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INTELLECTUAL PROPERTY

A Whole New Level of "dot"

IN THIS ARTICLE, TAMARA LEE CIAI REVIEWS THE DEVELOPMENTS ON GENERIC TOP-LEVEL DOMAIN NAMES AND THE POSITION OF TRADE MARK OWNERS IN LIGHT OF THE DEVELOPMENT.

Introduction

The new generic top-level domains ("gTLDs") are here! The space for gTLDs has rapidly expanded to include new gTLDs such as ".bike", ".clothing", ".guru", ".plumbing" and ".holdings". What this means is that individuals and companies can apply for arbitrary gTLDs which include almost anything.

Trade mark owners and the gTLDs

In the Internet world, trade mark owners undoubtedly face the unauthorised use of their trade marks by third parties on a daily basis. With the new gTLDs, trade mark owners will need to deal with the prospect of cybersquatting not only in ".com", ".org", ".net" and other familiar top-level domains but also in many others which may even include non-Latin script.

Trade mark owners should therefore brace themselves as they are likely to face the inevitable risks (and benefits) associated with the gTLDs expansion. Some of the risks include a serious potential for increased cybersquatting and other trademark-based concerns. For example, if a third party uses a trade mark without authority in relation to a ".xxx" gTLD (a top-level domain related to adult content), such unauthorised use may carry some serious ramifications for the trade mark owner and its business.

A recent example of trade mark misuse has been illustrated in the claim of **International Business Machines Corporation v Denis Antipov**[1] involving the domain names "ibm.guru" and "ibm.ventures". International Business Machines ("IBM") owns trade mark registrations in 170 countries and has used the IBM trade mark in relation to its IT-related goods and services. IBM registered its domain name "ibm.com" which is used to promote its goods and services. Denis Antipov ("Denis") had filed the disputed domain names "ibm.guru" and "ibm.ventures" which were to be used for a news and/or community support website.

In order for IBM to protect its IBM trade mark against such use by Denis and to suspend the disputed domain names, IBM was required to prove, by clear and convincing evidence, that the registered domain names are identical or confusingly similar to a word mark:

(i) for which IBM holds a valid national or regional registration and that is in current use; or

(ii) that has been validated through court proceedings; or

(iii) that is specifically protected by a statute or treaty in effect at the time the complaint is filed.

It was determined that the disputed domain names were registered and used in bad faith and, therefore, the impugned domain names were suspended. IBM had demonstrated all three elements required in successfully suspending the disputed domain names.

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The case illustrated above indicates the steps trade mark owners ought to take in order to prevent misuse of, and protect, their trade mark. Accordingly, it will be prudent for trade mark owners in every industry to understand the avenues available to protect their trademarks against infringement by introduction of the new gTLDs and newly registered domain names within each of the new gTLDs.

What trade mark owners should and can do

The following are some of the options available to trade mark owners who seek to protect their brand in the new gTLD era:

(i) *Trade mark registration with the Trademark Clearing House ("TMCH")*
To address the threats illustrated above, the Internet Corporation for Assigned Names and Numbers ("ICANN") has set up the TMCH to provide trade mark owners with an opportunity to protect their brands in the new gTLD era through the TMCH system. The TMCH is a centralised database of trade marks which acts as a safeguard against cybersquatting by preventing the fraudulent registration of domain names consisting of protected marks. Trade mark owners should therefore register their trade marks with the TMCH.

The functions of the TMCH are threefold:

(1) Validate a registration of a mark as being the property of the relevant trade mark owner for the purposes of the domain name system.

(2) Provide trade mark owners with the opportunity to register domain names corresponding with their protected marks in a new domain space prior to those domains being made publicly available.

(3) For the first 90 days of a new gTLD, the TMCH will generate a warning notice to anyone who attempts to register a domain name corresponding with a protected mark at the new registry. If the third party proceeds despite the warning, the trade mark owner will be notified. This allows trade mark owners to take prompt action.

(ii) *Domain Protected Marks List ("DPML") — Donuts*
Brand owners can take advantage of the DPML which is a "blocking" service offered by Donuts Inc., an Internet domain name registry. The DPML allows brand owners to prevent third parties from registering a new gTLD domain name containing or comprising their brand. The domain names for brands which have been blocked by the brand owners can thereafter be converted to active domains for a fee if brand owners decide to use them later.

