**IN THE HIGH COURT OF MALAYA AT KUALA LUMPUR**

**(COMMERCIAL DIVISION)**

**IN THE FEDERAL TERRITORY OF KUALA LUMPUR, MALAYSIA**

**CIVIL SUIT NO: D22IP-1045-2007**

**BETWEEN**

**GOODWAY RETREAD SDN BHD**
(Co. No.: 496390-X) … **PLAINTIFF**

**AND**

**GOODWAY RUBBER INDUSTRIES SDN BHD**
(Co. No.: 147222-D) … **DEFENDANT**

# JUDGMENT

(Court enclosure Nos. 67 and 70)

## A. Issues

1. The 2 applications in court enclosure nos. 67 and 70 (**Enc. 67** and **70**) raise the following questions:

   (1) whether the plaintiff company (**Plaintiff**) who has successfully obtained a remedy for the defendant company (**Defendant**) to account to the Plaintiff for the profits of the Defendant's infringement of the Plaintiff's trade mark (**Defendant's Trade Mark Infringement**), can challenge the contents of an auditor's report regarding the quantum of profits to be paid by the Defendant to the Plaintiff (**Quantum**) when both Plaintiff and Defendant have agreed, among others, to appoint

the auditor to ascertain the Quantum and that the auditor's findings "*shall be final and conclusive and binding on the parties*"; and

(2) whether the Plaintiff can apply for an interim payment of the Quantum ascertained by the auditor under O 22A r 2 of the Rules of Court 2012 (**RC**).

## B. Background

2. In this suit, after a trial, the High Court allowed the Plaintiff's claim based on Defendant's Trade Mark Infringement and ordered, among others, that the Plaintiff be given the option to proceed with-

(1) an inquiry of damages for loss suffered by the Plaintiff due to the Defendant's Trade Mark Infringement (**Inquiry of Damages**); **or**

(2) an account of profits enjoyed by the Defendant as a result of the Defendant's Trade Mark Infringement (**Account of Profits**)

(**High Court's Decision**).

3. The Defendant's appeal to the Court of Appeal against the High Court's Decision, had been dismissed (**Court of Appeal's Decision**). The Defendant failed to obtain leave of the Federal Court to appeal against the Court of Appeal's Decision.

4. According to the "*Court's computer system*" (defined in O 63A r 1 RC) –

(1) on 12.3.2013 -

(a) the Plaintiff's learned counsel informed Umi Kalthum bt. Abdul Majid J (as she then was) that the Plaintiff had elected to proceed with an Account of Profits instead of an Inquiry of Damages; and

(b) learned counsel for both Plaintiff and Defendant would discuss on the choice of auditor to carry out the Account of Profits; and

(2) on 28.3.2013, learned counsel for both Plaintiff and Defendant recorded "*Terms of Engagement of Special Auditors*" (**Agreed Terms**) as follows, among others -

"*1.* ***Parties agree that Messrs PKF … be engaged as special auditors ("the Auditors") to render an account of profits*** *…;*

*2.* ***The Auditors shall have unrestricted access to all necessary documents and stock in the possession of both parties for the purpose of the account of profits and both parties shall render full co-operation to the Auditors in this respect****;*

*3. The Auditors shall prepare a preliminary report on the account of profits and shall thereafter extend a copy of the said preliminary report to each party or their respective solicitors.* ***The Auditors shall give reasons in respect of their preliminary findings in the said preliminary report****.*

4. ***Parties shall make their respective written representations/submissions to the Auditors within 1 month from the receipt of the said preliminary report. Parties shall also serve on each other their respective written representations/submissions. Thereafter, parties are given the liberty to make representations/submissions in reply to the Auditors****;*

5. ***The Auditors shall publish a final report after deliberating upon the written representations/submissions of both parties. The Auditors shall give reasons for their findings in the said final report. The findings in the final report shall be final and conclusive and binding on the parties. There shall be no right of appeal therefrom****;*

6. ***The Auditors shall have liberty to apply to this Honourable Court for directions in general and in all matters relating to the account of profits****; …*"

(emphasis added).

5. Upon the appointment of PKF Advisory Sdn. Bhd. (**Auditor**) as stated in paragraph 1 of the Agreed Terms, the Auditor prepared a "*Preliminary Report on the Account of Profits*" dated 30.11.2014 (**Preliminary Report**) which had been given to the Plaintiff and Defendant. The Preliminary Report stated that the "*probable*" Quantum could "*range between*

*RM764,000 to RM813,000, comprising probable profits from local sales ranging from RM194,000 to RM210,000 and export sales ranging from RM570,000 to RM603,000*".

6. By way of a letter dated 28.7.2015 from the Plaintiff's solicitors to the Auditor (**Letter dated 28.7.2015**), the Plaintiff's solicitors gave a lengthy representation (about 6 pages) on why the Plaintiff could not accept the Preliminary Report.

