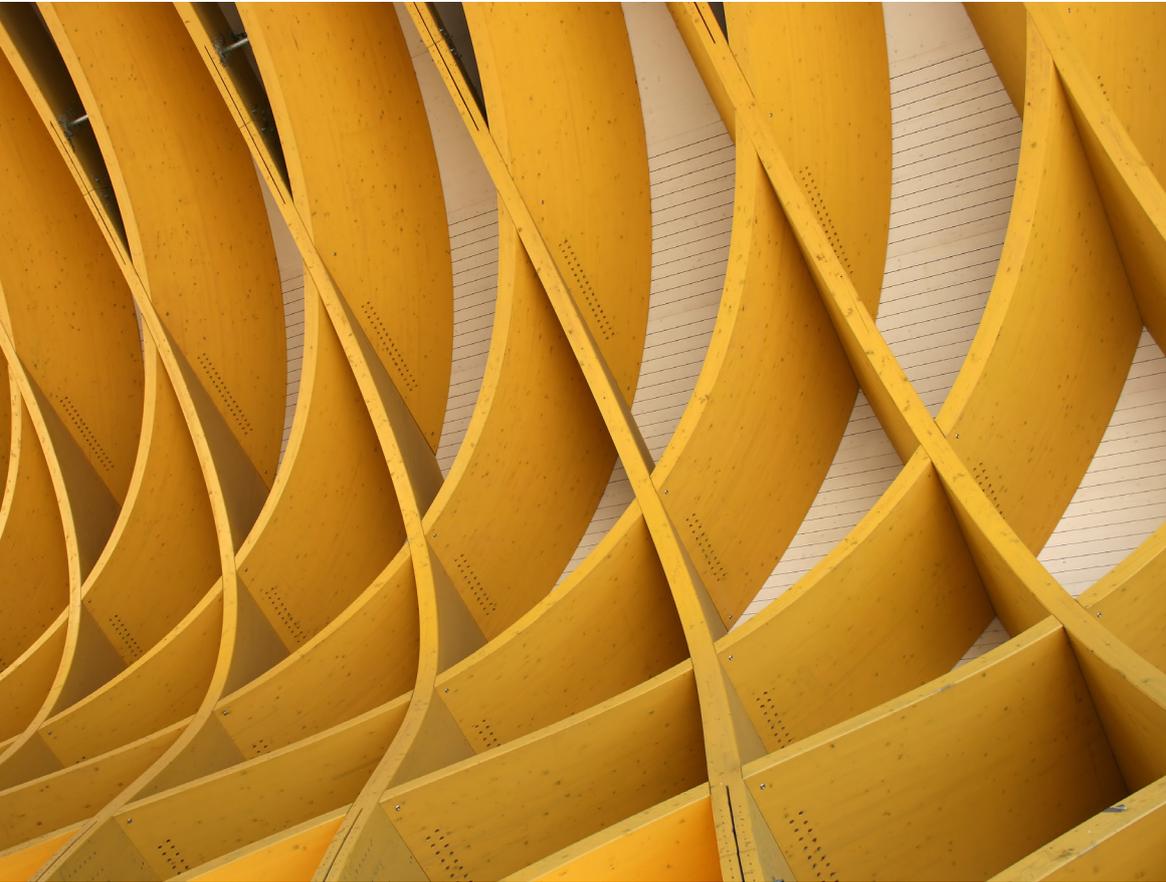


# China Newsletter

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August 2020



## Apple, Rabbits and Trolls

In this edition we cover numerous areas of IP from patents to designs and trade marks. We also explore several key decisions including the highly anticipated Apple v Xiao-i lawsuit.

