

HONG KONG / JUDGMENT

WELLEGANT DEVELOPMENT LTD. v. FINE TELECOM LTD. AND OTHERS

COURT

Court of First Instance

DECIDED

22 February 2007

CASE / FILE NUMBER

HCA2132/2001

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HCA 2132/2001

IN THE HIGH COURT OF THE

HONG KONG SPECIAL ADMINISTRATIVE REGION

COURT OF FIRST INSTANCE

ACTION NO. 2132 OF 2001

BETWEEN

WELLEGANT DEVELOPMENT LIMITED Plaintiff

trading as TAK SHING MANUFACTORY

and

FINE TELECOM LIMITED trading as

REMINGTON COMPANY 1st Defendant

WANG CHU KEN FORREST 2nd Defendant

WANG TSUN YINN 3rd Defendant

WANG CHU HONG JAMES 4th Defendant

WANG IP YUET CHUN 5th Defendant

Before: Deputy High Court Judge L. Chan in Chambers

Dates of Hearing: 21 June 2006 and 9 February 2007

Date of Decision: 22 February 2007

D E C I S I O N

This is an appeal against an order of Registrar C Chan made on 25 April 2006. By this order, the Registrar applied the District Court Scale for the taxation of the Plaintiff

s costs of this action.

Background

The Plaintiff issued a writ against the Defendants on 15 May 2001 for infringement of copyright and for passing off the toys sold by the Defendants as those sold by the Plaintiff.

Both the Plaintiff and the 1st Defendant were manufacturers of war toys. One type of toys sold by the Plaintiff was called Combat Peace Fighters. They cost from \$3.25 to \$16.25 per set. These toys were packaged in transparent plastic bags. Each bag of toys also had a colourful header card that was part of the packaging. This card was commissioned by the Plaintiff from an artist.

The 1st Defendant infringed the Plaintiff

s copyright in this header card by using a header card that was identical or substantially similar to it for the packaging of the 1st Defendant

s war toys. The Plaintiff thus sued the 1st Defendant for infringement of copyright and passing off. The 2nd to 5th Defendants were also sued on the basis that they were the directors and alter egos of the 1st Defendant and were responsible for the 1st Defendant

s acts.

The Defendants filed an Acknowledgement of Service of the Writ at the end of May 2001 indicating that they did not intend to contest the proceedings.

On 6 June 2001, the Defendants

solicitors wrote to the Plaintiff

s solicitors advising them that the 1st Defendant

s total sale of toys with the infringing header card was less than \$300,000 and the profit margin was less than 10%.

Judgment was entered on 20 June 2001 against the Defendants for an injunction from infringement of copyright and passing off, an order to deliver up the infringing items, payment of damages pursuant to section

108 of the Copyright Ordinance and inquiry as to damages of the Plaintiff or, at the Plaintiff's option, an account of profits.

On 23 August 2001, the Plaintiff

's solicitors wrote to the Defendants

solicitors and demanded \$4,264,264.95 for full and final settlement of the action. This sum was said to be 15% of \$28,428,433 alleged loss in sales as a result of the infringement and passing off.

The alleged loss in sales was calculated from the ratio of the total sales in 1996 to 1998 to the advertising expenditure incurred in the same years. The ratio was \$28,538 of turnover per \$1 advertising expenditure.

The Plaintiff applied the same ratio on the advertising expenditures incurred in the years from 1998 to February 2001 and came to certain sale figures that they say they should have obtained in the same years. However, the actual sales figures in those years were less than the figures produced by the above ratio. The Plaintiff therefore said that they had suffered a shortfall in sale at \$28,428,433 as referred to above and such shortfall was caused by the 1st Defendant's infringement and passing off.

The letter of 23 August 2001 did not mention any loss of goodwill and reputation. However, such alleged loss assumed much significance in the Plaintiff

's claim as it developed to a later stage.

The Defendants

solicitors wrote back on 10 September 2001 and said that the Plaintiff

's drop in sale was because of the trend in the industry and fierce competition by Mainland competitors.

On 7 December 2001, the Plaintiff

's solicitors wrote and asked for detailed account of profits from the 1st Defendant for the infringement and passing off. They also got an order from Master Yuen on 14 January 2002 requiring the Defendants to file and serve a true account of profits with full particulars of the 1st Defendant

's gross profits.

On 23 January 2002, the Defendants

solicitors delivered three

tables showing the 1st Defendant

s sale transactions of the toys with the infringing header cards for the years of 1 April 1996 to 31 March 1997, 1

April 1999 to 31 March 2000 and 1 April 2000 to 31 March 2001. Copies of all the contracts and invoices of the sales referred to in the tables were also supplied. The letter stated that there was no other sale and the profit margin was at 11.8%. The total sales disclosed in the three tables were at \$304,408.40. Nevertheless, the Plaintiff was not satisfied with the account. There was further correspondence on the information disclosed by the first

Defendant.

