

CHAPTER 5

**Commerce and Economic Development Bureau
Intellectual Property Department**

**Intellectual Property Department:
Registration and protection of
intellectual property**

**Audit Commission
Hong Kong
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Report No. 74 of the Director of Audit contains 8 Chapters which are available on our website at <https://www.aud.gov.hk>

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INTELLECTUAL PROPERTY DEPARTMENT: REGISTRATION AND PROTECTION OF INTELLECTUAL PROPERTY

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INTELLECTUAL PROPERTY DEPARTMENT: REGISTRATION AND PROTECTION OF INTELLECTUAL PROPERTY

Executive Summary

1. Intellectual property (IP) is the name commonly given to a group of separate intangible property rights. The most common types of IP include trade mark, patent, design and copyright. In Hong Kong, trade marks, patents, designs and copyrights are generally protected under the Trade Marks Ordinance (Cap. 559), the Trade Descriptions Ordinance (Cap. 362), the Patents Ordinance (Cap. 514), the Registered Designs Ordinance (Cap. 522) and the Copyright Ordinance (Cap. 528). In addition, under various international conventions, Hong Kong is required to recognise rights of persons from all member countries. Copyright is an automatic right and is not necessary to be registered. Unlike copyrights, the IP rights of trade marks, patents and designs are not automatic rights. As at 31 December 2019, the number of trade marks, patents and designs registered in Hong Kong totalled 536,592. The Commerce and Economic Development Bureau assumes policy responsibility for IP rights within Hong Kong. The Intellectual Property Department (IPD) is responsible for the registration and protection of IP. In 2018-19, IPD's income was \$220.7 million and its total expenditure was \$177.5 million. The Audit Commission (Audit) has recently conducted a review of IPD's work on the registration and protection of IP.

Registration of trade marks, patents and designs

2. *Backlog in processing trade mark applications.* Audit analysed the backlog in trade mark applications and noted that: (a) the number of outstanding applications increased by 29% from 5,270 in January 2018 to 6,775 in December 2019; (b) there was a significant increase of 67% in the number of outstanding applications from 6,494 in January 2019 to a peak of 10,860 in May 2019; and (c) the percentage of trade marks that were registered within six months from the date of receipt of application decreased from 73% in April 2018 to 7% in June 2019 and then picked up to 45% in December 2019 (paras. 2.4 and 2.5).

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3. ***Need to shorten the time taken to issue first letters to trade mark applicants.*** Audit analysed the progress of processing outstanding trade mark applications and noted that as at 31 December 2019, of the 6,775 applications: (a) 4,907 (72%) had not yet completed the deficiencies checking stage, including 765 (16% of 4,907) which had been received for over 90 days. The earliest application was received 1,156 days ago; and (b) 1,868 (28%) were undergoing the search and examination stage. Audit also noted that in the period from January 2018 to October 2019, IPD issued 67,049 first letters to trade mark applicants during the deficiencies checking stage requesting them to provide information to remedy the deficiencies or notifying them that their applications would proceed to the search and examination stage. For 17,177 (26%) of the 67,049 first letters, IPD took more than 60 days after receipt of the applications to issue the first letters, and the longest time taken was 433 days (paras. 2.8, 2.10 and 2.11).

4. ***Increasing number of outstanding applications for patent registration.*** Audit analysed the number of outstanding applications for standard patents and short-term patents for the period from January 2018 to December 2019 and noted that: (a) the number of outstanding standard patent applications increased by 70% from 6,367 to 10,798; (b) the number of outstanding short-term patent applications increased by 56% from 260 to 406; and (c) there was an increasing trend in the number of outstanding applications for standard patents since late 2018 and for short-term patents since early 2019 (paras. 2.15 and 2.16).

5. ***Long waiting time for hearings on trade mark registration matters.*** For inter partes substantive hearings on trade mark registration heard in December 2019, the average waiting time for hearings was 11 months. IPD considered that the average waiting time was quite long as compared to the performance of overseas IP agencies and the Judiciary of Hong Kong. Proceedings concerning trade marks should be determined expeditiously as any uncertainty concerning the use or protection of trade marks would have a material impact on the trade mark owners' business plans and strategies (paras. 2.22, 2.23 and 2.25).

6. ***Room for improving the proportion of electronic filing for trade mark registration.*** Audit examined the statistics of electronic filing for trade mark, patent and design applications in the period from 2015 to 2019 and noted that: (a) the percentage of electronic filing for trade mark applications was the lowest among the three types of applications persistently; (b) the percentage of electronic filing for trade mark applications received by IPD was lower than those of other major IP offices

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outside Hong Kong; and (c) IPD had introduced preferential fee reduction for electronic filing of patent applications but not for that of trade mark or design applications (paras. 2.27 and 2.31).

7. *Need to consider setting performance targets on some key steps in the application processes.* IPD has included in its Controlling Officer's Report 20 key performance measures in respect of its statutory functions, comprising 6 targets and 14 indicators. Audit noted that no targets or indicators were set in relation to: (a) the timeliness of issuing the first letters to applicants during the deficiencies checking stage for trade mark registration; and (b) the timeliness of processing applications during the examination on formal requirements stage for patent registration and design registration. These steps constituted a considerable proportion of the average processing time of the respective types of applications (paras. 2.34 to 2.36).

8. *Some costing statements not submitted to the Financial Services and the Treasury Bureau (FSTB) to support costing reviews.* It is stipulated in the Financial Circular No. 6/2016 entitled "Fees and Charges" that Controlling Officers should conduct costing reviews for fees once a year. For the annual costing reviews for 2015-16 to 2019-20 price levels, in some cases, IPD had not submitted costing statements to the Treasury for vetting and/or to FSTB, contrary to the Financial Circular requirements (paras. 2.39 and 2.40).

Promotion of intellectual property protection

9. *Need to step up efforts in promoting public awareness of IP protection.* In order to evaluate the change in awareness level on IP among the public, IPD has periodically conducted the Survey on Public Awareness of Intellectual Property Right Protection (PAIP survey) since 1999. Audit noted that for the PAIP survey completed in 2018, of the 1,003 respondents interviewed: (a) 74% were not aware that IPD was the Government department responsible for promoting the protection of IP rights in Hong Kong; (b) 49% were not aware of the promotional activities of IPD; and (c) 36% considered that the promotional activities of IPD were quite/very ineffective (paras. 3.3 and 3.5).

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10. ***Need to review the promotional expenditure spent on different channels.*** Audit analysed the expenditure incurred by IPD in 2018-19 on placing advertisements through different channels to promote IP protection and noted that: (a) while 19% of the expenditure was spent on advertisements at the airport and immigration control points, its effectiveness was not evaluated in the PAIP survey; and (b) while only a small percentage of the respondents perceived that advertisements on bus was the most effective advertising channel, 11% of the expenditure was spent on bus advertisements, higher than those spent on other channels which were perceived to be more effective according to the PAIP survey (para. 3.8).

11. ***Room for improvement for the No Fakes Pledge (NFP) Scheme.*** IPD launched the NFP Scheme in 1998. Participating merchants in the Scheme must volunteer to make a pledge not to sell fakes, and may post the No Fakes (NF) stickers and place tent cards in their shops. IPD is the coordinator of the Scheme, and there are four supporting organisations for the Scheme including the Customs and Excise Department (C&ED). Audit noted that: (a) the number of physical shops covered under the Scheme decreased by 274 (4%), from 6,785 in 2015 to 6,511 in 2019 and up to 31 December 2019, only 166 online shops were covered; (b) as at 11 February 2020, of the 1,225 retail merchants who were members in 2019, 318 (26%) had not renewed their membership; (c) of the 9 retail shops visited by Audit in January 2020 whose NFP Scheme membership had already been suspended or terminated, 2 (22%) were still displaying the NF logo on promotional materials in their shops; and (d) IPD had not taken prompt follow-up actions after raid operations were taken against three member shops by C&ED (paras. 3.13 to 3.16, 3.21, 3.26 and 3.28).

12. ***Room for improvement for the IP Manager Scheme.*** The IP Manager Scheme was launched in 2015 with an aim of assisting Hong Kong enterprises to build up their IP manpower capacity and to increase competitiveness so as to grasp the opportunities brought by IP trading. Audit noted that: (a) the number of new participating enterprises decreased by 38% from 242 in 2017-18 to 151 in 2018-19; and (b) in the period from 2015-16 to 2018-19, the attendance rate of training programmes under the Scheme had decreased from 97.7% to 86.3% (paras. 3.36, 3.37 and 3.40).

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Administrative issues

13. *Need to enhance competition in procurement of outsourced services.* In the period from 2001 to 2019, IPD awarded six outsourcing contracts through open tenders for some of its non-core services, with a total contract value amounting to \$335.4 million. Audit reviewed the tender exercises conducted by IPD in the period from 2001 to 2019 and noted that 9 bids were received for one contract for the tender exercise in 2001 while only 1 to 4 bids were received for the other five contracts for the tender exercises in 2006 to 2019. Audit noted that: (a) since 2014, the tenderer's experience had been the sole criteria for IPD's tender evaluation other than the tender price. In October 2018, it was announced in the 2018 Policy Address that the Government would introduce a pro-innovation government procurement policy in April 2019, raising the technical weighting in tender assessment with a view to promoting innovation. However, for the tender exercise conducted in March 2019, IPD used the evaluation approach adopted for the previous contract and included tenderer's experience as the only essential requirement; and (b) according to the Stores and Procurement Regulations, departments are encouraged to conduct a market research or non-binding expression of interest (EOI) exercise to better understand the goods or services likely to be available in the market. Although IPD received only two tender proposals in the 2006 tender exercise, it did not conduct any market research or EOI exercise for the subsequent tender exercises (paras. 4.2, 4.3, 4.5 to 4.7 and 4.10).

14. *Need to strengthen the monitoring of contractor's performance.* Audit noted that: (a) according to the contract for IPD's office operation service (with contract period from December 2014 to November 2019), Management Committee and business review meetings should be held at least once every three months. However, 11 (55%) of the 20 Management Committee meetings and 11 (65%) of the 17 business review meetings during the contract period were held longer than three months after the previous meeting; and (b) the guidelines on checking of contractor's performance report only showed how the deduction of monthly charges was computed, but detailed procedures on other checks were not included (para. 4.13).

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Audit recommendations

15. Audit recommendations are made in the respective sections of this Audit Report. Only the key ones are highlighted in this Executive Summary. Audit has *recommended* that the Director of Intellectual Property should:

Registration of trade marks, patents and designs

- (a) take measures to expedite the processing of trade mark applications (para. 2.32(b) and (c));
- (b) closely monitor and take measures to reduce the backlog of outstanding patent applications (para. 2.32(d));
- (c) closely monitor the waiting time for hearings and take measures to shorten the time when the situation warrants (para. 2.32(f));
- (d) explore measures to further increase the rate of electronic filing for trade mark applications (para. 2.32(g));
- (e) review the coverage of IPD's existing targets on the timeliness of processing trade mark, patent and design applications and consider setting a target on the time taken to issue the first report during examination on formal requirements for patent and design applications (para. 2.37);
- (f) ensure that the prevailing government guidelines on fees and charges are complied with (para. 2.44(a));

Promotion of IP protection

- (g) step up efforts on promotion of public awareness of IP protection (para. 3.11(a) and (b));
- (h) boost the membership of the NFP Scheme (para. 3.33(a) to (c));

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- (i) take measures to prevent misuse of the NF logo on promotional materials by shops which are not members of the NFP Scheme (para. 3.33(e));
- (j) take measures to ensure that prompt follow-up actions are taken against participating merchants of the NFP Scheme upon raid operations for IP rights infringement (para. 3.33(f));
- (k) step up efforts to boost the attractiveness of the IP Manager Scheme and the attendance rate of the training programme under the IP Manager Scheme (para. 3.43(a) and (b));

Administrative issues

- (l) in conducting tender exercises for the procurement of outsourced services, set evaluation criteria that dovetail with the new pro-innovation government procurement policy (para. 4.16(a));
- (m) conduct market research or non-binding EOI exercises for tender exercises with a view to ascertaining the market supply of the services required (para. 4.16(b)); and
- (n) take measures to strengthen the monitoring of the contractor's performance (para. 4.16(c)).

Response from the Government

16. The Director of Intellectual Property generally agrees with the audit recommendations.

PART 1: INTRODUCTION

1.1 This PART describes the background to the audit and outlines the audit objectives and scope.

Background

1.2 Intellectual property (IP) is the name commonly given to a group of separate intangible property rights. The most common types of IP include:

- (a) **Trade mark.** A trade mark is a sign which is capable of distinguishing the goods or services of one undertaking from those of other undertakings and which is capable of being represented graphically;
- (b) **Patent.** A patent for an invention (Note 1) is the legal right granted to the patent owner to exclude others from using (e.g. manufacturing, using, selling or importing) the patented invention for a limited period;
- (c) **Design.** A design is the features of shape, configuration, pattern or ornament applied to an article by any industrial process, being features which in the finished article appeal to and are judged by the eye; and
- (d) **Copyright.** A copyright is the property right which subsists in the following work:
 - (i) original literary, dramatic, musical or artistic works;
 - (ii) sound recordings, films, broadcasts or cable programmes; and
 - (iii) the typographical arrangement of published editions.

Note 1: *An invention is a product or a process that provides, in general, a new way of doing something, or offers a new technical solution to a problem.*

Introduction

Legal framework of IP protection

1.3 In Hong Kong, trade marks, patents, designs and copyrights are generally protected under the following laws which provide domestic protection (i.e. a right given under Hong Kong laws only applies in Hong Kong):

- (a) ***Trade Marks Ordinance (Cap. 559)***. The Trade Marks Ordinance provides the framework for Hong Kong's systems of registration of trade marks and sets out the basis and criteria for registration, as well as the rights attached to a registered trade mark. Trade marks are registered for a period of ten years and may be renewed indefinitely for further periods of ten years;
- (b) ***Trade Descriptions Ordinance (Cap. 362)***. The Trade Descriptions Ordinance stipulates that it is a criminal offence to use a trade mark fraudulently, including selling and importing goods bearing a forged trade mark, or possessing or using equipment for that purpose;
- (c) ***Patents Ordinance (Cap. 514)***. The Patents Ordinance stipulates that an invention which is new, involves an inventive step and is susceptible of industrial application is patentable in Hong Kong provided that it does not belong to the excluded classes (Note 2). There are two types of patents granted in Hong Kong, namely standard patents and short-term patents, which have a maximum term of protection of 20 years and 8 years respectively;
- (d) ***Registered Designs Ordinance (Cap. 522)***. The Registered Designs Ordinance protects the appearance of products (e.g. the look of a computer monitor) upon registration, but does not protect the way in which the product relating to the design works. The maximum term of protection of a registered design is 25 years; and

Note 2: *According to the Patents Ordinance, the following are not regarded as an invention, namely: (a) a discovery, scientific theory or mathematical method; (b) an aesthetic creation; (c) a scheme, rule or method for performing a mental act, playing a game or doing business, or a program for a computer; and (d) a presentation of information. Other excluded classes cover surgical or therapeutic methods for treatment of the human or animal body and inventions the publication or working of which is contrary to public order or morality, etc.*

- (e) **Copyright Ordinance (Cap. 528).** The Copyright Ordinance provides comprehensive protection for recognised categories of work (see para. 1.2(d)). Copyright is an automatic right which arises when a work is created and it is not necessary to register a copyright in Hong Kong in order to get protection under the Ordinance. As a general rule, a copyright lasts until 50 years after the creator of the work dies.

1.4 Unlike copyrights, the IP rights of trade marks, patents and designs are not automatic rights. They must be registered in accordance with the related provisions of the relevant ordinance in order to obtain the IP right protection (Note 3). As at 31 December 2019, the number of trade marks, patents and designs registered in Hong Kong totalled 536,592 (see Table 1).

Table 1

**Number of registered trade marks, patents and designs
(31 December 2019)**

| Type of IP | No. |
|-------------------|------------------|
| Trade mark | 442,263 (82.4%) |
| Standard patent | 51,949 (9.7%) |
| Short-term patent | 3,271 (0.6%) |
| Design | 39,109 (7.3%) |
| Total | 536,592 (100.0%) |

Source: IPD records

Note 3: *Since all trade marks (both registered and unregistered) are protected under the common law of passing-off, registration is not a must for protection. However, only trade marks registered under the Trade Marks Ordinance can enjoy the statutory protection under the Ordinance.*

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1.5 The international conventions listed in Appendix A apply to Hong Kong, China. Under these conventions, Hong Kong is required to recognise rights of persons from all member countries.

