The Franchise Law Review

Fourth Edition

Editor
Mark Abell

Law Business Research

This book is dedicated to

JOHN NELSON-JONES,

an exceptional lawyer and mentor,
who passed the wonder and pleasure of
practising law from one generation to another,
with an unsurpassed generosity of spirit.

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EDITOR'S PREFACE

This book is dedicated to my dear, recently deceased mentor, John Nelson-Jones, who took me under his wing and first introduced me to international franchising in the early 1980s. At that time I had no idea what an incredible professional journey I was embarking upon. Without John's immense intellect, keen understanding of the commercial world and enormous generosity of spirit, supporting and encouraging me, I may well have given it up as being far too much of a challenge for a young lawyer. It soon became clear to me that to advise clients upon franchising one needed to have a strong understanding of a wide range of legal disciplines, from competition law and intellectual property through real estate, contract, commercial, corporate, tax and private international law to the boundaries of new and previously undreamed of areas of jurisprudence in jurisdictions far beyond one's own. Who in the early 1980s, for example, had even imagined areas of law such as privacy and data protection, which now play such an important role in how franchising is structured and regulated across the globe? It all seemed an incredible intellectual and professional challenge in respect of an area of commerce that was not even recognised as existing under English law. However, John was gently insistent and understood the role that franchising would play in an increasingly global economy. For John, who was a true legal polymath (having authored several leading textbooks on areas of law as diverse as taxation and package holidays), the breadth and depth of legal knowledge that was required merely made franchising a more interesting and rewarding area of law in which to specialise.

Showing his characteristic altruism and desire to help young lawyers make the most of their talents, John guided and supported me as I struggled to understand the international complexities of franchising, sending me to the United States, where I was able to immerse myself in the dynamic and highly regulated world of American franchising. I also had the pleasure of co-authoring my first chapter in a legal text book on franchising with John, or 'JANJ', as the younger lawyers in the firm referred to him. In his typically gracious and humorous manner, he insisted that my name appear before his in the index and on the first page of the chapter as, in his words, 'The "A" is mightier than the "N"!'

John was a charming and self-effacing individual, with a kind word for everyone and a genuine interest in everybody who worked with him. I was only one of his protégées, and he steered many other young lawyers to become internationally renowned practitioners in a number of other areas of law, such as taxation and international travel. John took all of the hard work involved in supporting and shaping the careers of young lawyers easily in his stride, while at the same time successfully managing one of the City's up-and-coming law firms, looking after a large and demanding portfolio of blue-chip clients and making regular Saturday visits to Plough Lane, where he watched his local football club, Wimbledon (aka 'the Crazy Gang'), win the FA Cup in 1988 and then try to defy gravity by vainly battling to avoid relegation from the first division for the rest of the decade.

Thirty-five years on from the time that John introduced me to international franchising, his confidence in the future role and importance of franchising in the world economy has been vindicated. As usual, he was able to see what most others could not – potential, whether it was in respect of people or ways of doing business.

The Franchise Law Review is therefore just one small part of John's legacy to the legal profession and it is my great pleasure to dedicate this fourth edition to him.

Since the publication of the third edition of *The Franchise Law Review*, there have been major economic and geopolitical developments that have had a significant impact on world trade, not least the election of Donald Trump as president of the United States and the referendum that resulted in Brexit. The price of oil is still low, China's manufacturing sector is still suffering significant setbacks, Europe faces a further range of challenges, Iran and Saudi Arabia are exacerbating the problems in the Middle East and the Russian economy continues to float in the doldrums. Through all this, however, the apparently inexorable march towards the globalisation of commerce has continued unabated.

Despite the slow emergence of a few economic bright spots, the economy of what was once called the 'developed' world continues to struggle for the most part, while even Brazil (despite the recent Olympics) is still wallowing in recession. As a consequence, businesses are often presented with little choice but to look to more vibrant markets in Asia, the Middle East and Africa for their future growth.

The key word would seem to be uncertainty.

Brexit is set to have an impact on franchising in Europe, but it is as yet unclear what that impact will be. With the fall in the pound against the dollar we have already seen a number of US franchisors buy out their UK master franchisees. However, whether that is a long-term trend remains to be seen. In legal terms, the only potentially significant impact so far has been upon EU trademarks, resulting in many franchisors taking the precaution of also registering UK brands for their marks. On the other side of the Atlantic, the election of Donald Trump to the presidency is another unknown that will most probably have an impact upon franchising during the next few years.

The political uncertainty in continental Europe is also likely to have some impact. With the demise of both Hollande in France and Renzi in Italy, and the general rise of anti-establishment and anti-EU parties, Chancellor Merkel in Germany seems likely to be one of the few strands of continuity over the coming few years.

South–South trade continues to increase, perhaps at the expense of its North–South counterpart. All of this, coupled with the unstable wider geopolitical landscape, presents business with only one near certainty: there will be continued deleveraging of businesses in the coming years and, thus, growing barriers to international growth for many of them. All but the most substantial and well-structured of such businesses may find themselves facing not only significant difficulties because of their reduced access to funding for investment in their foreign ventures, but also challenges arising from their lack of managerial experience and bandwidth.

At the same time, the regulation of franchising continues to evolve and the past 12 months have seen the EU Parliament focus on how it might best change the regulatory environment for franchising within the European Single Market.

Despite all of the above uncertainty, franchising, in its various forms, continues to present businesses with one way of achieving profitable and successful international growth without the need for either substantial capital investment or a broad managerial infrastructure. In sectors as diverse as food and beverages, retail, hospitality, education, healthcare and financial services, it continues to be a popular catalyst for international commerce and makes a strong and effective contribution to world trade. We are even seeing governments turning to it as an effective strategy in the future development of the welfare state, as social franchising continues to gain traction as a means of achieving key social objectives.

Given the positive role that franchising can make in the world economy, it is important that legal practitioners have an appropriate understanding of how it is regulated around the globe. This book provides an introduction to the basic elements of international franchising and an overview of the way it is regulated in 36 jurisdictions.

As will be apparent from the chapters of this book, there continues to be no homogeneous approach to the regulation of franchising around the world. Some countries specifically regulate particular aspects of the franchising relationship. Of these, a number try to ensure an appropriate level of pre-contractual hygiene, while others focus instead on imposing mandatory terms upon the franchise relationship. Some do both. In certain countries, there is a requirement to register certain documents in a public register. Others restrict the manner in which third parties can be involved in helping franchisors meet potential franchisees. No two countries regulate franchising in the same way. Even those countries that have a well-developed regulatory environment seem unable to resist the temptation to continually develop and change their approaches to regulation – as is well illustrated by the recent changes to the Australian regulations. The inexorable onward march of franchise regulation continues, with countries such as Argentina – which previously had not specifically regulated franchising – adopting franchise-specific laws in the past 12 months.

Many countries do not have franchise-specific regulation, but nevertheless strictly regulate certain aspects of the franchise relationship through the complex interplay of more general legal concepts such as antitrust law, intellectual property rights and the doctrine of good faith. This heterogeneous approach to the regulation of franchising presents yet another barrier to the use of franchising as a catalyst for international growth.

