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CASE NOTE – BREACH OF CONTRACT, BREACH OF FIDUCIARY DUTIES, AND PASSING OFF

Court of Appeal upholds High Court's dismissal of claims for breach of a written agreement, breach of fiduciary duties, and passing off, due to oral agreements in a joint venture gone awry

Tuitiongenius Pte Ltd v Toh Yew Keat and another [2020] SGCA 103

Background

The dispute in this case arose out of a breakdown of the relationship between one Mr Toh and one Mr Keng, who had entered into a joint venture in the private tuition business.

Between 2007 and 2009, Mr Toh established himself as a popular economics tuition teacher for Junior College (JC) students under the name "TuitionGenius". During this period, Mr Keng approached Mr Toh and suggested that they establish Tuitiongenius Pte Ltd ("**TGPL**") as a joint venture tuition business in order to take advantage of the reputation of "TuitionGenius". Mr Toh's account, which the Court of Appeal accepted, was that he and Mr Keng concluded an oral agreement (the "**Joint Venture Agreement**") to enter into a joint venture, using TGPL as their vehicle, under which:

- (a) Mr Toh would be free to continue to run his private tuition business and retain the revenue that it generated; and
- (b) Mr Toh would apply his expertise in private tuition to grow TGPL's business, and would participate in joint marketing activities with TGPL.

In 2010, Mr Toh registered a sole proprietorship, Economics at Tuitiongenius ("ETG"), in order to better organise his private tuition business. In 2014, Mr Toh incorporated Economics at Tuitiongenius Pte Ltd ("ETGPL") to corporatise his private tuition business. Mr Toh's account, which the Court of Appeal accepted, was that he and Mr Keng concluded another oral agreement (the "**Second Oral Agreement**"), under which:

- (a) Mr Toh was permitted to set up ETG in 2010 and incorporate ETGPL in 2014; and
- (b) Mr Toh would carry on teaching economics through ETG and ETGPL (collectively, the "**ETG Entities**") and retain the revenue generated thereby.

By late 2014, the relationship between Mr Toh and Mr Keng was deteriorating due to rumours that Mr Keng was having an extramarital affair with Mr Toh's mother, as well as mounting tensions between the members of the two families. On 1 October 2015, Mr Toh resigned as a director of TGPL and transferred his shareholding to Mr Keng. On 4 May 2016, TGPL commenced proceedings in the High Court against Mr Toh and ETGPL for:

- (a) Breach of contract;
- (b) Breach of fiduciary duties; and
- (c) The tort of passing off.

Breach of Contract

The Court of Appeal upheld the High Court's dismissal of TGPL's claim for breach of contract. TGPL's claim was based on the following terms in Mr Toh's written employment agreement (the "**Employment Agreement**"):

- (a) Clause 5, which provided that Mr Toh "*shall devote [his] best efforts and substantially all of the [his] working time to performing the duties on behalf of [TGPL]*", "*shall provide services during the normal business hours of [TGPL] as determined by TGPL*", and that "*[r]easonable amounts of time may be allotted to personal or outside business, charitable and professional activities and shall not constitute a violation of this Agreement provided such activities do not materially interfere with the services required to be rendered hereunder*", and
- (b) Clause 11, which provided that "*[d]uring employment with TGPL, [Mr Toh] will not do anything to compete with the Company's present or contemplated business*".

The Court of Appeal reiterated that a contextual approach should be applied to contractual interpretation, and held that the Joint Venture Agreement was admissible as extrinsic evidence to aid in the interpretation of the Employment Agreement. The Court of Appeal also noted that the Employment Agreement was not drafted by solicitors, but by Mr Toh, a young businessman who had just started his university education and who had attempted to prepare a legal document by working off a template he had obtained from the Internet. As such, a common sense approach should be adopted to determine the reasonable and probable expectations that the parties would have had, rather than seeking to analyse the Employment Agreement in an unduly technical and legalistic manner.

The Court of Appeal held that Mr Toh did not breach clause 5 of the Employment Agreement, as there was an express understanding under the Joint Venture Agreement that he could not only keep alive but continue to grow his private tuition business as a "*personal or outside business*" distinct from TGPL's.

The Court of Appeal held that Mr Toh did not breach clause 11 of the Employment Agreement. In light of the Joint Venture Agreement, the parties did not envisage their respective businesses cutting into each other. Further, Mr Toh's private tuition business complemented rather than competed with TGPL's business. Mr Toh was a key draw for TGPL in its effort to build its business because he provided his expertise and reputation in the tuition industry, and also presented business opportunities arising from his current students taking up tuition for other subjects offered by TGPL.

Breach of Fiduciary Duties

The Court of Appeal upheld the High Court's dismissal of TGPL's claim for breach of fiduciary duties. TGPL's claim was based on the following acts by Mr Toh:

- (a) Conducting a competing private tuition business through the ETG Entities; and
- (b) Training TGPL's staff to specifically promote Mr Toh's economics classes.

