REPUBLIC OF SOUTH AFRICA

IN THE HIGH COURT OF SOUTH AFRICA
GAUTENG DIVISION, PRETORIA

CASE NO: 86425/2014

15/12/17

(1) REPORTABLE: ~~YES~~ / NO
(2) OF INTEREST TO OTHER JUDGES: ~~YES~~/NO
(3) REVISED.

15/12/2017
DATE

.....
SIGNATURE

In the matter between:

MEDSHIELD MEDICAL SCHEME	First Applicant
TEBOGO PHALENG N.O.	Second Applicant
and	
ALUMNI TRADING 264 (PTY) LTD	First Respondent
THEMBA BENEDICT LANGA	Second Respondent
ACTING REGISTRAR OF MEDICAL SCHEMES	Third Respondent
MONWABISI SABATHA MACDONALD GANTSHO	Fourth Respondent
MASTER OF THE HIGH COURT, PRETORIA	Fifth Respondent
REGISTRAR OF TRADEMARKS	Sixth Respondent

JUDGMENT

SENYATSI, AJ:

INTRODUCTION

[1] This is an application for an order declaring that the agreement of sale and assignment concluded between the first applicant and the first respondent on 17 October 2013 did not come into force or effect. In the alternative, the applicants seek an order declaring the agreement had been cancelled.

[2] The applicants seek an order also that the first respondent repay R10 million to the first applicant, which amount was paid by the first applicant to the first respondent for the purchase of trade marks.

BACKGROUND

[3] The first applicant is Medshield Medical Scheme ("*the Scheme*"). The membership of this Scheme is not restricted to persons by virtue of their employment but is open to any member of the public. The second applicant, Dr Tebogo Phaleng, has been appointed to replace Themba Benedict Langa ("Langa") as the curator.

[4] The Scheme was placed under curatorship during October 2012 by the Registrar of Medical Schemes ("*the Registrar*") as a result of the governance concerns. The finances of the Scheme were, however, healthy.

[5] The first respondent is Alumni Trading 264 (Pty) Ltd. It is a related company to Medshield Brokers (Pty) Ltd and Medshield Distribution Services (Pty) Ltd ("*associated companies*"). These latter companies had contractual relationship with the Scheme with contracts, worth several million of rands which were terminated at the instruction of the Registrar. The three companies which include the first respondent, had Mr Jan le Roux ("*Le Roux*") as a common director on their boards. The contracts were found by the Registrar not to be in the best interest of the Scheme.

[6] After the agreements were terminated by the Scheme with the two associated companies, Le Roux and Langa started discussing product development of the Scheme. As a consequence of these discussions, the sale and assignment agreement was eventually concluded.

[7] Langa was appointed as a curator by the order of this Court on 3 October 2012. His powers were spelt out in the Court Order.

[8] The third respondent, Acting Registrar of Medical Schemes, has been cited for information and no order is sought against him. The fourth respondent, Monwabisi Sabatha Macdonald Gantsho has been cited as an interested party and no order is sought against him.

[9] The Master of the High Court and the Registrar of Trademarks were cited as interested parties and no order is sought against them.

[10] It appears that the agreement to sell and assign the trademarks registered under the Medshield name, was concluded subsequent to the cancellation of the contracts between the Scheme and the two associated companies referred to above.

[11] The sale and assignment agreement concluded by the Scheme and the first respondent averred that the respondent held right, title and interest in and to the "*Medshield*" trademark. The trademark had been registered with an entered into the Register of Trademarks from 13 October 2011 in the following categories:

11.1 Class 35: advertising, business management, business administration, office functions, offering for sale and the sale of goods in the retail and whole trade (under registration number 2010/00522);

11.2 Class 36: insurance, financial affairs, monetary affairs, real estate affairs (under registration number 2010/0053);

11.3 Class 41: education, providing of training, entertainment, sporting and cultural activities (under registration number 2010/00524).

[12] The assignment of the trademarks were not finalized at the same time.