This book certainly does not present readers with a full answer to all the questions they may have about franchising in all the countries covered – that would require far more pages than it is possible to include in this one volume. It does, however, in the first section, try to provide the reader with a high-level understanding of the challenges involved in international franchising, and then, in the second section, explain how these basic themes are reflected in the regulatory environment within each of the countries covered.

I should extend my thanks to all of those who have helped with the preparation of this book, in particular Caroline Flambard and Nick Green, who have invested a great deal of time and effort in making it a work of which all those involved can be proud.

It is hoped that this publication will prove to be a useful and often-consulted guide to all those involved in international franchising, but needless to say it is not a substitute for taking expert advice from practitioners qualified in the relevant jurisdiction.

Mark Abell
Bird & Bird LLP
London
January 2017

Chapter 36

MALAYSIA

Lee Lin Li and Chong Kah Yee[1]

I INTRODUCTION

The Malaysian government has been an active proponent of franchising as a business model. In 2015, the franchising market in Malaysia contributed about 3.4 per cent of the Malaysian gross domestic product (GDP), or 26.8 billion ringgit[2] and it is expected that the franchise industry will contribute 28 billion ringgit to the GDP in 2016.[3] This growth is anticipated to contribute 35 billion ringgit or 4.4 per cent to the GDP by 2020.[4]

The Ministry of Domestic Trade, Consumerism and Cooperatives (MDTCC) has been charged with monitoring the continued growth of the franchising sector in Malaysia. These efforts have culminated in the enactment of the Franchise Act 1998 (amended in 2012) (the Act) and the establishment of the Franchise Registry.

Foreign franchisors, particularly those with unique franchise models and concepts, are actively encouraged to enter into the Malaysian market. As at 15 November 2016, there are 830 registered franchise businesses from various sectors in Malaysia, out of which 556 are local brands.[5]

The Malaysian government, in recognition of the revenue streams that franchising models offer, has actively promoted the growth of domestic franchises. This support has been in the form of state grants, soft loans and business education programmes organised by the MDTCC and Perbadanan Nasional Berhad (PNS). PNS falls within the joint purview of the Ministry of Finance and the MDTCC. PNS is charged with spearheading the growth of the local franchise industry and assisting its expansion abroad, allocating and managing

1 Lee Lin Li is a partner and Chong Kah Yee is an associate at Tay & Partners.
2 www.bernama.com/bernama/v8/bu/newsbusiness.php?id=1302578.
3 www.smecorp.gov.my/images/Malaysia_Weekly_Economic_News/Malaysia_Weekly_Economic_News_4_Apr_-_8_Apr_2016.pdf.
4 Ibid. at 1.
5 Ibid. at 1.

grants and offering business support in the form of franchise consultation and other advisory services. These efforts have led to significant growth in the number of local franchisors in the past decade.

Local franchisors have been encouraged to expand their businesses abroad and many have successfully established franchises in China, South East Asia, the Middle East, India and Australia.[6] In 2016, there were 64 Malaysian franchise brands in 65 countries worldwide with an expansion of 4,045 outlets as compared with 29 Malaysian franchise brands in 31 countries involving 174 outlets in 2008.[7]

The Malaysian Franchise Association (MFA) was formed in 1994. It has a wide membership base that includes representatives from the franchising industry, service providers such as accountants, franchise consultants and bankers, and government bodies. All members are required to abide by the MFA's Code of Ethics of a Professional Conduct of Franchise Practitioners.[8] The MFA maintains professional and ethical standards by enforcing this code of practice among its members.

The MFA serves as a resource centre for franchisors and franchisees, the media and the public. It also acts as a networking and discussion forum between the private sector, franchise industry and government agencies.

II MARKET ENTRY

i Restrictions

Prior to the introduction of the Act, parties were free to negotiate their own terms and were governed by contract and common law. This allowed for a higher degree of flexibility. The franchising industry is now regulated by the Act, which places greater restrictions on foreign franchisors and introduces criminal liability for certain acts.

Section 54 of the Act requires that all foreign franchisors intending to set up franchises or enter into franchise agreements with any Malaysian citizen obtain prior approval from the Franchise Registry. Applications for registration are required to be supported by documents that include:[9]

a a sample franchise agreement;
b a certified copy of the applicant's certificate of incorporation;
c document evidencing changes in shareholding of the company, if applicable;
d details of the franchise concept, including the uniqueness of the brand's franchise system and franchise experience;
e official declaration from the Insolvency Department that the board of directors are free from bankruptcy;
f a certified copy of the registration certificate of the franchise's trademarks issued by the intellectual property office of the brand's country of origin and the Intellectual Property Corporation of Malaysia (MyIPO) (or proof of an application for such a registration);

6 www.matrade.gov.my/en/foriegn-buyers-section/70-industry-write-up--services/539-franchise.
7 Ibid. at 1.
8 www.mfa.org.my/newmfa/background/.
9 A checklist of documents for registration under Section 54 of the Franchise Act 1998, which is extracted from http://myfex.gov.my/portal/.

g the company's brochure or profile;
h pictures of a prototype outlet; and
i a certified true copy of the latest three years' audited accounts that have been notarised by a notary public.

Decisions are communicated by the Franchise Registrar in writing and the approval remain in place until the Registrar issues an order suspending, terminating, prohibiting or refusing the sale and registration of the franchise as permitted under the Act or where an applicant or franchisor seeks a cancellation of the approval.

Apart from Section 54 of the Act, there are no restrictions placed on foreign franchisors with regard to granting a master franchise or development rights to a local franchisee. The appointed master franchisee or a franchisee of the foreign franchisor is required to register its franchise with the Franchise Registry before making an offer to sell the franchise to any person or commencing the franchise business, respectively.[10]

Foreign franchisors are permitted to acquire equity in local businesses and real property subject to certain conditions.

Franchises with foreign equity must be incorporated locally, either as a subsidiary, a representative or branch office to carry on business in Malaysia.

All distributive trades, which includes retailers, wholesalers, franchise practitioners and direct-selling businesses, are required to obtain approval from the MDTCC before they are able to operate in Malaysia and are required to comply with the MDTCC's Guidelines on Foreign Participation in the Distributive Trade Services (the MDTCC Guidelines).[11]

These Guidelines are extensive and cover the following:
a acquisitions, mergers or takeovers by foreign participation;
b the opening, relocation, expansion of branches or outlets or chain stores;
c buying over or taking over of outlets of other operators; and
d real property transactions relating to distributive trade activities (prior to obtaining other necessary approvals or licences from local authorities and other government agencies).

In addition, all distributive trades with foreign equity are required to:
a appoint a bumiputra director or directors ('bumiputra' is a local term that refers to the indigenous peoples of Malaysia encompassing ethnic Malaysia and other minority indigenous ethnic groups);
b hire personnel at all levels including management to reflect the racial composition of the Malaysian population;
c formulate clear policies and plans to assist bumiputra participation in the distributive trade sector;
d utilise local airports and ports in the export and import of goods;
e utilise local companies for legal and other professional services;
f submit annual financial reports to the MDTCC;

10 A master franchisee is required to obtain approval under Section 6 of the Franchise Act 1998, whereas a franchisee of a foreign franchisor is required to obtain approval under Section 6A of the Franchise Act 1998.

