CU Review Summer 2017

The Commercial Unit, Civil Division
The Department of Justice

What's inside

Commencement of Reforms to Winding Up Legislation 2

What is Bid-rigging? 3

Extension of the Anti-Money Laundering and Counter-Terrorist Financing Regime to Designated Non-Financial Businesses and Professions and Trust or Company Service Providers 5

Church Body of the Hong Kong Sheng Kung Hui and Another v Commissioner of Inland Revenue [2017] 1 HKC 1 6

Tsit Wing (Hong Kong) Co Ltd v TWG Tea Co Pte Ltd (No 2) (2016) 19 HKCFAR 20 8

Suen Shu Tai v Tam Fung Tai [2014] 4 HKLRD 436 9

Editorial

We feature three articles in this edition. The first article discusses some of the major reforms made by the Companies (Winding Up and Miscellaneous Provisions) Ordinance to the winding up regime.

The second article is about bid-rigging – a practice which can occur in any product or service market where tender processes are used, including public procurement exercises.

The third article talks about the extension of the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance to cover designated non-financial businesses and professions and trust or company service providers.

We also feature three case reports in this edition. The first case is about the liability of a property owner to pay profits tax for the sale of a property which was originally acquired as a long term capital asset.

The second case is a passing off and trademark case concerning the use of the "TWG" logo by a local company and a Singaporean company.

The third case is about the application of the presumption of resulting trust where an elderly mother executed deeds of assignment to transfer properties to her independent adult daughter.

YUNG Lap-yan

The Companies (Winding Up and Miscellaneous Provisions) (Amendment) Ordinance 2016 ("Amendment Ordinance") was enacted in May 2016 and came into operation on 13 February 2017. The Amendment Ordinance seeks to amend the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) ("CWUMPO") and its subsidiary legislation to increase protection of creditors, streamline the winding up process and strengthen regulation under the winding up regime.

Some of the proposed reforms had been discussed in the Summer 2014 edition of the CU Review. These include: new provisions on qualification for appointment as liquidator (see CWUMPO ss.262A to 262F); new provisions on undervalue transactions and "stand-alone" provisions on unfair preferences added to CWUMPO instead of relying on the Bankruptcy Ordinance (Cap. 6) provisions (CWUMPO ss.265A to 266D); and amendments to the provisions on invalidity of floating charges (CWUMPO ss.267 and 267A).

Some of the other major reforms made to the winding up legislation are discussed below.

Powers of provisional liquidators and liquidators

The amended s.199, the new ss.199A and 199B and the new Schedule 25 set out more clearly the powers of different types of provisional liquidators and liquidators in a winding up by the court, and the restrictions and exceptions in the exercise of those powers. Under the amended s.199(4), a liquidator in a winding up by the court may, without the sanction of the court or the committee of inspection, employ a solicitor to assist in performing the liquidator's duties by giving at least 7 days' advance notice to the committee of inspection or the creditors, as the case may be. Previously, the liquidator must obtain such sanction before he/she may exercise such power.

To safeguard against potential abuse of powers by the members-appointed liquidator before the holding of the first creditors' meeting in a creditors' voluntary winding up, restrictions are now imposed on the powers of such a liquidator. The members-appointed liquidator is required to obtain the court's sanction before exercising any powers of a liquidator, except for taking into his/her custody the company's property, disposing of perishable goods, and doing anything that may be necessary to protect the company's assets.

Statement of affairs and supplementary affidavit

The amended s.190 provides for the submission of a supplementary affidavit in relation to the statement of affairs of a company. Under the former s.190, the directors and the company secretary of the company were required to make and submit a statement of affairs to the provisional liquidator or liquidator in a court winding up. In addition, certain persons listed in s.190(2)(a)-(d) may, if required by the provisional liquidator or liquidator, also need to submit a statement of affairs.

Under the amended s.190, the provisional liquidator or the liquidator may require any of the persons mentioned in s.190(2)(a)-(d) to submit a supplementary affidavit stating that the person concurs in the statement of affairs. This would avoid the need for a person to be required to complete a full statement of affairs when there is already one. It would also allow him/her to focus on agreeing or disagreeing with the full statement or making qualifications to any matters dealt with therein.

