

# How to deal with infringement of Hong Kong registered design and patent rights



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## Intellectual Property Rights

Under the laws of Hong Kong, intellectual property rights ("IPRs") fall under 5 categories :

1. copyright<sup>①</sup>
2. registered design right<sup>②</sup>
3. patent right<sup>③</sup>
4. registered trade mark right<sup>④</sup>
5. passing off

The first 4 rights are governed by statute (written law) whilst the last one is mainly common law (case law).

An example of passing off can be found in the recent bank advertisement featuring an actor with hairstyle and clothing like the David Becham. The actor's eyes are blocked by dark shade and the public will not know for sure if that really was the famous footballer. Under passing-off law, if the football club to which David Becham belongs wants to take the bank to court, it will have to prove the viewing public will think it was David Becham who appeared in the advertisement. The chance of a successful claim, if a claim was really brought against the bank, would not be high because most of the viewing public would know it was an actor and not David Becham who appeared in the advertisement.

Hong Kong small and medium enterprises ("SME") in the industrial sector has always been export orientated and rely on the quality of its products as selling point. Cases concerning infringement of IPRs in Hong Kong in the past therefore rarely touch on infringement of registered trademark or passing off.

From past cases, we can see that most of them involve infringement of copyright and registered design right and out of the two, the number of cases involving infringement of registered design right outnumber that of copyright. That is partly because we have our own statute, the *Registered Design Ordinance*, and partly because we have our own registration system operated by our Intellectual Property Department.

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① Copyright Ordinance Cap 528  
② Registered Designs Ordinance Cap 522  
③ Patents Ordinance Cap. 514  
④ Trade Marks Ordinance Cap. 43

## Copyright

Unlike design, patent and trade mark rights which do not come into existence unless and until they are registered, SME will enjoy copyright in a copyright work (such as drawings, mould toolings etc created for and in the course of production of an industrial product) soon as the work is created without the need of registration so long as the work is created by using time and effort independently (i.e. without copying other products)<sup>⑤</sup>.

In the *Oriental Press case*<sup>⑥</sup>, a publisher infringed the copyright subsisting in a photograph of a famous pop star and belonging to another publisher by taking picture of the cover of a magazine of the other publisher which features that photograph. That publisher would not have infringed copyright if it had used photograph of the pop star taken by itself because its own photograph would then enjoy its own copyright.

Despite its lack of necessity for registration, much effort and time are needed to prepare the “copyright title” before SME can initiate the process of scaring off or bringing court action<sup>⑦</sup> against an infringer in copyright infringement. Preparing “copyright title” includes identifying the maker of the particular copyright work, locating the copyright works in question and recalling the process of creation. To avoid such time and effort, SME can base their anti-counterfeiting action on registered IPRs (such as registered design and patent) rather than copyright infringement. Once an IPR is registered, the owner of the registration can take action against infringers simply relying on the registration hence the time and effort needed for preparing “copyright title” in case the action is based on copyright infringement can be avoided.

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<sup>⑤</sup> University of London Press Limited v University Tutorial Press Limited [1916] 2 Ch 601; Interlego AG v Tyco Industries Inc [1988] RPC 343

<sup>⑥</sup> Oriental Press Group Ltd. & Another v Apple Daily Ltd. [1998] 2 HKLRD 976, [1997] HKLY 477

<sup>⑦</sup> There is a difference between scaring off and bringing court action. Scaring off need no court action. When infringing activities are founded, SME should take court action and warning letter conjunctively to maximize the threatening effect.

## Design Registration

More and more SME are taking advantage of design registration. Registration of the design of a product not only provides better promotion in marketing the product, it also allows the owner of the registration to obtain court order called injunction to stop the infringer from continuing the infringing activities<sup>®</sup>.

Generally speaking, SME apply for design registration for 4 reasons :

a) Promotion

IPRs registration promotes the SME to a certain degree. It's respect for IPRs will project the SME to its clients and its clients' clients as a sizable and sophisticated company

b) Trade Fairs (such as Toys Fair and Electronics Fair)

When faced with infringing products displayed in trade fairs, SME can make use of the registration and file complaint with the organizer, demanding infringers to withdraw the infringing products from the fair.

c) Seizure of infringing goods

Through certain procedures, SME can request Customs & Excise to seize suspected infringing goods until the outcome of resolving the complaint of infringement.

d) Presumption of ownership

Once registered, the law will presume the company registered as the owner of the registration to be the true owner of the design unless proved to the opposite.

