THE IMPORTANCE OF MARKET PRESENCE IN TRADEMARK PROTECTION: CAN YOU LOSE A MARK BEFORE YOU EVEN START?

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Trademark protection is often viewed as a matter of registration, with ownership secured through official documentation. However, a recent case underscores the importance of actual market presence and the ability to substantiate claims of ownership in court. In this dispute, the Plaintiff successfully defended its trademark rights against the Defendant, who failed to provide crucial documentation to prove its ownership claim. The case highlights how a party could lose a mark before establishing a strong foothold in the market, emphasising the significance of evidence and real-world commercial use in trademark disputes.

While trademark registration grants legal recognition, it does not necessarily guarantee ownership if another party can demonstrate prior use or market recognition. This has been a central issue in numerous trademark disputes, where courts have ruled that commercial presence and consumer perception often outweigh mere registration. This case serves as an example of how failing to actively use a mark can weaken a party's claim and how the courts scrutinise evidence to determine rightful ownership.

Legal Foundation of Trademark Protection

Trademark rights are typically established through registration and use. In many jurisdictions, including Malaysia under the Trademarks Act 2019, a registered mark grants the proprietor the exclusive right to use the mark and take legal action against infringers. However, courts also consider the practical reality of how the mark is used in the market. The Federal Court in T*aiping Poly (M) Sdn Bhd v Wong Fook Toh (t/a Kong Wah Trading Co) & Ors* [2018] Supp MLJ 312 reaffirmed that loss of business profits and market disruption are central to determining damages for trademark infringement. A key takeaway from this precedent is that trademarks are not just legal constructs but also commercial assets that derive strength from their presence in the marketplace.

Background

In *HLL Restaurant Sdn Bhd v Zhangji BM Sdn Bhd* [2025] 1 AMR 834, the Plaintiff was the registered proprietor of the trademark in question for its restaurant business, initiated an action against the Defendant for infringement (who is also involved in the competing business against the Plaintiff). In response, the Defendant attempted to counterclaim ownership of the mark, by arguing amongst others, that the Defendant was in a business relationship with a Chinese company ("**the China company**") in which a purported deed of assignment had transferred the rights to the Defendant.

Despite pleading the existence of this deed of assignment, the Defendant was unable to produce the same that the High Court issued an unless order. Ultimately, the Defendant admitted that the China company had refused to provide the said document and removed the reference to the deed of assignment in their counterclaim. Pertinently, amending its pleadings meant that their claim to ownership of the trademark in question is irrevocably removed.

High Court's Decision

The High Court ultimately ruled in favour of the Plaintiff and granted the following reliefs:

- a declaration that the Plaintiff is the lawful owner of the trademark;
- a finding that the Defendant infringed the trademark; and
- an injunction to prevent the Defendant from using the mark in its business operations.

The Plaintiff sought substantial damages, arguing that the Defendant's infringement led to, amongst others, a loss of market share, goodwill, and revenue. However, the court awarded only nominal damages of RM80,000 and an additional RM50,000 for loss of goodwill, as the Plaintiff's evidence for larger damages was deemed insufficient. This ruling reinforces that while infringement can result in liability, damages must be proven through concrete documentary evidence.

The Role of Documentation in Proving Trademark Rights

A crucial aspect of the case (that is applicable to both the Plaintiff and the Defendant) was the failure of the Defendant to produce key documents supporting its claim to the mark. The Defendant initially sought to rely on a deed of assignment, which purportedly transferred ownership of the trademark from the Chinese company to the Defendant. However, the absence of the key evidence of ownership significantly undermined the Defendant's case. Without sufficient documentary proof, the Defendant was unable to substantiate its claim to the trademark

This setback contributed to the High Court's ruling in favour of the Plaintiff, affirming that the Plaintiff was the lawful registered proprietor of the trademark. Nonetheless, the decision was not a total victory for the Plaintiff as demonstrated below.

