Published on 12 December 2024

MINORITY PROTECTION AND CORPORATE WRONGS INVOLVING INTELLECTUAL PROPERTY

[2024] SAL Prac 26

The two principal remedies in corporate law against abusive conduct towards minorities are the derivative action and the oppression action. The former seeks relief for the company while the latter provides non-controlling shareholders with a personal remedy where they have been oppressed. Where wrongs are committed against a company, both remedies may be applicable in respect of such corporate wrongs. The courts have recently drawn a sharper distinction between both remedies in respect of such wrongs, including wrongs associated with intellectual property assets. It is suggested that focusing on the act is not optimal and instead the focus should be on the agreement or understanding of the parties, whether formal or informal. The remedies being sought are also relevant.

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1 Human endeavour frequently requires collaborative arrangements and the law facilitates this in a number of ways, such as through contract and organisational law such as laws relating to companies, partnerships, co-operatives and societies. In such arrangements, there is a danger that those in the majority may exercise their rights in a manner that is patently unfair to the minority. The law has developed different ways of managing this issue, with varying degrees of effectiveness. Within company law, the two main remedies are the derivative action (statutory[1] and common law) and the oppression action.[2]

1 Companies Act 1967 (2020 Rev Ed) s 216A.
2 Companies Act 1967 (2020 Rev Ed) s 216.

2 The essential difference between the two remedies is that a derivative action serves to vindicate the company's interest in a claim or defence to an action, while the oppression action is a personal claim generally brought by a member of a company against other members or the directors. Although both actions are distinct, the facts may be such as to allow both remedies to be potentially available. A good example is where a director of a company who also happens to be the majority shareholder commits a breach of the director's fiduciary duty to the company. Being the majority shareholder, such director is in a position to control the composition of the board and prevent the company from instituting a claim against her. A minority shareholder may in appropriate circumstances circumvent the power of the board by instituting a derivative action for the company's benefit.

3 Alternatively, such shareholder may bring a personal action under the oppression remedy to seek relief against the wrongdoing director. Often, this leads to an outcome where the wrongdoer has to buy out the plaintiff shareholder's shares at fair value. The existence of two possible causes of action by different parties raises the prospect of unfairness to the wrongdoing director of having to pay double compensation. In practice though, this is unlikely to happen. Thus, in *Nurcombe v Nurcombe*,[3] a wife's derivative action against her ex-husband for breach of his fiduciary duty to the company that they were both shareholders of was dismissed as the earlier matrimonial proceedings between them had already taken this into consideration in the financial provision to her. By analogy, the court is likely to give consideration to any relief already obtained either in a derivative action or an oppression action if the other remedy is invoked in separate proceedings.

4 A number of cases involving the oppression remedy did not raise any concerns about a breach of fiduciary duty being the basis for an oppression action. Examples of such cases include *Kumagai Gumi Co Ltd v Zenecon Pte Ltd*[4] and *Low Peng Boon v*

3 [1985] 1 WLR 370.
4 [1995] 2 SLR(R) 304.

Low Janie.[5] Some recent cases of such breaches have involved allegations of wrongful use of intellectual property assets. One such case (where the allegation was made out) is *DyStar Global Holdings (Singapore) Pte Ltd v Kiri Industries Ltd*[6] where Senda International Capital Ltd ("Senda") and Kiri Industries Ltd were shareholders of a joint venture company, DyStar Global Holdings (Singapore) Pte Ltd ("DyStar"). A patent belonging to DyStar was assigned to Zhejiang Longsheng Group Co Ltd ("Longsheng") for the purpose of Longsheng defending invalidation proceedings against the patent. Senda, the majority shareholder of DyStar, was a subsidiary of Longsheng and the majority of DyStar's directors were nominated by Longsheng. Although the assignment was intended to be temporary, the patent was not re-assigned even after the successful defence against the invalidation proceedings. Longsheng also exploited the patent without informing the DyStar board. The Senda directors appointed to the board by Longsheng who knew of these matters were found to have breached their fiduciary duty as they had not acted in the best interests of DyStar. This in turn was found to amount to oppressive conduct.[7]

5 However, since the case of *Ng Kek Wee v Sim City Technology Ltd*[8] ("*Sim City*"), the position has become somewhat unclear. In *Sim City*, which involved a breach of fiduciary duty, the Court of Appeal in *dicta* expressed the view that the oppression action "should not be used to vindicate essentially corporate wrongs".[9] In other words, certain wrongs committed by majorities against a company cannot be relied on by minorities in a personal oppression action as such wrongs should be within the province of a corporate claim and not a personal claim.[10]

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5 [1999] 1 SLR(R) 337.

