

CHAPTER 2

COMPANY NAMES

A. “Shadow Companies”

Background

- 2.1 In recent years, the CR has received many complaints from owners of trademarks or trade names regarding “shadow companies”¹⁰. Authorities in the Mainland, Japan, the European Union and the US have also expressed concerns that such “shadow companies” exploit the company name registration system in Hong Kong to facilitate their counterfeiting activities in the Mainland.
- 2.2 At present, an owner of a trademark or trade name may, in a legal action for trademark infringement or passing off against a “shadow company”, obtain a court order to direct the latter to change its name. However, the Registrar has no authority under the current law to take any enforcement action even if such a court order is presented to the CR. Currently, the Registrar is only empowered, under section 22(2) of the CO, to direct a company, within 12 months of its incorporation, to change its name if, amongst other things, it is “too like” the name of another company on the Companies Register.
- 2.3 The Government has adopted a number of administrative measures to alleviate the problem, including:
- (1) enhanced publicity efforts by the Intellectual Property Department and the CR in the Mainland and Hong Kong to promote awareness of the differences between Hong Kong’s company registration and trademark registration systems;
 - (2) information posted on the CR’s website listing those companies which have failed to comply with the Registrar’s directions to change name; and
 - (3) placement of a warning statement in Certificates of Incorporation and Certificates of Change of Name highlighting the fact that registration of a company name does not confer any trademark or any other intellectual property rights as regards the name on the companies.

¹⁰ See footnote 4 above.

Considerations

- 2.4 There is a strong case for strengthening the company name registration regime to tackle any possible abuses by “shadow companies”. We have considered several options, having regard to the experiences in other major common law jurisdictions, including the UK, Australia, Singapore, Canada and New Zealand.
- 2.5 There has been a suggestion that the CR should not allow the registration of a company name which is identical or similar to any trademark registered under the Trade Marks Ordinance (Chapter 559). We do not think that this is a viable solution. As a matter of policy, it is inequitable to grant trademark owners monopoly over company names covering all kinds of business activities (including those in which such trademarks of relevant goods and/or services have not been registered). Our company name and trademark registration systems are distinct and independent, in line with the practice in other major common law jurisdictions, including the UK, Australia and Singapore. In practice, given the tremendous numbers of company name and trademark registrations¹¹, it is impossible for the CR to check each and every proposed company name against all registered trademarks while maintaining the current efficiency of the company incorporation regime.
- 2.6 We have also considered the feasibility of introducing a company names adjudication system similar to that introduced in the UK under the CA 2006¹². While details on how the adjudication system actually operates are yet to be available, the law provides that a person may apply to a company names adjudicator to object to a company’s registered name on the basis that it is identical or similar to a name in which he has already acquired goodwill. Under that system, the adjudicator will consider each side’s arguments at a hearing. If he upholds the objection, he is empowered to order the respondent company against which the objection is made to change its name. In theory, such a system may provide an alternative route for owners of trademarks or trade names to seek a quicker and possibly less costly form of relief than resorting to court proceedings. However, this system is not recommended for adoption in Hong Kong for the time being for the following reasons:

