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Parallel IMPORTS

Is Parallel Import Permissible?

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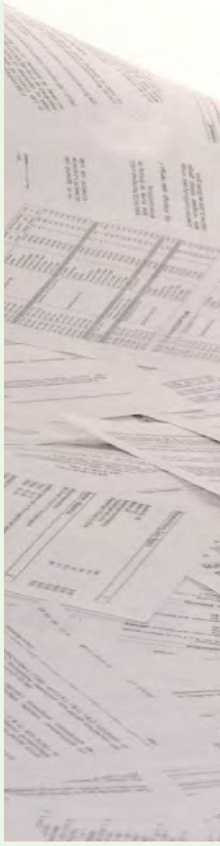
in this issue.

Q3 JUL, AUG, SEPT, OCT 2017

by Wong Weng Yew

INSOLVENCY LAW Policy & Procedure



1. Statutory framework and substantive law

For over half a century, Malaysia's corporate insolvency law was governed by the Companies Act 1965, complimented by the equally archaic Companies (Winding Up) Rules 1972 and to some extent, cross-referenced the dated Bankruptcy Act 1967 and Bankruptcy Rules 1969. After 35 ad-hoc and piece meal amendments to the Companies Act 1965, it is time for Malaysian corporate law to go through a complete overhaul. Hence, the passing of the new Companies Act 2016 (Act 777) **("CA 2016")**[1] is long overdue and gave a much needed new-breath to the corporate legal framework and landscape.

The CA 2016 saw comprehensive and significant changes. Most notably, in terms of insolvency, is the introduction of two new corporate rescue mechanisms–Judicial Management and Corporate Voluntary Arrangement - to assist, manage and rehabilitate financially distressed companies.

With the CA 2016, Malaysia's corporate law is now in line with accepted international standard and practices and on par with other Commonwealth jurisdictions.

2. Policy

The strategies embedded in the Companies Act 1965 are no longer relevant or effective. To maintain its status as the place to do business in the region and keep up with the country's economic development and globalisation trend, Malaysia needs a set of business-friendly corporate law. The Malaysian corporate legal framework needs to be injected with new policies and modern procedures to push through the next level.

Dato' KC Vohrah, Chairman of the Corporate Law Reform Committee **("CLRC")** - a committee formed by the Ministry of Domestic Trade and Consumer Affairs on 17 December 2003 through the Companies Commission of Malaysia to review the Companies Act 1965 – described the Companies Act 1965 as a 'wilderness'; that even lawyers get lost in this wilderness, what more the men and women who are to run the companies[2].

The objective for the establishment of the CLRC is to comprehensively review the country's corporate legal framework consistent with the development towards creating a more dynamic, conducive and competitive business environment[3]. For these legal reforms, the CLRC looked at the laws in the United Kingdom, Australia, New Zealand, Singapore, Hong Kong and other jurisdictions that are coherent with international trend and standards.

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[1] *The Companies Act 2016 and Companies Regulations 2017 came into force on 31 January 2017.*
[2] *In his speech on 1.9.2004 during the launching event of the CLRC's 'Strategic Framework or Corporate Law Reform Programme' document.*
[3] *Anil Joshi, LLM - 'An Insight to Corporate Law Reform in Malaysia'*

The CLRC, comprised of 25 members, published 12 Consultation Papers covering every aspect of corporate law from concept, procedures, establishment and registration, management and administration to winding up.

After going through various stages of appraisal, discussion and assessments – and insights from regulatory, professional and industry experts - a final report was submitted to the Companies Commission of Malaysia on 20 October 2008. Of the 188 recommendations proposed by the CLRC, 183 were accepted and the Cabinet approving in total 19 policy statements.

As a result, out-of-date procedures are abolished and compliance cost reduced through simplification of laws and deregulatory measures. At the same time, the CA 2016 is intended to be revolutionary; taking into consideration the development and progress in information technology and communication to further facilitate the management of a company without compromising corporate governance ethics.

The limited avenues afforded by the Companies Act 1965 to help financially distressed companies is also addressed with the introduction of judicial management and corporate voluntary arrangement mechanisms that would ease the pressure off financially distressed companies. When it comes to corporate insolvency, companies are no longer limited to Court arrangement and restructuring or winding up.

Notable reforms in the CA 2016 are[4]:

- introduces new corporate legal framework applicable to all companies;
- allows easy access to incorporation including introduction of single member concept in which the member can also be the director;
- introduces various new regulations to simplify compliance for private companies including abolishment of the need to hold general annual meeting and to adopt written resolution procedures for decision making purposes;
- further enhances corporate governance and internal control to improve overall management of a company;
- introduces no-par value regime; and
- introduces rehabilitation schemes like corporate voluntary arrangement judicial management to rehabilitate financially distressed companies.

[4] *2nd & 3rd Reading of the Companies Bill 2015 by Dato' Seri Hamzah bin Zainudin, Minister of Domestic Trade, Co-operatives and Consumerism - Senate Hansard on 28.4.2016.*

3. Insolvency Procedure

LIQUIDATION

Liquidation is also known as 'winding up' in Malaysia and can be effected either:

- by way of a winding up order made by the Court (i.e. compulsory winding up); **or**
- by way of a voluntary winding up (by creditors or members).

The end result of all winding up cases is the dissolution of the company.

A voluntary winding up occurs when the company decides to cease its business willingly. After realizing the assets of the company, paying off its creditors and distributing any remaining assets to the members or shareholders, the company would be struck off from the Registrar of Companies and cease to exist as a business entity.

Although a company may present a winding up petition to Court on its own accord, it is more common for a creditor to petition for compulsory winding up on the ground that the company is unable to pay its debt. Under such circumstance, a creditor would petition to the Court for an order to liquidate the assets of the company and distribute them among its creditors in satisfaction of the company's debt. Under the CA 2016, the debt threshold to issue a statutory demand has been increased from RM500 to RM10,000 to avoid trivial claims and abuse.