[13] The applicant paid R10 million in two instalments of R7 million and R3 million, respectively.

[14] The applicant contends that the agreement falls to be set aside because:

14.1 It was concluded beyond the scope of authority of Langa;

14.2 It was concluded in breach of Langa's fiduciary duties to the Scheme; and/or

14.3 It was tainted by bad faith and illegality;

14.4 The Scheme had no need for the mark;

14.5 The first respondent was not entitled to register the mark as the name had been used by the Scheme before registration.

[15] The first respondent contends that:

15.1 it was entitled to register the trademark as it did;

15.2 Langa did not exceed his powers as the provisional curator when he concluded the agreement on behalf of the Scheme with the first respondent in respect of the sale and assignment of trademark. The reason is that his powers were spelt out by the Court Order appointing him as a provisional curator;

15.3 the mark's value cannot be determined on paper and that its value must be tested against the background of what will be demonstrated by evidence concerning the rationale for registration of the marks, the relationship between companies associated with Alumni and Medshield and the intention in registering the marks;

15.4 the first respondent denies that the agreement was tainted by fraud;

15.5 the first respondent also contends that the Scheme has waived its entitlement to rely on any alleged defects in the agreement as it, *inter alia*, called upon the first applicant to procure the registration of transfer of mark 000522 into the name of the Scheme.

[16] Langa submitted in his heads of argument that he derived his authority and power to conclude the agreement from the Court Order granted by this Court on 2 October 2012. He contends that his actions in concluding the

agreement, were not *ultra vires*. He argued that the trademark, in his view, was appropriate as the business of the Scheme would fall under Class 36.

[17] Langa furthermore denies that the conclusion of the agreement was tainted by illegality and corruption.

ISSUES FOR DETERMINATION

[18] The issues to be determined can be summarized as follows:

18.1 Whether Alumni had no *bona fide* interest in the Medshield trademark and was never entitled to register it;

18.2 Whether or not the Scheme had no need of the trademark;

18.3 Whether the sale agreement was actuated by fraud;

18.4 Whether Langa acted beyond the scope of his authority as granted to him through the Court Order that appointed him as a provisional curator;

18.5 Whether the agreement was concluded in contravention of section 4 of Financial Institutions (Protection of Funds) Act No 28 of 2001;

18.6 Whether the Scheme has waived its rights to aver that Langa had no authority to conclude the agreement owing to its attempts to enforce it.

THE LEGAL PRINCIPLES

[19] In order to deal with the issues identified, it is important to restate the legal principles pertaining to each issue.

[20] In *WM Penn Oils Ltd v Oils International (Pty) Ltd*[1], Holmes JA, held that a trademark cannot be the subject of proprietary rights – a person can only be the proprietor of the goodwill that attaches to the mark by virtue of its use.

[21] Expanding on the proprietorship principle, Nicholas AJA in *Victoria's Secret Inc v Edgars Store Ltd*[2] held that:

> "*... one can claim to be the proprietor of a trade mark if one has appropriated a mark for use in relation to goods or services for the purpose stated, and so used.*"

The person claiming to be proprietor of a trademark may do so either because the mark is used by him or it is proposed to be used by him.

[1] 1966 (1) SA 311 (A) at 318A.
[2] 1994 (3) SA 739 (A) at 739I-J.

[22] Section 10(3) of the Trade Marks Act 194 of 1993 provides that a trademark cannot be registered, or is liable to removal from the register, where the applicant for registration has no *bona fide* claim to proprietorship.

[23] It was contended on behalf of the applicants by Mr Loxton SC that at the time of it registered the marks, the first respondent had not and was not using the marks and ultimately never did so. At the time of the registration, the Medshield name was already being used by the Scheme and two other companies, Medshield Brokers (Pty) Ltd and Medshield Distribution Services (Pty) Ltd and that as a director of both these companies and the first respondent, Le Roux must have been aware of such usage as these two companies were both dealing with the Scheme.