On 8 August 2002, the Defendants paid \$56,000 into court under Order 22 of the Rules of the High Court.

Despite the order of Master Yuen on 14 January 2002 requiring an account of profits from the Defendants, the Plaintiff obtained another order from another Master for conducting an assessment of damages but without any direction for filing of pleadings. The parties then filed and exchanged lists of documents pursuant to this order. They then continued with their correspondence.

On 5 November 2003, the Plaintiff

s solicitors referred to Master Yuen

s order of 14 January 2002 and alleged that the documents/information provided in the letter of the Defendants

solicitors dated 23 January 2002 (which was made more than 21 months previously) were wholly unacceptable and unsatisfactory. There was then further correspondence on quantum of damages and disclosure of more information and documentation.

Eventually on 12 January 2004, the Defendants

solicitors wrote to the Plaintiff

s solicitors and pointed out that the Plaintiff was only entitled to an enquiry of damages or an account of profits but not both and the Plaintiff had to elect for one of them, however, the Plaintiff appeared to be pursuing both. The Plaintiff

s solicitors still did not make any election but continued to accuse the Defendants of having provided insufficient and misleading documents and information. They only elected for enquiry of damages by their letter of 25

May 2004. They also demanded discovery of a long list of documents and information. The parties continued to correspond on the further discovery.

On 23 July 2004, the Plaintiff applied by summons for specific discovery of a large number of documents. On 31 August 2004, the Defendants also issued a summons for directions on exchange of pleadings for the inquiry of damages. Both summonses were before Master Ho on 4 October 2004. Master Ho gave directions for exchange of pleadings pursuant to the Defendants

summons. He however allowed only a very limited part of the Plaintiff

s summons for specific discovery and dismissed the rest with indemnity costs against the Plaintiff.

The Plaintiff filed its Points of Claim on 15 February 2005. The claim asked for loss of \$4,128,386 because of alleged loss of sales in 1999 to 2001. Alternatively, it asked for loss of sales at \$130,743.55 which was allegedly based on the amount of infringement business of the 1st Defendant plus six more orders between 1999 and 2001. It further claimed \$6,665,928 for injury to the Plaintiff

s goodwill and reputation and \$4,128,386 as additional damages under section 108(2) of the Copyright Ordinance. Taking the larger figure for loss because of alleged loss of sales, the total claim was at \$14,922,698.

The Defendants filed their Points of Defence on 18

July 2005.

On 16 August 2005 the Defendants made a 2nd payment in of \$94,000 into court under Order 22. The total sum paid in was \$150,000. The Plaintiff accepted this sum under Order 22 on 29 August 2005. This sum included the interest accrued since 15 May 2001.

Since the amount obtained by the Plaintiff was within the jurisdiction of the District Court, the Registrar in accordance with the direction in paragraph 22(1) of *Lai Ki v B+B Construction Ltd* [2003] 3 HKC 329 determined on 25 April 2006 that the District Court Scale should apply for the taxation of the Plaintiff

s costs. The Plaintiff appealed. The Plaintiff has also filed an affirmation of Mr Chan Tak Shing made on 13 June 2006 to support this appeal.

Seagroatt J said in *Lai Ki v B+B Construction Co. Ltd & Ors* [2003] 3 HKC 322, paras. 21-22 as follows:

21. The position in relation to a claim in the High Court settled or adjudicated upon in a sum which is within the District Court jurisdiction is as follows:
 - (1) The usual order will mean that costs will be on the District Court scale unless the High Court is, in the exercise of its discretion, persuaded that there was a reasonable prospect of obtaining an award in excess of the District Court jurisdiction. To that end the valuation of the claim must be on the basis of full liability.
 - (2) The order by consent, or upon adjudication, for the plaintiff

s costs to be taxed does not carry with it any inference or construction that it means costs on a High Court scale.

- (3) For the purposes of deciding the proper forum in which to commence proceedings the amount of the employee

s compensation paid and received must be deducted.

22. The proper course for the plaintiff

s solicitors to take in a High Court action is as follows:

- (1) Where a sum of money which is within the District Court jurisdiction is paid into court, and accepted by the plaintiff (without agreement by the parties as to the scale of costs to be taxed), the plaintiff must apply promptly by way of summons to a master for a determination as to the scale of costs.
- (2) Where the parties agree a settlement in a sum within the District Court jurisdiction and there is agreement as to the scale of costs, this must appear in the consent order or in a joint letter to the court. If there is no such agreement as to costs then the Plaintiff must promptly apply by way of summons for the costs issue to be determined by a master. If the settlement is achieved before trial commences or in the course of a trial then the plaintiff

s solicitors must ask the trial judge to decide the issue of the scale of costs.

