

## Patent Infringement or Not? (RE: High Court Action, no. 1371/2011)

On 12<sup>th</sup> August 2011, Sze Hing Loong, a Hong Kong famous snack food supplier, filed a Writ of Summons (High Court Action, no. 1371 of 2011) against Foon Tai Trading Company Limited for passing off. In gist, the plaintiff claims that the defendant adopted packaging which is confusingly similar to the plaintiff's packaging.

**Plaintiff's Packaging**



**Defendant's Packaging**



**Q:** Will the plaintiff succeed at trial? (bennykong@bk.com.hk)

- Benny Kong & Yeung is a firm of solicitors established in 1996 and practices in Intellectual Property laws.
- In the past 5 years, Benny Kong & Yeung has constantly been one of the top 3 law firms in Hong Kong in term of number of institution of IP Court actions.
- Since 1996, Benny Kong & Yeung has handled more than 500 IP litigation cases in Hong Kong.
- Benny Kong & Yeung also ranks amongst the top 16th firms in Hong Kong in term of volume of e-filing with the Intellectual Property Department of Hong Kong in 2011 (www.ipd.gov.hk).
- Mr. Benny Kong, is the vice chairman of the Hong Kong Intellectual Institute of Patent Attorneys Association (www.hkpa.org.hk).

Expert Evidence—  
Validity of Patent  
Registration

Page 2 to Page 3

Copyright Ownership of  
Tooling—Physical  
Ownership of Tooling

Page 3 to Page 4

Provisional Injunction  
Order—Undertaking by  
Plaintiff

Page 4 to Page 5

Criminal litigation first—  
Civil litigation later

Page 5 to Page 7

Effect of Cease and  
Desist Letters—Power  
of Litigation

Page 7 to Page 8

This Newsletter is published and written by Benny Kong & Yeung, Solicitors, as a service to clients and friends. If you would like to have a copy of this Newsletter, please contact:

**Ms. Alice Liu**

T: (852) 3105 5166

E: aliceliu@bk.com.hk



## **Expert Evidence — Validity of Patent Registration**

Base on patent registration, the owner can sue infringers who sell products containing the registered patent.

As long as the owner can prove that the infringing product has all features of an independent claim in the Patent, the registered owner has a prima facie winning case and may win the case within 3 months of the commencement of litigation by means of summary judgment. However, if the infringer challenges the validity of the Patent, and provides some evidence of Prior Art, trial becomes necessary.

### **Challenging the validity**

Once the infringer challenges the validity of the Patent, expert evidence will not be evitable. Expert includes Registered Patent Agents and Registered Patent Attorneys. If the registered owner does not present produce expert evidence, it is likely that the infringer can successfully challenge the validity of the Patent. Hence when a Patent is being challenged, the registered owner has to show to the Court evidence from patent attorneys and/or agents to support the validity of its Patent.

### **Two Experts**

In researching for expert evidence, the owner has to consider the following factory:-

1. Find the suitable patent attorney and/or agent :-  
The patent registration system in Hong Kong is a Re-registration System. This means that the registered owner has to first register the Patent in a specified country and then register it in Hong Kong. Specified country includes European countries, HK and China. Hence in preparing expert evidence, the owner should find the patent attorney and/or agent qualified in the specified countries.
2. Find a suitable expert in the same industry:-  
When facing a challenge of validity, the infringer would usually attack that the registered patent lacks :-
  - (a) novelty; and
  - (b) inventive step.

When necessary, the registered owner has to find an expert experienced in the relevant industry to prove that the Patent has novelty and inventive step before filing of the application for registration.



In proving and challenging the validity of a registered patent, the claims of the Patent will be carefully examined and discussed.

## **Settlement**

From experience, in order to avoid the chance of revocation of the Patent, the registered owner tend to settle the litigation with the infringer with lenient terms.

## **Copyright Ownership of Tooling — Physical Ownership of Tooling**

When a Hong Kong company and an overseas company cooperate and jointly develop a new product, they will invest time and effort in developing and marketing the new product. However, they often have neglected the following potential problem:-

***"After the cooperation between the Hong Kong company and the overseas company has ended, whether the Hong Kong company can keep the tooling and whether the Hong Kong company can use the tooling to manufacture the new product?"***

### **Copyright belongs to the overseas company**

Under the work model of ODM, the Hong Kong company has no right to use the tooling to manufacture the new product. This is because the copyright to the design on the tooling belongs to the overseas company. If the Hong Kong company without the consent of the overseas company (either before or after the cooperation) use the tooling to manufacture the new product, it infringes the copyright of the overseas company. However, the Hong Kong company can keep the tooling and does not have to return the tooling to the overseas company.

### **Tooling**

If the overseas company has never paid any tooling fee to the Hong Kong company, then the Hong Kong company has the right to keep the tooling. Even if the overseas company requests the Hong Kong company to return the tooling, the Hong Kong company can refuse to do so. This is because the physical ownership of the tooling belongs to the Hong Kong company.