11 Guidelines on Foreign Participation in the Distributive Trade Services Malaysia, by the MDTCC; see www.kpdnkk.gov.my/images/KPDNKK/PDF/Borang/WRT_Guideline.pdf.

g comply with all local authority by-laws and regulations; and
h ensure that persons with disabilities make up at least 1 per cent of their total hypermarket workforce (in relation to franchises operating in the hypermarket sector).

The MDTCC Guidelines also impose specific conditions on franchises operating in certain industry sectors. These include:
a for businesses operating in the hypermarket sector, a minimum capital requirement of 50 million ringgit and a requirement for a minimum 30 per cent of equity to be held by bumiputras;
b in the department store sector, a minimum capital requirement of 20 million ringgit;
c for superstores operating as self-service distribution stores retailing mainly consumer goods that comprise of a mix of food and non-food products, a minimum capital requirement of 25 million ringgit; and
d for specialty stores serving an exclusive brand name, product or line of goods, a minimum capital requirement of 1 million ringgit.

Generally, in an effort to promote local participation, government agencies are actively tasked with encouraging the formation of joint ventures between Malaysians and foreign investors instead of allowing wholly foreign-owned corporations to operate independently.

Pursuant to the National Land Code, a foreigner is required to obtain prior approval from the relevant state authority for transactions regarding real property. Any property transactions without this formal approval are rendered void.[12] In addition to the requirements of the National Land Code, there are further restrictions in place and these are, broadly, as follows:[13]
a foreigners are generally prohibited from purchasing properties valued at below 1 million ringgit; and
b where the property is valued at or above 1 million ringgit, there are generally no restrictions, but where a property is valued at over 20 million ringgit and the purchase results in the dilution in the ownership of property held by bumiputra interest or government agency, prior approval will be required from the Economic Planning Unit.

ii Foreign exchange and tax

Foreign exchange

Foreign exchange issues are governed by the Foreign Exchange Administrative Rules issued by the Central Bank of Malaysia (BNM) and the Financial Services Act 2013 (FSA).[14]

12 Sections 433A, 433B and 433C of the National Land Code 1965.

13 Guidelines on the Acquisition of Properties (2014), by the Malaysian Economic Planning Unit; see www.epu.gov.my/en/en/sites/default/files/Acquisition_Properties.pdf.

14 BNM press release: 'Financial Services Act 2013 and Islamic Financial Services Act 2013 Come into Force'. See www.bnm.gov.my/index.php?ch=en_press&pg=en_press&ac=607&lang=en; in this press release, the BNM confirmed that all prevailing foreign exchange rules in operation prior to the Financial Services Act 2013 would remain in force.

Residents[15] and non-residents[16] are defined within Section 213 of the FSA. The Malaysian market is generally accessible by foreign investors. Payment for investments can be made in a foreign currency or in Malaysian ringgit. Non-residents are free to remit divestment proceeds, profits, dividends or any income arising from investments in Malaysia abroad. Any repatriation of funds must, however, be made in foreign currency. Non-residents are also free to:

a open ringgit or foreign currency accounts in Malaysia;

b obtain credit facilities in Malaysia in ringgit or foreign currency;

c obtain loans of any amount from Malaysian residents to finance the purchase of immoveable properties in Malaysia; and

d enter into foreign exchange contracts on a spot or forward basis with onshore licensed banks to hedge investments in Malaysia.[17]

Non-resident travellers may:

a bring in or take with them, Malaysian currency up to the value of US$10,000; and

b bring in any amount of foreign currency, including traveller's cheques.[18]

Tax

The imposition of tax is governed by the Income Tax Act 1976. Non-resident companies are subject to withholding tax on royalty payments derived from within Malaysia. This imposes a legal obligation on the party or franchisee making the payment to a non-resident to withhold tax at source and remit it to the Inland Revenue Board of Malaysia within a specified period (usually within a month from the date of the payment or royalties).[19]

III INTELLECTUAL PROPERTY

i Brand search

The registration of intellectual property rights (IPRs) such as, trademarks, patents and industrial designs is administered by MyIPO. Generally, the primary IPRs relevant to the franchising industry are those regarding trademarks. It is prudent for a franchisor seeking to enter into the Malaysian market to undertake a prior search against the databases maintained by MyIPO to ascertain whether there are any potential conflicts. Similar searches may be conducted with regard to other IPRs such as design, copyright or patents.

15 Section 213 of the Financial Services Act 2013. Residents include Malaysian citizens, foreign citizens who have been accorded permanent residence status and who reside in Malaysia and companies incorporated in Malaysia.

16 Section 213 of the Financial Services Act 2013. Non-residents include foreign citizens, foreign embassies or high commissions, supranational Malaysian citizens who have acquired permanent residence status abroad and who reside abroad and foreign corporate entities.

17 Foreign Exchange Administration Rules, by the BNM; see www.bnm.gov.my/microsite/fxadmin/new_fea_rules/FEA_rules_Part_2_Non-residents.pdf.

18 Ibid.

19 Section 109(1) of the Income Tax Act 1967 and the Income Tax (Deduction for Expenditure on Franchise Fee) Rules 2012.

Following the launch of an online search portal by MyIPO in 2010, all searches are now required to be conducted online.[20] However, as the online search portal is only limited to word mark searches (for the purposes of trademark searches), the search results may not be comprehensive. It is, therefore, advisable to conduct more thorough searches (which also incorporate the logos and devices used within a trademark), using the online facilities provided at the central registry at MyIPO. Such searches will attract further fees, but they may provide more comprehensive search results.

MyIPO also maintains databases for granted patents and registered industrial designs, all of which are open to public search and inspection and which can similarly be searched using the MyIPO online search portal.[21] As with trademarks, however, it is advisable to conduct a search at the central registry to obtain more comprehensive search results.

It is also advisable for franchisors to make a further search against the database for registered companies and businesses maintained by the Companies Commission of Malaysia (CCM). The CCM is charged with approving applications for, and maintaining the registration of, companies and businesses in Malaysia. As the CCM does not, as a matter of practice, conduct any searches with MyIPO, a registered trademark may well be registered by a third party as a company name. In such cases, and in the absence of any direct settlement with the company or business concerned, the only recourse available to a trademark owner is to commence court proceedings for the alteration of the registered company or business name.

ii Brand protection

Section 24 of the Act requires a franchisor to register any trademarks relevant to his or her franchise prior to applying for registration with the Franchise Registry. However, as trademark registrations take time, the Franchise Registry usually accepts proof of filing for registration in place of a certificate confirming the registration of the marks.