Public and private examinations

Improvements have been made to the public and private examination procedures for obtaining information about a company from its officers or others during its winding up.

The new s.286A has replaced the former s.222 for the public examination procedure. Apart from present or past officers of the company, s.286A includes more categories of persons (i.e. present or past provisional liquidators, liquidators, receivers or managers of the property of the company or any person who is or has been concerned, or is or has taken part, in the promotion, formation or management of the company) who may be ordered to attend before the court for a public examination.

The scope of application of the public examination procedure has been widened to remove the requirement that the Official Receiver or the liquidator must have alleged in a report under s.191(2) that a fraud has been committed before the procedure can be invoked. Although the existence of an allegation of fraud is no longer necessary, a report made under s.191(2) can still provide a basis for the court to order a public examination under s.286A.

Under the former s.222(6), the examinee was entitled

to be provided with a copy of the report made under s.191(2) before the examination. Under the new s.286A and r.51A of the Companies (Winding-up) Rules (Cap. 32H), there is no requirement to provide the examinee with the report before he/she attends the examination.

The rationale for not providing the examinee with a copy of the report before the examination is that it may contain information which, if disclosed to the examinee, may adversely affect the effectiveness of the order being sought or even frustrate its purpose, as the examinee may be alerted to conceal, dissipate or destroy relevant information or materials which may tend to incriminate him/her.

The new r.51A(2) provides that the court may make an order to allow the examinee to see the report if the examinee satisfies the court that it would be unfair for him/her not to be allowed to see it. Moreover, the Official Receiver or liquidator is required to give the examinee a "Notice to Attend Public Examination" under r.54 of Cap. 32H, which sets out the matters to be examined during the examination, thereby giving the examinee an opportunity to seek legal advice on those matters before the examination.

New provisions have also been added to provide that the evidence in support of the application for a public or private examination order in the form of a report to the court is confidential[1].

The new ss.286B and 286C have replaced the former s.221 for the private examination procedure, under which officers or others may be privately examined before the court. S.286B includes a power of the court to require a person to submit an affidavit to provide information concerning the promotion, formation, trade, dealings, affairs or property of the company. Also, it is now provided expressly that the examinee may at his/her own expense employ a solicitor with or without counsel.

The new s.286D expressly provides that self-incrimination is not an excuse for not complying with a requirement imposed under the new s.286A, 286B or 286C. Nevertheless, if the information given in compliance with such a requirement might tend to incriminate the person, the information is not admissible in evidence against the person in criminal proceedings, except for certain offences relating to giving false information or perjury.

Ida Chan and Stefan Lo

[1] R.51B(1) and r.58A(4) of Cap. 32H

What is Bid-rigging?

The first conduct rule ("FCR") under the Competition Ordinance (Cap. 619) ("CO") prohibits agreements, arrangements or concerted practices between undertakings[2] which have the object or effect of preventing, restricting or distorting competition in Hong Kong[3]. One practice which is inherently anti-competitive in contravention of the FCR is bid-rigging.

Meaning of Bid-rigging

Competition drives business efficiency and innovation. It leads to more choices, better quality products and services at better prices for consumers. Public and private organisations often rely on a competitive bidding process to achieve these outcomes. The benefits of competition are realised, however, only when bidders genuinely compete[4].

Bid-rigging generally involves two or more suppliers secretly agreeing, without the knowledge of the party calling for bids, that they will not compete with one another for particular projects[5]. This definition is captured in CO s.2(2) for the purposes of determining whether the conduct is a serious anti-competitive conduct[6] in the form of bid-rigging. However, bid-rigging that does not fall within CO s.2(2), e.g. if the bid-rigging is made known to the person calling for bids, may still contravene the FCR if it has the object or effect of harming competition[7].

Bid-rigging practices should be distinguished from legitimate forms of joint tendering which involves undertakings cooperating openly with a view to making a joint bid[8].