(iii) *"Uniform Rapid Suspension" ("URS")*
The URS system provides rapid relief to trade mark owners in clear-cut cases of infringement as in the claim of **International Business Machines Corporation v Denis Antipov**. In that claim, the disputed domain names were suspended one week after the claim was filed.

So, where to from here?

The avalanche of new gTLDs can be overwhelming for trade mark owners and they should consider the following:

- Conduct a housekeeping exercise to ascertain trade marks that are of interest and those that they no longer wish to maintain.
- Identify their trade marks of interest that best reflect their business and that could offer promotional opportunities.
- Review existing gTLDs available. An overwhelming number of new gTLDs are set to be available to Internet users worldwide. Trade mark owners should analyse those new gTLDs that may potentially pose a risk or threat to their business.
- The benefits of registering their trade marks as a Second Level Domain ("SLD") (for example www.yourtrademark.clothing whereby "yourtrademark" is the SLD) to be used with new gTLDs, or defensive registration methods to prevent any unlawful use of their brand by third parties.

Conclusion

Whether one likes it or not, the rapid evolution of the Internet domain is inevitable. It is therefore essential for trade mark owners to keep up with new developments in order to ensure that protection of their trade marks in the new era of gTLDs is undertaken efficiently. As the idiom goes, "if you can't beat them, join them".

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[1] Claim Number: FA1402001542313.

CASE NOTE

Ketua Pengarah Hasil Dalam Negeri v Shell Refining Company (FOM) Sdn Bhd

IN THIS ARTICLE, CYNTHIA LIAN DISCUSSES THE CASE OF **KETUA PENGARAH HASIL DALAM NEGERI V SHELL REFINING COMPANY (FOM) SDN BHD**[1] ON TAX DEDUCTIBILITY OF EXPENDITURE INCURRED BY A TAXPAYER IN CONDUCTING FEASIBILITY STUDIES.

The High Court decision in **Ketua Pengarah Hasil Dalam Negeri v Shell Refining Company (FOM) Sdn Bhd** ("**Shell case**") is a landmark decision on tax deductibility of expenditure incurred by a taxpayer in conducting feasibility studies.

The facts of the case

Shell Refining Company (FOM) Sdn Bhd ("Shell") carries on the business of refining and manufacturing of petroleum products. In the course of carrying on its business, Shell had engaged the services of Shell Global Solutions International ("SGSI"), its related company incorporated in The Hague, The Netherlands, to study its refinery operations in order to assist Shell in complying with the new emission standards introduced by the Government.

In consideration of the services and advice rendered by SGSI in conducting the feasibility study, Shell had incurred expenditure in the amount of RM3,476,716.79 in payments to SGSI and claimed tax deductions under section 33(1) of the Income Tax Act ("ITA") on these payments. However, the Inland Revenue Board of Malaysia ("the Revenue") disallowed Shell's claim for deductions under section 33(1) of the ITA and also imposed penalties under section 113(2) of the ITA.

Shell, aggrieved by the Revenue's disallowance of the SGSI payments, appealed to the Special Commissioners of Income Tax ("SCIT"). The main issue before the SCIT was whether or not the expenses incurred by Shell in conducting the feasibility study on Shell's refinery constitute deductible revenue expenditure under section 33(1) of the ITA. Further, Shell contended that the Revenue's imposition of penalties under section 113(2) of the ITA was unreasonable and unwarranted taking into account all the relevant facts and circumstances of Shell's case.

The law

The opening words of section 33(1) of the ITA read as follows:

> *"Subject to this Act, the adjusted income of a person from a source for the basis period for a year of assessment shall be an amount ascertained by deducting from the gross income of that person from that source for that period all outgoings and expenses wholly and exclusively incurred during that period by that person in the production of gross income from that source..."*

In this regard, expenses which fall within the general words of section 33(1) of the ITA, also referred to by the leading Malaysian judgment in the Federal Court case of **DGIR v Rakyat Berjaya**[2] as the "general basket" provision are tax deductible. The crucial question that the Court had to consider in this instance was whether the payments to SGSI fell under the general basket provision of section 33(1) of the ITA.

The decision

The SCIT held that the payments to SGSI in respect of the feasibility study were tax deductible under section 33(1) of the ITA and not disallowed under section 39(1)(c) of the ITA.