The trademark filing process is summarised below:

a First, the prescribed application form setting out the details of the trademark applied for, together with the prescribed fee, has to be submitted to MyIPO. While applications for registration can be filed online, a foreign trademark owner will need to provide a local address for service. Each application is limited to one mark and to one class of goods or services. As such, where the trademark proprietor wishes to benefit from protection in more than one class of goods or services or register several different marks, separate applications will be required.

b The trademark applicant is also required to file a statutory declaration attesting, on oath, his or her bona fide claim to ownership of the trademark.

c The application is then examined by appointed examiners, who are tasked to determine whether the trademark complies with the requirements of the Malaysian Trade Marks Act 1976 (TMA). Both, relative and absolute grounds of registration, ranging from distinctiveness of the mark to potential conflict with other registered marks will be considered.

d At this stage, the examiner may either raise objections in the form of an 'office action' or issue a notice of acceptance.

20 See http://onlineip.myipo.gov.my/index.cfm/search/tm.

21 Ibid.

e When an office action is issued, the applicant is given two months to deal with the objections raised through written submissions. Extensions of time to respond are permissible upon the payment of prescribed fees. If an examiner, having considered the applicant's written submissions, maintains the initial objections, the applicant has an opportunity to appeal, at an *ex parte* oral hearing, to a different examiner (the hearing officer). If the hearing officer maintains the objections, the applicant has the right to lodge an appeal with the High Court and thereafter, there is a final recourse and appeal to the Court of Appeal.

f When an examiner approves the application or an applicant successfully overcomes any objections raised by the examiner, the Registrar issues a notice of acceptance, with directions requiring the payment of the registration fees and the advertisement of the trademark application in the Government Gazette for two months. Any aggrieved person may, during this two-month period, lodge an opposition against the registration of the trademark.

g If no oppositions are filed, a certificate of registration is issued. The date of application is adopted as the date of registration and the initial registration is valid for a period of 10 years. The trademark has to be renewed every 10 years, or else the mark is deemed expired and removed from the Register.

h A registered trademark is also vulnerable to cancellation on the grounds of non-use if there has been no continuous use of the trademark, in good faith, for a period of three years up to one month prior to the date of application seeking the cancellation of the registration.

iii Enforcement

The main IPRs applicable to a franchise are trademarks, confidential information or trade secrets, know-how and copyright. In certain businesses, other IPRs such as industrial designs and patents may also be applicable.

A registered proprietor has recourse under the relevant legislation or common law to seek relief for the infringement of any of his or her IPRs. Infringement actions in respect of trademarks, copyright, industrial designs and patents have to be initiated in the High Court. Other rights such as breach of confidentiality or trade secrets or passing off may also be initiated in the Sessions Court (a subordinate court) if the claim for damages does not exceed 1 million ringgit.[22] Both the High Court and Sessions Court have jurisdiction to grant interim or permanent injunctive and specific reliefs.[23] The usual reliefs sought in civil actions for infringement are orders for the delivery of the infringing articles, injunctions prohibiting further infringing acts, damages or an account of profits and legal or taxed costs (the standard reliefs).

Trademarks are protected by the registration of the marks pursuant to the TMA or pursuant to common law rights such as passing off. Where a trademark is infringed, a registered proprietor or an exclusive licensee of the trademark may commence a civil action

22 Section 65(1)(b) of the Subordinate Courts Act 1948.

23 Sections 65(1)(c) and (5)(a) of the Subordinate Courts Act 1948 and Section 25(2) of the Courts of Judicature Act 1964.

pursuant to the TMA,[24] and where the mark has been used in Malaysia such that there is goodwill and reputation associated with it, there is additional recourse under common law for passing off. The standard reliefs are usually available in such actions.

Additionally, a registered proprietor may have recourse to administrative relief, in the form of border protection measures to prevent the importation of counterfeit goods, and criminal remedies pursuant to the Trade Descriptions Act 2011[25] whereby the Enforcement Division of the MDTCC may be moved to initiate a raid, seize infringing or counterfeit goods and to criminally prosecute the persons responsible.

Know-how, trade secrets and confidential information are protected through covenants imposed by Section 26 of the Act, contract law and pursuant to common law.

Pursuant to Section 26 of the Act, a franchisee is required to provide the franchisor with a guarantee that the franchisee, including its directors and employees, their spouses and immediate family may not disclose any information contained in the training or operation manual or information obtained from the franchisor during the term of the franchise agreement. Failure to provide this guarantee is tantamount to a criminal offence under the Act.

In addition, where these obligations of confidence are set out in the franchise agreement or a confidentiality agreement or undertaking, a franchisor will also have recourse to a civil action for breach of confidentiality under contract and common law.

While there is no compulsory registration system for copyright in Malaysia, it is possible to provide voluntary notification of copyright ownership to the MyIPO. A work is eligible for copyright protection upon the fulfilment of certain conditions, which include labour, skill and judgement to make the work original, where the work is reduced in material form, written down or recorded and the author is a Malaysian or the work is produced or made in Malaysia. Works that are protected under copyright include literary, musical artistic or dramatic works.[26]

When a copyright work is infringed, the proprietor of the copyrighted work may initiate a civil action and seek injunctive reliefs similar to the standard reliefs and, in addition, may seek statutory damages of not less than 25,000 ringgit for each work and not more than 500,000 ringgit on aggregate.[27] The copyright owner may also have recourse to criminal remedies provided under the Copyright Act 1987[28] and the Enforcement Division of the MDTCC may be requested to conduct a raid, seize any offending works or bring a criminal prosecution accordingly.

Similarly, if other IPRs, such as patents[29] or industrial designs,[30] registered in Malaysia are concerned, the franchisor will have similar recourse to the civil remedies discussed above for any infringement.

24 Section 38 of the Trade Marks Act 1976.

25 Section 8 of the Trade Descriptions Act 2011.

26 Section 7 of the Copyright Act 1987.

27 Section 37 of the Copyright Act 1987.

28 Section 41 and Part VII of the Copyright Act 1987.

29 Section 60 of the Patents Act 1983.

30 Section 35 of the Industrial Designs Act 1996.

iv Data protection, cybercrime, social media and e-commerce

The Personal Data Protection Act 2010 (PDPA) regulates personal data that is processed and maintained in relation to commercial transactions.

Personal data encompasses information in relation to commercial transactions that relates directly or indirectly to a data subject who is identified or identifiable from that information or other information in the possession of the data user, and includes any expressions of opinion relating to the data subject. 'Data subject' refers to an individual who is the subject of the personal data.

Commercial transactions include any transaction of a commercial nature, whether contractual or otherwise, which includes any matter relating to the supply or exchange of goods or services, agency, investments, financing, banking and insurance. The PDPA will therefore be applicable in the context of a franchise as personal information collected will be in relation to a commercial transaction.

The PDPA requires consent from a data subject prior to any collection or processing of personal information from the data subject; however, this requirement is waived if the collection and processing of personal information is necessary for the performance of a contract.

Compliance is required with other principles, including, briefly, the following:

a The Notice and Choice Principle requires the data user to provide notice to the data subject that personal data is being processed and the purpose of that processing. The notice must be given in writing and provided in both the national language (Bahasa Malaysia) and in English.

b The Disclosure Principle prohibits the disclosure of personal information to third parties or disclosure for purposes other than for the original purpose, except with the consent of the data subject.

c The Security Principle imposes an obligation on the data user to keep the personal information secure from unauthorised use, disclosure, etc.

d The Retention Principle prevents personal information from being kept longer than is necessary.

e The Data Integrity Principle ensures that the personal information collected and kept is accurate and up to date.

f The Access Principle gives the data subject access to the personal information provided to update or correct any information provided to the data subject.

