



Han Kun Newsletter

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Legal Updates

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1. Revisiting Intellectual Property Rights in Commercial Projects — from an Outbound Technology Transfer Perspective

Authors: Lili WU | Maoyuan LU

In the current complex geopolitical environment, Chinese science and technology enterprises are facing unprecedented challenges when going global. On one hand, China has to cope with concerns and restrictions imposed by various countries in terms of export control in multiple technology areas. On the other hand, there is an urgent demand for actively seeking technology export and rapidly converting long-accumulated technological advantages into economic value. In this context, how to rationally use and protect technological achievements and various intellectual property rights formed based on technological achievements in the process of outbound technology transfers and to deal with intellectual property risks have become issues that need to be paid attention to and urgently solved.

Thanks to years of rapid scientific and technological development and deepening globalization, Chinese technology enterprises have greatly enhanced their awareness of intellectual property rights and risk prevention. Most of these enterprises have established relatively sound risk early-warning systems and large-scale global patent layouts and some have experience in dealing with intellectual property disputes overseas. However, for a long time, in cross-border technology projects, Chinese enterprises have mostly sold products directly to overseas parties or introduced foreign technologies to domestic parties, while lacking experience in offshore deployment of technologies.

Whether a simple transfer or a licensing of technology to overseas parties or it is a transfer of technology and products overseas by establishing research and development centers or manufacturing centers overseas separately or jointly with a foreign party, the enterprise concerned will inevitably face issues such as technology transfer or licensing, joint/entrusted development, application/maintenance of intellectual property rights, handling of infringement risks, reasonable and proper implementation of the project, and intellectual property protection after the termination of the project. In this article, we attempt to seek an overall response through making a brief inventory of the specific intellectual property rights that may be involved during the project from the perspective of project implementation.

Organization of intellectual property

Technology offshore projects generally originate from the needs of enterprises to export and convert existing technologies. Therefore, accurately determining the scope of intellectual property rights of the relevant technology and determining the way of output, pricing and protection on this basis is a prerequisite to ensure successful project implementation. The intellectual property involved in a project does not mean all the intellectual property of the enterprise concerned, even all the intellectual property in certain specialized technology areas of the enterprise. In order to carry out the project, it is necessary to sort out the existing intellectual property rights relating to the project from multiple dimensions, such as type, value, relevance, application scenario and ownership of the intellectual property, then determine the specific technology output methods, pricing and billing model and protection principles based on the results of such

arrangement.

I. Assessing the value of intellectual property and its relevance to the project

First, determine the scope of relevant intellectual property rights. Specific products, overall technical solutions and key technical points that may be involved in the project should be broken down on the basis of the subject matter and technical purpose of the project, and the scope of intellectual property rights that may be used in the project should be defined by referring to the enterprise's existing intellectual property rights classification standards and achievements. These intellectual property rights can be divided into rights dedicated to the project and rights that can be used in multiple projects according to their degree of exclusive use in the project.

Second, determine the value of the intellectual property involved. A preliminary determination of value of intellectual property, especially patents, identified as possibly relevant to the project may be made by making detailed labels and general descriptions, and then make comprehensive assessment of their specific values from the commercial, technical, legal and other dimensions.

Finally, after the value of the relevant intellectual property rights and the degree of relevance to the project are preliminarily determined, appropriate arrangements can be made in terms of the manner of technology output, the necessity of subsequent improvements, the ownership, and the calculation of costs of related intellectual property rights in combination with the purpose of the project. For example, in technology licensing projects, it is common to use a license for specialized IP as the basis for variable fees and a license for shared IP as part of the base fee.

II. Clarifying the ownership of relevant existing intellectual property

Outbound technology transfers usually do not involve a single technology. Rather, such transfers involve a complete technical solution, which may involve a company's exclusive ownership of core intellectual property and basic intellectual property, intellectual property developed jointly or as commissioned by a third party, or the technology directly provided by a supplier. Therefore, in outbound technology transfer projects, especially in the projects in the automotive industry where the whole technology platform may be transferred, the ownership of the existing intellectual property rights must be clarified, and the intellectual property rights concerning third parties must be examined from the following perspectives during the outbound transfer:

First, determine the scope of third-party intellectual property that may be involved. Sort out the technical cooperation of third parties that may be related to the overseas project, clarify the ownership and use arrangements of the relevant intellectual property rights according to the corresponding agreements and cooperation processes, search the specific intellectual property rights and determine their actual application when necessary, and assess whether there is an infringement risk against the third party and others in the use of relevant intellectual property rights in the overseas project.

Second, determine how to use such intellectual property in the overseas project based on the results of step one, above. If the third party's intellectual property needs to be used, a corresponding license should be obtained from the partner, and such circumstance, payment of fees and undertaking of responsibilities need to be expressly stipulated. In addition, we suggested that, based on necessity,

alternative or circumvention plans can be considered and the intellectual property layout of relevant technologies can be supplemented to avoid hindering the subsequent progress of the project.

III. Categorize based on application scenario and type of IPR

It is also necessary to further categorize intellectual property rights based on the type and the specific application scenarios in the overseas project, and to determine the degree of protection of the IPR, necessity and difficulty of confidentiality, in order to arrange the strategy of the outbound transfer accordingly and to select the proper manner of the transfer, license or technical service. This categorization process considers the application, further research and development, protection, application and maintenance of the intellectual property rights after the outbound transfer, in addition to determining its value and relevance and clarifying the ownership of the intellectual property rights.