Further, the SCIT discharged the penalties imposed on the taxpayer and held that the Revenue had acted mechanically in imposing the penalties without considering the facts and merits of Shell's case. The Revenue appealed to the High Court which affirmed the decision of the SCIT.

General principles of deductibility of business expenses under the ITA

In arriving at the decision, the SCIT highlighted certain well-established principles on deductibility of business expenses:

- *The business expediency test*

  A revenue expense is one that is required as a business necessity or expediency and is integral to the profit earning process and is not capital in nature. The principle of commercial expediency originated from the Privy Council case of **Tata Hydro-Electric Agencies Limited, Bombay v Commissioners of Income Tax**[3]. The Malaysian Courts have adopted the commercial expediency test in determining whether expenditure incurred was wholly and exclusively incurred in the production of income and the reasonableness of an expense is to be decided from the point of view of a businessman and not of the Revenue.

  In the **Shell case**, without the SGSI services in conducting the feasibility study, Shell's profits from its refinery business would be reduced significantly and it would not have the appropriate facility to comply with the new emissions standards. As such, the SCIT held that the SGSI expenses were integral to the profit-making activities of the Company and Shell incurred the expenses as a matter of business expediency and necessity.

- *The common sense test for deductibility of revenue expenses*
  In determining the deductibility of an expense, it is a trite principle of law that the weight to be given to a particular circumstance in a particular case should depend on "*common sense rather than on a strict application of any single legal principle.*"[4] Further, it is trite that revenue expenses are deductible even if no income is produced.

  The Federal Court in **Kulim Rubber Plantations Ltd v DGIR**[5] held that payments made by a company "*in order to get rid of a contract which is of an onerous nature, or a servant whose continuance in service is undesirable in the company's interest, makes a payment, in such circumstances it is properly to be treated as a revenue payment and a deductible expenses.*"[6]

- *Feasibility study as deductible revenue expenses*
  The High Court in **International Food Sdn Bhd v KPHDN**[7] held that expenses incurred in respect of feasibility studies for purposes of increasing the efficiency and reducing the operating costs of a business were wholly and exclusively incurred in the production of a taxpayer's income and were deductible expenses.

Conclusion

The High Court affirmed the SCIT's decision that the payments incurred for the feasibility study were tax deductible under section 33(1) of the ITA where the question of whether a particular expenditure is revenue expenditure incurred for the purpose of a taxpayer's business must be determined on a consideration of all the facts and circumstances of a case and it is a question which must be "*viewed in the larger context of business necessity or expediency*". As the SGSI payments were integral to the profits of the business of Shell, the payments were held to be revenue in nature.

Comments

The High Court and SCIT decisions in the **Shell case** reiterate the important principles of law on deductibility of business expenses, namely that the question of deductibility is to be viewed in the larger context of necessity and business expediency and the application of principles of commercial trading. The nature and the ordinary course of the business of the taxpayer and the object for which the expenditure is incurred are crucial in determining the deductibility of the expenditure under section 33(1) of the ITA.

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[1] R2-14-7-04/2013.
[2] [1984] 1 MLJ 248.
[3] [1937] 5 ITR 202.
[4] *Regent Oil Co Ltd v Strick* [1966] SC 295.
[5] [1981] 1 MLJ 214.
[6] [1979] 2 MLJ at page 214.
[7] [1999] MSTC 3,061.

EMPLOYMENT LAW

Can an Industrial Court Action Proceed without Complying with Section 226(3) or Section 263(2) of the Companies Act 1965?

IN THIS ARTICLE PARVATHY DEVI RAJA MOORTHY DISCUSSES WHETHER AN INDUSTRIAL COURT ACTION CAN PROCEED WITHOUT COMPLYING WITH SECTION 226(3) OR SECTION 263(2) OF THE COMPANIES ACT 1965.

In the civil court, any action or proceeding pending against a company after the presentation of a winding-up petition may be stayed by the court. After a winding-up order has been made or a liquidator has been appointed, no action shall be proceeded with or commenced against the company except by leave of the High Court and subject to such terms as the Court imposes[1].

The Industrial Court, however, in the case of **DNT (Malaysia) Sdn Bhd v Zamri Said ("DNT")**[2] differed from this position by holding that "*the Industrial Court is a tribunal and not a civil court*" and "*accordingly, the requirement on having to obtain the prior leave of the High Court under s. 263(2) of the Companies Act 1965 does not apply here*". A similar position was also taken in **Desaru Impian Resort v Nora Ibrahim** ("**Desaru**")[3] and **TT Electrical Electronics Corp (M) Sdn Bhd v Yong Peng Kean** ("**TTEE**")[4].