PROVISIONAL LIQUIDATION

The Court's unfettered power to appoint the Official Receiver or an approved liquidator as an interim liquidator any time after the presentation of a winding up petition (and before the making of the winding up order) is provided under Section 476 (1) CA 2016 and Rule 35 of the Companies (Winding Up) Rules 1972.

The Court would make the order appointing the interim liquidator if there is "good prima facie evidence that the company will be wound up because the company is obviously insolvent, or the company's assets are in jeopardy, or there are other circumstances which makes it imperative for the court to intervene"[5].

Once appointed, the interim liquidator shall have and exercise all the functions and powers of a liquidator subject to such limitations and restrictions as may be prescribed in the rule or as the Court may specify in the order appointing him[6].

JUDICIAL MANAGEMENT

Judicial management allows the company or its creditors to apply to Court for an order that the company be temporarily run by a qualified insolvency practitioner while going through rehabilitation.

This mechanism is best suited for a company that is or will be unable to pay its debts and there is a reasonable probability of rehabilitating the company or of preserving all or part of its business as a going concern or that otherwise the interest of creditors would better serve than by resorting to a winding up[7].

[5] *Kok Fook Sang v Juta Vila (M) Sdn Bhd [1996] 2 MLJ 666.*
[6] *Section 476 (2), CA 2016.*
[7] *Section 404, CA 2016.*

However, a company which is a licensed institution or an operator of a designated payment system regulated under the laws enforced by the Central Bank of Malaysia and subject to the Capital Markets and Services Act 2007 are specifically excluded from applying for judicial management[8].

The Court would make an order for judicial management if it is satisfied that the company is or will be unable to pay its debts and has the purposes of[9]:

- ensuring the survival of the company, or the whole or part of its undertaking as a going concern;
- achieving the approval of a compromise or arrangement under Section 366, CA 2016 between the company and any such persons as are mentioned in that section;
- achieving a more advantageous realization of the company's assets more effective than on a winding up.

If the Court grants an order for judicial management, a statutory moratorium of six months[10] would apply where[11]:

- no resolution shall be passed or order made for the winding up of the company;
- no steps shall be taken to enforce any charge on or security over the company's property or to repossess any goods in the company's possession under any hire purchase agreement, chattels leasing agreement or retention of title agreement except with the leave of Court and on such terms as the Court may impose; and
- no other proceedings and no execution or other legal process shall be commenced or continued and no distress may be levied against the company or its property except with the leave of Court and on such terms as the Court may impose.

CORPORATE VOLUNTARY ARRANGEMENT

Corporate Voluntary Arrangement allows financially distressed company to propose and enter into voluntary arrangement with its creditors with minimal supervision from the Court.

So long as the company is solvent, the directors may initiate the process by appointing a nominee to oversee the implementation of the voluntary arrangement and submitting to the nominee a document setting out the terms of the proposed voluntary arrangement and statement of the company's affair for the nominee's consideration.

The nominee will then advise the directors whether the proposed voluntary arrangement is feasible. If the proposed voluntary arrangement is viable, the directors would file into Court the relevant documents (including the terms of the proposed voluntary arrangement and statement of affairs) where a moratorium would automatically commence and remain in force for 28 days[12] to prevent any creditor from taking or continuing legal proceedings against the company.

The nominee would then convene a meeting of company and a meeting of creditor to determine whether the arrangement is approved or rejected. For the proposed arrangement to be implemented:

- the resolution at the member's meeting must be passed by a simple majority; and
- creditors representing 75% of the total value of creditors present and voting at the creditors' meeting must approve the proposed arrangement.

If the proposed arrangement is approved, it shall take effect and bind all creditors of the company regardless of whether the creditor have voted for or against the proposal. The moratorium also may be extended to not more than 60 days.

At the conclusion of the meetings of members and creditors, the nominee shall report to the Court on the outcome of the meetings.

This corporate rescue mechanism is unavailable to public companies, company which is a licensed institution or operator of a designated payment system regulated by the Central Bank of Malaysia, a company which is subject to the Capital Markets and Services Act 2007 and a company which creates a charge over its property or any of its undertaking[13].

As at the time of writing, the provisions in the CA 2016 on both Judicial Management and Corporate Voluntary Arrangement have yet to come into force.

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[8] *Section 403, CA 2016.*
[9] *Section 405 (b), CA 2016*
[10] *Section 406 (1), CA 2016.*
[11] *Section 410, CA 2016.*
[12] *Eighth Schedule, CA 2016.*
[13] *Section 395, CA 2016.*

RECEIVERSHIP

The helms of a financially distressed company may be momentarily placed under the custodial care and control of a qualified person appointed under an instrument or by the Court to prevent the impending danger to the company's assets by way of dissipation or disposal to the detriment of the creditor, in the effort to administer, receive and liquidate those assets for the repayment of the secured debt.

The concept of receivers and managers is not foreign to the Malaysian corporate framework but the CA 2016 comes with new, enhanced and refined administrative receivership provisions[14] to:

- clarify on the qualification (and not only disqualification as per the Companies Act 1965), status, appointment, vacancy, liability and indemnity of receivers and managers;
- provide for clearer mode of appointment either by way of an instrument or Court order;
- codify the powers of receivers and managers;
- provide for order of priority over receiver's costs (e.g. increasing the threshold of employees' wages from RM1,500 to RM15,000).

