Published on e-First 11 March 2016

Case Note

TRADE MARKS, TERRITORIALITY AND TRUSTS

An Uncomfortable Trinity

Guy Neale v Nine Squares Pty Ltd
[2015] 1 SLR 1097

The recent December 2014 decision of *Guy Neale v Nine Squares Pty Ltd* by Singapore's highest court, the Court of Appeal, concerned trade marks that had been registered in Indonesia and Singapore. The governing law of the dispute, however, was Australian law as that was the stipulation in the partnership agreement. The judgment was decided based on Australian trusts law with seemingly little deference to the territorial limitation of the trade marks system. It is also unfortunate that this decision impacted on the outcome of another case that was related and affected the rights of assignees of the Singapore trade mark in a negative way.

Hannah **LIM** Yee Fen
BSc, LLB, LLM (Hons) (University of Sydney);
Advocate and Solicitor (Singapore);
Associate Professor of Business Law,
Nanyang Technological University, Singapore.

I. Facts

1 The facts of this case are somewhat convoluted and span numerous proceedings in more than one jurisdiction. At the centre of the dispute is a partnership which owns and operates a well-known restaurant, bar and club in Bali, Indonesia called Ku De Ta ("Ku De Ta Bali"). The name "Ku De Ta" is the brainchild of one of the founding partners, Arthur Chondros.[1] Chondros was also the partner who found a site for the development in 1999 but in order to establish the restaurant, Chondros sought the help of three investors and the four of them became the founding partners.[2]

2 In February 2000, the founding partners entered into an agreement entitled "Heads of Agreement" ("the 2000 HOA")[3] and on

1 *Guy Neale v Nine Squares Pty Ltd* [2015] 1 SLR 1097 at [11].
2 *Guy Neale v Nine Squares Pty Ltd* [2015] 1 SLR 1097 at [11].
3 *Guy Neale v Nine Squares Pty Ltd* [2015] 1 SLR 1097 at [12].

20 March 2001, the trade mark "Ku De Ta" was registered in Indonesia in Class 42 (restaurants, *etc*) with Kadek, one of the founding partners, named as the registered proprietor.[4] At the time of the trial, there were six partners in the partnership ("the Partnership"), including Chondros.[5]

3 Chondros was, however, a dissenting partner in relation to the proceedings and gave evidence for Nine Squares Pty Ltd ("Nine Squares"), the respondent in the appeal.[6] Nine Squares was set up by Chondros in January 2003 as a public company in the State of Victoria, Australia, but has since been converted into a private company.[7] Nine Squares had two equal shareholders and directors, Chondros and Daniel Ellaway, until 16 February 2010 when Ellaway resigned as a director of Nine Squares. At the time of the Singapore court trial, Ellaway was no longer a shareholder. Chondros had become a minority shareholder and there was a new majority shareholder.[8]

4 Under the terms of the 2000 HOA, Chondros would manage the daily operations of Ku De Ta Bali; initially, he drew a salary but in July 2003, the founding partners agreed that he would be paid a management fee instead of a salary.[9] They also did not object to Chondros using Nine Squares to help him as he deemed fit in relation to the running of Ku De Ta Bali.[10] So this is how Ellaway came to be involved in the operations of Ku De Ta Bali.[11]

5 Two trade marks bearing the name "Ku De Ta" were registered in Singapore by Nine Squares, the first on 16 February 2004 in Class 43 (restaurants, *etc*)[12] and the second on 30 June 2009 in Classes 9 (music) and 25 (apparel) ("the Singapore Marks").[13] The other three founding partners claimed that at the time, they had no knowledge of the trade mark registration in 2004.[14]

6 During 2009, the relationship between Chondros and Ellaway broke down over alleged wrongdoing by Ellaway. In an e-mail on 24 June 2009, Chondros insisted that Ellaway "should not enter into any