6 [2018] 5 SLR 1.

7 Other cases involving intellectual property rights are *Ong Heng Chuan v Ong Teck Chuan* [2021] 2 SLR 262 and *Ntzegkoutanis v Kimionis* [2024] Bus LR 339. These cases are discussed below.

8 [2014] 4 SLR 723.

9 *Ng Kek Wee v Sim City Technology Ltd* [2014] 4 SLR 723 at [63].

10 In *DyStar Global Holdings (Singapore) Pte Ltd v Kiri Industries Ltd* [2018] 5 SLR 1 at [269], the court said that Senda did not run the argument that the claim for oppression was an abuse of process on the basis of a distinction between wrongs done to the joint venture company and wrongs done to the minority

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6 Since *Sim City*, there have been a number of cases echoing the same view. For instance, in *Ong Heng Chuan v Ong Teck Chuan*[11] ("*OHC*"), where one of the alleged acts of oppression involved a breach of fiduciary duty concerning the sale and diversion of trade marks belonging to the company and its subsidiaries and associated companies, the Court of Appeal observed that a wrong sustained purely by the company was incapable of being vindicated under the oppression action and bringing such an action constituted an abuse of process. A breach of directors' duties or fiduciary duties were *prima facie* corporate wrongs that were appropriately dealt with either through a direct action by the company or through a statutory derivative action. In the case of a corporate wrong, the proper plaintiff to address the corporate wrong would be the corporate body and it was thus incumbent on the claimant in an oppression action to go a step further and show how such a breach was also a wrong suffered by him in his capacity as a shareholder.[12]

7 The key to understanding the court's concern in *OHC* can be found in the following passage of the judgment:[13]

> In our view, the Judge was correct to reject the legal proposition proffered by OHC: namely, that a minority shareholder should be able to establish a personal wrong against himself merely by characterising the majority's breaches of their directors' duties as breaches of his own 'legitimate expectations' that directors should fulfil their legal duties to the company. If accepted, every allegation of a breach of director's duty *simpliciter* would be tantamount to *always* permitting a plaintiff to commence a minority oppression action, and this would obviate the distinction between personal and corporate wrongs. Indeed, this would, in the Judge's words, 'make nonsense of the proper plaintiff rule and the reflective loss principle' … [emphasis in original]

Thus, while the court did not rule out the prospect of corporate wrongs being the basis for an oppression action, it is not only

shareholder. As such, the court did not consider this issue that arose from the *obiter* remarks in *Ng Kek Wee v Sim City Technology Ltd* [2014] 4 SLR 723.

11 [2021] 2 SLR 262.

12 *Ong Heng Chuan v Ong Teck Chuan* [2021] 2 SLR 262 at [32].

13 *Ong Heng Chuan v Ong Teck Chuan* [2021] 2 SLR 262 at [55].

unclear when this will be proper but that there is also a high bar to surmount.

8 This author would respectfully suggest a different approach. The proper plaintiff rule would only apply if the oppression action did not encompass breaches of fiduciary duty. As previous cases have shown, such wrongs against the company can fall within the ambit of the oppression action. The difficulty with the more recent cases is that while acknowledging the possibility of such ambit, they shed little light on why breaches of duty either fall within or outside the scope of the oppression action.

