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DECEMBER 2025 ISSUE

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FOUNDER EXIT CHECKLIST: HOW TO PREPARE FOR A SMOOTH TRANSACTION

When founders prepare for an exit, whether through a share sale, asset disposal, or investment round, buyers will inevitably conduct detailed legal due diligence. Any gaps in compliance, missing approvals, or incomplete records can delay the transaction, weaken negotiating leverage, or even reduce valuation.

This checklist highlights common legal issues that founders and sellers should address before buyers' lawyers begin their due diligence.

Share Capital

Founders should ensure that all equity-related actions have been properly authorised, documented, and filed. Key issues include:

- Have all past share allotments been duly approved by directors and shareholders, with signed resolutions in place?
- Have shareholder approvals for allotments been lodged with the Registrar of Companies ("Registrar") within the statutory time limit?
- Have returns of allotment been filed for every share allotment?
- Have all share transfers been approved by the board of directors, where required under the company's constitution?
- Has stamp duty been paid on all share transfer forms, with evidence of stamp certificates?
- Is the register of members accurate and up to date?
- Have changes to the register of members been notified to the Registrar within the statutory time limit?

Statutory Filings and Corporate Governance

- Have statutory filings required under the Companies Act 2016, such as annual returns, notices of change of registered address, and financial statements, been lodged with the Registrar within the statutory time limit?
- Are all corporate records and statutory registers (register of members, directors, directors' shareholdings, beneficial owners, and transfers) complete, accurate, and current?

Key Commercial Contracts

Buyers will scrutinise material contracts that underpin the business. Founders should review:

- Are all key contracts (customer, supplier, distributor, licensing, etc.) in writing and properly executed?

- Have renewals, extensions, and amendments been documented?
- Have all applicable stamp duties been paid?
- Do any contracts contain "change of control" provisions requiring counterparty's consent before a sale or any change in shareholders, shareholding, directors, or management?

Real Property (Office, Warehouse, and Other Premises)

- Where the company owns real property, are the land title and Certificate of Completion and Compliance (CCC) available?
- Are all tenancy or lease agreements documented, signed, and duly stamped?
- Have any renewals or extensions been formalised in writing?

Banking and Finance Arrangements

Financial institutions often impose restrictions on changes in ownership or management. Founders should confirm:

- Do any banking or financing facilities require lender consent for a sale or any change in shareholders, shareholding structure, directors, or management?
- Are there financial or operational covenants that could be breached by an exit event or post-transaction restructuring?

Takeaway

Founders should not wait until potential buyers begin due diligence to uncover legal gaps that may slow the deal. To protect valuation and ensure a smooth exit:

- Identify and remedy compliance gaps early.
- Ensure statutory filings, governance records, and key documents are complete and readily available for buyer review.

A strong business is only the starting point for a successful founder exit. Demonstrating preparedness, transparency, and robust compliance is essential to convincing buyers of the business's value.

This article is authored by our Partner, Ms Wong Mei Ying. 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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OPTIONS FOR RENEWAL IN LEASES AND TENANCIES – WHY A CLEAR RENTAL DETERMINATION FORMULA MATTERS

Introduction

In a lease or tenancy agreement, it is common for the lessor or landlord and the lessee or tenant to include an option for renewal clause. Such a clause gives the lessee or tenant the right to extend the lease or tenancy for a further term upon expiry of the initial term, without any worry that the lessor or landlord may refuse to continue to rent the premises. Typically, the lessee or tenant may exercise this option subject to compliance with all existing terms and conditions of the lease or tenancy agreement.

Recently, we represented a tenant in ***Watson's Personal Care Stores Sdn Bhd v Aluxcare Wellness Sdn Bhd [2025] MLJU 3119; [2025] CLJU 2495***, where both the Sessions Court and the High Court have put the option for renewal clause into microscopic examinations. At the first instance, the Sessions Court ruled unfavourably against our client but after hearing our client's appeal, the High Court allowed the appeal and set aside the Sessions Court's decision.

Eventually, the High Court upheld the option for renewal clause as validly exercised by the tenant. Although the primary dispute centered on whether the tenant has complied with the conditions required to exercise the option for renewal, the case law cited by both parties raised a broader doctrinal question:

Can an option for renewal be validly exercised if the renewal rental is to be negotiated later? Or would the absence of an agreed renewal rental render the option for renewal clause void for uncertainty?

