness in order to apply verbally for leave or to seek prior permission from him to be allowed to stay at home for this period with the undertaking that he would apply for leave these days immediately upon reporting for work. This is something so basic that every employee ought to know and ought to have done in the event that he is unwell and cannot report for work that day or in the event of any emergency. This attitude of indifference as demonstrated by the claimant in this case of failing nor attempting to inform the respondent of the days he did not go to work and failing nor attempting to apply for leave or for prior permission before he absented himself, is not excusable.”

How should the employer deal with absenteeism?

- (i) Keep a proper record of every employee. Proper records would greatly assist the Company in handling any subsequent conduct pertaining to the said employee including the issuance of warning letters, the holding of domestic inquiry etc.

- (ii) Provide counseling to the said employee. The counseling session should be recorded in writing. The date, time and a summary of the discussion should be acknowledged by the said employee.
- (iii) Warning letters should be issued to habitual absentee. The Employer should inform the employee that more severe disciplinary action would be taken for repeated offence.



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Developments in the Franchise Regulatory Regime

Introduction

The Malaysian Government enacted the Franchise Act 1998 (“the Act”) with the view of providing the Ministry of Entrepreneur and Cooperative Development (“MECD”) with the necessary legislative tool to regulate the local franchise sector.

The MECD

Ever since the Act came into force on 8 October 1999, the MECD has overseen the development of the franchise industry in the country. Apart from providing recommendations, fostering training, development and strategic planning for the franchise industry, the MECD has also implemented the Franchise Development Program with the objective of, amongst others, developing new home-grown franchises and enhancing existing franchises.

The Franchise Act 1998 (“the Act”)

The Act seeks to govern many aspects of the relationship between franchisors and franchisees. It provides for a host of obligations which both parties must comply with in a franchise agreement and relationship. The Act makes it mandatory for franchises to be registered with the Registry of Franchise (“Registrar”) which is a part of the MECD Franchise and Vendor division before an offer for the sale of a franchise is made in Malaysia. In compliance with the application procedure, disclosure documents and other relevant documentation or information must be furnished to the Registrar.

As for franchises involving foreign franchisors, the Act requires that the Registrar’s approval be obtained before any sale of a



franchise is made to a Malaysian franchisee. This application process is much simpler for a foreign franchisor than that required in the case of registration by a local franchisee. The local franchisee of a foreign franchisor must also register itself with the Franchise Registry and the registration process for a Master Franchisee is more onerous than that of an ordinary franchisee. The Act also prescribes minimum conditions and terms in a franchise agreement and failure to incorporate such terms renders the agreement null and void.

Should the Act be reviewed?

During the recent Franchise Awards Night organized by the Malaysian Franchise Association in honour of local franchise industry players, the Deputy Prime Minister, Datuk Seri Najib Tun Razak, was reported as having said that the Government would continue to strengthen the franchise industry, which would include reviewing certain aspects of the Act.¹

A review of some of the provisions of the Act and the approval and registration process has long been anticipated as many had found the registration process or conditions too onerous and lengthy. It runs counter to the spirit of the Act which seeks to regulate the industry to facilitate franchise business and growth rather than to impede its progress and development.

What should be reviewed?

Whilst there has been no announcement on the relevant provisions of the Act that are under review and possible amendment, one aspect which merits serious attention is the registration process and guidelines.

For example, the current practice and guidelines adopted

by the Registrar are restrictive as they require a Master Franchisee or Franchisor to submit 3 years' audited accounts of its operations in the relevant sector. This effectively bars newly established companies from getting immediate registration as well as new franchisees that have yet to operate for that duration. One of the initiatives undertaken by the Malaysian Franchise Association ("MFA") has been to appeal to the Registrar to reduce the requirement from 3 years to just 1 year to overcome the difficulties that are faced by many franchisors and franchisees who would like to get on with business immediately and proceed on a rapid pace of expansion. The current registration regime unfortunately holds such progress back.

... At present, the Registrar only has the power to register and de-register a franchise. The power of deregistration is seldom, if ever, invoked as deregistering a franchise is not a solution to an aggrieved party, especially if the interests of multiple parties are at stake...

Further, one particular area worth noting is that there are currently no remedies available in the Act to resolve conflicts that arise between franchisors and franchisees. This is a loophole given one of the main objectives of the Act is to protect the franchisees. At present, the Registrar only has the power to register and de-register a franchise. The power of deregistration is seldom, if ever, invoked as deregistering a franchise is not a solution to an aggrieved party, especially if the interests of multiple parties are at stake. Where a franchisor has breached its terms of agreement, the franchisee has no recourse under the Act specifically save for the option of seeking deregistration of the franchise (which may not benefit the franchisee at all) and has to rely on general remedies under contract laws which remedies are either obtained through arbitration or court proceedings, as prescribed in the franchise agreement.