Forms of Bid-rigging

Bid-rigging can take a number of forms, including:

[2] Undertaking is defined under CO s.2 as any entity (including a natural person), regardless of its legal status or the way in which it is financed, engaged in economic activity.
[3] CO s.6(1)
[4] Competition Commission ("CC"), brochure entitled "*Fighting Bid-rigging*", p.2
[5] CC, *Guideline on the First Conduct Rule*, para. 6.26
[6] Serious anti-competitive conduct in contravention of the FCR will be subject to more stringent enforcement procedure different from that for other contraventions of the FCR: *Guideline*, paras. 5.1-5.2
[7] *Guideline*, para. 6.27
[8] *Guideline*, paras. 6.30 and 6.101

(a) bid suppression – certain suppliers will not submit a bid or will withdraw a bid submitted previously;

(b) bid rotation – suppliers to take turns at being the winning bidder;

(c) cover bidding – certain suppliers will submit higher bid prices or less attractive terms than the supplier "chosen" to win the tender; or

(d) others – other actions that reduce the competitive tension in the bidding process, such as by agreeing minimum bidding prices or agreeing that the winning bidder will reimburse the losing bidders' bid costs or will subcontract to the losing bidders[9].

Bid-rigging is prevalent

Bid-rigging can occur in any product or service market where tender processes are used, and in all parts of the world. Bid-rigging deprives consumers of the benefits of competition, enabling colluding businesses to earn higher profits with less effort[10]. It is thus important to have proactive transparency in tender and bidding processes.

In Hong Kong, the Garden Vista case in 2015 / 2016, involving charges of conspiracy to offer advantages to agents, was the first successful bid-rigging criminal prosecution in the building maintenance sector. In May 2016, CC released a report on study into residential building renovation and maintenance market[11], based on tender records in relation to appointments of consultants and contractors from about 500 past projects provided by the Urban Renewal Authority and the Hong Kong Housing Society. The results revealed that, consistent with the public perception, bid-rigging may be prevalent in such market. In March 2017, CC commenced proceedings for the first time since CO came into full force in December 2015 in the Competition Tribunal against five information technology companies alleging that these parties have engaged in bid-rigging with certain parties submitting "dummy" bids in response to a tender for the supply and installation of a new information technology server system.

In the European Union context, the European Commission has unearthed a number of bid-rigging cases: undertakings fined €92 million for bid-rigging in the market for pipes used for district heating systems[12]; firms fined €992 million for bid-rigging for the installation and maintenance of lifts and escalators[13]; carglass manufacturers fined €1.3 billion for cover bidding concerning the supply of carglass for first assembly or replacement of light vehicles[14].

Bid-rigging can also occur in public procurement exercises. The Court of Justice of the European Union has held that potential bidders and their external service provider which took part in anti-competitive contacts could be liable for bid-rigging for a public contract[15]. The Competition and Consumer Protection Commission of the Ireland has recently confirmed that it is investigating potential bid-rigging in the procurement of publicly-funded transport services in certain parts of Munster and Leinster[16]. The Spanish Competition Authority has recently published guidance providing information regarding the prosecution of competition law irregularities in the area of public procurement and listing a number of signs of bid-rigging[17]. The Chairman of the Japanese Fair Trade Commission has commented that strict and proactive enforcement against bid-rigging in public procurement market has saved significant public resources and reduced contract prices by nearly 20% in some cases as a result of restoring competition[18].

Given public procurement involves the use of taxpayers' money, Government officers should be vigilant against the risk of bid-rigging in public procurement to ensure public funds are well spent. CC has published educational materials to raise community awareness of bid-rigging and to educate on how to prevent and detect bid-rigging[19].

Sandy Hung

9 *Guideline*, para. 6.28; "*Fighting Bid-rigging*", pp.3-4
10 CC, "*Fighting Bid-rigging*", p.5
11 CC, *Report on study into aspects of the market for residential building renovation and maintenance* (2016)

12 Pre-Insulated Pipe Cartel, COMP/35.691, 21 October 1998
13 Elevators and Escalators, COMP/38.823, 21 February 2007
14 Carglass, COMP/39125, 12 November 2008
15 SIA VM Remonts v Konkurences Padome, C-542/14; [2016] 5 C.M.L.R. 13, 795
16 https://www.ccpc.ie/business/ccpc-investigating-potential-bid-rigging-procurement-publicly-funded-transport-services/
17 http://www.lexology.com/library/detail.aspx?g=4663c8a6-eeb2-4ad0-babe-a19a9ad5860d
18 Organisation for Economic Cooperation and Development, brochure entitled "*Detecting Bid Rigging in Public Procurement*", p.3
19 CC's website: https://www.compcomm.hk/en/media/reports_publications/other_publications.html

Extension of the Anti-Money Laundering and Counter-Terrorist Financing Regime to Designated Non-Financial Businesses and Professions and Trust or Company Service Providers

Background

In recent international reports on financial crime and combating money laundering, Hong Kong has been labelled a centre for money laundering.

The Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance (Cap. 615) ("AMLO"), implemented on 1 April 2012, is the principal legislation providing empowering provisions for regulators of financial institutions to conduct preventive measures as set out in the Financial Action Task Force ("FATF") Recommendations (commonly known as the customer due diligence ("CDD") and record-keeping requirements).

The Present Regime

Under the AMLO, institutions engaged in banking or deposit-taking activities are regulated by the Hong Kong Monetary Authority. The Securities and Futures Commission supervises licensed corporations engaged in regulated activities. Insurers and intermediaries are regulated by the Insurance Authority. The CDD and record-keeping requirements, which are set out in Schedule 2 to the AMLO, are intended to make it more difficult for criminals to make use of the financial system for money laundering and terrorist financing activities and to preserve an audit trail and relevant transaction records and documents to facilitate investigations by subsequent law enforcement agencies into money laundering or other criminal activities if necessary.

The FATF is an inter-governmental body that sets international standards on combating money laundering and terrorist financing. Over the years, the FATF has developed an elaborate set of recommendations based on which the international community has been strengthening regulation to combat money laundering and terrorist financing.

Hong Kong is a member of the FATF and is about to undergo a mutual evaluation exercise in 2018/19. Although Hong Kong has a generally robust, mature and effective anti-money laundering and counter-terrorist financing framework developed over the years, the international standards have evolved quickly in light of the changing financial market and security outlook. A recent gap analysis has revealed the following deficiencies in our present regime vis-à-vis the FATF recommendations –

(a) absence of statutory CDD and record-keeping requirements for designated non-financial businesses and professions ("DNFBPs"); and

(b) absence of statutory requirements for companies and trustees to keep beneficial ownership information of legal entities and arrangements.

Anti-Money Laundering and Counter-Terrorist Financing Regime extended to DNFBPs and Trust or Company Service Providers ("TCSPs")

Having regard to FATF's defined scope of DNFBPs coverage and the nature of business engaged by the corresponding professions in Hong Kong, it is proposed that the AMLO will be extended to cover solicitors, accountants, real estate agents and TCSPs.

The Government consulted the public in early 2017 on legislative proposals to enhance anti-money laundering and counter-terrorist financing regulation in Hong Kong. There was broad support for the Government to enhance such regulation in Hong Kong in fulfilment of its international obligations under the FATF.

It is proposed that the AMLO will be amended to –

(a) prescribe statutory CDD and record-keeping requirements applicable to DNFBPs and TCSPs when these professions engage in specified transactions; and

(b) introduce a licensing regime for TCSPs.

Major Features of the Amendments

Solicitors, Accountants and Estate Agents

Solicitors, accountants and estate agents are currently subject to professional self-regulation by the respective regulatory bodies, which have promulgated guidelines on CDD and record-keeping procedures for members. The Law Society of Hong Kong, the Hong Kong Institute of Certified Public Accountants

("HKICPA") and the Estate Agents Authority ("EAA") have broadly similar powers under their respective Ordinances to handle the professional misconduct of their members.

To reduce the compliance burden on these sectors, it is proposed to leverage on the existing regulatory regimes applicable to the three sectors under the Legal Practitioners Ordinance (Cap. 159), the Professional Accountants Ordinance (Cap. 50) and the Estate Agents Ordinance (Cap. 511) respectively to enforce the statutory CDD and record-keeping requirements.

The Law Society, the HKICPA and the EAA will be entrusted to assume statutory oversight for monitoring and ensuring compliance with the AMLO requirements by their respective professionals. Non-compliance with the requirements will be handled in accordance with the established investigation, disciplinary and appeal mechanisms under the three Ordinances governing professional misconduct.

