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"Goodwill is nothing more than the probability that the old customers will return to the old place."
- Lord Chancellor Eldon

Introduction

In trademark litigation, where a claimant elects not to pursue an account of profits, the usual course is to seek an inquiry into damages, aimed at compensating the claimant for the actual loss suffered as a result of the defendant's acts of infringement and/or passing off. These damages typically fall under two principal heads: (i) loss of business profits; and (ii) loss of goodwill and reputation. The assessment of such damages is governed by the foundational principle of restoring the injured party to the position they would have been in had the wrongful acts not occurred.

Loss of business profits lends itself, at least to a degree, to a mathematical and evidentiary exercise. Courts typically examine historical earnings, projected growth trajectories, diversion of customers and reduction in sales attributable to infringing activities. Financial records, sales data and, where appropriate, expert evidence, often form the basis for quantifying the claimant's lost profits.

In contrast, quantifying the damages for loss of goodwill and reputation presents a far more elusive and complex challenge. Goodwill is an intangible asset, reflecting the value of a brand or trade name, and customer loyalty and market recognition cultivated over time. While goodwill is generally presumed to have been harmed once infringement or passing off is established[1] , the difficulty lies in assigning a monetary value to that loss. Unlike the assessment of loss of business profits, there is no settled mathematical formula or precise methodology to measure the erosion of goodwill and reputation, which may manifest subtly over a period of time.

This article explores the principles in assessing damages for loss of goodwill and reputation, with a particular focus on how courts navigate this intangible head of loss in cases of trademark infringement and passing off.

Valuing Loss of Goodwill and Reputation: From Principles to Practice

The UK courts have consistently recognised that there is no precise or mathematical method for assessing the loss of goodwill and reputation. In **Draper** v **Trist & Ors** [1939] 3 All ER 513, the UK Court of Appeal observed that courts are entitled to rely on ordinary business knowledge and common sense to infer that substantial deceptive trading will almost inevitably result in some degree of damage to goodwill, even where the exact extent or duration of that harm

[1] **Draper** v **Trist & Ors** [1939] 3 All ER 513; **Taiping Poly (M) Sdn Bhd** v **Wong Fook Toh (t/a Kong Wah Trading Co) & Ors** [2011] 3 CLJ 837.

cannot be definitively quantified.[2] In such cases, the court must often resort to forming a reasonable and rough estimate, much like a jury would, based on the circumstances presented. Similarly, in **Aktiebolaget Manus** v **R. J. Fullwood & Bland Ltd** (1954) 71 RPC 243, the UK High Court followed the position that the appropriate approach was to form a rough but reasonable estimate, akin to that which a jury might make, and to assess, as best as possible, a fair and moderate sum to compensate the plaintiff for the injury suffered.

Given that goodwill and reputation cannot be quantified with mathematical precision, damages under this head are awarded as general damages[3], which do not require the same specific proof as is required for special damages.

Guidance on the relevant factors to be taken into account when assessing the loss of goodwill and reputation may be found in the decision of the Hong Kong High Court in **Tam Wing Lun Alan & Ors** v T**am Kwok Hung t/a Hang Mei Record Co & Anor** [1991] 2 HKC 384. The Court identified several considerations, including:

(i) the extent of the plaintiff's reputation or goodwill in the relevant market;

(ii) the conduct of the defendant's acts, whether, for example, the acts of infringement or passing off was fraudulent or deliberate;

(iii) the circulation and scale of the infringing goods;

(iv) the degree of publicity or exposure given to the infringing goods by the defendant;

(v) whether the defendant derived any benefit or profit from the wrongful conduct; and

(vi) the impact of the wrongful conduct on the plaintiff's business or goodwill.

In the fairly recent decision of **Perusahaan Otomobil Kedua Sdn Bhd & Anor** v **Lee Lap Kee** [2024] MLJU 2797, the Malaysian High Court awarded RM500,000 as a fair and reasonable sum for the plaintiffs' loss of goodwill and reputation, taking into account the following key considerations:

(i) The plaintiffs had built up substantial goodwill and reputation in Malaysia in connection with their PERODUA automotive lubricants;

(ii) Significant investments in advertising and promotional activities had been made over the years to strengthen the market presence of the PERODUA automotive lubricants;

(iii) The plaintiffs recorded sales figures ranging from RM100 million to RM240million between 2016 and 2022, evidencing strong market penetration;

(iv) The commercial value of the PERODUA brand and trademarks is regarded as substantial owing to the plaintiffs' position as Malaysia's second national car manufacturer;

(v) The PERODUA brand had received numerous prestigious awards and accolades, further enhancing its reputation and market standing; and

(vi) The defendant, in a Consent Judgment, had acknowledged that the PERODUA trademarks were well-known marks, entitled to protection under Article 6bis of the Paris Convention and Article 16 of the TRIPS Agreement.