Background facts

Watson's Personal Care Stores (Watsons) entered into a tenancy agreement with one Nik Mohamed Holdings Sdn Bhd (NMHSB) to rent the entire ground floor of a shoplot in Desa Sri Hartamas, Kuala Lumpur at a monthly rental of RM6,000. Later, NMHSB sold the premises and novated the tenancy agreement to Aluxcare Wellness Sdn Bhd (Aluxcare) as the landlord.

Clause 9.3 of the tenancy agreement provides that:

> *"**9.3 Renewal***
>
> *The Landlord **shall at the written request of the Tenant made not less than three (3) months** before the expiration of the Term hereby created **grant to the Tenant a further term** as stated in Part 1.5 of the Second Schedule with the same terms and conditions herein save for the adjustment in rental (if any) in accordance with Part 1.5 of the Second Schedule."*

Part 1.5 of the Second Schedule of the tenancy agreement provides that:

"Part 1.5
Option for Renewal
Three (3) years + Three (3) years + Three (3) years at a renewal rental to be based on the prevailing market rate subject always that in the event of any increase, such increase shall NOT be more than Ten percent (10%) of the preceding term's monthly rental."

The term of the tenancy agreement commenced on 1 May 2021 and expired on 30 April 2024.

By a letter dated 24 August 2023 ("the Written Request"), more than 3 months before the expiration of the tenancy term, Watsons exercised its option to renew the tenancy agreement for a further term of 3 years from 1 May 2024 to 30 April 2027 and proposed a renewal rental of RM5,100 per month.

By a letter dated 19 September 2023, Aluxcare stated that it had decided not to renew the tenancy agreement and requested Watsons to vacate the premises by 30 April 2024. Aluxcare did not give a reason for its decision. It also did not counter-propose a renewal rental.

By an email dated 9 January 2024, Watsons proposed to have a meeting to discuss the renewal of the tenancy. By an email dated 31 January 2024, Aluxcare declined and instead invited Watsons to submit a *"genuine offer"* but it did not explain what this meant.

Due to Aluxcare's refusal to engage in negotiations, Watsons had no choice but sent a letter dated 5 February 2024 proposing the maximum renewal rental of RM6,600 per month (i.e., 10% increase from the preceding term's monthly rental of RM6,000 in accordance with the formula under Part 1.5 of the Second Schedule of the tenancy agreement). However, Aluxcare rejected the offer by email dated 7 February 2024 on the ground that the period for Watsons to exercise the option for renewal (i.e., 3 months before 30 April 2024) had lapsed.

By a letter dated 29 April 2024, Aluxcare sent a notice requesting Watsons to vacate the premises. By a letter dated 30 April 2024, as Watsons' solicitors, Tay & Partners rejected the request and demanded Aluxcare to withdraw the notice to vacate.

The battle in the Sessions Court

On 24 May 2024, Aluxcare commenced a writ action in the Kuala Lumpur Sessions Court seeking, among others, a declaration that the tenancy agreement has expired on 30 April 2024, delivery of vacant possession and mesne profits or double rental from 1 May 2024 until the delivery of vacant possession.

On 30 August 2024, Aluxcare filed an application pursuant to Order 14A and/or Order 33 rule 2 of the Rules of Court 2012 for a summary determination of questions of law.

Four questions were posed to be determined by the court:

1. Whether an agreement to renew the tenancy agreement had come into existence once a written request had been issued by Watsons under Clause 9.3 of the tenancy agreement?

2. Whether there was an implied term in the tenancy agreement on both parties to act reasonably and in good faith to engage in negotiations, as soon as after the issuance of a written request pursuant to Clause 9.3 of the tenancy agreement to discuss and agree on the rental for the renewed term based on the prevailing market rate and in the event of any disagreement on the rental of the renewed term, to resolve such disagreement in accordance with and to abide by the formula provided under Part 1.5 Second Schedule of the tenancy agreement ("the purported implied term") and if there was the purported implied term, whether Aluxcare had breached the purported implied term?

3. Whether the principle of estoppel applied when Aluxcare sent the email dated 31 January 2024 to Watsons and whether Aluxcare was estopped from saying that the rental proposed by Watsons in the sum of RM6,600 for the renewed term made on 5 February 2024 was made out of time?