7. The Plaintiff's solicitors sent 3 emails dated 17.8.2015, 19.8.2015 and 21.8.2015 to the Auditor regarding the Quantum for the consideration of the Auditor.

8. The Plaintiff's solicitors sent a letter dated 17.5.2016 to the Auditor to compute profits from the Defendant's export sales arising from the Defendant's Trade Mark Infringement.

9. On 27.5.2016, the Auditor gave a "*Final Report on the Account of Profits*" (**Final Report**). According to the Final Report, the Quantum was RM556,000.

## C. Enc. 67

10. In Enc. 67, the Plaintiff applied for the following orders:

    (1) leave of court to cross-examine the Auditor regarding the Preliminary Report and Final Report;

(2) a declaration that the Quantum is RM7.266 million; and

(3) an order that the Defendant shall pay RM7.266 million to the Plaintiff within 1 month from the date of the order.

As an alternative to the above prayers, the Plaintiff prayed for the following orders in Enc. 67:

(a) an order to set aside the Final Report; and

(b) leave for the Plaintiff to appoint a private auditor to audit and prepare Account of Profits in accordance with the High Court's Decision.

11. In support of Enc. 67, the Plaintiff's learned counsel had advanced the following contentions:

(1) the Auditor only took into account the Defendant's local sales and ignored the Defendant's profit for export sales of RM6.303 million;

(2) the Auditor had failed to be neutral and independent in preparing the Preliminary Report and Final Report;

(3) the Plaintiff had obtained a report from another auditor, Messrs Ling & Co [**Report (Plaintiff's Auditor)**]. According to the Report (Plaintiff's Auditor) -

(a) profit obtained by Defendant from export sales due to Defendant's Trade Mark Infringement was RM6,303,000;

(b) profit derived by Defendant from local sales in respect of Defendant's Trade Mark Infringement was RM963,000; and

(c) the Quantum was RM7,266,000 (total of RM6,303,000 and RM963,000); and

(4) the Plaintiff relied on the following judgments of the Federal Court –

(a) Suriyadi Halim Omar FCJ's decision in **Zen Courts Sdn Bhd v Bukit Jalil Development Sdn Bhd & Ors** [2017] 2 CLJ 32; and

(b) the decision of Suffian FJ (as he then was) in **Sungei Biak Tin Mines Ltd v Saw Choo Theng & Anor (No. 2)** [1970] 2 MLJ 226.

## D. Plaintiff is bound by Agreed Terms

12. O 43 r 3(1) RC provides as follows:

> "*3(1)* ***Where the Court orders an account to be taken it may by the same or a subsequent order give directions with regard to the manner in which the account is to be taken or vouched***."
>
> (emphasis added).

13. It is clear that Plaintiff could have applied to this court to give directions for the conduct of the Account of Profits pursuant to O 43 r 3(1) RC. Both the Plaintiff and Defendant however consented to the Agreed Terms. Accordingly –

(1) the Agreed Terms constitute a consent order which binds both the Plaintiff and Defendant; and

(2) the Plaintiff cannot apply for the orders in Enc. 67 because paragraph 5 of the Agreed Terms (**Paragraph 5**) have expressly provided that the "*findings in the [Final Report] shall be final and conclusive and binding on the parties. There shall be no right of appeal therefrom*". I rely on Abang Iskandar J's (as he then was) judgment in the High Court case of **Carpet & Furnishing (M) Sdn Bhd v Carpet Raya Manufacturing** [2010] 1 LNS 1971, at paragraphs 3 and 4 (cited by the Defendant's learned counsel) as follows -

> "*3.* ***On 10.3.2009, the learned previous trial Judge had instructed that the accounts of both parties to be audited by the auditor appointed by the Court. It was also agreed between the parties that both the parties must abide by the accounts as prepared by the said accountant****. …*
>
> *4. …* ***Although there was argument forwarded by the Defendant's counsel relating to the so-called 'independence' of the report, I had ruled that the orders made by the learned previous Judge was clear in its terms in that both the parties were to be bound by the Court-appointed accountant report on the state of the parties' accounts vis-a-vis each other, which they did before her****.*"
>
> (emphasis added).

On the above ground alone, Enc. 67 should be dismissed with costs.

14. **Zen Courts**, an "*oppression suit*", can be easily distinguished from this case because the "*buy-out*" order of the High Court in that case (**Buy-Out Order**) did not have anything equivalent to Paragraph 5. On the contrary, paragraph (v) of the Buy-Out Order provided the court in **Zen Courts** with power to decide the value of the company shares in question. Paragraph (v) of the Buy-Out Order stated as follows:

> "*(v)* ***That the court will determine the final value of the shares and the terms of the buy-out order.***"
>
> (emphasis added).