The above scenario usually happens where the overseas company wants to save costs and



the Hong Kong company wants to earn an extra business. In developing a new product, both parties may not agree on the tooling fee. Without specifically mentioned, the development expenses (including the tooling fee) would be reflected in the invoice of the first batch of the new product. Naturally, the Hong Kong company will pay for the tooling fee. For this reason, the Hong Kong company has the right to refuse to return the tooling after the end of cooperation.

It is likely that the overseas company would send letters to the Hong Kong company after their cooperation to:-

1. Request the Hong Kong company to return the tooling to the overseas company;
2. Remind the Hong Kong company that the copyright of the new product belongs to the overseas company; and
3. Request the Hong Kong company to stop marketing and selling the new product.

Although the Hong Kong company can refuse to return the tooling, it should not market and sell the new product.

## **Agreement**

From experience, unless the Hong Kong company and the overseas company have clearly stipulated their respective rights and duties in an agreement before they cooperate, it is likely that the rights and duties will be disputed after end of cooperation. Sometimes the dispute would involve a third party - the final customer of the new product.

To avoid unnecessary disputes, we suggest that the companies should execute an agreement stipulating the rights and duties of the parties.

## **Provisional Injunction Order — Undertaking by Plaintiff**

To prevent irreparable financial losses, the intellectual property owner can consider applying to the Court for a Provisional Injunction Order.

### **Provisional Injunction Order**

The intellectual property owner can rely on Order 29 of the High Court Ordinance (Cap 4) and the Inherent Jurisdiction of the Court to ask for a Provisional Injunction Order. If successful, the Court will make the following orders :-



1. Provisional Injunction Order to terminate the infringing activities of the Defendant immediately;
2. Delivery Order to request the Defendant to deliver all infringing products and relevant documents to the Plaintiff;
3. Disclosure Order to request the Defendant to disclose to the Plaintiff the sources and buyer information of the infringing products.

## **Undertaking by the Plaintiff**

Provisional Injunction Order is also described as the Litigation Bomb: through it, the Plaintiff can within short period successfully terminate infringing activities and protect the product. However, it is usual that the Plaintiff has to, at the time when the Provisional Injunction Order is granted, undertake to the Court that: if the Plaintiff loses the litigation, at trial it has to compensate the Defendant for any losses incurred.

## **4 requirements**

Apart from the ability and the need to give the above undertaking, the Plaintiff has to meet the following 4 requirements:-

1. The Plaintiff has a prima facie strong case;
2. The Provisional Injunction Order is urgently needed;
3. The Plaintiff will suffer from irreparable damages; and
4. The Plaintiff will suffer greater inconvenience the Defendant if the Provisional Injunction Order is not granted.

From experience, unless the Plaintiff does not have intellectual property, it is not difficult to meet the 1st requirement. As to the 2nd requirement, depending on circumstances, the Court basically would accept that the application for Provisional Injunction Order is made 2 months after Plaintiff's knowledge of the infringing activities.

Regarding the 3rd requirement, the Plaintiff has to prove that if the Provisional Injunction Order is not granted, it will suffer from irreparable damages. For example, that the infringing product is dangerous to human health or can cause personal injuries, that the Plaintiff's reputation will be damaged, or that the Plaintiff's customers will stop purchasing the Plaintiff's products. To support these, the Plaintiff has to provide substantial evidence (and imagination too).

The 4th requirement will usually be considered and established with the 3rd requirement. The Plaintiff has to submit to the Court that if the Provisional Injunction Order is not granted, the Plaintiff will suffer greater inconvenience than the Defendant. Sometimes, the Plaintiff will be hindered. When the Defendant opposes the application of the Provisional Injunction Order, the Plaintiff has to work harder. The Plaintiff and the Defendant will each present to the Court evidence to prove their potential inconvenience.



## **Delaying the litigation process on purpose**

Some Plaintiffs would delay the litigation process on purpose after the Provisional Injunction Order is granted. This is very dangerous especially after the civil justice reform since 2 April 2009, the Court is harsh on static litigation.

If the Plaintiff conducts the litigation unreasonably, upon the application of the Defendant, the Court may dismiss the Plaintiff's litigation. If this happens, the Plaintiff has to pay for the legal costs, and also has to act in accordance with the above undertaking - compensate for the Defendant's losses.

The Plaintiff should only consider applying for the Provisional Injunction Order if necessary.