4. Whether Watsons shall pay to Aluxcare mesne profit or alternatively double rental from 1 May 2024 until the date of possession of the premises is given to Aluxcare?

The Sessions Court judge answered questions 1, 2 and 3 in the negative and question 4 in the positive – all in favour of Aluxcare. We advised Watsons to appeal, which they did.

The battle in the High Court

In the High Court, after hearing arguments from the respective counsel, the judge Su Tiang Joo allowed Watsons' appeal and set aside the Sessions Court's decision.

Whether there was an agreement between Watsons and Aluxcare to renew the tenancy agreement?

Su Tiang Joo J agreed with our arguments on behalf of Watsons in distinguishing the Federal Court's decision of ***Zainal Abidin v Century Hotel Sdn Bhd [1987] 1 MLJ 236***. In **Zainal Abidin**, the Federal Court held that the option for renewal clause in a lease was void for uncertainty as it merely provided for the lease to be renewed *"at a rent to be agreed upon"* without a machinery or formula for determination of the new rental if the parties could not agree on the new rent. The option for renewal clause does not give rise to any legal obligations on the part of either party unless and until the lessee gives notice in writing within the stipulated period *and* the parties have mutually agreed to the new rent.

A comparison on the option for renewal clauses between **Zainal Abidin** and the present case is as follows:

Option for renewal clause in Zainal Abidin

*"The Lessor **will** on the **written request of the Lessee** made two (2) months before the expiration of the term hereby created grant to the Lessee a further term of three (3) years from the date of the said expiration **at a rent to be agreed upon** but containing the same covenants and provisions with the exception of this clause PROVIDED HOWEVER that the Lessee shall not then be in a breach of any of the terms and conditions herein expressed to be observed or performed by the Lessee."*

Option for renewal clause in Clause 9.3 of the tenancy agreement

*The Landlord **shall** **at the written request** of the Tenant made not less than three (3) months before the expiration of the Term hereby created grant to the Tenant a further term as stated in Part 1.5 of the Second Schedule with the same terms and conditions herein **save for the adjustment in rental (if any) in accordance with Part 1.5 of the Second Schedule.***

Part 1.5 of the Second Schedule:

*"Three (3) years + Three (3) years + Three (3) years at a renewal rental to be **based on the prevailing market rate** subject always that **in the event of any increase, such increase shall NOT be more than Ten percent (10%) of the preceding term's monthly rental."***

Unlike **Zainal Abidin**, Clause 9.3 of the tenancy agreement contains a pre-agreed machinery for determination of the renewal rental. Therefore, Su Tiang Joo J followed the test laid down by the Court of Appeal in ***Wisma Sime Darby Sdn Bhd v Wilson Parking (M) Sdn Bhd [1996] 2 MLJ 81***, where VC George JCA decided as follows:

*"An option clause is void for uncertainty **unless the agreement provided the machinery or some formula that the courts can utilise to ascertain what otherwise is unascertainable** without the parties coming to an agreement".*

In other words, where the option for renewal clause is clear and unambiguous and the parties have agreed on the machinery or formula for determination of the renewal rental, they are bound by it.

Su Tiang Joo J also referred to two other case law, namely ***AmTrustee Bhd v The Store (M) Sdn Bhd [2019] 5 MLJ 253 and Common Ground TTDI Sdn Bhd v Ken TTDI Sdn Bhd [2022] 1 LNS 1611***, which held that there can be no automatic renewal to the tenancy agreement as the rental were not agreed between the parties. However, His Lordship decided that these two case law were distinguishable on their facts. In our considered views, **AmTrustee Bhd** deals with the issue of *consensus ad idem* on the renewal rental and **Common Ground TTDI** involves an option for renewal clause with different requirements compared to the present case.

Whether the option for renewal had been validly exercised by Watsons?

Su Tiang Joo J decided that Watsons had exercised the option to renew the tenancy agreement within the stipulated timeline, i.e., 3 months before the expiration of the tenancy term in accordance with Clause 9.3 of the tenancy agreement when Watsons sent the Written Request to Aluxcare. His Lordship decided that Clause 9.3 of the tenancy agreement ***does not require*** Aluxcare to accept the option to renew. Instead, once the option for renewal is exercised by Watsons within the prescribed contractual time, Aluxcare ***has to*** grant Watsons a further tenancy term of 3 years.