4 *Guy Neale v Nine Squares Pty Ltd* [2015] 1 SLR 1097 at [11].
5 *Guy Neale v Nine Squares Pty Ltd* [2015] 1 SLR 1097 at [5] and [6].
6 *Guy Neale v Nine Squares Pty Ltd* [2015] 1 SLR 1097 at [6].
7 *Guy Neale v Nine Squares Pty Ltd* [2015] 1 SLR 1097 at [7].
8 *Guy Neale v Nine Squares Pty Ltd* [2015] 1 SLR 1097 at [7].
9 *Guy Neale v Nine Squares Pty Ltd* [2015] 1 SLR 1097 at [13].
10 *Guy Neale v Nine Squares Pty Ltd* [2015] 1 SLR 1097 at [13].
11 *Guy Neale v Nine Squares Pty Ltd* [2015] 1 SLR 1097 at [23].
12 *Guy Neale v Nine Squares Pty Ltd* [2015] 1 SLR 1097 at [16].
13 *Guy Neale v Nine Squares Pty Ltd* [2015] 1 SLR 1097 at [18].
14 *Guy Neale v Nine Squares Pty Ltd* [2015] 1 SLR 1097 at [16].

agreements or incur any expenditure without [Chondros'] express written consent".[15]

7 On 29 June 2009, without Chondros' knowledge, Ellaway proceeded to have Nine Squares enter into a licence agreement with Chris Au giving a licence to Au to use the "Ku De Ta" trade mark in Class 43 within Singapore ("the Licence Agreement").[16] Au then on 23 November 2009 assigned his rights under the Licence Agreement to Ku De Ta SG Pte Ltd ("KDTSG"), a Singapore company which began to use the "Ku De Ta" name for an exclusive restaurant, bar, lounge and club which it operated at the high-end Marina Bay Sands development in Singapore ("Ku De Ta Singapore").[17]

8 Chondros discovered the existence of the Licence Agreement in February 2010 and disputed Ellaway's right to enter into the Licence Agreement through written letters to various parties.[18] As already mentioned, pursuant to this break down in relations, Ellaway resigned as a director of Nine Squares on 16 February 2010.

9 The refusal of Chondros to recognise the Licence Agreement led to KDTSG and Au commencing legal proceedings in April 2010 in Victoria, Australia, against Nine Squares seeking, *inter alia*, a declaration that the Licence Agreement was valid ("the Australian proceedings").[19] On 9 July 2010, the Australian proceedings were settled and terms of settlement included an affirmation of the Licence Agreement with slight variations.[20]

10 Ku De Ta Singapore was opened in September 2010 and in December 2010, the Partnership commenced proceedings in Singapore against KDTSG for, *inter alia*, an order to enjoin KDTSG from using the mark "Ku De Ta" and damages for passing off.[21]

11 In 2011, the Partnership started a separate action against Nine Squares, seeking a declaration that the Singapore Marks were held by Nine Squares on trust for the Partnership and in the alternate, the Partnership contended that the registration of the Singapore Marks ought to be invalidated.[22]

---

15 *Guy Neale v Nine Squares Pty Ltd* [2015] 1 SLR 1097 at [24].
16 *Guy Neale v Nine Squares Pty Ltd* [2015] 1 SLR 1097 at [25].
17 *Guy Neale v Nine Squares Pty Ltd* [2015] 1 SLR 1097 at [25].
18 *Guy Neale v Nine Squares Pty Ltd* [2015] 1 SLR 1097 at [25].
19 *Guy Neale v Nine Squares Pty Ltd* [2015] 1 SLR 1097 at [26].
20 *Guy Neale v Nine Squares Pty Ltd* [2015] 1 SLR 1097 at [26].
21 *Guy Neale v Nine Squares Pty Ltd* [2015] 1 SLR 1097 at [27].
22 *Guy Neale v Nine Squares Pty Ltd* [2015] 1 SLR 1097 at [27].

12 The two Singapore legal suits were heard together and this decision was the final appeal of the 2011 action against Nine Squares. The 2010 action against KDTSG, which also went on appeal to the same court, was subsequently handed down and was impacted negatively by this decision.[23]

II. The Court of Appeal's decision

13 The court considered the possibility of a trust existing through the creation of an express trust as well as through operation of a constructive trust for the Partnership, had Chondros caused Nine Squares to register the Singapore Marks in its name in contemplation of using them for a private venture to benefit himself. The court found that there was an express trust and a constructive trust.