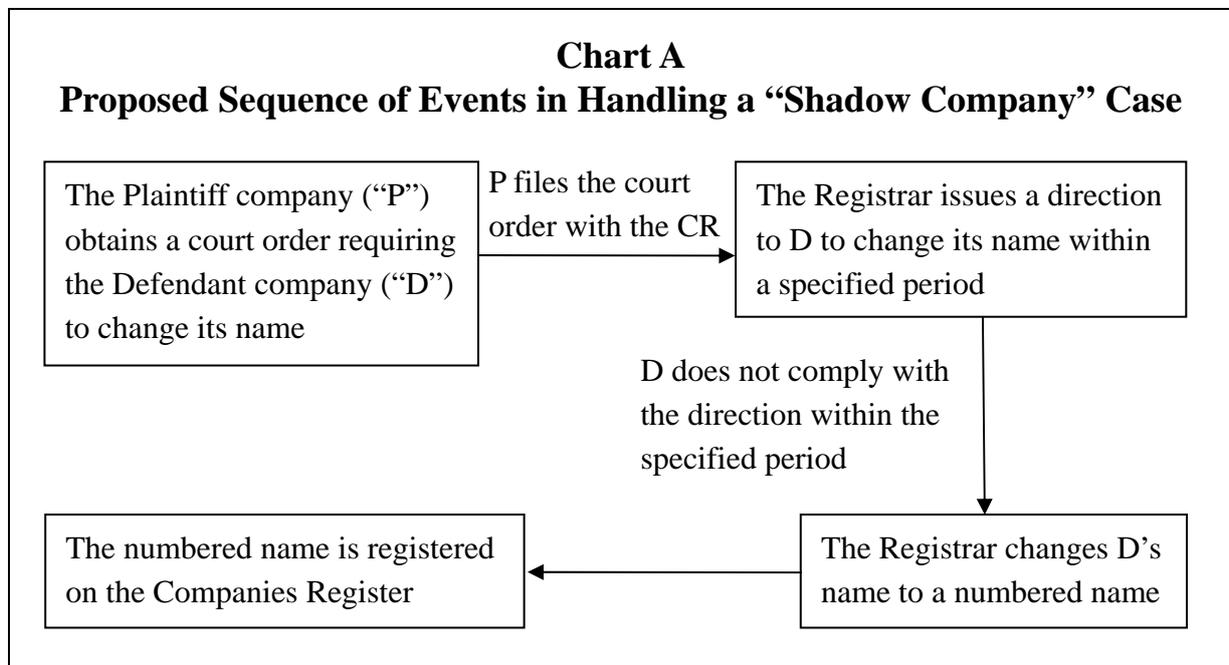
¹¹ As at the end of 2007, there were 655,038 registered companies and 217,692 registered trademarks.

¹² See sections 69 to 74 of the CA 2006 (<http://www.opsi.gov.uk/acts.htm>), which, according to the implementation timetable, will commence operation on 1 October 2008.

- (1) since it is believed that most “shadow companies” are formed by counterfeiters to carry out counterfeiting and passing off activities, it is unlikely that officers of “shadow companies” would attend the proceedings before an adjudicator;
- (2) such a system involves considerable administrative costs, such as providing support to the adjudicators and ensuring due process; and
- (3) there may be duplication of efforts between the adjudication system and the court, as some parties may also seek relief from the court against “shadow companies” in passing off actions.

Proposal

2.7 We suggest amending the CO to empower the Registrar to act on a court order directing a defendant company to change its infringing name. Upon receipt of such a court order, the Registrar may direct the defendant company to change its name within a specified period. If the defendant company fails to comply with the direction, the Registrar may substitute its infringing name with its registration number¹³ (“numbered name”). The proposed sequence of events is shown in Chart A.



¹³ It is a unique number allocated by the CR to each newly registered company upon its registration.

- 2.8 Such a proposal is in line with the company name registration system in operation in other major common law jurisdictions. Singapore amended its company law in 2005 to empower its Registrar of Companies to direct a company to change its name if the use of that name has been restrained by an injunction granted under the Trade Marks Act¹⁴. There are precedents in other jurisdictions, such as Australia, Canada and New Zealand, for empowering companies registrars to change a company's name to a number if it fails to comply with a direction to change name issued by the registrars¹⁵.
- 2.9 We also suggest granting the Registrar a power to reject registration of any company name which is the same as an infringing name which the Registrar has previously directed a company to change and is the subject matter of a court order.
- 2.10 We further propose that the power of the Registrar to change a company's name to a numbered name would also apply if the company does not comply with the Registrar's direction to change its name issued under section 22(2) of the CO (see paragraph 2.2 above).
- 2.11 We have considered the alternative of empowering the Registrar to strike a company off the register if it fails to comply with a direction to change name. This is **not** recommended as it may adversely affect the interests of third parties, such as creditors, and may result in uncertainties over liabilities and obligations of the company and its officers.
- 2.12 As a related issue, we are considering how to expedite the company name approval procedure to shorten the incorporation time. Currently, applications for the incorporation of companies are normally processed by the CR in four working days. The bulk of the processing time is spent on scrutinising the proposed names to ensure that they are not objectionable for various reasons¹⁶. Based on a suggestion made by the SCCLR, we intend to bring forth a name approval system whereby a

¹⁴ See section 27(2) of the SCA as amended by the Companies (Amendment) Act 2005, which came into effect on 30 January 2006 (<http://statutes.agc.gov.sg>).