# Hey Xiaoi: Apple Faces £1.1 Billion Patent Lawsuit after China's Supreme Court Restores Validity of Xiao-i Patent

Following a recent judgement handed down by the Supreme People's Court of China, confirming the validity of a Chinese patent entitled "chat robot system", the patent owner Shanghai Zhizhen Intelligent Network Technology Co., Ltd., also known as Xiao-i ("Little i"), has now filed a new patent infringement lawsuit against Apple Inc. Xiao-i is seeking 10 billion yuan (£1.10 billion) in damages, and demands that Apple cease "manufacturing, using, promising to sell, selling, and importing" products that infringe on the patent. This move could prevent Apple from selling most of its products in its second-largest market.

By Kirwin Lee

In a blow to Apple, the decision of the Beijing's top court ruled in June 2020 effectively reverses the previous judgement made by Beijing High Court and restores the first instance ruling that the patent in question (patent number: ZL200410053749.9) is valid. This patent has been a key point of contention in Xiao-i's long standing infringement campaign against Apple, as summarised in the events timeline below:

- June 2012: the original lawsuit was filed by Xiao-i at Shanghai First Intermediate Court. Xiaoi asserted that the virtual assistant function on Apple's iPhone, which is better known as Siri, infringes the "chat robot system" patent.
- November 2012: Apple filed an invalidation request to the Patent Reexamination Board (PRB) of the SIPO (i.e. the predecessor of CNIPA) against the patent in question.
- September 2013: the PRB decided in favour of the patent's validity, confirming the patent's "indisputable creativity, novelty and stability", the decision subsequently affirmed by the Beijing First Intermediate Court.
- July 2014: Apple filed an appeal to Beijing High Court against the validity

decision of Beijing First Intermediate Court.

- April 2015: The Beijing High Court overturned the decision of Beijing First Intermediate Court, thus invalidating the patent.
- May 2015: Xiao-i appealed the invalidity decision of Beijing High Court to the Supreme People's Court, the appeal case was subsequently accepted for review in December 2016.
- June 2020: The Supreme People's Court reversed the Beijing High Court decision, restoring validity of the patent.

The patent in question relates to a voice-activated personal assistant application, and the major issue considered by the Chinese courts over the course of the campaign concerns whether a game server feature of the invention was sufficiently disclosed in the application under Chinese Patent Law.

The Beijing High Court considered the patent to be invalid on the basis that there is no disclosure with regard to the connection between the game server and the other components of the chat robot.

However, in overturning the High Court's

decision, the Supreme Court ruled that the sufficiency requirements with regard to features that are already known in the prior art should be lower than those for distinguishing features (i.e. features beyond the scope of knowledge and ability of those skilled in the art). In considering the content of the disclosure of the patent as a whole as well as the presented evidence, the Supreme Court determined that the features associated with the game server belongs to existing technology and therefore it was not necessary to describe these features in detail in order to fulfill the requirements for sufficiency of disclosure.

Due to the high-profile involvement of Apple as well as the patent concerning the field of artificial intelligence, the case



*“It is speculated that China’s courts could ban Apple from selling products with Siri in the country for the duration of the trial.”*

has attracted widespread attention from the public. In fact, even the preceding rulings by the Beijing First Intermediate Court and the Beijing High Court were selected to be included in “Top Ten Patent Invalidation Cases in 2013” and “Top Ten Typical Cases of Intellectual Property in Beijing Courts in 2015” as published by CNIPA. The judgement handed by the Supreme Court not only provides much-needed clarification on sufficiency requirements, but also sets an important judicial precedent by affirming the principles set out in China’s Guidelines for Patent Examination.

It is speculated that China’s courts could ban Apple from selling products with Siri in the country for the duration of the trial. However, these types of interim injunctions are seldom granted as noted by Chinese litigation practitioners. In any case, as we are only a few months away from the launch of the 2020 iPhones, Apple may be under increased pressure to settle so as to avoid potential risks of a sales ban.

## 2020: The Year of the Rabbit?

The Rabbit is considered to be the luckiest of the 12 animals of the Chinese zodiac. Although the next Year of the Rabbit is not until 2023, a recent judgement from the Guangzhou IP Court suggests that 2020 may also be a prosperous year for the Rabbit.