The Plaintiff

s first argument-automatic taxation at High Court Scale

The Plaintiff

s first argument on this appeal is that when a High Court action is resolved by acceptance of payment into Court under Order

22 (rather than by adjudication or settlement), the Plaintiff is automatically entitled to taxed costs as per the High Court Scale. The Plaintiff submitted that this is a matter of law and what Seagroatt J said in para. 22(1) of *Lai Ki* should not apply.

Mr Yau, counsel for the Plaintiff, referred me to Order 62, rules 9(1) and 10(2) of the Rules of the High Court. They provide:

Rule 9 (1) Subject to this order, where by or under these rules or any order or direction of the Court costs are to be paid to any person, that person shall be entitled to his taxed costs.

Rule 10 (2) Where a plaintiff by notice in writing in accordance with Order 22, rule 3(1), accepts money paid into court in satisfaction of the cause of action or of all the causes of action in respect of which he claims, or accepts money paid in satisfaction of one or more specified causes of action and gives notice that he abandons the others, he shall be entitled to his costs of the action incurred up to the time of giving notice of acceptance.

(emphasis supplied)

Furthermore O.62 r.1 defines

taxed costs

to mean

costs taxed in accordance with this Order

.

Mr Yau also referred to the Court of Appeal

s decision in Cho

Ho Kuen v Yu Kwok Wah & Ors [2001] 3 HKC 566. That was a traffic accident case. The Plaintiff claimed \$52,508 for damage to his car. The Defendants paid \$25,000 into court in full and final settlement of the claim. The Plaintiff accepted this sum. The Plaintiff was entitled to his taxed costs up to the time of payment in under the old District Court Rules. The Defendants issued a summons for an order that the Plaintiff

s costs be assessed as if the claim had been brought in the Small Claims Tribunal. Section 24 of the Small Claims Tribunal provides:

24. (1) Subject to subsection (2), the tribunal may award to a party costs and expenses, which may include-

any reasonable expenses necessarily incurred and any loss of salary or wages suffered by that party; and

any reasonable sum paid to a witness for expenses necessarily incurred and any loss of salary or wages suffered by him,

in attending the hearing.

(2) In making an award of costs under this section, the tribunal shall include a direction as to the amount to be paid by each party who is liable to pay costs.

(3) An award of costs shall be enforceable in the same manner as any other award of the tribunal.

His Honour Judge Yung dismissed the application and held that the Plaintiff was entitled to his taxed costs on the appropriate District Court Scale.

The Plaintiff appealed to the Court of Appeal. Keith, JA said at 569H that the words

his costs of the action

in O.62 r.10(2), when read with Rule 9(1), referred to the party

s taxed costs of the action, and the court has no discretion to direct that the costs be assessed on some other basis. The learned Judge drew support for his conclusion from the legislative history of O.62 r.10(2). Before this rule was amended, there were the words

unless the court otherwise orders

in this rule. The learned Judge regarded the removal of these words by the amendment as the removal of the court

s discretion to direct that there shall be no taxation for the Plaintiff

s costs. The learned Judge also referred to the decision of the English Court of Appeal in *Hudson v Elmbridge Borough Council* [1991] 1 WLR 880 which came to the same conclusion that the judicial discretion had been removed. Mr Yau thus argued that the Plaintiff in the present case should be entitled to taxed costs on the High Court Scale automatically.

Mr Yan, SC for the Defendants, drew my attention to the Court of Appeal case of *M Beraha & Co. Ltd v Ng Wai Lun* [2004] 3 HKC 535 which considered *Cho Ho Kuen*. The Plaintiff/Appellant there claimed the Respondent for return of rental deposit at \$52,000. There was no payment into court under Order 22 of the Rules of the District Court. At the trial before his Honour Judge Lok, the parties settled their claim at \$47,130 and judgment was entered against the Respondent for this sum. On the issue of costs, Judge Lok considered that the Plaintiff should have instituted the claim in the Small Claims Tribunal and he therefore awarded costs to the Plaintiff in accordance with the practice of the Tribunal. The Plaintiff appealed.

Woo VP said at paras. 26-28 and 32 of the Judgement:

26. It has to be noted, however, that the judge did not say that the costs were to be taxed on the Small Claims Tribunal scale. He merely used that scale as the basis for assessing the costs and awarded a gross sum as a result. The judge has a wide discretion on costs. Order 62 r 3(2) provides as follows:
- (2) If the Court in the exercise of its discretion sees fit to make any order as to costs of and incidental to any proceedings, the Court shall, subject to this Order, order the costs to follow the event, except when it appears to the Court that in the circumstances of the case some other order should be made as to the whole or any part of the costs. (Emphasis added)
27. Mr Tracy argues that this rule only allows the judge to order costs other than to follow the event, such as depriving the successful party of costs altogether, or to order part of the costs to follow the event and part not so. We consider that is too restrictive a construction of the rule. The wording of O 62 r 3(2) is wide enough to give the judge the discretion to make the costs order as he did. He is entitled to make any costs order, according to the circumstances of the case before him, which includes an order for costs not following the event, and also in relation to the whole or any part of the costs. So long as the circumstances of the case justify, he can make no order as to costs (equivalent to ordering no costs), he can order a party to have a certain percentage of the costs (equivalent to part of the costs) and he can limit costs

