

UNIVERSITY OF COLOMBO, SRI LANKA
FACULTY OF LAW

BACHELOR OF LAWS EXAMINATION, YEAR II (Online) - 2021

Law of Contract

(Three Hours)

Total Number of Questions: **06**

Answer **THREE (03)** questions and **no more.**
(Candidates will be penalized for illegible handwriting.)

1. a) Oshana entered into a contract with “Green Vision”, a construction company, to build a house for her. It was agreed between the parties that Green Vision will hire a skilled decorator by the name Varun and the interior design will be done separately according to Oshana’s expectations. Oshana asked for a Spanish design. Green Vision agreed to pay Rs. 1,000,000 to Varun for the material and Rs. 300,000 for his services. However, the cost of the material was increased due to import restrictions imposed during the Covid-19 pandemic. Varun had to spend his own money to meet the additional cost of purchasing the material. In the meantime, Oshana changed her mind and wanted an Italian design instead of a Spanish design. As a result, the commencement of the work was delayed as Varun had to learn Italian designing. Green Vision was aware of this and raised no objection. Varun claims extra Rs. 200,000 for the materials and an extra Rs. 150,000 for his service.

Discuss the following applying the law relating to consideration.

- i. Is Varun entitled for the extra payment?
- ii. Can Varun use the doctrine of promissory estoppel against Green Vision and Oshana if his claim for extra payment is refused?

(2 X 30 = 60% of the marks)

- b) Alfred wished to incorporate a company to carry out a manufacturing business. Alfred approached his friend, Oshana, who was a lawyer and sought legal assistance to incorporate the company. Oshana did all the needful and subsequently the company was incorporated. Later, during the time when the business went well Alfred promised Oshana Rs. 200,000 for the legal service provided in incorporating the company. However, the business did not go well due to Covid -19 and after few months of his promise Alfred sold half of the shares of the company to Gisela. Oshana claimed the agreed payment from Alfred, but he refused it saying that there was no valid contract between them.
- i. Oshana seeks your advice to find out whether she has a valid claim against Alfred. Advise Oshana.
 - ii. Discuss whether Oshana would have a valid claim against Gisela if Alfred had transferred 5% of his own shares to Gisela in addition to the sale of half of the shares said above and requested her to make the payment to Oshana.

(40% of the marks)

2. Ramal was engaged in the business of building construction and dealing in building materials. He saw an advertisement inviting bids to build a gymnasium for Yala Municipal Council (YMC) and made a bid for Rs. 250 million. According to the advertisement the lowest bid would be selected and the construction should start in November 2021. As it was anticipated that there will be a shortage of cement in the market, Ramal wanted to store at least 5000 bags of cement. He inquired from his usual supplier, Siril, via email the best price for the supply of cement. On 22nd August 2021, Siril informed Ramal via email that “the maximum price of a 50kg bag would be Rs. 1450”. Ramal sent a text message to Siril on the same day stating that he would like to purchase 5000 bags of cement at Rs. 1400 each and he hopes that Siril would agree considering their longstanding business relationship, but Ramal received no reply to his text. Having realised that there was already a shortage for cement in the market, Ramal decided to purchase cement at Rs. 1450 and sent a Purchase Order in the format of his company on the following day. Due to the inadvertence of Ramal’s employee the quantity required was not mentioned in the Purchase Order. On 24th August 2021 Siril sent Ramal a Vendor’s Memo which included details of the supply such as the price, payment options and the quantity as 4000 bags. On 01st of

September 2021, Ramal was informed by the YMC that his bid was not selected. He got to know later that Faizal's bid of Rs. 252 million has been selected.

Advise Ramal focusing on the law relating to formation of contract. Support your answer with case law.

(100 Marks)

3. a) Blue Solution Ltd (BSL) was a leading company in manufacturing fertilizers. In 2019 it successfully marketed a new fertilizer. Micheal was a regular customer of BSL since 2010 and he bought 500 kg of the new fertilizer and used it in his land. Micheal's crops failed as the new fertilizer was not suitable for the soil in his land. Later he tested the soil and got to know that the new fertilizer has reduced the moisture content of the soil to a great extent and he should have watered the crops more often than usual and as a result, the land will be ready for next cultivation only after six months. Micheal claimed the loss he suffered from BSL which denied any liability saying that each fertilizer bag contained an important notice to the effect that the soil needs to be tested before using the fertilizer and the company will take no responsibility for any loss, liability or damage caused by the product. Micheal found that the notice was printed on the reverse side of the bag in tiny letters in several languages including English. Micheal argued that he never tested the soil before using BSL's fertilizers in the past.

Advise Micheal quoting appropriate authorities.