By Patrick Chapman

The Guangzhou IP Court, one of three Chinese IP courts established in 2014 (the other two in Beijing and Shanghai), has recently issued a first-instance judgment in respect of a design patent infringement case brought by an

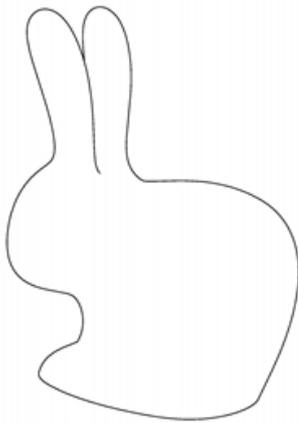
Italian company, Giovannoni Design S.R.L (Giovannoni).

Giovannoni is owned by the world-renowned designers Elisa Gargan Giovannoni and Stefano Giovannoni who

have designed iconic pieces for the likes of Alessi, Magis and Bertazzoni.

Giovannoni alleged that their Design Patent No. 303557311 was infringed by products sold by Boyuan Rotational Molding Technology Company (Boyuan). Boyuan specialise in the manufacture of glowing LED products, particularly furniture.

Design Patent No. 303557311 (Application No. 201530388869.3) was filed on 9 October 2015 and claims priority to European Application No. 002747345-0001 filed on 31 July 2015. The design is the work of Stefano Giovannoni and relates to a rabbit-shaped chair, as shown below:



Giovannoni sells chairs and also lamps made to this design under their brand Qeeboo.

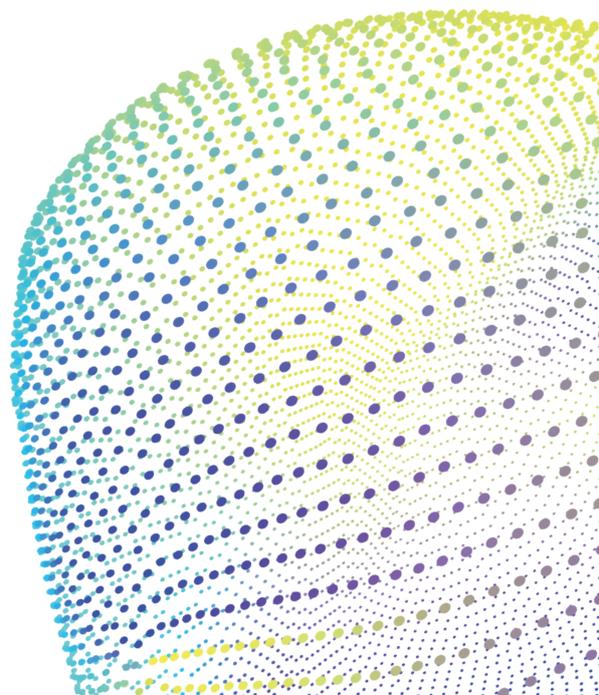
Interestingly, Giovannoni also filed a further Chinese application (Application No. 201630160156.6; Design Patent No. 303938586) on 4 May 2016 showing the same design but this time with the brief description indicating that the product was a lamp, rather than a chair.

During the proceedings, Boyuan attempted to argue that their products were not chairs, but lamps. This raises the question as to why Giovannoni did not choose to enforce the later patent referring explicitly to lamps?

The answer to this appears to be as a result of a significant difference between European and Chinese laws which is worth bearing in mind: in Europe there is a 12-month grace period during which the applicant's own disclosures are not considered to form prior art against a later-filed application, but no such provision exists under Chinese law. Accordingly, Giovannoni's earlier application for the chair design would be citable against this later application under Chinese law, whereas it is not under European law.

Fortunately for Giovannoni this did not matter. Boyuan had described their product as being a chair on their website and so unsurprisingly this argument did not get them very far and the Judge found the products to fall within the scope of protection.