to be not more than a sum certain (which is within the ambit of some other order

and may cover the whole or part of the costs), etc. Thus, a judge may make an order for costs to be limited to a certain sum. In our judgment, O 62 r 3(2) gives the judge a wide discretion. Insofar he exercises his discretion under this rule, he is fully entitled to make a gross sum costs order under O 62 r 9(4)(b) in the exercise of his discretion to avoid delay or expense.

28. In Cho Ho-kuen, Keith JA said:

it is, I think, pertinent to observe that there is no provision in either the District Court Ordinance (Cap. 336) or the Small Claims Tribunal Ordinance (Cap. 338) restricting the entitlement to costs of a plaintiff who brings his claim in the District Court when the claim might more appropriately have been brought in the Small Claims Tribunal. That is to be contrasted with section 43(2) of the District Court Ordinance (as it then was prior to its recent replacement), which empowered the Court of First Instance to award costs only on the District Court scales when a claim brought in the Court of First Instance might have been more appropriately brought in the District Court.

However, it is to be noticed that Keith JA

s observation was entirely obiter, as he had made it clear in the conclusion of his judgment in that case:

I do not propose to comment on whether, assuming that the judge had had a discretion to direct that the costs be assessed on some other basis, the Judge should have exercised his discretion to direct that the costs be assessed as if the Plaintiff

s claim had been brought in the Small Claims Tribunal.

32. It is true that there is no provision in the District Court Ordinance, the RDC or in the Small Claims Tribunal Ordinance similar to section 44A(6) or the repealed section 43(2) to give express power to the District Court to order costs to be taxed on the Small Claims Tribunal scale, it does not mean that the District Court has no power to award costs on a basis different from that for taxed costs on the District Court scale. O 62 r 3(2) combined with O 62 r 9(4)(b), in our judgment, are wide enough to entitle the District Court to order costs to be not more than a specified sum, or to be assessed on a basis, for want of a more certain term, similar to the scale applied in the Small Claims Tribunal.

Mr Yan therefore submitted that in the light of M Beraha, the reasoning in Cho Ho Kuen should not be followed.

Mr Yau, however, submitted that Cho Ho Kuen only referred to actions resolved otherwise than by acceptance of payment into court. He referred me to Cheung Yu Tin v Ho Hon Ka [2006] 2 HKLRD 674, another Court of Appeal decision. I refer to the headnote which is a neat summary of the case:

In proceedings commenced by P in the District Court for personal injuries, D made two Calderbank offers. The last one was for \$45,000

all inclusive

, but it did not allude to disbursements or costs already incurred. D made use of Calderbank letters, rather than a payment into court, as he contended the claim should have been brought in the Small Claims Tribunal; and if he made a payment in, under the Rules of the District Court (Cap. 336, Sub. Leg.), P was entitled to have his costs taxed upon acceptance on the District Court scale, not the Small Claims Tribunal scale. P rejected the Calderbank offer. The Trial Judge gave judgment for P in the sum of \$27,260. D appealed against the awarding of costs to P with costs to the day up to and including the day prior to the trial on the District Court scale, to be taxed if not agreed, and there be no order as to costs from the day of the trial. D argued P should be entitled to costs up to the date of the first Calderbank offer on a scale similar to the Small Claims Tribunal scale, and costs thereafter be to D on the District Court scale. P filed a respondent

s notice to seek an order that it have its cost of the action up to the judgment on the District Court scale; P further contended that D should have made a payment into court to obtain the benefit of O.62 r.5(b) of the Rules of the District Court which D had failed to do.

The Defendants appeal was allowed to the extent that costs be awarded to the Plaintiff on a scale similar to that of the Small Claims Tribunal. The Plaintiff

s cross-appeal was dismissed.

