

**IN THE HIGH COURT OF MALAYA AT KUALA LUMPUR
(COMMERCIAL DIVISION)
IN THE FEDERAL TERRITORY OF KUALA LUMPUR, MALAYSIA
SUIT NO: 22IP-62-10/2014**

BETWEEN

1. **SCHWAN-STABILO MARKETING SDN BHD**
(Co. No.: 108815-H)
2. **SCHWAN-STABILO SCHWANHAEUSSER
GmbH & Co. KG** ... **PLAINTIFFS**

AND

1. **S&Y STATIONERY**
(Business Registration No.: 002 050590-H)
2. **CHONG MOY CHAI @ CHONG FOOI LIN**
(NRIC No.: 660925065046)
3. **TANG KOK SENG**
(NRIC No.: 630820075531) ... **DEFENDANTS**

JUDGMENT

(Court enclosure no. 45)

A. Introduction

1. This is an appeal by the defendants (**Defendants**) against an assessment of compensatory damages conducted by the learned Deputy Registrar of the High Court (**DR**) pursuant to a judgment of the learned Azizah Nawawi J (after a trial).

2. This appeal raises the following questions regarding assessment of compensatory damages:

- (1) whether the learned DR was correct in law to award compensatory damages to the second plaintiff company (**2nd Plaintiff**) in the form of loss of royalty or loss of license fees based on the “*user*” principle (**Royalty Basis**);
- (2) having awarded compensatory damages on the Royalty Basis, should the learned DR award further compensatory damages based on business profits that the 2nd Plaintiff had lost due to the Defendants’ unlawful acts (**Lost Profits Basis**)?;
- (3) how should the court assess loss or damage to the 2nd Plaintiff’s goodwill as a result of the Defendants’ passing off?; and
- (4) when the Defendants did not comply with a mandatory order by the learned Judge for the Defendants to, among others, adduce documentary evidence in the assessment proceedings, whether the learned DR may draw an adverse inference against the Defendants under s 114(g) of the Evidence Act 1950 (**EA**) and if so, what is the effect of such an adverse inference in the assessment proceedings?

B. Background

3. The 2nd Plaintiff is a German company which manufactures and sells stationery products (**2nd Plaintiff’s Goods**) bearing, among others, various forms of trade marks (**Stabilo Trade Marks**). The Stabilo Trade Marks

have been registered in the 2nd Plaintiff's name under the Trade Marks Act 1976 (**TMA**).

4. The first plaintiff company (**1st Plaintiff**), a Malaysian company, is a subsidiary of the 2nd Plaintiff. The 1st Plaintiff distributes and sells the 2nd Plaintiff's Goods in Malaysia.
5. The first defendant (**1st Defendant**), a registered business, is a partnership consisting of two partners, namely the second and third defendants. The 1st Defendant is in the wholesale and retail business of stationery products. The 1st Defendant previously purchased the 2nd Plaintiff's Goods from the 1st Plaintiff for re-sale to retailers and the public.
6. The 1st Defendant owed a sum of money to the 1st Plaintiff in respect of the 2nd Plaintiff's Goods supplied by the 1st Plaintiff to the 1st Defendant (**Outstanding Sum**). As the 1st Defendant could not repay the Outstanding Sum, the 1st Defendant returned a quantity of purported 2nd Plaintiff's Goods to the 1st Plaintiff by way of "*Goods Return Note*" dated 27.12.2013 (**Returned Goods**). The 1st Plaintiff discovered that a part of the Returned Goods were counterfeit (**Counterfeit Goods**).
7. The Plaintiffs filed this suit against the Defendants (**This Suit**) for, among others, relief regarding the Counterfeit Goods based on trade mark infringement, tort of passing off and tort of unlawful interference with trade (**3 Causes of Action**).
8. After a trial, on 23.2.2016, Azizah Nawawi J allowed This Suit and ordered as follows, among others:

- (1) an order that the Defendants shall -
 - (a) disclose to the Plaintiffs in an affidavit all information regarding the Defendants' goods which bore identical or similar -
 - (i) marks as Stabilo Trade Marks; and
 - (ii) get-up as get-up of 2nd Plaintiff's Goods; and
 - (b) hand over all records and relevant documents regarding the Defendants' goods which had infringed Stabilo Trade Marks and/or passed off as 2nd Plaintiff's Goods (**Infringing Goods**)

(Post-Trial Discovery Order);

- (2) an assessment of compensatory damages to be paid by the Defendants to the 2nd Plaintiff regarding the 3 Causes of Action; and
- (3) the Defendants shall pay to the 2nd Plaintiff interest at 5% per annum on the sum of assessed damages from the date of the first commission of the 3 Causes of Action until full payment of the assessed damages

(High Court's Decision).

9. The Defendants did not appeal to the Court of Appeal against the High Court's Decision.

C. Assessment of compensatory damages by DR

10. Pursuant to the High Court's Decision, the learned DR conducted an assessment of compensatory damages and made the following order:

- (1) the Defendants shall pay a sum of RM13,820,000.00 as compensatory damages to the 2nd Plaintiff with interest at 5% per annum on that sum to be calculated from the date of the High Court's Decision (23.2.2016) until full settlement of that sum; and
- (2) subject to an allocatur fee, costs amounting to RM15,000.00 shall be paid by the Defendants to the 2nd Plaintiff

(DR's Decision).