In terms of the types of intellectual property rights, the intellectual property rights that are transferred outbound include not only patented technologies such as authorized patents and patent applications, but also software copyrights, technical secrets and some non-patented technologies that may no longer meet the conditions for technical secrets. From the perspective of the specific application scenarios of the relevant intellectual property rights in the project, it may include not only the underlying algorithm of the relevant technology, the materials cited by the product, the specific structure and control, the manufacturing method of the product and other core technologies involved in production design, but also the supporting technologies for management and maintenance, such as processing technology, processing equipment, supporting software and quality control related technologies.

Layout of intellectual property rights

For overseas projects that carry out in-depth technical cooperation, in addition to the existing intellectual property rights, there will also be prospective intellectual property rights based on joint cooperative development or independent development by the partners, intellectual property rights arising from the supplementary layout of existing technologies, intellectual property rights related to technological achievements developed based on newly discovered problems in the process of project promotion, and defensive layout of intellectual property rights to deal with risks.

I. Basic strategy for IPR layouts

1. Further exploration based on existing technology

As the project progresses, the use of existing technologies may go beyond the scope of initial understanding, and the imperfections of the existing patent landscape will gradually be discovered. For example, the patentable technical solution has not been fully explored, the original patent application scope cannot cover the relevant scope after the outbound transfer, and the technical solution that was originally to be protected by technical secrets needs to be patent protected as the project progresses. In this case, we can consider starting from the principle of actual protection, further supplement and explore the existing technology, refine the specific plan that can carry out the patent layout, and carry out the supplementary layout as soon as possible.

2. Layout of IPR based on project results

New technical solutions will be generated in the process of overseas implementation of a project, no matter whether a technology transfer/licensing or establishment of manufacturing or an R&D center established by multiple parties. These solutions may be based on the further research and development of the partners in the project, or they may be completed by the cooperation of both parties, or the party may form a new technical solution based on the understanding of the project that is not applicable to the overseas project. For these technical solutions, the relevant layout work can be carried out based on the agreed ownership between the two parties in the relevant agreement.

3. IPR layout based on patent analysis

To maximally ensure against the risk of intellectual property infringement and the lack of patent layout due to the technology going overseas, we recommended to analyze the patent layout and product and technical solutions of competitors and project partners in the relevant regions before the actual start of the project. Know yourself and the enemy by sorting out the characteristics of their core technology points and patent layout and starting to formulate the intellectual property layout accordingly. This ensures strong defenses to addresses disputes should they arise.

II. Factors to consider in the layout process

First, it is necessary to comprehensively consider the ownership agreement strategy that is in line with the party's own interests. In the process of technical cooperation, the intellectual property generated from the project is usually shared by both parties or the other party is exclusively licensed. Co-ownership is usually more conducive to the use of the technology, subsequent research and development, transfer and licensing, and rights protection, but it will increase the cost of technology mining, application, maintenance, etc. Especially in overseas projects, where the costs of IPR applications and maintenance are high, it may also be considered whether to allow the counterparty to hold the intellectual property and implement the project through license if the rights do not are not related to the future research and development direction of a party's core technology.

Second, we cannot ignore the issue of technology import and export in the process of transnational technology development. Whether it is China, the United States, Europe or other major technology export destinations, it is necessary to pay attention to the technical solutions that involve the joint research and development of foreign entities, the participation of foreign inventors in research and development, and the patent application of technical solutions generated in foreign countries to avoid giving rise to technology control issues. For example, it is necessary to comply with the confidentiality review of patent applications in the corresponding region, and the export of technology that has obtained a license must comply with relevant regulations. In this regard, on the one hand, it is necessary for Chinese technology companies to continue to pay attention to whether the technology generated by overseas projects may trigger regulatory risks, and at the same time, it is necessary to clarify and regulate the personnel involved in R&D, the subject of R&D work and the place where it is completed.

III. Setting up overseas entities as intellectual property centers becomes optional

To avoid the risk of technology control caused by outbound technology transfers or overseas intellectual property layouts, it has gradually become an option for Chinese technology enterprises to consider setting up overseas entities as intellectual property centers or overseas R&D centers in Singapore and other places. Chinese technology enterprises can consider using this entity as an intellectual property center to hold the ownership of core technologies, which can disperse and avoid the technology control risks involved in overseas R&D and intellectual property layout activities, and also help to further transfer technology to entities in China and overseas partners or entities, so as to achieve a global layout of intellectual property rights and reasonable business planning.

The offense and defense of risk response

I. Responding to patent infringement risks with both offense and defense

As an effective means of predicting the risk of patent infringement, FTO analysis is almost a must, and technology companies usually have a wealth of relevant experience, so we will not further discuss it here. However, in practice, there are often some misunderstandings in FTO work, which leads to a significant reduction in the risk prevention effect. For overseas FTO work, first of all, it is necessary to accurately grasp the technical priorities that should be paid attention to, understand the important core technologies and carry out targeted retrieval and analysis on the basis of comprehensive decomposition and key screening of technologies, so as to avoid the inability to effectively respond to risks due to the large cost of blindly conducting large-scale FTO and the loss of clear goals. Second, after discovering risks, it is necessary to follow up on the countermeasures in a timely manner, and even if there is a situation where the risk of infringement is difficult to avoid and the target patent is difficult to invalidate, the impact of the significant infringement risk should be assessed, and the corresponding countermeasures should be actively considered.