## **Criminal litigation first — Civil litigation later**

According to section 118 of Copyright Ordinance (Cap 528) and/or section 9(2) of Trade Description Ordinance (Cap 362), the Hong Kong Government has the right to prosecute persons who possess or sell infringing products without the consent of the intellectual property owner. On conviction, the infringer would have criminal record, be imprisoned (or suspended sentence) and/or fined. After criminal prosecution, the intellectual property owner may pursue civil action against the infringer. Civil prosecution

Based on the evidence in the criminal prosecution, including the evidence of the Defendant and the infringing products, the copyright owner (in accordance with Copyright Ordinance (Cap 528)) or the registered trademark owner (in accordance with Trade Marks Ordinance (Cap 559)) can take civil action and claim the following orders:-

1. Permanent injunction;
2. Disclosure;
3. Destruction;
4. Damages; and
5. Legal costs.

## **Cease and Desist Letters**

Usually the copyright owner or the registered trademark owner would issue cease and desist letters first before pursuing civil action. If the Defendant ignores the cease and desist letter or the owner and the defendant cannot reach settlement, the copyright owner or the registered trademark owner can then consider filing a Writ & Summons to sue the Defendant. Hence, if the Defendant wishes to avoid civil negotiate litigation, and settle with the copyright owner or the registered trademark owner.

## **Settlement Terms**

Normally the settlement terms would include the followings:-

1. The Defendant acknowledges that ownership of the copyright or validity of the registered trademark;
2. The Defendant agrees to stop manufacturing, selling, possessing, importing, exporting the infringing products;
3. The Defendant swears that it will not possess the infringing products and relevant information, and disclose the supplier and buyers of the infringing products;
4. The Defendant agrees to compensate for the owner's losses and legal costs. Depending on the number of the infringing products, compensation would generally be \$30,000 - \$100,000.

## **Filing a Writ**

From experience, if the copyright owner or the registered trademark owner cannot settle with the Defendant, it is highly likely that a Writ & Summons will be filed against the Defendant. The legal costs of the Plaintiff (the copyright owner or the registered trademark owner) will increase due to the civil litigation, which may be paid by the Defendant later if the Defendant loses in the civil litigation.

If the Defendant cannot settle with the copyright owner or the registered trademark owner before commencement of the civil litigation the Defendant can defend itself by:-

1. (In a civil litigation of infringement of copyright). The Defendant may defend that it has no knowledge; and
2. (In a civil litigation of infringement of registered trademark). If the forged trademark is exactly the same as the registered trademark, it is very difficult for the Defendant to find a reasonable defence. However, if the forged trademark is only similar to the registered trademark, the Defendant can defend that the public/customers have not been confused.

## **Effect of Cease and Desist Letters — Power of Litigation**

For a new product to be marketable and sustainable, the company should consider the following anti-counterfeit measures:-

1. Issue cease and desist letters to all infringers; and
2. Sue those infringers who are notorious.



## **The emergence of infringing products**

Infringing products will emerge when the authentic product is popular in the market. Through internet, exhibitions and magazines, the manufacturer of the infringing products is enabled to contact appropriate trading companies to distribute the infringing products. If the company has a non-interventionist policy in dealing with infringing activities, infringing activities will go on and on.

There might be more than one supplier of the infringing products. Eventually there will be many suppliers and trading companies of the infringing products, and there will be many infringing products competing with the authentic product. The only difference is that the infringing products are much cheaper than the authentic product.

Due to the above deterioration in the market, the company should take the first step of anti-counterfeiting measures – issue cease and desist letters. The company should investigate and issue cease and desist letters to infringers.

## **Issue cease and desist letters**

Through internet, exhibitions and magazines, the company can easily discover infringers. After discovery, the company should issue cease and desist letters to each and every infringers as soon as possible, including the publishers of magazines and the internet service providers which provide a forum for the infringers to conduct infringing activities. So long as the company clearly states in the cease and desist letter its causes of action, evidence and requests, most of the recipients would stop selling infringing product, and may even disclose the identity of the supplier of the infringing products.

From experience, the above first step of anti-counterfeiting measures can effectively stop (or delay) infringing activities.

## **Stubborn Infringers**

Some recipients of the cease and desist letters may be stubborn. It is highly likely that these infringers are closely related to the manufacturer of the infringing products. Hence, the company should deal with them differently.

In handling infringers who are troublesome, the company should consider suing them. That is, filing a Writ & Summons with the Court. The company can claim the following orders:-

1. Permanent injunction;
2. Disclosure;
3. Delivery;
4. Damages; and
5. Costs.



After receiving the Writ & Summons, the Defendant would realise know that the Plaintiff is determined in tackling infringing activities. Unless the Defendant benefits a lot from the infringing activities, it tends to settle with the Plaintiff. From experience, more than 60% of intellectual property litigation will settle within 3 months after Writ & Summons is instituted.

### **Advantages of suing**

The second step of anti-counterfeiting measures — filing and serving Writ & Summons — apart from stopping those stubborn infringers, can also bring the following benefits:-

1. The company can tell its customers that it has sued the infringers;
2. After knowing that the infringer is being sued, the buyers of the infringer may stop purchasing the infringing products so as to avoid getting involved in the litigation; and
3. Other infringers that are not sued may lessen or even stop infringing;

To achieve the above 3 outcomes, the company should take action to inform its customers and other infringers in the market. Usually, the company should consider publishing a 'Public Announcement' after the litigation to show to the market that it is determined to tackle with infringing products.