Intellectual Property Department

Programme areas

1.6 The Commerce and Economic Development Bureau (CEDB) assumes policy responsibility for IP rights within Hong Kong. The Intellectual Property Department (IPD) is responsible for the registration and protection of IP (Note 4). The work of IPD is carried out under two programme areas:

- (a) ***Programme (1): Statutory functions.*** IPD examines trade mark, patent, design and registration of copyright licensing bodies (Note 5) applications, maintains relevant registers and makes them available for public search. In 2019, the number of trade mark, patent and design applications received by IPD totalled 56,868 (see Table 2); and

Note 4: *The Customs and Excise Department is responsible for enforcing the criminal aspects of IP rights infringement. In October 2012, the Audit Commission completed a review of the Customs and Excise Department's management of IP rights enforcement work. The scope of this review does not cover the work of the Customs and Excise Department.*

Note 5: *Copyright licensing bodies are authorised by copyright owners to grant, on their behalf, licences to users of copyright works. The Copyright Ordinance provides for a voluntary registration scheme for copyright licensing bodies and the Director of Intellectual Property is the Registrar of Copyright Licensing Bodies.*

Table 2

**Number of trade mark, patent and design applications received
(2015 to 2019)**

| Type of IP | No. of applications | | | | | Change from 2015 to 2019 |
|-------------------|---------------------|--------|--------|--------|--------|--------------------------|
| | 2015 | 2016 | 2017 | 2018 | 2019 | |
| Trade mark | 39,179 | 36,181 | 37,630 | 40,331 | 36,980 | -2,199 (-6%) |
| Standard patent | 12,212 | 14,092 | 13,299 | 15,986 | 16,521 | +4,309 (+35%) |
| Short-term patent | 702 | 762 | 693 | 791 | 791 | +89 (+13%) |
| Design | 2,769 | 2,515 | 2,609 | 2,583 | 2,576 | -193 (-7%) |
| Overall | 54,862 | 53,550 | 54,231 | 59,691 | 56,868 | +2,006 (+4%) |

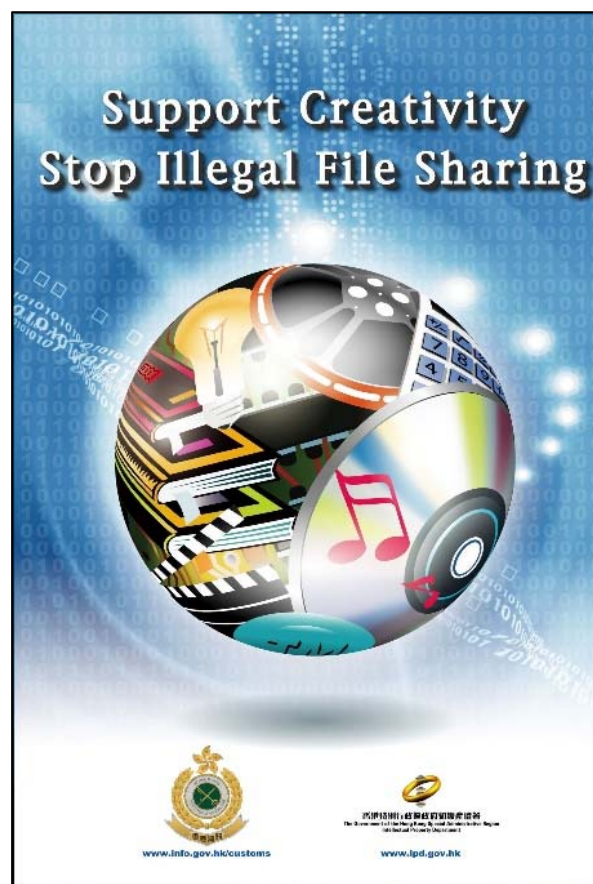
Source: Audit analysis of IPD records

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- (b) **Programme (2): Protection of IP.** The work of IPD under this programme area includes promoting awareness of IP rights, advising the Secretary for Commerce and Economic Development on policies and legislation to strengthen protection of IP rights, and providing civil legal advice on IP matters to government bureaux and departments. IPD promotes IP protection through different channels. The most common channels include Internet (e.g. websites and social media), media announcements and posters (see Figure 1).

Figure 1

A poster to promote IP protection



Source: IPD records

Remarks: This poster was jointly produced by IPD and the Customs and Excise Department.

Organisation structure

1.7 The Director of Intellectual Property is the Controlling Officer of IPD. As at 31 December 2019, IPD had 171 civil service staff and 14 full-time non-civil service contract (NCSC) staff. The work of IPD is carried out by:

- (a) ***Copyright Team.*** The Copyright Team is responsible for providing legal advice and policy support to CEDB in matters concerning copyright and related rights. It monitors and advises the Government on the development of international copyright treaties and related standards. It regularly reviews the copyright regime and formulates legislative proposals for updating the copyright law;
- (b) ***Advisory Team.*** The Advisory Team is responsible for providing civil legal advice on IP matters to government bureaux and departments, overseeing the development of the collaborative relations and efforts with other IP authorities and international bodies, and formulating and implementing strategies and support measures for developing Hong Kong as an IP trading hub (Note 6) in the region;
- (c) ***Hearings Team.*** The Hearings Team is responsible for undertaking trade mark registrability, opposition, revocation and invalidation hearings, determining all related interlocutory matters, and handing down reasoned decisions;
- (d) ***Trade Marks Team.*** The Trade Marks Team is responsible for overseeing the practice and procedures in respect of applications for registration of trade marks, and their post-registration matters, provision of policy and legal advice to CEDB on issues relating to trade marks and the development of laws, procedures and policies relating to trade mark registrations;
- (e) ***Patents & Designs Team.*** The Patents & Designs Team is responsible for overseeing the practice and procedures in respect of applications for grant of patents and registered designs, and their post-grant matters, and providing legal and policy advice to CEDB on legislative proposals and other issues relating to patents and registered designs;

Note 6: *IP trading refers broadly to any means by which IP rights are commercially dealt with, including selling, buying, licensing out and licensing in.*

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- (f) **Marketing Division.** The Marketing Division is responsible for formulating and implementing publicity programmes on IP promotion and protection in Hong Kong and cooperation programmes with the Mainland, regional and international authorities, as well as carrying out work in relation to the promotion of IP trading; and
- (g) **Administration Unit.** The Administration Unit is responsible for the finance, human resources and administrative matters of IPD.

An extract of the organisation chart of IPD as at 31 December 2019 is at Appendix B.

Income and expenditure

1.8 In 2018-19, IPD's income was \$220.7 million (see Table 3) and total expenditure was \$177.5 million (see Tables 4 and 5).

Table 3

**Income analysed by fee type
(2018-19)**

| Fee type | Income (\$ million) |
|------------------------|--------------------------------|
| Trade mark fees | 186.5 (84%) |
| Patent fees | 26.3 (12%) |
| Registered design fees | 7.9 (4%) |
| Total | 220.7 (100%) |

Source: *Audit analysis of IPD records*

Table 4
Expenditure analysed by programme area
(2018-19)

| Programme area | Expenditure (\$ million) |
|---------------------|-----------------------------|
| Statutory functions | 124.3 (70%) |
| Protection of IP | 53.2 (30%) |
| Total | 177.5 (100%) |

Source: Audit analysis of IPD records

Table 5
Expenditure analysed by nature
(2018-19)

| Nature | Expenditure (\$ million) |
|--------------------------------------|-----------------------------|
| Personal emoluments | 120.7 (68%) |
| Personnel related expenses | 7.6 (4%) |
| General departmental expenses | 34.9 (20%) |
| Publicity and educational programmes | 14.3 (8%) |
| Total | 177.5 (100%) |

Source: Audit analysis of IPD records

Audit review

1.9 In 2006, the Audit Commission (Audit) completed a review of the services provided by IPD and the results were reported in Chapter 11 of the Director of Audit's Report No. 47 of October 2006.

Introduction

1.10 In October 2019, Audit commenced a review of IPD's work on the registration and protection of IP. The audit has focused on the following areas:

- (a) registration of trade marks, patents and designs (PART 2);
- (b) promotion of IP protection (PART 3); and
- (c) administrative issues (PART 4).

Audit has found room for improvement in the above areas and has made a number of recommendations to address the issues.

General response from the Government

1.11 The Director of Intellectual Property generally agrees with the audit recommendations. He thanks Audit for the professionalism exuded throughout the audit review, which has helped the department to review and enhance its operations on various fronts.

1.12 The Secretary for Commerce and Economic Development generally agrees with the audit recommendations and the response from the Director of Intellectual Property. He has said that CEDB will oversee IPD's efforts in following up with the recommendations.

Acknowledgement

1.13 Audit would like to acknowledge with gratitude the full cooperation of the staff of IPD during the course of the audit review.

PART 2: REGISTRATION OF TRADE MARKS, PATENTS AND DESIGNS

2.1 This PART examines the registration of trade marks, patents and designs, focusing on the following areas:

- (a) processing of applications for registration (paras. 2.3 to 2.33);
- (b) performance measurement and reporting (paras. 2.34 to 2.38); and
- (c) costing of fees and charges (paras. 2.39 to 2.45).

Background

2.2 IPD is responsible for operating the following Registries:

- (a) ***Trade Marks Registry.*** The Trade Marks Registry is responsible for examining trade mark applications, maintaining the register of trade marks and making it available for public search. Moreover, registrability and opposition hearings on trade mark applications are primarily within the purview of the Hearings Team (see para. 2.21);
- (b) ***Patents Registry.*** The Patents Registry is responsible for examining patent applications, maintaining the register of patents and making it available for public search. Before the launch of the Original Grant Patent (OGP) system on 19 December 2019 (Note 7), standard patents were only granted on the basis of corresponding patents granted by one of the designated patent

Note 7: *The OGP system creates a direct route for seeking standard patent protection in Hong Kong with a maximum term of 20 years, as an alternative to the existing "re-registration" route. OGP applications are subject to substantive examination by IPD for determining the patentability of the underlying inventions. The "re-registration" route has been retained after the launch of the OGP. Unless otherwise stated, the analysis in this Audit Report in relation to the processing of standard patent applications only covered standard patent applications filed via the "re-registration" route.*

Registration of trade marks, patents and designs

offices (Note 8) under the “re-registration” route. Since 19 December 2019, standard patents can be granted either via the “re-registration” route or via the direct route under the OGP system. Short-term patents are granted based on formality examination as to whether the requisite information and documents (including a search report from an international searching authority or one of the designated patent offices) are fully furnished; and

- (c) ***Designs Registry.*** The Designs Registry is responsible for examining design applications, maintaining the register of designs and making it available for public search.

The procedures for registration of trade marks, patents and designs are set out at Appendices C to F.

Processing of applications for registration

Backlog in processing trade mark applications

2.3 Processing of a trade mark application mainly involves three stages (see Appendix C):

- (a) ***Deficiencies checking stage.*** Upon receipt of the application, IPD carries out checking to ensure that the application form has been properly filled in and all the required information is submitted;
- (b) ***Search and examination stage.*** At this stage, IPD conducts substantive examination to decide if the mark satisfies registration requirements laid down in the Trade Marks Ordinance and its subsidiary legislation. It also searches through the trade marks records to ascertain if the same or similar trade mark has already been registered or been applied for by another trader in respect of the same or similar class of goods and services. IPD will then issue a first response in writing which will either lay out the grounds for

Note 8: *The designated patent offices are the China National Intellectual Property Administration, the United Kingdom Patent Office and the European Patent Office, in respect of a European patent designating the United Kingdom.*

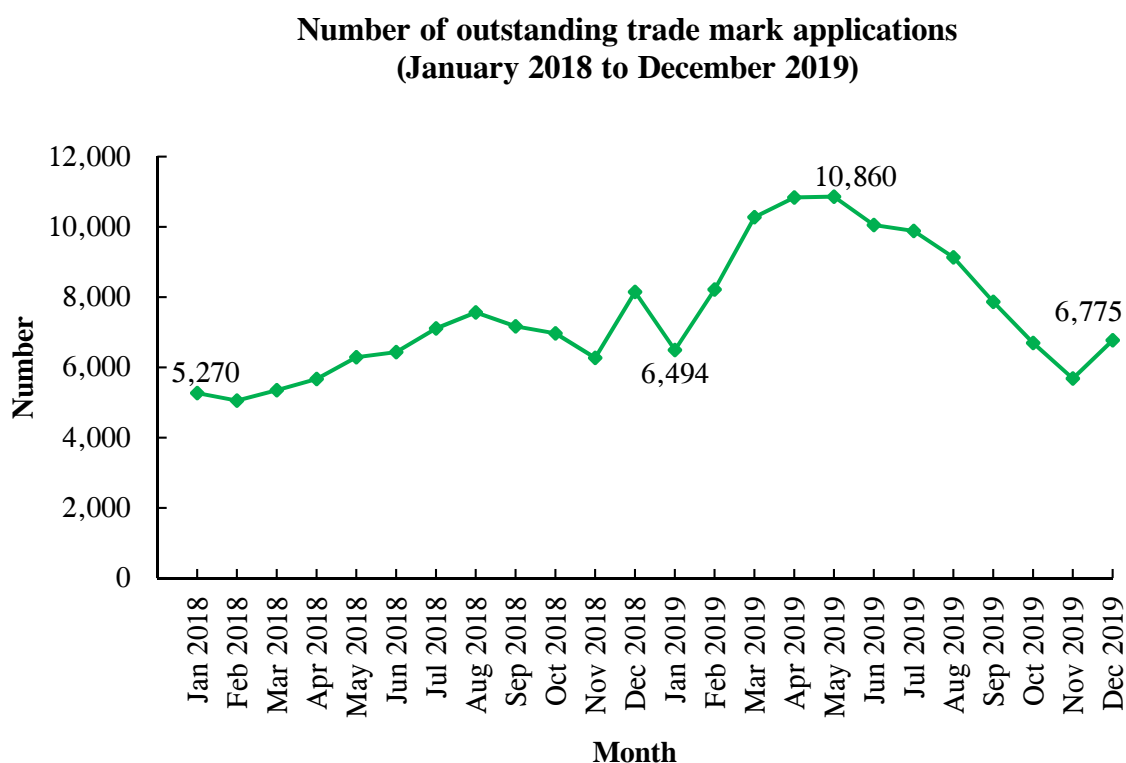
objection to the mark or confirm that the mark is acceptable for registration;
and

- (c) **Publication stage.** Once a trade mark application has been accepted for registration, it will be published in the Hong Kong Intellectual Property Journal. Members of the public can view the published trade mark and lodge an opposition within the 3-month period beginning on the publication date. The trade mark will be registered if no opposition is received or if opposition is decided in favour of the applicant.

2.4 **Increasing number of outstanding applications.** For monitoring the progress of examination of trade mark applications, IPD compiles monthly statistics on outstanding trade mark applications (i.e. applications that were received, undergoing the deficiencies checking stage, or undergoing the search and examination stage for which IPD had not yet issued the first response to the applicants), processing time for issuance of first responses and the number of applications registered. IPD reports the monthly statistics to CEDB. Audit analysed the number of outstanding trade mark applications for the period from January 2018 to December 2019 (see Figure 2). Audit noted that:

- (a) the number of outstanding applications increased by 29% from 5,270 in January 2018 to 6,775 in December 2019; and
- (b) there was a significant increase of 67% in the number of outstanding applications from 6,494 in January 2019 to a peak of 10,860 in May 2019.

Figure 2



Source: Audit analysis of IPD records

2.5 ***Decreasing percentage of trade marks registered within six months.*** IPD compiles monthly statistics on the percentage of trade marks that were registered within six months from the date of receipt of application. Audit analysed the percentage for trade marks successfully registered in the period from April 2018 (Note 9) to December 2019 and found that:

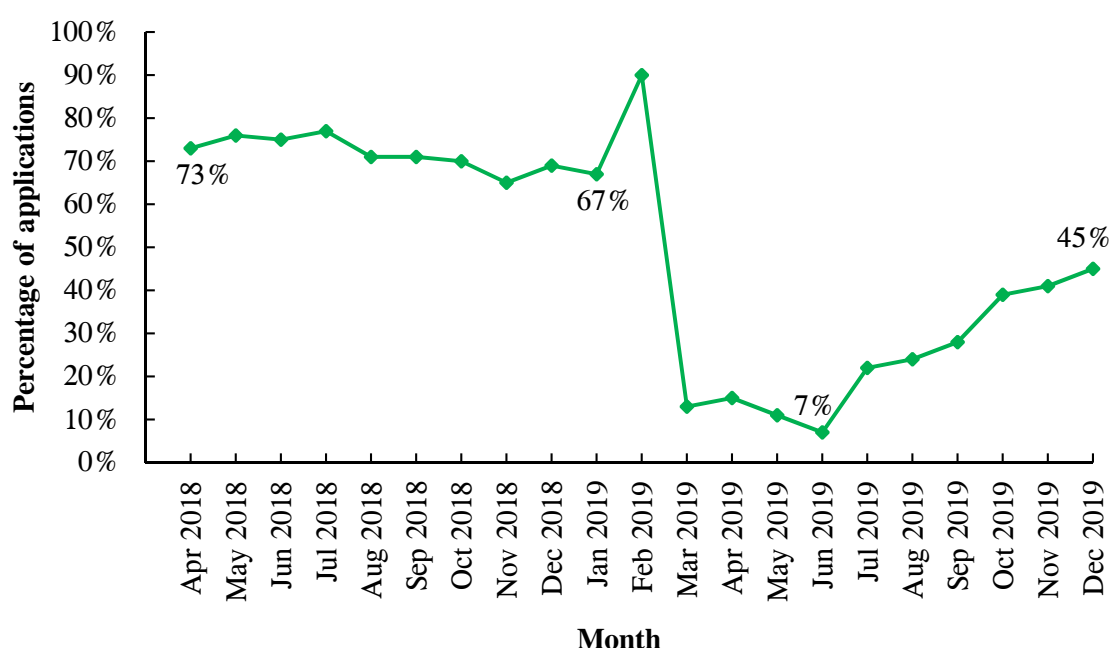
- (a) the percentage decreased from 73% in April 2018 to 45% in December 2019; and

Note 9: *Before April 2018, statistics on the percentage of trade marks that were registered within twelve months, instead of six months from the date of receipt of application were compiled. Since April 2018, the period was shortened to six months to better reflect the performance of the Trade Marks Registry. Therefore, statistics on trade marks registered within six months were not available for trade marks registered before April 2018.*

- (b) the percentages for the period from April 2018 to January 2019 were relatively stable and were about 70%. However, the percentage decreased significantly to 7% in June 2019 and had been picking up since then to 45% in December 2019 (see Figure 3).

Figure 3

**Percentage of trade marks registered within six months
from receipt of application
(April 2018 to December 2019)**



Source: Audit analysis of IPD records

2.6 In response to Audit’s enquiry, IPD informed Audit in February 2020 that:

- (a) the increase in the number of outstanding trade mark applications in the period from January to May 2019 (see para. 2.4(b)) and the low percentage of trade marks registered within six months from the receipt of application for the period from March to June 2019 (see para. 2.5(b)) were mainly due to the need for adaptation to the new working environment for trade mark examination during the initial period after the launch of the New Integrated Information Technology System (NIS) in February 2019. To enable the launch, the operations of the Trade Marks Registry, the Patents Registry

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and the Designs Registry (Registries) were suspended for five working days; and

- (b) notwithstanding the teething issues and the need for familiarisation with NIS after its launch, the Trade Marks Registry managed to clear a substantial part of the outstanding applications. The number of outstanding trade mark applications was significantly reduced by 46% from the peak of 10,860 in May 2019 to 5,916 by the end of January 2020. The percentage of trade marks that were registered within six months from the receipt of application picked up from the trough of 7% in June 2019 to 51% by the end of January 2020.