In addition, to reduce the risk of patent infringement, it is not only necessary to take defensive measures passively, but also to consider stockpiling more patent weapons. Investing more resources in the layout of overseas intellectual property rights and having intellectual property advantages in self-owned technologies and related areas of cooperation projects can effectively play a deterrent role and reduce the risk of litigation.

II. Leakage of technical secrets and risk of infringement

Different from the protection of technical secrets in domestic projects, when facing trade secret issues in the process of going overseas, it is necessary not only to prevent the disclosure of one's own trade secrets, but also to avoid being involved in overseas trade secret infringement lawsuits due to infringement of the trade secrets of the partner. On the premise of establishing a sound information management system and protection measures and systems, enterprises should accurately sort out the technical secrets related to the project, and manage their own trade secrets at different levels according to the importance of the technical secrets and the difficulty of confidentiality, and at the same time focus on strengthening the management and training of employees participating in overseas projects, supervise the entire process of employee onboarding, employment and separation, and

prevent the risk of infringing on others' trade secrets overseas in combination with the relevant laws and regulations of the region where they are located.

Sound implementation of the project

The success of the overseas project depends not only on whether the two parties can reach an agreement and carry out cooperation, but also on whether the project can be implemented during the cooperation period; that is, whether the implementation of the project can meet expectations. This is often the hardest part to control but also the easiest to overlook at the beginning of a project. In practice, it is not uncommon for projects to fail due to disputes due to obstacles to implementation. In particular, cross-border dispute resolution is complex and time-consuming, and a dispute that requires the other party to perform reasonably usually means that the project has failed. Therefore, from the perspective that the project involves intellectual property rights, it is an important way to ensure the smooth completion of the project by designing reasonable performance standards in advance and strictly implementing them.

I. Specify the reasonable standard of delivery

As a technology exporter, the time, conditions, methods and scope of technology delivery should be clearly agreed upon and strictly implemented as agreed. The patented technology is usually delivered after the agreement takes effect, but for proprietary technology and technical services, it is usually necessary to consider whether it needs to be delivered in batches according to the progress of the project, and the other party pays the cost of the corresponding stages on this basis. As for the method and scope of delivery, reasonable restrictions can be made based on confidentiality and other considerations, for example, the delivery of software can be determined according to the actual situation of the project, whether the source code can be provided, or only the interface can be provided.

II. Limitations on technical support

The technology provider is obligated to provide the necessary technical support within a reasonable limit, but excessive technical support will cause a burden, especially for overseas cooperations, the cost of technical support is a consideration that cannot be ignored. In addition, the need to provide excessive technical support may also be caused by the partner's own insufficient R&D and production capacity, and the technical support in such cases should be reasonably limited.

First, it is necessary to clarify the results to be achieved by technical support and how to address circumstances where these results are not achieved, and to clarify the coordination mechanism to ensure that the specific plan and degree of support of technical support can be adjusted in a timely manner. Second, the extent of support should be set for technical services, and technical support should be limited to a specific duration, number of times and methods. Third, the exporter should clarify the principle of bearing the cost and paying the cost of technical support, and should have the right to refuse or charge the corresponding fee for the request for free technical support beyond the extent necessary.

III. Preventing the cooperating party's delay in performance

Considering the complexity of outbound technology projects, the performance capability of the partner

is affected by many factors, and there may even be cases where the technology recipient deliberately delays the performance of the contract after obtaining the technology. In this regard, the performance standards of both parties and the principles for dealing with the failure to perform should be specified. For example, the other party is required to meet the corresponding conditions for the implementation of the technology as scheduled, to ensure that the necessary administrative approvals and other formalities are obtained, etc., and to protect rights and interests by setting tiered rates, adjusting billing standards, and terminating the agreement in advance if the agreed output and sales targets cannot be achieved after reasonable delivery of technical guidance.

Intellectual property protection after termination of the project

After the termination of the project, the corresponding technology may have been mastered by the other party, and thus another issue the technology exporter must consider is how to effectively ensure the end of the project and prevent the other party from infringing or improperly using intellectual property rights.

First, from the perspective of preventing infringement, in addition to strictly requiring the other party to carry out the obligations of destroying and returning technical data and related equipment, semi-finished products, production lines, etc., reasonable confidentiality measures should also be taken to prevent the other party from obtaining technical secrets that are not disclosed to it during the project after the termination of the project. Second, make clear agreements on the use of technology in the process of selling, repurchasing and after-sales service of inventory goods at the time of project termination, and diligently undertake auditing after the project ends, so as to avoid the other party from improperly continuing to use its intellectual property rights through excessive inventory hoarding.

Summary

To sum up, in a technology overseas project, in addition to conducting due diligence on the intellectual property issues that the parties to the transaction are concerned about and agreeing through reasonable terms of the agreement, the actual intellectual property issues that may be faced during the implementation of the project should also be fully considered. Chinese technology enterprises should pay attention to intellectual property issues from the planning stage of the project to the end of the project, ensure that the technological achievements can be reasonably developed, protected and applied, and maximize the benefits while avoiding disputes and risks to the extent possible.