The price tag of half a million ringgit, in the Court's view, reflects the gravity of the infringement and the hard-earned reputation the plaintiffs had cultivated.

Image by Michail Petrov on Getty Images

[2] Followed by the Malaysian High Court in **Schwan-Stabilo Marketing Sdn Bhd & Anor** v **S&Y Stationery & Ors** [2018] 9 CLJ 384, **Sykt Faiza Sdn Bhd & Anor** v **Faiz Rice Sdn Bhd & Anor (and Another Suit)** [2019] 1 AMR 180 and **Perusahaan Otomobil Kedua Sdn Bhd & Anor** v **Lee Lap Kee** [2024] MLJU 2797.

[3] **Tommy Hilfiger Europe** v **McGarry & others** [2008] IESC 36.

Conclusion

What is the moral of the story? In business terms, it is essential for business owners to maintain meticulous records. The advertising receipts gathering dust in your drawer could serve as a proof of your efforts in enhancing your brand's goodwill; the footfall data buried in your laptop may showcase the local popularity of your store; and the sales records stacking up on your desk may demonstrate the broad impact of your products in the market.

As Lord MacNaghten aptly put: *"Goodwill is the very sap and life of the business without which it would yield little or no fruit"*[4] . Goodwill encompasses the entire advantage derived from a business' reputation and relationships, built by years of honest work, or gained by lavish expenditure. For the customer, goodwill may be a label to represent a favourable disposition for which he possesses towards a place, but for the owner, goodwill is a manifestation of the strength and influence his business wields in the marketplace.

This article is authored by our Partner, Ms Lee Lin Li, Senior Associate, Ms Lim Jing Xian and Associate, Mr Goh Jing Xuan. The information in this article is intended only to provide general information and does not constitute any legal opinion or professional advice.

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[4] **Trego** v **Hunt** [1896] AC 7.

What ESG Means for SMEs: How it Supports Business and Growth

Introduction

In Malaysia's evolving business landscape, environmental, social and governance ("**ESG**") is gradually attaining more traction, and it is no longer a mere buzzword. While there is no universal definition of ESG, ESG is generally understood as a framework to measure sustainability, ethical impact and governance. While ESG practices are commonly adopted by listed companies and government-linked companies, the relevance of ESG to small and medium-sized enterprises ("**SMEs**") in Malaysia have been growing. SMEs can benefit in the following ways by embracing ESG practices:

(a) Investors are more likely to invest in businesses with strong ESG performance due to lower risk exposure and enhanced operational efficiency of these companies. As a result of this, SMEs that adopt ESG practices may find it easier to secure funding and business opportunities.

(b) SMEs may be eligible for government incentives aimed at promoting ESG compliance and sustainability incentives such as Green Investment Tax Allowance available for companies seeking to acquire qualifying green technology assets or those undertaking qualifying green technology projects for business or own consumption or Green Investment Tax Exemption for qualifying green technology service provider companies.

(c) Implementation of recycling and waste reduction programmes can lead to cost savings.

(d) ESG adoption helps SMEs avoid fines and regulatory penalties.

This article aims to explore how ESG supports business and growth of SMEs from the aspect of mergers and acquisitions ("**M&A**") and initial public offerings ("**IPO**").

ESG in M&A

Expansion of ESG in Due Diligence Exercise

Generally, the scope of due diligence exercise during M&A transactions encompasses legal, tax and financial matters. However, with the growing influence of ESG practices, ESG due diligence has become integral to investment evaluation and strategies in M&A transactions. ESG due diligence can reveal a company's sustainability practices and environmental impact, treatment to employees, stakeholders and communities, and compliance with relevant laws, regulations and guidelines relating to ESG matters.

ESG due diligence enables SMEs to discover opportunities that can strengthen their efficiency and competitiveness as well as advocate sustainable development which will benefit the broader well-being of the society and the environment in the long run.

Inclusion of Conditions Precedent Pertaining to ESG in the Share Sale and Purchase Agreement ("SPA")

A condition precedent in an SPA is a condition which is required to be fulfilled before a SPA can be rendered unconditional and for transactions to proceed further. Potential investors or buyers may require target companies to resolve issues discovered during due diligence for M&A transactions before they complete the transactions. ESG-related condition precedents may include the taking steps to address regulatory non-compliance or implementation of an anti-bribery and corruption policy.

