

A horizontal banner image divided into several vertical panels. From left to right, the panels show: a pair of scales of justice, a stack of books, a computer keyboard, and a gavel. Overlaid on this image is the text "JONES DAY" in a smaller font and "COMMENTARY" in a large, bold, white font.

JONES DAY
COMMENTARY

AMENDMENTS TO THE HONG KONG COMPANIES ORDINANCE PROPOSALS TO TACKLE SHADOW COMPANIES

In recent years, many brand name and trademark owners in Japan, the United States, Europe, and even in the People's Republic of China ("PRC") have experienced a troubling phenomenon in Hong Kong.

Counterfeiters have taken advantage of the company name registration system in Hong Kong to set up "shadow companies" with minimal share capital and only one director and shareholder—in most cases a Chinese national from the PRC—to facilitate their counterfeiting activities in the PRC. When the brand name or trademark owner wishes to take administrative action against the PRC factory, the factory will show the officials from the Administration for Industry and Commerce ("AIC") a legitimate certificate of incorporation of the Hong Kong company and a letter of authorization or license from that company to the factory for the use of its company name (which incorporates the famous brand name or trademark) on the counterfeit products. When this happens, the AIC will refuse to conduct a raid on the factory.

CURRENT POSITION

Under the current company name registration system, it is indeed very easy and inexpensive to establish a company in Hong Kong. However, getting the company to change its name is another story. The Companies Registrar has no power to take any enforcement action against the Hong Kong company even if a court order is presented to him.

Section 22 of the Companies Ordinance provides that the Registrar may direct a company to change its name within 12 months of registration, if it is "too like" a name that is already registered. However, the phrase "too like" has been narrowly construed, and the mere addition of one or two generic words such as "holdings," "international," or "group" is generally enough to render the names not alike.

Further, this section does not assist the brand name owner if it has not yet established a company in Hong Kong or its company is set up after the shadow company.

The Registrar may also have the power to invoke Section 22A to direct a change of name if the name of the company gives “so misleading an indication of the nature of its activities as to be likely to cause harm to the public.”

However, this has never been used because the Registrar requires proof of real substantial harm done to the general public at large, which is difficult to prove in the case of shadow companies.

TRADEMARK INFRINGEMENT/PASSING-OFF ACTIONS

As a result, brand name and trademark owners have resorted to court proceedings, namely trademark infringement or passing-off actions. Often the shadow company does not defend the actions, and default judgments are obtained. However, without joining the shareholders as codefendants and granting the lawyers representing the brand name owners the power to sign special resolutions on behalf of the shareholders to change the company name, a bare judgment against the company itself will not enable the Companies Registrar to effect a change of name if the company fails to do so.

INTERIM MEASURES

Due to many complaints from brand name and trademark owners from around the world and the pressure exerted by local legal practitioners, the Hong Kong Government has adopted a few interim administrative measures to alleviate the problem, such as:

- publishing a list of those companies that have failed to comply with the Registrar’s directions to change their name; and

- placing a warning statement in all Certificates of Incorporation and Certificates of Change of Name making it clear that the company name does not confer any trademark rights or other intellectual property rights onto the company.

CONSULTATION PAPER

On April 2, 2008, the Government announced the second in a series of public consultations on considerations and amendments to the Companies Ordinance. One chapter is devoted to the problem of shadow companies. The consultation document considered a number of options for reform and suggested amending the Companies Ordinance to empower the Registrar to act on a court order directing the shadow company/defendant to change its company name within a specified time. If the defendant fails to comply with the direction, the Registrar will be able to substitute the infringing name with the company’s registration number.

In addition, the Registrar will have the authority to refuse a new company name that is the same as the infringing name that the Registrar has previously directed the company to change and is the subject of a court order.

The Registrar can also change the name of a company to its company number where the name is considered “too like” a name that is already registered and the company fails to change its name under Section 22 of the Companies Ordinance.

IS THIS ENOUGH?

All the suggestions proposed by the Companies Registrar are welcomed by brand name owners and legal practitioners, but they do not tackle the problem at root. Further, the amendments are tentatively aimed to be implemented by 2010. Given the speed of incorporating companies in Hong Kong (currently four working days), counterfeiters can easily set up another shadow company the next day, thereby defeating the efforts of brand name owners and the Registrar.

As a matter of policy, the Government believes that it is inequitable to grant trademark owners monopoly over company names covering all kinds of business activities, including those that have not been registered. However, there are many cases where a shadow company is set up using not only the registered trademark but also a business descriptor covering the goods or services that have been registered by the trademark owner. In such cases, there is no policy justification that such a shadow company should still be allowed to be registered.

The Government is also concerned about the administrative burden imposed on it once it is required to check each and every proposed company name against all registered trademarks, even though all trademark registrations are now computerized and searches can be done online with the push of a button. Again, there are many viable solutions to address such concern. One option is to have check boxes on the application forms requiring applicants to indicate whether they have conducted trademark searches and confirm that their company names do not conflict with existing registered trademarks covering the same or similar goods or services. Where the company names do conflict with registered marks, applicants would be required to indicate that they have obtained letters of consent from the relevant trademark owners. Failure to check the boxes or providing false statements will enable the Companies Registrar to direct the company to change its name as directed by Section 22 of the Companies Ordinance.

In this way, the burden is on the applicants and not the Companies Registrar and will not jeopardize the current efficiency of the company incorporation regime. Further, conducting minimal due diligence before incorporating a company in Hong Kong is good corporate governance for every company and should be encouraged.

The Government has also ruled out the introduction of a company names adjudication system similar to that introduced in the United Kingdom under the Companies Act 2006. This is generally accepted purely because the problem of “company hijacking” encountered in the United Kingdom is very different from that of the “shadow company” problem in Hong Kong.

However, as an alternative to commencing legal proceedings in court against shadow companies, which are costly and time consuming, brand name and trademark owners should be offered an alternative option to resolve the company name disputes through the arbitration route. The administrative proceedings for domain names under the Uniform Domain Name Dispute Resolution Policy approved by ICANN and the Domain Name Dispute Resolution Policy adopted by the Hong Kong Domain Name Company Limited, which have proven to be swift and cost effective, serve as a good reference.

A similar policy could be put in place where the complainant is required to submit evidence of its legitimate interest, the similarity of the two names, and bad faith on the part of the shadow company. The evidence submitted and any response from the shadow company could then be reviewed and adjudicated by an arbitrator appointed by the Hong Kong Arbitration Centre. If the shadow company/defendant fails to effect the change of name after a ruling is made, the Registrar should similarly be empowered to change the name of the company to the company’s registration number as in the case of a court order.

It is important that Hong Kong should not be considered as a haven for counterfeiters, and these loopholes in the company name registration system should be removed as soon as possible.

LAWYER CONTACT

For further information, please contact your principal Firm representative or the lawyer listed below. General e-mail messages may be sent using our “Contact Us” form, which can be found at www.jonesday.com.

Anita Leung
852.3189.7313
aleung@jonesday.com

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