2. Review and Practice Guidance on New Provisions of the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil Matters between the Mainland and Hong Kong

Authors: Han Kun Law Offices Wei SUN | Andy LIAO | Chunyao LIN | Yuxian ZHAO

Han Kun Law Offices LLP (Hong Kong) Adrian YIP | Rio LI

On 18 January 2019, the Supreme People's Court and the Department of Justice of the Government of the Hong Kong Special Administrative Region jointly signed the *Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters between the Courts of the Mainland and of the Hong Kong Special Administrative Region* (the “**New Arrangement**”).

In Hong Kong, the New Arrangement was meant to be implemented via local legislation. Pursuant to a gazette published by the Government of Hong Kong dated 10 November 2023, the *Mainland Judgments in Civil and Commercial Matters (Reciprocal Enforcement) Ordinance (Cap. 645)* and the *Mainland Judgments in Civil and Commercial Matters (Reciprocal Enforcement) Rules (Cap. 645A)* will come into effect on 29 January 2024. In the Mainland, we expect that the Supreme People's Court will issue relevant judicial interpretations in the near future. In any event, by mutual consent, the New Arrangement will be implemented simultaneously in the Mainland and Hong Kong from 29 January 2024.

The *Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned* (the “**Old Arrangement**”) will be abolished on the date when the New Arrangement comes into effect (Article 30 (1) of the New Arrangement) but will continue to apply to recognition and enforcement applications where the relevant parties have signed a “choice of court agreement in writing” as referenced in the Old Arrangement prior to the New Arrangement coming into effect (Article 30(2) of the New Arrangement).

The coming into force of the New Arrangement will greatly facilitate the mutual recognition and enforcement of court judgments between the Mainland and Hong Kong. The Supreme People's Court estimates that after the implementation of the New Arrangement, about 90% of judgments in civil and commercial matters of the courts of the Mainland and Hong Kong are expected to be mutually recognisable and enforceable.

In light of this, we hope to share with fellow practitioners (a) some key points of practice as well as (b) an overview of the operational procedures after the New Arrangement comes into effect.

Key points of practice on cross-border dispute resolution after the New Arrangement comes into effect

I. Under the New Arrangement, non-exclusive jurisdiction clauses and asymmetric jurisdiction clauses will no longer be obstacles impeding the recognition and enforcement of judgments.

Before the New Arrangement comes into effect, the recognition and enforcement of judgments

between the Mainland and Hong Kong continues to be governed by the Old Arrangement. Under the latter, parties must have entered into a written jurisdiction agreement stipulating that courts either in the Mainland or Hong Kong have “exclusive” jurisdiction before it is possible to apply for the recognition and enforcement of a judgment of the Hong Kong court in the Mainland or vice versa. Furthermore, the judgment is enforced only as to the portions relating to payment of sums.

The requirement of a written agreement as to “exclusive jurisdiction” under the Old Arrangement presents obstacles for the recognition and enforcement of judgments between the Mainland and Hong Kong. In practice, the dispute resolution clauses of many foreign-related contracts stipulate that the relevant court has “non-exclusive jurisdiction” or “asymmetric jurisdiction” (“asymmetric jurisdiction” clauses refer to a jurisdiction agreement signed by parties to a foreign-related contract which expressly stipulates that one party may elect to file a lawsuit with a court of a range of countries whereas the other party may only file a lawsuit with a court of one country). Since both non-exclusive jurisdiction and asymmetric jurisdiction clauses may result in multiple courts possessing jurisdiction, a judgment obtained thereunder may not satisfy the “exclusive jurisdiction” requirement and if so, cannot be recognised and enforced under the Old Arrangement.

In practice however, the courts in both the Mainland and Hong Kong have in recent years gradually relaxed the requirement for “exclusive jurisdiction”. For instance, in one particular judgment (see [2018] HKCFI 1840 for details), the Hong Kong court held that when determining if a jurisdiction agreement stipulates for exclusive jurisdiction, the court should not be dogmatic about the need for “sole”, “exclusive” or similar wording in the agreement but should instead adopt a purposive approach and consider the contractual context when making a determination. In the *Record of Meeting of the National Court’s Symposium on Foreign-Related Commercial and Maritime Trial* promulgated in 2022, the Supreme People’s Court clearly provides for the presumption of exclusive jurisdiction: “*Where a jurisdiction agreement entered into by and between the parties to a foreign-related contract or other property right dispute expressly stipulates that the court of one country shall exercise jurisdiction, but the jurisdiction agreement does not stipulate that the jurisdiction agreement is a non-exclusive jurisdiction agreement, the jurisdiction agreement shall be presumed to be an exclusive jurisdiction agreement.*” Despite the above-mentioned judicial practice, the statutory requirement for exclusive jurisdiction still remains a major obstacle for the reciprocal recognition and enforcement of judgments rendered by the Mainland and Hong Kong courts.

After the New Arrangement comes into effect, this obstacle will no longer exist, thus rendering the recognition and enforcement of judgments between the Mainland and Hong Kong more efficient.

II. Applicants may apply for the recognition and enforcement of a relevant judgment in the competent court of both the Mainland and Hong Kong at the same time.

Under the New Arrangement, an applicant may seek the recognition and enforcement of a Mainland or Hong Kong judgment with the courts of both places. In these situations, the courts in the Mainland or Hong Kong will upon request by the court of the other place, provide information on the status of the enforcement of the judgment such that the total amount recovered from enforcement by the courts in the Mainland and Hong Kong will not exceed the amount determined under the relevant judgment

(Article 21 of the New Arrangement).