SCHEME OF ARRANGEMENT

A scheme of arrangement is the only corporate rescue instrument available to financially distressed companies under the Under the Companies Act 1965. It typically involves finding the middle ground between the company and its creditors, and the agreement to apportion and apply the company's available assets proportionally to satisfy the whole of the company's debts and liabilities. For financially distressed companies with good prospect of turning around but lacked the time, resources or opportunity of doing so, the Court's intervention would give the company a breathing space to restructure its debts while at the same time, allowing it to continue trading without any interruption to its business from impatient creditors.

Ultimately, if the scheme is approved by 75% of the creditors, it would bind the company and all its shareholders or creditors, including those who voted against the scheme, under a compromised Court-approved agreement. It is a better alternative to winding up where both the company and its creditors stand to lose.

[14] *There are only 10 provisions for receivership in the Companies Act 1965 (ss. 182 to ss. 192) compared to 22 provisions in the CA 2016 (ss. 372 to ss. 393).*

4. Commencement of winding up proceedings

COMPULSORY WINDING UP

The circumstances in which a company may be wound up by the Court are set out in Section 465, CA 2016. More often than not, a petition is presented to wind up a company due to its inability to pay its debts. A company shall be deemed to be unable to pay its debt if:

- it is unable to settle a debt exceeding the sum of RM10,000 within 21 days upon service of a statutory notice of demand issued pursuant to Section 366 CA 2016 or to secure or compound the sum demanded to the satisfaction of the creditor;

- execution or other process issued on a judgment, decree or order of any court in favor of a creditor of the company is returned unsatisfied in whole or in part.

The winding up petition must be filed within 6 months from expiry of the statutory demand[15] and served upon the company at the registered address (or principal or last known principal place of business) by leaving a copy with any member, officer, servant or at the registered address (or principal or last known principal place of business)[16].

Under the CA 2016, the time taken to wind up a company has been shortened. Prior to this, the commencement of winding up is on the date of presentation of petition. Under the new regime, the winding up only commences from the date of the winding up order is granted.

While maintaining the provision for stay of winding up under Section 492 CA 2016 , the CA 2016[17] also allows parties to terminate the winding up under Section 493. In exercising the power to terminate the winding up, the Court is allowed to take into consideration, but not limited to, the following facts:

- the satisfaction of the debts;
- any agreement by the liquidators, creditors, contributories and other interested parties; or
- other facts that the Court consider appropriate.

MEMBERS' VOLUNTARY WINDING UP

A members' voluntary winding up is effected if the company so resolve by special resolution. The director or majority of the directors of the company must, within five weeks from the passing of the resolution for voluntary winding up[18], make a written declaration to the effect that an inquiry into the affairs of the company have been made by the directors and at a meeting of director, have formed the opinion that the company is able to fully settle its debts within twelve months from the date of commencement of winding up[19]. A statement of affairs must be prepared and attached to the declaration containing particulars such as the assets and liabilities of the company, total amount of assets expected to be realized and estimated expenses of winding up[20].

At a general meeting, the company shall appoint one or more liquidators to wind up the company's affairs and distribute its assets[21]. If the liquidator is of the view that the company is unable to settle its debts as declared in the director's declaration, the liquidator shall call for a creditors' meeting to convert the members' voluntary winding up into a creditors' winding up[22].

CREDITOR'S VOLUNTARY WINDING UP

Where the directors of the company is of the view that the company cannot by reason of its liabilities continue its business, they may call for creditors' meeting to propose a resolution for the winding up of the company[23]. Due notice of the creditors' meeting must be given to all the creditors by way of posting and advertisement in the local newspaper. The director appointed to attend the creditors' meeting shall disclose a full statement of the company's affairs and the circumstances leading up to the proposed winding up.

Similar to members' voluntary winding up, the company shall and the creditors may at their respective meetings nominate a person to be a liquidator for the purpose of winding up the affairs and distributing the assets of the company. A commit-tee of inspection may be appointed to act with the liquidator.

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[15] Section 266 (2), Companies Act 1965.
[16] Rule 25, Companies (Winding Up) Rules 1972.
[17] Section 243, Companies Act 1965.
[18] Section 443 (4) (b), CA 2016.
[19] Section 443 (1), CA 2016.
[20] Section 443 (3), CA 2016.
[21] Section 445 (1), CA 2016.
[22] Section 447, CA 2016.
[23] Section 449, CA 2016.

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A BRIEF INTRODUCTION TO BURSA'S NEW LEAP MARKET

by Terrence Edward Chong

Background

Bursa Malaysia Securities Berhad (Bursa Malaysia) recently introduced the Leading Entrepreneur Accelerator Platform (LEAP) Market which aims to provide small and medium enterprises (SMEs) with greater fund raising access and visibility via the capital market. Markets similar to the LEAP Market can be found in the South Korea (KONEX), China (ChiNext) and Taiwan (TPEx Emerging Stock Board).

The establishment of the LEAP Market is premised on the following key guiding principles:

- *cost-efficient fund raising and listing*
- *facilitative rules and regulations and lower cost of compliance*
- *qualified market for sophisticated investors*

WHY SMEs

Based on statistics published by SME Corporation Malaysia, 98.5% of business establishments in Malaysia are SMEs[1]. The LEAP Market is designed to address the limited access of SMEs to the capital market.