11. According to the written grounds for the DR's Decision (**DR's Grounds**) -

- (1) the learned DR applied the Royalty Basis and awarded a sum of RM8,000,000.00 to be paid by the Defendants to the 2nd Plaintiff as royalty or license fee. This sum of RM8,000,000.00 consists of -
 - (a) an "*upfront payment*" of RM5,000,000.00 and
 - (b) an annual royalty of RM3,000,000.00

for the 2nd Plaintiff to grant a license to the Defendants to use Stabilo Trade Marks;

- (2) the learned DR applied the Lost Profits Basis and ordered the Defendants to pay a sum of RM820,000.00 to the 2nd Plaintiff as loss of business profits suffered by the 2nd Plaintiff due to the Defendants' unlawful acts regarding the 3 Causes of Action; and
- (3) a sum of RM5,000,000.00 shall be paid by the Defendants to the 2nd Plaintiff for the damage to the 2nd Plaintiff's goodwill.
12. In court enclosure no. 45 (**This Appeal**), the Defendants have appealed against DR's Decision under O 56 r 1(1) of the Rules of Court 2012 (**RC**). In this judgment, I will refer to the parties as they are before the learned DR.

D. Defendants are barred from challenging High Court's Decision

13. In This Appeal, the written submission of Mr. Lai Kwan Kam, the Defendants' learned counsel, had disputed that the Defendants were liable to the 2nd Plaintiff for the 3 Causes of Action. As the Defendants did not appeal to the Court of Appeal against the High Court's Decision, the High Court's Decision is therefore final and *res judicata*. Accordingly, the Defendants cannot now deny their liability to the 2nd Plaintiff in respect of the 3 Causes of Action - please see Peh Swee Chin FCJ's judgment in the Supreme Court case of **Asia Commercial Finance (M) Bhd v Kawal Teliti Sdn Bhd** [1995] 3 CLJ 783, at 791.

E. How to assess compensatory damages?

14. Firstly, This Appeal concerns assessment of compensatory damages for the 3 Causes of Action. This judgment does not concern assessment of compensatory damages for other causes of action.
15. Secondly, the United Kingdom (**UK**) has enacted the Intellectual Property (Enforcement, etc.) Regulations 2006 (**IPR 2006**) for infringement of Intellectual Property (**IP**) rights. Malaysia has no legislation equivalent to IPR 2006. Accordingly, UK cases decided on IPR 2006, have to be read with caution.
16. Regarding reliance on previous cases on compensatory damages, I remind myself of the following:
 - (1) assessment of compensatory damages is not provided by written law. Hence, reference is made to case law. I must confess that I cannot reconcile all the cases regarding assessment of compensatory damages. Each case has its own peculiar facts and may be explained as such. In the Federal Court case of **Taiping Poly (M) Sdn Bhd v Wong Fook Toh & Ors** [2011] 3 CLJ 837, at paragraph 19 (regarding assessment of damages for trade mark infringement and tort of passing off), Richard Malanjum CJ (Sabah & Sarawak) held as follows -

“And while it is quite easy to state the general principle the mechanics of ascertaining damages actually sustained by the plaintiff are not simple to determine. There is no hard and fast rule to follow which is foolproof and universally accepted.

(See: AG. Spalding & Bros v A.W Gamage Ltd. [supra]; Juggi Lal-Kamlapat & Juggilal-Kamlapat Mills of Cawnpore v Swadeshi Company Ltd (1929) 46 RPC 74; Re Prince Manufacturing Inc and Tennisport Pty Limited v Abac Corporation Australia Pty Limited and the Liquidator Management Australia Pty Limited Trading as the Liquidator [supra]). It depends on the facts of each case. It is basically facts driven.”

(emphasis added); and

- (2) cases on assessment of damages should only be referred to as the court’s previous approach (not as a rule of law) in a similar factual situation. I cite Lord Wilberforce’s judgment in the House of Lords case of **General Tire & Rubber Co v Firestone Tyre & Rubber Co Ltd** [1975] 2 All ER 173, at 177, as follows -

“Reported authorities, many of which were cited in argument, may be useful as illustrations of judicial reasoning, but are capable of misleading if decisions on a particular set of facts and observations in judgments leading up to such decisions are later relied on as establishing a rule of law. Nevertheless I think it useful to refer to some of the main groups of reported cases which exemplify the approaches of courts to typical situations.”

(emphasis added).

General Tire & Rubber Co is a patent infringement case which has been applied in **Taiping Poly**, at paragraph 19.

17. The general principle of *restitutio in integrum* applies in all assessments of compensatory damages, namely the amount of compensatory damages should as nearly as possible put the injured plaintiff in the same position as the plaintiff would have been in if the wrong has not been committed by the defendant - please see **Taiping Poly**, at paragraphs 8 and 19.

The court must ensure that a plaintiff is not unjustly enriched or overcompensated and at the same time the court should prevent a defendant from being financially ruined in an unjust manner - please see **Motordata Research Consortium Sdn Bhd v Ahmad Shahril bin Abdullah & Ors** [2017] 7 AMR 560, at sub-paragraph 75(2) (concerning among others, assessment of damages for tort of unlawful interference with trade). The object of compensatory damages is to compensate a plaintiff and not to punish a defendant - **General Tire & Rubber Co**, at p. 177.