The three Ordinances have already stipulated a set of disciplinary and sanction measures ranging from reprimands, orders for remedial actions, to civil fines, and suspension from practice or revocation of licences (as the case may be). It is considered that this should provide sufficient deterrent effect in terms of the proportionality and dissuasiveness of sanctions relevant to the three sectors.

The Government does not propose to impose further criminal sanctions on non-compliances, having regard to the lesser risks concerning these DNFBP sectors vis-à-vis financial institutions.

TCSPs

At present, there is no regulatory body with statutory power to govern the anti-money laundering and counter-terrorist financing compliance of firms or corporates providing trust or company formation services in Hong Kong. A licensing regime will be introduced to enforce the codified CDD and record-keeping requirements applicable to TCSPs.

TCSPs will be required to apply for a licence from the Registrar of Companies ("RoC") before they can provide trust or company services as a business for the public. It will be a criminal offence to operate a TCSP business without a licence. The licensing requirements, mainly involving a "fit-and-proper" test for applicants, will be modelled on a comparable regime for money service operators under the AMLO. Exemption from the new licensing requirements may be given to financial institutions, qualified accountants and solicitors to avoid regulatory overlap.

On enforcement, the RoC will be empowered to investigate any non-compliance and impose disciplinary sanction on TCSPs (including public reprimand, remedial order, a pecuniary fine not exceeding $500,000, and suspension or revocation of the licence). Appeals against the RoC's decisions can be made to a review tribunal.

It is also not proposed to introduce criminal sanctions for any non-compliance by a TCSP with statutory CDD and record-keeping provisions, having regard to the risk of this sector and the need to maintain some degree of consistency among the DNFBP sectors.

Legislative Timetable

The amendment bill was introduced into the Legislative Council on 28 June 2017.

Danny Yuen

Church Body of the Hong Kong Sheng Kung Hui and Another v Commissioner of Inland Revenue [2017] 1 HKC 1

S.14(1) of the Inland Revenue Ordinance (Cap. 112) ("IRO") provides that "profits tax shall be charged…on every person carrying on a trade…in Hong Kong in respect of his assessable profits arising in or derived from Hong Kong…from such trade…(excluding profits arising from the sale of capital assets)". "Trade" is defined in s.2(1) of IRO to include "every trade and manufacture, and every adventure and concern in the nature of trade". The liability to pay profits tax could arise upon a sale in the course of trade but not a sale of a long term capital asset.

The Church Body of the Hong Kong Sheng Kung Hui and Hong Kong Sheng Kung Hui Foundation ("HKSKH") were assessed for profits tax under

s.14(1) of IRO for the sale proceeds of certain properties developed on land it owned ("Lot") which was originally acquired as a capital asset. HKSKH appealed to the Board of Review ("BoR") against the assessment. BoR decided that there was *a change of intention to trade* in September 1989 (alternatively, in December 1990) and upheld the assessment.

HKSKH's appeal to the Court of First Instance was dismissed but on further appeal to the Court of Appeal ("CA"), CA overturned BoR's decision and remitted the case to BoR to consider whether and when a change of intention occurred. The Commissioner of Inland Revenue ("CIR") appealed to the Court of Final Appeal ("CFA") against CA's judgment.

Facts

Below is a chronology of the material events:

Date	Event
1930s	HKSKH became owner of the Lot (comprised of agricultural land and restricted building land) then used to accommodate an orphanage (St Christopher's home).
1970s	HKSKH started exploring the possibility of redeveloping the Lot.
9/1989	Redevelopment plan was revised to involve only a residential development.
12/1990	HKSKH applied for surrender and regrant such that the Lot may be used for residential development.
7/1993	HKSKH invited property developers to tender offers to (i) purchase the Lot or (ii) enter into a joint venture agreement to redevelop the Lot.
8/1993	A developer submitted a tender for both (i) and (ii) and HKSKH accepted the tender for (ii).
11/1993	The Lot was surrendered to Government in return for a new grant.
12/1993	HKSKH entered into a joint venture agreement with the developer to develop the Lot. Some of the properties in the Lot to which HKSKH became entitled under the joint venture agreement were sold. HKSKH were assessed for profits tax for the sale proceeds for the years of assessment 1998/1999 to 2004/2005 inclusive.