The PDPA also prevents transfer of personal data to countries outside Malaysia unless to such countries as specified by the Minister.[31]

Transfer of personal data to countries other than those specified is allowed under the following circumstances:

a the data subject has given consent;

b the transfer is necessary for the performance of a contract between the data subject and data user;

31 No such countries have been specified by the Minister as yet. However, such countries are likely to be those having substantially similar laws to the PDPA and with an adequate level of protection in place in relation to the processing of personal data.

c the transfer is necessary for the conclusion or performance of a contract between the data user and a third party that:
- is entered into at the request of the data subject; or
- is in the interests of the data subject;

d the transfer is for the purpose of any legal proceedings, for obtaining legal advice, exercising or defending legal rights;

e the data user has reasonable grounds to believe that in all circumstances of the case:
- the transfer is for the avoidance or mitigation of adverse action against the data subject;
- it is not practicable to obtain the consent in writing of the data subject to that transfer; and
- if it were practicable to obtain that consent, the data subject would have given his or her consent;

f the data user has taken all reasonable precautions and exercised due diligence to ensure that the personal data will not, in the place to which they are to be transferred, be processed in any manner that would have contravened the PDPA had the data been processed in Malaysia;

g the transfer is necessary to protect the vital interests of the data subject; and

h the transfer is necessary as being in the public interest.

In addition to the PDPA, franchisors should generally be aware of other Malaysian legislation that regulates matters relating to cybercrime, e-commerce and social media. In brief:

a the Computer Crimes Act 1997 sets out offences relating to the misuse of computers including unauthorised access to a computer, unauthorised access with intent to commit other crime and also the communication of information, such as passwords, to unauthorised persons;

b the Electronic Commerce Act 2006 provides a legal framework for and recognises the use of electronic messages in commercial transactions and the use of such messages to fulfil legal requirements and to enable and facilitate legal transactions; and

c the Communications and Multimedia Act 1998 and the Malaysian Content Code regulate the provision of content, including online content, and apply to persons within and outside Malaysia if the content is made available in Malaysia. Compliance with the Content Code is generally voluntary unless the Communications and Multimedia Commission issues mandatory compliance directions.

IV FRANCHISE LAW

i Legislation

The Act provides a dedicated legislative framework relating to the franchising industry. It provides for the registration of franchises and regulates franchises, including setting out mandatory terms and conditions that have to be contained within a franchise agreement. Contravention of the Act may render a franchise agreement void or expose a franchisor or franchisee to criminal penalties.

Apart from complying with the Act, franchisors and franchisees should also be aware of other relevant legislation such as the Contracts Act 1950, the TMA (and legislation relating to the protection of other IPRs as set out above), the Employment Act 1955 and the Competition Act 2010.

ii Pre-contractual disclosure

Specific pre-contractual disclosure is covered within the Act and it may also generally fall within the scope of the Contracts Act 1950 and common law.

The Act requires a franchisor to provide disclosure documents to a prospective franchisee at least 10 days before the franchisee signs the franchise agreement.[32] The information required to be disclosed to the franchisee includes:

a description of the franchise business;
b details of intellectual property rights, fees and payments required from the franchisee;
c financial obligations;
d whether the franchisee is required to purchase or obtain supplies or materials from a designated source;
e territorial rights;
f franchise terms, including terms for renewal and termination, obligations upon termination; and
g audited accounts of the franchisor's business (at present, the Franchise Registry requires a minimum of the latest three years' audited accounts).

In the event that the information within the disclosure documents is false or misleading, the franchisor may be liable to both criminal and civil action under the Act. It is a criminal offence under the Act to make false statements or omissions that render the information within the disclosure documents misleading.[33]

Section 39 of the Act sets out the applicable penalties if a person is found guilty of an offence under the Act where no express penalties have been specified. Upon conviction, a person will be liable:[34]

a for the first offence under the Act, to pay a fine of not less than 5,000 ringgit and no more than 25,000 ringgit or to imprisonment of no more than six months; and
b for the second or any subsequent offences, a fine of not less than 10,000 ringgit and no more than 50,000 ringgit or imprisonment of no more than one year.

If the alleged offender is a body corporate, it will, upon conviction, attract:[35]

a for the first offence under the Act, a fine of not less than 10,000 ringgit and no more than 50,000 ringgit; and
b for the second or any subsequent offence, a fine of not less than 20,000 ringgit and no more than 100,000 ringgit.

Further, the court has the power to declare the franchise agreement null and void and may order the franchisor to refund any payments made by the franchisee, and the court may further prohibit the franchisor from entering into any new franchise agreements or from appointing any new franchisees.[36]

32 Section 15(1) of the Franchise Act 1998.
33 Section 37 of the Franchise Act 1998.
34 Section 39(1)(b) of the Franchise Act 1998.
35 Section 39(1)(a) of the Franchise Act 1998.
36 Section 39(2) of the Franchise Act 1998.

In addition to the Act, an aggrieved party may also bring an action for damages for misrepresentation under tort law and, if proven, the court may rescind the franchise agreement. The Contracts Act 1950 also expressly provides for misrepresentation, which potentially renders the contract or agreement voidable at the option of the franchisee.[37]

The franchisor should therefore seek to expressly protect its position within the franchise agreement by ensuring that all projections of profits and revenue and pre-contractual information, where provided to the franchisee pursuant to the disclosure documents under the Act or during the course of negotiations leading to the franchise agreement, do not amount to legally binding representations, guarantees or warranties, to avoid any potential action for misrepresentation or a criminal prosecution under the Act.

iii Registration

There are four categories of registration under the Act, namely registration by:

a a local franchisor or master franchisee of a foreign franchisor before offering to sell its franchise to any party;
b a foreign franchisor intending to sell its franchise in Malaysia or to Malaysian citizens;
c the franchisee of a local franchisor; and
d the franchisee of a foreign franchisor.

Local franchisor or master franchisee

Section 6 of the Act requires a local franchisor or a master franchisee of a foreign franchisor to register its franchise with the Franchise Registry before offering to sell its franchise to any party. A breach of this Section is an offence under the Act and a person will upon conviction, be liable:[38]

a for the first offence under the Act, to pay a fine not exceeding 100,000 ringgit or to imprisonment of no more than one year; and
b for the second or any subsequent offence, to pay a fine not exceeding 250,000 ringgit or to imprisonment of no more than three years.

If the alleged offender is a body corporate, it will, upon conviction, attract:[39]

a for the first offence under the Act, a fine not exceeding 250,000 ringgit; and
b for the second or any subsequent offence, a fine not exceeding 500,000 ringgit.

The local franchisor is required to submit its application for registration together with all supporting documents, which include the disclosure documents, a sample of the franchise agreement, operation manual, the training manual, its latest audited accounts,[40] financial statements and the auditors' or directors' reports and any other information required by the Registrar.[41]

37 Section 19(1) of the Contracts Act 1950.
38 Section 6(2)(b) of the Franchise Act 1998.
39 Section 6(2)(a) of the Franchise Act 1998.
40 The Franchise Registry presently requires a minimum of the latest three years' audited accounts to be submitted in support of such applications.
41 Section 7 of the Franchise Act 1998.