E(1). Lost Profits Basis

18. The Lost Profits Basis is applied when a plaintiff is in the business of manufacture or sale of goods which competes with the defendant's goods - please see **Taiping Poly**, at paragraph 19. The Lost Profits Basis computes the loss of the plaintiff's business profits caused by a diversion of the plaintiff's customers as a result of the defendant's misrepresentation - **Taiping Poly**, at paragraph 15.
19. According to **Taiping Poly**, at paragraphs 19-36, the Lost Profits Basis is applied in the following manner -

Value of sales of plaintiff's goods (subject matter of trade mark infringement and/or passing off) (Specific Goods)	Figure A
Business profits (before tax) enjoyed by plaintiff regarding Specific Goods Note: 1. Expenses regarding Specific Goods are taken into account to derive plaintiff's business profits. 2. Taxes are excluded from computation of plaintiff's business profits.	Figure B
Percentage of profit margin for Specific Goods	$[Figure B / Figure A] \times 100\%$ = C%
Loss of sales of Specific Goods - a comparison between volume of plaintiff's sales of Specific Goods before commission of the wrong and volume of plaintiff's sales of Specific Goods after the commission of the wrong	Figure D
Loss of business profits regarding Specific Goods suffered by plaintiff due to defendant's wrong	C% X Figure D = Figure E

Based on **Taiping Poly** -

- (1) a plaintiff has to exclude customers of the defendant who are not misled in making their purchase of the defendant's goods - **Taiping Poly**, at paragraph 19. There is no presumption that the infringing goods sold by a defendant, would have been sold by the plaintiff - **Taiping Poly**, at paragraph 17. In other words, a plaintiff has to prove actual loss of business profits due to the defendant's wrong;
- (2) the amount of loss of **sales** of a plaintiff's goods (the subject matter of trade mark infringement or the tort of passing off) is not the plaintiff's loss of business profits. In **Taiping Poly**, at paragraph 23, the High Court Judge set aside the learned Senior Assistant Registrar's (**SAR**) assessment of compensatory damages based on the quantum of loss of sales by the plaintiff company. The High Court Judge's decision on this point had been affirmed by the Court of Appeal and Federal Court respectively;
- (3) in applying Loss Profits Basis, overhead expenses should be considered - **Taiping Poly**, at paragraph 31;
- (4) taxes are excluded in the computation of a plaintiff's loss of business profits - **Taiping Poly**, at paragraph 31. In this regard, I am of the view that Goods and Services Tax should not be included in the application of Loss Profits Basis;
- (5) the court has to ascertain the profit margin of a plaintiff's goods (the subject matter of trade mark infringement or the tort of passing off);

- (6) Figure E will be the loss of business profits suffered by a plaintiff due to the 3 Causes of Action; and
- (7) loss of business profits should be assessed liberally - **Taiping Poly**, at paragraph 19.

E(2). Royalty Basis

20. The Royalty Basis has been described as the “*user*” principle - please see Jacob LJ’s judgment in the English Court of Appeal case of **Reed Executive Plc v Reed Business Information Ltd** [2004] RPC 40, at paragraph 165 (a trade mark infringement case).
21. My understanding of case law regarding the Royalty Basis is as follows:
 - (1) where a plaintiff has previously granted licenses to third parties for the use or exploitation of the plaintiff’s IP rights, the court may use the Royalty Basis to assess the plaintiff’s loss of royalty or license fee due to the defendant’s infringement of the plaintiff’s IP rights - please see Lord Wilberforce’s judgment in **General Tire & Rubber Co**, at p. 178;
 - (2) a plaintiff is required to satisfy the court that there are “*circumstances in which the going rate was paid are the same or at least comparable with those in which the patentee and the infringer are assumed to strike their bargain*” - **General Tire & Rubber Co**, at p. 178;
 - (3) the court will determine what is a reasonable sum of royalty or license fee to be paid by a defendant to the plaintiff so as to enable the

defendant to obtain lawfully that which the defendant has obtained unlawfully - please see Jonathan Parker LJ's judgment in the English Court of Appeal case of **Irvine v Talksport Ltd** [2003] FSR 35, at 644 (a passing off case);

- (4) a defendant's financial position is not relevant in the sense that the defendant cannot contend that the defendant is unable to pay a reasonable royalty or license fee imposed by the plaintiff in respect of the defendant's infringing acts - **Irvine**, at p. 644; and
- (5) in **Reed Executive**, at paragraph 165, Jacob LJ decided as follows:

"I am by no means convinced that the "user" principle automatically applies in trade mark or passing-off cases, especially where the "mark" concerned is not the sort of mark available for hire. The ordinary case is one that just protects goodwill. For damages to be awarded on the user principle is close to saying there is no damage so some will be invented. It is not the same sort of thing as having to pay for use of an invention (the basis of the user principle in patents)."

(emphasis added).

In the English High Court case of **National Guild of Removers and Storers Ltd v Silveria** [2011] FSR 9, Deputy High Court Judge Birss J QC (as he then was) applied the Royalty Basis in a suit concerning trade mark infringement and passing off. It is to be noted that in **National Guild of Removers and Storers**, the English Court of Appeal case of **Reed Executive** was however not referred to.

Furthermore, judgments in default of appearance had been obtained by the claimant in **National Guild of Removers and Storers** and the English High Court did not therefore have the benefit of submission by the defendants in that case.