It is worth noting that under European law the indication of product given in the application does not affect the scope of protection as such. Accordingly, a registered design for a chair should also cover a lamp if visually they were the same (or sufficiently similar). Nevertheless, practitioners do sometimes include (as was the case here) different indications of product as a precaution since there may be situations where the indication of product could indirectly affect the scope of protection.



***“There has historically been a belief that intellectual property rights are difficult to enforce in China”***

It is not clear whether the position is materially different in China. Article 59 of China’s Patent Law states that “the scope of protection shall be confined to the design of the product as shown in the drawings or pictures, and the brief description may be used to explain the said design as shown in the drawings or pictures”. Accordingly, while the brief description can be used to explain the design, it is not clear whether it would have limited the scope of protection to chairs only in this instance. The Judge

did not need to consider this further in the present case and so, unfortunately, did not provide clarification on this.

There has historically been a belief that intellectual property rights are difficult to enforce in China, particularly for western businesses. This case goes further to dispel that myth and demonstrates that the Chinese IP Courts offer a fair and considered forum for litigants.

Boyuan has subsequently appealed the judgement to the Guangdong High Court. It will be interesting to see how this case develops and whether any of the points raised here are explored in further detail in the appeal.

## Software Inventions in Europe and China

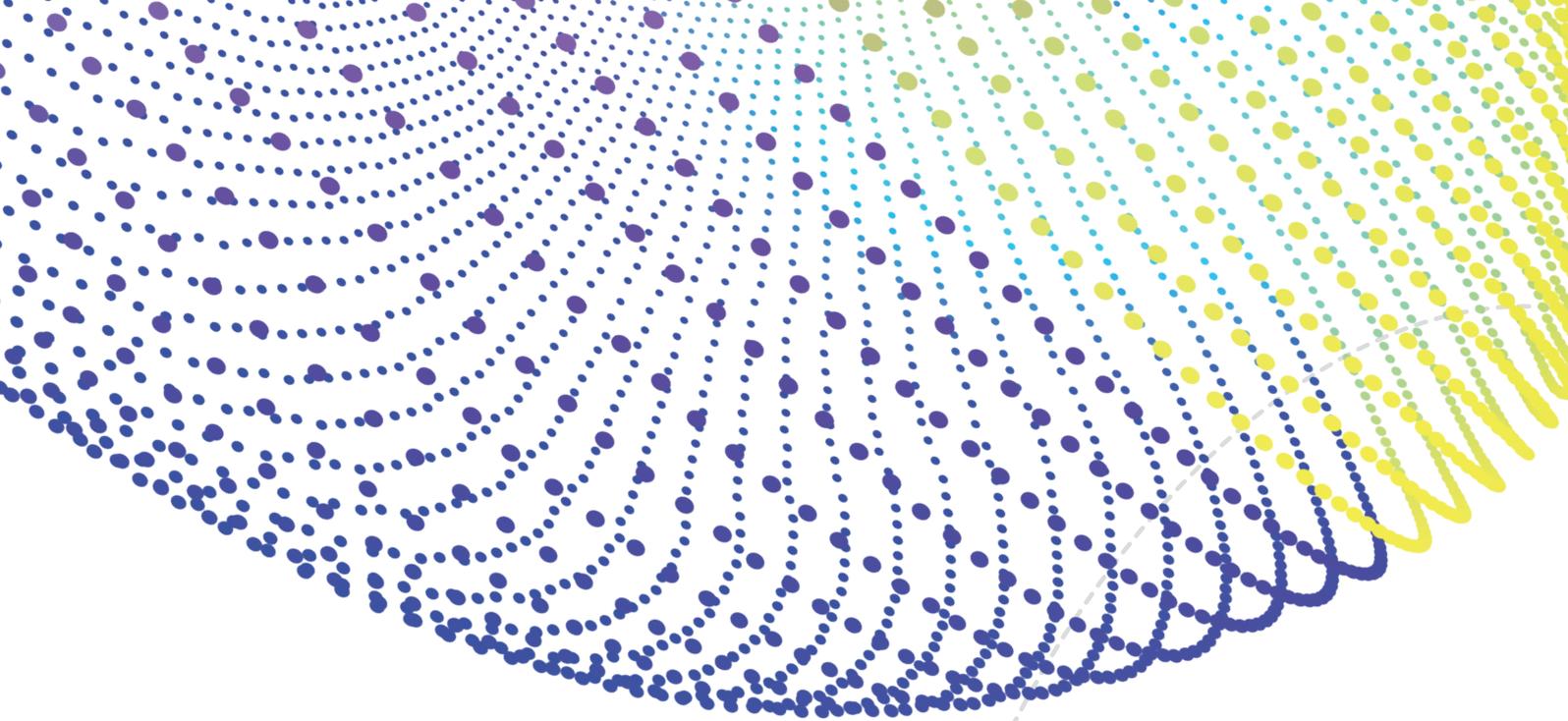
Last year, we looked at the patentability of blockchain inventions in Europe and China, noting the differences and similarities between how these cases are handled in the two jurisdictions. However, blockchain inventions account for only a small fraction of software inventions, which are often also referred to as computer-implemented inventions. This year, we take a look at the broader field of software inventions and consider the tests that may be applied to determine whether or not a software invention is patentable.