Conversely, the Industrial Court in **Mohd Rashid Mohd Ibrahim v Uncang Emas Sdn Bhd** ("**Rashid**")[5] departed from the position in **DNT**, **Desaru** and **TTEE**, and found that although "*section 226(3) of the Companies Act seems to be in conflict with the aspirations of the Industrial Court to expeditiously dispose of disputes between the companies and their employees. The provision of Section 226(3) applies to all companies. No exception has been enacted to exempt companies in proceedings in the Industrial Court from that effect.*" In arriving at the foregoing decision, the Industrial Court considered the case of **The Co-operative Central Bank Ltd v The Industrial Court of Malaysia**[6] which held that leave of the High Court is required to proceed against the receivers of The Co-operative Central Bank Ltd ("CCB"). In this connection, the Court took into consideration the fact that cases involving the CCB were under the provisions of the Essential (Protection of Depositors) Regulations 1986 and, therefore, fell outside the provisions of the Companies Act 1965.

The two conflicting views were subsequently considered by the High Court in the case of **Isuta International Sdn Bhd & Ors v Industrial Court Malaysia and Ors**[7] ("**IISB**") when it had the opportunity to determine whether:

- leave from the High Court is required; and
- it is justified to join the liquidators as parties.

In **IISB**, the claimant, Loo Tong Seng ("Loo"), lodged a representation[8] that he was dismissed on 9 October 2008 by Isuta International Sdn Bhd ("Isuta"). The matter was subsequently referred to the Industrial Court for adjudication on 25 October 2010[9]. Prior to the reference, on 17 June 2010, Isuta resolved to be wound up by way of a creditors' voluntary winding-up process and the liquidators for Isuta ("Liquidators") were appointed.

The Liquidators, upon being notified of the reference, highlighted to the Industrial Court that leave from the High Court is required in order for the case to proceed[10]. The Industrial Court, however, did not agree with the Liquidators and held that no leave was required and scheduled the matter for further mention.

Consequently, Loo applied to add/join the Liquidators as further parties to the case. Despite the Liquidators' objection, the Industrial Court held in favour of Loo and added the Liquidators as parties. Thereafter, Isuta and the Liquidators filed a judicial review application to quash the interim decision of the Industrial Court.

The High Court in scrutinising the intention behind section 226(3)[11] held that "*the words 'action or proceeding'...had a wide reach to encompass and cover all types of processes before a court, or a tribunal or similar adjudicatory bodies vested with judicial and quasi-judicial powers. The common denominator that had to be applied was whether that forum in question, handling such action or proceeding, was discharging duties to settle disagreement or complaints properly brought or laid before it in accordance with relevant law.*" Accordingly, the Industrial Court was found to be an adjudicatory body statutorily entrusted to deal with industrial relations complaint[12].

On the same note, the High Court opined that, unlike **Rashid**'s case, the Industrial Court in the other cases[13] had failed to address the meaning of the words "*action or proceeding*" in section 226(3) or 263(2)[14]. As a result, the High Court held that the Industrial Court in merely following the other cases[15] had misinterpreted the statutory provision in question.

In respect of the second issue, it was noted that the general test for adding other parties in an Industrial Court case was "*whether such parties would make 'adjudication effective and enforceable'*"[16] and "*whether such party or parties was/were 'necessary for the representation of the employee or employer to complete or adequate at the trial'*"[17].

In this connection, the High Court held that in order for the Liquidators to be joined as parties, they had to have employed Loo, or Loo must have been dismissed during the tenure of office of the Liquidators. This, however, was not the case in **IISB**.

Subsequently, the High Court considered the application of section 30(5)[18] in respect of the issues before it and held that section 30(5)[19] is not a licence to breach or neglect provision of the Companies Act 1965[20].

In conclusion, it is now settled that in the event a winding-up order has been made against a company or a liquidator has been appointed, the claimant is required to obtain leave from the High Court to continue proceedings against that company before the Industrial Court is able to adjudicate on the matter.