LIGHT-TOUCH RULES FOR ADMISSION

The LEAP Market has a significantly simpler listing framework as compared with Bursa Malaysia's Main Market and ACE Market. The following are some examples:

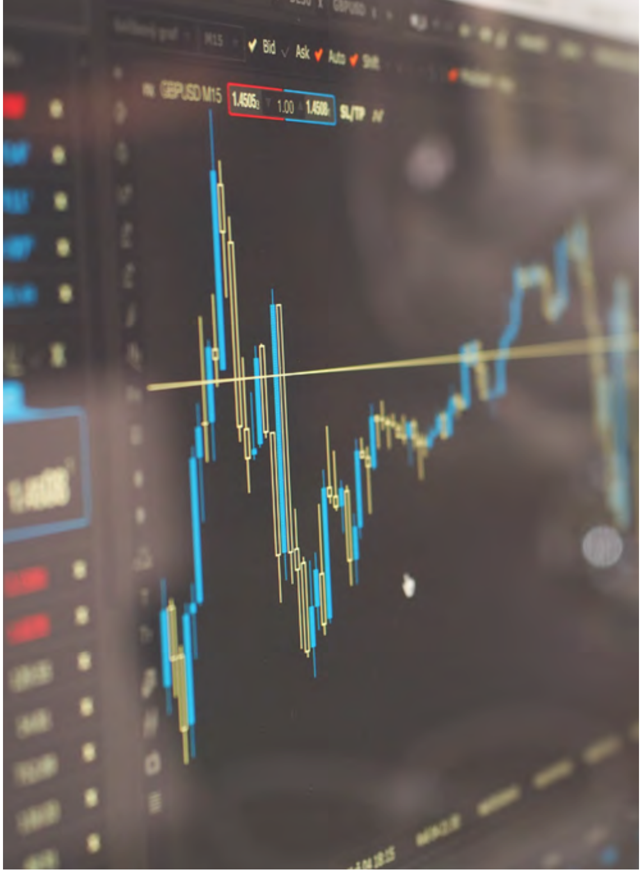
- The Securities Commission's approval is not required for proposed listing on the LEAP Market. Bursa Malaysia is the the single approving authority for an initial listing application on the LEAP Market
- An information memorandum instead of a prospectus is required
- A market based approach is adopted where advisers approved by Bursa Malaysia (see paragraph below on Approved Advisers) play the key role in assessing and determining the suitability of an applicant for listing
- No profit track record requirement (However, Bursa Malaysia has discretion over the admission on the LEAP Market)
- At least 10% of the total number of ordinary shares for which listing is sought shall be in the hands of public shareholders at admission as compared to the 25% public shareholding spread for Main and ACE market issuers.

FOR THE COST CONSCIOUS

As illustrated in the following table, the initial and annual listing fees payable to Bursa Malaysia for the LEAP Market is significantly cheaper as compared to the Main and ACE markets:

	Initial Listing Fee for Shares	Annual Listing Fee for Shares
Main Market	RM20,000 – RM200,000	RM 20,000 – RM 100,000
ACE Market	RM 10,000 – RM 20,000	RM 10,000 or RM 20,000
LEAP Market	RM 3,000	RM 5,000

[1] http://www.smecorp.gov.my/index.php/en/policies/2015-12-21-09-09-49/sme-statistics



PROPORTIONATE DISCLOSURE REGIME AND INTERNAL CONTROLS

Issuers under the LEAP Market are not burdened with the stringent internal controls such as the requirement to have independent directors or an audit committee. Instead of quarterly reporting of financial statements which are applicable to the Main and ACE markets issuers, issuers of the LEAP Market are only required to announce financial statements on a semi-annual basis and audited financial statements annuallyon an annual basis. A proportionate disclosure regime has also been adopted requiring immediate announcements of material information and transactions has also been adopted.

APPROVED ADVISERS

As at the time of writing, Bursa Malaysia has approved 24 entities as Approved Advisers[2] and 1 entity as a Continuing Adviser[3].

The applicant's Approved Adviser who submitted its application for admission to the LEAP Market must act as its continuing adviser for at least 1 full financial year following the applicant's admission. During the said period of 1 year, the said Approved Adviser cannot resign, neither can the applicant terminate the said Approved Adviser's appointment.

An applicant must secure and maintain the services of a Continuing Adviser for (a) at least 3 full financial years after its admission to the LEAP Market or (b) at least 1 full financial year after the applicant has generated operating revenue, whichever is the later.

PERMITTED INVESTORS

The LEAP Market is a qualified market meant for sophisticated investors only, i.e. those who are qualified pursuant to Part I of Schedules 6 and 7 of the Capital Markets and Services Act 2007, for example individuals whose total net personal assets, or total net joint assets with his or her spouse, exceed RM3,000,000 or its equivalent in foreign currencies, excluding the value of the individual's primary residence or who has a gross annual income exceeding RM300,000 or its equivalent in foreign currencies per annum in the preceding 12 months or who, jointly with his or her spouse, has a gross annual income exceeding RM400,000 or its equivalent in foreign currencies per annum in the preceding 12 months.

[2] *Means an adviser authorized by Bursa Malaysia to carry out both the initial listing activities and post-listing activities.*

[3] *Means an adviser authorized by Bursa Malaysia to carry out only post-listing activities.*

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by Lee Lin Li

parallel *imports*

What are Parallel Imports?

Parallel imports (also known as “gray market imports”) occur when trade marked goods are imported into another market and sold there without the authorisation of the registered proprietor of the trade mark in that market. For example, if you have legally purchased Lexus cars manufactured for sale in Japan and subsequently imported these cars into Malaysia for sale at lower prices without the permission from the registered proprietor of “Lexus” in Malaysia, you are selling parallel imported goods. In such a situation, it may give rise to unfair competition to the registered proprietor of the trade mark in that particular market.

This article aims to examine the development of the laws on parallel imports in Malaysia, the United Kingdom and Singapore where Malaysia has a close geographical, historical and legal proximity.

Are Parallel Imports Permissible?

The United Kingdom: Permissible Parallel Imports and its Exceptions

A trade mark is not infringed by the importation of goods into the market of England from another country of origin, even though consent has not been given by the registered proprietor in the UK.