2.7 Audit recognises the effort of IPD in improving the performance of the Trade Marks Registry. Notwithstanding this, Audit considers that IPD needs to closely monitor and continue to take measures to reduce the backlog of outstanding trade mark applications and expedite the processing of trade mark applications with a view to increasing the percentage of trade marks registered within six months from the receipt of their applications.

Need to shorten the time taken to issue first letters

2.8 Audit analysed the progress of processing of outstanding trade mark applications as at 31 December 2019 and noted that of the 6,775 applications (see para. 2.4(a)):

- (a) 4,907 (72%) had not yet completed the deficiencies checking stage; and
- (b) 1,868 (28%) were undergoing the search and examination stage. IPD had not yet issued the first response to the applicants (see para. 2.3(b)).

2.9 If an application failed to pass the deficiencies checking stage, IPD would issue a letter requesting the applicant to provide information to remedy the deficiencies within two months. According to IPD, it normally takes more than 90 days to complete the deficiencies checking stage since a two-month statutory period is allowed for these applicants to remedy deficiencies. For applications which successfully passed the checking, IPD would issue a letter notifying the applicants that their applications would proceed to the search and examination stage.

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2.10 Audit conducted an ageing analysis of the applications which had not completed the deficiencies checking stage and noted that of the 4,907 outstanding applications, 765 (16%) had been received for over 90 days. The earliest application was received 1,156 days ago (see Table 6).

Table 6

**Ageing analysis of trade mark applications not having
completed the deficiencies checking stage
(31 December 2019)**

| Time lapse since receipt (day) | No. of applications not having completed the deficiencies checking stage |
|-----------------------------------|--|
| 0 to 30 | 2,555 (52%) |
| > 30 to 60 | 1,135 (23%) |
| > 60 to 90 | 452 (9%) |
| > 90 to 180 | 525 (11%) |
| > 180 to 365 | 204 (4%) |
| > 365 (Note) | 36 (1%) |
| Total | 4,907 (100%) |

Source: Audit analysis of IPD records

Note: The longest time lapse since receipt of the application was 1,156 days. According to IPD, this was a special case where the application had been treated as abandoned at one point as IPD received no response from the applicant to IPD's first letter after conducting deficiencies checking, and was subsequently reinstated over 18 months after receipt of the application.

Remarks 1: For applications with deficiencies, the time lapse included the two-month period allowed for applicants who failed the deficiencies checking to remedy the deficiencies.

Remarks 2: Information was not available on the number of applications for which the applicants had to remedy deficiencies found by IPD.

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2.11 Audit further analysed the timeliness of IPD in conducting the deficiencies checking and issuing first letters (the letters to the applicants to request them to provide information to remedy the deficiencies identified by IPD or notify them that their applications would proceed to the search and examination stage). In the period from January 2018 to October 2019, IPD issued 67,049 first letters to trade mark applicants during the deficiencies checking stage. Audit found that for 17,177 (26%) of the 67,049 first letters, IPD took more than 60 days after receipt of the applications to issue the first letters, and the longest time taken was 433 days (see Table 7).

Table 7

**Time taken to issue the first letters
during deficiencies checking stage for trade mark applications
(January 2018 to October 2019)**

| Time taken (day) | Number of applications |
|-----------------------------|-------------------------------|
| 0 to 30 | 29,186 (43%) |
| > 30 to 60 | 20,686 (31%) |
| > 60 to 90 | 9,762 (15%) |
| > 90 to 180 | 6,827 (10%) |
| > 180 to 365 | 584 (1%) |
| > 365 (Note) | 4 (0%) |
| | } 17,177 (26%) |
| Total | 67,049 (100%) |

Source: Audit analysis of IPD records

Note: The longest time taken was 433 days.

2.12 Audit considers that IPD needs to take measures to shorten the time taken to issue the first letters during the deficiencies checking stage for trade mark applications.

Increasing number of outstanding applications for patent registration

2.13 Processing of a standard patent application and a short-term patent application mainly involves three processing steps. For a standard patent application, the application process comprises two stages, namely request to record (after publication of the designated patent application in the designated patent office) and request for registration and grant (after the grant of the designated patent by the designated patent office), and the three processing steps are applicable to each of the two stages. The three processing steps include (see Appendix D):

- (a) ***Examination for according a date of filing.*** Upon receipt of a patent application, IPD will, for the purpose of according a date of filing to the application, check:
 - (i) ***Standard patent applications.*** To ensure that the application contains an indication that a request is made to record a designated patent application or for the registration of a designated patent and the grant of a standard patent, the name of the applicant and (for a request to record) a reference to the corresponding designated patent application or (for a request for registration and grant) the respective publication particulars of the corresponding designated patent and request to record; and
 - (ii) ***Short-term patent applications.*** To ensure that the application contains an indication that a short-term patent is sought, the name of the applicant and a description of the invention for which the application is made;
- (b) ***Examination on formal requirements.*** At this stage, IPD will examine whether the application fulfils the formal requirements, i.e. it contains the supporting information and documents as required by the legislation; and
- (c) ***Publication.*** Once a patent application has been accepted for record or grant, IPD will publish the application or grant and advertise the fact of the publication by notice in the Hong Kong Intellectual Property Journal.

2.14 Similar to trade mark applications, IPD prepares monthly statistics to monitor the number of outstanding patent applications:

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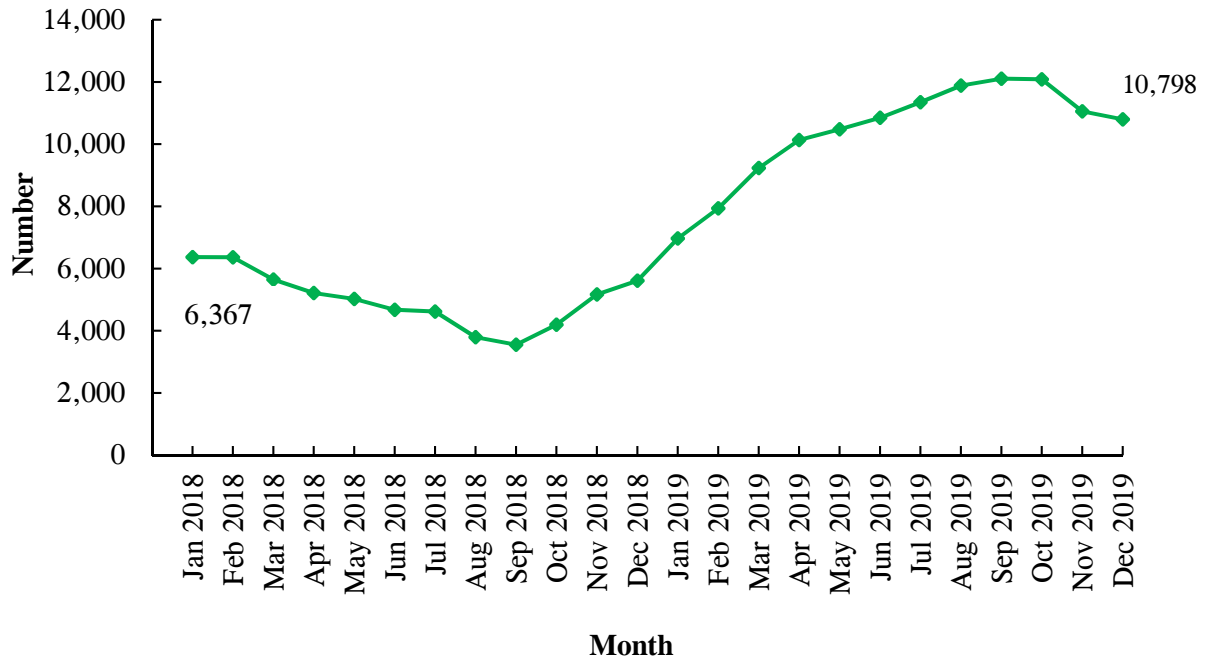
- (a) ***Standard patents.*** For standard patents, the outstanding cases refer to applications for which IPD has not yet issued the first examination report on the formal requirements of request to record, regardless of whether the first examination report on according the date of filing has been issued or not; and
- (b) ***Short-term patents.*** For short-term patents, the outstanding cases refer to applications for which IPD has not yet issued the first examination report on the formal requirements of application, regardless of whether the first examination report on according the date of filing has been issued or not.

2.15 Audit analysed the number of outstanding applications for standard patents and short-term patents for the period from January 2018 to December 2019. Audit noted that:

- (a) ***Outstanding standard patent applications.*** The number increased by 70% from 6,367 in January 2018 to 10,798 in December 2019 (see Figure 4); and
- (b) ***Outstanding short-term patent applications.*** The number increased by 56% from 260 in January 2018 to 406 in December 2019 (see Figure 5).

Figure 4

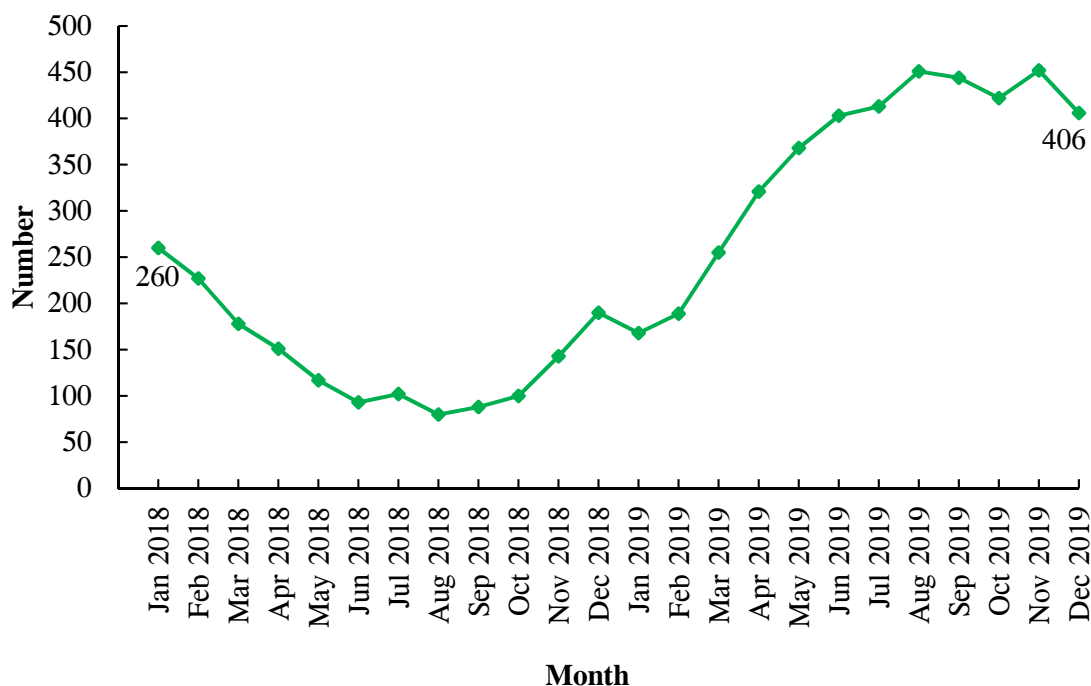
Number of outstanding standard patent applications
(January 2018 to December 2019)



Source: Audit analysis of IPD records

Figure 5

Number of outstanding short-term patent applications (January 2018 to December 2019)



Source: Audit analysis of IPD records

2.16 Audit noted an increasing trend in the number of outstanding applications for standard patents since late 2018 (see Figure 4) and for short-term patents since early 2019 (see Figure 5). Audit considers that IPD needs to closely monitor and take measures to reduce the backlog of outstanding patent applications.

Need to mitigate impact of other initiatives on processing of applications for registration

2.17 Audit identified room for improvement in IPD's processing of trade mark applications and patent applications in respect of:

- (a) the number of outstanding trade mark applications (see Figure 2 in para. 2.4);

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- (b) the percentage of trade mark registered within six months from the date of receipt of application (see Figure 3 in para. 2.5);
- (c) the time taken to issue the first letter during deficiencies checking stage for trade mark applications (see Table 7 in para. 2.11); and
- (d) the number of outstanding patent applications (see Figures 4 and 5 in para. 2.15).

2.18 In response to Audit's enquiry, IPD informed Audit in February 2020 that in managing the Registries, IPD had made constant efforts in recent years to optimise deployment of resources in handling both daily examination work and development matters, mainly in the following areas:

- (a) from 2016 to 2019, IPD undertook a project to develop NIS to replace several Information Technology (IT) systems that had served both internal and external users since 2003;
- (b) given the unanticipated sophistication and complexity of NIS, the Registries had expended substantial efforts in the system analysis and design, user acceptance testing and data migration verification as well as system refinements, to ensure the smooth launch of the first phase of NIS in February 2019 and the final phase in December 2019 (in tandem with the launch of an IT sub-system to support implementation of the OGP system at the same time) (see para. 2.2 (b));
- (c) the above IT implementation and development work had taken a double toll on the resources of the Registries in 2019, due to bug fixing which was not uncommon given the size and complexity of the NIS project, familiarisation of the new system by Intellectual Property Examiners, early system refinements in key functionalities and user interface to address feedback from both internal and external stakeholders, etc.; and
- (d) while IPD had been able to generally maintain examination performance of the Registries and driving progress in development work in parallel until late 2018, the overall demand in 2019 proved exceedingly large as shown in the increase in the number of outstanding applications. Every effort had been made to arrest the trend, accounting for the improved situation

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towards end of 2019 and since, and the improvement was particularly significant for trade mark applications (see para. 2.6).

2.19 While noting the substantial time and efforts that IPD had put into the implementation and development of NIS and the sub-system to support the OGP system, in Audit's view, the situation was not satisfactory as the implementation of the new system had brought a negative impact on IPD's processing of applications. Audit considers that IPD needs to review the lessons learnt from the implementation and development of NIS, and take measures to enhance the planning for future projects.

Long waiting time for hearings on trade mark registration matters

2.20 Once a trade mark application has passed the search and examination stage, it will be published in the Hong Kong Intellectual Property Journal. Members of the public can view the published trade mark and lodge an opposition within three months. The applicant may withdraw his application or respond to the opposition by filing a counter-statement. The applicant and the opponent are given the opportunity, within certain time limits, to file evidence in turn in support of the application and the opposition respectively. When all necessary evidence has been received, the case is considered ready for hearing and will be entered on the pending hearing list. IPD will fix the date, time and place for the hearing and send a notice of this to the parties. It will endeavour to give the parties two months' notice prior to the date of the hearing.

2.21 IPD has set up a Hearings Team comprising specialised officers responsible for undertaking quasi-judicial functions of conducting hearings on trade mark registration matters.

2.22 The trade mark hearings handled by the Hearings Team consist of the following:

- (a) ***Ex parte registrability hearings.*** Where an applicant for registration of a trade mark disagrees with the objection raised by IPD against his application, he may request an *ex parte* registrability hearing. As at 31 December 2019, there were 21 registrability hearings still pending to be

heard, and the waiting time for the registrability hearing heard in the month was about 4 months;

- (b) ***Inter partes substantive hearings.*** These include substantive hearings in various types of proceedings such as opposition proceedings. Any third party may file an opposition against an application for registration of a trade mark accepted and published by IPD. The proceedings involve filing of statement of grounds and evidence by the parties in turn and an inter partes substantive hearing. As at 31 December 2019, there were 92 inter partes substantive hearings pending to be heard, and the average waiting time for the substantive hearings heard in the month was 11 months; and

- (c) ***Ex parte and inter partes interlocutory hearings.*** The most common type of interlocutory hearings concerning a single party involves application for extension of time by an applicant for registration of a mark to complete a step in the application process. Where IPD proposes to refuse a particular request for extension of time, the applicant may call for an ex parte interlocutory hearing. In a proceeding between two parties, various interlocutory issues may arise between the parties, e.g. extension of time, leave to amend statement of grounds, etc. If an interlocutory issue cannot be resolved by correspondence, a party may call for an inter partes interlocutory hearing. As at 31 December 2019, there were 4 interlocutory hearings pending to be heard, and the average waiting time for the interlocutory hearings heard in the month was about 1 month.

2.23 Regarding the average waiting time of 11 months for inter partes substantive hearings (see para. 2.22(b)), according to an internal assessment conducted by IPD in July 2018, the average waiting time was considered quite long as compared to the performance of overseas IP agencies and the Judiciary of Hong Kong:

- (a) the Intellectual Property Office of Singapore had a service commitment of hearing a trade mark case within 3 months from the date it is ready for hearing; and

- (b) according to the Hong Kong Judiciary Annual Report 2017, the average waiting time for the Civil Fixture List of the High Court, from application to fix date to hearing, was 163 days (i.e. around 5.5 months).

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2.24 In January 2020, IPD created a civil service Senior Solicitor post in the Hearings Team to replace the NCSC Senior Solicitor post to strengthen its hearings capacity.

2.25 According to IPD, trade mark is an important and valuable asset of a business as it is used to distinguish goods and services supplied by the business from those of its competitors. It is crucial to all trade mark owners that any proceedings concerning their trade marks should be determined expeditiously as any uncertainty concerning the use or protection of their trade marks would have a material impact on their business plans and strategies. Audit considers that IPD needs to closely monitor the waiting time for hearings and take measures to shorten the time when the situation warrants.