More and more SME make use of IPRs registration as a cheap and quick means of enforcing their rights, to stop infringing activities and to protect their genuine products.

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<sup>®</sup>Registered Design Ordinance Section 25

## Patent Registration

There are 2 types of patent registrations – short-term patent<sup>⑨</sup> and standard patent<sup>⑩</sup>.

The registered owner of a patent, like the registered owner of a registered design, can apply to the Court to stop the infringer from further dealing in the infringing products by way of an injunction. The difference between the 2 types of registrations is that it is comparatively easier to challenge the validity of a patent hence preventing the registered owner of a patent from obtaining injunction within a short time<sup>⑪</sup>. To do this, the challenger will conduct a “prior art” search, searching for inventions coming on the market prior to the subject patent.

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<sup>⑨</sup> Patents Ordinance Section 113

<sup>⑩</sup> Patents Ordinance Section 10

<sup>⑪</sup> As a example of registered design challenged by a defendant : see *Samsonite Corporation v Make Rich Limited* [2001] 1137 HKCU 1

## Concerned Industries

Design registration is more commonly adopted by SME in these industries to protect their rights :

- a) toy
- b) gift and premium
- c) electronics
- d) watch and clock<sup>②</sup>
- e) jewelry

Unlike in an action based on copyright infringement where the copyright owner needs to spend money in preparing its case before it can commence action, all the SME needs to do in enforcing its design registration right is to produce the Certificate of Registration. Another advantage of action based on registered design over copyright is that in copyright claim, "I didn't know" is a reason of defence to the infringer but such defence is not available in a registered design claim.

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<sup>②</sup> The watch industry rarely register the design of the entire watch because if the infringer only copies part of the watch (e.g. only the casing but not the belt), there might be some difficulty in proving copying of the entire design.

## Related Laws

On the return of sovereignty on 28 June 1997, Hong Kong stopped relying on UK laws and started to have its own laws on registered design and patent.

Prior to the coming into effect of the *Intellectual Property (Miscellaneous Amendments) Ordinance* on 1 April 2001, Customs & Excise's prime targets are private computer software and VCD. After the coming into effect of that law, the scope of protection provided to IPRs owners were much extended, particularly in conjunction with the provisions under sections 118 and 120 of the *Copyright Ordinance* (which concerns criminal liabilities). Those laws however received much opposition from the public and on 22 June 2001, the *Copyright (Suspension of Amendments) Ordinance* came into effect, suspending until 31 July 2004 the operation of the *Intellectual Property (Miscellaneous Amendments) Ordinance*. It should therefore be aware that unless the Government announces in Government Gazette differently, the *Intellectual Property (Miscellaneous Amendments) Ordinance* would come into operation after that day.

## Discovery of Infringing Acts

From our experience, SME discovers infringing acts<sup>⑧</sup> mostly through any of these 3 means:

- a) Infringing products displayed at a trade fair or featured in a trade magazine
- b) Infringing products marketed on the local market
- c) Infringing products marketed on the overseas market

Through whichever means, SME should take immediate action against such infringing acts, not just to protect its own interest but also that of its agent.

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<sup>⑧</sup> Registered Design Ordinance Section 31 ; Patents Ordinance Section 73 and 74

## 2 Ways to deal with Infringing Acts

SME will take either of these actions against infringers:

- a) issuing warning letter<sup>④</sup>
- b) bringing court action for injunction and other ancillary relieves<sup>⑤</sup>

Before taking whichever action, SME should consider its amount of investment on the particular product, the infringer's level of activity on the market and financial background.

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<sup>④</sup> E. W.

<sup>⑤</sup> Issue warning letter can not punish the infringer in any way. Plaintiff needs to go through the court procedure to make the infringer civilly liable.

