IN THE EASTERN MAGISTRATES' COURTS OF THE

HONG KONG SPECIAL ADMINISTRATIVE REGION

CRIMINAL CASE NO. 3844 OF 2005 & 24570 OF 2005

Between

HKSAR

and

WAN WAH TONG 1st Defendant
HECTRIX LIMITED 2nd Defendant

Before: Mr. Li Wai-Chi

Date of Judgment: 10th February 2006 5:57 pm

JUDGMENT
---

1. The defendant stands up. One of the evidences with no dispute is that the 1st defendant, Mr. Wan, and his company Hectrix Limited retained a small computer component named "source disk", and this component was given by the 1st prosecuting witness, Mr. Brian Leung, to a staff member of Hectrix called Mr. Li Him. This had happened after the Memorandum of Understanding on 10th July 2001 had been signed. This component was used by Hectrix for uploading and installing the firmware version 3.34097 to the iGuard fingerprint device.

2. At the end of this 10th July 2001 agreement, i.e., in May 2003, Mr. Wan and Hectrix continued to retain this "source disk". As shown in the prosecuting exhibit P8, the 1st prosecuting witness Mr. Leung had notified Mr. Wan the termination of this agreement. And by default, this 10th July 2001 agreement will come to an end automatically in two years, i.e., in July of 2003. It is also shown in prosecuting exhibit P5 that Mr. Leung had sent letters by registered post to Mr. Wan requesting him to return all the relevant documents and computer components to Mr. Leung

and his company Lucky Technology Limited. The defendant ignored the request and continued to retain these documents and computer components, and continued to use the "source disk" to upload the iGuard firmware.

3. When we talk about the firmware, it refers to the version 3.34097. They not only continued to manufacture, continued to produce, continued to upload, and also continued to sell to others, continued to do business, continued to gain profit, and one of the customers was this Macau casino company, Sociedale De Jpgas De Macau S.A. According to the prosecuting evidence P10, this company bought a number of products, including 16 units of this iGuard. I believe that there is no dispute that all these 16 units of iGuard used the firmware version 3.34097.

4. These products were sold to this Macau company in September 2003, in other words, under the notification in May about the termination of this agreement, or in case he did not agree that it can be terminated by one party alone, according to the items in the agreement itself, at the end of two years, the agreement would come to an end automatically in July anyway. Therefore, it had completely violated this July agreement in selling iGuard fingerprint device to the Macau's company, because the agreement already did not exist.

5. Mr. Leung (1st prosecuting witness) did not realize that Hectrix and Mr. Wan continued to manufacture and sell the firmware, or to manufacture and sell iGuard fingerprint device using the firmware version 3.34097. This was so until the Macau's company returned a defective iGuard unit to Lucky for repair, and at that time when they found that out, they reported to the customs and excise department to investigate and to expose this case.

6. The 2nd prosecuting witness Mr. Kenneth Woo was a staff member of Hectrix, and he no longer works there. He handled the sales of these 16 units of iGuard to the Macau's company. He started this business deal in around June, July, August, and issued invoice in September, and delivered and completed the deal. In his statement Mr. Woo stated that he had asked for instructions from Mr. Wan (defendant) when making this deal. He also stated that the customer wanted to have price discount on the products, and he sought approval for it from May Lee, Mr. Wan's assistance, and eventually decided by Mr. Wan, and so Mr. Wan was the decision maker in this business deal, and he did allow a certain amount of price discount in this deal by nodding his head. And the total amount was around Hong Kong dollars seventy five thousand including other merchants in the same invoice. As mentioned before, these 16 units of iGuard used the version 3.34097.

7. Exhibit P2 is the version of the iGuard unit returned to Lucky from Macau, it is one of the 16 units sold to the Macau's company in September. The genuine version made by Mr. Leung, i.e., version 3.34097, is produced in court as evidence as exhibit P9.

8. Mr. Houang Sing Kin, the 5th prosecuting witness, is the person in charge of the

company Oricom. In the court statement he stated that the exhibit P2 was not manufactured by his company, and it is not a product of his company. His company has been manufacturing all iGuard fingerprint devices for the 1st prosecuting witness, Mr. Leung, or Lucky Technology Limited. After examining the exhibit P2, he confirmed that it was not his company's product. He stated that it is impossible to have identical products, and regarded this as a "copy version" of his product. I totally accept his opinion, he has competent experience in this area, and also his company is the manufacturer of the circuit board of Mr. Leung's iGuard. His company is even the designer of this board. So when he examined P2, he can tell everyone that this is a countefeit version, and all the trace routings on the board are identically duplicated.