Another related area that needs to be addressed concerns the enforcement of the Act. Whilst Part VII of the Act deals with

¹ The Star Newspaper, 13 November 2007.



by the MECD on the manpower and scope of work of the enforcement unit.

The revamp to the current franchise system and laws in Malaysia is greatly anticipated by all and it would augur well for the development of the franchise industry in the country, whether it lies in encouraging the growth and export of local franchises, or the investments of foreign franchises, if the improvements are in place without further delay.

enforcement issues and empowers the MECD to enforce the Act, in practice, there is a clear lack of enforcement as the MECD has no assigned enforcement machinery specifically for the Act. For example, where a franchise is not registered, such non-registration is prescribed as an offence punishable with a fine. However, in the many years since the Act came into operation, no errant party has been charged for contravening any provision of the Act. Many have undoubtedly chosen to flout the laws as the Act remains a statute with little bite in the absence of any active enforcement of the provisions by the MECD.

What to expect?

The Deputy Prime Minister, Datuk Seri Najib Tun Razak had mentioned in his speech at the event that the Government plans to establish a franchise mediation centre to handle conflicts between franchisor and franchisee. It was also raised that the MECD would be setting up a franchise enforcement unit to address the current shortcoming of the Act and at the time of writing of this article, such a unit has apparently come into existence though no further details have been provided



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Securities Law – Recent Developments



The new Capital Market and Services Act 2007 (“CMSA”) came into force on 28 September 2007. The CMSA consolidates the Securities Industry Act 1983, Futures Industry Act 1993 and Part IV of the Securities Commission Act 1993 which deal with issues of securities, takeovers and mergers.

Provisions relating to takeovers and mergers in the CMSA will however come into force only next year with the revised Code on Takeovers and Mergers.

The CMSA aims to strengthen the capital market regulatory framework, improve business efficacy and investor protection.

Under the CMSA, the powers of the Securities Commission of Malaysia (“SC”) to take civil and administrative action are enhanced by amongst others, allowing it to recover three times the amount of losses through civil action for a broader range of market misconduct, including market manipulation.

The CMSA also enhances investor protection by requiring application of monies of sophisticated investors to be held on trust in fund-raising exercises, extending investor protection provisions to clients of financial institutions and increasing the standards of trustees for debenture holders.

The efficiency of fund-raising process is also increased under the CMSA as the SC’s approval is no longer required for a wider range of corporate proposals including share splits, share consolidations and issuance of securities pursuant to entitlements in respect of warrants, options or rights that have been previously approved by the SC and without consideration.

The CMSA has also addressed the problem of rights issue to Malaysian individuals or companies who own securities of foreign corporations listed on stock exchanges outside Malaysia. Prior to the CMSA, such rights issue requires the approval of the SC. This may have resulted in Malaysian members of such foreign corporations being excluded from the rights issue due to the impracticality of obtaining SC approval for a handful of Malaysian members. By virtue of the CMSA, rights issue to existing members in respect of securities of foreign corporations listed on stock exchanges outside Malaysia which are recognized by Bursa Securities Malaysia Berhad, is now exempted from the need for SC approval.

The CMSA also introduces a single licensing regime whereby capital market intermediaries will now hold a Capital Markets and Services Licence instead of multiple licences. This will save time and reduce administrative and compliance costs.

The changes brought about under the CMSA are welcomed as they represent a step forward for the Malaysian capital market.



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Rectification of the Trade Marks Register – Descriptive Marks and Non-Use – Recent case law

Wembley Gypsum Products Sdn Bhd v MST Industrial Systems Sdn Bhd [2007] 6 CLJ 228

Court of Appeal, Putrajaya

Mokhtar Sidin JCA, Zulkefli Makinudin JCA, Low Hop Bing JCA

The appellant in the Wembley Gypsum case appealed against the judgment of the High Court in finding them liable for trade mark infringement of the respondent's registered trade marks "FISSURED", "PINHOLE" and "SAKURA" and passing off of the respondent's unregistered "LEOPARD" mark. The four trade marks were used in relation to gypsum ceiling boards. The appellant sought to cancel the trade mark registrations on the basis that they were mere descriptions of the design of the ceiling boards, are not invented words and common to the trade.