## Issuing Warning Letter

A number of SME react to infringing acts by sending warning letter to the infringer immediately after discovering the acts. Usually 5 demands are made in the letter :

- a) promise from the infringer not to deal in the infringing goods
- b) promise from the infringer to deliver up the infringing goods
- c) promise from the infringer to disclose details of past infringing acts
- d) the infringer to pay damages to compensate the SME's losses
- e) the infringer to pay the SME's legal costs

If the SME is on the receiving end, it should find out from the letter on what grounds the complaint is based. If the complaint is based on registered design or patent, the SME can demand the complaint to be stopped by claiming the complaint was groundless<sup>®</sup>. If the complaint was based on copyright, the SME can rely on the common law to demand the complaint to be stopped.

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<sup>®</sup> Registered Designs Ordinance Section 57; Patents Ordinance Section 89

## Reaction to Warning Letter

Roughly about 90% of the recipients of warning letter (not necessarily being infringers) tend to agree stop trading in the complaint goods. Depending on how the demand was framed, roughly about 30% of the recipients are willing to pay for the complainant's loss and damages<sup>®</sup>. To put pressure on the recipient to settle, sometimes it is necessary to further send a draft Writ threatening to take out Court action if no settlement is reached.

This is only a superficial analysis of the recipient's reaction. How a recipient will react really depends on the recipient's amount of interests involved

- a) If the amount of interests involved is small (e.g. only just started trading in the infringing product and has only a few samples), the recipient will more likely to surrender to the demands
- b) If the amount of interests involved is big (e.g. started trading in the infringing product for over 6 months and already has a group of established customers), the recipient will more likely to challenge the demands or pretend to surrender but continue to deal with the infringing product behind the back.

When a recipient decides to challenge a registered design, it will usually demand to see the Certificate of Registration to compare its products with the subject matter of registration. If the subject matter appearing in the Certificate is a finalized product, it is most likely that it had been launched on the market and in that case, the recipient will look for differences between its product and the finalized product of the complainant. If the subject matter appearing in the Certificate is a prototype, the recipient will look for differences between the design of the prototype and the design of the actual product on the market.

When a recipient decides to challenge a patent, it will most likely look for aspects of the patent which were not new at the time of registration of the patent (e.g. the subject patent copied feature or features already available

before the registration of the patent). Some SME misunderstands it must issue warning letter to the infringer before bringing court action against the infringer. IPRs give the SME the right to bring court action without having first issued warning letter. About 60% to 70% of all court cases in Hong Kong start without warning letter.

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<sup>⑯</sup> Registered Designs Ordinance Section 51 to 54 ; Patents Ordinance Section 80 to 82

## Civil Proceedings®

Most plaintiffs in court actions involving infringement of IPRs will claim for these relieves :

- a) permanent injunction<sup>(9)</sup> which is a court order stopping the defendant and the defendant's directors etc from further infringing the IPRs<sup>(10)</sup>
- b) delivery up order which is a court order requiring the defendant to hand up all infringing products and mould toolings
- c) disclosure order which is a court order requiring the defendant to disclosure details of past infringement
- d) damages order which is a court order requiring the defendant to compensate the plaintiff's loss
- e) costs order<sup>(11)</sup> which is a court order requiring the defendant to pay the plaintiff's legal costs in the action

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<sup>(9)</sup> There is only civil but no criminal liability for infringement of registered design or patent. There is civil liability in copyright and trade mark infringement and passing off cases. Still, even faced with criminal prosecution, the defendant is able to raise certain defences provided under the relevant statute.

<sup>(10)</sup> Please refer to Order 52 of the Rules of High Court regarding "committal proceedings"

<sup>(11)</sup> Once a court order is granted, the defendant or its directors will be in breach of a court order if it continues the infringing acts or fails to perform the acts required under the order. If that happens, the defendant will be in contempt of the Court and liable to be committed by the Court to imprisonment for such breach. But a condition before the Court will commit a defendant/its directors is that a copy of the court order endorsed with notice to the defendant warning it that breach of the court order might amount to contempt of court is served on the defendant. The service of a court order endorsed with penal notices is therefore vital to bringing a defendant under committal proceedings.

<sup>(12)</sup> Order 62 of the Rules of High Court

## Defendant's Reaction to Court Action

Close to 90% of all defendants will immediately after receiving the Writ withdraw the infringing product and about of all defendants will tend to settle.