9. Mr. Leung (the 1st prosecuting witness) also has similar opinions. He stated that there are many methods in duplicating the circuit board. One of the methods is, even without the source code, to melt all the chips and then photocopy the top and the bottom layer, and then melt these two layers and then photocopy the other two layers in between. Then it can be identically duplicated by using these photocopied circuit images. And of course all the chips can later on be "welding" back, i.e., soldered back to the duplicated boards. And it can be seen that the workmanship of these two boards are different. It is in fact the first time I came across all this detailed information in this trial, and I had learnt a lot. Anyhow, according to the court statements, we learn that the defendant and his company had retained the "source disk", and it had been used to upload the iGuard firmware version 3.34097 to the duplicated hardware.

10. The defendant owns the company Hectrix, and in some instances during the trial, he said he owns the company called Hectrix Inc., but it was only in a few instances. Hectrix Limited is under both his name and another company, and according to my understandings, this other company is also solely owned by him. In other words, although there are two shareholders in Hectrix, these two shareholders are in fact he himself. So Hectrix is de facto the defendant, and the defendant is de facto Hectrix.

11. Well, let us get back to the memorandum of understanding of May 2001, which is a memorandum about the intention of the two companies. This is produced in court as defending evidence as exhibit D1. This memorandum involves the intellectual property rights of this iGuard firmware, and it was stated clearly that both parties had the intention to form a joint venture, i.e., Lucky Limited would inject some items to the joint venture including, of course, these intellectual property rights.

12. In fact, this memorandum of understanding, or agreement, was between Lucky and a company called Tomrose. According to my understanding, Tomrose is also the defendant. However, the items discussed this memorandum of understand, or this agreement, are without substance and had not been realized. Also, this memorandum of understanding had been void automatically on 15th June 2001.

Simply expired.

13. And on 10th July 2001 Lucky Technology Limited and the defendant Mr. Wan entered into another agreement, and this is the July's memorandum of understanding, i.e., exhibit P1, that we had previously mentioned. And in this agreement both parties had agreed on some items. And what were these items? It had been stated clearly under the background section. We know that it had been stated in the background of the agreement that Mr. Wan would take over all the sales and marketing activities of iGuard beginning on 10th July 2001, i.e., all the things related to sales and marketing. This right was to be controlled and exercised exclusively world-wide through a company called Hectrix. Hectrix obtained the sales and marketing rights, and Lucky was to receive HK$130,000 monthly.

14. The 1st prosecuting witness Mr. Leung stated in the court statement that this agreement was merely a sales and marketing agreement. It allowed Hectrix to market and to sell this iGuard product exclusively world-wide, and it has nothing to do with the intellectual property rights. After carefully examined the exhibit P1, it is found that this argument is right, and the agreement made no mention of the intellectual property rights.

15. The 1st prosecuting witness Mr. Leung stated in the court statement that this July 2001's agreement P1 was not a continuation of the May 2001's memorandum of understanding. This was not a continuation of the negotiation of the joint venture discussed in the May's memorandum. This was a totally different agreement, and this was not a joint venture. This was only a sales and marketing agreement.

16. Mr. Leung stated that he and Mr. Hui Wah Cheong (the 4th prosecuting witness) had jointly written this iGuard firmware. This is a computer program consists of 200,000 lines of code. And only he himself and Mr. Hui have access to the source code, which is confidential. In addition to the creation of the firmware, they have also been continuing to modify and improve the firmware, which are all done solely by him and Mr. Hui, without being written by any other one.

17. Mr. Leung described this invention as the only asset in his company that has value, and they also rely on this asset to make money. It is because Lucky has no other asset and no other source of income. Mr. Leung also stated in the court statement that he does not agree with the defendant's suggestion that he had sold the intellectual property rights of the firmware. He had never agreed with or followed the joint venture agreement, and had never agreed with the defendant's suggestion to sell this intellectual property rights.

18. He and Mr. Hui both stated in the court statement that this firmware is done with painstaking, sedulous efforts; that they wrote the firmware and they own the firmware. Both Mr. Leung and Mr. Hui do not agree with the defendant's suggestion that some of Hectrix staff members, such as Mr. Li Him and Mr. Chan Ka Hun, who in fact had been trained or worked in Lucky, and learnt under the

guidance of Mr. Leung. Both Mr. Leung and Mr. Hui do not agree with the defendant's suggestion that Mr. Li and Mr. Chan were involved in the development of the iGuard firmware.