The Court of Appeal dismissed the appeal. The appellants had adduced evidence at trial of trade journals showing that the names "PINHOLE" and "FISSURED" bears reference to gypsum boards. Nevertheless, the Court upheld the decision of the trial judge that the words "PINHOLE", "SAKURA" and "FISSURED" did not bear any direct reference to the quality of the goods, are not geographical names and the respondents had established exclusivity in the marks and had used them earlier than the appellant.

Low Hop Bing JCA in delivering the judgment also opined that the registered trade marks were invented words as they were

substantially new when first used by the respondents.

A further point to note is that the Court of Appeal found the appellant's non-compliance with **Order 87 r. 7** of the Rules of the High Court and failure to object to the respondent's trade mark registration prior to the suit as evincing the lack of good faith on the part of the appellant. The said order requires the appellant to serve the counterclaim for rectification of the Register of Trade Marks (to expunge the registered marks) on the Registrar.

It is also crucial that a mark be opposed during the registration process or objected to soon thereafter, as the court may find lack of good faith on the part of the defendant who uses identical or confusingly similar marks without first objecting to the registered mark.

The case reinforces the importance of registering a trade mark. The court placed heavy reliance on Section 36 of the Trade Marks Act, 1976 which provides that registration of a mark is prima facie evidence of its validity. From the standards adopted by the appellate court and the reluctance of the court in interfering with the finding of fact by the High Court, a party seeking to expunge a trade mark has great evidential burden, especially when alleging that a trade mark is descriptive and common to the trade. It is also crucial that a mark be opposed during the registration process or objected to soon thereafter, as the court may find lack of good faith on the part of the defendant who uses identical or confusingly similar marks without first objecting to the registered mark.

Godrej Sara Lee Ltd v Siah Teong Teck & Anor [2007] 6 AMR 320

High Court, Kuala Lumpur

Ramly Ali, J

In the Sara Lee case, the applicant filed a motion at the High Court to expunge and remove the respondent's mark no. 98/00228 "GOODKNIGHT" on the ground of non-use. The mark to be removed was cited by the Registry of Trade Marks in objection to the applicant's mark, which is the phonetically identical "GOODKNIGHT". The learned judge applied the





provision of Section 46 of the Trade Marks Act 1976 (“the TMA”) and held inter alia, that the applicant was an aggrieved person and that the applicant succeeded in showing non use of the trade mark for the period of three years up to one month preceding the application to remove or expunge the mark.

The respondents argued that their mark has been used, adducing evidence of a request for approval to the Pesticides Board by an unrelated company, Sri Dapat Sdn Bhd, in relation to goods which fell outside the description of the registered mark.

Ramli Ali J decided first, that use must be in relation to the goods claimed in the registration. Seeking and obtaining approval from the Pesticides Board did not translate to actual use of the mark in the course of trade. Sufficient use includes affixing the mark to the goods or in an advertisement, circular or a catalogue. A mere intention to use the mark is not sufficient.

Secondly, Sri Dapat Sdn Bhd was not the respondent and there is no evidence to show that Sri Dapat Sdn Bhd is the registered user. Thirdly, the respondents alleged use in 1996, but the court held that use which was outside the relevant statutory period cannot be taken into consideration.

The respondent also sought to rely on Section 46(4) of the TMA, which provides for exclusions for non-use including “special circumstances in the trade.” Ramli Ali J relied on the decision in the English case of *BULOVA Trade Mark [1976] RPC 229*, which enunciated the two conditions that must be satisfied in order to come within the lawful excuse for non-use of a mark, namely (i) the special circumstances must be peculiar or abnormal and must be external in nature; and (ii) the non-use must be as a result of those circumstances.

Applying the test, the learned judge held that the respondents did not satisfy the first limb as the agreement by Sri Dapat Sdn Bhd to contract manufacture for third parties did not amount

to special circumstance. Further it appeared that the non-use was a purely commercial choice and not due to any peculiar or abnormal external element. In any case, Sri Dapat Sdn Bhd is a separate legal personality from the respondent.

The respondents have admitted to non-use of the mark during the material period. In the circumstances, the High Court granted the order to expunge and remove mark no.98/00228 and directed the Registrar of Trade Marks to rectify the Register accordingly.

The provision of the law is to ensure that the Register is not cluttered with marks that are not used in the course of trade, thereby freeing their use and/or registration by other parties.