By integrating ESG-related conditions precedent, it signifies to the investors that SMEs value sustainability which would enhance SMEs' reputation and credibility to investors and stakeholders.

Inclusion of Representations and Warranties Relating to ESG in the SPA

In an SPA, sellers typically provide representations and warranties for the benefit of purchasers. Representations are assertions of fact, while warranties are guarantees that these assertions are true, often accompanied by a contractual obligation to compensate the other party if they prove to be false. Typical ESG-related representation and warranty include compliance with environmental laws, no pending environmental investigations, compliance with employment laws and regulations, no use of forced, child, or trafficked labor and implementation of code of ethics or conduct for directors, officers and employees.

The inclusion of ESG-related representations and warranties in SPAs provides assurance to investors, while encouraging SMEs to improve internal systems to enhance compliance and position themselves as responsible and sustainable businesses.

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ESG in IPO

Pre-IPO Considerations

Good ESG practices are important for SMEs intending to undertake an IPO and listing on the stock exchange in Malaysia, as they help investors assess the viability and risks associated with investing in these SMEs.

Companies planning an IPO are required to issue a prospectus, the contents of which are prescribed by the Prospectus Guidelines issued by the Securities Commission Malaysia ("**SC**"). In particular, paragraph 5.02(j) of the Prospectus Guidelines sets out the following disclosure requirement in the prospectus:

(i) the relevant laws or regulations governing the conduct of the group companies on business and environmental issue which may materially affect the group's business or operations; and

(ii) the information on the non-compliance.

To facilitate disclosure in prospectus and to demonstrate good corporate governance, it would be prudent for SMEs which intend to be listed on the stock exchange in Malaysia to adopt ESG practices as earlier as possible. Non-compliance with laws and regulations may delay an IPO and listing exercise as regulators may require an applicant to address its non-compliance before the regulators give their approvals for the IPO and listing.

Bursa Malaysia Securities Berhad ("**Bursa Malaysia**") has also issued the Sustainability Reporting Guide as a guidance for listed companies to prepare their sustainability statement. Sustainability statement ("**Sustainability Statement**") is a narrative statement of the listed companies' management of material economic, environmental and social risks and opportunities in the manner as prescribed by Bursa Malaysia. In preparation for IPO, SMEs may consider implementing the following practices advocated in the Sustainability Reporting Guide:

- carrying out materiality assessment;
- identifying and categorising sustainability issues in a list of sustainability matters;
- engaging with stakeholders;
- prioritising sustainability matters; and
- reviewing the materiality assessment on a yearly basis.

Post-Listing Requirements

Listed companies on the Main Market and ACE Market in Malaysia are required to comply with the Main Market Listing Requirements ("**MMLR**") and the ACE Market Listing Requirements ("**AMLR**") respectively.

The MMLR and AMLR set out the requirements for listed companies to make sustainability-related disclosures in their annual reports by including narrative statement of the listed companies' management of sustainability-related risks and opportunities, as prescribed by Bursa Malaysia. Listed companies on the Main Market and ACE Market must ensure that the Sustainability Statement is prepared in accordance with the *IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information* and *IFRS S2 Climate-related Disclosures.* The listed companies must include the metrics and targets that demonstrate their performance and progress in relation to their sustainability-related risks and opportunities for the last three financial years in the Sustainability Statement. Bursa Malaysia has issued the Sustainability Reporting Guide to assist listed companies in preparing the Sustainability Statement.

Image on Freepik

Simplified ESG Disclosure Guide ("SEDG") for SMEs in Supply Chains

The SEDG is developed by Capital Markets Malaysia, an affiliate of the SC with the objective providing guidance to SMEs in preparing ESG data for their stakeholders which align with international standards. The SEDG also provides SMEs with a simple and standard set of disclosures to track and report, and it covers indicators that can be tracked and disclosed to measure ESG progress.

There are 35 disclosures divided into Basic, Intermediate and Advanced in the SEDG to cater for the different levels of sustainability maturity of each SME. The SEDG can be a useful starting point for SMEs to embrace ESG practices.

Conclusion

ESG is increasingly a key consideration for investors seeking to invest in SMEs, whether through M&As or IPOs. SMEs looking to bring themselves to the next level of growth should assess their business operations for gaps in ESG compliance. Engaging legal counsel to identify these gaps and develop a robust internal framework demonstrates a company's commitment to responsible business practices. This strengthens the SME's reputation as well as builds investor confidence, positioning the company as a credible and sustainable investment opportunity.