19. They also disagree that the firmware had gone through substantial changes that the firmware version in 1999 had been changed to another fundamentally different firmware in 2003. Both of the witnesses stated that the changes were minimal in terms of functionality and the degree of modifications. These changes were done according to Hectrix customers' specifications, such as adding new functions or modifying existing functions based on the specific requirements of the customers.

20. To meet the customers' requirements, it may be necessary to modify the functionality and even the hardware, and this may require the modifications of the firmware in order to satisfy these customers' needs. Mr. Leung confirmed that all these modifications were solely done by him and Mr. Hui, and both witnesses confirmed that all these modifications had not changed the nature and the originality of the firmware itself. In other words, all the two hundred thousand lines of source code had remained as the same firmware, and it had also been the original work or version done by Mr. Leung and Mr. Hui.

21. The defendant Mr. Wan stated in the court statement that the first prosecuting evidence i.e., the July 2001's agreement, is a continuation of the joint venture agreement of May 2001. In the court statement he stated that this was a joint venture, and it was a jointed business or an idea of a jointed business, and this was he himself and Lucky's Mr. Leung's joint venture. Under this joint venture, the intellectual property rights of iGuard would be injected to this joint venture company, and this joint venture company was Hectrix. He also stated that based on this July 2001's agreement, he would merge with Lucky, which is a merger, and the two companies would merge together, and as a result Hectrix would own all the shares of Lucky. The shareholders of Lucky, Mr. Leung and Mr. Hui, would hold a certain number of shares of Hectrix, and in other words, Mr. Leung and Mr. Hui would become Hectrix's shareholders, and they would also become the employees of Hectrix, and therefore Hectrix would own Lucky. He stated in the court statement that because of this reason, both Mr. Leung and Mr. Hui had used the title VP, vice president, of Hectrix after this agreement. Mr. Leung also referred to Mr. Wan as "boss" in various emails.

22. The defendant Mr. Wan also stated in the court statement that in the period between July 2001 and May 2003, he and the staff members of Hectrix had contributed substantially to develop the iGuard firmware, including the sourcing of more suitable and better parts for iGuard, to pay for Oricom to do the design, and contributing new ideas and new specifications, and the sales and marketing of iGuard. And these are substantial contributions in these areas, and these contributions had changed and even improved the iGuard over a long period of time.

23. The defendant also stated that iGuard required changes and improvements in order

to be sold in the market, and although he agreed that the firmware was written by Mr. Leung and Mr. Hui, however, the contributions that he and the staff members of Hectrix had made had completely changed this iGuard firmware. And by May 2003 these contributions and these changes had made the firmware become another different firmware. In other words, the original version invented by Mr. Leung and Mr. Hui in 1999 was no longer the same version of the one in May 2003, and the May 2003 version was another different product. And the defendant and Hectrix were the co-author of this new product, so the defendant and Hectrix had obtained the intellectual property rights of this new firmware version.

24. The defendant also stated in the court statement that he had consulted his lawyers, and his lawyers told him that he already owned the intellectual property rights of this firmware.

25. I have considered all the statements, and I am satisfied with the 1st prosecuting witness Mr. Leung, the 2nd prosecuting witness Mr. Woo, the 4th prosecuting witness Mr. Hui and the 5th prosecuting witness Mr. Houang, that they are all honest and trustworthy witnesses. I unequivocally accept the court statements of Mr. Leung and Mr. Hui, that they are the sole authors of this iGuard firmware.

26. And regarding the development of iGuard in these years, although different firmware versions and multiple versions did exist, these changes had not transformed this iGuard firmware to a totally different firmware, and thus created a new entity or become another product with different intellectual property rights.

27. I am also unequivocally satisfied that, no matter what had been added or reduced in these years, it was still the same product based on the same intellectual property rights. And there is only one and the same intellectual property rights under all conditions at all times.

28. I also disagree with the defendant's court statement that all the different functions and features, or all the specifications that had been modified in iGuard, had fundamentally changed the iGuard firmware, and the defendant's contributions had made them the co-author or owner of this new firmware.

29. Mr. Leung and Mr. Hui are the authors of the firmware; they are the inventors or the creators. Every time when there were new customers' requirements, or every time when Hectrix had new ideas, it was only Mr. Leung and Mr. Hui who had access to the source code and to examine the source code. They were the only two persons who, after their deliberation, knew if these new requirements and new ideas were feasible and could be done, and how much work would be involved in these modifications. They were the only ones who knew the secrets in the firmware and in all these 200,000 lines of source code. And they were the only ones who knew how to get these things done, since after all they were the only authors who wrote this firmware, without being written by any third person.

