

THE LAW OF CONTRACT 1991

Title

1. This law shall be cited as the "Law of Contract"

Definition

2. A contract is an agreement between two or more persons and which must be legally valid and enforceable.

Parties must consent freely and voluntarily

3. (a) The parties to a contract must have consented freely and voluntarily, and must possess the legal capacity to contract.

(b) Any person with sound mind and over the age of 16 shall be deemed to possess the legal capacity to contract referred to in sub-section (a) of this section.

Form

4. Unless otherwise provided by law, a contract need not be in any particular form.

When concluded

5. A contract is concluded when an offer made by one person is accepted by the person to whom it is made, in accordance with this law.

Offer

6. (a) An offer mentioned in section 5 above must not be vague or uncertain. It must have been made with the serious intention of creating legally binding obligations.

Invitation to treat not an offer

- (b) An invitation to treat shall not constitute an offer.

To whom offer is made

- (c) An offer may be made to a particular person or group or to the community at large.

When offer is complete

7. (a) An offer is complete when it is communicated to the offeree.

Revocation of an offer

- (b) An offer may be revoked by the offerer at any time before the offeree accepts the offer.

- (c) A revocation of the offer shall be deemed complete when the offerree has been notified of the revocation.

Irrevocable offer

(d) Where an offer is made on the condition that it will not be revoked until a specified time has elapsed the offer shall be irrevocable until such time has elapsed.

Acceptance

8. (a) An acceptance of an offer may be made expressly or implied by conduct.

(b) An acceptance must be unqualified and unconditional.

(c) Where the offerer prescribes the manner in which the acceptance shall be made, the acceptance must be made in that manner. Where the manner or acceptance is not prescribed, the acceptance must be made in the usual or in a reasonable manner.

When acceptance is complete

9. An acceptance is complete when it is communicated to the offerer.

Termination of offer

10. An offer shall terminate if any one or more of the following situations arise:

(a) if the offerer states that it shall be accepted before a specified time, then the lapse of such time, or

(b) where the offer is made subject to the occurrence of an event, or subject to any condition, then the occurrence of such event or the fulfillment of such condition, or

(c) a valid revocation of the offer; or

(d) notice of rejection of the offer.

Mistake of fact

11 (a) Where the parties had entered into a contract on the belief of the existence of a particular fact and if that fact changes without the knowledge or control of either of the parties the contract shall be void.

(b) The mistake of fact referred to in sub-section (a) above must be a mistake as to one of the essential terms of the contract.

Ignorance of the law

(c) Ignorance of the law will not render a contract void.

Contract not by voluntary consent

12. A contract is not by voluntary consent if either party or parties had been induced to enter into the contract under duress, misrepresentation or improper influence.

Void contracts

13. A contract which has been entered into otherwise than by the voluntary consent of either party or parties shall be void.

Duress

14. "Duress" occurs where one of the parties enters into a contract under threat of force or violence.

Improper influence

15. "Improper influence" occurs when one of the parties occupying a position of influence over the other, uses that position to influence the other to enter into a contract.

Misrepresentation

16. "Misrepresentation" occurs when a party falsely represents as true some facts which he knows or believes to be false, and the other party relying thereon enters into a contract.

Contract void if illegal

17. (a) A contract is void if it is illegal

Illegal contract

(b) A contract is illegal in any one of the following situations:

(i) The law prohibits the making of such a contract

(ii) The purpose of the contract is illegal or immoral

When performance is illegal

(c) A contract is void if it is to be performed in an illegal manner.
Restraint of trade

18. (a) Where any clause in a contract purports to restrain or prohibit the conduct of a person's trade or profession, such clause may be enforceable only if it is reasonable to do so.

Clause prohibiting legal action void

(b) Where any clause in a contract purports to prohibit a party from taking any legal action, such clause shall be void.

Enforceability of clause requiring reference to arbitration

(c) Where any clause in a contract requires a party to refer to arbitration any dispute arising from the contract, such clause shall be valid.

Enforceability of clause providing for applicability of an internationally accepted law.

(d) Where any clause in a contract provides for the disputes arising from the contract to be settled in accordance with a particular internationally accepted law, such clause shall be valid.

Discharge of contract

19. A contract shall be considered discharged if any of the following situations arise;

- (a) The parties to a contract have fully performed their obligations in accordance with the terms of the contract.
- (b) The parties to a contract have agreed to consider the contract as discharged.
- (c) The performance of the contract is rendered impossible by operation of any law or by some other supervening event unforeseen by the parties to the contract.

Discharge of performance

20. (a) A party to a contract must perform his obligations in accordance with the terms of the contract. A party may perform otherwise, provided the other party has released him of the particular obligation or accepts such alternative performance.

By whom performance is made

(b) The contractual obligations imposed on a party may be performed by that party or through a third party. Where the contract expressly or by implication requires performance by the contracting party such performance shall be by that party.

Time for performance

- (c) Unless otherwise provided by the contract the parties must perform their contractual obligations within a reasonable time.
- (d) Where a contract provides for its performance after the occurrence of an event or the fulfillment of a condition, such performance need not be made until the occurrence of such event or the fulfillment of such condition.

Discharge by agreement

21. (a) The parties to a contract may discharge their obligations under the contract by an agreement to that effect.
- (b) such an agreement must be in accordance with the law.

Impossibility of performance

22. (a) Where the performance of any obligation under a contract is rendered impossible either by operation of any law or by some supervening event unforeseen by the parties, the contract shall be considered as discharged.

Difficulty of performance

(b) Performance is not rendered impossible simply because it is rendered more difficult or costly.

Self-induced frustration

(c) A party cannot rely on any circumstances rendering the performance of a contract impossible if it was caused by his own fault or negligence.

(d) A party may recover any sum of money paid by, or due to him, before it was known that performance has been rendered impossible; and he shall not be bound by further obligations after performance has been rendered impossible.

Damages

23. (a) A party who commits a breach of contract shall be liable in damages for the loss arising from that breach.

(b) The loss referred to in sub-section (a) of this section refers to:

(i) the loss directly arising from the breach; and

(ii) the loss which was known by the parties to the contract to be a probable result of the breach.

24. A party shall not be entitled to recover damages for the loss incurred by him as a result of his failure to take reasonable precautions.

Specific performance

25. (a) Where the injured party believes that the damages recoverable under the contract is inadequate, he shall be entitled to commence an action for an order of specific performance.

(b) Where the injured party files in court an action for an order of specific performance, the court shall look into the matter and, if the court is of the opinion that the damages are inadequate, the court may grant an order of specific performance against the defaulting party.

(c) An order of specific performance referred to in this section is an order of the court that requires a party to perform a particular task in accordance with the contract.

Joint and several liability of the parties

26. Unless otherwise provided by the contract or by law, the parties to a contract shall jointly and severally be liable for debts incurred and all actions to be undertaken.

Regulations

27. The president shall have discretion to make and enforce the regulations necessary for the enforcement of this law.

28. Unless otherwise provided in this law;

(a) President means the President of the Republic of Maldives;

(b) Except in Section 3 (b), the reference to a person or party shall include legal entities such as companies and associations

(c) Words used in the singular shall include the plural and words used in the plural shall include the singular.

(d) The word "communicated" referred to in sections 7 and 9 of this law shall mean that the notice given by one party has been received by the other party, thus completing the process of communication.