E(3). Cases where both Lost Profits and Royalty Bases do not apply

22. In cases where neither Lost Profits Basis nor Royalty Basis is applicable, Lord Wilberforce held as follows in **General Tire & Rubber Co**, at p. 178-179:

“In some cases it is not possible to prove either (as in 1) that there is a normal rate of profit, or (as in 2) that there is a normal, or established, licence royalty. Yet clearly damages must be assessed. In such cases it is for the plaintiff to adduce evidence which will guide the court. This evidence may consist of the practice, as regards royalty, in the relevant trade or in analogous trades; perhaps of expert opinion expressed in publications or in the witness box; possibly of the profitability of the invention; and any other factor on which the judge can decide the measure of loss. Since evidence of this kind is in its nature general and also probably hypothetical, it is unlikely to be of relevance, or if relevant of weight, in the face of the more concrete and direct type of evidence referred to under (2). But there is no rule of law which prevents the court, even when it has evidence of licensing practice, from taking these more general considerations into account. The ultimate process is one of judicial estimation of the available indications.”

(emphasis added).

E(4). Loss of goodwill

23. In addition to loss of business profits or loss of royalty/license fee due to the 3 Causes of Action -

- (1) the court will presume that there is loss of goodwill to a plaintiff due to the defendant's commission of the tort of passing off - **Taiping Poly**, at paragraph 37;
- (2) it is an exercise of the court's discretion to award a sum for damage to a plaintiff's goodwill due to the defendant's passing off - **Taiping Poly**, at paragraph 37; and
- (3) in **Draper v Trist & Ors** [1939] 3 All ER 513, at 524, Wilfred Greene MR (as he then was) held in the English Court of Appeal that the court would use "*ordinary business knowledge and common sense*" in assessing loss of goodwill due to passing off.

E(5). Evidential burden and adverse inference

24. A plaintiff has the evidential onus to prove loss which naturally flows from the defendant's unlawful act - **Taiping Poly**, at paragraph 17. If a plaintiff has failed to discharge the burden to prove any loss or damage, the plaintiff can only claim nominal damages - please see the judgment of Edgar Joseph Jr FCJ in the Federal Court case of **Tan Sri Khoo Teck Puat & Anor v Plenitude Holdings Sdn Bhd** [1994] 3 MLJ 777, at 799 (breach of contract case).

25. In this case, the learned DR held that the Defendants did not comply with the Post-Trial Discovery Order by not adducing any evidence regarding the Infringing Goods. Consequently, the learned DR accepted the following submission by Mr. Kok Pok Chin, the 2nd Plaintiff's learned counsel -

- (1) the Defendants had all the relevant records regarding the Infringing Goods. Accordingly, the Defendants had the legal onus under s 106 EA to produce all relevant evidence concerning the Infringing Goods and upon the Defendants' failure to do so, an adverse inference under s 114(g) EA was drawn by the learned DR against the Defendants in the assessment proceedings;
- (2) Mr. Kok cited Bishan Narain J's judgment in the Punjab High Court in **Firm Bhagwan Dass Ramjilal, Iron Merchants and Golden Engineering Works v Watkins Mayor & Co** AIR 1956 Punjab 17, at 19 (passing off action), which decided as follows -

“In the present case the defendants refused to produce their books of account showing the quantities of goods manufactured or sold by them during this period and the profits earned thereon. It was their duty to produce their account books as the matter was entirely within their special and exclusive knowledge vide s 106 [of the Indian Evidence Act 1872].

It is impossible to believe that they were not keeping any account books at all relating to their factory. Therefore, every presumption must be raised against them. The trial Court has calculated the profit of each knife at 20 per cent ...

... In any case the defendants must thank themselves if a presumption has been raised against them as they did not produce all the evidence that was within their control and knowledge. I, therefore, see no reason to interfere with the amount of damages fixed by the trial Court.”

(emphasis added); and

(3) Mr. Kok also relies on Greene MR’s judgment in the English Court of Appeal case of **Plomien Fuel Economiser Coy Ltd v National School of Salesmanship Ltd** (1943) 60 RPC 209, at 215 (passing off suit).

26. The question that arises is what is the effect of an adverse inference made against a defendant under s 114(g) EA in proceedings to assess compensatory damages? Can the court rely on an adverse inference to justify an amount of damages claimed by a plaintiff?

27. Sections 106 and 114(g) EA provide as follows:

“Burden of proving fact especially within knowledge

s 106. When any fact is especially within the knowledge of any person, the burden of proving that fact is upon him.

Court may presume existence of certain fact

s 114. The court may presume the existence of any fact which it thinks likely to have happened, regard being had to the common course of natural events, human conduct, and public and private business, in their relation to the facts of the particular case.

ILLUSTRATIONS

The court may presume -

...
(g) *that evidence which could be and is not produced would if produced be unfavourable to the person who withholds it; ...”*

(emphasis added).

28. Our ss 106 and 114(g) EA are identical to ss 106 and 114(g) of the Indian Evidence Act 1872.
29. Firstly, s 106 EA only provides who has the onus to prove any fact which is within a person’s knowledge. Section 106 EA does not allow a court to order any amount of damages claimed by a plaintiff merely because the defendant has failed to comply with a court order to adduce all relevant evidence regarding assessment of compensatory damages. **Bhagwan Dass Ramjilal**, at p. 19, can be easily explained on the ground that the plaintiffs in that case had adduced evidence regarding their loss due to the defendants’ passing off.
30. Section 114(g) EA only provides that if evidence could be produced by a person (X) and such evidence is however not produced by X, the court may presume that the production of such evidence would be unfavourable to X. **Plomien Fuel Economiser Coy** does not concern s 114(g) EA because there is no UK statute which is equivalent to EA. Furthermore, the English Court of Appeal did not rely on the defendants’ failure to adduce relevant evidence to justify the assessment of compensatory damages for the tort of passing off.