By Monique Henson

At first glance, the chances of obtaining a patent for a software innovation in Europe or China do not seem to be all that promising. Both jurisdictions exclude computer programs from patentability as such. However, those two little words – as such – go a long way.

Under the revised office guidelines of 2017, the China National Intellectual Property Administration (CNIPA) distinguishes between computer programs per se, which are excluded from patentability, and inventions that involve the use of a computer program, which are eligible for patent protection if they constitute a





technical solution. When determining whether a claim constitutes a technical solution, the limitations in the claim are considered as a whole to determine whether they address a technical problem, apply a technical means and achieve a technical effect. Provided these criteria are met, the invention is not excluded from patentability.

In Europe, computer-implemented inventions have to overcome two key hurdles. The first hurdle is the eligibility test, which can be overcome by including technical means (e.g. a processor or computer) in the claims. The second hurdle requires a technical contribution to inventive step, which means that the computer program must produce a further technical effect that goes beyond the physical interactions between the software and the computer on which it is run. Thus, a computer program does not derive a technical character simply because it can be implemented on a computer – it must also produce a further technical effect.

In practice, a software invention may be patentable in both Europe and China if it provides a technical solution to a technical problem. Where a claim contains both technical and

non-technical features (e.g. “mixed” inventions), features which, in isolation, would be considered to be non-technical may still contribute to producing a technical effect in the context of the invention. Thus, in both China and Europe, it is important to consider the claim as a whole when assessing whether or not the claimed subject-matter constitutes a technical solution.

However, there are notable differences between the approaches in China and Europe. For example, claims to data structures or signals may be difficult to prosecute in China, as they are often excluded according to the prohibition of inventions solely covering rules and methods for mental activity and scientific discovery. In contrast, the Guidelines for Examination for the European Patent Office specifically state that a computer-implemented data structure or format embodied on a medium or as an electromagnetic carrier wave has a technical character and is thus an invention according to European practice.

This highlights the importance of providing a support for appropriate claims in all jurisdictions when drafting patent applications.

# Original Equipment Manufacturing (OEM) in China: Significant Result for Trade Mark Owners

In 2011, China's manufacturing output surged by 23% from the previous year, and it became the world's largest manufacturing nation, taking over from the US's 110-year run as the number one country in factory production. As a result, the case law in relation to the use of registered trade marks in the manufacturing process has been developing over time in China. This year saw an important decision for Chinese trade mark owners in this area of law.