Woo VP said in para. 24, 26, 27, 32 and 33 of the Judgment:

24. As the claim is one for a sum of money, the usual and normal course is for the defendant to make a payment into court, although with the consequence of his having to bear the costs up to the time of acceptance automatically on the District Court scale: see *Cho Ho Kuen v Yu Kwok Wah & Others* (unrep., CACV No 480 of 2000, [2001] HKEC 633). The only obstacle to a payment in was the defendant

s insistence that the action should have been brought in the Tribunal. As I find that the plaintiff was acting reasonably to reject the Calderbank offer, this obstacle should not be considered as a reasonable excuse for the defendant

s not making a payment into court. In the circumstances, I consider that the obstacle to a payment into court was unreasonably self-created and that the defendant

could have protected his position as to costs by means of a payment into court under O.22

which he failed to do. In my judgment, therefore, in the exercise of his discretion on costs, the Judge was acting contrary to the decision of this Court in *The Hong Kong & Shanghai Hotels Ltd v Choi Bing Wing* [1999] 1 HKLRD 472 and was wrong in taking into account the Calderbank letters, which he expressly stated in the first few sentences of para. 3 of his ruling to have done. He should have acted in compliance with the proviso to O.22 r.14 and to O.62 r.5(b) of the RDC, paying no regard to the Calderbank offers when exercising his discretion on costs.

26. Even though I consider that the Judge should not take into account the Calderbank letters, it does not necessarily follow that he must award the costs of the proceedings to the plaintiff, on the District Court scale. One has to examine the circumstances when the action was commenced in order to deciding on its reasonableness.
27. This is similar to the question posed by Glynn-Jones J in *Hopkins v Rees and Kirby Ltd* [1959] 1 WLR 740, the principle of which was accepted by Seagroatt J in *Lai Ki v B+B Construction Co Ltd & Others* [2003] 3 HKLRD 192:

I think that the only question for me is: putting myself, as far as I can, in the position of the plaintiff at the time when he issued the writ, am I satisfied it was then obvious that this was a county court action or was it an action which, when tried by one judge rather than another, might have resulted in an award of

400 [the ceiling of the County Court monetary jurisdiction]?

32. In view of the conclusion I have come to that the plaintiff did not act reasonably in having his claim brought in the District Court, I consider that the Judge was wrong in awarding costs to the plaintiff on the District Court scale.
33. In my judgment, the proper scale of costs of the action including the hearing for assessing the quantum of damages should be that similar to that of the Tribunal, which will fairly reflect the amount of damages awarded and have the desirable effect of discouraging litigants from unreasonably selecting the District Court as the forum for a claim of damages that are well under the Tribunal

s jurisdictional limit.

Mr Justice Woo was thus of the opinion that the defendant could have protected his position by a payment into court under Order 22. He was however of the further view that the plaintiff was unreasonable in launching the claim in the District Court. He allowed the defendant

s appeal and ordered the plaintiff

s costs to be taxed on a scale similar to that of the Small Claims Tribunal.

On his reasoning in para. 24, if the defendant should have made a payment into court which was accepted by the plaintiff, the plaintiff would have automatically obtained taxed costs in accordance with the District Court Scale. There would have been no room for an order of costs to be taxed on a scale similar to that of the Small Claims Tribunal.

The approach of Cheung JA was slightly different. The learned Judge said in paras 37, 38:

37. However, the second purpose of the offer could not be achieved by payment into court because under the RDC, if there was payment in, the plaintiff was entitled to have his costs taxed upon acceptance and the defendant was not entitled to argue on the scale of costs because no judgment would be entered on acceptance of payment in. In such an event, in my view, the Calderbank offer was the only means the defendant might rely upon to protect his position. On this basis the Court was entitled to consider the Calderbank offer.

38. I do not need to address the question whether an

open offer

as distinct from a Calderbank offer ie an offer

which is without prejudice save as to costs

may overcome the technical hurdle of O.62 r. 5(d). I only need to say that ultimately one must look at the substance of the offer itself.

The learned Judge took the view that the Calderbank letters were not drafted in reasonable terms and it was not unreasonable for the plaintiff to reject them.

The learned Judge continued to say in paras 44, 45 and 47:

44. However, even if the Calderbank offer was to be ignored, that was still not the end of the matter because the plaintiff eventually obtained a judgment the amount of which was within the jurisdiction of the Small Claims Tribunal. In the absence of special considerations the plaintiff must be, first of all, entitled to the costs of his action up to and including the judgment on damages. The real issue is whether costs on District Court scale should be awarded.

45. Ultimately the question is whether it was reasonable to commence the action in the District Court. I fully recognise the expertise of District Court judges in dealing with personal injury cases but I do not agree that these claims should only be initiated in the District Court on account of this expertise even if the monetary claim comes within the Small Claims Tribunal jurisdiction. To do so will be contrary to the provision of s. 5(1) and the Schedule of the Small Claims Tribunal Ordinance which expressly confer jurisdiction on the Small Claims Tribunal on claims in tort of not more than \$50,000. This type of cases are in fact heard there as shown in the case of *Ho Wai Leung v Wan Chi Kuen* [2001]2 HKLRD 284.

47. In the circumstances, it was unreasonable for the plaintiff to persist in pursuing the matter in the District Court, particularly, when the defendant had drawn his attention to the fact that the matter should be dealt with in the Small Claims Tribunal. The only proper way of exercising the discretion was to award costs to be assessed in a manner similar to the costs allowed in the Small Claims Tribunal.