¹⁵ See section 158(3) of the ACA (<http://www.comlaw.gov.au>), section 12(5) of the Canada Business Corporations Act (<http://laws.justice.gc.ca>) and section 24 of the New Zealand Companies Act 1993 (<http://www.legislation.govt.nz>).

¹⁶ For example, a proposed company name must not be identical to the name of an existing company, must not constitute a criminal offence nor be offensive or contrary to the public interest. In addition, names that would be likely to give the impression that the company is connected with the Central People's Government or with the Hong Kong Government or any department of either Government or that contain certain words or expressions such as "Chamber of Commerce" and "Trust" will require official approval. See section 20(1) and (2) of the CO.

company name would be accepted for incorporation if it satisfies certain preliminary requirements, for example, that it is not identical to another name already on the Registrar's register and does not contain words or expressions on a specified list. The Registrar would thereafter be given the power to direct a company to change its name within a specified period (say, three months following the incorporation) in case where, upon further checking by the CR, its name is found to be offensive, likely to give the impression of a government connection or contrary to the public interest. We expect that the incorporation time could be shortened significantly under the proposed system.

Question 1

- (a) Do you agree that we need to amend the law to empower the Registrar, upon receipt of a court order requiring a company to change its name, to direct the company to change its name within a specified period?**
- (b) If your answer to (a) is in the affirmative, do you agree that the Registrar should be further empowered to change a company's name to its registration number if the company does not comply with his direction to change its name within the specified period?**
- (c) If your answer to (a) or (b) is in the negative, what other option(s) do you suggest and why?**

B. "Hybrid Names"

Background

2.13 Currently, according to section 5(1) of the CO, a company may register with only an English name, or only a Chinese name, or an English name together with a Chinese name, but not a name which is in the combined form of Chinese characters and English alphabets or words ("hybrid name").

Considerations

2.14 The registration of hybrid names is not a feature commonly found in other jurisdictions where most of them only allow company names to be registered in one language¹⁷.

¹⁷ For example, the UK, Australia and Singapore.

2.15 We do not see any major problems with the current situation in Hong Kong and are unaware of any strong demand for the registration of hybrid names¹⁸. We are concerned that a general permission for registration of hybrid names would create great confusion in company names and aggravate the problem of “shadow companies” in view of the possible permutations in combining Chinese characters, English words and even numeric symbols that could be translated into different but similar company names. However, there have been suggestions that hybrid names should be allowed as there might be a genuine business need in some cases.

Proposal

2.16 If there is broad public support, we are prepared to provide the Registrar with a discretionary power to approve the registration of hybrid names on a case-by-case basis. The applicant has to establish, to the satisfaction of the Registrar, that there is a genuine business need to register a hybrid name, for example, to register a Chinese name incorporating the applicant’s well known trade name which may include English words or alphabets, or vice versa.

2.17 On the other hand, we propose to generally allow, in the new CO, company names containing the phrases “X 光” and “卡拉 OK” (for X-Ray and Karaoke respectively) as exceptions, because they have no direct Chinese equivalents and they are used in other legislation¹⁹.

Question 2

- (a) Do you agree with the proposal that the law should be amended to provide the Registrar with a discretionary power to approve a “hybrid name” where the applicant can show to the satisfaction of the Registrar that there is a genuine business need?**
- (b) If so, what should constitute a “genuine business need”?**

¹⁸ In 2006 and 2007, the Registrar turned down 58 and 64 applications respectively for the registration of hybrid names.

¹⁹ The term “X 光” is used, for instance, in Regulation 42 of the Child Care Services Regulations (Chapter 243A) and Regulation 54 of the Education Regulations (Chapter 279A), and the term “卡拉 OK” is used in Karaoke Establishments Ordinance (Chapter 573).

Question 3

Do you have further views on how the current company name registration system could be improved, particularly for the purpose of tackling the problem of “shadow companies”?