30. The July 2001 agreement or the memorandum of understanding P1 is a clear, definite and different agreement. It can be clearly and easily seen that the two memorandums of understanding P1 and D1 are two fundamentally different documents. The May's memorandum of understanding did consider the transfer of this intellectual property right, but this intellectual property right was not included in the July's one. And it had been clearly stated in the July's agreement, under the heading "background", that this agreement was a sales and marketing agreement, and it was not a joint venture. Why that was explicitly stated? I totally agreed with the prosecutor's accusation during the examination that this agreement was not a joint venture, and the nature was totally different. And this was why it had been stated clearly and explicitly in this background section of the agreement, i.e., to tell everyone about this background. And this is totally contrary to what the defendant had stated in his court statement.

31. The defendant had emphasized in the court statement regarding this matter that this July agreement is a continuation of the joint venture, and so it was also a joint venture agreement. Regarding this argument, I do not regard the defendant is an honest witness who had told the truth.

32. I am also satisfied with the argument that the July's memorandum of understanding had not, under any condition, granted the defendant any intellectual property right, nor had it granted Hectrix any right regarding this intellectual property.

33. The defendant sought to argue that Mr. Leung might have been the employee of Hectrix; therefore, all the works done by the employee should belong to the employer. This argument is under section 14 of the defence. This argument is totally without any supporting evidence and is totally without ground.

34. The July agreement had clearly stated the relation, the stance, the contributions, and the identities of the two parties. The defence had first suggested that "You are the employee, your works and your invention all belong to the employer". But later on in the defence's examination it seems that they no longer stressed on this point. Anyway although I am not sure if they are still rely on this argument as defence, I have taken this argument into consideration, and I am satisfied that Mr. Leung and Mr. Hui are absolutely not the employees of Hectrix. They never were, and they never had the intention to become the employees of Hectrix.

35. Based on the court statements, I am satisfied beyond reasonable doubt that the defendant clearly knew the intention of Mr. Leung and the intention of Lucky, i.e., they did not want to sell, or separate from them, the intellectual property rights of the iGuard firmware. As stated clearly by Mr. Leung and Mr. Hui, Lucky does not have any tangible property. All they have is this intellectual property right. This is not only a concept, but rather it is an invention. And this is their only property of value. And this was why the joint venture agreement in May failed. Mr. Leung stated clearly in his court statement that it was only the defendant's wishful thinking, and Mr. Leung had unequivocally disagreed and rejected. Therefore,

after the failure of the May's memorandum, the July's agreement had followed a new direction, which was the sales and marketing direction.

36. The July agreement was terminated in May 2003. It was terminated unilaterally, and even if there was disagreement with this, it is beyond any dispute in law that this agreement would automatically become expired at the end of the two-year duration of the agreement. And after the agreement had become void, it is impossible for the defendant to rely on this agreement as a defence. I noticed that in the witness statement, the defendant had stated the following: "See, I have this July 2001 agreement to rely on". And this argument is totally invalid.

37. And in July Mr. Leung sent a letter to the defendant to request him to return all the iGuard-related things to Lucky. And I have no doubt that these iGuard-related things included the "source disk", and it had to be returned too. This "source disk" was given to Mr. Li Him for uploading the iGuard firmware. And by the end of the agreement, it was as a matter of course to return this "source disk", but the defendant had decided not to return it to Lucky.

38. Regarding that the defendant had stated in the court statement that he had consulted the opinion of his lawyer, and his lawyer told him that he has the intellectual property rights, and he also deeply believed that he has the rights. After deliberation, I do not regard the defendant's court statement relating to this matter is trustworthy. This kind of intellectual property issues cannot be settled simply by showing the lawyer a few pieces of document, and then the lawyer can then tell you whether you own it or not. Even though the lawyer had an opinion, I believe that the defendant would take a more active and positive approach to affirm and ensure this intellectual property right.

39. Mr. Leung's lawyer had sent three letters to the defendant on July 3rd, but none of these letters had been replied. And the opinion of the defendant's lawyer was not recorded in black and white either. In general, for all important issues such as the intellectual property rights, I believe that no matter what the lawyer's opinion is, if the lawyer is confident enough to determine whether you do own the rights or not, I believe one would request a written advice in black and white even if one needs to pay for that written advice. But according to the defendant's court statement, the whole issue was only done verbally. Therefore, after considering all these situations, I do not believe in the defendant.