Room for improving the proportion of electronic filing for trade mark registration

2.26 The registers of trade marks, patents and designs are all maintained in electronic format. IPD has been providing electronic searching, filing, payment and publication services in respect of registration of trade marks, patents and designs since 2003. In June 2014, IPD submitted a paper to the Legislative Council's Finance Committee to seek approval for a new commitment of \$67 million for the redevelopment of the Electronic Processing Systems, Electronic-filing System and Online Search System. In the paper, IPD stated that the redevelopment of the systems would deliver the following benefits:

- (a) sustaining the edge of Hong Kong as an innovative and knowledge-based economy. IPD was once a pioneer of electronic filing in the global IP arena back in 2003. However, as time goes by, IPD's electronic systems and services begin to lag behind in comparison with those of other advanced IP offices;
- (b) better customer experience of electronic filers brought about by more user-friendly interface with new and enhanced functions; and

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- (c) wider adoption of electronic filing applications and electronic business in the community, resulting in higher efficiency and less paper consumption.

2.27 Audit examined the statistics of electronic filing for trade mark, patent and design applications in the period from 2015 to 2019. Audit noted that:

- (a) the percentage of electronic filing for all three types of applications had been increasing steadily, with trade mark applications having the lowest percentage of electronic filing persistently (see Table 8); and
- (b) the percentage of electronic filing for trade mark applications received by IPD was lower than those of other major IP offices outside Hong Kong (see Table 9).

Table 8

**Percentage of electronic filing for applications
(2015 to 2019)**

| Type of applications | 2015 (%) | 2016 (%) | 2017 (%) | 2018 (%) | 2019 (%) |
|-----------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Trade mark | 62 | 64 | 66 | 69 | 73 |
| Patent | 81 | 81 | 83 | 88 | 91 |
| Design | 77 | 77 | 80 | 80 | 80 |

Source: IPD records

Remarks: In January 2020, the electronic filing rates of trade mark, patent and design applications were 78%, 95% and 77% respectively.

Table 9

**Percentage of electronic filing for
trade mark applications of other major IP offices outside Hong Kong
(2017)**

| IP office | Percentage |
|------------------|-------------------|
| European Union | 99.0 |
| Japan | 82.9 |
| Korea | 96.0 |
| Mainland | 85.2 |
| United States | 99.9 |

Source: Website of the Five Trade Mark Offices

2.28 In the Director of Audit's Report No. 47 of October 2006, Audit recommended that the Director of Intellectual Property should consider taking measures to facilitate the use of electronic filing, such as introducing differential pricing for electronic filing and conventional paper filing. The CEDB agreed that IPD should review the benefits of differential pricing in the next costing exercise, having regard to the migration rates for various electronic services and the efficiency improvements that the services brought about.

2.29 In December 2007, IPD informed Audit that differential pricing as a means to encourage electronic filing was not worth pursuing because, among other things:

- (a) since IPD rolled out electronic filing in September 2004, all major filers had converted to use electronic filing in submitting their applications. Only a few major filers who were in the course of enhancing their IT systems were yet to become electronic filers. The rest of the filers were mainly private applicants who usually submitted their applications in paper form;

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- (b) the migration rate of electronic filing had increased steadily even without differential pricing (Note 10), which reflected that financial incentive was not a cause to use electronic filing; and
- (c) to implement differential pricing, the then electronic filing system would need to be enhanced, costing about \$700,000. The expenditure for enhancing the system would not provide value for money.

2.30 According to IPD, during 2013 and 2014, various discussions among IPD, CEDB, the Financial Services and the Treasury Bureau (FSTB) and the Treasury on the setting of fees took place. In September 2014, CEDB, FSTB and IPD decided that it was not an opportune time to introduce differential pricing because, among other things:

- (a) almost all major filers had already converted to use electronic filing services; and
- (b) the introduction of differential pricing would require enhancement of the electronic filing system, which was then assessed to cost around \$1.5 million. By then a decision had been made for IPD to redevelop its aged IT systems (in use since around 2003) for rolling out in 2017-18. It would obviously not be cost-effective to enhance the electronic filing system to bring in differential pricing at that stage knowing that the overall system would be soon replaced by an entirely new IT infrastructure.

2.31 Audit noted that with the launch of the OGP system (see para. 2.2(b)) in December 2019, IPD introduced, with the support of CEDB, preferential fee reduction for electronic filing of patent applications. However, as at 31 January 2020, similar preferential fee reduction had not been introduced for electronic filing of trade mark or design applications. IPD needs to explore measures to further increase the rate of electronic filing for trade mark applications, for example by:

Note 10: *According to IPD, from September 2004 to November 2007, the migration rates of electronic filing increased from 13% to 58% for trade mark applications, from 2% to 37% for patent applications, and from 1% to 41% for design applications.*

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- (a) conducting user surveys to ascertain the reasons for the relatively lower rate of electronic filing of trade mark applications, and take measures to address the issues accordingly; and
- (b) introducing preferential pricing for electronic filing of trade mark applications in due course.

Audit recommendations

2.32 **Audit has recommended that the Director of Intellectual Property should:**

- (a) **closely monitor and continue to take measures to reduce the backlog of outstanding trade mark applications;**
- (b) **take measures to expedite the processing of trade mark applications, with a view to increasing the percentage of trade marks registered within six months from the receipt of their applications;**
- (c) **take measures to shorten the time taken to issue the first letters during the deficiencies checking stage for trade mark applications;**
- (d) **closely monitor and take measures to reduce the backlog of outstanding patent applications;**
- (e) **review the lessons learnt from the implementation and development of the new IT system, and take measures to enhance the planning for future projects;**
- (f) **closely monitor the waiting time for hearings and take measures to shorten the time when the situation warrants; and**
- (g) **explore measures to further increase the rate of electronic filing for trade mark applications, for example by:**
 - (i) **conducting user surveys to ascertain the reasons for the relatively lower rate of electronic filing of trade mark**

applications, and take measures to address the issues accordingly; and

- (ii) **introducing preferential pricing for electronic filing of trade mark applications in due course.**

Response from the Government

2.33 The Director of Intellectual Property generally agrees with the audit recommendations. He has said that:

- (a) IPD has all along attached great importance to enhancing the operations of the Registries in better serving the public. The investment in the development of NIS is a demonstration of its commitment to providing quality registration services;
- (b) IPD will make the best use of the revamped IT infrastructure to improve and excel in future performance, and will enhance the implementation and resource planning for future IT projects;
- (c) over the years, IPD has introduced various measures to enhance service delivery in quasi-judicial proceedings including grooming up a larger pool of experienced hearing officers, conducting active case management where appropriate and enabling e-submission of hearing documents through NIS. In parallel, IPD is considering room for streamlining the hearing procedures. IPD will continue holistic enhancements, notably in shortening the waiting times for conducting hearings and issuing decisions, by making cost-effective use of its resources available; and
- (d) with the introduction of a host of user-friendly features in NIS (e.g. additional means of electronic payment and customer authentication, fully web-based online electronic forms, functional interface between search and filing, and provision of business-to-business electronic filing solutions), the rate of electronic filing of trade mark applications has increased by nearly 10% in about one year's time. IPD will continue to explore feasible ways to further boost the rate of electronic filing for trade mark applications.

Performance measurement and reporting

2.34 Performance measurement includes developing and reporting performance measures. It helps enhance the performance, transparency and accountability of an organisation. IPD has included in its Controlling Officer's Report (COR) 20 key performance measures in respect of its statutory functions, comprising:

- (a) 6 targets relating to the timeliness of processing applications for registration of trade marks, patents and designs; and
- (b) 14 indicators relating to number of applications received, number of successful applications (e.g. number of trade marks and designs registered and number of patents granted) and number of correspondences issued to the applicants.

Need to consider setting performance targets on some key steps in the application processes

2.35 Audit analysed the definition of the 6 targets set in the COR in relation to IPD's performance of its statutory functions. Audit noted that the targets did not cover the timeliness of processing applications for the registration of trade marks, patents and designs during some key stages (see Table 10):

- (a) ***Trade mark registration.*** No target or indicator was set in relation to the timeliness of issuing the first letters to applicants (see para. 2.11) during the deficiencies checking stage;
- (b) ***Patent registration.*** No target or indicator was set in relation to the timeliness of processing applications during the examination on formal requirements stage; and
- (c) ***Design registration.*** No target or indicator was set in relation to the timeliness of processing applications during the examination on formal requirements stage.

Table 10

**Analysis of targets set in COR
for trade mark, patent and design applications
(2019)**

| Trade marks | Patents | Designs |
|--|---|--|
| <u>Deficiencies checking</u> No target or indicator | <u>Examination for according a date of filing</u> <ul style="list-style-type: none"> • processing standard patent applications within ten days • processing short-term patent applications within ten days | <u>Examination for according a date of filing</u> <ul style="list-style-type: none"> • processing applications within ten days |
| <u>Search and examination</u> <ul style="list-style-type: none"> • providing first response within two months • providing second response within three months | <u>Examination on formal requirements</u> No target or indicator | <u>Examination on formal requirements</u> No target or indicator |
| <u>Publication for opposition</u> <ul style="list-style-type: none"> • delivering hearing decisions on trade marks within six months | Not applicable | Not applicable |

Source: Audit analysis of IPD records

2.36 For trade mark applications, Audit analysis showed that IPD took considerable time to issue the first letter during the deficiencies checking stage in some cases (see para. 2.11 and Table 7). For patents granted and designs registered in the period from January 2018 to October 2019, Audit conducted an analysis on the time taken for IPD to issue the first report during examination on formal requirements of applications for patents and designs. Audit noted that:

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- (a) for standard patent applications, the time taken for IPD to issue the first report during examination on formal requirements for request to record ranged from less than one day to 766 days, averaging 133 days;
- (b) for short-term patent applications, the time taken for IPD to issue the first report during examination on formal requirements ranged from less than one day to 321 days, averaging 94 days;
- (c) for design applications, the time taken for IPD to issue the first report during examination on formal requirements ranged from less than one day to 308 days, averaging 146 days; and
- (d) the average processing time of standard patent, short-term patent and design applications for patents granted and designs registered over the same period were 144 days, 193 days (Note 11) and 176 days respectively. The average time taken for IPD to issue the first report during examination on formal requirements constituted a considerable proportion of the average processing time of the respective types of applications, equivalent to 92% (133 of 144 days) for standard patents, 49% (94 of 193 days) for short-term patents and 83% (146 of 176 days) for designs (see Table 11).

Note 11: *According to IPD, for short-term patent applications, an applicant may request deferral of grant up to one year after the date of filing of application and the deferral period will inevitably lengthen the processing time. Information was not available on the number of applications for which the applicants had requested deferral of grant.*

Table 11

Time taken to issue the first report during examination on formal requirements for patent and design applications (January 2018 to October 2019)

| Type of applications | Time taken (day) | | |
|-----------------------------|-------------------------|----------------|----------------|
| | Shortest | Longest | Average |
| Standard patents | < 1 | 766 (Note) | 133 |
| Short-term patents | < 1 | 321 | 94 |
| Designs | < 1 | 308 | 146 |

Source: Audit analysis of IPD records

Note: The longest time taken in a case was 766 days. According to IPD, the long time taken was attributable to the processing of the requests from the applicant for recordal of merger and change of name of the applicant before issuing the first report.

Taking into account that the amount of time taken to issue the first letter during the deficiencies checking stage for some trade mark applications was considerable, and that the average time taken to issue the first report during examination on formal requirements for patent and design applications constituted a considerable proportion of the average processing time of the respective types of applications, IPD needs to review the coverage of its existing targets on the timeliness of processing trade mark, patent and design applications and consider setting a target on the time taken to issue the first report during examination on formal requirements for patent and design applications.

Audit recommendation

2.37 Audit has recommended that the Director of Intellectual Property should review the coverage of IPD’s existing targets on the timeliness of processing trade mark, patent and design applications and consider setting a target on the time taken to issue the first report during examination on formal requirements for patent and design applications.

Response from the Government

2.38 The Director of Intellectual Property generally agrees with the audit recommendation. He has said that IPD will review the coverage of the existing targets for processing IP applications with reference to overseas experience and having regard to its resources and competing priorities.

Costing of fees and charges

2.39 It is stipulated in the Financial Circular No. 6/2016 entitled “Fees and Charges” issued by FSTB that:

- (a) it is the Government’s policy that fees charged by the Government should in general be set at levels adequate to recover the full cost of providing the goods or services;
- (b) Controlling Officers should conduct costing reviews for fees once a year. The annual fee reviews should be supported by costing statements duly prepared and vetted in accordance with the Costing Manual published by the Director of Accounting Services. The vetted costing statements should be submitted to FSTB on an annual basis to reflect the latest cost recovery position. According to the Costing Manual, for bureaux and departments not served by a Senior Treasury Accountant or above (e.g. IPD), the costing statements should be submitted to the Treasury for vetting; and
- (c) Controlling Officers are duty bound to achieve as early as practicable full-cost recovery (or other targets that have been agreed).

Some costing statements not submitted

2.40 After conducting a fee review in 2014 for the Registries for 2014-15 price level, IPD revised the fees in respect of the Trade Marks Registry and the Designs Registry. Audit reviewed the annual costing reviews for the Registries for 2015-16 to 2019-20 price levels and found the following issues:

Registration of trade marks, patents and designs

- (a) **2015-16.** The annual fee reviews in respect of the Registries were supported by costing statements vetted by the Treasury, but the vetted costing statements were not submitted to FSTB;
- (b) **2016-17 and 2017-18.** The costing statements for the annual fee reviews in respect of the Registries were not vetted by the Treasury and were not submitted to FSTB;
- (c) **2018-19.** The annual fee reviews in respect of the Trade Marks Registry and the Designs Registry were supported by costing statements vetted by the Treasury, but the vetted costing statements were not submitted to FSTB. According to IPD, the implementation of the revised and new fees would take effect upon the launch of the OGP system in 2019-20. Accordingly, it was not necessary for IPD to submit the costing statements in respect of the Patents Registry for 2017-18 and 2018-19; and
- (d) **2019-20.** The costing statements in respect of the Registries were submitted to FSTB, but only that of the Patents Registry had been vetted by the Treasury (see Table 12).

Registration of trade marks, patents and designs

Table 12

IPD's submission of costing statements to the Treasury and FSTB (2015-16 to 2019-20 price level)

| Registry | Price level | | | | |
|----------------------|-------------|---------|-----------------|-----------------|---------------|
| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
| Trade Marks Registry | √ | × | × | √ | √ (Note 2) |
| Patents Registry | √ | × | N/A (Note 1) | N/A (Note 1) | √ (Note 2) |
| Designs Registry | √ | × | × | √ | √ (Note 2) |

Legend:

√ Submitted to FSTB

√ Submitted to the Treasury for vetting but not submitted to FSTB

×

Not submitted to the Treasury for vetting and not submitted to FSTB

N/A Not applicable

Source: *Audit analysis of IPD records*

Note 1: *It was not necessary for IPD to submit the costing statements in respect of the Patents Registry for 2017-18 and 2018-19 (see para. 2.40(c)).*

Note 2: *Costing statements for the Trade Marks Registry and the Designs Registry submitted to FSTB had not been submitted to the Treasury for vetting. Only the costing statement of the Patents Registry submitted to FSTB had been vetted by the Treasury.*

Registration of trade marks, patents and designs

2.41 According to IPD, it had updated the costing statements for the Registries annually since 2015-16, notwithstanding that some costing statements were not submitted to the Treasury for vetting, and some costing statements were not submitted to FSTB. Audit examined the projected cost recovery rates in the costing statements provided by IPD and noted that:

- (a) since 2017-18, the Trade Marks Registry had been falling short of the full-cost recovery target by more than 10%, ranging from 12.1% in 2017-18 to 20.4% in 2019-20; and
- (b) since 2016-17, the Designs Registry had been over-achieving the full-cost recovery target by more than 10%, ranging from 17.4% in 2019-20 to 35.8% in 2017-18.

Table 13 shows the projected cost recovery rates of the Registries from 2015-16 to 2019-20.

Table 13

**Projected cost recovery rates of the Trade Marks Registry,
the Patents Registry and the Designs Registry
(2015-16 to 2019-20)**

| Registry | Projected cost recovery rate (%) | | | | |
|----------------------|-------------------------------------|---------|---------|---------|---------|
| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
| Trade Marks Registry | 84.7% | 99.4% | 87.9% | 80.6% | 79.6% |
| Patents Registry | 100.7% | 161.4% | 167.0% | 100.9% | 100.0% |
| Designs Registry | 106.6% | 131.4% | 135.8% | 120.8% | 117.4% |

Source: IPD records

Registration of trade marks, patents and designs

2.42 On 15 August 2019, the Financial Secretary announced that the Government would implement a fee review moratorium on fees and charges with effect from 15 August 2019 until 31 December 2020 with a view to supporting the business and relieving people's financial burden. In the same month, FSTB informed all bureaux and departments that when the moratorium remained in force, bureaux and departments were not required to review the relevant fees and charges in accordance with the procedures set out in the Financial Circular No. 6/2016 on fees and charges.

2.43 Audit considers that IPD needs to ensure that the prevailing government guidelines on fees and charges are complied with. IPD also needs to keep in view the development in the arrangements relating to government fees and charges, and resume conducting fee reviews when appropriate.

Audit recommendations

2.44 **Audit has recommended that the Director of Intellectual Property should:**

- (a) **ensure that the prevailing government guidelines on fees and charges are complied with; and**
- (b) **keep in view the development in the arrangements relating to government fees and charges, and resume conducting fee reviews when appropriate.**

Response from the Government

2.45 The Director of Intellectual Property agrees with the audit recommendations. He has said that IPD has tightened the procedures and submitted the relevant costing statements for 2019-20 to FSTB. Moreover, IPD is planning to set up a business management unit underpinned by accounting professionals to handle fees and charges matters in a dedicated manner.

PART 3: PROMOTION OF INTELLECTUAL PROPERTY PROTECTION

3.1 This PART examines IPD’s efforts in promoting IP protection (see Note 4 to para. 1.6), focusing on the following areas:

- (a) publicity and educational activities (paras. 3.2 to 3.12);
- (b) administration of the No Fakes Pledge Scheme (NFP Scheme) (paras. 3.13 to 3.35); and
- (c) management of the IP Manager Scheme (paras. 3.36 to 3.44).