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[1] Section 226(3) of the Companies Act 1965 states that "*When a winding up order has been made or a provisional liquidator has been appointed no action or proceeding shall be proceeded with or commenced against the company except— (a) by leave of the Court; and (b) in accordance with such terms as the Court imposes*."
Section 263(2) of the Companies Act 1965 states that *"After the commencement of the winding up no action or proceeding shall be proceeded with or commenced against the company except by leave of the Court and subject to such terms as the Court imposes*."

[2] [2002] 2 ILR 240.

[3] [2001] 3 ILR 27.

[4] [2005] 2 ILR 169.

[5] [2007] 2 LNS 2444.

[6] [1994] 2 CLJ 310.

[7] [2013] 4 ILR 246.

[8] Section 20(1) of the Industrial Relations Act 1967.

[9] Section 20(3) of the Industrial Relations Act 1967.

[10] Section 226(3) of the Companies Act 1965.

[11] Companies Act 1965.

[12] Subject to the provisions of the Industrial Relations Act 1967.

[13] *DNT (Malaysia) Sdn Bhd v Zamri Said* [2002] 2 ILR 240; *Desaru Impian Resort v Nora Ibrahim* [2001] 3 ILR 27; *TT Electrical Electronics Corp (M) Sdn Bhd v Yong Peng Kean* [2005] 2 ILR 169.

[14] Companies Act 1965.

[15] *DNT (Malaysia) Sdn Bhd v Zamri Said* [2002] 2 ILR 240; *Desaru Impian Resort v Nora Ibrahim* [2001] 3 ILR 27; *TT Electrical Electronics Corp (M) Sdn Bhd v Yong Peng Kean* [2005] 2 ILR 169.

[16] [2013] 4 ILR 246 at [7].

[17] [2013] 4 ILR 246 at [29].

[18] Section 30(5) of the Industrial Relations Act 1967 states that "*The Court shall act according to equity, good conscience and the substantial merits of the case without regard to technicalities and legal form*."

[19] Industrial Relations Act 1967.

[20] In support, the High Court relied upon the Federal Court in *Ranjit Kaur S Gopal v Hotel Excelsior (M) Sdn Bhd* [2010] 8 CLJ 629; [2011] 3 AMR 38 and explicitly held that section 30(5) of the Industrial Relations Act 1967 cannot be used to override or circumvent the basic rules of pleadings.

DISPUTE RESOLUTION

The Role of the Shariah Advisory Council in Islamic Banking Disputes in Malaysia

IN THIS ARTICLE, IZAHAIRANI IZANI CONSIDERS THE ROLE OF THE *SHARIAH* ADVISORY COUNCIL IN ISLAMIC BANKING DISPUTES IN MALAYSIA.

The *Shariah* Advisory Council ("SAC") of Bank Negara Malaysia was established in May 1997 and, pursuant to sections 51 and 52 of the Central Bank of Malaysia Act 2009 ("CBMA 2009"), is the apex authority in the ascertainment of Islamic law for the purposes of Islamic banking business, *takaful* business, Islamic financial business, Islamic development financial business, or any other business, which is based on *Shariah* principles.

Evolution of the *Shariah* Advisory Council

It is recognised that the SAC has evolved since it was established on 1 May 1997 to achieve uniformity as Islamic finance began expanding. The role of the SAC at this first period (1 May 1997 – 1 January 2004) was to approve Islamic banking and *takaful* products before its introduction into the market. During the second period (1 January 2004 – 24 November 2009), an amendment to the Central Bank of Malaysia Act 1958 ("CBMA 1958") introduced section 16B which provided that a court and/or arbitrator may in any proceedings relating to Islamic banking business or any business based on *Shariah* principles, refer a *Shariah* question to the SAC. Under the provision, such SAC rulings would be binding on the arbitrator but not on the court. Post 24 November 2009, the role and powers of the SAC were further expanded vide the enactment of the CBMA 2009 suggesting that the SAC is the authority to determine Islamic law principles in the context of Islamic financial business.[1]

The much debated provisions in CBMA 2009, namely sections 56 and 57, provide that it is mandatory for courts and arbitrators to refer *Shariah* related questions to the SAC for the latter's determination and that such rulings are binding on the court and arbitrator. Rulings of the SAC also override rulings made by the respective *Shariah* committees of Islamic financial institutions. It is clear, therefore, that in Malaysia, the SAC is the authoritative body in determining *Shariah* principles in Islamic banking and financial disputes.