Whether there was a purported implied term for Watsons and Aluxcare to discuss and agree on the renewal rental based on the prevailing market rate? If yes, whether Aluxcare has breached the purported implied term?

Su Tiang Joo J followed the Federal Court decision of ***Sababumi (Sandakan) Sdn Bhd v Datuk Yap Pak Leong [1998] 3 CLJ 503*** that there are three types of implied terms: first, where the parties to a contract must have intended to include it; secondly, where it is implied by operation of law; and thirdly, where a term is implied by custom or usage. His Lordship decided that the first type of implied term applies to the present case in that once Watsons had exercised the option to renew the tenancy agreement for another 3 years, it is implied that the parties are to commence negotiations to ascertain what is the prevailing market rate of rental and failing such agreement, the prevailing market rate of rental can be ascertained with the assistance of experts and if necessary, by the court, subject to a maximum increase of 10% of the preceding term's monthly rental.

As Aluxcare has outrightly rejected Watsons' proposed rental and refused to state what to its mind the prevailing market rate ought to be, it has breached the purported implied term of the tenancy agreement.

All four questions of law posed by Aluxcare were answered in Watsons' favour.

Based on the reasons explained above, Su Tiang Joo J answered question 1 in the affirmative; question 2 in the affirmative with the prevailing market rate for the renewal rental to be determined by the Sessions Court during the trial; question 3 as unnecessary by reason of the answer given in question 2; and finally, question 4 in the negative.

Conclusion

An option for renewal clause can offer valuable commercial certainty – allowing the lessee or tenant to maintain continuity of occupation while providing the lessor or landlord with predictability and stability in their lease or tenancy arrangements.

The key is to ensure that the option for renewal clause is drafted with clarity, certainty and a workable mechanism for determination of the renewal rental. A well-crafted clause should clearly set out the conditions for renewal, the machinery or formula for fixing the rent and the procedural steps required to validly exercise the option.

It is also important to include a clause to oblige the parties to act reasonably and in good faith to engage in negotiations, after the exercise of the option for renewal, to determine the renewal rental based on the agreed formula.

Postscript: As of the date of writing of this article, Aluxcare has filed an application for leave to appeal the High Court's decision to the Court of Appeal.

This article is authored by our Partner, Mr Cheah Soo Chuan and Senior Associate, Ms Erin Lim Wen Xin. 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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AVIATION FINANCE AND LEASING IN MALAYSIA: OVERVIEW OF LEGAL FRAMEWORK

This is Part 1 of a series of articles on the law of aviation finance and leasing in Malaysia. Part 1 covers a brief overview of the legal framework which governs the financing and leasing of aircraft in Malaysia. Part 2 deals with registration requirements of financiers' and lessors' interests in aircraft. Part 3 will discuss the enforcement of financing and leasing documents and remedies available to chargors and lessors. Part 4 is concerned with financial regulations applicable to aviation finance and leasing in Malaysia. Finally, the series will conclude in part 5 with a discourse of regulatory institutions involved in aviation finance and leasing in Malaysia.

Introduction

The law governing aviation finance and leasing in Malaysia does not comprise a single uniform set of laws, but a complex, multilayered international and domestic legal framework. This complexity arises because aircraft are highly mobile assets that fly across country borders, while ownership rights and security interests over them are often grounded in national law.

In this article, we will present to readers an overview of four layered legal framework relating to aviation finance and leasing transactions as follows:

(a) At the international level, an international treaty that creates a uniform legal framework for financing high-value mobile equipment, especially aircraft, across different countries;

(b) At the contract level, the choice of law or governing law where the parties agree which country's or state's legal system will be used to interpret the contract and resolve disputes arising from it;

(c) At the national or country level, the law of Malaysia, as the country of registration of aircraft that implements the international treaty domestically dealing with international interests in mobile equipment, namely aircraft; and

(d) At the national or country level, the other laws of Malaysia dealing with all relevant legal and practical considerations of aircraft financing transactions.

International treaty - Cape Town Convention

The single most important piece of the puzzle at the internation level is the Convention on International Interests in Mobile Equipment ("the Cape Town Convention") and its related Protocol ("the Aircraft Protocol"). This is an international treaty that has been ratified by over 87 countries including major aviation markets like USA, China, UK, France and Ireland.