III. Under the New Arrangement, the direct recognition and enforcement in Hong Kong of any preservation measures, anti-suit injunction, or interim relief order made by a court in the Mainland and vice versa is prohibited, but the applicant may apply for preservation or interim measures in the process of having a judgment recognised and enforced.

In the course of litigation, preservation measures granted by the Mainland courts and/or interim measures granted by the Hong Kong courts are often pivotal. Article 24 of the New Arrangement provides that “[a] court of the requested place may, before or after accepting any application for recognition and enforcement of a judgment, impose property preservation or mandatory measures in accordance with the law of that place.” Therefore, under the New Arrangement, an applicant may apply for preservation or interim measures with the court where the application for recognition and enforcement of a judgment is being made. This is consistent with the current practice of applying to Mainland courts for the recognition and enforcement of judgments in civil and commercial matters from other jurisdictions. It should be noted, however, that Mainland judgments which can be directly recognised under the New Arrangement include court rulings, mediation agreements and payment orders, but preservation measures are expressly excluded. Similarly, Hong Kong judgments that can be directly recognised do not include anti-suit injunctions and interim relief orders. This means that under the New Arrangement, no asset preservation ruling or interim measures ordered in ongoing proceedings before a Mainland court or a Hong Kong court can be directly recognised or enforced by a court of the other place.

Having said that, in addition to the recognition and enforcement procedures provided for under the New Arrangement, the litigation practice in Hong Kong is such that where a defendant in any ongoing Mainland litigation has assets in Hong Kong, an applicant may invoke section 21M of the High Court Ordinance (Cap 4) and request a Hong Kong court to grant interim relief to assist the future enforcement of the Mainland judgment.

In addition, for a Mainland judgment that has already been recognised in Hong Kong, an applicant may also request the Hong Kong court to issue a post-judgment injunction against the defendant’s assets in Hong Kong. In a recent case (see [2023] 1 HKLRD 342 for details), the plaintiff successfully applied for recognition of a Mainland judgment in Hong Kong and, on that basis, obtained a freezing order from the Hong Kong court over the other party’s assets (and those of its wholly-owned subsidiaries) in Hong Kong.

As for how the Mainland will handle applications for preservation and temporary measures in respect of Hong Kong judgments, this remains to be seen.

In conclusion, where cross-border litigation involving the Mainland and Hong Kong is concerned, it is key when protecting a party’s interest to consider how to effectively make use of interim preservation measures already available in both jurisdictions and as provided under the New Arrangement.

IV. The New Arrangement does not apply to certain types of civil and commercial judgments.

Article 3 of the New Arrangement excludes certain judgments, including cases heard by a Mainland

court on maintenance of grandparents/parents/siblings, dissolution of adoptive relationships, succession/administration/distribution of estates, infringement of patents etc.

At the same time, Article 14 of the New Arrangement provides that the Hong Kong courts may not refuse to recognise and enforce a Mainland judgment solely because a preliminary issue determined in the judgment does not fall within the scope of the New Arrangement. One interpretation of how these two articles interact is related to the fact that many commercial disputes in the Mainland involve the disposition of intra-family interests and issues relating to maintenance, dissolution of adoptive relationships. Special attention should therefore be paid to whether such issues exist as preliminary issues which have to be determined before the substantive issue can be resolved, in which case they can still fall within the scope of the New Arrangement. Legal representatives also need to bear this in mind when formulating dispute resolution strategies.

V. Although the New Arrangement does not apply to bankruptcy/insolvency related judgments, relevant provisions and practices exist between the Mainland and Hong Kong for reciprocal recognition of and assistance in bankruptcy/insolvency judgments and the New Arrangement does not affect these.

Article 3 of the New Arrangement provides that “*for the time being*” it does not apply to “*bankruptcy (insolvency) cases*”. Note that the wording here is “*for the time being*” rather than a stipulation that such judgments are incapable of reciprocal recognition and enforcement.

In reality, there have previously been instances where the Mainland and Hong Kong courts have recognized and assisted the enforcement of bankruptcy/insolvency judgments from the court of the other place. Moreover, on 14 May 2021, the Supreme People’s Court and the Department of Justice of the Government of Hong Kong also signed the *Record of Meeting between the Supreme People’s Court and the Government of the Hong Kong Special Administrative Region on Reciprocal Recognition of and Assistance to Bankruptcy (Insolvency) Proceedings between the Courts of the Mainland and of the Hong Kong Special Administrative Region*. In accordance with the spirit of the latter, the Supreme People’s Court subsequently formulated the *Opinions on the Pilot Program concerning the Recognition and Assistance in Bankruptcy Proceedings of the Hong Kong Special Administrative Region* in accordance with the relevant laws of the Mainland, specifying pilot areas (the people’s courts of Shanghai Municipality, Xiamen City of Fujian Province and Shenzhen City of Guangdong Province) and clarifying various practical issues. Furthermore, the Department of Justice of the Government of Hong Kong has also issued the *Practical Guide on the Procedures for a Mainland Administrator’s Application to the Hong Kong Special Administrative Region Court for Recognition and Assistance*, which specifies court procedures for Mainland administrators applying for recognition and assistance from the Hong Kong High Court.