Cheung JA did not suggest that the defendant could have protected his position by a payment into court under Order 22. Nevertheless, the common theme of the judgments in this case is that if the defendant should have made a payment into court under Order 22 and the plaintiff accepted the payment, the plaintiff would automatically be entitled to costs of the action taxed as per the District Court Scale.

On this reasoning, if a plaintiff should launch an action in the High Court when the quantum would justify it to be in the District Court, the resolution of the action by acceptance of payment into court would automatically entitle the plaintiff to have costs of the action taxed as per the High Court Scale. If the action should be resolved by adjudication or settlement, the plaintiff may only obtain costs taxed as per the District Court Scale. Mr Yau for the Plaintiff admitted this to the case. Mr Yan, SC said to the contrary.

Mr Yan said that no matter whether the resolution is by acceptance of payment in or by adjudication or settlement, the costs consequence should be the same. He submitted that Cho Ho Kuen was a decision on the costs of a claim brought in the District Court when it should have been brought in the Small Claims Tribunal. There was no taxation of costs in the Small Claims Tribunal and no Small Claims Scale of costs for taxation. Cho Ho Kuen merely decided that the District Court can only

the costs of an action and cannot

assess

the costs as in the Small Claims Tribunal. He therefore submitted that the Court of Appeal in Cheung Yu Tin had misread Cho Ho Kuen when it said that the Plaintiff, after accepting a payment in, would have an automatic entitlement to costs taxed as per the scale of costs of the court in which the action was brought.

Mr Yan further submitted that this case is not in a Cho Ho Kuen type of situation. The parties agree that there should be taxed costs and not assessment of costs as per the Small Claims Tribunal Scale. The only argument is whether this court can, in an acceptance of payment in situation, order the costs to be taxed as per the District Court Scale.

He referred to O.62 r.3(2) of the Rules of the High Court. He said there are two parts in this rule which are important to this case. I repeat this rule and highlight the two parts:

Rule 3 (2) If the Court in the exercise of its discretion sees fit to make any order as to the costs of or incidental to any proceedings, the Court shall, subject to this Order, order the costs to follow the event, except when it appears to the Court that in the circumstances of the case some other order should be made as to the whole or any part of the costs.

He said the court

s discretion in the first part could apply to an acceptance of payment in situation. Furthermore, the acceptance of payment in is a particular situation covered by the second part which would warrant the court ordering costs to be taxed as per the District Court Scale. If this argument should be correct, I would apply it in this case as it is obviously fair to do so. However, I do think this argument is incorrect.

If we should take a careful look at O.62 r. 10(2), r. 9(1) and the definition of taxed costs

in Rule 1, the conclusion will be clear and inescapable. Rule 10(2) provides that if a Plaintiff should accept money paid into court, he shall be entitled to his costs of the action up to the time of giving notice of acceptance. The entitlement to costs is thus conferred by Rule 10(2) and not by any order of the Court.

Rule 9(1) says that, subject to Order 62, where by or under the rules or any order or direction of the court costs are to be paid to any person, that person would be entitled to his taxed costs. That means the Plaintiff who is entitled to costs under Rule

10(2) would be entitled to taxed costs.

Finally, under Rule 1, taxed costs mean costs taxed in accordance with Order 62 of the Rules of High Court and not any other order in these rules or in the Rules of the District Court.

If I should say that acceptance of payment in is a particular situation contemplated by Rule

3(2) and then proceed to order costs to be taxed in accordance with the District Court Scale, I would be infringing the statutory scheme outlined above by making an order of costs when the entitlement to costs is automatically governed by Rule

10(2). I would further infringe the scheme by requiring the costs to be taxed not in accordance with Order 62 of the Rules of the High Court. For these reasons, I cannot agree with Mr Yan. I do not think the Court of Appeal in Cheung Yu Tin had misread Cho Ho Kuen. I also do not think that the direction in para. 22(1) of Lai Ki is workable. I have to allow the Plaintiff

s appeal though not without misgiving. I do not think the end result produced by the statutory scheme in this case is fair.

The Plaintiff

s second argument- High Court Scale costs should be allowed by discretion

Though Mr Yau has succeeded on his first ground, I should also deal with his 2nd ground in case my conclusion on the 1st ground were wrong.

Mr Yau argued that there were other reasons that justified the action to be launched in the High Court despite its quantum. He relied on five points.