Essentially, the Cape Town Convention provides a uniform system for registration of security interests (mortgages, charges and leases) in high-value mobile equipment such as airframes and aircraft engines in a global centralised 24/7 electronic International Registry based in Dublin, Ireland.

The Cape Town Convention reduces risk and legal uncertainty for creditors (chargees, lessors, conditional sellers under title reservation agreements), which in turn lowers the cost of credit, makes it easier for airlines and aircraft operators to acquire and finance aviation assets. While it provides creditors access to speedy remedies including interim relief and court assistance, the ultimate remedies every creditor can resort to are taking possession, selling or re-leasing of aircraft objects. It also establishes a structure of priority based on the system of registration and gives priority to those creditors whose security interests are registered with the International Registry over subsequently registered and unregistered interests.

The Cape Town Convention provides specific insolvency-related remedies to protect creditors in the event of insolvency of debtors (chargors, lessees, conditional buyers under title reservation agreements). Every contracting state has the option to make a declaration to choose between two alternatives, Alternative A or Alternative B, that will guide the insolvency process relating to aircraft objects, with the former generally regarded as the stronger creditor-friendly regime as compared to the latter.

The Cape Town Convention applies when, at the time of the conclusion of the agreement creating or providing for an international interest, the debtor relating to such interest is located in a contracting state. The fact that the creditor may be situated in a non-contracting state does not affect the applicability of the Cape Town Convention. The Cape Town Convention also applies where the aircraft object in question is registered in a contracting state.

Choice of law or governing law in contracts

While the Cape Town Convention forms the foundation of aviation finance and leasing, parties to the transactions usually include a contractual clause that specifies which country's or jurisdiction's laws will be used to interpret the relevant agreements (e.g., loan agreement, lease, aircraft mortgage, security assignment), the parties' respective rights and obligations and the modes of dispute resolution if any dispute arises between them. This is commonly known as "choice of law" or "governing law" clause among lawyers.

The choice of law or governing law clause does not decide where a dispute will be heard (that is a separate "jurisdiction" or "forum" clause), but it determines which substantive rules a court or tribunal will apply when deciding the disputes and what the parties' rights and remedies are.

Since aircraft purchases in Malaysia are very often funded through cross-border lending from the international financial centres based in London and New York, invariably the common choices for governing law in aircraft finance are the English law and the New York law.

Undoubtedly the English law is the most prevalent choice as it has an established set of commercial case law and legal precedents. In recent years, the Irish law has been frequently used for operating leases because Dublin is a major hub for aircraft leasing activities.

International Interest in Mobile Equipment (Aircraft) Act 2006

Malaysia became a signatory to the Cape Town Convention and has ratified it on 1 March 2006. The Parliament of Malaysia enacted the International Interests in Mobile Equipment (Aircraft) Act 2006 ("the IIME Act") to implement the Cape Town Convention and the Aircraft Protocol with effect from 31 August 2006.

Essentially, the IIME Act incorporates the provisions of the Cape Town Convention so that the international legal framework for secured financing and leasing transactions on aircraft objects operate as the Malaysian law at the national or country level. The IIME Act provides a mechanism for registration of international interests, prospective interests, and non-consensual rights through the International Registry, with priority being determined on a "first-to-file" basis.

The IIME Act applies in respect of "aircraft objects" only, which are defined to mean airframes, aircraft engines and helicopters.

Under the IIME Act, an "international interest in mobile equipment" means an interest in airframes, aircraft engines and helicopters (a) granted by the chargor under a security agreement; (b) vested in a person who is the lessor under a leasing agreement; or (c) vested in a person who is the conditional seller under a title reservation agreement.

Malaysia has declared the following "non-consensual rights or interests" as having priority over registered international interests in respect of an aircraft object:

(a) liens in favour of airline employees for unpaid wages after a default is declared by the airline under a contract to finance or lease an aircraft object, whether in or outside insolvency proceedings;

(b) liens or other rights of a Malaysian authority relating to taxes or other unpaid charges arising from or related to the use of the aircraft object by the owner or operator of the object since the time of default by that owner or operator under a contract to finance or lease that aircraft object; and

(c) liens in favour of repairers of an aircraft object in their possession.

Malaysia has declared that Alternative A of Article XI of the Protocol shall apply. Under Alternative A, upon the occurrence of an insolvency-related event, the insolvency administrator or the debtor is required to give possession of the aircraft object to the creditor no later than the earlier of: (a) the end of the waiting period of 40 working days; and (b) the date on which the creditor would ordinarily be entitled to possession of the aircraft object.