Notwithstanding the above, it is ultimately not the Department of Justice of the Government of Hong Kong but the Hong Kong court which reviews each case in accordance with the rules and common law principles which have been established for recognising and assisting cross-border bankruptcy proceedings in the Mainland, so in that regard there remains uncertainty as to the reciprocal recognition of bankruptcy proceedings in the Mainland and Hong Kong and judgments are relatively uncommon.

Thus far, instances where the Hong Kong courts have recognised bankruptcy/insolvency proceedings in the Mainland courts include the insolvency proceeding of Shanghai Huaxin International Group Limited in 2019, insolvency proceeding of Shenzhen Nianfu Company in 2020, the application for recognition and assistance in restructuring proceedings of HNA Group and Beijing University Founder Group in 2021 as well as the insolvency proceeding of Guangdong Overseas Construction Corporation in 2023.

VI. The New Arrangement does not apply to judgments relating to the recognition of validity of arbitration agreements, setting aside of arbitral awards as well as recognition and enforcement of judgments and arbitral awards of other countries and regions.

In practice, a large number of cross-border disputes are resolved through arbitration. A common litigation strategy adopted by parties (for the purpose of engineering delay or avoiding the consequences of an adverse judgment etc.) is to request a court to confirm the invalidity of the arbitration agreement while arbitration proceedings are underway or apply to set aside the arbitral award after it has been issued.

According to Articles 3 (7) and (8) of the New Arrangement, the New Arrangement does not apply to cases on the “*confirmation of the validity of an arbitration agreement or the setting aside of an arbitral award*” and cases on “*the recognition and enforcement of judgments and arbitral awards of other countries and regions*”. Therefore, a judgment that an arbitration agreement is invalid, or a judgment setting aside an arbitral award by a court of one place does not necessarily result in that agreement/award being determined in the same way in the court of the other place. To that end and where circumstances permit, parties should seek to maximise their advantage by making use of every procedural avenue available to them.

VII. The New Arrangement does not in principle apply to the recognition and enforcement of punitive damages but contains an exception for punitive damages in respect of certain intellectual property and competition law cases.

In principle, the New Arrangement does not apply to the recognition and enforcement of punitive damages in a judgment but there are exceptions for intellectual property infringement cases and other cases. According to Article 17 (1) of the New Arrangement, in respect of tortious claims for intellectual property infringement, civil disputes over acts of unfair competition under Article 6 of the PRC Anti-Unfair Competition Law as heard by a Mainland court as well as passing off cases heard by the Hong Kong courts, the scope of reciprocal recognition and enforcement includes rulings on punitive and exemplary damages. This also applies to judgments concerning disputes over the infringement of trade secrets (Article 17 (2) of the New Arrangement).

VIII. The New Arrangement also applies to the reciprocal recognition and enforcement of civil compensation judgments within criminal cases.

In recent years, there has been an increasing number of cases involving cross-border legal issues and containing both civil and criminal elements. The New Arrangement will also enhance the enforcement in Hong Kong (and later in the Mainland when implementation is carried out) of the civil compensation

aspect of judgments relating to such cases.

IX. Due process: whether service of process/summons is lawful/valid is determined by applying the law of the place of the original court.

With respect to the materials to be submitted by the applicant under Article 8 of the New Arrangement, it is worth paying special attention to the provision stipulating: “(4) where the judgment is a default judgment, a document certifying that the party concerned has been legally summoned, unless the judgment expressly states the same, or the absent party is the party applying for recognition and enforcement.” Read together with Article 12 (2) of the New Arrangement, it becomes clear that the law of the place of the original court which rendered judgment is to be applied when determining whether a summons is lawful/valid. Article 12 provides that “[w]ith respect to an application for recognition and enforcement of a judgment, a court of the requested place shall refuse to recognize and enforce a judgment if, having examined the evidence adduced by the respondent to show any of the following, it is satisfied that: ... (2) the respondent was not legally summoned in accordance with the law of the place of the original court; or although the respondent was legally summoned, the respondent was not given a reasonable opportunity to make representations or defend the respondent’s case”.

In practice, quite a number of Mainland cases involve overseas defendants who are absent. When advancing such proceedings, plaintiffs should pay particular attention to whether the Mainland court summoned the defendant in strict compliance with relevant laws and regulations (e.g. was the time limit for service of process by public announcement strictly observed etc.) and they are recommended to request the court to keep records of the relevant proof of service documents and include a description within the judgment.

In addition, it is worth noting that although the law of the place of the Court that rendered the judgment is used to determine whether a defendant/respondent has been validly/lawfully summoned and given a reasonable opportunity to present a defence, it should be borne in mind that when seeking to enforce a Mainland judgment in Hong Kong, it is the judges of the Hong Kong courts who adjudicate the application for recognition and enforcement and many of these judges come from common law jurisdictions/backgrounds. It may therefore be necessary to take into consideration the fact that Hong Kong court judges’ knowledge and application of PRC law will in part be influenced by their common law background.

For instance, Hong Kong proceedings adopt an adversarial system with less emphasis on judicial intervention re how parties present their case; there may be several rounds of submissions lasting for longer durations. However, adjudication in the Mainland courts (including the mode of hearing) is comparatively more flexible and streamlined, with judges playing a more active role. To a Hong Kong judge, this may appear to be different from the standard procedures that they are used to.