The Court of Appeal reiterated that a fiduciary cannot act for his own benefit without the informed consent of his principal. In this regard, Mr Toh had simply been acting in line with what had been agreed under the Joint Venture Agreement and Second Oral Agreement in respect of the co-existence of TGPL's and Mr Toh's respective businesses. The Court of Appeal also observed that TGPL's own success as a tuition centre was heavily tied to the growth of Mr Toh's own business: Mr Toh's popularity as a tutor helped to draw in students who might then go on to take classes in the other subjects for which tuition services were offered by TGPL at the primary, secondary, and JC level.

Tort of Passing Off

The Court of Appeal upheld the High Court's dismissal of TGPL's claim for passing off. The Court of Appeal summarised the background to TGPL's claim for passing off as follows:

- (a) Mr Toh started a successful private tuition business marketed using the "TuitionGenius" trade mark (the "**TG Mark**").
- (b) Mr Toh then teamed up with Mr Keng and incorporated TGPL to provide tuition services.
- (c) As part of their joint venture, the parties entered into the Joint Venture Agreement and the Second Oral Agreement, which allowed Mr Toh to continue to run his private tuition business through the ETG Entities and conduct joint marketing activities with TGPL. Mr Toh used the "Economics @ TuitionGenius" trade mark (the "**ETG Mark**"), when he marketed his tuition services through the ETG Entities.
- (d) After the relationship between Mr Toh and Mr Keng deteriorated, TGPL sued for passing off, claiming that the TG Mark was distinctive of its services and that Mr Toh's and ETGPL's use of the ETG Mark, which contains the TG Mark, diluted the latter.

Regarding the first element of goodwill under the tort of passing off, the Court of Appeal overturned the High Court's holding that there was no goodwill. The Court of Appeal noted that the High Court appeared to have been erroneously concerned with whether TGPL had acquired goodwill in the TG Mark itself, rather than whether there was goodwill in TGPL's business. The Court of Appeal found that there was sufficient evidence of goodwill in TGPL's business, as it has had a business presence in Singapore since April 2009, generated substantial revenue, and incurred substantial marketing and advertising expenses in the promotion of its tuition services.

Regarding the second element of misrepresentation under the tort of passing off, the Court of Appeal held that TGPL had not discharged its burden of proof under the threshold issue of whether its goodwill is sufficiently associated with the TG Mark, such that the TG Mark is distinctive of its tuition business. The Court of Appeal found that TGPL had marketed its tuition business predominantly under the "REAL Education Centre" trade mark (the "**REC Mark**"). Although there were instances where the TG Mark and REC Mark were featured alongside one another, thereby leading to some form of association, this was insufficient to show that TGPL's enrolled students, its prospective students, or their parents had identified the TG Mark as distinctive of TGPL's business. In any case, the Court of Appeal held that even if the TG Mark was distinctive of TGPL's business,

there was no misrepresentation, as TGPL had consented to Mr Toh's and ETGPL's use of the ETG Mark to market their business.

Regarding the third and final element of damage under the tort of passing off, the Court of Appeal found that TGPL had not shown any evidence, apart from a bare assertion of dilution, that Mr Toh had diverted any business from TGPL.

Key Takeaways

First, while it is generally advisable for agreements to be recorded in writing, if an oral agreement is being entered into, it would be helpful to make and keep evidence (e.g. notes or recordings) of the terms of the oral agreement, in the event that proof of their existence is required in legal proceedings. In this case, Mr Toh had taped a number of his conversations with Mr Keng, and the transcripts of the conversations suggested that Mr Keng knew that Mr Toh would continue his private tuition business after TGPL's incorporation, which aided Mr Toh in proving the existence of the Joint Venture Agreement.

Second, the Court reaffirmed the contextual approach to contractual interpretation as set out in *Zurich Insurance (Singapore) Pte Ltd v B-Gold Interior Design & Construction Pte Ltd* [2008] 3 SLR(R) 1029 and *Sembcorp Marine Ltd v PPL Holdings Pte Ltd and another and another appeal* [2013] 4 SLR 193, whereby extrinsic evidence is admissible only to illuminate the contractual language but not as a pretext to contradict or vary it.

Third, this case confirms that the element of goodwill under the tort of passing off is concerned with a finding of goodwill in the plaintiff's business as a whole, and not the goodwill in respect of any particular trade mark or get-up used. Whether the trade mark or get-up in question is distinctive of the plaintiff's business should be dealt with as a threshold issue under the element of misrepresentation.

The present dispute arose partially because the parties had not sought legal advice before entering into their business arrangement and had utilised a contractual template obtained from the Internet. It is important that proper legal advice be obtained to ensure that the parties' respective rights and obligations are fully fleshed out and expressed in the business agreement signed between them. This is especially pertinent given the Court's reaffirmation of the inadmissibility of extrinsic evidence to contradict or vary an existing written contract.

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