Notwithstanding that, most defendants tend to disagree paying the plaintiff's damages and costs. With cases handled by legal advisers, most defendants who adopt delay tactics will be able to drag the cases on for a long time without end.

With the less adventurous defendants, they tend to surrender to all claims immediately after receiving the Writ. This is due to pressure behind from their clients. After knowing a complaint, the clients will stop ordering the infringing goods from or paying for outstanding money to the defendants hence putting pressure on them to settle. From the point of view of the plaintiff, the plaintiff can demand for a more reasonable sum of damages.

## To sue or not to sue

Most toys have a short market life span, be it a fancy toy car or a fashionable toy doll. Most toys nowadays have a life span of 3 to 5 years after launching on the market. It will be 1 to 2 years afterwards when the plaintiff discovers infringing product on the market. If the court action takes another 2 years, the toy will have reached the end of its market life. It will therefore be meaningless to protect a short lived toy by spending 2 years or more in claiming a permanent injunction. It is not therefore advisable to start a court case if it cannot be finished within a relative short period of time.

The next question is : can the plaintiff seeks damages from the defendant<sup>②</sup>? In many cases the defendant is only a small company or even an empty company. Of course, if the sum involved is in the range of \$200,000, the chance of claiming that sum back is high. If the sum the plaintiff tries to claim back is in the range of millions, the chance of recovering is then a matter of luck. Sometimes it is still worth to start a court action even faced with an empty company – just to obtain an injunction to stop the damage to sales. In other cases, an action against an empty company as the 1st defendant can be brought by bringing in the director as the 2nd defendant.

The ultimate question is therefore : Is there any way to quickly obtain the 5 relieves mentioned in paragraph 11? The answer is : yes. Court cases involving infringement of IPRs rarely ended by spending the full 2 years. Most of them ended by obtain final victory by way of "summary judgment"<sup>③</sup>. If successful, a plaintiff can obtain final victory within 3 to 4 months after issuing Writ.

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<sup>②</sup> Registered Designs Ordinance Section 51 to 54 ; Patents Ordinance Section 80 to 82

<sup>③</sup> Order 14 of the Rules of High Court

## Interlocutory (temporary) injunction

Under special circumstances (e.g. the chance of obtaining judgment within 2 to 3 months by way of summary judgment is not high), a plaintiff needs to and should apply for interlocutory (temporary) injunction to stop the defendant from further dealing in the infringing goods.

Injunction will usually be granted after full trial (which will take 2 or more years) or summary judgment. Does it mean a plaintiff needs to wait such a long time to obtain an injunction ? The answer is : no. If the plaintiff will suffer irreparable damages (i.e. damages that can not be compensated by payment of damages<sup>④</sup>), the plaintiff can apply to the court for an interlocutory injunction at the same time or shortly after issuing the Writ.

The plaintiff can apply for interlocutory (temporary) injunction under 3 circumstances :

- a) without giving the defendant the chance of appearance at the hearing<sup>⑤</sup>
- b) informing the defendant but still without giving it the chance of appearance at the hearing<sup>⑥</sup>
- c) giving the defendant the chance of appearance at the hearing

These 3 different ways of application will take approximately 2 days, 10 days and 2 months respectively.

If an injunction is obtained, not only will the defendant's infringing acts be stopped, it will further be ordered to deliver up and disclose. The plaintiff will also have to chance to claim against those who bought the infringing goods from the defendant.

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<sup>④</sup> Anton Piller KG v Manufacturing Processes Ltd & Others [1976] 1 All ER 779

<sup>⑤</sup> Anton Piller KG v Manufacturing Processes Ltd & Others [1976] 1 All ER 779

<sup>⑥</sup> Order 29 Rules of High Court

## **Summary Judgment<sup>②</sup>**

Most plaintiffs of cases based on registered design expect the cases to be able to take advantage of summary judgment to end it quickly with an injunction otherwise the life span of the genuine product will be affected and the costs of the genuine product will drop.

To deal with those fly-by-night defendants, it is more important to be able to obtain a quick judgment by way of summary judgment.

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<sup>②</sup> Order 14 Rules of High Court

## **Liability of a company limited**

Directors usually do not incur personal liability unless under special circumstances. Careful planning and detail investigation are needed before a plaintiff can prove such special circumstances.

