HCMP 107/2012

IN THE HIGH COURT OF THE

HONG KONG SPECIAL ADMINISTRATIVE REGION

COURT OF FIRST INSTANCE

MISCELLANEOUS PROCEEDINGS NO 107 OF 2012

BETWEEN

MUGINOHO CO LTD Plaintiff

and

VIMIU HK CO LTD Defendant

Before : Deputy High Court Judge M Chan in Chambers

Date of Hearing : 24 February 2012

Date of Decision : 24 February 2012

D E C I S I O N

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1. On the question of whether the interim injunction order granted on 10 January 2012 should be discharged, there have been arguments over whether the hearing before Deputy High Court Judge Louis Chan was an inter-partes or an *ex-parte* hearing such that the duty to make full and frank disclosure applies to the plaintiff.

2. In paragraph 29/1/40 of the Hong Kong Civil Procedure, the notes provide that where a plaintiff moves *ex-parte* and the defendant is present and addresses the court, the hearing is effectively inter-partes.

3. In *Chu Shu Ho David and Mission Hills Golf Club Limited v Lam Hon Lit Harry* HCA3525 / 2002 and HCA3618 / 2002 30 October 2002, Chu J (as she then was) dealt with a similar situation when, at the hearing of an inter-partes summons, Burrell J adjourned an application for injunction after hearing arguments, but granted an interim injunction. In ruling that the order was an inter-partes one, Chu J pointed out that the question is not to be decided by seeing whether arguments had been advanced by both parties, but by seeing whether the opposing party had been afforded a reasonable opportunity to argue against the application if it so wished. If due notice of the application had been given to the responding party, then the hearing and the order made is to be regarded as inter-partes. In that case, seven days' notice had been given to the responding party, who was able to make oral and written submissions on the merits of the two issues before the court: whether the application should be adjourned, and whether an interim injunction should be in place pending the determination of the summons.

4. In the present case, the plaintiff's summons for the injunction was issued on 16 January 2012, and the hearing before Deputy High Court Judge Louis Chan took place on 20 January 2012. The defendant was not able to present any evidence in opposition by then, although it was represented by counsel who did make submissions on delay and on whether an interim injunction should be granted. In view of the short notice of the hearing and the fact that Japanese proceedings and matters governed by Japanese law are relevant to the application, I cannot say that the defendant in this case had been afforded a reasonable opportunity on 20 January 2012 to argue against the grant of the injunction sought by the plaintiff. On this basis, I would rule that the application for the interim order made on 20 January was *ex-parte*.

5. Even if the hearing on 20 January 2012 and the order made that day can be said to be inter-partes in the sense that due notice had been given to the defendant, and arguments had been presented on the defendant's behalf, I would not go on to say that the plaintiff did not have the duty to make disclosure to the court of material facts of which it had knowledge. When the interim injunction order was made on 20 January, the court only had the evidence of the plaintiff before it. A party which comes to court for relief, particularly discretionary or equitable relief, has the obligation to place before the court all matters which are relevant to the court's determination of the issues and the cause before it. The Civil Justice Reform makes it clear that the parties have the duty to assist the court to further the objectives of the rules, and the court's just resolution of the dispute in accordance with the parties' substantive legal rights.

6. The plaintiff therefore has the duty to disclose all matters which are material for the judge to know, to enable him to exercise his discretion properly. It is clear that the correct test for materiality is as set out in *Wardle Fabrics Limited v G Myristics Limited* 84 FSR 263: It is not simply whether, if the non-disclosure had not occurred, the *ex-parte* judge would nevertheless have made the order, but whether the facts not disclosed, being relevant, should have been put in the scales.

7. The fact that the plaintiff was a party to proceedings before the Osaka District Court in 2002, in which a ruling was made that the mixing ratio of the ingredients for the puff dough and the pie dough is not a trade secret under a particular statute in Japan is, in my judgment, a relevant matter which should have been disclosed to the court on 20 January 2012. It is a factor which the court would have considered in the exercise of its discretion whether or not to grant the injunction sought.

8. The plaintiff argues that ingredients combination is but one of many other elements of the confidential information covered by the contractual covenants contained in the Agreement between the plaintiff and the defendant which the plaintiff seeks to enforce. However, in representing to the court that the recipe and the manufacturing process of its products are confidential, the plaintiff ought also to disclose the fact that at least the two elements of the whole manufacturing process, or the recipe, as the plaintiff calls it, were considered by one Japanese court to be in the public domain. I consider that it was misleading for the court not to be informed of the gist of the Osaka decision.

9. Although I find that the plaintiff has failed to make disclosure of a material fact concerning the Osaka District Court decision, the court has a discretion to continue the injunction or to make a new order.

10. As the plaintiff was a party to the action in which the Osaka decision was made, it cannot be said that it was not aware of the decision. However, on all the evidence in this case, in particular the evidence of the plaintiff and his Japanese lawyers as to the effect and context in which the Osaka decision was made, I consider that the plaintiff's non-disclosure, or failure to disclose, if any distinction should be made, was innocent in the sense that the relevance of the decision was not fully and properly perceived.

11. Moreover, even if the Osaka decision had been disclosed at the hearing on 20 January 2012 and the full facts were known, I am of the view that the interim injunction order would still have been properly granted. The Osaka decision and the conflicting advice on Japanese law only goes to show that there is a serious question to be tried as to the confidential information covered by the Franchise Agreement.

12. On the broader question of whether the injunction should be granted under the inter-partes summons, the issue is whether interim relief should be granted under section 45 of the Arbitration Ordinance.