Following the decision in this case, proprietors of trade marks should be mindful to commence use of their trade mark after obtaining registration, as non-use of the mark for three years continuously would render the mark vulnerable to expungement on the ground of non-use. The provision of the law is to ensure that the Register is not cluttered with marks that are not used in the course of trade, thereby freeing their use and/or registration by other parties. The trade and public would not have associated the prior mark with the owner as it has not been used and thus there would be no confusion or deception to the trade in allowing the subsequent identical mark to be entered on the Register by a third party.



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Employment of Foreign Workers (Amendment) Act 2007

I. Introduction

The Employment of Foreign Workers (Amendment) Act (Act 30/2007) (“**EFW(A) Act**”) came into force on 1 July 2007, making several amendments to the Employment of Foreign Workers Act (Chapter 91A) and renaming it as the Employment of Foreign Manpower Act (Chapter 91A) (“**EFM Act**”).

The main objectives of the EFW (A) Act are as follows:

- (a) to consolidate the legislative authority for the issuance and enforcement of all work passes, which includes work permits, special passes and employment passes.
- (b) to enhance the penalties for certain offences under the EFM Act;
- (c) to introduce a new offence of failing to notify the Controller of Work Passes (the “**Controller**”) of any false information furnished by another person; and
- (d) to enhance the investigative powers of employment inspectors; and
- (e) to grant additional powers to the Controller.

Some of the more salient amendments to the EFM Act and the subsidiary legislation are discussed below.

II. The EFM Act

Under the new EFM Act, references to “work permit” have been replaced with “work pass”. A “work pass” is defined under the EFM Act to mean a work pass belonging to any prescribed category of work passes which is issued by the Controller. This includes:

- (i) work permit;
- (ii) S pass;
- (iii) employment pass;
- (iv) personalised employment pass;
- (v) EntrePass;
- (vi) training work permit;
- (vii) training employment pass; and
- (viii) letter of consent.

The EFM Act is therefore broader in scope than the old EFW Act, which only covers employment of work permit holders.

Under the EFM Act, a person must not employ a foreign

employee unless the foreign employee has a valid work pass. Otherwise, the person is guilty of an offence and is liable:

- (a) on conviction, to a fine not exceeding \$15,000 or to imprisonment for a term not exceeding 12 months or to both; and
- (b) on a second or subsequent conviction:
 - (i) for individuals – to imprisonment of not less than 1 month and not more than 12 months, and also to a fine not exceeding \$15,000; and
 - (ii) for body corporate – to a fine not exceeding \$30,000.

An occupier of a work place who has control of access to the work place must also not permit a foreigner without a valid work pass to enter or remain at the work place, otherwise he is guilty of an offence and is liable:

- (a) on conviction, to a fine not exceeding \$15,000 or to imprisonment for a term not exceeding 12 months or to both; and
- (b) on a second or subsequent conviction, to a fine not exceeding \$30,000 or to imprisonment for a term not exceeding 2 years or to both.

Under the EFM Act, an employment inspector now has wider powers to arrest without a warrant a person whom he reasonably believes:

- (a) is employing a foreigner without a valid work pass or otherwise than in accordance with the conditions of a work pass;
- (b) is a foreign employee, or self-employed foreigner who is working without a valid work pass;
- (c) has obstructed an employment inspector who is discharging his duties under the EFM Act;
- (d) has made any statement or furnished any information to the Controller or any employment inspector which is false in any material particular or is misleading by omitting any material particular;
- (e) has given, sold, forged or unlawfully altered a work pass;
- (f) has used or, without lawful authority, has possession of a forged or an unlawfully altered work pass, or a work pass which is issued to another person; or



(g) has abetted any other person in any act referred to in paragraphs (a) to (f) above.

The EFW (A) Act has introduced a new offence for failing to inform the Controller of any false or misleading information furnished by another person. Under the EFM Act, an employer, foreign employee or self-employed foreigner who:

- (a) knows, or has reason to believe, that an offence has been committed by a person for furnishing false or misleading information to the Controller or employment inspector; and
- (b) intentionally omits to furnish any information to the Controller in respect of that offence,

is guilty of an offence and is liable on conviction to a fine not exceeding \$5,000 or to imprisonment for a term not exceeding 6 months or to both.

III. Subsidiary Legislation

Several pieces of subsidiary legislation were introduced to implement the amendments under the EFW (A) Act, all of which came into force on 1 July 2007. These include:

- Employment of Foreign Workers (Definition of Foreign Worker) (Cancellation) Notification 2007
- Employment of Foreign Manpower (Levy Penalty) Notification 2007
- Employment of Foreign Manpower (Work Pass Exemptions) Notification 2007
- Work Permit (Exemption) Notification 2007
- Employment of Foreign Manpower (Levy) Order 2007
- Employment of Foreign Manpower (Bail and Personal Bond) Regulations 2007
- Employment of Foreign Manpower (Work Passes) Regulations 2007.