31. I am of the following view regarding the application of s 114(g) EA in proceedings to assess compensatory damages:

- (1) s 2 EA allows the application of EA, including s 114(g) EA, in proceedings to assess compensatory damages. This is because assessment proceedings clearly fall within the words “*judicial proceedings in or before any court*” in s 2 EA. Section 3 EA defines the word “*court*” as a court established by or under Part IX of the Federal Constitution (**Constitution**). Article 121(1) of the Constitution (which falls in Part IX of the Constitution) concerns the High Court (where compensatory damages are assessed);
- (2) even if an adverse inference is drawn against a defendant in assessment proceedings, the plaintiff still has the evidential burden to prove compensatory damages - **Taiping Poly**, at paragraph 17. Such an evidential burden on a plaintiff, does not shift to the defendant merely because an adverse inference has been made against the latter under s 114(g) EA. Accordingly, if a plaintiff has failed to adduce any evidence regarding the loss or damage suffered by the plaintiff due to the 3 Causes of Action, even if the defendant has been guilty of conduct which attracts an adverse inference, the court must find that the plaintiff has failed to discharge the evidential burden to prove any loss or damage and the plaintiff is therefore only entitled to nominal damages - please see **Tan Sri Khoo Teck**, at p. 799; and

- (3) if evidence has been adduced in assessment proceedings regarding the loss or damage suffered by a plaintiff due to the 3 Causes of Action and there are two or more inferences which may be drawn by the court based on such evidence, the court may rely on an adverse inference under s 114(g) EA against a defendant to justify drawing a particular inference regarding the evidence which has been suppressed by the defendant.

F. Whether DR could apply Royalty Basis in this case

32. According to the DR's Grounds -

- (1) the learned DR did not apply Loss Profits Basis because the 1st Defendant did not compete with the Plaintiffs;
- (2) the Defendants had been ordered by the learned DR to pay the 2nd Plaintiff for loss of royalty or license fees because the 1st Defendant had interfered with the 2nd Plaintiff's exclusive use of Stabilo Trade Marks under s 35(1) TMA. Reliance had been placed by the learned DR on **Irvine** and **National Guild of Removers and Storers**; and
- (3) the learned DR accepted the Plaintiffs' evidence as follows -
 - (a) if the Defendants were to take up a license from the 2nd Plaintiff to manufacture and sell products bearing Stabilo Trade Marks in Malaysia, the 2nd Plaintiff would charge an upfront payment of RM5 million and an annual minimum royalty of RM3 million; and

(b) a draft license agreement was adduced by the Plaintiffs (**Draft License**). The Draft License provided that the 2nd Plaintiff would grant a licensee the right to use Stabilo Trade Marks in relation to the 2nd Plaintiff's Goods to be distributed and marketed in Malaysia.

33. With respect, the learned DR had erred in accepting Mr. Kok's submission regarding Royalty Basis (**1st Error**) because -

- (1) the 1st Defendant had purchased the 2nd Plaintiff's Goods for re-sale to the public and retailers. Although the 1st Defendant did not compete with the Plaintiffs, the 1st Defendant had dealt with the 2nd Plaintiff's Goods, albeit Counterfeit Goods. There is also no evidence that the 2nd Plaintiff has issued any license in Malaysia for the use of Stabilo Trade Marks - please see **General Tire & Rubber Co**, at p. 178. The 1st Plaintiff is a subsidiary of the 2nd Plaintiff and is not its licensee. Accordingly, as between the Royalty Basis and Lost Profits Basis, it is just and appropriate to apply the latter to compute compensatory damages;
- (2) the learned DR's attention was not drawn to the English Court of Appeal case of **Reed Executive** which had expressed doubts on the application of Royalty Basis in trade mark infringement and passing off cases where the mark in question is not available for hire;
- (3) the learned DR had failed to consider a relevant fact in This Appeal, namely there was no evidence of the "*going rate*" of the 2nd Plaintiff's

purported license - please see **General Tire & Rubber Co**, at p. 178. The learned DR had also omitted to take into account the “*circumstances in which the going rate was paid are the same or at least comparable with those in which the patentee and the infringer are assumed to strike their bargain*” as laid down in **General Tire & Rubber Co**, at p. 178. It is to be noted that the Draft License granted the right to use Stabilo Trade Marks in relation to the 2nd Plaintiff’s Goods to be distributed and marketed in Malaysia. The learned DR had failed to consider that the 1st Defendant is not in the business of manufacture and marketing of the 2nd Plaintiff’s Goods bearing Stabilo Trade Marks in Malaysia. The 1st Defendant only purchased the 2nd Plaintiff’s Goods for re-sale to the public and retailers;

- (4) even if the Royalty Basis is invoked in this case, the learned DR should have only imposed a reasonable sum of royalty or license fee - please see **Irvine**, at p. 644. There is nothing to justify the imposition of RM5,000,000.00 as an upfront payment. No case has been cited by Mr. Kok where the Royalty Basis allows an upfront payment to be allowed as part of compensatory damages. More importantly, a total sum of RM8,000,000.00 for the use of the 2nd Plaintiff’s purported license, in my view, amounts to overcompensation for the 2nd Plaintiff and will financially cripple the Defendants in an unjust manner - please see **Motordata Research Consortium**, at sub-paragraph 75(2). Such an exorbitant sum for the 2nd Plaintiff’s purported license is contrary to the *restitutio in integrum* principle and amounts to a punishment of the Defendants - please see **General Tire & Rubber Co**, at p. 177;