9 Part of the reasoning is that since the introduction of the statutory derivative action, which imposes conditions on when leave may be granted to a complainant to bring such action,[14] an overly permissive interpretation of the oppression action is inconsistent with the safeguards set out before an application for a statutory derivative action can be commenced. It would allow the preconditions to such action to be bypassed. However, such reasoning does not take cognisance of the fact that when the statutory derivative action was enacted, Parliament did not see fit to amend the language of s 216 of the Companies Act.[15] It suggests therefore that the new statutory remedy is not meant to affect the breadth of the oppression action. In any event, the statutory derivative action is intended to make it easier to act on behalf of a company in a claim against wrongdoers and a rational plaintiff is unlikely to invoke the oppression action if the real relief being sought is a remedy for the company. Where the intention is to abuse the process of court, there are existing ways to deal with this without restricting the proper scope of the oppression action.

10 The reflective loss rule is also not a significant impediment depending on the relief being sought by the plaintiff in the oppression action.[16] The reflective loss rule is engaged if the

14 Companies Act 1967 (2020 Rev Ed) s 216A(3).
15 Cap 50, 2006 Rev Ed.
16 A point made in *Ho Yew Kong v Sakae Holdings Ltd* [2018] 2 SLR 333.

plaintiff is seeking compensation for what is essentially a loss suffered by the company.[17] As the company is a separate entity, such a claim should only be brought by the company. Thus, where a shareholder seeks compensation for the loss in value of her shares because of a wrong done to the company, such loss in value is merely reflective of a loss caused to the company; the root loss is the company's. The company is therefore the proper plaintiff and not the shareholder. However, if a minority shareholder asks to be bought out by the majority because the majority have committed breaches of fiduciary duty against the company, the minority shareholder is seeking a personal remedy against the majority and not attempting to obtain damages that should be the province of the company only.[18]

11 Focusing on whether an act such as the misuse of intellectual property assets is a corporate wrong may also be inconsistent with the proper approach to be taken in oppression actions. In the case of *O'Neill v Phillips*,[19] it was held that the English unfair prejudice remedy could be invoked where the defendant breaches an existing legal right, or unfairness is caused to the plaintiff based on a breach of an informal understanding or agreement between members of the company. If this is the proper test, the nature of the act is not in itself important but rather whether the act in question can be said to be contrary to a formal or informal understanding or agreement between the shareholders in question. While the court in *OHC* was of the view that a breach of directors' duties should not presumptively be contrary to any informal understanding by shareholders, it is suggested that this should indeed be the starting point. It is difficult to envisage that shareholders would implicitly agree to condone breaches of fiduciary duty. Indeed, the contrary is likely to be the starting point, leaving aside breaches of duty that are minor, inadvertent or easily remediable.

17 *Miao Weiguo v Tendcare Medical Group Holdings Pte Ltd* [2022] 1 SLR 884.
18 Even if the buy-out at fair value may be determined by the value of the shares if the breaches of duty had not taken place.
19 [1999] 1 WLR 1092.

12 In the recent decision of the English Court of Appeal in *Ntzegkoutanis v Kimionis*[20] ("*Ntzegkoutanis*") that involved intellectual property rights belonging to the subject company, the court held that it was not only in rare and exceptional circumstances that the court would permit an unfair prejudice petition[21] to proceed when it could otherwise be brought by way of a derivative action.[22] In *Ntzegkoutanis*, Coinomi Ltd was incorporated as a joint venture vehicle to exploit a cryptocurrency wallet "app". The plaintiff was the person who developed the app and transferred his intellectual property to the company. According to him, he was excluded from the management of the company over time. The defendant, Mr Kimionis, among other things incorporated another company, Coinomi Holdings Ltd ("Coinomi Cyprus"), which (a) applied to register the "Coinomi" trade mark with the United States Patent and Trademark Office; (b) gave instructions for ownership of the "coinomi.com" domain name to be transferred to Coinomi Cyprus; (c) and procured the transfer of the intellectual property in respect of the source code of the Coinomi app to Coinomi Cyprus.

