

NATIONAL UNIVERSITY OF SINGAPORE

**MODULE CODE LC1003
LAW OF CONTRACT**

Final Examination (50%)
Thursday, 2 May 2019
(Semester 2 : AY2018-2019)

Time Allowed : 2 ¼ Hours

INSTRUCTIONS TO CANDIDATES

1. **DO NOT READ BEYOND THIS COVER PAGE OR WRITE/TYPE UNTIL YOU ARE INSTRUCTED TO DO SO.**
2. This examination paper contains **THREE (3)** questions and comprises **FOUR (4)** printed pages, inclusive of this cover page.
3. Students are required to answer **ALL** questions. All questions carry the same weightage.
4. Students using the hardcopy answer books should write the answers for each question on a new page/book. **Students using the electronic examination platform must ensure that they enter their answers into the correct text boxes.**
5. This is a **CLOSED BOOK** examination. However, you are permitted to refer to your official caselists (with annotations), which have been previously issued to you by the Law Faculty, in the examination hall. A statute list will also be supplied to you for your reference.

Question 1

"Unlike other statutes, the *Contract (Rights of Third Parties) Act* has admirably addressed the problems arising from the common law in its area of operation and balances the interests of all relevant parties."

Discuss this statement in relation to the *Contract (Rights of Third Parties) Act* and at least one other statute that you have studied in the Contract Law course.

Question 2

On 1 January 2019, the (fictitious) Sugar Control Act came into force in Singapore, as part of the government's war against diabetes and obesity. The provisions of this statute include the following: "Any person who sells drinks with more than 10 grams of sugar per 100 ml commits an offence and shall be liable to a fine of up to \$100,000."

Eric supplies food and drink to canteens in office buildings. He obtains some of the drinks from Joe, a local drink manufacturer. On 15 January 2019, Joe introduced Eric to a new product known as Refresh, a limited edition fruit drink. At the tasting session, Eric asked about the sugar content of the Refresh drinks, stating that he did not want "any trouble with the new law". Joe assured Eric that the Refresh drinks were "100% compliant with all food regulations in Singapore". Upon hearing this, Eric signed an order for 500 cartons of Refresh to be delivered that same day, with payment on credit terms to be made later. Following the meeting with Eric, Joe conducted some internal checks, as he was not familiar with the background and ingredients for Refresh. He found out that Ukee, his Chief Food Officer, was responsible for creating, producing and marketing the Refresh drinks. Ukee had been working on the formula for Refresh for many years and wanted it to see the light of day before his retirement, despite the new sugar control law which meant that the sugar content of Refresh was over the legally allowable amount. Joe instructed Ukee to stop production of Refresh. He then contacted Eric to offer to sell him the remaining stock of Refresh at a special price of \$20,000 if he would pay in advance. Eric agreed and paid Joe the money.

Following a spot check by the Health Services Department ("HSD") a week later, it was established that the Refresh drinks contained 13 grams of sugar per 100g. HSD issued a warning to Eric to stop all sales of Refresh or face prosecution. Eric immediately agreed to comply. By then, he had sold all his stock from the first order of Refresh and was still awaiting delivery of the second order. A few days later, a number of Eric's major customers heard about the HSD warning and cancelled their contracts, which they were entitled to do in the event that Eric received a HSD warning. Eric was devastated as this would cause him to lose a potential profit of **\$100,000**.

In relation to the first contract, advise Eric whether he will have to pay Joe for the Refresh drinks.

In relation to the second contract, advise Eric whether he can get back the \$20,000 which he paid Joe.

Further, Eric wants Joe to compensate him for the loss of \$100,000, and seeks your advice.

Question 3

Dr Leong is a former professor and research scientist who now owns Powerplus, an engineering firm which is a spin off from his research. His business ran into **trouble** recently and he asked his associates to help identify partners who might be interested in investing \$2 million in exchange for a 10% stake in Powerplus. He was informed of a possible investor, Charlie Chan, who had recently come into a large inheritance, and was Dr Leong's **student** some years ago. Dr Leong remembered Charlie as an **emotionally fragile** individual whom he had **counselled often** when he was Student Care Director for his university department. Just like before, at the meeting that was set up to discuss the deal for Powerplus, **Charlie burst into tears** soon after coming into the room. He confided in Dr Leong that **he had found his wife of three months in bed with another man that morning**, and upon **his confronting her, she had asked for a divorce**. Nevertheless, Charlie was able to **compose himself** and the two men proceeded to talk business. After hearing about Dr Leong's cash flow problems and that Powerplus was in financial trouble, Charlie said, "You have given me comfort so many times in the past. **Let's double the figures and I'll let you have \$4 million.**" Dr Leong was elated upon hearing this, and went into the next room to print out a complicated legal document drafted in readiness by his wife, a retired commercial lawyer. Dr Leong filled in the blanks by hand and went back into the room for Charlie's signature. At this point, Charlie said that he had to rush off and would sign another day. Dr Leong replied, **"Don't you have time to spare for your old professor? Remember, I devoted my time to you when you were in trouble."** Upon hearing this, Charlie signed the document with just a cursory glance to check that his name was spelt correctly.

That evening, Dr Leong told his wife, Ann, about what had happened and shared some stories about Charlie's exploits at university, including the time when he had saved Charlie from expulsion after he had been found guilty of cheating in an exam. Ann asked Dr Leong to arrange for her to meet Charlie so that she could try to interest him in a business proposition. At the meeting, Ann told Charlie that she ran two small businesses using natural herbal ingredients, a spa and a cosmetics firm. She asked Charlie if he would be interested in investing in her cosmetics business. She went on to explain that plant ingredients were very popular in cosmetics and also in spas across South East Asia. Charlie said, "I love spas, but I prefer to be pampered as a customer than to own one." Ann was desperate to develop her cosmetics business and turned on her charm, pointing out that she was only asking Charlie for a small investment of \$50,000. She ended by saying, "My husband told me that you once cheated in an exam. Luckily you were not expelled. Anyway, don't worry. I may have a reputation as a gossip, but I will never tell on a business partner." Concerned that Ann might expose his cheating, Charlie transferred \$50,000 to Ann's bank account for the investment.

Charlie has since engaged a lawyer to help him with his inheritance. He found out that the contract with Dr Leong stated a price of \$4 million for a 10% stake in Powerplus, when what he had meant was a proportionate increase in the stake, to \$4 million for a 20% stake instead of \$2 million for 10% stake. He also found out that his \$50,000 was invested in Ann's cosmetics business and not her spa business as he had expected. Advise Charlie, who at this point would be quite happy to walk away from both deals.

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