In the well-known case of Revlon Inc v Cripps & Lee Ltd[1], the parent company manufactured and sold shampoo with the trade mark "REVLON FLEX" in the US market, whereas "REVLON FLEX" was sold by an English subsidiary in the UK. Subsequently, the defendant parallel imported the US shampoo into the UK market. The UK subsidiary brought an action against the defendant for infringement, but the English Court of Appeal held that there was no infringement. The first rationale is the UK subsidiary could not prevent the sale of the US shampoo in the UK because every entity in the Revlon group was subject to the parent company. Since the parent company could not restrain the parallel import, then the UK subsidiary was not entitled to do so. The second rationale is the UK public has no prior knowledge regarding any difference in qualities between the US shampoo and shampoo sold in the UK so this will not cause any confusion to the ordinary customer about the product's qualities even though the shampoos in each market were made according to different formulas.

However, there would be infringement when the condition of the imported goods changed or differed from the condition of the goods in the country of import. This was illustrated in L'Oreal SA v eBay International AG[2] where L'Oreal products which were intended to be sold in the US market and not the European Economic Area were sold online through eBay. The issue arose when some of the L'Oreal products were sold without its packaging. L'Oreal brought actions against eBay for trade mark infringement and the Court of Justice of the European Communities held that the parallel import in this case was not permitted because the outer packaging of luxury products may sometimes be considered as part of the product due to its specific design which includes the trade mark itself. Hence, removal of the outer packaging without any consent would constitute a legitimate reason for the registered proprietor to restrain further commercialisation under Article 7(1)[3] of the EU Trade Mark Directive.

There would also be infringement when the quality of the goods differed from the quality associated with the goods. The English Court of Appeal in the case of Colgate-Palmolive Ltd[4] v Markwell Finance Ltd held that a misrepresentation as to the quality of goods due to the act of the defendant by importing and selling the lower quality Brazilian manufactured toothpastes in England is considered as infringement because these two products differed in quality and the confusion on the part of the public was inevitable.

[1] *[1980] FSR 85.*
[2] *[2011] RPC 27.*
[3] *Paragraph 1 shall not apply where there exist legitimate reasons for the proprietor to oppose further commercialization of the goods, especially where the condition of the goods is changed or impaired after they have been put on the market. Article 7(1) provides that the trade mark shall not entitle the proprietor to prohibit its use in relation to goods which have been put on the market in the Community under that trade mark by the proprietor or with his consent.*
[4] *[1989] RPC 497.*

Parallel import is permitted in the UK because once the goods have been put on the market, there has been an exploitation of the property right resulting in the independent third party having acquired the right of disposal of the goods bearing the trade mark. Nevertheless, there are two exceptions to this general rule, where:-

- the condition of the goods have changed or are impaired after they have been put on the market; or
- the quality of the parallel imported products differs from the products for for the market and causes confusion to the public.

Singapore: Permissible Parallel Imports and its Exceptions

Singapore takes a liberal approach towards parallel import where unauthorised import of goods into Singapore cannot be considered as infringement as long as the goods were lawfully produced in the country of origin. This is because Singapore adopts the principle of international exhaustion of intellectual property rights. Section 29(1) of the Singapore Trade Marks Act provides that: -

Notwithstanding section 27, a registered trade mark is not infringed by the use of the trade mark in relation to goods which have been put on the market, whether in Singapore or outside Singapore, under that trade mark by the proprietor of the registered trade mark or with his express or implied consent (conditional or otherwise).

"Put on the Market"

The expression "put on the market" must involve the realisation of the commercial and economic value of the trade mark[5]. In particular, "put on the market" refers to a situation where "an independent third party has acquired the right of disposal of the goods bearing the trade mark"[6]. The action of putting the goods on the market includes, but is not limited to, a sale of the goods by the proprietor to the third party. However, it does not include preparatory acts such as offers for sale. The underlying rationale for this requirement is due to the fact that the exhaustion of rights doctrine is premised on permitting the proprietor to receive "fair reward for the exploitation of his property right"[7].

"Express or Implied Consent"

"Express consent" is consent which must be given explicitly and clearly by the registered proprietor. It may be in writing or through clear conduct. On the other hand, "implied consent" is consent which is not expressly granted by the registered proprietor, but can be inferred through the registered proprietor's action or based on the circumstances of a particular situation[8].

"Conditional or Otherwise"

The phrase "conditional or otherwise" shows that parallel import is permitted in Singapore even though the consent given by the registered proprietor is conditional and intended to prevent the importation of the goods into Singapore.

According to section 29(1) of the Singapore Trade Marks Act, parallel imports are permitted in Singapore and the defence of international exhaustion of rights may be raised as a valid defence by the parallel importer.

However, it is significant to note that this defence is inapplicable if the imported goods are not genuine. In Bosch Corp (Japan) v Wiedson International (S) Pte Ltd and others and another suit[9], the High Court of Singapore held that the defence of exhaustion of rights was applicable to genuine parallel imports only. Therefore, such defence is not available if the goods are not genuine. In this case, the defence was inapplicable because the goods which had been seized by the authority at the defendant's premises were not genuine.