13 In the plaintiff's unfair prejudice petition, he sought damages for Coinomi Ltd from Mr Kimionis, a declaration that Coinomi Ltd's property be held on a constructive trust for Coinomi Ltd as a result of the misappropriation, and an order allowing him to purchase Mr Kimionis' shares. At first instance, the compensation and constructive trust claims were struck out on the ground that it was only in a rare and exceptional case that the court would permit an application for relief in favour of the company to proceed by way of a shareholder's unfair prejudice action when it could be brought by a derivative claim. It may be noted that the buy-out remedy sought was not struck out even though the basis for the claim was founded on breaches of duty to the company.

14 In allowing the appeal, Newey LJ said that while the petitioner was seeking relief which, if granted, would benefit

20 [2024] Bus LR 339.
21 Companies Act 2006 (c 46) (UK) s 994.
22 Companies Act 2006 (c 46) (UK) s 260.

the company, he was asking for it in his own right rather than on behalf of the company. He was exercising his personal entitlement as a member of the company to apply to the court on unfair prejudice grounds pursuant to s 994 of the UK Companies Act 2006.[23] Newey LJ acknowledged that it could potentially be an abuse of process for a petitioner to claim relief in favour of the company by way of an unfair prejudice petition. He could not envisage any circumstances in which a petition claiming only such relief would be proper. The right course in such a case would be for the petitioner to seek permission to bring a derivative claim. An unfair prejudice petition could also be struck out as an abuse of process if, although it included a claim for relief which was available only in unfair prejudice proceedings (such as an order for the purchase of shares), it could be discerned that the petitioner was not genuinely interested in obtaining such relief and was, instead, trying to bypass the filter for derivative claims.

15 On the other hand, where an unfair prejudice petition sought both relief in favour of the company and relief that would not be available in a pure derivative claim, and the petitioner appeared to be genuinely interested in obtaining the latter, it would ordinarily be inappropriate to strike out either the petition or any part of the relief sought.[24] The other two members of the court agreed with Newey LJ.

16 Snowden LJ was prepared to go further. Section 260(1) of the UK Companies Act 2006 provides that it applies to proceedings "in respect of a cause of action vested in the company" and to proceedings "seeking relief on behalf of the company". Section 260(2) then goes on to state that such a "derivative claim" may only be brought under this Chapter or in pursuance of an order of the court in unfair prejudice proceedings. While Newey and Whipple LJJ were of the view that the petitioner's claim based on constructive trust and compensation under s 994 of the UK Companies Act 2006 was not a proceeding that sought relief on behalf of the company but was a claim for personal

23 (c 46)(UK).

24 A similar approach was set out in *Ho Yew Kong v Sakae Holdings Ltd* [2018] 2 SLR 333 at [119].

relief, they expressed the view that such claim was in respect of a cause of action vested in the company. Accordingly, the petition would have been barred under s 260(2) on this latter basis but could proceed on the former basis.[25]

17 Snowden LJ was of the view that neither basis would prevent the petitioner from seeking the unfair prejudice remedy. When the statutory derivative action was introduced, it was not the intention of Parliament to make any substantive change to the law. Under the previous s 459 of the UK Companies Act 1985,[26] it was open to a petitioner to establish that a breach of duty to the company was also unfairly prejudicial to such petitioner. Nor was there anything in the structure of the UK Companies Act 2006 to suggest that the codification of derivative claims was intended to affect the conduct of unfair prejudice petitions. Both the regimes for derivative claims and unfair prejudice petitions appear entirely separately in different parts of the Act.[27]

18 It is suggested that the reasoning of the court in *Ntzegkoutanis*, especially that of Snowden LJ, is preferable to the more restrictive approach taken recently by the Singapore courts, especially in *Sim City* and *OHC*.[28] Wrongs that are perpetrated against companies, including wrongs that involve the misuse of intellectual property rights, should *prima facie* be within the ambit of the oppression action provided that the plaintiff genuinely seeks personal relief even if part of the relief sought is for the benefit of the company.

25 *Ntzegkoutanis v Kimionis* [2024] Bus LR 339 at [36]–[37].
26 (c 6) (UK).
27 *Ntzegkoutanis v Kimionis* [2024] Bus LR 339 at [70]–[71].
28 The courts in Hong Kong have also taken this more restrictive approach, see *Re Chime Corp Ltd* (2004) 7 HKCFAR 546.