14 The express trust issue will not be dealt with in this article as it relied heavily on the affidavit of Chondros in the Australian proceedings. There was significant unclarity in the actual wording of Chondros' affidavit, which unfortunately was not convincingly spelled out in the judgment due to the various redactions of the wording of Chondros' affidavit by the court. This case note will deal only with the constructive trust issue as it has significant bearing on the operation of the trade mark system.

III. The partnership agreement

15 The Court of Appeal noted that cl 13 of the 2000 HOA provided that the HOA was governed by the laws of the State of Victoria, Australia.[24] And in this part of the judgment, unfortunately, with respect, the court accorded undue weight to the opinion of the appellants' Victorian law expert, Raymond A Finkelstein QC, who is a former judge of the Federal Court of Australia.

16 Finkelstein testified that the 2000 HOA was an incomplete record of the founding partners' rights and obligations, and the conduct of the founding partners and all the surrounding circumstances needed to be considered in order to determine what other terms may have been agreed to by the founding partners.[25] It was on this basis that the court accepted that the name "Ku De Ta" and the corresponding goodwill

23 *Guy Neale v Ku De Ta SG Pte Ltd* [2015] 4 SLR 283.
24 *Guy Neale v Nine Squares Pty Ltd* [2015] 1 SLR 1097 at [71].
25 *Guy Neale v Nine Squares Pty Ltd* [2015] 1 SLR 1097 at [71].

were the property of the founding partners although it was not stated in the 2000 HOA as a term.[26]

17 All this appears well and good except that an important qualification was absent in both the lower court's decision and the Court of Appeal's judgment. Whatever implied term that existed regarding the name or mark "Ku De Ta" necessarily had to be confined to the country of Indonesia because of the very fact that trade mark protection is territorial in nature. The rights are confined to the country of registration. It would seem far-fetched and illusory for any implied term in the Partnership to include trade mark property in another country which does not yet exist and does not yet belong to the Partnership because the trade mark has not yet been obtained or, for that matter, even envisaged to be obtained.

18 This point of the territoriality of trade marks also seemed to be absent from the court's mind when it considered cl 1(1) of the 2000 HOA which defined "The Business" to mean "the restaurant business named 'Ku De Ta' to be carried out in Bali, Indonesia". The Court of Appeal conceded that this clause "seems clear that the term 'the business' pertained to the setting up and operation of Ku De Ta Bali specifically, and not explicitly to other 'Ku De Ta'-named ventures that might be established";[27] however, oddly, the court went on to say "[b]ut, this is not decisive of the issue".[28]

19 The court referred to the second affidavit of Finkelstein where he stated "that a business was rarely static, and that certain aspects of the business, including the types of activities undertaken, might change and so vary the Partnership agreement".[29] The court noted that the 2000 HOA was updated in 2009 without any change in the definition of "the business" to extend beyond the restaurant in Bali, but it then went on to hold that:[30]

> … this did not preclude the conclusion that the Founders intended that there would be shared involvement in any new "Ku De Ta"-named ventures and that they would all benefit from the exploitation of the "Ku De Ta" name in the future.

Both of these implied intentions that the court found require further consideration.

---

26 *Guy Neale v Nine Squares Pty Ltd* [2015] 1 SLR 1097 at [71].
27 *Guy Neale v Nine Squares Pty Ltd* [2015] 1 SLR 1097 at [72].
28 *Guy Neale v Nine Squares Pty Ltd* [2015] 1 SLR 1097 at [72].
29 *Guy Neale v Nine Squares Pty Ltd* [2015] 1 SLR 1097 at [73].
30 *Guy Neale v Nine Squares Pty Ltd* [2015] 1 SLR 1097 at [73].

20 First of all, it is difficult to see on what basis the court concluded this; whilst a business is not static, some nine years had passed between the 2000 HOA and the update in 2009. If it was the intention of the founding partners to extend beyond Ku De Ta Bali in Indonesia, the 2009 update would have been the ideal document to specify it. How else does one evince intention but from the face of clear words? Furthermore, even if one accepts the court's conclusion that the founding partners intended that there would be shared involvement in any new "Ku De Ta"-named ventures, these new ventures would necessarily have to be located only within Indonesia because the trade mark which the partners held is limited territorially and protected only in Indonesia.