(60% of the Marks)

- b) BSL entered into a contract to buy one million printed plastic bags from James in four equal installments. BSL informed James that the bags shall be strong enough to carry 50kg of fertilizer. The sale agreement contained a clause stating that 'prompt payment shall be made after each delivery and failure to perform this term would entitle the seller to terminate the contract with immediate effect.' First instalment of delivery was done but BSL refused to make payment saying that the bags were ragged when filled with 50kg of fertilizer and therefore their purpose failed. BSL wish to terminate the contract and claim the advance paid and damages from James. James argues that BSL has breached the contract.

Discuss the issues quoting appropriate authorities.

(40% of the Marks)

4. Discuss the following issues by applying the law relating to vitiating factors in contracts. You are required to give reasons to your answer and focus on the remedies available to the affected parties with reference to concepts and decided cases.

a) Camilia won a lottery in February 2019. Vineeth, who was the owner of 'Clean Drive', an auto wash company, became a friend of Camilia via *Facebook*. Vineeth got to know that she won a lottery and offered her a partnership in his business by investing money. He promised that he will make the investment amount double within three months from the investment. Vineeth showed her the records of profits gained within the past three months. Camilia invested the money. Neither the business developed, nor the money was doubled as Vineeth promised. Camilia got to know later that Vineeth's former partner left Vineeth and started a similar business close by and Vineeth has not revealed that to Camilia. Advise Camilia.

(40% of the marks)

b) Koshal owned two plots of land, and one of it was suitable to cultivate corn while the other was suitable for rice cultivation. He offered to lease out one of the lands to Ravin for four years. Ravin inquired about the payment details of the lease and he was informed that it was Rs. 31,250/-monthly and Rs. 1,500,000/-. Ravin accepted the offer assuming that the only amount payable was the monthly rental of Rs.31,250/- and Rs.1,500,000/- was the total amount due for the period of four years. In fact, Koshal wanted a non-refundable advance of Rs. 1,500,000/- and he claimed that before allowing Ravin to enter the land. Ravin refused to pay the advance arguing that it was not known to him before entering into the contract.

i. Discuss the validity of the contract between Ravin and Koshal.

ii. What would be the position if the land Ravin contracted to lease was to harvest rice which has been already given on lease to someone else and Ravin did not intend to contract for the land which was suitable to harvest corn?.

(30 X 2 = 60% of the marks)

5. a) Mr and Mrs Perera have leased a clothing store in a shopping center owned by Rama for the past three years. Mr and Mrs Perera are very concerned about their son, Nino, who has been diagnosed as suffering from an incurable disease that requires constant care. As the lease on the clothing store is falling due, Rama tells them that they should quickly inform him whether they want to renew the lease. Knowing Nino's illness and needs, Rama further says that he would only offer new five-year lease at a substantially higher rent. Although Mr and Mrs Perera want to retire to look after their son, they cannot afford to lose the income from the shop. Thus, they reluctantly sign the lease. Mr and Mrs Perera want to avoid the contract. Advise them.

(40% of the marks)

b) Sarath owned a dairy company which was well-known in Sri Lanka and his business included a farm house, a factory and livestock. He was fond of animals and he also had some rare species of animals in his farm. He decided to sell his assets for personal reasons and found Mihira, a potential buyer. The agreement that had a consolidated worth of 200 million, was signed between Sarath and Mihira and it contained three separate parts for the sale of the farm house, the factory and animals. Later Mihira realized that the livestock of the farm also included some animals protected under the Fauna and Flora Protection Ordinance, according to which 'carrying on or exercising any trade or business relating to protected animals' was an offence. Mihira wanted to move into the farm house and commence production by purchasing dairy animals from some other place. Sarath refused to allow that stating that he will not have a place to breed his animals if the farm house is sold.

Discuss the legal consequences quoting appropriate authorities.

(60% of the marks)

6. Chamara and Bathiya play cricket for Ceylon Cricket Club (CCC). The contract they signed with CCC, among other things, contains the following clauses:

- The player agrees to play in all the games as the club may require them to play.
- The player agrees that he will attend and participate in such training sessions as the club may require.
- The club agrees to pay the player Rs. 1 million per year.
- The player is prohibited from playing for other clubs during the contract period.
- In the event of the player breaching any term of this agreement, the club shall be entitled to claim Rs. 5 million as liquidated damages and not as a penalty.

Although Bathiya played all 5 games in the ‘All Island Cricket Tournament’ he missed all scheduled training sessions. Chamara missed two games of the tournament as he wanted to participate in a photo shoot of an advertisement. CCC lost all games in the tournament. As a result, sponsors of CCC refused to renew sponsorship agreements mentioning that CCC has lost its reputation since their players are incompetent and not-committed. Realising that CCC is about to go bankrupt, Chamara had signed a contract to join a rival club, ‘Western Cricket’. CCC wrote to Bathiya mentioning that his contract was terminated as he did not participate in the training sessions.

CCC wishes to sue Chamara for breach of contract and for damages for losing their sponsoring contracts. Advise CCC and Bathiya with special reference to law relating to terms of contract, breach of contract and damages.

(100 marks)

(Each question will be marked out of 100)