To minimise the risk of non-recognition and non-enforcement of a judgment, applicants may need to pay more attention to the adjudication methods of the Mainland courts and ensure that the latter provide the parties with sufficient opportunities to present their case (e.g. permitting the reasonable questioning of witnesses, disclosure of documents in the possession of one party at the request of

another party as well as effective examination of the evidence), and retain relevant evidence of the same (e.g. ensuring that the court takes audio and video recordings of the trial). At the same time, if in the process of having a judgment enforced by the Hong Kong court a respondent raises an objection, the applicant may also consider appointing a practitioner with a common law background as well as practical experience in the Mainland to act as an expert witness and provide a legal opinion to the Hong Kong courts to enable the latter to better understand the application of Mainland law and the differences between relevant concepts and practices under the two judicial systems.

1. A respondent has the right to request the court not to recognise and enforce a judgment on the grounds that the judgment was obtained by fraud -- in practice this may leave room for interpretation and dispute.

Article 12 of the New Arrangement provides grounds where a respondent can request a court not to recognise and enforce a judgment where “(3) the judgment is obtained by fraud”. The New Arrangement does not further elaborate on the meaning of fraud (e.g. whether it includes concealment of important evidence in one’s possession, submission of forged evidence, false litigation etc.) and whether the applicable standard for determining fraud is the law of the place where the court of the original judgment is located or the law of the place where enforcement is sought. This may require further clarification through relevant court guidance or judgments.

It should be noted that under PRC law, the standard for establishing fraud in criminal cases (beyond reasonable doubt) is usually higher than that which ordinarily applies in civil cases (preponderance of evidence). The position under Hong Kong law is similar. In this regard, due to the high threshold of proving fraud, the prospects of applicants seeking recognition and enforcement of a judgment from a court of the other place are relatively enhanced.

2. Dealing with parallel proceedings related to the judgment sought to be recognised and enforced.

In practice, where more than two actions arising from the same or similar facts are commenced simultaneously in the courts of the Mainland and Hong Kong (“**Parallel Proceedings**”) and there is no issue of exclusive jurisdiction, the courts of both places will allow them. In light of this, the New Arrangement has also made corresponding arrangements for the handling of Parallel Proceedings. If in the course of adjudicating a civil and commercial case, the court of one place receives an application brought by a party for the recognition and enforcement of a judgment made by the court of the other place in respect of the same dispute, the application shall be accepted, and the action shall be suspended thereafter. The action shall be terminated or resumed depending on the ruling or order made in respect of the application for recognition and enforcement (Article 22 of the New Arrangement).

If in the course of examining an application for recognition and enforcement of a judgment, a party brings another action in respect of the same dispute, the action shall not be accepted, and any such action so accepted shall be dismissed. If the judgment has been recognised and enforced in whole by the court, another action brought by a party in respect of the same dispute shall not be accepted. Where the recognition and enforcement of a judgment has been refused in whole or in part, the applicant shall not file another application for recognition and enforcement, but the applicant may bring

an action regarding the same dispute before the court of the requested place (Article 23 of the New Arrangement).

Overview of procedures for recognition and enforcement of judgments under the New Arrangement

I. Applications for Recognition and Enforcement of Hong Kong Court Judgments in the Mainland

Under the New Arrangement, the procedural steps for a party to apply for recognition and enforcement of a judgment made in one place by a court in the other place are summarised as follows (detailed instructions are expected to be issued by the Supreme People's Court):

1. **Time of Judgment:** The New Arrangement applies to Hong Kong court judgments that are rendered and in force on or after 29 January 2024.
2. **Deadline:** Two years in accordance with the relevant Mainland laws and regulations, calculated from the last day of the period specified in the legal document for satisfaction of the judgment; in the absence of a time period for satisfaction of the judgment, the deadline shall be the date when the legal document takes effect.
3. **Competent Court:** The Intermediate People's Court of the place of residence of the applicant or the respondent, or the place where the property of the respondent is located (Article 7 of the New Arrangement).

Note: The Intermediate People's Court of the place of residence of the applicant is an option additional to those provided for in the Old Arrangement. Such adjustment/supplement deals with the situation where the respondent is not domiciled and has no identifiable asset/property in the Mainland.

4. **Scope of Materials:** Relevant materials to be submitted to the court, such as the application (which shall address the matters required by Article 9 of the New Arrangement), copies of legally effective judgments affixed with the seal of the court which gave the judgment, identification documents (provision of foreign identification documents to Courts of Mainland requires notarization or to be certified) and information about the property etc. (Article 8 of the New Arrangement).
5. **Result of Rulings:** The Mainland courts may issue the following rulings after adjudication, but there are no specific rules regarding the time limit for delivering such rulings:

- All orders of the judgment are not to be recognised and enforced;

Note: In this case, the applicant cannot file another application for recognition and enforcement of the judgment, but is allowed to file a lawsuit with the requested court (i.e., the Mainland courts) regarding the same dispute (Article 23 of the New Arrangement).

- All or part of the orders of the judgment are recognised and enforced.

Note: In this case, during the enforcement phase, the Mainland court will use its investigation

system to discover the relevant assets of the person subject to enforcement in the Mainland, preserve the relevant assets, and may also take measures against the person subject to enforcement, as well as the relevant responsible person, who fails to comply with the judgment in accordance with the relevant laws and regulations of the Mainland, such as restricting departure from the country, restricting spending beyond a certain amount as well as imposing fines.