Islamic financing disputes in the civil court

Before 1 January 2004, many of the contentious issues raised before the courts were not related to *Shariah* issues although in decisions such as **Bank Islam Malaysia Bhd v Adnan bin Omar**[2], the High Court did hold that Adnan bin Omar was not entitled as of right to a rebate as the same was granted at the discretion of Bank Islam Malaysia Bhd.

In **Bank Kerjasama Rakyat Malaysia Berhad v Emcee Corporation Sdn Bhd**[3], the issue in question was the validity of the land charge, the Court of Appeal held that the same laws are applicable to Islamic financing and conventional facilities because the National Land Code 1965 applies equally to a legal charge as security for a conventional or Shariah facility. This is not to say the law generally applicable to Islamic and conventional financing is the same.

In the second period, there was gradual acknowledgment of the role of the SAC in reported court judgments although no referral to the SAC was actually made (see **Tahan Steel Corporation Sdn Bhd v Bank Islam Malaysia Berhad**[4]).

In **Arab-Malaysian Merchant Bank Bhd v Silver Concept Sdn Bhd**[5], the Arab-Malaysian Merchant Bank Bhd made available an *Al-Bai Bithaman Ajil* ("BBA") facility to Silver Concept Sdn Bhd and applied for an order for sale where Silver Concept Sdn Bhd defaulted. Two *Shariah* issues arose (whether a BBA transaction was prohibited by *Shariah* and whether Silver Concept Sdn Bhd had a right to a rebate) but were not formally referred to the SAC.

A number of other cases in this period saw the courts being faced with questions on *Shariah* issues (**Affin Bank Bhd v Zulkifli bin Abdullah**[6]; **Malayan Banking Bhd v Marilyn Ho Siok Lin**[7]; **Malayan Banking Berhad v Ya'kup bin Oje & Anor**[8]; **Arab-Malaysian Finance Bhd v Taman Ihsan Jaya Sdn Bhd & Ors; Koperasi Seri Kota Bukit Cheraka Bhd (Third Party) and Other Cases**[9]) with the courts deciding on these issues without making any reference to the SAC.

Further, in **Bank Islam Malaysia Berhad v Lim Kok Hoe & Anor and Other Appeals**[10], in deciding whether the subject BBA contracts were valid and enforceable, the Court of Appeal, inter alia, held that the resolutions of the SAC should be taken into regard by judges. At about the same time, the High Court judge in the case of **Bank Islam Malaysia Berhad v Azhar bin Osman & Other Cases**[11] decided on a *Shariah* issue without reference to the SAC and held that Bank Islam Malaysia Berhad was not entitled to unearned profit and could therefore not claim for the balance of the full sale price as stipulated in the contract. That decision was however reversed by the Court of Appeal.

The current position as enunciated by the Court of Appeal in Tan Sri Khalid v Bank Islam Malaysia Berhad[12]

On 14 May 2012, the Court of Appeal in the case of **Tan Sri Abdul Khalid Ibrahim v Bank Islam Malaysia Bhd**[13] unanimously upheld the decision of Mohd Zawawi J allowing Bank Islam Malaysia Bhd's applications to refer specific *Shariah* questions to the SAC. The appellate court accepted that sections 56 and 57 of the CBMA 2009 were "*valid and constitutional*" and that

"*Section 56 and Section 57 contain clear and unambiguous provisions to the effect that whenever there is any Shariah question arising in any proceedings relating to Islamic financial business before, any Court, it is mandatory for the Court to invoke s. 56 and refer it to the SAC, a statutory expert, for a ruling.*"

In effect, the Court recognised the distinct roles of the SAC and the civil court stating that "*the duty of the SAC is confined exclusively to the ascertainment of the Islamic Law on financial matters or business. The judicial function is within the domain of the Court ie, to decide on the issues which the parties have pleaded. The fact that the Court is bound by the ruling of the SAC under s. 57 does not detract from the judicial functions and duties of the Court in providing a resolution to the disputes (which the parties have submitted to the jurisdiction of the Court. In applying the SAC ruling to the particular facts of the case before the Court, the judicial functions of the Court to hear and determine a dispute remain inviolate. The SAC, like any other expert, does not perform any judicial function in the determination of the ultimate outcome of the litigation before the Court, and so cannot be said to usurp the judicial functions of the Court. Hence, s.56 and s.57 are valid and constitutional.*"

The saga of Bank Islam Malaysia Bhd's action against Tan Sri Abdul Khalid Ibrahim based on the BBA facility is not over. The Federal Court has since granted leave for an appeal to be brought to the apex court on the effect of sections 56 and 57 of the CBMA 2009 but the appeal has not been heard yet.