By Sanjeet Plaha

## What is OEM?

OEMs are outsourced manufacturers for brand owners' products and components, whereby the purchasing company goes on to sell the goods manufactured under its own brand. Using an OEM allows the purchasing company to obtain products and components without owning and operating its own factory, making the production line more cost effective. As products manufactured using OEMs are usually intended for export, brand owners have not historically needed to register their own trade marks in the country where manufacturing has taken place.

## Historical case law

There has been a string of cases in recent years in China regarding OEM and how it fits into Chinese trade mark infringement legislation.

*Pujiang Yahuan Lock Co Ltd v Focker Security Products International Limited* ((2014) MinTiZi No 38) (Pretul) was the leading authority in relation to whether OEM manufactured products infringed a trade mark owner's rights. The Supreme People's Court (SPC) held that OEM was not "trade mark use", as simple affixation of a mark onto a product, in China, did not perform a trade mark's basic function of identifying the product source. The

products were to be exported and used by brand owners abroad, not in the country of manufacture. This was soon reinforced by the SPC's decision in *Dongfeng*.

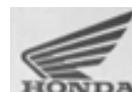
These decisions were problematic for brand owners, as they allowed third parties to manufacture in China and export counterfeit / infringing goods, without any recourse in the Chinese courts.

## 2020 Honda case

A marked departure from the previous case law, the SPC's 2020 judgment in *Honda Motor Co Ltd v Chongqing Hengsheng Xintai Trading Co Ltd* (2019) (HONDAKIT), has changed the position in favour of brand owners. This decision appears to mark the dawning of a new era in which the SPC may no longer permit OEM goods for export to be exempt from trade mark infringement.

Honda has the following Chinese registrations protected in relation to motorcycles and parts:

**HONDA**



The Defendant, Heng Sheng, produced motorcycle parts bearing "HONDAKIT"



for Meihua, a company in Myanmar. Meihua provided Heng Sheng with copies of its Burmese “HONDAKIT” trade mark registrations.

In June 2016, Kunming customs seized the “HONDAKIT” products on the basis that they infringed Honda’s trade marks. However, after realizing that the seized motorcycle parts were OEM products, Kunming customs could not make a decision as to whether the products were infringing, due to the SPC’s attitude in relation to OEM products.

To obtain clarity, Honda sued Heng Sheng for trade mark infringement. At first instance the court ruled that the products were infringing, but that decision was overruled at second instance. Honda persisted, and the case was re-tried by the SPC.

The HONDAKIT mark was found to be confusingly similar to Honda’s Chinese trade marks. Although the Burmese trade mark registration was for “hondakit”, on the parts being manufactured in China HONDA was capitalised, and coloured red, and the products featured a wing device.

In the PRETUL case, the Court focused on

the destination and end market of the goods in dispute. Since the products in that case would not be sold on the Chinese market, the trade mark would not create confusion among relevant Chinese consumers regarding the source of the goods.

The HONDAKIT case focussed on the likelihood of confusion caused by the OEM. Helpfully, the SPC gave the definition of “relevant public” as including any person that may have access to the OEM goods. The SPC highlighted that although the HONDAKIT OEM products were not sold in China, Chinese consumers may still be confused. With the expansion of e-commerce and the internet, it was possible that end consumers in Mainland China could have access to the OEM products or they might return to the Chinese market later. This broader definition of “relevant public” influenced the SPC’s decision and, consequently, trade mark infringement was found.

### Conclusion

This landmark decision will be welcomed by brand owners as they may now be able to initiate trade mark infringement proceedings against counterfeit goods intended only for export. On the other hand, companies who themselves use a Chinese OEM may face their goods being prevented from leaving China if they have failed to secure a trade mark registration and a third party does so instead. The case underlines the critical need for brand owners to ensure they have secured Chinese trade mark protection, whether or not they use a Chinese OEM or are commercialising their products in China.