[24] Even if the first respondent had been able to claim the proprietorship over the marks, it could not preclude the use thereof by the Scheme of the Medshield name. Section 36 of the Trade Marks Act expressly protects the continued use of a mark by a *bona fide* prior user. The section provides as follows:

> "*Nothing in this Act shall allow the proprietor of a registered trade mark to interfere with or restraint the use by a person of a trade mark identical with or nearly resembling it in respect of goods or services in relation to which that person or predecessor in title of his has made continuous and bona fide use of that trade mark from a date anterior –*
>
> *(b) to the registration of the first-mentioned trade mark in respect of those goods or services in the name of the proprietor or a predecessor in title of his, whichever is the earlier, or to object (on such use being proved) to the trade mark of that person being registered in respect of those goods or services under section 14.*"

[25] In so far as the powers of the curator are concerned, section 56 of the Medical Schemes Act empowers the Registrar to apply for the appointment of a curator where he considers it in the interest of the beneficiaries or desirable to do so, or where the Scheme is not in sound financial condition.

[26] Section 56(1) provides as follows:

> "*The Registrar may, notwithstanding the provisions of section 52 and 53, if he or she is of the opinion that it is in the interest of the beneficiaries or that it is desirable to do so, because material irregularities have come to his or her notice, or because a medical scheme is not in sound financial condition or as a result of an inspection of the affairs of a medical scheme, apply, with the concurrence of the Council, to the High Court, for the appointment of a curator to take control of and to manage the business of that medical scheme.*"

[27] The curator may also be appointed in terms of section 5 of the Financial Institutions (Protection of Funds) Act, 28 of 2001. Section 1 of that Act defines a "*financial institution*" as including a medical scheme and a "*registrar*" as including "*the registrar of medical schemes referred to in section 1 of the Medical Schemes Act, 1998*". The grounds are slightly different under the two Acts, but are, in the main, guided by the interests of the beneficiaries.

[28] Section 5(5) of the Financial Institutions (Protection of Funds) Act provides that:

"The curator acts under the control of the registrar who made the application under subsection (1), and may apply to that registrar for instructions with regard to any matter arising out of, or in connection with, the control and management of the business of the institution."

[29] It follows, in my view, that a curator has only those powers conferred on him or her by Court Order and must exercise those powers subject to the control of the Registrar. It has been argued by Langa that his powers as a curator especially clause 8.3.1 did not distinguish between ordinary and extra-ordinary powers that require approval of the Registrar. Whilst this may well be the case, his powers are still subject to the control of the Registrar, to the extent that if the Registrar is of the view that certain decisions are not in the interest of the beneficiaries of the Scheme, he or she may intervene and order remedial action. Therefore the powers of the curator are subject to the control of the Registrar who brought the application to have the curator appointed by court[3]. It is not necessary to make distinction between ordinary and extra-ordinary powers of the curator. The test is whether the powers are exercised in the interest of the Scheme.

[30] When the second respondent assumed the role of provisional curator, he was required to ensure, *inter alia*, that the corporate governance issues that were prevalent at the time were addressed. He correctly found that some of the agreements concluded by the Scheme with companies related to Le Roux were not to the benefit of the Scheme. His criticisms of the conduct of

[3] See *Barnard v Registrar of Medical Schemes* 2015 (3) SA 204.

one of the related companies to the first respondent was endorsed by this Court[4].

[31] Langa ought to have appreciated the magnitude of the corporate governance breaches when he started his negotiations with Le Roux as it was the same Le Roux whose companies were found to be benefiting from the Scheme by charging millions of rands on services that were not beneficial to the Scheme and its members.

[32] When consideration is given to the need to purchase the trademark under the name Medshield, it is apparent that there was no need to acquire this trademark as the Scheme enjoyed prior use of the name Medshield. Its continued use of the name would not have been challenged by Alumni as the Scheme is protected by law to continue the use of the trademark.

[33] It is not clear as to why the curator failed to seek the legal advice before the purchase of the trademark. No proper explanation could be advanced to the Registrar for withholding reporting about the purchase to the Registrar until after the fact.