Is the SAC the answer?

Whilst there is a need to ensure that there is uniformity in the manner in which Islamic law principles arising in *Shariah*-compliant financing are determined and having an authoritative body such as the SAC to decide *Shariah* issues is welcome, the matter is far from resolved. Parties continue to complain that the SAC rulings are not freely accessible whilst others argue that the SAC is not an independent body. In any event, it is still open to the courts or any arbitrator to hold that the issues at hand are not actual *Shariah* issues and are instead issues of interpretation of clauses in a contract which do not require any reference to the SAC.

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[1] Tun Abdul Hamid Mohamad & Dr Adnan Trakic, The Shariah Advisory Council's Role in Resolving Islamic Banking Disputes in Malaysia: A Model to Follow?, Research Paper (No: 47/2012), International Shari'ah Research Academy for Islamic Finance.
[2] [1994] 3 AMR 2291; [1994] 3 CLJ 735.
[3] [2003] 2 AMR 177; [2003] 1 CLJ 625.
[4] [2004] 3 AMR 43; [2004] 6 CLJ 25.
[5] [2005] 5 AMR 381; [2006] 8 CLJ 9.
[6] [2006] 3 MLJ 67.
[7] [2006] 7 MLJ 249.
[8] [2007] 6 AMR 135; [2007] 6 MLJ 389.
[9] [2009] 1 CLJ 419.
[10] [2010] 2 AMR 647; [2009] 6 CLJ 22.
[11] [2010] 3 AMR 363; [2010] 5 CLJ 54.
[12] [2013] 4 CLJ 794.
[13] [2013] 4 CLJ 794.

CASE NOTE

Dr Mohd Adnan Sulaiman & Anor v Kumpulan Perubatan (Johor) Sdn Bhd

IN THIS ARTICLE, PHUA MEI YAN LOOKS AT THE RECENT DECISION OF THE HIGH COURT IN THE CASE OF **DR MOHD ADNAN SULAIMAN & ANOR V KUMPULAN PERUBATAN (JOHOR) SDN BHD**[1] ON THE QUESTION OF WHETHER THERE IS A RESTRICTION ON THE RIGHT TO COMPETE WHERE THE PARTIES ARE GOVERNED BY THE PROVISION OF A JOINT VENTURE AGREEMENT.

Facts

A medical doctor had on his own set up a private hospital, and pursuant to a joint venture agreement ("JVA") entered into by him and another party ("Dr Adnan") with Kumpulan Perubatan (Johor) Sdn Bhd ("KP Johor"), had agreed to combine their resources and expertise to manage the hospital. The hospital's name was changed to "Hospital Penawar Sdn Bhd" ("Penawar"). The JVA stipulated that the parties must use their best endeavours to ensure that the JVA operates fairly and equitably as between themselves.

A dispute arose when KP Johor set up a new hospital known as "Pasir Gudang Specialist Hospital Sdn Bhd" offering the same services as Penawar and which was located less than a kilometre away. As a result, six consultants of Penawar resigned from Penawar and commenced work at the new hospital. Dr Adnan stressed that the setting up of the new hospital at a location so close to Penawar was detrimental to the interests of the joint venture hospital and was contrary to the spirit of the JVA.

Dr Adnan contended that it was the parties' expressed intention that the JVA should operate fairly and equitably, and argued that the setting up of the new hospital to compete with Penawar was a breach of the terms of the JVA and a breach of fiduciary duties that exist between the parties by virtue of the JVA. However, KP Johor argued that it is not in breach of the JVA as the JVA did not restrict either party from competing with each other or with Penawar, and that since the parties are not partners but mere shareholders in a joint venture company, no fiduciary relationship had been created.

Issues

In determining whether there had been a breach of the JVA, the High Court considered two main questions, namely whether the parties are fiduciaries as between themselves and, if so, whether the setting up of the new hospital was a breach of that fiduciary responsibility by KP Johor.

Decision of the High Court

Existence of fiduciary relationship

The High Court opined that the issue of partnership is irrelevant in determining whether a fiduciary relationship exists between Dr Adnan and KP Johor, and that what the High Court has to consider is whether as joint venturers they are in a fiduciary relationship as between themselves.