Another exception is where the goods are not "put on the market" by the trade mark proprietor or were "put on the market" without his express or implied consent (conditional or otherwise). In Samsonite IP Holdings Sarl v An Sheng Trading Pte Ltd[10], the backpacks with the trade mark "Lenovo" were to be given away to customers who bought certain models of Lenovo laptops. Some of the authorised dealers of Lenovo unbundled the backpacks and sold them separately to parallel importers, one of whom was the defendant, who in turn imported the backpacks into Singapore. The plaintiff who is the

[5] Peak Holding AB v Axolin-Elinor AB (Case C-16/03) [2005] All ER (EC) 723.
[6] Samsonite IP Holdings Sarl v An Sheng Trading Pte Ltd [2017] SGHC 18.
[7] Ibid.
[8] Ibid.
[9] [2013] 2 SLR 700.
[10] [2017] SGHC 18.

registered proprietor of "Samsonite" in Singapore sued the defendant for infringement and the key defence raised by the defendant was that there was an exhaustion of rights under section 29(1) of the Singapore Trade Marks Act. The High Court decided in favour of Samsonite because the court was of the opinion that the backpacks had not been put on the market by the registered proprietor, Samsonite. In this case, the commercial value that Samsonite sought to realise from the bundled backpacks was the penetration of the Chinese consumer market and the increased awareness of the Samsonite brand in China. Since the backpacks had been unbundled and subsequently sold to unauthorised dealers, the value of the trade mark was never realised by the Chinese consumer market and the backpacks were therefore never put on the market within the meaning of the section by its registered proprietor, Samsonite.

Parallel import is permitted in Singapore under section 29(1) of the Singapore Trade Marks Act. However, the following two circumstances of parallel imports will infringe the trade mark of a registered proprietor: -

- the parallel imported goods are not genuine; or
- the parallel imported goods were not put on the market by the registered proprietor or were put on the market without the registered proprietor's consent.

Malaysia: The Case for Parallel Imports and the Alternative View

It may be argued that there is no prohibition against parallel imports in Malaysia because sections 40(1)(d) and (dd) of the Trade Marks Act 1976 ("the Act") provides that: -

Notwithstanding anything contained in this Act, the following acts do not constitute an infringement of a trade mark –

....

(d) in relation to goods connected in the course of trade with the registered proprietor or a registered user of the trade mark if, as to those goods or a bulk of which they form part, the registered proprietor or the registered user in conforming to the permitted use has applied the trade mark and has not subsequently removed or obliterated it;

(dd) the use by a person of a trade mark in relation to goods or services to which the registered proprietor or registered user has at any time expressly or impliedly consented to;

When discussing this provision, it should be borne in mind that sections 40(1)(d) and (dd) of the Act are similar to section 4(3)(a) of the UK Trade Marks Act 1938 which provides that: -

The right to the use of a trade mark given by registration as aforesaid shall not be deemed to be infringed by the use of any mark as aforesaid by any person in relation to goods connected in the course of trade with the proprietor or a registered user of the trade mark if, as to those goods or a bulk of which they form part, the proprietor or the registered user conforming to the permitted use has applied the trade mark and has not subsequently removed or obliterated it, or has at any time expressly or impliedly consented to the use of the trade mark.

The UK decisions discussed above were decided based on section 4(3)(a) of the UK Trade Marks Act 1938 whereby the courts held that parallel imports are as a general rule permitted. In the case of Winthrop Products Inc & Anor[11] v Sun Ocean (M) Sdn Bhd & Anor, the defendants imported the "Panadol" painkiller made in England into the Malaysian market for sale. The plaintiff contended that such importation and sale constituted trade mark infringement. However, the plaintiffs' claim was dismissed by the court. The court held that Malaysian trade mark laws contains no prohibition against the defendants importing the painkiller into Malaysia unless there is a contractual restriction. The court further held that the plaintiffs have no right to control the subsequent dealing in the goods and a purchaser had the right to resell the goods bearing the trade mark in any part of the world. Moreover, the court decided that there was no infringement because the defendants informed the public at large that what they offered to the Malaysian public were the blue pack "Panadol" which were

[11] *[1988] 2 MLJ 317.*

manufactured and obtained directly from the UK so there was no misrepresentation.

Subsequently, the High Court in Hai-O Enterprise Bhd v Nguang Chan[12] held that the act of the defendant in importing “Ling Zhi Medicated Liquor” from a trader in Hong Kong and selling it in Malaysia was not infringement because section 40(1)(d) would afford a complete defence to the defendant.

In the case of Kenwood Electronics (M) Sdn Bhd & Anor v Profile Spec (M) Sdn Bhd & Ors[13], the defendants parallel imported audio-video equipment bearing the trade mark “Kenwood” from other distributors and sold it in Malaysia. The plaintiffs sought an order to stop the defendants from importing and selling it. However, the application was dismissed by the High Court because the High Court was of the opinion that the Kenwood equipment sold by the defendants were not counterfeit but genuine goods so there is no trade mark infringement. The High Court further decided that the mere fact that the acts of the defendants caused the plaintiffs to lose potential profits do not form a basis for cause of action in trade mark infringement.

More recently, the Court of Appeal in Planete Enfants Sdn Bhd v Goh San Hwa & Another Appeal[14] held that parallel import was not forbidden under Malaysian law.