In particular, under Regulation 6(1)(c) of the Employment of Foreign Manpower (Work Passes) Regulations 2007, an application for an employment pass to be issued to a foreign employee must now be accompanied by an undertaking from the employer or sponsor of the foreign employee, that it will:

- (a) ensure that the standard of living, including accommodation, of the foreign employee and his dependants, while the foreign employee is in his employ and holding an employment pass, is consistent with the reasonable standard of living in Singapore;
- (b) ensure that the foreign employee complies with any quarantine and medical surveillance imposed on him under any written law;
- (c) not employ the foreign employee in breach of the EFM Act or any other written law (applicable for employer);
- (d) pay the costs of the repatriation or departure from Singapore of the foreign employee and all his dependants; and
- (e) reimburse the Government all reasonable costs it incurs in locating, detaining and removing from Singapore the foreign employee and his dependants (if any).



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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

Accolades

Tay & Partners has been identified as one of the leading IP firms in Malaysia at the *2007 Asialaw IP Awards* and as a Finalist for the *Malaysia IP Firm of 2007* award. *Asialaw* is the leading magazine for in-house counsel and private practitioners, which provides incisive coverage of the region's legislative development, in-depth news and opinion on the legal markets in Asia.

The Firm's role in Wilmar International Ltd's S\$4.1b acquisition of PPB Oil Palms Berhad group was voted as one of *Asian-Counsel Deals of the Year 2007* by the Pacific Business Press.

Leonard Yeoh has been nominated and voted recently by clients and HR practitioners to feature in the latest edition of *Euromoney's World's Leading Labour and Employment Lawyers*.

Promotion

The Firm is pleased to announce that David Lee Lai Huat has been made a Partner of the Firm with effect from 1 January 2008. As a Partner in the Firm's Corporate, M&A and Banking Practice Group, David will continue to handle primarily all forms of capital market, corporate and M&A jobs.



Lim Pui Keng attended a seminar entitled "*Licensing Workshop on Biotechnology*" from 29th to 31st October 2007 and the *Asian Patent Attorneys Association 54th Council Meeting* in Adelaide from 17th to 20th November 2007. Pui Keng gave a talk to representatives of major electrical equipment suppliers on the process and importance of protecting intellectual property rights during the 57th Members' Meeting of the *Association of Suppliers Against Fake Electrical Equipment* at Sheraton Subang Hotel & Towers on 1st November 2007.



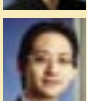
Ronald Tan chaired an *Islamic Finance conference* in Kuala Lumpur organized by the Inter-Pacific Bar Association on 19th October 2007



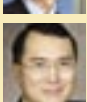
Su Siew Ling presented a paper on the importance of protecting Intellectual Property Rights in Establishing Malaysia as a Clinical Hub at the *National Conference for Clinical Research* held at the Berjaya Times Square Convention Centre in Kuala Lumpur from 24th to 26th October 2007. She also attended the *EUM-BIO International Conference* held at Matrade on 24th October 2007.



Linda Wang gave an interview on the popular *NTV7 Breakfast Show* on 13th December 2007 on the dangers of counterfeit medicines and the adequacy of existing laws to deal with this serious threat to public health. Following that, Linda also gave an exclusive interview with the *Utusan Malaysia* newspaper on the same issue and concern. The *Utusan Malaysia* is widely circulated throughout the country and is one of the top selling Malay language newspapers in Malaysia.



Leonard Yeoh was the Chairman for the *2007 Employment Law Updates* organised by *M2 Asia* held at the Ritz-Carlton Kuala Lumpur from 14th to 15th November 2007. He also co-organised and co-hosted the 2007 Annual Council Meeting of the *Inter-Pacific Bar Association* (IPBA) held in Kuala Lumpur in October 2007. He attended and co-hosted a joint Tay & Partners and ATMD function in conjunction with the 2007 Annual Conference of the *International Bar Association* (IBA) held in Singapore in October 2007.



Tay Beng Chai attended a conference organised by the *International Bar Association* (IBA) in Singapore on 14th to 19th October 2007 and a Mid Year Council Meeting of the *Inter-Pacific Bar Association* (IPBA) in Kuala Lumpur from 20th to 22nd October 2007. He was also invited and had attended the *Lawyers Associated Worldwide* (LAW) Annual Meeting on 31st October to 3rd November 2007 in Zurich, Switzerland

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 Happy New Year.