13. Before the Civil Justice Reform, the High Court could not grant interim relief unless it was in support of substantive proceedings commenced or to be commenced in Hong Kong. However, under the Civil Justice Reform, a new section 21M was introduced to the High Court Ordinance, and what used to be section 2GC of the Arbitration Ordinance was amended. Under section 2GC (1), the court was able to grant interim relief in aid of arbitrations which have been or will be commenced outside Hong Kong.

14. The position now is of course governed by section 45 of the new Arbitration Ordinance. This provides that on the application of any party, the court may grant an interim measure in relation to any arbitral proceedings which have been or are to be commenced outside Hong Kong. The interim measure may only be granted if the arbitral proceedings outside Hong Kong are capable of giving rise to an arbitration award that may be enforced in Hong Kong, and the interim measure sought belongs to a type or description that may be granted in Hong Kong in relation to arbitration proceedings by the court.

15. The plaintiff and the defendant have now commenced arbitration proceedings in Japan. Japan is a party to the New York Convention and an arbitral award made in Japan can be enforced in Hong Kong.

16. The court may, under section 45(4), decline to grant interim measures on the ground that the interim measure sought is currently the subject of arbitration proceedings, and the court considers that it is more appropriate for the interim measure sought to be dealt with by the arbitral tribunal.

17. Section 45(7) of the Arbitration Ordinance provides that in exercising its powers to grant interim measures in relation to arbitral proceedings outside Hong Kong, the court must have regard to the fact that the power is ancillary to the proceedings outside Hong Kong, and is for the purpose of facilitating the process of an arbitral tribunal outside Hong Kong that has primary jurisdiction over the proceedings.

18. It is submitted for the defendant that firstly, the parties have chosen to go for arbitration in Japan, and they should be allowed to pursue the matter there. Secondly, it is argued that it is not appropriate to grant an injunction order which will pre-empt the decision which will ultimately be made by the arbitral tribunal and thirdly, the court should not usurp the functions of the arbitrator.

19. The amendments brought by the Civil Justice Reform to section 21M of the High Court Ordinance and the corresponding amendments to the Arbitration Ordinance were made for the purpose of facilitating foreign proceedings, taking comity into account. The interim measures contemplated by sections 45 and 35 of the Arbitration Ordinance are "temporary measures" to maintain or restore the status quo pending determination of the dispute, or orders aimed at preventing imminent harm or prejudice to the arbitral process.

20. Notwithstanding the fact that Japanese law is the governing law of the Agreement, I do not see that any interim injunction order to preserve the status quo of the parties will pre-empt the ultimate award which the Japanese arbitral tribunal may grant, or usurp its functions. As Deputy High Court Judge Louis Chan's order of 20 January 2012 states, the order by this court can be made subject to the award, orders or directions of the tribunal in Japan.

21. I see no sufficient cause to decline making the order sought by the plaintiff on the basis that it is more appropriate for the Japanese tribunal to grant the interim measures.

22. Should, then, the court grant the interim injunction sought by the plaintiff in its inter-partes summons?

23. The defendant accepts that, at this stage, the *American Cyanamid* principles apply. There is clearly a serious question to be tried.

24. On the question of the adequacy of the damages, I have no doubt that if the plaintiff should succeed in its claim in the arbitration proceedings for unlawful termination of the Master Francise Agreement and wrongful use of confidential information, it would not be adequately compensated by damages. It cannot be right that the plaintiff's only damage will be quantifiable and only in terms of loss of royalties. The plaintiff is at serious risk of not getting supplies of ingredients for its franchised products from the defendant's plant and suppliers in China, and of losing its franchisees in Hong Kong and China, and in the interim, the defendant would be able to continue with activities in breach of the Agreement, using confidential information of the plaintiff. Until the plaintiff can re-establish its network, it would suffer irreparable damage in terms of loss of business opportunities, client goodwill and reputation.

25. Any damage that the defendant may suffer if the injunction were granted would be adequately covered by the plaintiff's undertaking as to damages. The defendant has not raised doubts as to the plaintiff's financial position or its ability to pay. Bearing in mind the fact that the defendant only commenced its new franchises and ventures after termination of the Agreement at the end of September 2011, the damage likely to be suffered by the defendant would be less extensive.

26. I see no reason to refuse the injunction sought, but even if I was wrong on the adequacy of the defendant's remedies in damages by looking to the plaintiff's undertaking, clearly the status quo should be preserved, particularly with regard to the fact that the injunction is sought as an interim measure in aid of the Japanese arbitration proceedings.

27. The order granted by Deputy High Court Judge Louis Chan was continued up to today. For the reasons given, despite the failure of the plaintiff to disclose a material fact, I am prepared to continue the order of 20 January 2012, subject to a few variations. In the definition of "confidential information" on page 6 of the order, after the reference to " (1) product recipes, materials blending, and manufacturing processes", the following words should be inserted : "but excluding: (a) the mixing ratio of the ingredients for the puff dough and the pie dough; and (b) the recipe for the cream filling; which are in the public domain ".

28. The order, as already provided for in the order of 20 January 2012, will be pending the determination of the originating summons and subject to the award, orders or directions of the tribunal in Japan or until further order.

29. In view of my decision, I consider that the fair order in relation to costs would be that the costs of the summons to discharge are to be the defendant's costs in any event. The costs of the inter-partes summons are to be the plaintiff's costs in the cause, and I will leave it to the taxing master to allocate the costs of the discharge aspect from the costs generally necessary for the application for the injunction order.

Discussion re costs of last hearing

30. I will make it clear that whatever costs which were incurred on the last occasion as may be attributable to the grant of the injunction would be to the defendants in any event.

(Mimmie Chan)
Deputy High Court Judge

Mr Eugene Fung, instructed by Deacons, for the plaintiff

Mr John Yan, SC, and Mr Philip B F Wong, instructed by King & Wood, for the defendant