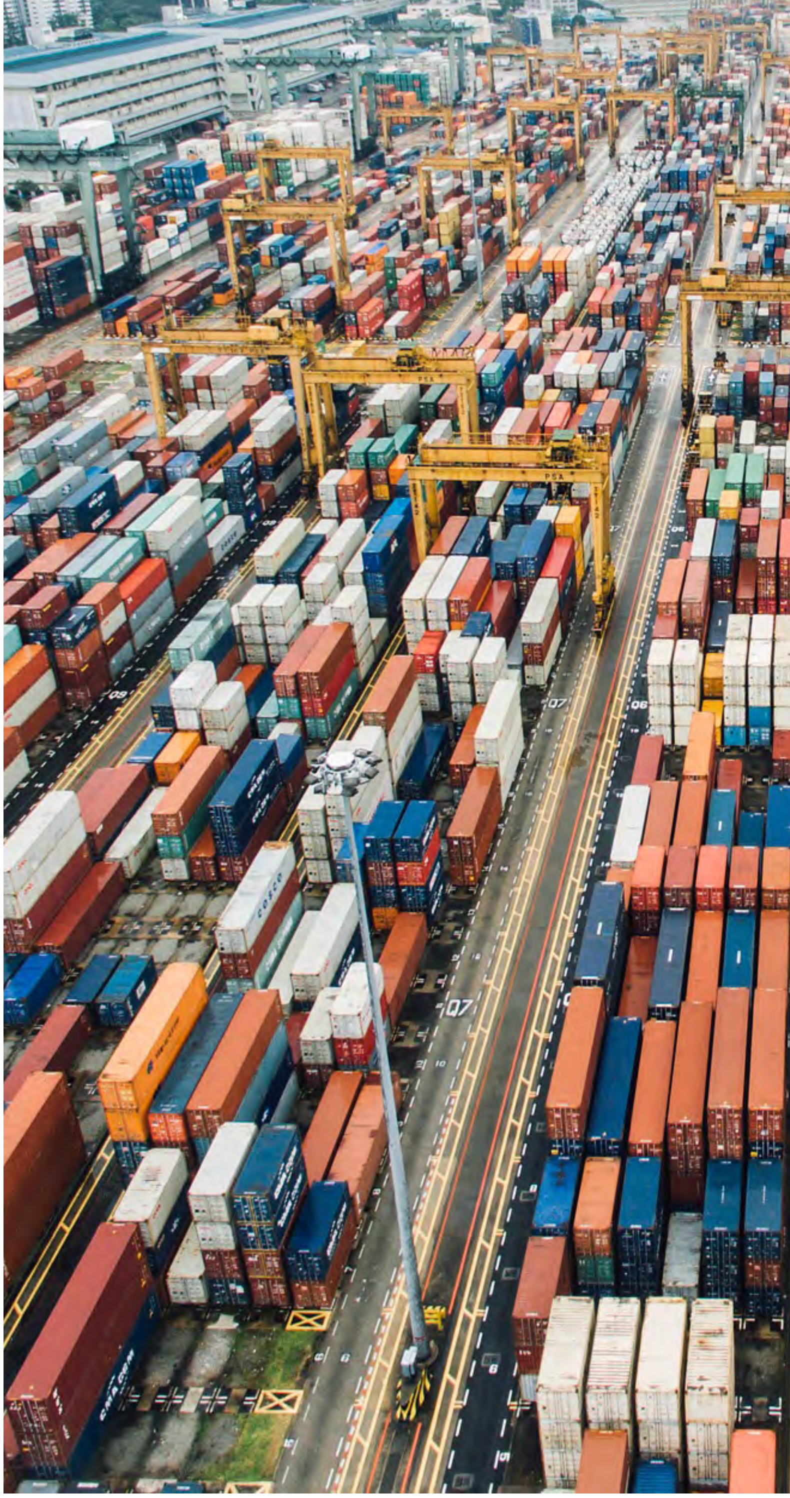
Based on the decided cases, it may be argued that parallel import is allowed in Malaysia and section 40(1)(d) of the Act may be relied upon as a statutory defence by the parallel importer.

The Alternative View

Some cases appear to have argued that not all parallel imports are permitted in Malaysia even if the goods are genuine goods because of the principle of exclusive rights under section 35(1) of the Act which provides that: -

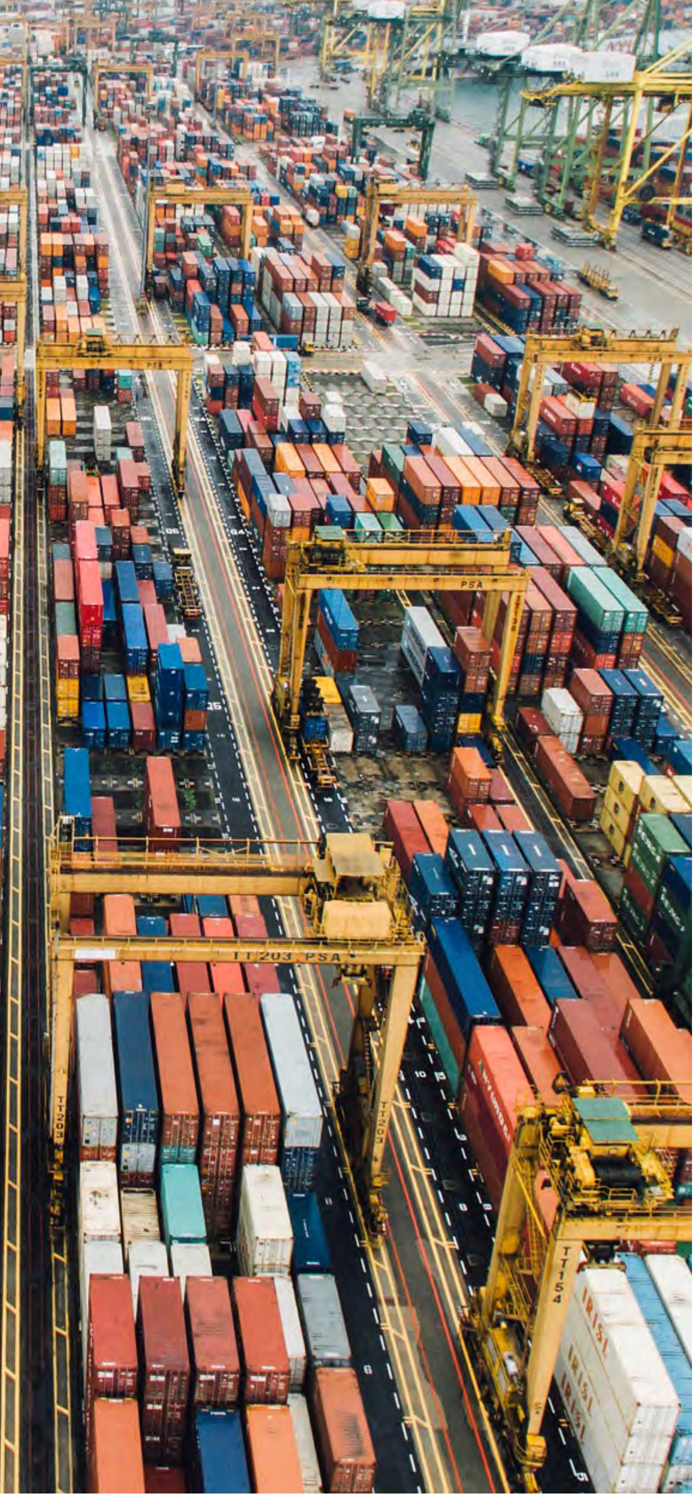
Subject to the provisions of this Act, the registration of a person as registered proprietor of a trade mark (other than a certification trade mark) in respect of any goods or services shall, if valid, give or be deemed to have been given to that person the exclusive right to the use of the trade mark in relation to those goods or services subject to any conditions, amendments, modifications or limitations entered in the Register.