Change of intention

Whether there was a change of intention to holding the Lot for trade (and thus giving rise to the liability to profits tax under s.14(1)) is a question of fact and degree to be decided objectively, having regard to all surrounding circumstances. CFA disagreed with BoR's conclusion that there was a change of intention that took place by September 1989 (on the evidence that as from that time the development of the Lot and the re-provisioning of the orphanage became separate projects and HKSKH continued to market the Lot with a view to maximizing the income from the development) or alternatively in December 1990 upon the application for a surrender and regrant. CFA considered that the fact that no part of the Lot was required for HKSKH's use might explain why HKSKH decided to sell all of the Lot and that a mere sale of a capital asset is not trading. The application for a surrender and regrant also could not support a finding of intention to trade.

Badges of trade

CFA noted that BoR had referred to the nine badges of trade[20] to identify evidence for a change of intention. CFA considered those badges should serve as common sense guidance only and should not be applied mechanically. In any event, CFA found that BoR had omitted to apply the 7th badge of trade, which was critically important to the present case, i.e. whether a taxpayer has expended time, money or effort in selling the asset that goes beyond what might be expected of a non-trader seeking to sell an asset of that class. Such omission was considered to have robbed the BoR's conclusion of any validity.

On the facts of the case and in the light of the 7th badge of trade, CFA took the view that HKSKH's activities, up to 1990 at least, were necessary for ascertaining the Lot's potential and the maximum value it could fetch. Those activities had not gone beyond what a non-trading property owner might do in improving his property, with a view to disposing of it at the best possible price.

"Enhancement for realization" principle?

CA had overturned BoR's decision by applying the "enhancement for realization" principle[21]. CFA

[20] Per McHugh NPJ in Lee Yee Shing v CIR (2008) 11 HKCFAR 6 at paragraph 58(c).

[21] Briefly, the 'principle' is that a finding of change of intention to one of trading based solely on the enhancement of the value of the property for the purpose of sale amounts to an error of law.

agreed with CA's order for remittal but considered that such a principle did not exist. Whether time, effort or money expended on an asset to enhance its sale price justified a finding of intention to trade must be a matter of fact and degree and depends on the extent of such expenditure. CFA observed that enhancement for realization may, on its own, be sufficient to support a finding of intention to trade if it goes beyond what might be expected of a non-trader preparing to sell a long term capital asset. Ultimately, a holistic approach should be taken to see whether, on the particular facts of a case, an inference of trading could properly be drawn.

Decision

CFA held that the primary facts found by BoR did not show that what HKSKH had done, whether by September 1989 or December 1990, went beyond what might be expected of a non-trader preparing to sell a long term capital asset. That notwithstanding, as there may have been an intention to trade subsequent to those points in time, CFA took the view that CA was right to remit the matter to BoR to ascertain whether and when a change of intention occurred. CFA thus dismissed CIR's appeal, with CA's remittal order upheld.

Boyce Yung and Quinnci Wong

Tsit Wing (Hong Kong) Co Ltd v TWG Tea Co Pte Ltd (No 2) (2016) 19 HKCFAR 20

Facts

The Plaintiff ("P"), Tsit Wing Group, is a group of companies which commenced operation in Hong Kong in 1932 initially as a wholesaler in the supply of tea and coffee products. In recent years, it diversified to include operation of cafes. Since 2006, P used a "TWG" logo in its business and was registered as owner of two trade marks in respect of coffee, tea and sugar, which involved the use of "TWG" and three overlapping circles of different colours.

The Defendant ("D"), The Wellness Group, is a group of companies incorporated in Singapore in 2001 and it adopted "TWG" to identify itself since 2008. D operated teashops in Singapore and other cities. In 2011, D opened a tea salon in Hong Kong using two signs, namely a cartouche sign with "1837 TWG TEA" and a balloon sign with "TWG TEA" and "PARIS SINGAPORE TEA".

P took action and succeeded in the Court of First Instance against D for (a) passing off; and (b) infringement of its registered trade marks, contrary to s.18(3) of the Trade Marks Ordinance (Cap 559) ("TMO"). D's appeal was dismissed by the Court of Appeal and D appealed to the Court of Final Appeal ("CFA").

Passing Off

One of the questions for which final leave was granted by CFA concerned the sufficiency of mere "dilution" of a trade mark as constituting damage for the purpose of passing off.