- (5) s 35(1) TMA confers on the 2nd Plaintiff an exclusive right to use Stabilo Trade Marks. The sale of Counterfeit Goods by the 1st Defendant did infringe the Stabilo Trade Marks under s 38(1)(a) TMA but such a trade mark infringement did not wholly deprive the 2nd Plaintiff of its exclusive right to use Stabilo Trade Marks under s 35(1) TMA. In other words, despite the Defendants' trade mark infringement in this case, the 2nd Plaintiff still has an exclusive right to use Stabilo Trade Marks pursuant to s 35(1) TMA. If I have accepted Mr. Kok's submission regarding s 35(1) TMA and the learned DR's Decision on this point, any trade mark infringement will result in an unjust and astronomical sum of compensatory damages!; and
- (6) the learned DR should have distinguished the following cases -
- (a) in **Irvine**, the first claimant was a motor racing driver who charged endorsement fees for his endorsement of products to be sold to the public. As such, the English Court of Appeal awarded damages based on the Royalty Basis against the defendant company which had supplied promotion packs to the defendant company's potential advertisers based on an image of the first claimant holding a portable radio with the defendant company's name. The first claimant in **Irvine** did not manufacture and sell goods with his registered trade marks; and
 - (b) in **National Guild of Removers and Storers**, the claimant owns registered trade marks which have been licensed to the claimant's

members. The defendants in **National Guild of Removers and Storers** had used the claimant's name and trade marks without any authorization from the claimant. In **National Guild of Removers and Storers**, the claimant does not manufacture or sell goods. Accordingly, the English High Court invoked the Royalty Basis in that case. As explained above, the English Court of Appeal case of **Reed Executive** was not referred to in **National Guild of Removers and Storers**. More importantly, the court in **National Guild of Removers and Storers** did not have the benefit of submission by the defendants in that case because default judgments had already been obtained against the defendants.

34. Mr. Kok had made a startling submission - the Statement of Claim (**SOC**) in paragraphs 37 and 45 had pleaded that the 2nd Plaintiff had not granted any license to the Defendants to use the Stabilo Trade Marks. According to Mr. Kok, the Defendants were bound by the "*measure of damages based on loss of license/user basis*" as pleaded in the SOC. Mr. Kok cited the Federal Court's judgment in **Saiman bin Umar v Lembaga Pertubuhan Peladang & another appeal** [2015] 6 MLJ 492. The learned DR accepted this submission in paragraph 91 of the DR's Grounds. With respect, the learned DR has misconceived the object and effect of pleadings (**2nd Error**). A pleading only binds the party who has filed the pleading. The SOC in this case only binds the Plaintiffs but not the Defendants. Neither **Saiman bin Umar** nor any case has laid down the proposition of law that a SOC binds a defendant!

G. Did learned DR err in awarding RM820,000 as loss of sales?

35. Mr. Kok submitted that the learned DR should award three different types of compensatory damages for the 3 Causes of Action. According to Mr. Kok, a total of RM31,460,000.00 as compensatory damages should be paid by the Defendants to the 2nd Plaintiff as follows:

- (1) as compensatory damages for trade mark infringement -
 - (a) RM8,000,000.00 for loss of royalty or license fees; and
 - (b) RM820,000.00 as the Defendants' sale of Counterfeit Goods;
- (2) as compensatory damages for the tort of passing off -
 - (a) RM8,000,000.00 for loss of royalty or license fees;
 - (b) RM820,000.00 as the Defendants' sale of Counterfeit Goods; and
 - (c) RM5,000,000.00 for damage to the 2nd Plaintiff's goodwill; and
- (3) as compensatory damages for the tort of unlawful interference with trade -
 - (a) RM8,000,000.00 for loss of royalty or license fees; and
 - (b) RM820,000.00 as the Defendants' sale of Counterfeit Goods.

36. The learned DR accepted the above submission and decided that in addition to RM8,000,000.00 as damages for loss of royalty or license fee for trade mark infringement, an additional sum of RM820,000.00 was awarded by the learned DR as compensatory damages for the 2nd Plaintiff's loss of business profits on the following grounds:

- (1) the Defendants' sale of Counterfeit Goods amounted to RM820,000.00;
- (2) the sum of RM820,000.00 represents the 2nd Plaintiff's loss of business profits in this case; and
- (3) the Defendants had breached the Post-Trial Discovery Order and had suppressed material evidence regarding the Infringing Goods. Accordingly, the court should draw an adverse inference against the Defendants under s 114(g) EA and award RM820,000.00 as compensatory damages for the 2nd Plaintiff's loss of business profits.

37. In the Federal Court case of **Tenaga Nasional Bhd v Kamarstone Sdn Bhd** [2014] 2 MLJ 749, at paragraphs 12 and 14, Jeffrey Tan FCJ has explained that if a "*cause of action*" is proven by a plaintiff, this entitles the plaintiff to relief from the court. The number of causes of action does not determine the nature and quantum of relief to be granted by the court. With respect, the learned DR has fallen into error by acceding to Mr. Kok's contention that the court should award three different types of compensatory damages for the 3 Causes of Action (**3rd Error**). Irrespective of the number of causes of action, the object of compensatory damages is

to restore the 2nd Plaintiff, as far as possible, to the position as if the Defendants have not committed the wrong in this case - please see **Taiping Poly**, at paragraphs 8 and 19.

