



**BENNY KONG & YEUNG** Solicitors

Agents for Patents, Trade Marks and Designs

## Newsletter

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**Benny Kong & Yeung is a firm of solicitors concentrating in Intellectual Property established in 1996. Since 1996, we have handled about 460 High Court cases. In the past 5 years, we have constantly been one of the top 3 law firms in Hong Kong in terms of number of institution of IP legal actions.**



# Reproducing photos – Amending photos – Citing source of photos

Our firm often receives enquiries about whether the following acts would be considered as infringing activities:

1. Copy a photo from a newspaper, and upload it on a commercial website for public reference (“Scenario 1”);
2. Copy a photo from a newspaper, amend some parts of it, and upload the amended photo on a commercial website for public reference (“Scenario 2”); and
3. Upload both the photo and the amended version of that photo, and cite the source of the photo (“Scenario 3”).

To answer the above questions, readers should first understand the definition of infringement of copyright.

The copyright owner of the photo has to show 3 conditions in order to successfully prove infringement of copyright:-

1. that he owns the copyright to the photo;
2. the defendant has used (for example upload to a website) a copy of the photo; and
3. before the use of the photo, the defendant know or should know that the original photo exists.

The copyright owner could easily prove Condition 1 and 2. However, it is difficult to prove Condition 3, that is, the defendant has knowledge.

Below is an analysis on the difficulty of proving knowledge on the part of the defendant under the 3 scenarios.

## Scenario 1: Upload copy of photo

Under normal circumstances, if the defendant is the manager of the website, the copyright owner probably can prove that he knew or should know about the existence of the infringing work by objective evidence.

Unless disproved by the website manager, the court would tend to accept that the website manager himself or his agent copied and uploaded the photo. Hence, under Scenario 1 it is not difficult for the copyright owner to prove that the defendant has knowledge.

## Scenario 2: Upload amended version of photo

Here, the uploaded photo is an amended version of the original photo. The person who amended the photo must have the intention to amend. Hence, that person could hardly claim that he has no knowledge. If that person is the website manager or amended the photo according to the instructions of the website manager, it is even harder for him to disprove his knowledge as compared to Scenario 1. Therefore, the copyright owner can easily prove that the defendant has knowledge.

## Scenario 3: Citing source of photo

It is common that newspaper publishers cite the sources of photos. From our experience, the main reason for citing the source is to protect oneself. Nevertheless, we emphasize that citing the source does not constitute a good defense. In contrast, it would bring the following 2 negative consequences:-

1. Citing the source means that the defendant knows about the identity of the copyright owner at the time he copied the photo. As a result, the copyright owner can easily prove that the defendant has knowledge.
2. According to section 118 of Copyright Ordinance (Cap 528), if the defendant has knowledge and intends to commit infringing activities, the court may order that the copyright owner be compensated by additional damages.



# Breach of Former Licensees – Termination of License Agreement – Engaging New Licensee

Many exclusive license agreements terminate due to the following acts on the part of the licensee:-

1. The Hong Kong licensee registers the overseas licensor's trademark and design in Hong Kong under its name without the authorization of the overseas licensor ("Act 1");
2. The Hong Kong licensee sells both the overseas licensor's products and other products ("Act 2").

An overseas licensor would not tolerate Act 1 and Act 2. Some overseas licensors would immediately terminate the licensee agreement after Action 1 and Act 2 came to their knowledge.

In face of Act 1 and Act 2, the overseas licensor would encounter the following 2 problems:-

1. The overseas licensor's new licensee would worry that the ex-licensee can report itself or its buyers to the Hong Kong Customs & Excise Department in reliance on the registered trademark and commence proceedings in court in reliance on the registered design. Regardless of whether the registered trademark or design exists or would be revoked, the overseas licensor need to take care of the new licensee's fear and concern.
2. When the former licensee is 'fired', it would

continue to sell its remaining stock. It is difficult for the overseas licensor to differentiate between the products that are manufactured before the termination of the agreement (authentic products) from the products that are manufactured after the termination of the agreement (infringing products). In other words, the market would have both authentic products and infringing products for a certain period.

In order to tackle with the above 2 problems, the overseas licensor should at appropriate times:-

1. request the court to revoke the former licensee's registered trademark and registered designs;
2. apply to the court for a preliminary injunction to forbid the former licensee and its directors to use the registered trademark and registered design immediately before the hand down of the judgment;
3. apply to the court for an injunction order preventing the former licensee and its directors to use the registered trademark and registered design. Usually, the application would include disclosure order, delivery order, damages order and costs order.