CFA, upon reviewing a number of authorities, affirmed that passing off provides a remedy not based in fraud as understood at common law or in property for an unregistered trade mark, but offers protection from invasion of the plaintiff's goodwill likely to be injured by the misrepresentation made by the defendant. In other words, a misrepresentation of a defendant's goods and services as having an association, quality or endorsement which belongs to those of the plaintiff is a fundamental element of the tort of passing off.

The Court noted the approach used in United States law and academic writing that passing off may be expanded into a generalized tort of "unfair competition", under which the mere dilution of the trade value or commercial interests of the plaintiff's goodwill, without the likelihood of a consumer being confused or deceived, is sufficient to found a passing off action. The Court emphasized that passing off aims to accommodate three interests: (a) the plaintiff's goodwill flowing from its recognition and reputation from customers and potential customers; (b) the defendant's interest in attracting custom by what to the defendant appears to be an effective means; and (c) the interest of customers and potential customers in selecting goods and services without the practice upon them of misrepresentation as to the provenance of the defendant's goods or services. To adopt the threat of "dilution" as sufficient actionable damage for passing off, in the absence of a misrepresentation to customers, would disturb the accommodation between the three interests by removing the third element from the equation.

The Court concluded that there was no occasion in Hong Kong to introduce the concept of "dilution" or "unfair competition" into the common law tort of passing off and the complex interaction between

exclusive or monopoly rights conferred by the various species of intellectual property (such as copyright, trade marks, patents and designs) and statutory competition law concerning control of market power under the Competition Ordinance (Cap 619) was a matter of legislative concern rather than for the judicial branch.

In the present case, there was no finding of dilution without confusion or deception. CFA accepted P's argument that the tort of passing off protects a plaintiff's goodwill against its threatened erosion by activities of a defendant in cognate fields into which the plaintiff may wish to enter, where that activity causes or is likely to cause deception of those familiar with the mark or other indicia of the plaintiff, and that P's case is such a case.

Trade Mark Infringement

The remaining major issues for CFA's determination concerned the test for and proper approach to trade mark infringement.

Under s.18(3) of TMO, a person infringes a registered trade mark if (a) he uses in the course of trade or business a sign which is similar to the trade mark in relation to the goods or services which are identical or similar to those for which it is registered; and (b) the use of such sign in relation to those goods or services is likely to cause confusion on the part of the public.
In assessing the similarity of two marks, the Court would consider whether there are any striking features of the mark or sign which appear essential or dominant, but doing so without disregarding the entirety of the mark or sign or stripping it of its context, including evidence of what happens in the particular trade. On the likelihood of confusion, s.7 of TMO requires the court to take into account all factors relevant in the circumstances in assessing the likelihood of confusion. These will include the character of purchasers of the defendant's goods or services and the methods by which the goods or services are marketed. The Court also considered that a mere possibility of confusion is not enough but it is sufficient if the result of use by the defendant of the sign in question will be that a number of ordinary persons will entertain a possible doubt and be caused to wonder whether it might not be the case that the goods or services in respect of which the defendant's sign is used have the same provenance as those in respect of which the trade mark is used.

The Court accepted the trial judge's finding that "TWG" was the essence of P's marks and the use of "TWG", which also formed the dominant feature of D's signs, would inevitably lead to confusion given the similarity between the two. Hence, both paragraphs of s.18(3) of TMO were satisfied.

The appeal was dismissed accordingly.

Patrick Yung

Suen Shu Tai v Tam Fung Tai [2014] 4 HKLRD 436

The plaintiff ("P") was the registered owner of two properties ("Properties"). In 1999, P, then aged 72, executed two deeds of assignments ("Assignments") to transfer the Properties to her daughter, the defendant, then aged 48 ("D"). Both Assignments contained an identical clause stating that in consideration of the stated amount paid by D to P, receipt of which was expressly acknowledged, P as beneficial owner assigned the Properties to D ("Clause"). However, D did not actually pay.

About 11 years after the transfer, P brought proceedings against D seeking a declaration that D held the Properties for her as trustee. The Court of First Instance [22] ("CFI") found that P's intention in executing the Assignments was to avoid the threats by her husband of reclaiming the Properties for his concubine, and not to make a gift of them to D. Further, there was no reason why P should suddenly give the Properties to D when they were her only valuable assets and source of income. As D had paid no consideration, CFI made a declaration that the Properties were held by D on resulting trust for P. D appealed to the Court of Appeal ("CA").