Publicity and educational activities

3.2 Over the years, IPD has launched various publicity and educational activities to promote public awareness of IP rights. Its publicity and educational activities include:

- (a) ***Seminars and exhibitions.*** Through seminars and exhibitions, IPD helps companies understand the importance of IP rights protection and explains to them relevant laws to protect their IP rights in Hong Kong;
- (b) ***School visits.*** IPD carries out visits to primary and secondary schools with the aim of promoting respect of IP rights among students. In 2019, IPD conducted 81 school visits, covering 20,730 students;
- (c) ***Media announcements.*** IPD produces Announcements of Public Interest and broadcasts them in different medias to promote respect for IP rights;
- (d) ***Territory-wide promotion.*** IPD has launched the “I Pledge” Campaign to encourage pride in the selling and buying of genuine goods among consumers. It has also launched the NFP Scheme since 1998 to promote the use and sale of genuine products, targeting visitors, tourists and retailers (see para. 3.13); and

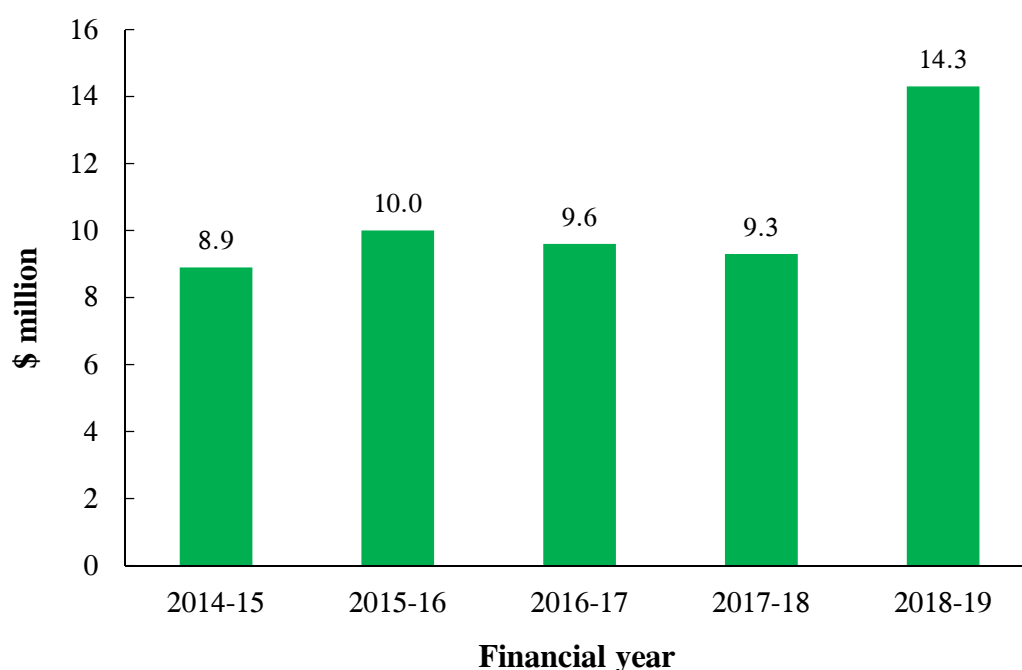
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- (e) *Promotional materials and learning aids.* IPD produces various promotional materials (e.g. leaflets, posters, bookmarks, etc.) and learning aids (in both online and manual forms) about IP protection.

In 2018-19, IPD incurred expenditure of \$14.3 million on publicity and educational activities (see Figure 6).

Figure 6

Expenditure on publicity and educational activities (2014-15 to 2018-19)



Source: Audit analysis of IPD records

Need to step up efforts in promoting public awareness of IP protection

3.3 In order to evaluate the change in awareness level on IP among the public, IPD has periodically conducted the Survey on Public Awareness of Intellectual Property Right Protection (PAIP survey) since 1999. The PAIP survey has been conducted every two years since 2008. The latest PAIP survey was completed in 2018. In addition to public awareness of IP protection, the PAIP survey also covered public's awareness of IPD and its publicity and educational activities.

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3.4 According to IPD, in overall terms, the awareness of IP rights protection and respect for IP rights had been enhanced steadily among the general public in Hong Kong over the years, which could be attributable to IPD's sustained promotional efforts. The following indicators in the 2018 PAIP survey could illustrate the performance in this area after the previous Audit review in 2006:

- (a) **Awareness.** Only 18.9% of the respondents indicated that they did not know about IP rights, down from 28.7% in 2005;
- (b) **Attitude.** 78.1% of the respondents agreed that it was morally wrong to buy pirated or counterfeit goods even knowing that they were IP right infringing items, significantly up from 66.5% in 2005, and
- (c) **Behaviour.** 75.8% of the respondents indicated that they had never bought any pirated or counterfeit goods, up from 58.4% in 2005.

3.5 Audit reviewed the results of the PAIP survey completed in the period from 2008 to 2018 and noted that there was room for improvement in the effectiveness of IPD's publicity and educational activities. For the PAIP survey completed in 2018, of the 1,003 respondents interviewed:

- (a) 74% were not aware that IPD was the Government department responsible for promoting the protection of IP rights in Hong Kong. The percentage decreased from 83% in 2008;
- (b) 49% were not aware of the promotional activities of IPD. The percentage increased significantly from 20% in 2008; and
- (c) 36% considered that the promotional activities of IPD were quite/very ineffective. The percentage increased from 27% in 2008.

3.6 Audit considers that IPD needs to step up efforts on promoting public awareness of IP protection.

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Need to review the promotional expenditure spent on different channels

3.7 From time to time, IPD places advertisements through different channels to promote IP protection. According to the PAIP survey, the perceived most effective channel to place these advertisements had changed considerably over the years from 2008 to 2018 (see Table 14).

Table 14
Perceived most effective channel for promoting IP protection
(2008 to 2018)

| Promotion channels | Percentage of respondents | | | | | | Change in percentage points between 2008 and 2018 |
|----------------------------|---------------------------|-------|-------|-------|-------|-------|---|
| | 2008 | 2010 | 2012 | 2014 | 2016 | 2018 | |
| Emails and websites (Note) | 1.0% | 7.3% | 6.9% | 5.7% | 17.3% | 19.5% | +18.5% |
| IPD's website | 12.6% | 11.6% | 16.6% | 22.7% | 25.8% | 30.1% | +17.5% |
| School | 15.6% | 14.9% | 22.8% | 19.1% | 26.6% | 23.3% | +7.7% |
| Television | 84.6% | 82.6% | 76.2% | 70.9% | 68.3% | 66.9% | -17.7% |
| Newspaper/magazine | 29.0% | 25.8% | 20.9% | 23.0% | 28.4% | 13.4% | -15.6% |
| Radio | 20.8% | 23.6% | 16.4% | 20.4% | 16.0% | 11.4% | -9.4% |
| Advertisements on bus | 7.3% | 6.8% | 5.5% | 4.7% | 4.4% | 5.1% | -2.2% |
| Advertisements in MTR | 7.1% | 7.0% | 5.5% | 5.9% | 5.3% | 5.5% | -1.6% |

Source: Audit analysis of IPD records

Note: Websites refer to websites other than that of IPD.

3.8 IPD adjusted its allocation of resources in different promotional channels over the years. Audit analysed the expenditure incurred by IPD in 2018-19 on placing advertisements through different channels and noted that:

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- (a) while 19% of the expenditure was spent on advertisements at the airport and immigration control points, its effectiveness was not evaluated in the PAIP survey; and

- (b) while only a small percentage of the respondents perceived that advertisements on bus was the most effective advertising channel, 11% of the expenditure was spent on bus advertisements, and the amount was even higher than that spent on other channels (see Table 15) which were perceived to be more effective according to the PAIP survey, such as television and IPD's website (see Table 14).

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Table 15

Expenditure on advertisements for promoting IP protection (2016-17 to 2018-19)

| Promotion channels | Expenditure (\$'000) | | | Change between 2016-17 and 2018-19 |
|--|-------------------------|-----------------|-----------------|--|
| | 2016-17 | 2017-18 | 2018-19 | |
| Websites other than IPD's website | 271 (6%) | 457 (11%) | 1,683 (34%) | +1,412 (+521%) |
| Advertisements at airport and immigration control points | 430 (9%) | 743 (19%) | 921 (19%) | +491 (+114%) |
| Television | 193 (4%) | 100 (2%) | 448 (9%) | +255 (+132%) |
| Advertisements on bus | 350 (8%) | 366 (9%) | 566 (11%) | +216 (+62%) |
| Interactive drama at schools | 686 (15%) | 686 (17%) | 778 (16%) | +92 (+13%) |
| IPD's website | 144 (3%) | 148 (4%) | 132 (3%) | -12 (-8%) |
| Newspaper/magazine | 341 (7%) | 352 (9%) | 256 (5%) | -85 (-25%) |
| Advertisements in MTR | 2,182 (48%) | 808 (20%) | 168 (3%) | -2,014 (-92%) |
| Advertisements on tram | — | 361 (9%) | — | — |
| Overall | 4,597 (100%) | 4,021 (100%) | 4,952 (100%) | +355 (+8%) |

Source: Audit analysis of IPD records

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3.9 In response to Audit's enquiry, IPD informed Audit in February 2020 that:

- (a) it was difficult to evaluate the effectiveness of advertisements objectively at the airport and other immigration control points as the promotional messages were targeted at the tourists entering Hong Kong whereas the PAIP surveys only covered local households;
- (b) as advertisements on buses could reach audience different from those of the television, a modest percentage of the advertising expenditure was spent on buses with a view to enlarging the coverage of different audience; and
- (c) as IP protection in the online environment had become increasingly important in recent years, IPD had put in additional resources to raise public awareness on this front through appropriate channels. IPD had been tracking more indicators through successive surveys and noted positive outcome in the 2018 PAIP survey:
 - (i) **Attitude.** 70.2% of the respondents agreed that it was morally wrong to listen to the music or watch the movies/television shows online even knowing that they were pirated versions, up from 59.4% in the first finding of 2014;
 - (ii) **Positive behaviour.** 44.3% of the respondents said that they would definitely or possibly pay authorised websites for copyright works, significantly up from 21% in the first finding of 2008; and
 - (iii) **Infringing behaviours.** 97.6% of the respondents said that they had never downloaded music, movies, television shows, computer software, games or electronic books online and then upload them on the Internet, which was the highest proportion since 2004.

3.10 The results of the 2018 PAIP survey showed that an increasing percentage of respondents perceived emails and websites as the most effective channel to promote IP protection. Audit considers that IPD needs to, in the light of the results of the PAIP surveys, review and revise where necessary, the distribution of promotion efforts among the promotion channels for IP protection with a view to achieving the best promotion effect.

Audit recommendations

3.11 **Audit has *recommended* that the Director of Intellectual Property should:**

- (a) **step up efforts on promotion of public awareness of IP protection; and**
- (b) **in the light of the results of the PAIP surveys, review and revise where necessary, the distribution of promotion efforts among the promotion channels for IP protection with a view to achieving the best promotion effect.**

Response from the Government

3.12 The Director of Intellectual Property generally agrees with the audit recommendations. He has said that:

- (a) the successive survey findings over decades have provided IPD with useful information to keep abreast of the level of public awareness of IP protection and to keep track of the changing patterns of public attitudes and behaviours towards IP protection and infringements; and
- (b) IPD will continue to take into account the survey findings and stakeholders' input, as well as policy priorities and the changing economic, social and technology environments, in deploying resources on public education and promotional activities.

Administration of the No Fakes Pledge Scheme

3.13 IPD launched the NFP Scheme in 1998 with the aim of encouraging retailers to make a pledge of selling genuine goods, promoting the awareness of IP protection among retailers and consumers, so as to enhance tourists' and consumers' confidence about shopping in Hong Kong. Participating merchants in the NFP Scheme must volunteer to make a pledge not to sell fakes, and may post the No Fakes (NF) stickers and place tent cards in their shops.

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3.14 To participate in the NFP Scheme, a retail merchant has to be a member of one of the issuing bodies. Up to 31 December 2019, nine trade associations had participated in the NFP Scheme as issuing bodies. A trade organisation or an organisation is eligible to become an issuing body under the NFP Scheme if it is of reputable status in the retail industry and has satisfied the following conditions:

- (a) it has been established in Hong Kong for over 3 years; and
- (b) it requests its members to confirm and guarantee no IP right offences in the past 12 months.

3.15 The membership of the NFP Scheme is free of charge. It is valid for one calendar year (from 1 January to 31 December) and subject to annual renewal. As at 31 December 2019, there were 1,225 participating retail merchants, covering 6,511 physical shops and 166 online shops. Participating retail merchants are required to comply with a set of Code of Practice issued by IPD. IPD acts as the coordinator of the NFP Scheme, and there are four supporting organisations for the NFP Scheme including the Customs and Excise Department (C&ED). The responsibilities of IPD, the issuing bodies and the supporting organisations are as follows:

- (a) **IPD:**
 - (i) co-ordinating with the issuing bodies and supporting organisations;
 - (ii) maintaining data records of the NFP Scheme and answering public enquiries;
 - (iii) updating and publicising any suspended and terminated membership records of the NFP Scheme;
 - (iv) promoting the NFP Scheme to the public; and
 - (v) supplying the NF stickers and tent cards to the issuing bodies;

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(b) *issuing bodies:*

- (i) promoting the NFP Scheme to their members;
- (ii) passing new membership applications and renewal applications to C&ED for vetting;
- (iii) issuing the membership and distributing the NF stickers and tent cards to successful applicants;
- (iv) updating IPD on any new, withdrawn, terminated membership or changes of information of members; and
- (v) suspending or terminating the membership of a retail shop who has failed to comply with the Code of Practice, or if any action has been taken against that member by C&ED in relation to IP rights infringement; and

(c) *supporting organisations:*

- (i) assisting in monitoring compliance and providing market surveillance; and
- (ii) conducting vetting procedures for membership application and renewal (for C&ED only).

Room for boosting the membership of the NFP Scheme

3.16 Audit noted that in the period from 2015 to 2019, the number of physical shops covered under the NFP Scheme decreased by 274 (4%) from 6,785 in 2015 to 6,511 in 2019. Since January 2018, the NFP Scheme has been extended to cover members' online shops if certain conditions are satisfied (Note 12). Up to 31 December 2019, only 166 online shops were covered under the NFP Scheme (see Table 16).

Table 16

**Number of participating retail merchants and shops
covered under the NFP Scheme
(2015 to 2019)**

| Nos. | As at 31 December | | | | |
|------------------|-------------------|-------|-------|-------|-------|
| | 2015 | 2016 | 2017 | 2018 | 2019 |
| Retail merchants | 1,054 | 1,052 | 1,163 | 1,157 | 1,225 |
| Physical shops | 6,785 | 6,685 | 6,883 | 6,587 | 6,511 |
| Online shops | — | — | — | 94 | 166 |

Source: Audit analysis of IPD records

3.17 Under the NFP Scheme, participating shops are classified into 13 categories (see Table 17) according to their business nature. Audit analysed the 6,677 shops that were covered under the NFP Scheme in 2019 and noted that:

- (a) for some categories, only a small number of shops were covered under the NFP Scheme. For example, only 18 shops in the category “Books, design and crafts” were covered under the NFP Scheme; and

Note 12: *One of the key conditions for an online shop to be eligible to join the NFP Scheme is that the shop must have its own registered domain name obtained from accredited domain name registrars and valid Secure Sockets Layer certificate to ensure the security of data transmission during the transaction process.*

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- (b) shops under the two categories “Food and supermarkets” and “Beauty and health” contributed to 40.8% of the shops participating in the NFP Scheme (see Table 17).

Table 17

**Shops covered under the NFP Scheme analysed by business nature
(31 December 2019)**

| Category | Number of shops | Percentage |
|--|-----------------|------------|
| 1. Audiovisual, digital products and electrical appliances | 592 | 7.4% |
| 2. Baby and children merchandise | 473 | 5.9% |
| 3. Beauty and health | 1,162 | 14.6% |
| 4. Books, design and crafts | 18 | 0.2% |
| 5. Clothing and accessories | 381 | 4.8% |
| 6. Department stores and general merchandise | 205 | 2.6% |
| 7. Drug stores and pharmacies | 782 | 9.8% |
| 8. Food and supermarkets | 2,096 | 26.2% |
| 9. Furniture and home | 565 | 7.1% |
| 10. Handbags, shoes and leather goods | 545 | 6.8% |
| 11. Jewellery and watches | 713 | 8.9% |
| 12. Optical goods | 105 | 1.3% |
| 13. Others (e.g. telecommunication) | 354 | 4.4% |
| Total | 7,991 (Note) | 100.0% |

Source: Audit analysis of IPD records

Note: The total was greater than the number of 6,677 shops covered under the NFP Scheme as each shop can choose to be categorised under one or two categories. In 2019, 1,314 shops were classified under two categories (6,677 + 1,314 = 7,991).

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- 3.18 In response to Audit's enquiry, IPD informed Audit in February 2020 that:
- (a) from 2015 to 2019, the number of retail merchants under the NFP Scheme had steadily increased by 16% (from 1,054 in 2015 to 1,225 in 2019);
 - (b) in view of changes in shopping mode and habits, in 2018, the NFP Scheme had been extended to cover online shops and the number of online shops had increased by 77% between 2018 and 2019 (from 94 in 2018 to 166 in 2019); and
 - (c) the existing nine issuing bodies were the major trade associations in the retail industry in Hong Kong covering a broad range of retail outlets and consumer goods. IPD would continue to promote the NFP Scheme to enhance its attractiveness to the retail sector and explore if there were other trade associations that were interested to join the NFP Scheme as issuing bodies.