If the creditor wishes to procure the de-registration of the aircraft and procure the export and physical transfer of the aircraft object, the registry authority and the administrative authorities in a contracting state shall expeditiously co-operate with and assist the creditor in the exercise of such remedies within 5 working days after the date on which the creditor notifies such authorities that it is entitled to procure those remedies in accordance with the Cape Town Convention.

Other relevant legal and practical considerations

- ***Civil Aviation Authority of Malaysia (CAAM)***: CAAM is a statutory body under the Ministry of Transport established to oversee and regulate all aspects of civil aviation in Malaysia. As Malaysia's sole civil aviation regulator, CAAM is vested with the responsibility for technical, safety, security, and economic regulation of the civil aviation industry. This includes licensing, certification, air navigation services, and the regulation of commercial and economic matters, such as air service licensing, route allocation, oversight of airport charges and consumer protection.

- ***Aircraft registry***: CAAM manages aircraft registration and record keeping for all Malaysian-registered aircraft with information of aircraft owners, mortgages, mortgagors and mortgagees. Financiers should ensure that their mortgages are registered with CAAM. Before buying any Malaysian aircraft, buyers are advised to conduct searches in the aircraft register. Existing mortgages may be removed, and new ones entered, using application forms available in CAAM's website.

- ***Airworthiness and maintenance***: The aircraft must maintain airworthiness as per CAAM's requirements and remain properly registered with CAAM. Financiers may require maintenance covenants and regular status reporting from airlines or aircraft operators.

- ***Insurance***: *Comprehensive hull and liability insurance with financiers' names indorsed as the loss payee or the additional insured, and requirement for airlines or aircraft operators to provide and maintain up-to-date insurance policy certificates.*

- ***Insolvency law***: *If the airline or aircraft operator becomes bankrupt, the laws of its country of incorporation will come into play. The Cape Town Convention provides remedies which can override lengthy and creditor-unfriendly local insolvency procedures.*

- ***Tax law***: *Financing and security documents are subject to stamp duty under the Stamp Act 1949. Depending on the structure of financing, some exemptions or concessions may apply.*

- ***Contractual protections***: *The legal framework is supported by very practical, physical controls. These include:*

    - *Maintenance reserves: Contractual payments from airlines or aircraft operators to financiers or lessors to cover major maintenance events.*

    - *Technical monitoring: Financiers or lessors regularly monitor the aircraft's maintenance status and location.*

This article is authored by our Partner, Mr Cheah Soo Chuan and Senior Associate, Mr Khor Wei Wen. 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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SHOW ME THE MONEY: ACCOUNT OF PROFITS IN MALAYSIAN PATENT LAW

In the high-stakes arena of patent litigation, securing a judgment of infringement is often only half the battle. The second, equally critical half is the quantification of victory.

For patent owners in Malaysia, a plain reading of the legislation presents a confusing anomaly. While most Commonwealth jurisdictions explicitly offer a choice between damages (compensation for loss) and an account of profits (gain-stripping from profits of infringement), the Malaysian Patents Act 1983 is silent on the latter.

Patents Act 1983

Upon successfully proving patent infringement under the Patents Act 1983 ("Patents Act"), a patent owner is entitled to a range of remedies which are prescribed in Section 60(1) of the Patents Act, which reads:

"Injunction and award of damages
60(1) If the owner of the patent proves that an infringement has been committed or is being committed, the Court shall award damages and shall grant an injunction to prevent further infringement and any other legal remedy".

Based on a literal interpretation of the provision, due to the word 'shall' the Court is mandated to award:

(a) damages;

(b) injunction (e.g. court order to compel infringers to immediately and permanently stop manufacturing and selling infringing products); and

(c) any other legal remedy.

Account of profits is not mentioned at all in the Patents Act, in stark contrast to the legislation of peer jurisdictions like the United Kingdom[1] and Singapore[2]. The relevant statutes in both jurisdictions explicitly list both damages and account of profits as remedy options, as well as additional clauses disallowing a plaintiff from claiming both remedies simultaneously.

The Malaysian Patents Act contains no such clauses, leading to the question: Does the remedy exist in Malaysia and, if so, can a plaintiff claim both award of damages and account of profits or must elect only one?