The 1st point was that the stakes were high as both parties had engaged leading or senior junior counsel. Secondly, the Plaintiff had good reasons not to be satisfied with the 1st Defendant

s disclosure of the sale of infringing toys (or toys bearing the infringing header cards). Thirdly, the Plaintiff had claimed and the Defendants had agreed to pay additional damages under section 108 of the Copyright Ordinance. The District Court Ordinance has no jurisdiction to award such damages. It is therefore necessary to bring and continue the action in the High Court. The 4th point was on the amount of interest. Five years have elapsed since judgment on liability and the amount of interest accrued should be about 50% of the principal sum of the award. The 5th point was the complexity of the case. Mr Yau submitted that assessment of damages in a copyright cum passing off action was not as straightforward as in personal injuries cases. He referred to *Oriental Press Group Ltd v Apple Daily Ltd (No. 2)* [1997] 2 HKC 525 (Rogers J as he then was and the Court of Appeal) and [1998] 4 HKC 131 (CFA) which was on the damages payable for the infringement of an exclusive photo of a pop singer in pregnancy. He also referred to *One Price Trading Co. Ltd v Leung Chui Mui trading as Jade Fountain Trading Co.*, HCA 2327/1997 by Master B Kwan who referred to the paucity of cases for reference with regard to quantum on passing off cases.

Mr Chan Tak Shing of the Plaintiff has also said in his affirmation that up to the acceptance of payment in, the Plaintiff had incurred legal costs of nearly \$2.45 million and had to pay the Defendants \$140,000 pursuant to Master Ho

s discovery order. It was because of the uncertainty as to how much more costs had to be incurred for the enquiry of damages that the Plaintiff accepted the sum of \$150,000 paid into court.

On the 1st point, I do not think the stakes were high. It was about a paper header card used in the package of war some toys. The price of the toys only ranged from \$3.25 to \$16.25 per pack. The Plaintiff claimed that it had suffered loss of profit because of alleged loss of sales of the toys of more than 28 million, but the method of quantification of loss was dubious. The sales by the 1st

Defendant of toys with the same or similar header cards were only slightly over \$300,000. I have no reason to disbelieve the Defendants on this. No matter how I look at this action, I cannot say that the stakes were high.

On legal costs, Mr Yan asked me to bear in mind that when the action started no counsel was involved. The Defendant did not even contest liability. The Defendants only brought in counsel when the Plaintiff sought damages for loss of sales of \$28 million. A lot of legal costs were incurred by the Plaintiff

s relentless but unreasonable pursuit of the Defendants. The Plaintiff tried to make a mountain out of a molehill.

I also do not think the 2nd point on discovery has any substance. The Plaintiff

s attempt to have elaborate discovery was blocked by Master

s order which required the Plaintiff to pay the Defendants indemnity costs. There was no appeal against this order.

In order to understand the 3rd point and Mr Yan

s answer to it, it is useful to set out sections 31, 32, 107(2) and (3), 108(2), 109(1), 111(1) and 134(1) and (2) of the Copyright Ordinance, Cap. 528:

31. (1) The copyright in a work is infringed by a person who, without the licence of the copyright owner

(Amended 64 of 2000 s. 2)

possesses for the purpose of, in the course of, or in connection with, any trade or business;
(Replaced 64 of 2000 s. 2)

sells or lets for hire, or offers or exposes for sale or hire;

exhibits in public or distributes for the purpose of, in the course of, or in connection with, any trade or business; or (Replaced 64 of 2000 s. 2)

distributes (otherwise than for the purpose of, in the course of, or in connection with, any trade or business) to such an extent as to affect prejudicially the owner of the copyright, (Amended 64 of 2000 s. 2)

a copy of a work which is, and which he knows or has reason to believe to be, an infringing copy of the work.

- (2) It is immaterial for the purpose of subsection (1)(a) and (c) whether or not the trade or business consists of dealing in infringing copies of copyright works. (Added 64 of 2000 s.2)

32. (1) Copyright in a work is infringed by a person who, without the licence of the copyright owner

makes;

imports into Hong Kong or exports from Hong Kong;

possesses for the purpose of, in the course of, or in connection with, any trade or business; or
(Amended 64 of 2000 s. 3)

- (d) sells or lets for hire, or offers or exposes for sale or hire,

an article specifically designed or adapted for making copies of that work, knowing or having reason to believe that it is to be used to make infringing copies.