The Registrar may approve, impose conditions or reject the application, and all such decisions are communicated in writing to the applicant. In the case of an adverse decision, the applicant may submit an appeal to the Minister within one month from the date of communication of the decision. The Minister's decision is final.[42]

Foreign franchisor

Section 54 of the Act requires a foreign franchisor to apply for prior approval before being able to make offers to sell its franchise in Malaysia. The Registrar may approve, impose conditions on or refuse such an application, and the rights of appeal are set out above.[43]

Franchisee of a local franchisor

Pursuant to Section 6B of the Act, a franchisee who is granted a franchise by a local franchisor is required to register the franchise with the Registrar within 14 days from the date of signing of the franchise agreement between the franchisor and the franchisee.

Franchisee of a foreign franchisor

Upon entering into a franchise agreement with a local franchisee and prior to the commencement of operations, the franchisee of a foreign franchisor is required to make an application to register its franchise with the Registrar pursuant to Section 6A of the Act.

iv Mandatory clauses

The Act provides for the inclusion of certain mandatory clauses in a franchise agreement pursuant to Section 18 of the Act, failing which a franchise agreement will be void. Section 18 provides that a franchise agreement will include:

a the name and description of the product and business of the franchise;
b the territorial rights granted to the franchise;
c the franchise fee, promotion fee, royalties, or any other related payment that may be imposed on the franchisee;
d the obligations of both the franchisor and franchisee;
e the franchisee's right to use the intellectual properties belonging to the franchisor;
f the conditions under which the franchisee may assign the rights given under the franchise;
g a statement confirming a cooling-off period of at least seven working days during which the franchisee may terminate the agreement and seek the refund of any franchise fee paid to the franchisor subject to reasonable expenses incurred in the preparation of the franchise agreement that may not be refundable;
h the type of assistance to be provided by the franchisor to the franchisee;
i the duration of the franchise (minimum five years) and the terms of renewal; and
j the effect of termination or expiration of the franchise agreement.

Further, the franchisor is required to set up a promotion fund, managed under a separate account, if the franchisee is required to make any payment for the promotion of the franchise.[44]

42 Section 17 of the Franchise Act 1998.
43 Ibid.
44 Section 22 of the Franchise Act 1998.

v Guarantees and protection

The Act provides for the following written guarantees to be provided by a franchisee:

a the franchisee, including its directors, the spouses and immediate family of the directors, and his employees must not disclose any information contained in the operation manual or any information obtained while undergoing training organised by the franchisor during the whole of the franchise term and for a period of two years after the expiration of the agreement;[45] and

b the franchisee, including its directors, the spouses and immediate family of the directors, and his employees must not carry out any other business similar to the franchised business for the whole of the franchise term and for a period of two years after the expiration of the agreement.[46]

Failure to provide the above guarantees amounts to an offence under the Act and the penalties are set out above (see Section IV.ii, *supra*).

In addition, any written guarantees given by a party will also be enforceable under contract and common law. In the event of failure to provide the guarantees, the franchisor or the aggrieved party may have the option of terminating the agreement and suing for damages for breach of the guarantees given. Alternatively, depending on the nature and extent of the guarantees, the aggrieved party may choose instead to continue with the contractual relationship and claim for damages to put them in such a position as if the guarantees had been performed and fulfilled.

V TAX

i Franchisor tax liabilities

Tax liabilities generally arise in relation to any income derived within Malaysia. For a franchisor, this would include income arising from royalties, financial gains arising from dividends or profits paid. Capital payments, such as lump-sum payments for the grant or acquisition of a franchise, are normally not taxable. 'Capital payment' represents a payment made for the purchase of a capital asset for the enduring benefit of the business of the franchisee. Taxable income is defined within Section 4 of the Income Tax Act 1967.[47]

Different tax rates will apply depending on whether the franchise business is managed and owned through a company (thus attracting corporate tax rates) or if it is being managed as a sole proprietorship (which attracts rates payable by individuals).

Royalty payments and interest arising from within Malaysia and payable to non-residents will be subjected to withholding tax at the rate of 10 per cent and 15 per cent, respectively, and must be paid within one month from paying or crediting the royalty.[48]

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45 Section 26 of the Franchise Act 1998.

46 Section 27 of the Franchise Act 1998.

47 Classes of income on which tax is chargeable pursuant to Section 4 of the Income Tax Act 1976 are gains or profits from a business; gains or profits from an employment; dividends, interest or discounts; rents, royalties or premiums; pensions, annuities or other periodical payment not mentioned and other gains and profits not mentioned under Section 4.

48 Section 109 of the Income Tax Act 1976.

Apart from income taxes, the franchisor may also be subject to other general tax liabilities such as stamp duties arising from the execution of the franchise agreement, real property gain tax, excise duty and Goods and Services Tax (GST).

GST is introduced under the Goods and Services Tax Act 2014, which came into force on 1 April 2015, replacing the current sales and services tax. GST is levied and chargeable at the rate of 6 per cent on the taxable supply[49] of goods and services by a taxable person and any importation of goods and services into Malaysia in the course of furtherance of any business carried by him or her.[50] Any person whose total value of taxable supplies for a period of 12 months or less exceeds the prescribed threshold of 500,000 ringgit shall be a taxable person and hence is required to be registered under the Goods and Services Tax Act 2014 to charge or collect GST on the supply of goods or services.[51]

ii Franchisee tax liabilities

Franchisees are similarly required to pay tax on taxable income;[52] apart from the income tax, the franchisee may also be subject to other general tax liabilities such as GST as explained above (see Section V.i, *supra*).

The expenses incurred by a franchisee in undertaking the franchise business – royalty payments, promotion fees, advertising costs, training fees and services fees – are tax deductible. Any franchise fee paid to a foreign franchisor is, however, not tax deductible. Franchise fees paid to a local franchisor, on the other hand, are tax deductible pursuant to the Income Tax (Deduction for Expenditure on Franchise Fee) Rules 2012.

VI IMPACT OF GENERAL LAW

i Good faith and guarantees

Section 29(1) of the Act requires both franchisor and franchisee to act in an honest and lawful manner and requires them to endeavour to pursue the best franchise practice of the time and place. However, the Act does not expressly stipulate any penalties for non-compliance. For the aggrieved party to bring an action for the breach of this statutory provision or duty, they must prove that the alleged breach has resulted in actual damage and that the damage was a type contemplated as a foreseeable consequence of the breach.

The Malaysian courts do not recognise any duty of honesty or good faith in a contract where both parties are free to negotiate terms at arm's length. The courts will recognise the principle of freedom of contract and uphold the terms in an agreement unless there are vitiating factors such as coercion, undue influence, misrepresentation or mistake. This was recently confirmed in *Aseambankers Malaysia Berhad & Ors v. Shencourt Sdn Bhd & Anor*[53] and was subsequently adopted in *SCOMI Transit Projects Sdn Bhd v. Prasarana Malaysia*

49 'Taxable supply' is defined under Section 2(1) of the Goods and Services Act 2014 as 'a supply of goods or services which are standard-rated supply and zero-rated supply and does not include an exempt supply'.