[1] Sections 61(1) & (2) Patents Act 1977 (United Kingdom)
[2] Section 67(1) & (2) Patents Act 1994 (Singapore)

An acknowledged right

Despite the statutory silence, Malaysian courts have in numerous cases granted to successful plaintiffs the right to elect an award of damages or an account of profits, without referring specifically to Section 60(1) of the Patents Act.

An example may be seen in a recent High Court decision in ***Kendek Products Sdn Bhd v Dip Chan Manufacturing Sdn Bhd*** **[2024] 11 MLJ 75**.

Rules of the game

One pick, zero mulligans

Based on the well-established common principle in Malaysia, where both award of damages and account of profits are available, a plaintiff has to pick between one of them and once decided, no takebacks are allowed so as to avoid double recovery.

In ***Karen Yap Chew Ling v Binary Group Services Bhd and another appeal*** **[2023] 4 MLJ 792**, a case on breach of confidence, the Court of Appeal set aside the High Court's order granting both damages and an account of profits to the successful plaintiff.

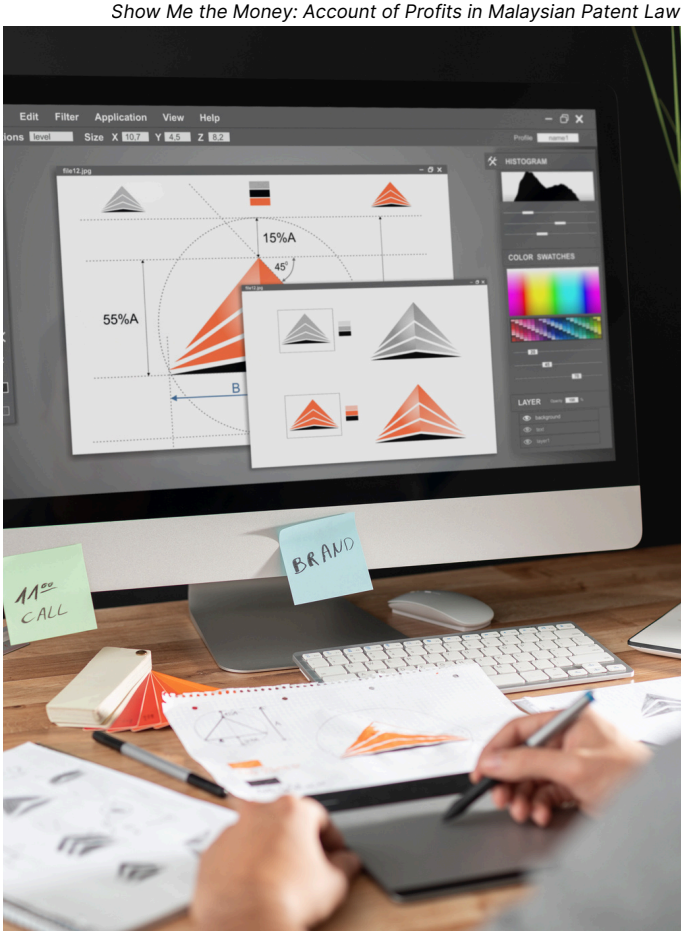
In ***Manjung Aquatic Sdn Bhd (In liquidation) & Anor v Mohamad Zahid bin Putera & Ors*** **[2025] MLJU 2876**, the High Court rejected the plaintiffs' claim for general damages as the plaintiffs had earlier elected for an account of profits.

An informed choice

In ***Kingtime International Ltd & Anor v Petrofac E&C Sdn Bhd*** **[2020] 11 MLJ 141**, the High Court held that the court has a discretion under Order 24 rule 3(1) and/or rule 7(1) of the Rules of Court 2012 to grant a post-trial discovery order to enable a successful plaintiff to make an informed election between an assessment of damages and an account of profits. This is reflective of the principle that a party generally cannot be compelled to choose between the two remedies until they possess sufficient, readily available information. This ensures the election is an informed decision rather than a mere gamble or speculation.