More and more cases in the High Court of Hong Kong involve a director named as the 2nd defendant in an action against the company named as the 1st defendant. Under the law, the plaintiff will need to prove personal involvement of the director and that he "knew" that his involvement meant infringing others' IPRs.

As a tactical move, it is advantageous to bring in a director as one of the defendants. The risk of having to bear personal liability will make that director more likely to settle with the plaintiff the action against the company.

## When the Infringer is an Exclusive Agent

Before starting a court action, a plaintiff needs to collect evidence of the defendant's infringing activities through different channels. Some through trade associates, overseas agents and some through private investigator.

Through whatever channel, about 90% of plaintiffs are able to collect evidence of infringement (e.g. samples and sale invoices). That is probably because most defendants operate by way of "open trade".

In some situations, the plaintiff will not be able to collect such evidence and that is when the defendant is the exclusive agent of an overseas company. For this reason, the infringer need not promote the infringing product through its website or advertisement. In these situations, not even private investigators can assist. The only way is to go through the ultimate overseas buyers.

## The Defendant's Defence

Defendants in IPRs cases usually adopt these defences :

- a) If the defendant is a new company or an empty company, it will tend not to defend at all. In these cases, the plaintiff can obtain final judgment as quickly as in 5 weeks.
- b) If the defendant is a partnership or is a well established company limited, the defendant will tend to wait and look for weakness in the plaintiff's case and if it finds such weakness, it will challenge the case and try to drag it on without end. From the plaintiff's point of view, it must prepared the case to its best before starting it.
- c) If the defendant after investigation finds out it will definitely lose the case, it will tend to settle. If no settlement can be reached by way of direct negotiation, it will try to look for friends in the trade to mediate. Such case will eventually settle.

## The Defendant's Defence – Registered Design case

In registered design cases, defendants usually raise either of these as a defence

- a) the design of design(s) similar to that of the subject registration appeared on the market before the date of registration<sup>(8)</sup>.
- b) the subject matter of registration is not an "article"<sup>(9)</sup> within the meaning of the *Registered Designs Ordinance*

The "article" registered in the Samsonite case is a suitcase case with wheels. Although the design of the wheels was valid, the suitcase was on the market before the date of registration hence invalid. This invalidity renders the registration of the entire "article" invalid. The defendant was therefore successfully revoke the registration of that design hence defend the case.

SME should therefore pay great attention to what can be registered. At the same time, SME should not threaten others of infringement of registered design when it is well aware that there are problems about the registration.

There is a way to solve the above problem. The laws and regulations require the entire "article" be sold separately onto the market. The SME should therefore sell the part of the "article" which is new by its subsidiary to the mother company then the mother company selling the entire "article" onto the market.

With civil cases involving patent, the defendant will usually defend by claiming the patent not valid by reason of features of that patent available before registration. Given its high level of technicality, it is very difficult to obtain final judgment by way of "summary judgment". In other words, a plaintiff will not be able to obtain injunction within 3 to 4 months unless it can successfully apply for interlocutory injunction.

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<sup>(8)</sup> Registered Designs Ordinance Section 5

<sup>(9)</sup> Registered Designs Ordinance Section 2

## The angel/devil client

Speaking from our experience, about 60% of all infringers are the SME's clients.

When a client receives sample of a new product, it will start to bargain for a lower price. If the bargain fails, the client will shift the order to another supplier. To win respect from its clients, the SME needs to make statements to its clients stating there are no infringing products on the market, implying warning to its clients not to shift orders to other suppliers.

About 30% of infringement originates from other suppliers which aim at the lucrative market of the genuine product and copied it from head to toe. When faced with such an infringer, the SME should take no mercy and give the infringer a fatal blow.

There is another kind of infringer and that is the sole agent of overseas buyer. To deal with those infringer, please refer to paragraph 17 above.

## Anti-Counterfeiting Reputation

So long as SME remains in the market, it will have to build up an anti-counterfeiting reputation to scare off infringers and potential infringers. This reputation is one of the keys to the success of any new product. Without such reputation, infringers will copy the SME's new product without 2nd thought. If the SME does not take up right measures quickly, the price and the life of the product will drop to a hopeless level. To build up a reputation, SME should aim to strike down a number of notorious infringers.