The abovementioned preliminary injunction would

## Intellectual Property Management Seminar

As part of the series of IP-related seminars hosted by BK&Y since 2007, we held our 15th seminar on 21 July 2010. Speakers were our Benny Kong and David Chan, covering topics of current interests including "How to protect new products and markets through the Fast Action Scheme?" And "New Copyright laws (i) Directors' liabilities (ii) Numeric limits prescribed under the copying and distribution offence". The next seminar in the series is due to be held on 17th November 2010. Parties interested to attend in person are invited to call our Ms. Alice Liu at 3100 5166.



immediately stop the business of the former licensee. As a result, the above 2 problems are tackled with, and the new licensee can take over the license smoothly and focus on running the business.

The overseas licensor must apply for the preliminary

injunction as soon as it finds out about the problems of the former licensee (about 2 months). Also, it has to prove that unless the preliminary injunction is granted, it would suffer from considerable financial losses. For details, the overseas licensor must seek legal advice. 

## Statutory Defence - California Red Karaoke - Copyright Infringement

According to Section 118 of Copyright Ordinance, a person commits an infringing activity if he, without the permission of the copyright owner of a copyright work, uses an infringing copy of the work in the course of business. Once convicted, the defendant would have criminal record. Depending on the facts of the case and the gravity of the infringing activity, the defendant could be jailed or subject to suspended sentence. The defendant would also be fined.

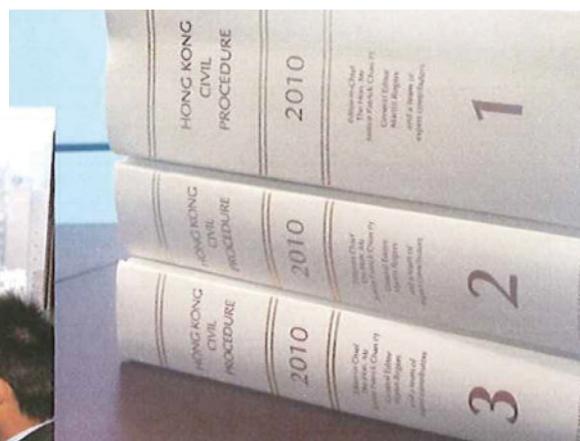
In accordance with the above legislation, the Hong Kong Customs and Excise Department collected evidence in the Tsimshatsui branch of California Red Karaoke. In early 2010 the Department prosecuted the parent company of California Red Karaoke and its founders for copyright infringement. On 22nd September 2010 the Kowloon City Magistrates' Court ruled that the defendant is not guilty, and ordered the Government of Hong Kong SAR to pay the costs of the defendant.

In this case, the defendant relied on the statutory

defence under Section 118(3) of the Ordinance: "It is a defence for (the defendant) to prove that he did not know and had no reason to believe that the copy in question was an infringing copy of the copyright work."

California Red has inquired its copyright licensing bodies in the music industry about the copyright issues of the songs it broadcasts. However, the licensing bodies have failed to provide with a satisfactory answer. Since California Red pays a considerable amount of annual fees to the licensing bodies, the Court held that it would be unreasonable to request California Red to inquire the records company directly.

Since 16th August 2008, if a company is charged with copyright infringement, and if the infringing activity involves software, television programs, or songs, the Customs and Excise Department can prosecute the directors or managers of that company.



Accordingly, a company in Hong Kong should take all reasonable measures to inquire about copyright issues of the products it bought and uses. Moreover, it should put the enquiries in writing so as to prove that it has tried its best to establish the statutory defence. 

## Draft Democratic Management in Enterprises Ordinance of Guangdong Province

### Introduction

1. A proposed PRC legislation “Draft Democratic Management in Enterprises ordinance of the Guangdong Province” has been issued in the third draft for further public consultation.
2. However, to some extent, the above drafted provision has imposed some adverse effect on the position of various enterprises in Hong Kong. The following is the proposed ground to defend for their position and to raise our opposition to the proposed amendment by establishing a Representative Council of Employees in the board of directors, so as to introduce a collective bargaining position by the employees participating in management decisions of Limited incorporations. And to install an information disclosure mechanism, by which information regarding the welfare and benefits will be disclosed to the employees.

### New provisions contravening the Company Law of the PRC

3. Draft Democratic Management in Enterprises

### ordinance of the Guangdong Province

Chapter II Article 9 Enterprise Workers Congress shall exercise the following powers and functions:

- (i) To consider and approve the draft of Collective Contract and the draft of Collective contract on matters such as work safety and sanitation, protection of the rights and interests of female workers and salary adjustment mechanism;
- (ii) To elect and replace the directors and supervisors of workers;
- (iii) To hear the collective working report of the directors and supervisors of workers, and supervise the performance of duties by the directors and supervisors;
- (iv) To hear the reports on the management of enterprises’ production and operation and the plan of medium to long-term development;
- (v) To discuss the draft of rules and regulations on matters which directly involves the immediate

### Awards

Benny Kong & Yeung, for the 3rd time, received this year’s award of “Best SME’s Partner Award” from the Hong Kong Chamber of Small and Medium Business. Benny Kong & Yeung has since 2007 been consecutively receiving that award which was given in recognition to Benny Kong & Yeung’s effort to support the local SME’s to protect their IPRs.