- (2) Copyright in a work is infringed by a person who, without the licence of the copyright owner, transmits the work by means of a telecommunications system (otherwise than by broadcasting or inclusion in a cable programme service), knowing or having reason to believe that infringing copies of the work will be made by means of the reception of the transmission in Hong Kong or elsewhere.
- (3) It is immaterial for the purpose of subsection (1)(c) whether or not the trade or business consists of dealing in articles specially designed or adapted for making copies of copyright works. (Added 64 of 2000 s. 3)
107. (2) In an action for infringement of copyright all such relief by way of damages, injunctions, accounts or otherwise is available to the plaintiff as is available in respect of the infringement of any other property right.
- (3) This section has effect subject to the following provisions of this Division.
108. (2) The court may in an action for infringement of copyright having regard to all the circumstances, and in particular to
- the flagrancy of the infringement;
- any benefit accruing to the defendant by reason of the infringement; and
- the completeness, accuracy and reliability of the defendant's business accounts and records, award such additional damages as the justice of the case may require.
109. (1) Where a person
- has an infringing copy of a work in his possession, custody or control for the purpose of, in the course of, or in connection with, any trade or business; or (Amended 64 of 2000 s. 6)
- has in his possession, custody or control an article specifically designed or adapted for making copies of a particular copyright work, knowing or having reason to believe that it has been or is to be used to make infringing copies,
- the owner of the copyright in the work may apply to the court for an order that the infringing copy or article be delivered up to him or to such other person as the court may direct.
111. (1) An application may be made to the court for an order that an infringing copy or other article delivered up in pursuance of an order under section 109 should be
- forfeited to the copyright owner; or
- destroyed or otherwise dealt with as the court may think fit,
- or for a decision that no such order should be made.
134. (1) The District Court may entertain proceedings under
- section 109 (order for delivery up of infringing copy or other article);

section 111 (order as to disposal of infringing copy or other article); or

section 113(7) (order as to exercise of rights by copyright owner where exclusive licensee has concurrent rights),

where the value of the infringing copies, or the alleged infringing copies, and other articles in question does not exceed the limit for actions in tort set out in section 32(1) of the District Court Ordinance (Cap 336). (Amended 28 of 2000 s. 45)

(2) Nothing in this section affects the jurisdiction of the Court of First Instance. (Amended 25 of 1998 s.2)

Mr Yau submitted that

the Court

as used in sections 108(2), 109(1) and 111(1) means the High Court and not the District Court. It is by section 134 that the District Court can also make orders under sections 109(1) and 111(1). However, section 134 does not enable the District Court to order additional damages under section 108 and the District Court has no power to do so. It was therefore necessary to bring this action in the High Court.

Mr Yan

s approach starts with a careful comparison of sections 31 and 32 with section 109. Such comparison reveals that only the act of having in possession, custody or control of an article specifically designed or adapted for making copies of a particular copyright work, knowing or having reason to believe that it is to be used to make infringing copies is an offence. All other acts and conduct described in section 109 are not offences and the common law does not give the copyright owner any relief in respect of them. Sections 109 and 111 filled in the gap and provided the copyright owner with relief for them. However, section 32 of the District Court Ordinance only provides the District Court with jurisdiction to hear and determine any action founded on contract, quasi-contract or tort where the amount of the Plaintiff

s claim does not exceed \$1,000,000. It has not conferred on the District Court jurisdiction to make orders under sections 109 and 111. The relief in these two sections is not to remedy any breach of contract or quasi-contract or tort. It is therefore necessary to have section 134 of the Copyright Ordinance so as to confer jurisdiction on the District Court to make orders under sections 109 and 111.

However, the additional damages given under section 108 are also damages for tort. The District Court can surely award such damages under section 32 of the District Court Ordinance. It is therefore unnecessary to bring this case to the High Court just for the sake of the additional damages in section 108. I agree with Mr Yan.

I do not quite understand the 4th point. When the action was commenced, I do not think either side had wanted to prolong it or to have it pending for five years. The Defendants in fact conceded on liability right from the start. I cannot see any connection between the bringing of the action in the High Court at the start and the interest accrued so far. I also note that the \$150,000 paid into court by the Defendants included the interest accrued for the five years elapsed since commencement.

On the last point, I cannot see any complexity of this case. It only involved a simple header card for some war toys. I also note that copyright and/or passing off cases are frequently brought in the District Court. I do not think this case involved any degree of complexity which would have required or justified it to be brought in the High Court.

Mr Yau further argued that if the Plaintiff should fail to convince me that the High Court Scale should apply throughout the conduct of the action, then the Plaintiff should have two fall back positions which are dates up to which the Plaintiff should obtain costs on the High Court Scale. This submission is based on the alleged difficulty in assessing quantum of damages. The 1st fallback position is the date of filing of the Points of Defence in the enquiry of damages on 18 July 2005. The 2nd fallback position is sometime in November 2004 when discovery pursuant to Master Ho

s order was completed. Again I cannot see any significance of these two dates or the events which happened on or about these dates in so far as quantum of the claim is concerned.

Decision

In the light of the discussion above, but for the statutory scheme on costs upon acceptance of payment into court, I would have dismissed the appeal. However because of the statutory scheme, I have no choice but to allow the appeal. I also order the costs of the appeal be to the Plaintiff.

(L. Chan)

Deputy High Court Judge

Mr Albert Yau, instructed by Messrs Hastings & Co., for the Plaintiff

Mr John Yan, SC, instructed by Messrs Ho & Wong, for the 1st, 2nd, 3rd, 4th and 5th

Defendants

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Prepared on 27 October 2026 · Esheria