6. **Appeal of Rulings:** After the Mainland court renders a decision with respect to an application for recognition and enforcement, if a party disagrees with the decision, it may apply to an upper tier people's court to appeal the ruling within 10 days from the date of service of the decision (Article 26 of the New Arrangement).

II. Applications for recognition and enforcement of Mainland court judgments in Hong Kong

The applicant needs to make the application pursuant to the Mainland Judgments in Civil and Commercial Matters (Reciprocal Enforcement) Ordinance (Cap. 645) and the Mainland Judgments in Civil and Commercial Matters (Reciprocal Enforcement) Rules (Cap. 645A). In summary:

1. **Time of Judgment:** The New Arrangement will apply to judgments of the Courts of the Mainland rendered and in force on or after 29 January 2024.
2. **Time Limit for Application:** In accordance with the relevant laws of Hong Kong, the time limit is **two years**, calculated from the last day of the period for satisfaction of the judgment specified in the legal document; if the legal document does not specify the period for satisfaction of the judgment, the time limit is calculated from the effective date of the legal document.
3. **Method of Application:** The applicant needs to make an ex-parte application to the Court of First Instance of the Hong Kong High Court by way of an originating summons.
4. **Affidavit in support of the application:** The applicant must submit to the court of Hong Kong an affidavit in support of the application stating in the affidavit, including, without limitation to, the following particulars: (a) the name, usual address, identification card number of the applicant or where the applicant is a company, the name and usual place of business of the company and the name, position, address, identification card number and contact details of one of its directors or authorized representatives; (b) to the best of the applicant's knowledge and belief, that the judgment applied for recognition is an effective civil or commercial judgment in the Mainland; (c) that the civil or commercial judgment in the Mainland requires the defendant to pay a certain amount of money or to perform a certain act; (d) to the applicant's belief that it is entitled to enforce the judgment in the Mainland and to inform the court of Hong Kong whether the applicant has taken any measures of enforcement against the judgment; (e) to the applicant's belief, whether there are any pending proceedings in Hong Kong arising out of the same cause of action; (f) to the applicant's belief that if the judgment is recognized in the Mainland, the recognition as stated in Section 22 of the Mainland Judgments in Civil and Commercial Matters (Reciprocal Enforcement) Ordinance (Cap. 645) would not be set aside; (g) the amount of interest due and payable on the judgment under the laws of the Mainland until the date on which the judgment is recognized; (h) the amount of any fees ordered by a court of the Mainland.

5. **Other Supporting Documents:** The applicant must also provide the court with the following supporting documents: (a) the applicant's identification document and, where the applicant is a company, a certified copy of its certificate of incorporation; (b) the judgment sealed by a court of the Mainland together with a certificate from a court of the Mainland certifying that the judgment in question is an effective civil or commercial judgment in the Mainland.
6. **Order for recognition:** The applicant is required to submit to the court a draft order for recognition. The order must set out that the respondent has the right to apply to the court to set aside the order within 14 days of the receipt of the order (or such longer period as the court considers appropriate). In addition, the order must also state that the applicant will not be able to take action to enforce the judgment until the time limit within which the respondent is entitled to file to set aside has expired.
7. **Application to court by respondent to set aside an order for recognition:** The respondent is required to apply to the court by way of summons and furnish the court with an affidavit in support of the setting aside an order. On receipt of the summons from the respondent, the court may make an order for a hearing on any point in dispute between the parties.
8. **Appeal of rulings:** After a Hong Kong court has made a decision on an application for recognition and enforcement, any party who is dissatisfied with the decision may appeal in accordance with Hong Kong law (Article 26 of the New Arrangement).

Important Announcement

This Newsletter has been prepared for clients and professional associates of Han Kun Law Offices. Whilst every effort has been made to ensure accuracy, no responsibility can be accepted for errors and omissions, however caused. The information contained in this publication should not be relied on as legal advice and should not be regarded as a substitute for detailed advice in individual cases.

If you have any questions regarding this publication, please contact:

Beijing	Wenyu JIN	Attorney-at-law
	Tel:	+86 10 8525 5557
	Email:	wenyu.jin@hankunlaw.com
Shanghai	Kelvin.GAO	Attorney-at-law
	Tel:	+86 21 6080 0920
	Email:	kelvin.gao@hankunlaw.com
Shenzhen	Jason WANG	Attorney-at-law
	Tel:	+86 755 3680 6518
	Email:	jason.wang@hankunlaw.com
Hong Kong	Dafei CHEN	Attorney-at-law
	Tel:	+852 2820 5616
	Email:	dafei.chen@hankunlaw.com
Haikou	Jun ZHU	Attorney-at-law
	Tel:	+86 898 3665 5000
	Email:	jun.zhu@hankunlaw.com
Wuhan	Jiao MA	Attorney-at-law
	Tel:	+86 27 5937 6200
	Email:	jiao.ma@hankunlaw.com
Singapore	Lan YU	Attorney-at-law
	Tel:	+65 6013 2966
	Email:	lan.yu@hankunlaw.com
New York	Mike CHIANG	Attorney-at-law
	Tel:	+1 646 849 2888
	Email:	mike.chiang@us.hankunlaw.com