38. I find that the learned DR has erred in accepting the Defendants' sales of RM820,000.00 as loss of business profits suffered by the 2nd Plaintiff (**4th Error**). The 4th Error has ignored the Lost Profits Basis laid down by the Federal Court in **Taiping Poly**, at paragraphs 19-36, because the learned DR did not ascertain the following:

- (1) the profit margin of the 2nd Plaintiff's Goods (which were the subject matter of the Counterfeit Goods);
- (2) the loss of sales of the 2nd Plaintiff's Goods (which were the subject matter of the Counterfeit Goods) due to the Defendants' wrong which constituted the 3 Causes of Action; and
- (3) the loss of business profits suffered by the 2nd Plaintiff due to the 3 Causes of Action.

It is to be emphasized that in **Taiping Poly**, at paragraph 23, the High Court Judge set aside the learned SAR's assessment of compensatory damages based on the quantum of loss of sales by the plaintiff company.

H. Whether learned DR was right to impose RM5 million as loss of goodwill

39. Regarding the tort of passing off, the learned DR accepted Mr. Kok's contention and assessed RM5,000,000.00 as loss of the 2nd Plaintiff's goodwill. According to Mr. Kok, the Federal Court awarded RM50,000.00 as damages for loss of goodwill in **Taiping Poly**. This sum of RM50,000.00 constituted 0.13% of the total sales of the plaintiff company in **Taiping Poly**. Mr. Kok submitted that the total sales of the Plaintiffs in this case is RM463,192,544.36. Taking the 0.13% approach in **Taiping Poly**, the 2nd Plaintiff would have suffered a loss of goodwill of RM60,215,030.77 [0.13% of RM463,192,544.36]. The 2nd Plaintiff was prepared to accept RM5,000,000.00 as damages for its loss of goodwill in this case.
40. I am of the view that the learned DR had erred in assessing damage to the 2nd Plaintiff's goodwill to be RM5,000,000.00 (**5th Error**). This decision is premised on the following reasons:
- (1) there is no evidence from any expert valuer regarding the value of the goodwill attached to the Stabilo Trade Marks (**Stabilo Goodwill**). The Defendants had only committed the tort of passing off regarding the 2nd Plaintiff's Goods bearing Stabilo Goodwill. There is also no expert evidence that there has been a diminution in the value of Stabilo Goodwill due to the Defendants' passing off;
 - (2) the sum of RM463,192,544.36 is the total sales in Malaysia by the Plaintiffs from 2003 to 2015. That sum does not represent the value of

the 2nd Plaintiff's goodwill, let alone Stabilo Goodwill. The learned DR had mistakenly assumed that the Plaintiffs' total sales constituted the value of goodwill;

- (3) **Taiping Poly** did not lay down any mathematical approach. Such a mathematical approach is contrary to the court's assessment of loss of goodwill based on "*ordinary business knowledge and common sense*" - please see **Draper**, at p. 524; and
- (4) a sum of RM5,000,000.00 for loss of the 2nd Plaintiff's goodwill amounts to an unjust enrichment for the 2nd Plaintiff and will financially destroy the Defendants in an unjust manner - please see **Motordata Research Consortium**, at sub-paragraph 75(2). This is inconsistent with the *restitutio in integrum* principle and amounts to a punishment of the Defendants - please see **General Tire & Rubber Co**, at p. 177.

I. Whether DR could order interest to commence from a date which was contrary to High Court's Decision

41. The learned DR had ordered interest on the sum of RM13,820,000.00 to commence from the date of the High Court's Decision (23.2.2016) until the date of full settlement of the same. I am of the view that the learned DR has erred in doing so (**6th Error**) because the High Court's Decision had ordered interest to be given from the date of the first commission of the 3 Causes of Action.
42. At the hearing of This Appeal, I inquired from Mr. Lai and Mr. Kok on whether they agreed that the date of the first commission of the 3 Causes

of Action was 27.12.2013, the day of the return of the Counterfeit Goods by the 1st Defendant to the 1st Plaintiff. Both Mr. Lai and Mr. Kok confirmed as such.

J. Whether appellate intervention is warranted in this case

43. I am aware that an appellate court is reluctant to intervene in the exercise of judicial discretion by a court of first instance in the assessment of compensatory damages - please see Mohamad Ariff J's (as he then was) judgment in the Court of Appeal case of **Goo Sing Kar v Dato' Lim Ah Chap & Ors** [2013] 3 MLJ 374, at paragraphs 29-31. An appellate court is however duty bound to intervene with regard to the assessment of compensatory damages in the following circumstances as explained by the Federal Court in **Tan Sri Khoo Teck Puat**, at p. 799:

“We need hardly add that in considering this appeal, and in particular, the grounds upon which an appellate court would be justified in interfering by reassessment of the damages, we have reminded ourselves of what Greer LJ had said in Flint v Lovell [1935] 1 KB 354 at p 360. He said:

... this court will be disinclined to reverse the finding of a trial judge as to the amount of damages merely because they think that if they had tried the case in the first instance they would have given a lesser sum. In order to justify reversing the trial judge on the question of the amount of damages it will generally be necessary that this court should be convinced either that the judge acted upon some wrong

principle of law, or that the amount awarded was so extremely high or so very small as to make it, in the judgment of this court, an entirely erroneous estimate of the damage to which the plaintiff is entitled.