This article is authored by our Partner, Ms Wong Mei Ying and Associate, Ms Lim Jia Wen (Trisha). The information in this article is intended only to provide general information and does not constitute any legal opinion or professional advice.

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CIPAA 2012: Key Insights for the Contractors

Introduction

In the construction industry, cash flow is king. The Construction Industry Payment and Adjudication Act 2012 ("**CIPAA**") came into force on 15 April 2014 with its main objective to resolve payment dispute and improve the contractors' cash flow by providing a speedy, timely and cost-effective dispute resolution mechanism through adjudication.

Under CIPAA, an adjudication proceeding generally takes around 100 working days from the date of serving the payment claim until the release of the adjudication decision. The adjudication decision is binding until it is set aside by the High Court or the dispute is finally decided in court litigation or arbitration. This means that the contractors do not have to endure lengthy court battles just to get paid — they have a clear path to speedier resolution of dispute through adjudication.

In this article, we will address some common concerns faced by the contractors and subcontractors, to provide a better understanding of CIPAA 2012.

I. Conditional Payment: Void Under Section 35 of CIPAA 2012

Conditional payment clause, also known as "pay-when-paid", "pay-if-paid" or "back-to-back" clause, makes the obligation to pay one party (e.g., sub-contractor) contingents upon another party (e.g., main contractor) receiving payment from a third party (e.g. employer).

The conditional payment clause is commonly found in construction contracts, especially between the main contractors and subcontractors.

However, it is void under Section 35 of CIPAA 2012. This is because the main objective of CIPAA 2012 is to provide a speedy resolution of payment dispute and to alleviate the cash flow issues. Section 35(1) of CIPAA 2012 provides as follows:

"35 Prohibition of conditional payment

(1) Any conditional payment provision in a construction contract in relation to payment under the construction contract is void.

(2) For the purposes of this section, it is a conditional payment provision when –

(a) the obligation of one party to make payment is conditional upon that party having received payment from a third party; or

(b) the obligation of one party to make payment is conditional upon the availability of funds or drawdown of financing facilities of that party."

In the case of **Econpile (M) Sdn Bhd** v **IRDK Ventures Sdn Bhd and another case [2017] 7 MLJ 732**, the respondent contends that under clause 25.4(d) of PAM Contract 2006, he is not bound to make further

payment including payments which have been certified but not yet paid after the claimant's contract has been terminated. The High Court held that clause 25.4(d) has the effect, upon the termination of the contract, of postponing payment due until the final accounts are concluded and the works completed. This would defeat the purpose of CIPAA 2012 and is therefore void and unenforceable.

Recently, the Court of Appeal in **SPM Energy Sdn Bhd & Anor** v **Multi Discovery Sdn Bhd [2025] MLJU 515** held that the prohibition of conditional payment clause under Section 35 of CIPAA 2012 applies to disputes before court / arbitral proceedings when there are no adjudication proceedings. As such, it appears that the prohibition of conditional payment extends beyond the adjudication proceedings. The Court of Appeal held that the prohibition under Section 35 of CIPAA 2012 would apply in court or arbitral tribunal if 4 cumulative conditions under Section 2 of CIPAA 2012 are satisfied, subject to 2 exceptions i.e., the existence of circumstances stipulated in Section 3 of CIPAA and the exemption by the Minister under Section 40 of CIPAA 2012.

The 4 cumulative conditions for the prohibition under Section 35 of CIPAA 2012 to apply are as follows:

(a) there is a "construction contract" as understood in Section 4 of CIPAA;

(b) the construction contract is made in writing;

(c) the construction contract relates to "construction work" as defined in Section 4 of CIPAA; and

(d) the construction work is carried out wholly or partly within the territory in Malaysia.

However, not all "delayed payment" provisions are deemed "conditional payment" under Section 35 of CIPAA 2012. The Court of Appeal in the case of **Lion Pacific Sdn Bhd** v **Pestech Technology Sdn Bhd and another appeal [2022] 6 MLJ 967** held that a "pay-if-certified" clause cannot be construed as a conditional payment clause under Section 35 of CIPAA 2012, as the mutual agreement of the parties was that the appellant's obligation to make payment would only arise upon certification of the works done by the Ministry of Transport, failing which the works cannot be considered as having been carried out. The Court of Appeal also stressed that whilst CIPAA 2012 was intended to alleviate cash flow problems and prohibited conditional payments, it was not intended to replace the requirement of certification or valuation to assess the progress of works carried out.