Market Presence in Trademark Cases

This case therefore raises an important question: Can a party lose its trademark rights before even establishing itself in the market? While registration provides legal recognition, courts also consider factors such as active business operations, reputation, and the ability to enforce rights through evidence.

Even more so, the present case underscores the growing importance of market presence in trademark litigation. Even though the Plaintiff had registered its trademark in Malaysia since May 2021 and is valid until May 2031, it struggled to establish meaningful damages because the Defendant had already built a strong foothold in the restaurant business under the trademark (whereby the Defendant has 3 branches in Malaysia). Courts increasingly consider factors such as:

- **Consumer perception and brand recognition:** If consumers primarily associate a mark with a particular business, it may be difficult for another party to assert superior trademark rights, even if they hold registration.
- **Market penetration and expansion efforts:** A company that actively operates under a mark and expands its presence may be in a better position to defend its trademark usage.
- **Actual commercial impact of infringement:** If a plaintiff cannot demonstrate loss of market share, customer confusion, or business disruption, its claim for significant damages may be undermined.

In this case, it is important to note that the Plaintiff's claim against the Defendant was for RM4,072,860.82 as loss of business profits due to the Defendant's act of infringement. However, the High Court declined to grant the Plaintiff any aggravated or exemplary damages and only awarded total damages of RM130,000.00.

The Plaintiff did attempt to adduce more evidence through an Affidavit – but this was only filed **post-trial**, which the High Court rightfully had to disregard because these new documents were not evidence that had been properly adduced during trial. It therefore rings true at all stages of litigation that one cannot have a second bite of the cherry.

Implications for Trademark Owners and Businesses

The ruling serves as a reminder and a cautionary tale for businesses that rely solely on trademark registration without actively establishing their brand in the market. At this juncture, it is worth remembering Section 46 (1) (a) of the Trademarks Act 2019 which lists the grounds that can be relied upon by an aggrieved person for non-use of a registered trademark:

(1) The registration of a trademark may be revoked by the Court on an application by an aggrieved person on any of the grounds as follows:

(a) where within a period of three years following the date of issuance of the notification of registration, the trademark ***has not been put to use in good faith in Malaysia****, by the registered proprietor or with his consent, in relation to the goods or services for which the trademark is registered, and there are no proper reasons for non-use;*

(b) where the use of the goods or services under paragraph (a) has been ***suspended for an uninterrupted period of three years****, and there are no proper reasons for non-use;*

(c) where ***in consequence of acts or inactivity of the registered proprietor****, it has become the common name in the trade for the product or service for which it is registered; or*

(d) where in consequence of the use of the trademark by the registered proprietor or with his consent in relation to the goods or services for which the trademark is registered, ***it is liable to mislead the public, including in respect of the nature, quality or geographical origin of those goods or services.***

Key takeaways include:

1. **Timely market entry is crucial:** Registering a trademark without launching operations exposes a company to risks, especially if competitors begin using the mark and gain consumer recognition first.
2. **Documentary evidence is essential:** In disputes, the ability to produce contracts, assignments, and proof of usage can make or break a case.
3. **Courts consider commercial realities:** A purely legal claim may not suffice if the market reality favours another party's use of the mark – in the present case, whilst the Defendant operated multiple branches using the trademark, it did so only after the Plaintiff had already registered the mark.
4. **Monitor and enforce trademark rights early:** Delayed enforcement may result in brand dilution, making it harder to assert exclusive rights later.

Conclusion

Trademark law aims to balance legal protection with market realities. The case discussed demonstrates that failing to establish a strong market presence can weaken a claim to a trademark, even if it is legally registered. Businesses should not assume that registration alone guarantees protection; rather, they must actively use and enforce their trademarks to maintain their strength in the marketplace. The courts' consideration of consumer perception and commercial impact highlights the evolving nature of trademark law, reinforcing the need for proactive brand management. The case of *HLL Restaurant* demonstrates that even a registered mark can be contested if prior use and market presence favour another party.

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