CA's Decision

D relied on s.17 of the Conveyancing and Property Ordinance ("CPO") to argue that P intended to convey the beneficial interest in the Properties to her. S.17 of CPO provides that "Unless the contrary intention is expressed in the assignment, an assignment shall operate to assign all the estate, right and interest in the land

[22] *Suen Shu Tai v Tam Fung Tai*, HCA 1466/2010

assigned which the assignor has in that land and which he has the power to assign".

CA rejected this argument, noting that s.17 of CPO only describes the effect of the Assignments, namely, "all the estate, right and interest in the land" will be assigned to the purchaser, and that the Clause cannot override the question of P's intention at the time of the transfer and also the operation of resulting trust.

CA quoted from *Snell's Equity*[23] the following passage about resulting trust:

> *"Express trusts are created by the actual intention of the settlor that the person holding the legal interest in the property should take it subject to the beneficial entitlement of another. It may happen, however, that a transferor of property causes the legal interest to vest in another person in circumstances where it is unclear whom the transferor intends to have the beneficial interest in it. Here, by operation of law, a resulting trust may arise for the benefit of the transferor. It gives effect to a default presumption about the intention of a person in making a gratuitous transfer of property: although he has transferred the legal interest, he would generally not intend the transferee to take the property beneficially. The name 'resulting' describes the effect of the trust in causing the beneficial entitlement to the property to spring back to the person who transferred it. Since it arises by operation of law it may take effect informally. There are two main situations where resulting trusts may arise: where there is a gratuitous transfer of property and where an express trust of property fails to dispose of the beneficial interest in property ..."*

D further argued that the express provisions in the Assignments are conclusive in determining P's intention. However, CA considered that this was not a case where only the Assignments should be considered in determining P's intention as to the beneficial ownership of the Properties. CA pointed out that notwithstanding P's acknowledgement of payment in the Assignments by D, D expressly accepted at the trial that no consideration was ever intended to be paid by her. Accordingly, D could not at the appeal change her position and seek to rely on the acknowledgement of payment in the Assignments and ask the Court not to look beyond those provisions.

D also sought to argue that P intended to make a gift of the Properties to her on the basis that there was a presumption of advancement from mother to daughter.

CA quoted the following passage from the judgment in *Bennet v Bennet*[24] about the presumption of gift (or advancement):

> *"The doctrine of equity as regards presumption of gifts is this, that where one person stands in such a relation to another that there is an obligation on that person to make a provision for the other, and we find either a purchase or investment in the name of the other, or in the joint names of the person and the other, of an amount which would constitute a provision for the other, the presumption arises of an intention on the part of the person to discharge the obligation to the other; and therefore, in the absence of evidence to the contrary, that purchase or investment is held to be in itself evidence of a gift. In other words, the presumption of gift arises from the moral obligation to give."*

The traditional view is that this presumption does not apply as between mother and child since mothers were not under an obligation to provide for their children. CA noted that New Zealand, Australia, Singapore, the United Kingdom and Canada have recently moved away from the traditional view, and the Courts in these jurisdictions see no reason to distinguish between fathers and mothers when it comes to the presumption of advancement. CA recognised that the role of a modern woman has become increasingly independent both socially and financially and her obligation to provide for her child is equal to that of the father, and remarked

[23] *Snell's Equity* (32nd ed., 2010), para. 25-001

[24] (1879) 10 Ch D 474, p.476

that the presumption of advancement applied equally to a mother and her dependent child. However, CA does not give any view on the question whether the presumption applies to a mother and her independent child. CA commented that in any event, the presumption was now a relatively weak one and could be rebutted on comparatively slight evidence.

In the present case, D was an adult and independent of P. CA concluded that the presumption of advancement, even if it applied, was clearly displaced by the circumstances of the case.

D's appeal was dismissed.

Blondie Poon

Editors : **Yung Lap Yan**
Beverly Yan
Clifford Tavares
Stefan Lo

Advice should be sought from CU before applying the information in the CU Review to particular circumstances.