3.19 Audit noted that since 2011, there had been no applications or nomination of new issuing bodies. In view of the small number of shops in some categories, Audit considers that IPD needs to explore potential trade associations and organisations and invite them to become new issuing bodies of the NFP Scheme with a view to boosting the membership of the NFP Scheme. According to a survey published by the Census and Statistics Department in June 2019, the percentage of people that had shopped online in the last 12 months increased significantly from 16% in 2009 to 36% in 2018 (Note 13). Audit considers that IPD should keep in view the trend of online shopping and boost the coverage of the NFP Scheme among online shops as far as possible.

Need to ensure timely renewal of membership

3.20 The membership of the NFP Scheme is valid from 1 January to 31 December of a year and is renewable annually. IPD usually reminds the issuing bodies in August to request their members to renew their membership. Upon receipt

Note 13: *Data was extracted from the Thematic Household Survey Report No. 67 published by the Census and Statistics Department in June 2019.*

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of the membership renewal application forms, the issuing bodies will pass them to C&ED through IPD for the following vetting procedures:

- (a) whether the shops have clean conviction records for the past 12 months; and
- (b) whether the shops have been raided for IP rights infringement with investigation or prosecution outcome outstanding.

Upon receipt of C&ED's clearance, IPD prepares a new set of NF stickers and tent cards for delivery to the physical shops directly or through the issuing bodies. The stickers and tent cards show the expiry day of the membership (see Figure 7). For online shops, IPD prepares softcopy of NF logo for their display online.

Figure 7

A "No Fakes" sticker



Source: IPD records

3.21 IPD did not keep track of the membership renewal date of each member and information was not available for Audit to analyse the timeliness of membership renewal in past years. Audit examined the list of participating retail merchants in 2020 (as at 11 February) and noted that the number of participating retail merchants

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decreased considerably by 318 (26%) from 1,225 as at 31 December 2019 to 907 as at 11 February 2020. Audit reviewed the records of the 318 retail merchants who were members in 2019 but not members in 2020 and found that of these retail merchants:

- (a) 307 (97%) had not submitted their membership renewal applications; and
- (b) 11 (3%) had submitted their membership renewal applications and were undergoing the vetting procedures for membership renewal.

3.22 In Audit's view, from December to February, especially in the run-up to the Lunar New Year is one of the peak shopping periods, if not the busiest season, of the year. The considerable reduction in the number of member retailers in the first few months every year will impact the effectiveness of the NFP Scheme. Audit considers that IPD needs to, in collaboration with the issuing bodies, expedite the membership renewal for the participating merchants and shops of the NFP Scheme as far as possible.

Need to strengthen the controls over the use of the NF logo

3.23 If a member intends to use the NF logo in its advertisements, promotional materials, business website, mobile application and social media platform, prior written approval must be obtained from IPD. In addition, members of the NFP Scheme are required to return the NF stickers and tent cards to the issuing bodies and remove all the NF logos from their publicity materials upon expiry, suspension or termination of their membership.

3.24 According to IPD, measures have been put in place to handle unauthorised use of NF logo by shops who are not members of the NFP Scheme. IPD owns the copyright in the NF logo and use of the logo without IPD's consent constitutes an infringement. When an unauthorised use of the logo comes to IPD's attention, a cease and desist letter would be issued to the infringing retailer demanding it to take down the infringing logo and refrain from all infringement act. For persistent infringements, IPD will work with the Department of Justice to institute legal proceedings against the infringers in appropriate cases.

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3.25 From 22 to 24 January 2020, Audit conducted site visits to 9 physical shops whose 2020 membership had been renewed. Audit noted that of the 9 physical shops visited:

- (a) 5 (56%) had not displayed any NF stickers or tent cards;
- (b) 2 (22%) were displaying the correct stickers or tent cards of 2020;
- (c) 1 (11%) was displaying the stickers or tent cards of 2019 and 2020; and
- (d) 1 (11%) was displaying the stickers of 2018, 2019 and 2020 at the same time.

Audit noted that IPD had not maintained records of the number of expired NF stickers and tent cards returned from participating merchants, and there were no procedure guidelines on returning expired NF stickers and tent cards to issuing bodies for disposal. Audit considers that IPD needs to promulgate procedure guidelines on returning expired NF stickers or tent cards to issuing bodies for disposal.

3.26 In addition, in the period from January 2017 to December 2019, the membership of 17 retail shops was suspended or terminated. Audit conducted site visits to 9 of these 17 retail shops on 6 January 2020 and revealed that 2 (22%) (membership was terminated in January 2019 and May 2019 respectively) were still displaying the NF logo on the promotional materials (e.g. leaflets) in their shops. Audit considers that IPD needs to take measures to prevent misuse of the NF logo on promotional materials by shops which are not members of the NFP Scheme.

Need to ensure prompt follow-up action taken upon a raid operation by C&ED

3.27 According to the procedures agreed between IPD and C&ED, during a raid operation on a member shop for IP rights offence, if C&ED finds that the shop is displaying NF stickers and/or tent cards, C&ED should seize all NF stickers and tent cards, and inform IPD promptly so that IPD can take follow-up actions on the shop's membership status. IPD should arrange a hearing panel with the issuing body concerned within seven days before making a decision to suspend or terminate the membership of the shop. C&ED should update IPD the progress of the investigation

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on the shop concerned (e.g. in case of prosecution, the date and result of the court hearing).

3.28 Audit examined the records of 17 retail shops whose membership was suspended or terminated in the period from January 2017 to December 2019, and revealed that prompt follow-up actions had not been taken against three member shops after raid operations were taken by C&ED:

- (a) for two shops (Shops A and B), C&ED only informed IPD one year after the raid operations. The membership of the shops concerned was only terminated after the court convictions (see Table 18);
- (b) for one shop (Shop C), C&ED had not informed IPD of the raid operation taken and the court conviction. The membership of the shop concerned was not terminated until nine months after the court conviction when IPD noted the court conviction during a random check (see Table 18); and
- (c) all of these three shops successfully renewed their membership after the raid operations and no irregularities were reported by C&ED during the vetting procedures for membership renewal. For Shop C, C&ED explained to IPD that conviction records of the shop were not found by vetting due to a mismatch of records during the system interface.

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Table 18

**Long time lapse between raid operation and membership termination
(June 2016 to June 2019)**

| Shop | Date of | | | |
|------|----------------|--|------------------|------------------------|
| | Raid operation | IPD being informed of the raid operation | Court conviction | Membership termination |
| A | 16.6.2016 | 12.6.2017 | 21.11.2017 | 21.11.2017 |
| B | 5.8.2016 | 18.8.2017 | 26.7.2017 | 18.8.2017 |
| C | Not available | Not available | 26.9.2018 | 5.6.2019 |

Source: *Audit analysis of IPD records*

3.29 Audit considers that IPD needs to, in collaboration with C&ED, take measures to ensure that prompt follow-up actions are taken against participating merchants of the NFP Scheme upon raid operations for IP rights infringement.

Need to improve the mobile application of the NFP Scheme

3.30 IPD has developed a mobile application named “No Fakes Pledge Shop Search” (NFP App) to facilitate tourists and consumers searching shop information of all participating shops under the NFP Scheme. As at 31 December 2019, the total number of downloads of the NFP App was approximately 54,000.

3.31 Audit used the NFP App to check the information of 20 existing member shops in 7 districts and noted that there was room for improvement:

- (a) ***Location of shops not correctly shown.*** The NFP App allowed users to check the location of member shops. However, Audit noted that for 6 (30%) shops checked, the locations shown by the NFP App were incorrect. For example, a shop located in Yuen Long was incorrectly shown as located in Tsim Sha Tsui; and

- (b) ***Business categories not correctly shown.*** IPD classified the member shops into 13 categories according to their business nature (see Table 17 in para. 3.17). Audit noted that for 4 (20%) shops with business nature classified as “Beauty and Health”, “Drug stores and pharmacies”, “Jewellery and watches” and “Audiovisual, digital products and electrical appliances” respectively according to IPD’s records, they were incorrectly shown as “Others” in the NFP App.

3.32 Audit considers that IPD needs to take measures to improve the accuracy of the information provided by the NFP App.

Audit recommendations

3.33 **Audit has recommended that the Director of Intellectual Property should:**

- (a) **explore potential trade associations and organisations and invite them to become new issuing bodies of the NFP Scheme with a view to boosting the membership of the NFP Scheme;**
- (b) **keep in view the trend of online shopping and boost the coverage of the NFP Scheme among online shops as far as possible;**
- (c) **in collaboration with the issuing bodies, expedite the membership renewal for the participating merchants and shops of the NFP Scheme as far as possible;**
- (d) **promulgate procedure guidelines on returning expired NF stickers or tent cards to issuing bodies for disposal;**
- (e) **take measures to prevent misuse of the NF logo on promotional materials by shops which are not members of the NFP Scheme;**
- (f) **in collaboration with C&ED, take measures to ensure that prompt follow-up actions are taken against participating merchants of the NFP Scheme upon raid operations for IP rights infringement; and**

Promotion of intellectual property protection

- (g) **take measures to improve the accuracy of the information provided by the NFP App.**

Response from the Government

3.34 The Director of Intellectual Property generally agrees with the audit recommendations. He has said that:

- (a) as coordinator of the NFP Scheme, IPD has all along been making efforts in enhancing the attractiveness of the Scheme to the retail sector and broadening its coverage having regard to changes in the shopping mode and habits of consumers;
- (b) given that the integrity of the Scheme is the key to its success, IPD has agreed with issuing bodies on new measures to tighten up the requirements for the return of expired NF stickers and tent cards by members and will continue to take robust enforcement action against misuse of the NF logo. The new requirements will be included in the Terms and Conditions of the Scheme and will take effect as soon as practicable;
- (c) IPD will continue to collaborate with C&ED to enhance the notification procedures for raid operations concerning IP infringements conducted against members of the Scheme; and
- (d) IPD will continue to work with the contractor to improve the mobile application including exploring feasible technical solutions to enhance its performance.

3.35 The Commissioner of Customs and Excise agrees with the audit recommendation in paragraph 3.33(f). He has said that C&ED and IPD conducted a review on the handling procedures in December 2019 to ensure information related to C&ED's raid operations against NFP Scheme members would be promptly provided to IPD.

Management of the IP Manager Scheme

3.36 The IP Manager Scheme was launched in 2015 with an aim of assisting Hong Kong enterprises, especially small and medium enterprises, to build up their IP manpower capacity and to increase competitiveness so as to grasp the opportunities brought by IP trading. Participating enterprises are required to appoint a staff member in a managerial position as their in-house “IP Manager”, who will be responsible for overseeing the compliance, management, exploitation and commercialisation of IP assets. IP Managers will have:

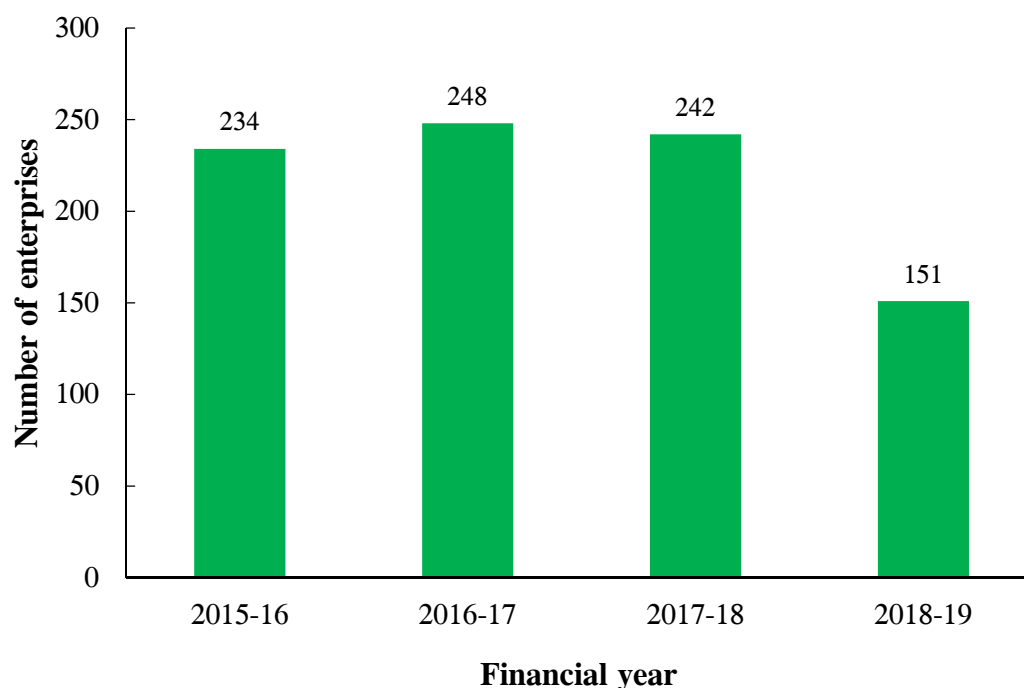
- (a) the priority in registration for a two-day IP Manager Training Programme organised by IPD at a discounted price; and
- (b) free registration for a Practical Workshop for IP Managers organised by IPD.

Need to boost the attractiveness of the IP Manager Scheme

3.37 In the period from 2015-16 to 2018-19, a total of 875 enterprises joined the IP Manager Scheme. In the first few years since the launch of the IP Manager Scheme, over 230 enterprises joined the Scheme each year. However, the number of new participating enterprises decreased by 38% from 242 in 2017-18 to 151 in 2018-19 (see Figure 8).

Figure 8

Number of enterprises joining the IP Manager Scheme (2015-16 to 2018-19)



Source: *Audit analysis of IPD records*

3.38 Audit considers that IPD needs to step up efforts to boost the attractiveness of the IP Manager Scheme and to promote the Scheme.

Decreased attendance rate of training programme

3.39 Under the IP Manager Scheme, IPD periodically organised a two-day training programme delivered by local IP experts. The fees were \$200 (reduced to \$100 for the IP Manager of an enterprise participating in the IP Manager Scheme). Participants would receive a certificate of attendance upon completion of programme. In the period from 2015-16 to 2018-19, 8 training programmes were held, with a total of 1,666 enrolled participants. The total cost of the 8 training programmes was about \$3 million and the average cost per participant was \$1,840.

Promotion of intellectual property protection

3.40 Audit reviewed the attendance records of the training programme for the period from 2015-16 to 2018-19 and noted that:

- (a) some enrolled participants did not attend the training programme. In the period from 2015-16 to 2018-19, of the 1,666 enrolled participants, only 1,562 (93.8%) attended the training programmes; and
- (b) the attendance rate had decreased from 97.7% in 2015-16 to 86.3% in 2018-19 (see Table 19).

Table 19

**Attendance rate of the training programme
(2015-16 to 2018-19)**

| Year | Number of participants enrolled | Number of participants attended | Attendance rate |
|-------------|--|--|-------------------------------|
| | (a) | (b) | (c) = (b) ÷ (a) x 100% |
| 2015-16 | 389 | 380 | 97.7% |
| 2016-17 | 394 | 370 | 93.9% |
| 2017-18 | 445 | 434 | 97.5% |
| 2018-19 | 438 | 378 | 86.3% |
| Overall | 1,666 | 1,562 | 93.8% |

Source: Audit analysis of IPD records

3.41 In response to Audit's enquiry, IPD informed Audit in February 2020 that it was in the very nature of industry conferences and seminars that actual attendance might not be as good as the prior registration. Similar to the arrangements of other conferences or seminars, registration for the training programme was conducted well in advance of the event, with acceptance sent to the registered participants followed by issuance of reminder nearer the time.

Promotion of intellectual property protection

3.42 In view of the considerable decrease in the attendance rate of the training programme in 2018-19, Audit considers that IPD needs to explore further measures to boost the attendance rate.

Audit recommendations

3.43 **Audit has recommended that the Director of Intellectual Property should:**

- (a) **step up efforts to boost the attractiveness of the IP Manager Scheme and to promote the Scheme; and**
- (b) **explore further measures to boost the attendance rate of the training programme under the IP Manager Scheme.**

Response from the Government

3.44 The Director of Intellectual Property generally agrees with the audit recommendations. He has said that:

- (a) with the fast reaching out of the IP Manager Scheme to more and more enterprises in the early years of its launch, a later drop in the number of new intake was not unexpected. The number of participants enrolled in its training programmes, however, has remained steady over time, with a high average attendance rate of 93.8% notwithstanding some minor yearly variations; and
- (b) IPD is committed to championing the IP Manager Scheme in both the breadth and depth of its reach and bringing out its value to enterprises engaged in IP activities. IPD will continue to enhance the contents of the training programmes and make the most of their capacity in future.

PART 4: ADMINISTRATIVE ISSUES

4.1 This PART examines the administrative issues of IPD, focusing on the following areas:

- (a) administration of outsourcing contracts (paras. 4.2 to 4.17); and
- (b) human resources management (paras. 4.18 to 4.26).

Administration of outsourcing contracts

4.2 Since December 2001, IPD has outsourced some of its non-core services with a view to maximising efficiency in service delivery with better value for money:

- (a) *New Application Development Service (NADS)*. The service included the development and administration of IT systems for trade mark registration and design registration, and the upgrading of the existing Patents Computerisation System;
- (b) *Ongoing Support and Maintenance Service (OSMS)*. The service included the management, supporting and processing of the IT systems; and
- (c) *Office Operation Service (OOS)*. The service included front office service for a public counter (e.g. receipt of applications and supply of forms and printed guides) and back office service for providing clerical support mainly to the Trade Marks, Patents and Designs Registries.

IPD's procurement of these services is governed by relevant Stores and Procurement Regulations (SPRs — Note 14) and Financial Circulars. In the period from 2001 to 2019, IPD awarded 6 outsourcing contracts through open tenders, with a total contract value amounting to \$335.4 million (see Table 20).