15. The Federal Court has decided in **Sungei Biak Tin Mines (No. 2)**, at p. 227, as follows:

> "***In any event in every order of the court liberty to apply to the court is implied, without its being expressly reserved, Fritz v Hobson.***"
>
> (emphasis added).

The Plaintiff cannot rely on **Sungei Biak Tin Mines (No. 2)** to support Enc. 67 due to the following reasons –

(1) Paragraph 5 has made it abundantly clear that the Final Report shall be final, conclusive and binding on the parties without any right of appeal therefrom. **Sungei Biak Tin Mines (No. 2)** does not concern an order which has Paragraph 5; and

(2) paragraph 6 of the Agreed Terms (**Paragraph 6**) only gave liberty to the Auditor (not the Plaintiff and Defendant) to apply to court for directions regarding the Account of Profits. Accordingly, in view of the express Paragraph 6, the Plaintiff cannot have any implied liberty to apply to this court in Enc. 67.

## E. Plaintiff is estopped from filing Enc. 67

16. Account of Profits is an equitable relief and not a Common Law remedy. An equitable remedy may be defeated by equitable defences. I cite the decision of the High Court of Australia in **Warmal International Ltd & Anor v Dwyer & Ors** (1995) 128 ALR 201, at 210, as follows:

> "***Although an account of profits, like other equitable remedies, is said to be discretionary, it is granted or withheld according to settled principles. It will be defeated by equitable defences such as estoppel, laches, acquiescence and delay.***"
>
> (emphasis added).

It is to be noted that the High Court is the apex court in Australia.

17. Based on **Warmal International**, I am of the view that the Plaintiff is estopped from filing Enc. 67. The Defendant may rely on the equitable defence of estoppel to resist Enc. 67 because -

(1) the Plaintiff had elected to consent to the Agreed Terms, especially Paragraph 5. The Plaintiff is therefore estopped from filing Enc. 67 by Paragraph 5; and

(2) in the Letter dated 28.7.2015, at page 6, the Plaintiff's solicitors stated as follows to the Auditor –

> "*In light of the Plaintiff raising various fundamental issues in the accounting methodology, the Plaintiff is of the view that [the Preliminary Report] be treated and taken to be as a Preliminary Draft only.*
>
> ***This is because the Plaintiff is mindful of [Paragraph 5]***.
>
> ***It is now vital that due cognizance must be taken that in view of the conclusiveness of [Paragraph 5], [the Auditor] carry a very heavy burden in fulfilling their legal and professional obligation.***
>
> ***The Plaintiff in turn is in an extremely vulnerable position of having to accept [the Final Report] in its totality without the right of appeal even if it is adversely affecting their just dues.***"
>
> (emphasis added).

The Plaintiff had admitted in the above contents of the Letter dated 28.7.2015 that Paragraph 5 is "*conclusive*" and there is no right of appeal against the Final Report. It is thus unjust and inequitable for the Plaintiff to resile from the Letter dated 28.7.2015.

## F. <u>Final Report is not without basis</u>

18. Even if this court has erred in applying Paragraph 5 and the equitable defence of estoppel (please see the above Parts D and E), I am of the view

that there is no ground to invalidate the Final Report. This decision is premised on the following reasons:

(1) the Final Report had –

(a) given sources of information given to the Auditor, including the detailed representations from the Plaintiff's solicitors regarding the contents of the Preliminary Report (page 2 of the Final Report);

(b) explained in detail how the Auditor –

(i) ascertained the Defendant's revenue arising from the Defendant's Trade Mark Infringement;

(ii) determined the Defendant's cost of sales, operating expenses and tax expenses; and

(iii) calculated profits arising from the Defendant's Trade Mark Infringement after deducting the relevant direct cost, operating expenses and tax expenses; and

(c) in carrying out the Account of Profits, the Auditor had -

(i) reviewed Defendant's accounting records, sale invoices and third party confirmations from the Defendant's customers;

(ii) sighted physically Defendant's inventories; and

(iii) verified the Defendant's moulds by physical sighting of the moulds, invoices and delivery orders of the moulds purchased by the Defendant.

It is clear from the above that the Auditor had given reasons for the Final Report as mandated by Paragraph 5 (*The Auditors shall give reasons for their findings in the said final report*). As such, it could not be alleged that the Final Report was baseless; and

(2) the following cases have held that an Account of Profits is only a "*reasonable approximation*" which cannot be pursued with mathematical exactness –

(a) **Warmal International**, at p. 209; and

(b) Millett's (as he then was) judgment in the English High Court case of **Potton Ltd v Yorkclose Ltd & Ors** [1990] FSR 11, at 19.

I have perused the Final Report and the reasons given therein. I am satisfied that the Quantum derived by the Auditor was a "*reasonable approximation*".