50 Section 9 of the Goods and Services Tax Act 2014.

51 Sections 19 and 20 of the Goods and Services Tax Act 2014.

52 Ibid. at 48.

53 [2014] 4 MLJ 619.

Berhad.[54] In *Aseambankers*, the court held that if it were to allow the defendant's counterclaim on the grounds that there is a general duty of good faith, the court would effectively be creating new law.

ii Agency distributor model

Section 29(3) of the Act requires the franchisee to operate its business separately from the franchisor and specifies that the relationship between the franchisee and the franchisor will not at any time be regarded as a partnership, service contract or agency. Thus, the agency model has no role to play in a franchise system in Malaysia. A franchisee may, however, distribute a franchisor's products as this is not prohibited under the Act, and such an arrangement may be subject to a separate distribution agreement.

iii Employment law

The Employment Act 1955 applies to employees whose wages do not exceed 2,000 ringgit a month and to all manual labourers (irrespective of wages).[55] All other employees are governed by their employment contracts and common law principles developed through case law. Given the express provision within the Act that franchises are not regarded as service contracts, there will be no presumption of an employer–employee relationship between a franchisor and a franchisee.

iv Consumer protection

Franchisees are not treated as consumers under existing laws in Malaysia or pursuant to the Consumer Protection Act 1999, which principally governs consumer rights and protection.

v Competition law

Franchise agreements commonly incorporate provisions that restrict or prevent competition; for instance, selective or exclusive distribution provisions and restrictions on the use of IPRs licensed under the franchise agreement. These provisions are permissible if they can be justified as proportionate and can be shown to be necessary to safeguard the goodwill that has been built up into a brand by the franchisor.

The Competition Act 2010 expressly prohibits anticompetitive agreements, which include horizontal and vertical agreements, between enterprises that have the object or effect of significantly preventing, restricting or distorting competition in any market for goods or services.[56] The franchise agreement, being a form of vertical agreement, is prohibited if it has an anticompetitive object or effect that is significant in the relevant market unless:

a the parties to the agreement are competitors who are in the same market and their combined market share does not amount to more than 20 per cent; or

54 [2016] MLJU 622.

55 Section 2(1) of the Employment Act 1955.

56 Section 4 of the Competition Act 2010.

b the parties to the agreement are not competitors and, individually, each party has less than 25 per cent of shares in any relevant market.[57]

The Competition Commission of Malaysia (MyCC) will generally take a strong stance against resale price maintenance and will deem any form of maximum pricing or recommended retail pricing that serves as a focal point for price determination to be anticompetitive. [58]

As the Competition Act 2010 has only come into force relatively recently, MyCC has, as yet, not issued any guidelines to address the competing tensions between the IPRs or franchise agreements on the one hand and free competition on the other. Resale price maintenance is one area of potential conflict. If a recommended price sought to be provided in a franchise agreement is a genuine recommendation and does not become a focal point for price determination, it is likely that it will be permitted.

vi Restrictive covenants

Non-compete clauses and restrictive covenants are generally upheld as contractual terms and enforceable for the duration of the agreement. Breach of these covenants entitles the aggrieved party to sue for damages and specific reliefs and may also form the grounds of a complaint to the Franchise Registry. Breach of restrictive covenants set out in the Act is tantamount to an offence under the Act.[59]

vii Termination

When introduced in 1998, the Act prohibited only the franchisee from terminating a franchise agreement before expiration of the franchise term. Following amendments made in 2012, a similar a similar prohibition now applies to franchisors.[60]

In any event, either party may not terminate a franchise agreement before the expiration date except for good cause as stipulated in the Act. 'Good cause' is defined to include failure of the franchisee or franchisor to comply with the terms of the franchise agreement or any other relevant agreement between the parties and their failure to remedy the breach within a specified period, which may not be less than 14 days.[61]

Termination without the requirement of notice and the opportunity to remedy the breach is also permissible in certain specified circumstances such as bankruptcy or insolvency, voluntary abandonment of franchised business, assignment of franchise rights for the benefit of creditors or a similar disposition of the assets to any other persons, conviction of a criminal offence that substantially impairs the goodwill associated with the franchisor's mark or other IPRs, and repeated failure to comply with the terms of the agreement.[62]

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57 Guidelines on Chapter 1 Prohibition: Anti-competitive Agreements (2012) by the MyCC; see www.mycc.gov.my/sites/default/files/handbook/MYCC-4-Guidelines-Booklet-BOOK1-10-FA-copy_chapter-1-prohibition.pdf.

58 Ibid.

59 Section 27 of the Franchise Act 1998.

60 Section 19 of the Franchise (Amendment) Act 2012 and Section 31 of the Franchise Act 1998.

61 Section 31(2) of the Franchise Act 1998.

62 Section 31(3) of the Franchise Act 1998.

Non-compete clauses are expressly permitted under the Act for a period of two years post-termination of the franchise[63] and they form an exception to contract law principles, which generally hold a restraint of trade clause post-contract as void.[64]

Apart from pursuing a civil action for a breach, the covenant may also be enforced by the franchisor by lodging a complaint with the Franchise Registrar, and this may potentially lead to a criminal prosecution.[65]

Nothing in the Act prevents the franchisor from taking over the franchise business granted to the franchisee upon termination of the franchise term; however, in a non-renewal of the franchise agreement, the franchisor is under an obligation to compensate the franchisee either by a repurchase or other means of compensation at a price agreed between the franchisor and franchisee in consideration of the diminution in value of the franchised business caused by the expiration of the franchise where:

a the franchisee is barred by the franchise agreement or by the refusal of the franchisor to waive any portion of the franchise agreement that prohibits the franchisee from continuing with the business; or

b the franchisee has not been given written notice of the franchisor's intent not to renew the agreement at least six months prior to the expiration date.[66]

viii Anti-corruption and anti-terrorism regulation

The Anti-Money Laundering and Anti-Terrorism Financing Act 2001 (AMLA) is the primary legislative framework combating money laundering and terrorist financing. The AMLA not only criminalises money laundering and financing of terrorism, but also imposes various obligations on reporting institutions. Any person who engages in, or attempts to engage in or abets the commission of money laundering, commits an offence under the AMLA.

Anti-corruption is governed by the Anti-Corruption Act 1997, which was enacted to make further and better provision for the prevention of corruption.

In addition, in the absence of any specific legislation, regard must also be had to the Malaysian Penal Code, which covers fraudulent and dishonest acts such as criminal breach of trust,[67] cheating[68] and criminal misappropriation of property.[69]

ix Dispute resolution

Litigation can be an expensive, lengthy and complex process especially where foreign law is applied within a franchise agreement. Civil proceedings may be initiated in the Sessions or High Court depending on the proposed cause of action and quantum of damages sought.