II. Crossclaims can only Zerorise the Claimant's Claim, Not Exceed

When an unpaid party (the claimant) commence an adjudication proceeding to claim for the unpaid work done, it is common that the non-paying party (the respondent) would raise a crossclaim, set off or back charges (e.g., rectification/defective works or liquidated ascertained damages (LAD)) against the claimant.

However, it is important to note that under CIPAA, a crossclaim can only reduce or "zerorise" the claimant's claim but it cannot exceed the amount claimed by the claimant. If the adjudicator allows a crossclaim exceeding the claimant's claim and orders the claimant to pay the respondent, the adjudicator would have exceeded his or her jurisdiction and the adjudication decision may be set aside under Section 15(d) of CIPAA 2012 (see: the Court of Appeal's decision in **Tera Va Sdn Bhd** v **Ayam Bintang Istimewa Sdn Bhd [2024] 6 MLJ 849)**.

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III. Section 30 CIPAA 2012: An Effective Tool for Subcontractors

On the other hand, when a subcontractor wins an adjudication proceeding and obtains an adjudication decision in its favour, the battle is not over – the respondent (main contractor) may refuse to comply with the adjudication decision to pay the subcontractor.

Apart from enforcing the adjudication decision in the High Court under Section 28 of CIPAA 2012, Section 30 of CIPAA 2012 allows the subcontractor to request payment of the adjudicated sum directly from the principal (e.g. employer), bypassing the main contractor.

Section 30 of CIPAA 2012 reads as follows:

"30 Direct Payment from principal

(1) If a party against whom an adjudication decision was made fails to make payment of the adjudicated amount, the party who obtained the adjudication decision in his favour may make a written request for payment of the adjudicated amount direct from the principal of the party against whom the adjudication decision is made.

(2) Upon receipt of the written request under subsection (1), the principal shall serve a notice in writing on the party against whom the adjudication decision was made to show proof of payment and to state that direct payment would be made after the expiry of ten working days of the service of the notice.

(3) In the absence of proof of payment requested under subsection (2), the principal shall pay the adjudicated amount to the party who obtained the adjudication decision in his favour.

(4) The principal may recover the amount paid under subsection (3) as a debt or set off the same from any money due or payable by the principal to the party against whom the adjudication decision was made.

(5) This section shall only be invoked if money is due or payable by the principal to the party against whom the adjudication decision was made at the time of the receipt of the request under subsection (1)."

Based on Section 30 of CIPAA 2012 above, the conditions to be met for the direct payment mechanism to work are as follows:

(a) 1st condition: The main contractor failed to pay the adjudicated amount to the subcontractor (section 30(1) and (3) of CIPAA);

(b) 2nd condition: The subcontractor made a written request for the principal to pay the adjudicated amount directly to the subcontractor (section 30(1) of CIPAA);

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(c) 3rd condition: There is a sum of money due from the principal to the main contractor at the time of the principal's receipt of the subcontractor's written request (section 30(5) of CIPAA); and

(d) 4th condition: The principal did not comply with the subcontractor's written request and did not pay the adjudicated amount directly to the subcontractor. However, if the principal pays the adjudicated amount directly to the subcontractor, it could recover the adjudicated amount from its main contractor as debt or set off (section 30(4) of CIPAA).

Among the conditions, Section 30(5) of CIPAA 2012 (the 3rd condition) is the most fundamental pre-condition to be satisfied before the subcontractor could "activate" the direct payment mechanism from the principal (see: the Court of Appeal's decision in **JDI Builtech (M) Sdn Bhd** v D**anga Jed Development Malaysia Sdn Bhd (previously known as Greenland Danga Bay Sdn Bhd) [2024] 4 MLJ 29)**.

Despite this, Section 30 of CIPAA 2012 provides an effective tool for the subcontractor to seek an alternative route to get the payment directly from a third party for its work done. This could safe the subcontractor's time in having to enforce the adjudication decision and to carry out execution proceedings against the main contractor.

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Conclusion

CIPAA 2012 has introduced a speedier and more cost-effective dispute resolution mechanism to resolve the payment dispute in the construction industry. By understanding its key provisions, the contractors can better safeguard their rights and protect their entitlement for timely payment.

Be that as it may, the effectiveness of CIPAA may ultimately depend on the specific facts and available evidence of each case. Should you require a tailored legal advice on construction-related dispute, please contact our Senior Partner, Leonard Yeoh at *leonard.yeoh@taypartners.com.my* or our Senior Associate, Erin Lim at *erin.lim@taypartners.com.my.*

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