Abdul Rahman Sebli J in his judgment cited the case of **Newacres Sdn Bhd v Sri Alam Sdn Bhd**[2] to support the proposition that a fiduciary relationship is established between the joint venturers under a joint venture agreement.

The High Court further held that a fiduciary responsibility is an essential aspect of any joint venture agreement and that on the facts of the case it was clear that Dr Adnan and KP Johor are in a fiduciary position as between themselves.

Breach of fiduciary duty

On the question of breach of fiduciary duty, it was held that the scope of the fiduciary duties between Dr Adnan and KP Johor as joint venturers lies within the four walls of the JVA, the pillar of which is the parties' objective to combine their respective resources and expertise "*for their mutual benefit in the business*" of Penawar. Pursuant to the JVA, the parties are under the contractual obligation to prosper the business of Penawar and not to act to its detriment. The High Court held that such contractual obligation is sacrosanct and anything done to the contrary by any party to the agreement violated that obligation.[3]

Further, the High Court held that, notwithstanding the absence of an express non-compete clause in the JVA:

> *"As a separate business entity the defendant has every right to compete with any business concern of like character but where, as in this case it owes a fiduciary duty to the other members of the joint venture, namely the plaintiffs, the exercise of that right must not impinge on the plaintiffs' legitimate expectation to a fair and equitable performance of the JV agreement for to do so would be to defeat the objective behind the joint venture."*

The High Court stated that the covenants under the JVA to act "*for their mutual benefit in the business*" of the joint venture hospital and to "*use their best endeavours to ensure that the JVA operates as between themselves fairly and equitable*" in all cases are the fundamental terms of the JVA. The High Court went on to conclude that:

> *"A deviation by either party would constitute a fundamental breach of the agreement. Setting up a new hospital which competes directly with the joint venture hospital for the same clientele and without regard for its*

pecuniary impact on the joint venture hospital is a deviation from that undertaking."

The High Court held that "*there is nothing fair nor equitable in the defendant's act of setting up the new hospital in competition with Hospital Penawar*" and that the setting up of the new hospital was contrary to the spirit and objective of the JVA and constituted a fundamental breach going to the root of the contractual relationship between the parties.

As noted from the case, the crux of the matter is that KP Johor cannot be permitted to do any act that will undermine the foundation of their fiduciary relationship, which is based on mutual trust and confidence for their mutual benefit in the business of the joint venture company. Every member of the joint venture must use its best endeavours to ensure the success of the venture and not to act to its detriment.[4] In view of this, the High Court held that KP Johor had effectively broken the mutual trust and confidence by setting up the new hospital in direct competition with Penawar.

In addition, the High Court ruled that there was conflict of interest and the competition between Penawar and the new hospital would have been on unfair terms as KP Johor, being a shareholder of Penawar, had access to all confidential information on Penawar which it could use to its advantage whereas Dr Adnan did not have such advantage in relation to the new hospital.

Conclusion

This recent High Court's decision lays down an important finding that as a party to a joint venture, there is a fiduciary duty owed to the other; the setting up of an entity in direct competition with the business of the joint venture constitutes a breach of that fiduciary responsibility on the basis that it would be contrary to the spirit and objective of the joint venture and that it would breach the mutual trust and confidence that require the parties to use their best endeavours to ensure the success of the joint venture.

A further development of the case as noted from the announcement made to Bursa Malaysia Securities Berhad by KPJ Healthcare Berhad, which is the holding company of KP Johor, is that the Court of Appeal had, on 12 December 2013, allowed KP Johor's appeal against the High Court's decision and set aside the decision of the High Court.[5]

Dr Adnan filed an application for leave to appeal to the Federal Court against the Court of Appeal's decision. The final outcome of this legal battle will certainly be much awaited as it will impact parties to joint ventures.

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1. [2013] 7 CLJ 1032; [2013] 10 MLJ 781; Civil Suit No 23NCVC-74-05-2012.
2. [1991] 3 CLJ 2781; [1991] 3 MLJ 474.
3. Grounds of Judgment at [20].
4. *Hartela Contractors Ltd v Hartecon JV Sdn Bhd & Anor* [1999] 2 MLJ 481, Court of Appeal.
5. Bursa Malaysia Company Announcement on 12 December 2013: http://www.bursamalaysia.com/market/listed-companies/company-announcements/1490565.

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