[34] I agree with the criticism by the Registrar of the sale agreement as the trademark was not in the interest of the Scheme and its members.

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[4] See *Barnard v Registrar of Medical Schemes supra.*

[35] There was close relationship between Alumni; Medshield Brokers and Medshield Distribution Services. The latter two companies had their contracts terminated at the instruction of the Registrar. Langa was in support of such termination when he took over as the provisional curator. It is not clear what factors were considered by Langa to conclude the sale of trademark agreement with Alumni through Le Roux who was also a common director of the other two companies. There had been adverse finding on the contracts that were terminated as they were not in the interest of the Scheme. Those factors ought to have rung alarm bells for Langa when he dealt with Le Roux about the sale and purchase of the trade mark.

[36] The conclusion of the trademark agreement can reasonably be inferred to have been actuated by bad faith. In fact it was the Registrar's complaint pertaining to the conclusion of this agreement that led to the ultimate resignation of Langa as curator of the Scheme.

[37] No adequate reasons have been advanced for the conclusion of the trademark agreement other than that the Scheme needed the marks for the loyalty programme of its members. This in my view, falls outside of the powers of the Scheme. Members who would participate in such programmes would ordinarily "*contract out*" of the Scheme. It was therefore not in the best interest of the Scheme that R10 million was paid out of the Scheme for a trademark that ought not to have been purchased.

[38] It has been argued by Mr Hoffman SC on behalf of Alumni that the Scheme should be estopped from seeking the declaratory order that the agreement was invalid. The reason advanced for this argument was that as the Scheme issued a demand letter to enforce the agreement, by so doing, it waived its right to have the agreement declared invalid.

[39] Waiver of a right in contract is recognized in our law. If a condition is inserted into a contract exclusively for the benefit of one of the parties, that party may prevent the obligation (and hence also obligations) from falling away by waiving the benefit[5]. The other party can then not rely on non-fulfilment of the condition[6]. The facts of this case do not support the contention by Mr Hoffman.

[40] The agreement, in my view, was concluded in contravention of Section 4 of the Financial Institutions (Protection of Funds) Act No 28 of 2001 in that it was not in the interest of the Scheme.

[41] When Laga took over as a curator, he was in support of the cancellation of the agreements of those two companies with the Scheme. It is not clear as to why he was not concerned when he was approached by Le Roux to purchase the trademarks from Alumni. Langa ought to have been concerned and ought to have sought legal advice on the matter before agreeing to conclude the agreement. I have not being persuaded to find that the agreement was actuated by fraud.

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[5] See: Van Huyssteen, Lubbe, Reinecke – *Contract General Principles* 5ed at 917l page 285.
[6] See: *Van Jaarsveld v Coetzee* 1973 (3) SA 241 (A).

[42] It is not necessary to deal with other alternative prayers by the applicants for reasons stated hereinbefore.

[43] I am therefore persuaded that the applicants have made out a case for a declaratory order.

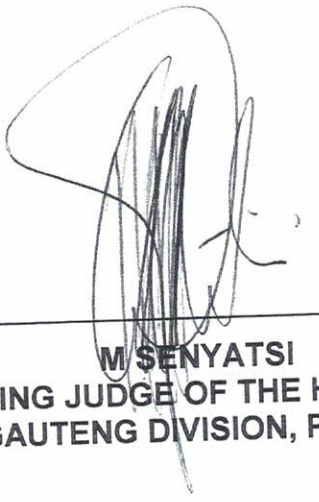
ORDER

[44] The following order is made:

44.1 The agreement of sale and assignment concluded between the first applicant and the first respondent on or about 17 October 2013 did not come into force and is hereby set aside.

44.2 The first respondent is ordered to pay R10 000 000,00 to the first applicant.

44.3 The first respondent is ordered to pay the costs of this application.



M SENYATSI
ACTING JUDGE OF THE HIGH COURT
GAUTENG DIVISION, PRETORIA