21 The court did refer to an e-mail sent on 6 July 2007 by one of the founding partners, Neale, which stated that:[31]

> Any use of the Ku [De] Ta name by any partner for whatsoever reason must be approved by all partners. Any subsequent agreement must then be governed by a license agreement which details, *inter alia*, what royalties are to be paid to Ku [De] Ta Bali. Currently, no such arrangement is in force[.]

According to the court, this paragraph showed the intention of the founding partners to extend the "Ku De Ta" name or mark beyond Indonesia.[32] With respect, the paragraph makes no reference to any jurisdiction beyond Indonesia and cannot be interpreted as such. On the face of it, this paragraph only refers to the trade mark, which factually is registered in Indonesia, and also mentions the owner of the said mark, which is also based in Indonesia. It does not mention any other country. A natural interpretation of the paragraph would be cognisant of the fact that trade mark registration is territorial and that the paragraph is simply reiterating the Partnership's right to license the mark within Indonesia.

22 Secondly, the court's conclusion that the partners intended that "they would all benefit from the exploitation of the 'Ku De Ta' name in the future" is also overly broad. Any benefit arising from the exploitation can only apply to property that is partnership property. The only partnership property is the registered trade mark that the founding partners were aware of and which was the mark registered in Indonesia. The Partnership cannot simply intend to assert benefit from a trade mark or any other intellectual property that does not belong to the Partnership that may or may not exist in Singapore or in another country.

31 *Guy Neale v Nine Squares Pty Ltd* [2015] 1 SLR 1097 at [80].
32 *Guy Neale v Nine Squares Pty Ltd* [2015] 1 SLR 1097 at [81].

23 A case in point illustrating this was played out in Australia several decades ago. The US hamburger chain Burger King decided to enter the Australian market but the trade mark "Burger King" had already been registered by another entity operating a burger eatery. Consequently, the US company registered and used the trade mark "Hungry Jack's" instead, which it continues to use until today in Australia.[33]

24 If one were to accept the line of reasoning adopted by the Court of Appeal, then the owner of the US "Burger King" mark could just intend that they would benefit from the exploitation of the "Burger King" name in the future, regardless of whether that name is already trade marked by someone else in another country. In reality, this would be an empty and unreasonable and untenable intention.

25 The Court of Appeal overlooked the limitation of territoriality of trade marks in its reasoning. Just because the Partnership had by 2010 developed a successful business using the trade marked name in Indonesia does not give the Partnership automatic rights over the same name or mark in other jurisdictions.

IV. Constructive trust

26 The Court of Appeal's exposition on constructive trust began with a lengthy discussion of a number of UK trust cases but yet, when it came to application of the law, the court's decision had to be based on Victorian law.[34] It is unclear why the court did not refer to a single Australian case on trusts law or, for that matter, on breach of fiduciary duty, which the decision came to rest upon. A most relevant case on fiduciary duty would be the 1984 judgment of the High Court of Australia of *Chan v Zacharia*,[35] especially the judgment of Deane J.[36]

27 The reasoning of the Court of Appeal was based on the fact that Chondros, as a partner, owed fiduciary duties to the other partners and where there has been a breach of the fiduciary duty, any property so acquired would be held on constructive trust for the other partners. The court found that Chondros had breached his fiduciary duties by usurping a corporate opportunity that belonged to the Partnership[37] and

33 Andrew Terry & Heather Forrest, "Where's the Beef? Why Burger King is Hungry Jack's in Australia and Other Complications in Building a Global Franchise Brand" (2008) 28 Nw J Int'l L & Bus 171.

34 *Guy Neale v Nine Squares Pty Ltd* [2015] 1 SLR 1097 at [133].

35 [1984] HCA 36; (1984) 154 CLR 178.

36 *Chan v Zacharia* [1984] HCA 36 at [24]–[26]; (1984) 154 CLR 178 at 198–199.