Another point to remind SME is that the aim of litigation is not just to obtain injunction but to recoup costs and claim for damages. No SME can finance its own anti-counterfeiting campaign endlessly. To ensure such a campaign running to its maximum, SME should bear in mind the chance of recouping costs and damages. Once an anti-counterfeiting reputation is established, the SME will be able to protect the price and market life of its products.

## Frequently Asked Questions

Q1 : Do warning letter work against chain stores ?

A1 : SME should send warning letter to chain stores, demanding them to provide information about the suppliers so to be able to take action against the real culprits.

Q2 : How to protect a product when parts of it are new and parts not ?

A2 : In reality, if parts of a product are not new, others tend not to copy those parts. If those parts are functional, registration of the design is not be an appropriate measure of protection. Those parts will still be protectable under the copyright regime (e.g. a switch inside a electrical transformer) but the difficult part is to prove knowledge on the part of the infringer.

Q3 : What is the budget for a court action involving IPRs ? (SME are usually cash tight)

A3 : It really depends on the SME's needs, aims, chance of success of the case and the amount of time which takes to obtain judgment. Court cases based on registered designs are less costly whereas court cases based on other IPRs are more expansive. SME should consider issuing warning letters which is the most economical.

Q4 : What steps should be taken against infringer when a product of short life span is involved ?

A4 : If there is no any foreseeable ground of defence, the plaintiff should consider summary judgment to shorten the length of litigation. If the Defendant wish to defend in such case, it only thing is can say is that the infringing product or some product other than the genuine product appeared on the market earlier than the genuine product but that it risking itself for a charge of perjury.

Q5 : What is the extent of liability between a seller of infringing product and its supplier ?

A5 : If the IPR involved is registered design, action can be taken against the supplier. If the IPR involved is copyright and the supplier was made aware of the copyright before, action can be taken against the supplier. If the seller and the supplier are related, then action can be taken against both companies.

## Notes For the relevant Cases

**University of London Press Limited v University Tutorial Press Limited [1916] 2 Ch 601**

**Interlego AG v Tyco Industries Inc [1988] RPC 343**

In general, copyright only subsists in a work if the work is original (section 2(1)(a) of Copyright Ordinance). There is no definition in the Ordinance of the word original but the statement of the law by Peterson J in University of London Press Limited v University Tutorial Press Limited, said in Interlego AG V Tyco Industries Inc to be a classic statement, explains the concepts:

*"The originality which is required relates to the expression of the thought. But the Act does not require that the expression must be in an original or novel form, but that the work must not be copied from another work ---that it should originate from the author."*

**E.W. Savory Ltd v The World of Golf Ltd [1914] 2 Ch 566**

**Oriental Press Group Ltd. & Another v Apple Daily Ltd. [1998] 2 HKLRD 976, [1997] HKLY 477**

A Plaintiff whose copyright is infringed has a right to an order of the Court restraining the infringement, and is not prevented from exercising his rights by an offer of the infringer before action that he will promise not to do it again and will pay such damages as may be agreed upon. If such an offer is repeated after writ issued, with the addition of an offer to submit to an order and pay costs to date, the plaintiff may be deprived of any subsequent costs.

**Anton Piller KG v Manufacturing Processes Ltd & Others [1976] 1 All ER 779**

The case establishes that there are three essential pre-conditions for the making of an Anton Piller order:

- (1) there must be an extremely strong *prima facie* case;
- (2) the damages, potential or actual, must be very serious for the plaintiff; and
- (3) there must be clear evidence that the defendants have in their possession incriminating documents or things, and that there is a real possibility that they may destroy such material before any *inter partes* application can be made.

An application for an Anton Piller order has to be made *ex parte* because of urgency and the necessity to take the defendants by surprises.

**Samsonite Corporation v Make Rich Limited [2001] 1137 HKCU 1**

An article means any article of manufacture and includes any part of an article if that part is made and sold separately. It is not sufficient that the part concerned is made and sold simply as a spare part for the greater article; it must in addition have an independent life as an article of commerce and not be merely an adjunct of some larger article of which it forms part.

Both the manufacture and sale of the part in question must be operations which are distinct from the manufacture and sale of the whole article of which the Part forms a component.

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