

## Who's Hiding? Our Cross-Border Game Plan to Dispel False Impressions by Shadow Companies

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Shadow companies are companies with company names incorporating or confusingly similar to trademarks or brand names of others, neither with the authorization of nor being in any way connected to the trademark or brand name owners. We have noticed that there is an increase in shadow companies in Hong Kong incorporated by individuals based in Mainland China in recent years. These shadow companies file bad faith trademark applications and distribute and sell counterfeits under such trademarks in Mainland China, causing consumer confusion and harming the business of brand owners. In this article, we share our experience and bag of tricks in dealing with shadow companies and also some tips on how to safeguard the business of brand owners.

### HOW SHADOW COMPANIES MAY HAUNT THE BUSINESS

The number of shadow companies incorporated in Hong Kong has been increasing. We have recently helped a client to fight against five shadow companies in Hong Kong last year. Upon investigation, we discovered that the founder of one of the shadow companies has also incorporated other shadow companies targeting different brands. Sadly, this is not the end of the story. Some of these shadow

companies also filed bad faith applications for marks identical or confusing similar to trademarks or brand names of others and distributed and sold counterfeits under such marks in Mainland China.

It may not be easy for consumers to distinguish such counterfeits from genuine products due to the company names of the shadow companies. Let's assume that there is a brand known as "Banana" founded in the United States with a subsidiary in Hong Kong known as "Banana Limited". Squatters may register the shadow companies in Hong Kong using the names below. Consumers may thus be easily misled by the confusingly similar company names.

- (a) US Banana Limited
- (b) Banana (US) Limited
- (c) Banana (Hong Kong) Limited

The other key reason why Chinese consumers are prone to be misled is that they generally have confidence in products distributed by Hong Kong companies. They may easily be tricked into thinking that the shadow companies are connected with or otherwise authorized by the brand owners and hence the counterfeits are from or endorsed by the brand owners.

## WHY HONG KONG IS A “SUITABLE” HATCHERY FOR SHADOW COMPANIES

Apart from the consumer behavior, there are also various reasons why shadow companies choose to register in Hong Kong. Firstly, the company name requirements in Hong Kong are rather relaxed. In general, the Hong Kong Companies Registry will raise objections at the time of incorporation only if the company name is the same as an existing company name. As illustrated in the above example, the three companies will likely be acceptable to the Companies Registry as they are not identical to the existing name “Banana Limited”.

Secondly, unlike Mainland China, payment is required for reviewing company documents in the Companies Registry. The Companies Registry is also implementing a new inspection regime, under which certain personal information, including the residential addresses and identity card numbers of shareholders and directors, will only be accessible by specified persons, including law firms, upon application. Hence, the public may not easily gain access to the company particulars. Infringers thus take advantage of this measure to hide their true identities.

## DISPELLING FALSE IMPRESSIONS BY SHADOW COMPANIES

We have been regularly assisting brand owners in devising cross-border enforcement strategies for combating shadow companies, including administrative and civil actions in Hong Kong and Mainland China. Brand owners may take the following actions if they come across any shadow companies: -

### Hong Kong

#### *(a) Company Name Complaints to the Companies Registry*

Brand owners may lodge company name complaints to the Companies Registry on the basis that the name of a shadow company is “too like” the name of an existing company. There are a few points to watch out for. Firstly, the complaint should be based on an

existing Hong Kong company instead of prior trademark registrations. Secondly, the concept of “too like” is different from the usual similarity test in trademark examinations. From our experience, if two company names share the same distinctive element (e.g. **Banana** Limited vs. **Banana** (Hong Kong) Limited), the Registrar will likely consider that the two names are “too like”. Thirdly, the Companies Registry has the power to direct a company to change its name **within 12 months** after the date of registration of the company name. In practice, it is advisable to file the complaint at least 3 months prior to statutory time limit to allow sufficient time for the Companies Registry to examine the complaint.

Upon successful complaint, the Companies Registry will direct the company to change its name within 6 weeks. If the company does not comply with the order, the Companies Registry will exercise its power to replace its name by its registration number.

#### *(b) Civil Action*

If the 12-month statutory period has lapsed or if company name complaint is not an option either because there are no existing company names to serve as the complaint basis or the requirement of “too like” is not fulfilled, brand owners may commence court actions against the shadow companies based on trademark infringement and/or passing off, seeking an injunction order to restrain company from using company names which are confusingly similar to prior trademarks.

We may first a cease-and-desist letter to the shadow company, demanding it to change its company name. In the event of non-compliance, we may commence civil action. From our experience, most shadow companies will not defend the actions. If so, we will be able to obtain default judgments.

For smooth cases, we may obtain a judgment in around 3 months after commencement of the civil action, and we may then request the Companies Registry to change the name of the shadow company.

### Mainland China

#### *(a) Trademark Opposition & Invalidation*

As mentioned above, shadow companies may file bad faith trademark applications in Mainland China. Brand owners may file opposition and invalidation actions against such bad faith filings. A favorable order from the Companies Registry and/or court judgment can help establish bad faith and persuade the examiners in the China National Intellectual Property Administration to reject or invalidate bad faith applications or registrations.

#### *(b) Administrative Complaints & Civil Actions*

If shadow companies are found to be distributing and selling counterfeits in China, brand owners may also consider filing administrative complaints to the Administrations for Market Regulation (AMR) and/or commencing civil actions based on trademark infringement and/or unfair competition before the Chinese courts. The advantages of administrative complaints are that they are less costly, and that the evidential requirement is relatively relaxed compared with court actions. However, the AMR may only accept complaints if there are clear cases of infringement. Also, the AMR will not award any monetary compensations to complainants. For court actions, apart from requesting monetary compensations, plaintiffs may also seek orders restraining the shadow companies from engaging infringing activities and requiring the shadow companies to publish public apologies to clear up the confusion.

## **STEPPING UP INTELLECTUAL PROPERTY DEFENSE**

There are a few things that brand owners can do now to guard against shadow companies. Hong Kong and Mainland China are two different jurisdictions for trademark registrations, and protection in one jurisdiction does not cover the other jurisdiction. It is important to secure trademark protection for house marks and other cores marks in both jurisdictions.

Brand owners should also adopt official Chinese names for their house marks and brand names and secure protection for the same. If a subsidiary has been incorporated in Hong Kong, brand owners should check to see if a Chinese company name has been registered with the Companies Registry. The reason is that, to prevail in a company name complaint against a Chinese company name, a complainant should show that there is an existing conflicting Chinese company name. The Companies Registry will unlikely be persuaded by an argument that a Chinese company name is too like an English company name, and vice versa.

We have also been providing company name watch services for our clients, helping them monitor newly incorporated companies and alerting them if there is any company with name confusingly similar or identical to their trademarks or brand names for timely actions.

## **CONCLUSION**

Shadow companies can be time-bombs for brand owners if left unattended. While shadow companies will not go away by waving a magic wand, vigilant monitoring and timely protection and actions are the keys. Prompt actions should be taken to swiftly eliminate these shadow companies once identified, thus minimizing the potential harm done to the business and the reputation.

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