Reconciling the word 'shall'

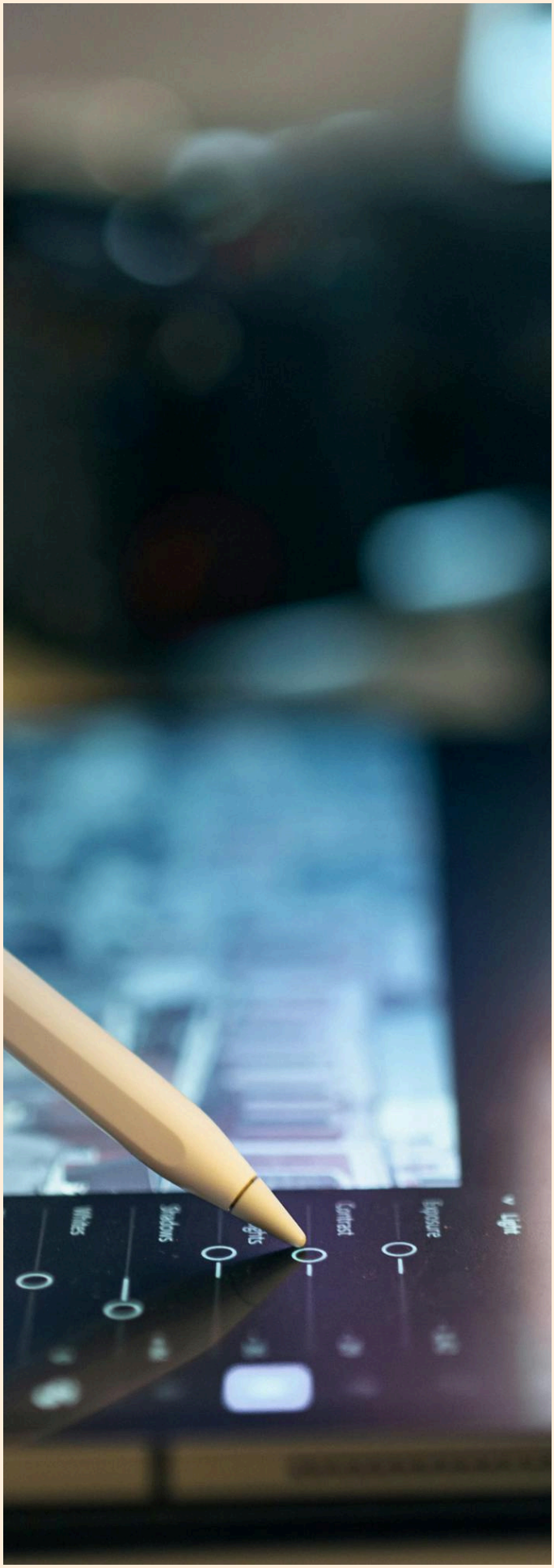
Since Section 60(1) of the Patents Act states that the courts "shall award damages", does this seemingly mandatory language eliminate the availability of an account of profits as a remedy in cases of patent infringement when considered together with the principle of election discussed above?



It is interesting to note that the High Court in ***Billion Prima Sdn Bhd & Anor v Nuctech Co Ltd & Anor [2019] CLJU 1006*** held that despite the word 'shall' in Section 60(1) of the Patents Act, courts have the discretion to not grant an injunction in patent infringement cases.

Numerous judicial precedents illustrate this principle including the Federal Court decision in ***Tebin bin Mostapa v Hulba-Danyal bin Balia & Anor [2020] 4 MLJ 721*** where it was held that the interpretation of any statutory provision must be guided by the purposive approach to ensure the legislative object is advanced and to prevent a literal reading from leading to an absurd or unjust outcome. In ***Benjamin William Hawkes v PP [2020] 5 MLJ 417***, the Federal Court held that the word 'shall' is not always mandatory.

It is also interesting to note that in the Federal Court case of ***Lim Phin Khian v Kho Su Ming @ Seng Meng [1996] 1 MLJ 1***, one of the presiding judges opined that where great inconvenience or injustice will follow as a result of requiring strict compliance with a statute, the courts will be disinclined to hold that the provision imposes an obligation even though it may be couched in mandatory terms.



Where does this leave us?

At present, this issue is yet to be considered by the highest court of the land. Hence, there is no guidance addressing this conundrum. However, in light of the authorities discussed earlier, coupled with the term "any other legal remedy" in Section 60(1) of the Patents Act, an account of profits may well be a legitimate remedy available to patent owners who are successful in patent infringement actions.

This article is authored by our Partners, Lee Lin Li, Ng Kim Poh, and Associate, Erin Yew Pui Yi. 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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