It is a usual practice for parties, particularly where a foreign party is involved, to include a law and jurisdiction clause within their franchise agreement. Generally, the local courts will recognise and uphold a choice of foreign law or jurisdiction clause; however, the choice of foreign law may only cover the interpretation of the terms and conditions of the

63 Section 27 of the Franchise Act 1998.
64 Section 28 of the Contracts Act 1950.
65 Section 27(3) of the Franchise Act 1998.
66 Section 32 of the Franchise Act 1998.
67 Sections 405-409 of the Malaysian Penal Code.
68 Sections 415-424 of the Malaysian Penal Code.
69 Sections 403-404 of the Malaysian Penal Code.

franchise agreement and may not exclude compliance with other Malaysian laws, such as the Act, which may still continue to apply and which may, in some instances take precedence over the terms of the franchise agreement.

Parties may also opt for arbitration or mediation as the preferred method of resolving disputes. Arbitration is governed by the Arbitration Act 2005 and mediation is governed by the Mediation Act 2012. Mediation is, however, not a mandatory form of alternate dispute resolution and there are no costs or other penalties that can or may be imposed if a party refuses to pursue mediation and decides instead to initiate a court action.

Parties are generally encouraged by the Franchise Registry to resolve disputes informally, through good faith negotiations or mediation. The Franchise Registry may, at the request of the parties, act as a mediator. Mediation is, however, not a mandatory form of dispute resolution.

Where informal dispute resolution mechanisms fail, the court process remains the primary means of enforcement.

Injunctive relief, both interim and permanent, is available to restrain the infringement of any IPRs or a breach of a restraint of trade covenant.

Where a contract is breached, the injured party is entitled to initiate a civil action for damages. Calculation of damages in a breach of contract action (including misrepresentation) depends on whether the injured party is claiming for expectation loss or reliance loss. Expectation loss aims to put the injured party in such a position as if the contract had been fully performed and where the injured party would have made certain profits or earnings; any such losses will have to be proven on a standard of balance of probabilities. If the injured party is claiming for reliance loss, the injured party must prove the expenses incurred arising from his or her reliance on the contract. In any event, the loss must not be too remote such that it must arise as a natural consequence of the breach or the parties must be aware of the loss.[70]

Under the Contracts Act 1950, the parties must also restore or compensate for any advantage received where the injured party rescinds a contract that is void or has become voidable as a consequence of the breach.[71] The Contracts Act 1950 also requires that an injured party takes all reasonable steps to mitigate the loss and must not incur unreasonable expenses in the act of doing so.[72]

An injured party may also seek to pursue a claim under tort. Damages under tort are calculated to place the claimant in such a position as if the breach or tort had not taken place. They are generally quantified under two headings, namely general and special damages.

To successfully recover any damages, a claimant must prove on a balance of probabilities that the losses were caused by the defendant's actions or breach and there has been no break in the chain of causation leading to the losses suffered. Losses that are too remote are not recoverable.

Litigation costs usually follow the event and are awarded to the successful party. There are no capped costs and in the absence of agreement between parties, the quantum of costs will be determined by the court through taxation proceedings.

70 Section 74 of the Contracts Act 1950.

71 Section 66 of the Contracts Act 1950.

72 Explanation to Section 74 of the Contracts Act 1950.

The registration and enforcement of foreign court judgments is governed by the Reciprocal Enforcement of Judgments Act 1958 (REJA). REJA is limited to final judgments[73] awarded by a superior court from a country listed in its First Schedule, and they are Brunei, Hong Kong, India, New Zealand, Singapore, Sri Lanka and the United Kingdom. If the foreign judgment is from another jurisdiction, the only method of enforcement would be to initiate fresh proceedings and secure a Malaysian court judgment.

Malaysia is a signatory to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the New York Convention) and therefore Malaysian courts will recognise foreign arbitral awards made in a New York Convention contracting state unless any of the grounds for refusal of recognition stated under Section 39(1) of the Arbitration Act 2005 are successfully established.

The most recent decision concerning franchising was delivered by the High Court in *Tea Delights (M) Sdn Bhd & Anor v. Yeap Win Nee & Anor*,[74] which concerned an appeal against the decision of the Sessions Court judge that the franchise agreement entered into between the first appellant and the respondents was *void ab initio*. In this case, the second appellant introduced the 'COMEBUY' bubble tea brand to the respondents, claiming the first appellant to be the master franchisee of the Taiwanese brand. Both parties entered into a franchise agreement with respect to the operation of the COMEBUY franchise business. The High Court held that the learned judge was correct to hold that the franchise agreement was *void ab initio* for lack of registration, which resulted in the franchise being illegal for non-compliance with the Act and all monies paid by the respondents to the appellants towards this franchise being fully refunded. Further, it was held that the second appellant could not escape liability for his tortious act in getting the respondents to invest in the illegal franchise as he had assumed responsibility to provide correct and sound advice and held himself out as the representative of the first appellant with vast experience in the franchising industry. It is noteworthy that the court has, once again, recognised the importance of registering a franchise under the Act prior to commencing the franchise business, failing which the franchise agreement is illegal and void.

VII CURRENT DEVELOPMENTS

The Franchise Development Division of the MDTCC is committed to ensuring the continued growth of the franchising industry, raising awareness of the potential of franchise systems and promoting local franchise brands in foreign markets. The government has adopted the National Franchise Development Blueprint 2012–2016, which is spread out in three phases setting out specific goals and strategies designed to accelerate the growth of the franchising industry. Moving into Phase 3 in 2017, the target is to establish Malaysia as a leading franchise hub in South East Asia and to make substantive inroads into the Middle Eastern countries by 2020.[75]

73 Section 2 of the REJA 1958. Judgments capable of registration are judgments or orders given or made by a court in any civil or criminal proceedings for the payment of a sum of money in respect of compensation or damages.

74 [2015] 1 LNS 936; [2015] MLJU 673.

75 National Franchise Development Blueprint 2012–2016, by the MDTCC; see www.kpdnkk.gov.my/images/KPDNKK/PDF/Peniaga/PIPFNBM.pdf.

The government has also introduced and developed plans and schemes by providing loans, incentives and support that are intended to help local entrepreneurs to venture into franchise businesses, attract franchise opportunities and promote local franchise businesses in foreign markets. These include the Franchise Development Programme, Micro-franchising Scheme, Franchise Development Assistance Fund, Local Franchise Product Development Programme and Franchise Financing Scheme.

Appendix 1

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Lin Li Lee is a partner of the firm and the head of the intellectual property and technology department. She handles contentious matters involving patent, trademark, copyright and industrial design infringement, and passing off, including seizure and anti-counterfeiting actions, and notably provides strategic advice on settlement negotiations. She also advises on domain name registration issues and disputes. Ms Lee regularly advises clients on cross-border transactions involving licensing, technology transfer, assignment and distributorship. A major part of her practice consists of advising and working closely with local and international clients on the management, protection and commercialisation of their IP portfolio in various sectors. She also advises on applications to register foreign and local franchises, and regularly speaks at seminars and workshops on personal data protection. Ms Lee read law at the University of Leeds and was admitted as an advocate and solicitor of the High Court of Malaya in 2001.

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