40. I believe everyone knows about the test in R v Gosh for testing if a person is honest or dishonest. In this case, I have to firmly prove that the behaviour of the defendant was dishonest. I would discuss about two tests described in R v Gosh. The first test was about whether the conduct complained of was dishonest by the standards of ordinary and decent people. As stated earlier, after considering the court statement of the defendant, I do not believe that the defendant truthfully believed that he owned the intellectual property rights, and so the rights belonged to him. I do not believe in his suggestion that his lawyer had told him so, and I also do not believe that he believed that he has the ownership. When he

manufactured the product, he copied and duplicated the product of others. Since he did not have the source code, he could not manufacture it, so he copied and duplicated, and this was an indecent and dishonest way of duplication. I was also astonished that, despite his high education background, he would do this kind of dirty and nasty thing to flagrantly duplicate others' products, and I find this dishonest.

41. Oricom – he had asked Ms. May Lee to ask Oricom to manufacture the product, and Oricom refused to do that, and their stance was very clear that it was not your product, but he decided to counterfeit it out of expediency. I do not know how he did it, although Mr. Leung had described one possible way by melting the genuine product. This is only one possible, and there may be some experts with better knowledge then Mr. Leung who can tell how he did it. But one thing for sure is that this was done in a dishonest and indecent way, and obviously this was considered dishonest.

42. The second question we need to ask is about whether the defendant realized that what he had done was dishonest by the standards of ordinary and decent people. And the answer to this test is yes. The defendant is highly educated. He obtained his first degree in physic and electronics in the University of Manchester, and obtained his Master degree in Institute of Science and Technology of the University of Manchester, i.e., UMIST. Then he worked in British Telecom for many years, and then became a businessman, a successful and smart businessman. A businessman like him of course has business sense, rich in business knowledge, and full of experience, and can be described as "man of the world". He would not be as naïve as what he had stated in the court statement that "Most of the time in doing business, I would first give you money then sign the agreement". He had been talking nonsense.

43. I undoubtedly believe that the defendant clearly knew that copyright exist in iGuard firmware, and he clearly knew that this copyright belonged to Mr. Leung and Mr. Hui. From all the negotiations and discussions between the defendant, Mr. Leung and Mr. Hui, especially with Mr. Leung, it can be seen clearly that the defendant was aware of the copyright of the firmware, and this copyright belonged to these two men. The defendant tried to own this copyright in all the negotiations and in various courses of bargaining with them.

44. I would like to discuss briefly about the basic of copyright, i.e., it is owned by the authors. I was not familiar with this point, but after the assistance from the two attorneys of the prosecution and defence sides, I thank them for teaching me a lot, and some of these cannot be registered. At first I had a question that if it cannot be registered, then how it can be protected? And so to clarify the point, after hearing all the court statements, I am satisfied that Mr. Leung and Mr. Hui are the authors, and they are also the inventor or the creator, so they are beyond reasonable doubt the copyright owners of this iGuard firmware 3.34097.

45. In addition, I would like to talk about that, in this case, and in the two

memorandums, i.e., the May 2001 and July 2001 memorandum of understanding, both the patent and the trademark rights were mentioned. And in fact these are separated issues in law, so I am not going to further discuss or explain whether there is any direct relation with this copyright issue.

46. Finally, regarding the firmware P2, which is the firmware found in the defective unit from the Macau company to Lucky for repair, I am satisfied that this is an infringing copy, and these infringing copies were produced by the defendant and his company. I am also satisfied beyond reasonable doubt that when the defendant produced these infringing copies, he was well aware of the existence of the copyright, and this copyright belonged to the 1st and the 4th prosecuting witnesses. Therefore, the defendant in the case ESCC3844/2005 and the defending company in the case ESS24570/05, after the trial of the offences, are proved beyond reasonable doubt. For these reasons I determine that the defendant in the criminal case 3844 is found guilty, and his company Hectrix Limited in the criminal case 24570 is also found guilty.

[Defense's mitigation skipped]

51. The sentence would be 12 to 18 months in prison. The sentence will be given two weeks later, after reviewing the correctional report of the defendant. The defendant is to be remanded to jail until the sentencing date in two weeks. And I can tell you that the defendant will be facing a jail sentence.

[Discussion in handling the prosecuting evidences skipped]

*** END ***

Original in Chinese. Translated to English by Babel Fish for reference only.