- benefits of workers, such as remuneration, working hours, rest and vacation, work safety and sanitation, insurance and welfare, training for workers, labour discipline and work quota management of the enterprises, or the draft of material event;
- (vi) To supervise the enterprise under the labour law and regulation, disclosure of factory affairs and the performance of the collective contracts and labour contracts etc.;
  - (vii) To collect the opinion and suggestions from the workers;
  - (viii) To give reasonable advise on the aspects of management of enterprise operation and labour management;
  - (ix) Other powers as stipulated in laws and regulations.
- (7) working out the company's plans on merger, division, change of the company type, dissolution, and etc.;
  - (8) making decisions on the establishment of the company's internal management departments;
  - (9) making decisions on hiring or dismissing the company's manager and his remuneration, and, according to the nomination of the manager, deciding on the hiring or dismissing of vice manager(s) and the person in charge of finance as well as their remuneration;
  - (10) working out the company's basic management system; and
  - (11) other functions as prescribed in the articles of association.

#### 4. The Company Law of the PRC

##### Chapter II Incorporation and Organization of a Limited Liability Company

Article 47 The board of directors shall be responsible for the shareholders' meeting and exercise the following authorities:

- (1) convening shareholders' meeting and reporting on the status of work thereto;
  - (2) carrying out the resolutions made at the shareholders' meeting;
  - (3) determining the operation plans and investment plans;
  - (4) working out the company's annual financial budget plans and final account plans;
  - (5) working out the company's profit distribution plans and loss recovery plans;
  - (6) working out the company's plans on the increase or decrease of registered capital, as well as on the issuance of corporate bonds;
- 5. i) The above article Company Law of PRC has imposed personal liability on the Directors of each Company/Enterprises towards the shareholders in AGM. They also have their fiduciary duties to act bona fide for the benefit of the company .On the other hand, Art.9 of the new drafted bills set out a list of duties to be carried out by the elected members acting on behalf of the Representative Council of Employees to participate in management decision.
  - ii) The Board of Directors is acting as a management level, while the representative of employees is acting on behalf of the production teams to protect their legal rights. To some extent, there is a contradiction as to the nature of their duties and their discretion within all meetings for internal structure. With that respect, there will also be a difference as to their intention to benefits obtained from participating in the discussion of corporate regulations, despite the fact that they are both dealing with the business affairs in AGM.
- 6. The duties set out in the new Bill is clearly contravening to those director's duties laid down in the Company Law of PRC. Owing to different directions they are working on, it is highly unlikely to have included the employees representative in

the board of directors and board of supervisors, which will attract conflicts of duty and interest.

#### Unfairness to the Representative of Employees

7. This will as a result impose unfairness to the representative of the employee who does not need to be responsible for shareholders.
8. Article 9 (6) states that the representative of the employee has the duty to participate in the

negotiation of collective contracts, discussion of corporate regulations and supervision over the enterprises' compliance with labour laws.

9. Despite the fact that they are participating for the benefit of the employees, their contribution to the management of the company can impose a personal liability to them indirectly, and this will be unfair to them to be liable for any breaches by the board of directors or supervisors. 

## Broadcasting Television Programs and Music – Infringement – Section 76 of Copyright Ordinance, Cap 528

Would the following act constitute infringement of copyright?

“A company explicitly plays music without the authorization of the copyright owner and charge for such broadcast.”

There is no absolute answer to the above question.

Presume that a company hosts its 20th anniversary ceremony in its exhibition hall, invites its customers and friends, and promotes its latest product at the ceremony. In order to improve the atmosphere at the ceremony, the company plays some soft music. Since the ceremony is not a routine event, the company has not obtained the authorization of the copyright owner (that is, paying the copyright license fee). In accordance with copyright law, the company has thereby infringed copyright, which is not only a civil liability, but also a criminal liability.

However, if the company in question is a not-for-profit company, and its objects are charitable, it is not infringement of copyright even if it plays music without paying license fee. This is because of the exception prescribed under section 76 of Copyright Ordinance, Cap 528.

According to section 76 of Copyright Ordinance, Cap 528, it is not an infringement of copyright to play music if the following conditions are met:-

1. that the organization is not established or conducted for profit
2. that the main objects of the organization are concerned with:
  - (a) charity
  - (b) the advancement of religion
  - (c) the advancement of education
  - (d) the advancement of social welfare
3. that the proceeds of any charge for admission to the place where the music is played are applied solely for the purposes of the organization.





## **Benny Kong & Yeung, Solicitors**

Unit 2901 29<sup>th</sup> Floor, Far East Finance Centre,  
16 Harcourt Road, Admiralty, Hong Kong

Tel: (852) 2519 3567

Fax: (852) 2519 3610

Email: [information@bk.com.hk](mailto:information@bk.com.hk)

Website: [www.bk.com.hk](http://www.bk.com.hk)

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