In other words, the two situations in which an appellate court would be justified in interfering by reassessment of the damages would be where the trial judge has acted on a wrong principle or has made an entirely erroneous estimate of the damages.”

(emphasis added).

44. I am of the view that appellate intervention is justified in This Appeal because -

- (1) the 1st to 5th Errors have clearly shown that the learned DR had relied on the wrong principles of law;
- (2) by reason of the 1st to 5th Errors, the learned DR’s assessment is “so *extremely high*” and constitutes an “*entirely erroneous estimate of the damages*” – please see **Tan Sri Khoo Teck Puat**, at p. 799;
- (3) the 6th Error is contrary to the High Court’s Decision; and
- (4) the 1st to 6th Errors (**6 Errors**) have caused a grave injustice to the Defendants.

K. Reassessment

45. In view of the 6 Errors, this court has to reassess compensatory damages to be paid by the Defendants to the 2nd Plaintiff - please see **Tan Sri Khoo Teck Puat**, at p. 799.
46. For reasons explained in the above sub-paragraphs 33(1) and (2), it is just and appropriate to use Lost Profits Basis in this case. Unfortunately for the 2nd Plaintiff, I cannot compute compensatory damages by applying Lost Profits Basis because the 2nd Plaintiff did not adduce any evidence regarding the profit margin of the 2nd Plaintiff's Goods (which were the subject matter of the Counterfeit Goods) and the loss of sales of such goods due to the 3 Causes of Action. The 2nd Plaintiff is now barred by O 56 r 1(3A) RC from adducing any fresh evidence for This Appeal - please see Abu Samah JCA's (as he then was) judgment in the Court of Appeal in **Lee Thye v Societe Generale Cawangan Singapura** [2010] 1 CLJ 170, at paragraphs 6, 14, 15 and 20. O 56 r 1(3A) RC provides as follows:

"1(3A) At the hearing of the appeal fresh evidence shall not be admitted unless the Judge is satisfied that:

- (a) at the hearing before the Registrar the new evidence was not available to the party seeking to use it, or that reasonable diligence would not have made it so available; and*
- (b) the fresh evidence, if true, would have had or would have been likely to have had a determining influence upon the decision of the Registrar."*

(emphasis added).

47. Based on the reasons elaborated in the above paragraph 46, I am constrained to find that the 2nd Plaintiff has failed to discharge its evidential burden to prove its loss of business profits due to the 3 Causes of Action. Such a finding is made despite the fact that the Defendants have breached the Post-Trial Discovery Order and have suppressed material evidence regarding the Infringing Goods [which attracts an adverse inference against the Defendants pursuant to s 114(g) EA].
48. As regards loss of the 2nd Plaintiff's goodwill, I acknowledge that Stabilo Trade Marks are world-renowned. As held in **Taiping Poly**, at paragraph 37, the court will presume that there is damage to the 2nd Plaintiff's goodwill due to the Defendants' passing off. Based on "*ordinary business knowledge and common sense*", I assess loss of the 2nd Plaintiff's goodwill as RM300,000.00 - please see **Draper**, at p. 524.
49. The Defendants have ultimately succeeded in This Appeal but I will not award them any costs as they have deliberately breached the Post-Trial Discovery Order and have suppressed material evidence regarding the Infringing Goods. A party's unlawful conduct may deprive the party of costs - please see O 59 r 8(b) RC and **Dawama Sdn Bhd v Mohd Fadel bin Yusof & Ors** [2015] 7 MLJ 1, at paragraph 25. In view of the Defendants' improper conduct in this case, I order the Defendants to pay RM10,000.00 as costs to the 2nd Plaintiff for the assessment proceedings before the learned DR and for This Appeal.

L. Other cases cited by Mr. Lai and Mr. Kok

50. The following cases cited by both learned counsel in This Appeal did not concern the 3 Causes of Action:

- (1) **Selva Kumar a/l Murugiah v Thiagarajah a/l Retnasamy** [1995] 2 CLJ 374 and **Letrik Bandar Hup Heng Sdn Bhd v Wong Sai Hong** [2002] 5 CLJ 170 concerned breaches of contracts;
- (2) **Mohamed Ibrahim & Anor v Christopher Piff & Anor** [1980] 1 MLRA 131 was a negligence suit;
- (3) in **Kertih Port Sdn Bhd v Pemunya Kapal “Shema”** [2010] 2 MLRH 451, the court assessed cost incurred in respect of the arrest of a ship;
- (4) **Siew Kong Engineering Works (sued as a firm) v Lian Yit Engineering Sdn Bhd & Anor** [1993] 2 SLR 505 concerned measure of damages for the tort of conversion (which are very different from assessment of compensatory damages for the 3 Causes of Action); and
- (5) in **Yenty Lily (trading as Access International Services) v ACES System Development Pte Ltd** [2012] SGHC 208, the Singapore High Court assessed damages for breach of a contract and the tort of wrongful detention of property.

M. Conclusion

51. Premised on the above reasons, This Appeal is allowed with the following order:

- (1) the DR's Decision is set aside;
- (2) the Defendants shall pay a sum of RM300,000.00 as damages to the 2nd Plaintiff with interest at 5% per annum on that sum to be calculated from 27.12.2013 until the date of full settlement of that sum; and
- (3) subject to an allocatur fee, the Defendants shall pay RM10,000.00 as costs to the 2nd Plaintiff for the assessment proceedings before the learned DR and for This Appeal.