# Does Recent Tencent Case Indicate a Shift in the way Companies Deal with Patent Trolls?

In a recent case before the Guangdong High Court, damages were awarded to Tencent in a tort action against a patent owner as a result of litigation by the patent owner that was found to be malicious. In *Tencent v. Tan Fawen*, [(2019) GD. Civil. Fin. No. 407] (June 10, 2019), the Guangdong Higher People's Court affirmed 500,000 Yuan awarded to Tencent by the Shenzhen Intermediate People's Court of Guangdong Province in an action against Tan Fawen.

By Chris Grieves

## Patent Trolls

A 'patent troll' or 'patent squatter' is a company or individual who acquires design patent rights with the intention of making improper gains from the patent against a genuine rights owner. The design patents registered by patent trolls are often copied from copyrighted content with a view to harass the copyright owner by initiating patent litigation. Such copying is possible due to the lack of substantive examination of design patents in China. Companies will often choose to settle actions initiated by patent trolls so as to avoid the expense of resolving disputes through the courts.

## The Case

In January 2010, Tan Fawen registered a 'Mini Penguin' design patent which copied Tencent's copyrighted and trademarked 'QQ Penguin' logo. After registering the design patent, Tan Fawen started selling speakers with the 'Mini Penguin' image. As a result, Tencent brought an action before the Shenzhen Futian District People's Court against Tan Fawen in March 2011 for infringement of the copyright and trademark of their 'QQ Penguin' logo.



Left: Tencent's copyrighted and trademarked 'QQ Penguin'; Right: Tan Fawen's 'Mini Penguin' design

The infringement case was settled, with Tan Fawen agreeing to stop the infringement and abandon the 'Mini Penguin' design patent or transfer it to Tencent. However, Tan Fawen did not abandon or transfer the right and, in February 2016, he sued Tencent for infringement of his 'Mini Penguin' design patent, seeking patent royalties of 900,000 Yuan. Tan Fawen brought the infringement action before the Shenzhen Intermediate People's Court of Guangdong Province. Tencent sought to invalidate Tan Fawen's design patent in response to the infringement action.

Tencent were able to get the design patent invalidated by The State IP

Office by demonstrating the substantial similarity between Tan Fawen's 'Mini Penguin' and Tencent's prior trademarked and copyrighted 'QQ penguin'. As a result of the invalidation of the design patent, the Shenzhen Intermediate People's Court rejected Tan Fawen's infringement action.

Tencent then filed the tort action against Tan Fawen in 2018, seeking damages for Tan Fawen's infringement lawsuit which they considered to be malicious since Tan Fawen knew his design patent was invalid. Before the Shenzhen Intermediate People's Court, Tencent alleged that Tan Fawen had intentionally registered the design patent for the 'Mini Penguin' which copied their well-known 'QQ Penguin' image and had deliberately refused to comply with the settlement of the earlier infringement case.

### The Outcome

The court considered that the following requirements should be met to determine whether an intellectual property lawsuit is maliciously filed:

1. A party filed a request by filing an intellectual property lawsuit.
2. The party making the request has subjective maliciousness.
3. The lawsuit has actual damage consequences.
4. There is a causal relationship between the requesting party's act of filing an intellectual property lawsuit and the damage consequences.

Regarding requirement 2, the so-called maliciousness means that the party making the request knows that the request lacks justified reasons, improperly exercises the right of litigation against the other party, and intends to cause the other party to

***“The design patents registered by patent trolls are often copied from copyrighted content with a view to harass the copyright owner by initiating patent litigation.”***