In the case of Tien Ying Hong Enterprise Sdn Bhd v Beenion Sdn Bhd[15], the plaintiff was the registered proprietor of the trade mark “SEIZAIKEN” and he had the sole right to sell and distribute batteries for watches under the trade mark “SEIZAIKEN” in Malaysia. The defendant had imported the said batteries from a company based in Hong Kong, which in turn obtained the



batteries from Seiko Inc. in Japan. The defendant contended that this mode of importing fell into the legal framework of permissible parallel importation. The High Court held that although Malaysian laws do not expressly prohibit the importation of parallel goods, but there is a very important qualification to parallel importation by virtue of section 35(1) of the Act which provides that only the registered proprietor has the exclusive right to the use of the trade mark in relation to those goods. In this case, the court held that the plaintiff as the registered proprietor had the exclusive right to use the trade mark in Malaysia to the exclusion of all others including the defendants.

[12] *[1992] 4 CLJ 1985.*
[13] *[2007] 2 CLJ 732.*
[14] *[2017] 1 MLJ 802.*
[15] *[2010] 8 MLJ 550.*



In Guandong Canary & Anor v Tea Sai Kyau & Ors[16], the plaintiffs contended that the act of the defendant in importing canned dace directly from China did not fulfill the labeling and packaging laws. The plaintiffs also stated that they never agreed to permit the direct import of the products by the defendants from China. Based on the evidence before the court, the issue raised by the plaintiffs was whether the defendant's products could fall within the meaning of goods to which the registered proprietor or his permitted user had applied the trade mark within section 40(1)(d) of the said Act. The High Court held that not all parallel imports are permitted under the Act because section 35(1) of the Act, only the registered proprietor of the trade mark has the exclusive right to use the trade mark in relation to those goods and as such, exclusive right conferred upon the registered proprietor may stop parallel imports.

Is Parallel Import Permissible?

It may be argued that the decisions in the cases of Tien Ying Hong Enterprise Sdn Bhd v Beenion Sdn Bhd[17] and Guandong Canary & Anor v Tea Sai Kyau & Ors[18] were wrongly decided as there was incorrect application of sections 35(1) and 40(1) of the Act. This is because section 40(1) being a non-obstacle clause has an overriding effect over section 35(1) albeit it must be read subject to the limitations contained in section 40(1) itself. The effect is that the general exclusive right granted to a registered proprietor under section 35(1) of the Act is limited by the exceptions enshrined in section 40(1).

In conclusion, parallel import is permissible in Malaysia to a certain extent. The registered proprietor's rights are "exhausted" once the goods upon which the trade mark has been affixed by the registered proprietor or its permitted user are legally placed on the market. An independent third party who has purchased these goods may deal with them including importing such goods into Malaysia for resale. This also arguably extends to the exportation of those goods into the market of other countries. The rationale is to prevent the registered proprietor of the trade mark from isolating the market and commanding the price of the goods.

[16] *[2010] MLJU 2089.*
[17] *[2010] 8 MLJ 550.*
[18] *[2010] MLJU 2089.activities and post-listing activities.*

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congratulations!

Let's give a big round of applause to our Mr. Leonard Yeoh on being shortlisted for the Asialaw Dispute Resolution Awards 2017.

Congratulations on being nominated as a **Disputes Star Of The Year!**

The award presentation dinner was held at the Grand Hyatt Hong Kong on the evening of Thursday, 28th September 2017.

The award recognised leaders from 13 practice areas across 14 jurisdictions around the region. During the evening, awards were handed out to dispute stars from each jurisdiction, as well as one Asia-Pacific rising star, one Arbitration practitioner of the year and one Barrister of the year.

Congratulations to our Dispute Resolution Practice Group and the lawyers involved for winning a high profile case at the Court of Appeal on 17th August 2017.

Former Malaysia Tourism Promotion chairman and Ex-Member of Parliament lost his appeal against AirAsia Berhad to obtain discovery of certain documents in a widely reported defamation suit brought by the leading low-cost airline. Lead Counsel Leonard Yeoh, appeared for the airline and successfully argued that when relying on the defence of justification, the appellant cannot seek discovery of documents from the respondent (AirAsia Berhad) to justify his statements, especially when the orders sought amounted to a fishing expedition.

Mr. Leonard Yeoh represented AirAsia Berhad, assisted by Yeoh Jit Wei and Yeo Yen Hock.

The news reports can be found at the links below:
http://www.thesundaily.my/news/2017/08/17/former-malaysia-tourism-promotion-chairman-loses-appeal-against-airasia-civil-suit

http://www.freemalaysiatoday.com/category/nation/2017/08/17/ex-mp-fails-again-to-get-documents-in-airasia-defamation-suit/

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