Note 14: *SPRs are made by the Financial Secretary/Secretary for Financial Services and the Treasury under section 11(1) of the Public Finance Ordinance (Cap. 2).*

Table 20

**Outsourcing contracts awarded by IPD
(2001 to 2019)**

| Contract | Contractor | Contract period | Services outsourced | Contract value (\$ million) |
|-----------------|-------------------|--------------------------|---|--|
| 1 | Contractor A | 1 Dec 2001 — 30 Nov 2006 | <ul style="list-style-type: none"> • NADS • OSMS • OOS | 86.7 |
| 2 | Contractor A | 1 Dec 2006 — 30 Nov 2011 | <ul style="list-style-type: none"> • OSMS • OOS | 79.2 |
| 3 | Contractor A | 1 Dec 2011 — 30 Nov 2014 | <ul style="list-style-type: none"> • OSMS • OOS | 62.0 |
| 4 | Contractor A | 1 Dec 2014 — 30 Nov 2019 | <ul style="list-style-type: none"> • OSMS | 28.2 |
| 5 | Contractor B | 1 Dec 2014 — 30 Nov 2019 | <ul style="list-style-type: none"> • OOS | 39.3 |
| 6 | Contractor B | 1 Dec 2019 — 30 Nov 2024 | <ul style="list-style-type: none"> • OOS (Note) | 40.0 |
| Total | | | | 335.4 |

Source: Audit analysis of IPD records

Note: IPD only outsourced the back office services in Contract 6.

Need to enhance competition in procurement of outsourced services

4.3 According to SPRs, competition is a reliable safeguard against bidders overcharging and holding the Government to ransom. By encouraging participation through open and fair competition, the Government will be better able to obtain responsive and competitive bids that ensure value for money. Audit reviewed the tender exercises conducted by IPD in the period from 2001 to 2019 and noted that 9 bids were received for Contract 1 while only 1 to 4 bids were received for Contracts 2 to 6 (see Table 21). According to IPD, the service scope of Contract 1 was much

broader than those of the other five contracts. A crucial component of Contract 1 was the development of new IT systems and the updating of an existing system. Contracts 2 to 6 concerned the routine operations of IPD, covering the management and support of the existing IT systems and provision of office operation service to the Registries.

Table 21

**Number of bids received for IPD’s outsourcing contracts
(2001 to 2019)**

| Contract | Year | Number of bids |
|----------|------|----------------|
| 1 | 2001 | 9 |
| 2 | 2006 | 2 |
| 3 | 2011 | 2 |
| 4 | 2014 | 4 |
| 5 | 2014 | 2 |
| 6 | 2019 | 1 |

Source: Audit analysis of IPD records

Remarks: All bids received were conforming bids except some bids received for Contracts 1 and 3. Only 2 of the 9 bids for Contract 1 and 1 of the 2 bids received for Contract 3 met the tender requirements and were evaluated by IPD.

4.4 **Over-reliance on tenderers’ experience.** Audit noted that in the tender exercises for Contracts 1, 2 and 3 conducted in the period from 2001 to 2011, IPD adopted a two-envelope approach to evaluate the tender proposals received, and a marking scheme was used for the technical assessment. In March 2014, in preparing the tender exercises for Contracts 4 and 5, IPD sought the views of FSTB on the marking schemes. In response, FSTB suggested that as an alternative to using the two-envelope approach for tender evaluation, IPD could set mandatory requirements of the tenders and award the contracts to the lowest bid which met the mandatory requirements. FSTB’s suggestion was based on the following considerations:

Administrative issues

- (a) the nature of the services under acquisition was not particularly complicated; and
- (b) the incumbent contractor (Contractor A) had been engaged for more than ten years. The existing design of the marking schemes was inherently in favour of this contractor, who had a clear edge over other potential tenderers in preparing the risk management and service delivery plans according to the existing marking scheme.

4.5 IPD adopted FSTB's suggestion. Since 2014, IPD has not used marking schemes to evaluate tender proposals. Instead, IPD set essential requirements for the tenders and contracts were awarded to the lowest bid which met the essential requirements. The tenderer's experience was the sole criteria for IPD's tender evaluation other than the tender price (see Table 22).

Table 22

IPD's tender evaluation approach

| | Prior to March 2014 | Since March 2014 | |
|---------------------|--|---|---|
| | Contracts 1, 2 and 3 | Contract 4 | Contracts 5 and 6 |
| Evaluation criteria | A marking scheme comprising: <ul style="list-style-type: none"> — proven track records — acceptance plan — proposed approach to deliver the services — project team structure and experience — proposed approach for risk analysis, management and mitigation (for Contracts 2 and 3 only) — business continuity plan (for Contracts 2 and 3 only) | Essential tender requirements: <ul style="list-style-type: none"> — 4 years of relevant experience in the past 10 years — completed at least 4 relevant projects in the past 10 years | Essential tender requirement: <ul style="list-style-type: none"> — 3 years of relevant experience in the past 10 years |

Source: Audit analysis of IPD records

4.6 In October 2018, the Chief Executive of the Hong Kong Special Administrative Region announced in her 2018 Policy Address that the Government would introduce a pro-innovation government procurement policy in April 2019. Under the new policy, the technical weighting in tender assessment is raised and tenders with innovative suggestions will stand a better chance of winning government

Administrative issues

contracts. The pro-innovation government procurement policy aims to help improve the delivery of public services, thereby facilitating innovation and technology start-ups and small and medium-sized enterprises to take part in government procurement, contributing to the development of local innovation and technology.

4.7 Audit noted that the tender exercise of Contract 6 was conducted in March 2019 after the announcement of the Government's policy of pro-innovation procurement in October 2018. In the exercise, IPD used the evaluation approach adopted for Contract 5 and included tenderer's experience as the only essential requirement. In Audit's view, this arrangement may not be conducive to facilitating innovation and technology start-ups and small and medium-sized enterprises to take part in the tender exercise. Start-ups with less relevant experience than the tender requirement were not able to submit bids even though they had innovative suggestions.

4.8 According to Financial Circular No. 2/2019 issued in March 2019, with effective from 1 April 2019, to encourage competition in procurement and minimise entry barriers, as a general rule, tenderer's experience should not be set as essential requirement, irrespective of the value of procurement.

4.9 In response to Audit's enquiry, IPD informed Audit in February 2020 that:

- (a) in October 2018, when IPD was notified of the pro-innovation government procurement policy that would take effect on 1 April 2019, preparation of the tender for Contract 6 was well underway; and
- (b) to ensure that there would be no delay to the tender exercise, it was decided that IPD should continue to follow the approach of essential requirements for Contract 6, which was the norm prior to the effective date of the new procurement policy.

In Audit's view, in conducting tender exercises for the procurement of outsourced services, IPD needs to set evaluation criteria that dovetail with the new pro-innovation government procurement policy and the Financial Circular No. 2/2019.

4.10 ***Market research not conducted.*** According to SPRs, in drawing up tender specifications, departments are encouraged to conduct a market research or

non-binding expression of interest (EOI) exercise to better understand the goods or services likely to be available in the market, in particular for contracts with poor tender response in the past tender exercises. Audit noted that although only two tender proposals were received in the 2006 tender exercise for Contract 2, IPD did not conduct any market research or EOI exercise for the subsequent tender exercises because IPD assessed that the relevant services would be generally available in the market. However, there was no documentary evidence supporting such a view. In the event, only a few (1 to 4) tenderers had submitted bids in the subsequent tender exercises (see Table 21 in para. 4.3). Audit considers that IPD needs to conduct market research or EOI exercises for tender exercises with a view to ascertaining the market supply of the services required.

Need to strengthen the monitoring of contractor's performance

4.11 IPD's control mechanism for monitoring the contractor's performance was set out in the contracts with the contractors, which include the following:

- (a) ***Management Committee.*** The Management Committee, chaired by the Director of Intellectual Property, comprised representatives of IPD and the contractor. According to the contract, the Management Committee should meet at least once every three months or at such interval as determined by IPD in order to facilitate the performance of the services;
- (b) ***Business review meeting.*** The business review meeting comprised representatives of IPD and the contractor. According to the contract, the business review meetings should be held at least once every three months or at such interval as determined by IPD to exchange data on past performance of the contractor; and
- (c) ***Service credit mechanism.*** According to the contract, if the contractor failed to meet the service level requirements, a deduction would be made from the monthly charges payable to the contractor. The contractor submitted monthly performance reports to IPD, showing his performance results against the service levels. Based on his performance results, the contractor compiled and submitted monthly Service Credit Reports to IPD, showing the calculation of the deductions, if any, from the monthly charges.

Administrative issues

4.12 For the tender exercise of Contract 5, IPD received a bid from Contractor A (the incumbent contractor) and a bid from Contractor B (a new contractor). IPD awarded Contract 5 to Contractor B. Audit reviewed the performance of Contractor B under Contract 5 and noted that there was room for improvement in its performance:

- (a) **Poor service provided by the contractor.** According to the contract, Contractor B was responsible for managing the Shroff Office of IPD. IPD found that the service provided by Contractor B was poor. Consequently, IPD modified the service scope to exclude the management of the Shroff Office by Contractor B, and took up the responsibility since May 2015;
- (b) **Required service levels not met.** Contractor B failed to fully meet the contractual service levels in 31 out of 57 months (Note 15) and manpower requirements in 24 out of 57 months during the contract period. Monthly charges paid to the contractor had been deducted according to the service credit mechanism (see para. 4.11(c)); and
- (c) **High staff turnover rate.** Audit examination of IPD's records found that the turnover rates of the staff provided by Contractor B were high during the contract period, ranging from 60% to 130% (averaging 99%) (see Table 23).

Note 15: *According to the contract, the deduction of service credit commenced after the acceptance end date of 16 March 2015. Therefore, the total number of months subject to the service credit mechanism was 57 during the contract period.*

Table 23

**Turnover rate of staff provided by Contractor B for Contract 5
(May 2015 to November 2019)**

| Period | Turnover rate |
|-----------------------------------|---------------|
| 1 May 2015 – 30 Nov 2015 (Note 1) | 60% |
| 1 Dec 2015 – 30 Nov 2016 | 79% |
| 1 Dec 2016 – 30 Nov 2017 | 109% |
| 1 Dec 2017 – 30 Nov 2018 | 119% |
| 1 Dec 2018 – 30 Nov 2019 | 130% (Note 2) |
| Average | 99% |

Source: Audit analysis of IPD records

Note 1: The above staff turnover rate was calculated based on departmental payment records after service modification effective on 1 May 2015.

Note 2: According to IPD, the high turnover rate in the latter part of 2019 was due to the anticipated expiry of Contract 5 as explained by the contractor.

4.13 Audit noted that there was room for improvement in monitoring the performance of Contractor B under Contract 5:

- (a) ***Management Committee and business review meetings not held in a timely manner.*** According to the contract, Management Committee and business review meetings should be held at least once every three months or at such interval as determined by IPD in order to facilitate the performance of the service (see para. 4.11). In other words, at least 20 Management Committee meetings and 20 business review meetings should have been held. Audit noted that 20 Management Committee meetings were held but only 17 business review meetings were held and there was no documentary evidence showing that IPD had determined to hold meetings less frequently than once every three months. For better management of the contractor, the Management Committee meetings and business review meetings should be held in a timely manner. However, it was noted that some meetings were held at intervals longer than three months:

Administrative issues

- (i) 11 (55%) of the 20 Management Committee meetings were held longer than three months (ranging from 3.1 to 5.4 months, averaging 3.7 months) after the previous meetings; and
- (ii) 11 (65%) of the 17 business review meetings were held at intervals longer than three months after the previous meetings (ranging from 3.1 to 5.2 months, averaging 3.6 months); and
- (b) ***Inadequate guidelines on verification of performance report.*** In the 2006 Audit review, Audit found that IPD had not conducted checking of the performance results submitted by the contractor. Audit recommended IPD to consider drawing up a guidance manual on checking of contractor's performance report to assist its staff in managing the outsourcing contract. In the current review, Audit reviewed the guidelines drawn up by IPD and noted that the guidelines only showed how the deduction of monthly charges was computed, but detailed procedures on other checks on the contractor's performance reports were not included.

4.14 In response to Audit's enquiry, IPD informed Audit in March 2020 that:

- (a) two business review meetings were subsumed under the Management Committee meetings in order that the Management Committee could closely monitor all aspects of the performance of the contractor during the initial six months of the contract;
- (b) the contract did not specifically prescribe the time gap between any two successive Management Committee or business review meetings. The provisions of the contract required that such meetings should be held at least once in each quarter during the entire duration of the contract. Measured against this benchmark as per the contract provisions, there was only one quarter in which no Management Committee meeting or business review meeting was held; and
- (c) in practice, for better monitoring of the contractor's performance, IPD had strived to space out the meetings by holding the Management Committee meetings and business review meetings at regular intervals of about three months. However, as each Management Committee meeting or business review meeting involved a number of staff members at various levels of

both IPD and the contractor, some flexibility in scheduling the meetings would be required. In fact, while some of the meetings were scheduled slightly longer than three months, the time gap between some other meetings was shorter than three months.

4.15 Audit considers that IPD needs to take measures to strengthen the monitoring of the contractor's performance:

- (a) ensure that the requirements relating to the frequency of Management Committee meetings and business review meetings are stated clearly in the contract;
- (b) ensure that all Management Committee meetings and business review meetings are conducted in a timely manner to facilitate monitoring the contractor's performance and taking timely remedial actions; and
- (c) enhance the guidelines on monitoring the contractor's performance to facilitate checking of the performance reports prepared by the contractor.

Audit recommendations

4.16 **Audit has recommended that the Director of Intellectual Property should:**

- (a) **in conducting tender exercises for the procurement of outsourced services, set evaluation criteria that dovetail with the new pro-innovation government procurement policy and the Financial Circular No. 2/2019;**
- (b) **conduct market research or non-binding EOI exercises for tender exercises with a view to ascertaining the market supply of the services required; and**
- (c) **take measures to strengthen the monitoring of the contractor's performance:**

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- (i) **state clearly in the contract the requirements relating to the frequency of Management Committee meetings and business review meetings;**
- (ii) **ensure that all Management Committee meetings and business review meetings are conducted in a timely manner to facilitate monitoring the contractor's performance and taking timely remedial actions; and**
- (iii) **enhance the guidelines on monitoring the contractor's performance to facilitate checking of the performance reports prepared by the contractor.**

Response from the Government

4.17 The Director of Intellectual Property generally agrees with the audit recommendations. He has said that:

- (a) IPD has all along taken a vigorous approach in monitoring the performance of its contractors and the service credit mechanism (see para. 4.11(c)) has remained a useful tool in keeping the contractors on their toes; and
- (b) IPD will critically review how best to meet its future operational needs through outsourcing or otherwise in the light of experience gained over the years.

Human resources management

Prolonged employment of some NCSC staff

4.18 In January 1999, the Government introduced the NCSC Staff Scheme as a more flexible arrangement for employment of temporary and short-term contract staff to meet short-term, part-time, changing or fluctuating service needs from time to time. According to the Civil Service Bureau (CSB), the Scheme:

- (a) allows government bureaux and departments to employ staff on short-term contracts up to three years normally on flexible packages to be determined by the Heads of Department themselves; and
- (b) aims at providing bureaux and departments with a flexible means of employment to respond more promptly to their changing operational and service needs:
 - (i) which are time-limited, seasonal, or subject to market fluctuations;
 - (ii) which require staff to work less than conditioned hours;
 - (iii) which require tapping the latest expertise in a particular area; or
 - (iv) where the mode of service delivery is under review or likely to be changed.

4.19 As at 1 February 2020, IPD had 13 full-time NCSC staff. According to IPD, 10 NCSC staff were engaged on a time-limited basis in order to meet IPD's operational needs arising from ad hoc projects or new policy initiatives (Note 16). Approval for employment of these staff was obtained from CSB pursuant to the established procedures under the NCSC Staff Scheme.

Note 16: *These projects include providing support to the Registries during development and implementation of NIS; supporting the collaboration on the protection, management and commercialisation of IP rights with Guangdong and Macao pursuant to the Greater Bay Area Initiative; and providing support in the preparatory work for implementation of the OGP system to handle new types of patent cases involving substantive examination.*

Administrative issues

4.20 For the remaining three NCSC staff, they were engaged in the Marketing Division to provide support for IPD's local, regional and international promotion and educational activities on IP protection and management, and the development of Hong Kong as an IP trading hub in the Asia Pacific region. In 2016, IPD sought CSB's approval for granting special quota to continue their engagement (Note 17) for the additional work of promoting Hong Kong as an IP trading hub. However, CSB did not grant the approval and advised IPD that:

- (a) while the promotion of Hong Kong as an IP trading hub was a long-term project, given the recurrent nature of the initiative, engagement of NCSC staff to deliver the said initiative did not fit the ambit of the NCSC Staff Scheme;
- (b) if IPD considered that there was an operational need to retain any of its NCSC posts in the long run, it should submit bids to convert them into civil service posts; and
- (c) the incumbents of two NCSC posts concerned had been engaged for over a decade. IPD should review the long standing NCSC positions and take all possible measures to work down the number of long-serving NCSC staff. The employment relationship with an NCSC staff should end upon expiry of the contract. The continued employment of NCSC staff was not encouraged as that might create undue expectation for continued employment, even if the NCSC staff had changed positions within the department.

Under the above circumstances, IPD renewed the contracts of the three NCSC posts concerned using the discretionary quota of IPD.

Note 17: *CSB has set a ceiling on the number of NCSC staff to be employed by each bureau/department (i.e. the general quota). Head of Department's approval is required if the number of NCSC staff to be employed exceeds the ceiling by not more than 5%, or five in number, whichever is greater (i.e. the discretionary quota). CSB's approval is required if the number of NCSC staff to be employed exceeds the ceiling by more than 5%, or five in number, whichever is greater (i.e. the special quota).*

4.21 Audit analysed the length of services of NCSC staff and noted that some of them had been employed for 3 years or more. Of the 13 full-time NCSC staff as at 1 February 2020:

- (a) 5 (38%) had been continuously employed for more than 3 years; and
- (b) of these 5 staff, 3 (60%) had been continuously employed for over 10 years, and the longest period of employment was 17 years. All of these staff were from the Marketing Division.