19. Before I discuss Enc. 70, the High Court's Decision ordered an Account of Profits and not an audit of the Defendant's accounts. Accordingly, this court cannot allow the second alternative prayer in Enc. 67 for the Plaintiff to appoint a private auditor to audit the Defendant's accounts.

## G. Enc. 70

20. In Enc. 70, the Plaintiff applied for an interim payment of the Quantum under O 22A r 2 RC.

21. I reproduce below O 22A rr 1 and 2(1) RC -

> "***Interpretation***
>
> *r 1* *In this Order –*
>
> ***"interim payment", in relation to a defendant, means a payment on account of*** *any damages, debt or* ***other sum*** *(excluding costs)* ***which he may be held liable to pay to or for the benefit of the plaintiff****; and any reference to the plaintiff or defendant includes a reference to any person who, for the purpose of the proceedings, acts as next friend of the plaintiff or guardian of the defendant.*
>
> ***Application for interim payment***
>
> *r 2(1)* ***The plaintiff may, at any time after the writ has been served on a defendant and the time limited for him to acknowledge service has expired, apply to the Court for an order requiring the defendant to make an interim payment****.*"
>
> (emphasis added).

22. It is clear from the definition of "*interim payment*" in O 22A r 1 RC (*payment on account of … other sum which [the defendant] may be held liable to pay to or for the benefit of the plaintiff*) that O 22A RC only applies to payment **before** the court has decided (either summarily or after a trial) that the defendant is liable to the plaintiff. I rely on the following cases -

(1) in the Court of Appeal case of **David Chelliah @ Kovilpillai Chelliah David v Monorail Malaysia Technology Sdn Bhd & Anor** [2005] 2 MLJ 260, at paragraphs 8, 9 and 13, Nik Hashim JCA (as he then was) decided as follows -

> "*8. Order 22A r 1 provides as follows: …*
>
> *9.* ***Thus, under this rule the court may, on an application by the plaintiff, order interim payment be made pending the outcome of the civil suit****. …*
>
> *13.* ***English case law and commentary make it clear that the underlying purpose of O 22A is to provide for an interim payment to alleviate a plaintiff's hardship which may exist during the period from the commencement of an action to the conclusion of the trial: see Shearson Lehman Bros Inc v Maclaine Watson & Co Ltd*** *[1987] 2 All ER 181 at p 190 …*"
>
> (emphasis added); and

(2) **David Chelliah** has been followed by Ahmadi Asnawi JC (as he then was) in the High Court case of **Bunga Raya Auto Credit Sdn Bhd v Atlas Housing Sdn Bhd & Ors** [2008] 4 MLJ 289, at paragraphs 3 and 4.

In this case, after a trial, the High Court's Decision had decided that the Defendant was liable to the Plaintiff for the Defendant's Trade Mark Infringement. It is therefore too late for any party, including the Plaintiff, to apply O 22A RC in this case by filing Enc. 70.

23. When the court drew the attention of Plaintiff's learned counsel to the non-application of O 22A RC in this case, the Plaintiff's learned counsel rightly withdrew Enc. 70. The Defendant's learned counsel was magnanimous in not seeking costs for Enc. 70. Accordingly, this court struck out Enc. 70 with no liberty to file afresh and without any order as to costs.

24. Before I end this judgment, the High Court's Decision had been affirmed by the Court of Appeal and is final and *res judicata* when the Federal Court refused leave for the Defendant to appeal to the Federal Court against the Court of Appeal's Decision. Once the Auditor had ascertained the Quantum, the Defendant shall pay the Quantum to the Plaintiff with 8% interest per annum on the Quantum from the date of the High Court's Decision to the date of full payment of the Quantum (**Judgment Sum**). Needless to say, the Plaintiff is at liberty to file execution proceedings in respect of the Judgment Sum as the Plaintiff sees fit and may even serve a demand under s 466(1)(a) of the Companies Act 2016 (**CA**) on the Defendant to pay the Judgment Sum [if the Defendant fails to comply with such a demand, the Plaintiff may file a petition to wind up the Defendant within 6 months from the expiry date of the demand – please see s 466(2) CA].

## H. <u>Conclusion</u>

25. Based on the above reasons -

(1) Enc. 67 is dismissed with costs of RM3,000.00 (**Costs Sum**) to be paid by Plaintiff to Defendant. An allocatur fee shall be imposed on the Costs Sum; and

(2) Enc. 70 is struck out with no liberty to file afresh and no order as to costs.

**WONG KIAN KHEONG**
Judicial Commissioner
High Court (Commercial Division)
Kuala Lumpur

**DATE: 3 JULY 2017**

*Counsel for Plaintiff:* *Mr. Paari a/l Perumal & Mr. T.A. Sivam (Messrs T. Ananthasivam)*

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