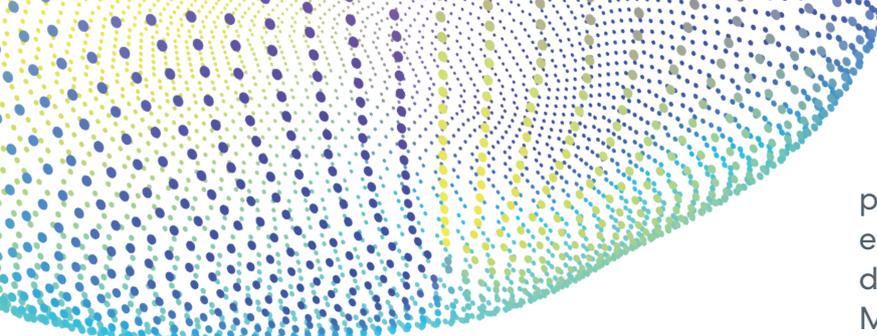
suffer damage. In this case, the court determined that Tan Fawen's actions were malicious because he knew and acknowledged from the earlier settlement with Tencent that his 'Mini Penguin' design patent copied Tencent's 'QQ Penguin' image.

The Shenzhen Intermediate People's Court therefore determined that the litigation was malicious and that Tan Fawen filed a patent infringement lawsuit against Tencent knowing that his request lacked a valid reason, causing economic losses to Tencent. The court ordered Tan Fawen to pay Tencent 500,000 Yuan in compensation.

Tan Fawen appealed the decision to the Guangdong Higher People's Court. However, the appeal was unsuccessful and the Guangdong Higher People's Court affirmed the ruling of the Shenzhen Intermediate People's Court.

### Conclusion

It is worth noting, in this case, that the previous infringement settlement between Tencent and Tan Fawen influenced the court's view of the case. The court noted in their decision that, from the earlier settlement, Tan Fawen knew that his design patent was basically the same as Tencent's copyrighted works of art, and that he made a clear commitment to withdraw the patents involved. It therefore appears that the earlier agreement by Tan Fawen to abandon or transfer the design patent was ultimately seen by the court as an acknowledgement of the impropriety of the design patent and thus confirmed that the subsequent



litigation was not justifiable and violated the principle of good faith. The earlier settlement therefore made it easier for the court to conclude that Tan Fawen knew the infringement claim lacked the right basis and was filed improperly.

Furthermore, given the circumstances, the court may have felt that it was necessary for such a violation of the principle of good faith to be punished in order to set a precedent for similar cases and to discourage patent trolls. The ruling is in line with a wider effort in China to minimise dishonest and malicious litigation. It could be argued that this effort to clamp down on such cases also, in turn, increases the protection conferred by registered trademarks and copyright or, at the very least, improves the enforceability of these rights against the improper rights of patent trolls.

While it may be unlikely that the malicious litigation ruling will have an immediate impact on the behaviour of

patent trolls, this case may well have an effect on the way in which companies deal with patent trolls in the future. Many big companies have a history of settling cases with patent trolls and it is possible that the intention of the tort action by Tencent was to send a message to other parties looking to exploit Tencent's IP rights. Alternatively, the tort action may have been a result of the value of the 'QQ Penguin' to Tencent and their desire to protect an image that is so strongly associated with their brand. Either way, it will be interesting to see whether this decision causes Tencent and other companies to take a stronger stance against patent trolls in the future.

Given their profile, Tencent's success in this case sends a positive signal to the wider industry and to IP practitioners. The ruling of the court in favour of Tencent is a positive outcome for genuine rights owners and can be seen as a clear message from the courts that actions violating the principle of good faith will not be tolerated. Hopefully this message will be heard by those looking to abuse the system and will serve as a deterrent to individuals or companies looking to initiate litigation to obtain improper benefits.

## Contact us

### **Kirwin Lee**

Senior Associate

[klee@hkl-ip.com](mailto:klee@hkl-ip.com)

+44 (0) 207 611 7900

### **Daniel Chew**

Partner, Head of Asia Group

[dchew@hkl-ip.com](mailto:dchew@hkl-ip.com)

+44 (0) 207 611 7900

### **Michael Conway**

Partner

[mconway@hkl-ip.com](mailto:mconway@hkl-ip.com)

+44 (0) 117 910 3200

### **Li Min (Ellie)**

Chief Representative for China

[lmin@hkl-ip.com](mailto:lmin@hkl-ip.com)

+86 (0) 20 2826 1916