37 *Guy Neale v Nine Squares Pty Ltd* [2015] 1 SLR 1097 at [133].

much of the discussion centred on the test for whether Chondros had taken a corporate opportunity which there was a "real or substantial possibility" that the Partnership would have pursued, having regard to its existing business activities and its stated aspirations.[38]

28 The problematic issue here is the court's assumption that the opportunity to develop the "Ku De Ta" name through registration of the trade mark in Singapore (and other countries) was a corporate opportunity that *belonged* to the Partnership. The assumption that the Partnership owns such an opportunity is to say that the opportunity to register the mark "Ku De Ta" in Singapore and other countries belongs to the Partnership and the Partnership alone. This is clearly erroneous as the opportunity to register the trade mark is not exclusive to the Partnership, unless the mark is a famous mark, but the issue of famous marks was not an argument raised or made out in this case.

29 It is also perhaps rather unfortunate that the Court of Appeal accepted the testimony of Finkelstein without referring to any relevant Australian cases on the usurpation of a corporate opportunity. The recent Federal Court of Australia case of *Links Golf Tasmania Pty Ltd v Sattler*[39] ("*Links Golf*") is instructive here. The dispute in *Links Golf* raised many questions regarding the scope of fiduciary duties and the Australian Federal Court thoroughly addressed each of the issues. Importantly, the court in *Links Golf* was careful to hold that the opportunity to develop Sattler's adjacent land into a golf course did not result from Sattler's fiduciary position at the plaintiff's company. The Federal Court on this point was following a series of cases which required that there be a causal connection between the fiduciary office and the receipt of the benefit.[40] While it was accepted that the opportunity resulted from the success of the plaintiff's business, the court found that the opportunity would have been available regardless of Sattler's connection with the plaintiff's company as director and Chief Executive Officer; hence, Sattler was not in breach of his fiduciary duty in this regard.[41] This is exactly the position of Chondros and the trade marks he caused Nine Squares to register in Singapore: the opportunity to register the trade marks in Singapore would have been available to Chondros and Nine Squares regardless of Chondros' connection with the Partnership.

30 There is one last aspect of the Court of Appeal decision which is disturbing and creates unnecessary uncertainty in the licensing of

38 *Guy Neale v Nine Squares Pty Ltd* [2015] 1 SLR 1097 at [133].
39 [2012] FCA 634.
40 *Links Golf Tasmania Pty Ltd v Sattler* [2012] FCA 634 at [523]–[526].
41 *Links Golf Tasmania Pty Ltd v Sattler* [2012] FCA 634 at [520]–[522].

intellectual property rights. The court held that the date at which to analyse whether there is a "real or substantial possibility" that the Partnership would pursue the corporate opportunity and thereby trigger the existence of a constructive trust does not need to be at the registration date of the trade mark.[42]

31 Accepting Finkelstein's opinion, the Court of Appeal decided the date of assessment can occur at any time.[43] So if a trade mark was registered in 2004 as it was in this case and at that time there was no "real or substantial possibility" that the Partnership would pursue the corporate opportunity, but by 2009, there was a "real or substantial possibility", the constructive trust would arise in 2009. In truth, this would present a nightmare for any licensee of a trade mark who would use the mark and develop the goodwill but with the possibility that one day sometime in the future, a constructive trust might arise and the wishes of the beneficiaries of the constructive trust could very well disrupt the business. This was the exact scenario faced by the assignee of the licence for the Singapore mark who operated the highly successful Ku De Ta Singapore.[44] This decision may have a chilling effect on businesses willing to accept trade mark licences.

V. Conclusion

32 The Singapore Court of Appeal had to decide based on Australian law but it is uncertain how much evidence was led by the respondents on Australian law and as such, it is understandable that the Singapore Court of Appeal may not have full knowledge of the relevant Victorian or Australian laws and cases. The court perhaps relied unduly on the appellants' one expert witness on Australian law and also overlooked the territorial limitation of the trade mark law system.

---

42 *Guy Neale v Nine Squares Pty Ltd* [2015] 1 SLR 1097 at [137].
43 *Guy Neale v Nine Squares Pty Ltd* [2015] 1 SLR 1097 at [137].
44 *Guy Neale v Ku De Ta SG Pte Ltd* [2015] 4 SLR 283.