4.22 In response to Audit's enquiry, IPD informed Audit in March 2020 that it had critically considered CSB's views as well as its own operational needs before renewing the contracts of the NCSC posts in the Marketing Division. Since 2013, IPD had replaced seven NCSC positions in the Marketing Division by civil service posts. Factors taken into account included the following:

- (a) IPD's objective was to develop and build up a pool of civil service staff, in particular Intellectual Property Examiners, with suitable temperament to replace the NCSC positions;
- (b) given its very different job nature, the Marketing Division required staff to command a skillset that was not readily available in full within IPD; and
- (c) as it would take time to train up a whole team of civil service staff to take up the entire portfolio of the Marketing Division with its wide-ranging responsibilities, the NCSC positions would be phased out gradually to ensure no gaps in meeting the operational needs.

4.23 As the prolonged employment of some NCSC staff by IPD is not strictly in line with the NCSC employment policy (see para. 4.18), Audit considers that IPD needs to phase out the NCSC positions with prolonged employment and replace them by civil service posts as soon as possible.

Audit recommendation

4.24 **Audit has recommended that the Director of Intellectual Property should phase out the NCSC positions with prolonged employment and replace them by civil service posts as soon as possible.**

Response from the Government

4.25 The Director of Intellectual Property generally agrees with the audit recommendation. He has said that filling staffing positions with long-term needs by civil service staff will facilitate the growth and retention of knowledge and expertise within IPD and provide continuity in its work in the long term. IPD will continue phasing out the concerned NCSC positions, subject to operational needs and the successful bidding of civil service posts in future.

4.26 The Secretary for the Civil Service has said that:

- (a) according to the quarterly returns submitted by IPD to CSB on the employment of NCSC staff, the three NCSC staff in the Marketing Division, who had been employed for over 10 years, were engaged to tap the latest expertise in the market. Hence, it is in line with the spirit of the NCSC policy to engage the staff concerned as specified in paragraph 4.18(b)(iii);
- (b) CSB recognises that it is not unusual for NCSC positions created for the purpose of tapping latest market expertise be retained for a relatively longer period of time;
- (c) for the case of the NCSC positions concerned in the Marketing Division of IPD, when IPD submitted its application for extension of special quotas for the positions of Head and Senior Manager in 2016, IPD advised that it was its ultimate aim to replace the NCSC positions with civil servants. However, it would take at least five to eight years for the Intellectual Property Examiners to be ready and competent enough to take up more senior positions in the Marketing Division as IPD would need to adjust its recruitment and training strategies for the Intellectual Property Examiners; and

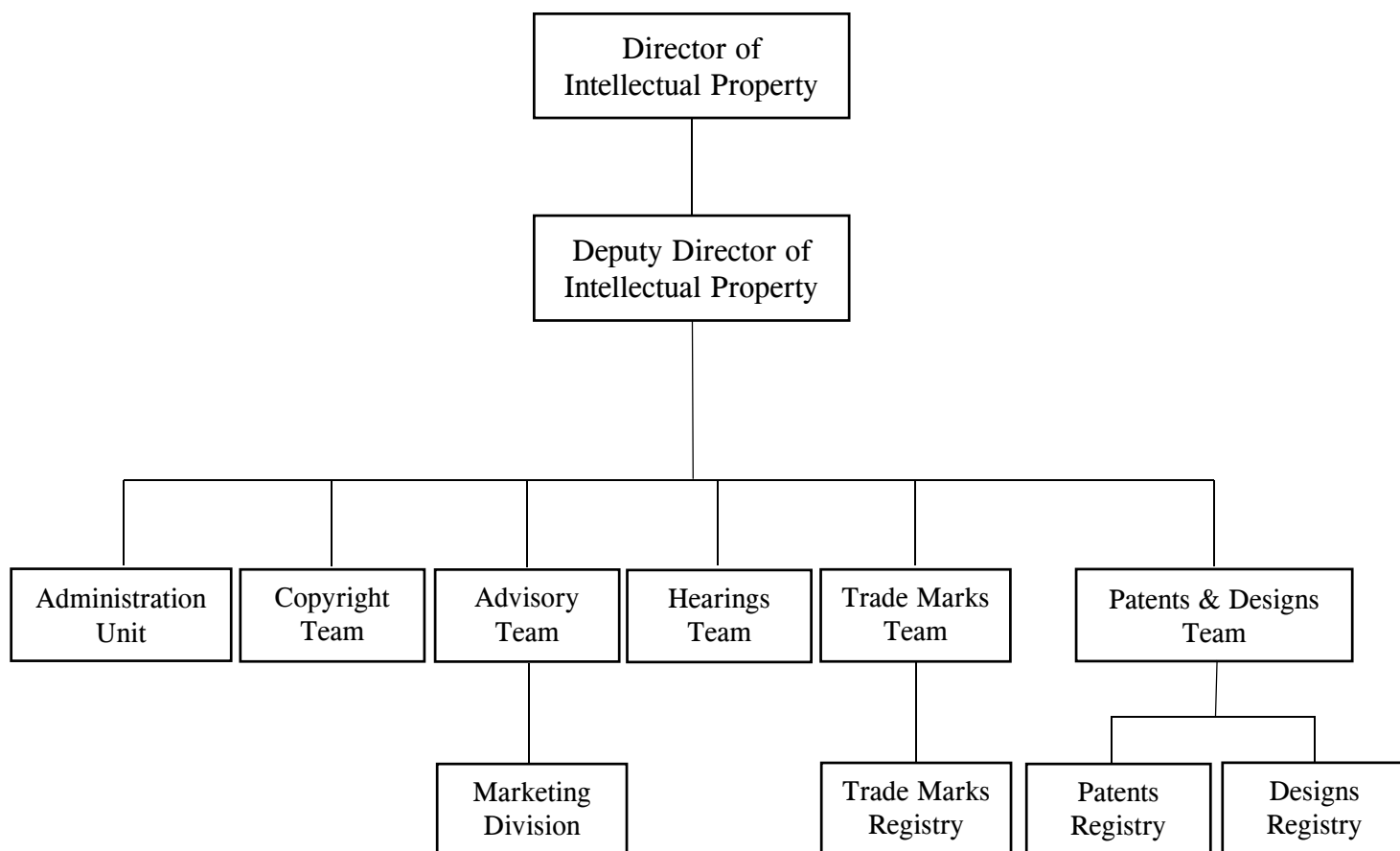
- (d) given the overall guiding principle that civil servants should be used for established long-term manpower needs wherever possible, CSB is of the view that IPD should speed up securing the necessary resources for the creation of the concerned civil service posts and the building up of a pool of suitable Intellectual Property Examiners to shoulder such level of responsibilities in the Marketing Division.

**International intellectual property conventions
applicable to Hong Kong
(31 December 2019)**

1. World Trade Organization – Agreement on Trade-Related Aspects of Intellectual Property Rights
2. The Paris Convention for the Protection of Industrial Property
3. The Berne Convention for the Protection of Literary and Artistic Works
4. The Universal Copyright Convention
5. The Nice Agreement concerning the International Classification of Goods and Services for the purposes of the Registration of Marks
6. The Geneva Convention for the Protection of Producers of Phonograms Against Unauthorised Duplication of Their Phonograms
7. The Patent Cooperation Treaty
8. The Convention establishing the World Intellectual Property Organization (WIPO)
9. The WIPO Copyright Treaty
10. The WIPO Performances and Phonograms Treaty

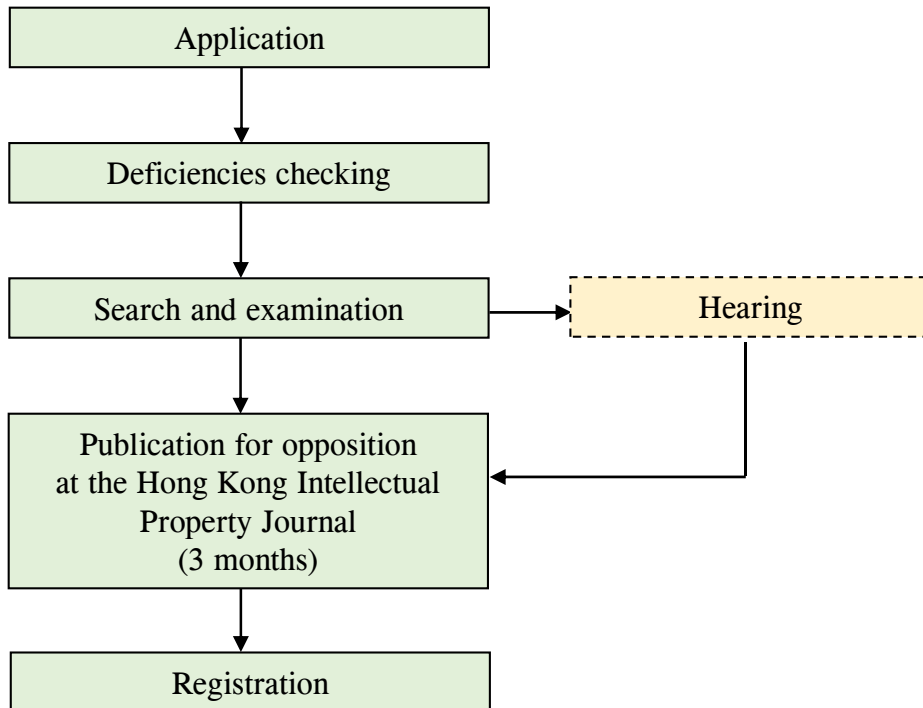
Source: IPD records

**Intellectual Property Department
Organisation chart (extract)
(31 December 2019)**



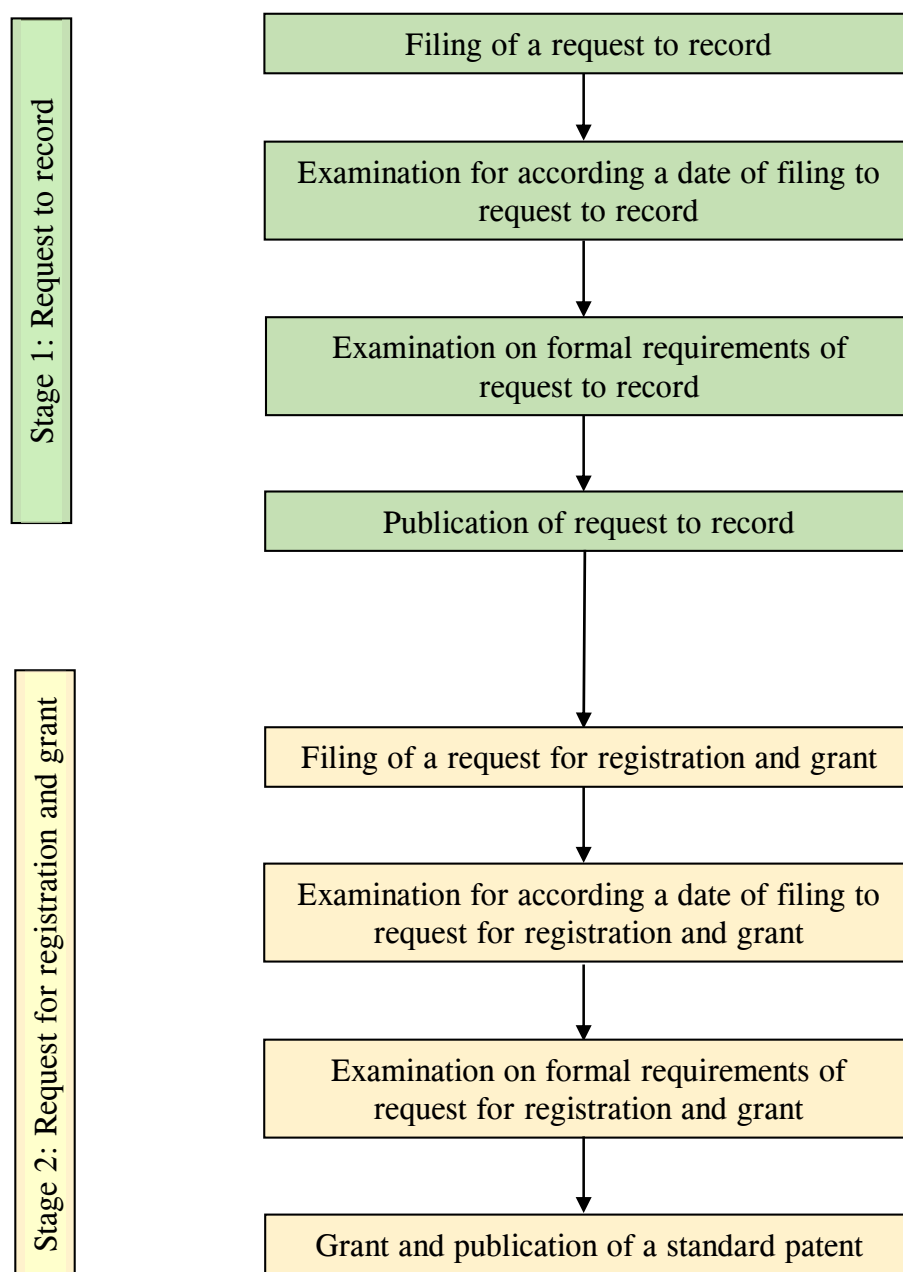
Source: *Audit analysis of IPD records*

**The application process for trade marks
(31 December 2019)**



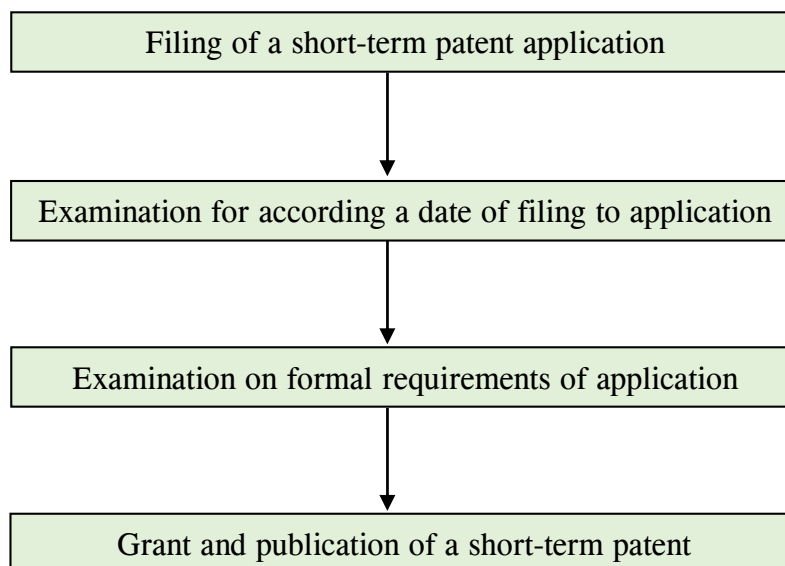
Source: IPD records

**The application process for standard patents
(31 December 2019)**



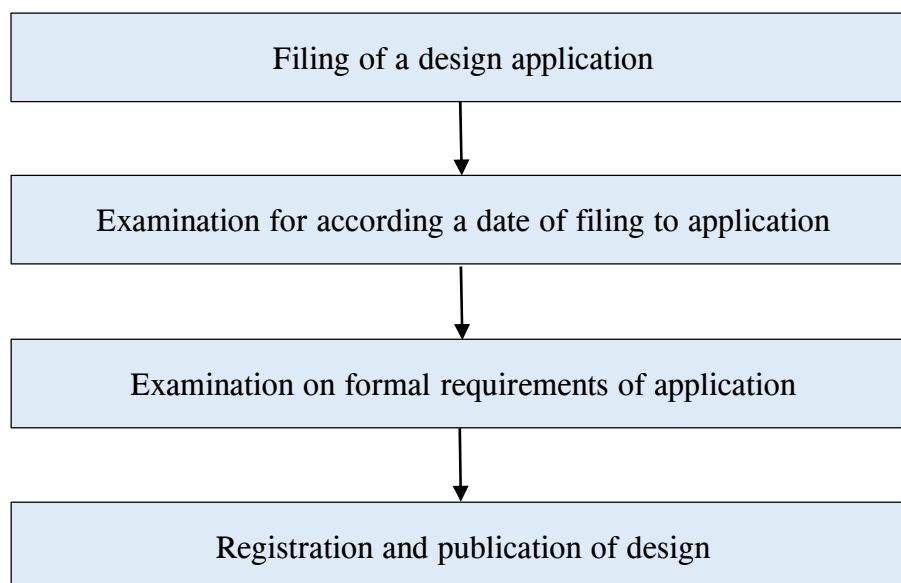
Source: IPD records

**The application process for short-term patents
(31 December 2019)**



Source: IPD records

**The application process for designs
(31 December 2019)**



Source: Audit analysis of IPD records

Acronyms and abbreviations

| | |
|-------------|--|
| Audit | Audit Commission |
| CEDB | Commerce and Economic Development Bureau |
| COR | Controlling Officer's Report |
| CSB | Civil Service Bureau |
| C&ED | Customs and Excise Department |
| EOI | Expression of interest |
| FSTB | Financial Services and the Treasury Bureau |
| IP | Intellectual Property |
| IPD | Intellectual Property Department |
| IT | Information technology |
| NADS | New application development service |
| NCSC | Non-civil service contract |
| NF | No Fakes |
| NFP App | No Fakes Pledge Shop Search mobile application |
| NFP Scheme | No Fakes Pledge Scheme |
| NIS | New Integrated Information Technology System |
| OGP | Original Grant Patent |
| OOS | Office operation service |
| OSMS | Ongoing support and maintenance service |
| PAIP survey | Survey on Public Awareness of Intellectual Property Right Protection |
| Registries | Trade Marks Registry, Patents Registry and Designs Registry |
| SPRs | Stores and Procurement Regulations |
| WIPO | World Intellectual Property Organization |