

WANG and YANG, *petitioner*

v.

BEIJING INDUSTRIAL UNIVERSITY, *respondent*

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FACTS

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[Summary]

On June 6, 2001, Beijing Industrial University (formerly known as Beijing Industrial Institute by that time) entered into a contract with Baoding Ouke Fine Chemistry Ltd., which later changed its company name to Hebei Ouke Fine Chemistry Ltd. (hereinafter referred as Ouke Company). The title of the contract is “Agreement Regarding Investment in Capital Using the Technology and Patent of *Iron-Titanium Composite Series Mica Pearlescent Pigment*”. The contract specifies that Beijing Industrial University exclusively owns the technology of “*Iron-Titanium Composite Series Mica Pearlescent Pigment*”, and is the patentee of a Chinese invention patent with a serial number ZL99135985.7 (‘985 patent). The title of the ‘985 patent is “Iron-Titanium Composite Series Mica Pearlescent Pigment and Preparation Method Thereof”. The ‘985 patent was filed on January 10, 1997 and was subsequently issued on February 2, 1998. In this contract, Beijing Industrial University agrees to transfer the technology and the ‘985 patent to Ouke Company as capital investment, in return for shares of Ouke Company worth RMB 1,000,000

(representing 1,000,000 shares). In addition, also as the return for the transfer, Ouke Company agrees to pay additional RMB 1,000,000 in cash to Beijing Industrial University.

After the conclusion of the contract, Beijing Industrial University and Ouke Company performed their respective obligations, and by transferring the above technology and ‘985 patent, Beijing Industrial University acquired RMB 1,000,000 in cash, as well as shares of Ouke Company with face value of RMB 1,000,000 (1,000,000 shares). In year 2010, Beijing Industrial University sold the 1,000,000 Ouke Company shares to Guangdong Zhongshan Technology Development Company by auction, for an amount of RMB 5,450,000. Xinghao WANG (hereinafter referred as Wang) and Rong YANG (hereinafter referred as Yang), plaintiffs of this matter and employees of Beijing Industrial University, claim to have the right of reward and remuneration for the proceeds from the transfer of the above technology and ‘985 patent. However, Beijing Industrial University only paid 86% of the RMB 1,000,000 cash proceed from the transfer, i.e. RMB 860,000, to the research group of WANG, YANG, and Xiaolan LIU (hereinafter referred as LIU), by several installments. Since the sale of Ouke Company shares with a profit of RMB 5,450,000, Beijing Industrial University refused to pay any reward or remuneration to WANG and YANG. WANG, YANG and LIU are named inventors of the ‘985 patent. The principal of Beijing Industrial University and the dean of WANG, YANG and LIU’s department are also named as inventors; however, the principal and the dean, serving as supervisors to the research group, did not participate in the actual development of the technology.

[Part I]

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In February 1999, Beijing Industrial Institute entered into a “Technology Development Agreement” with Baoding Ouke Fine Chemistry Ltd., a Sino-Hong

Kong joint venture. This agreement aims to the development of a technology for mass production of iron-titanium composite series mica pearlescent pigment. Beijing Industrial Institute is responsible for developing the technology and ensuring the stability of the art in practice and in mass production. At the time of the contract, Beijing Industrial Institute exclusively owns the technology of “*Iron-Titanium Composite Series Mica Pearlescent Pigment*”, and is the patentee of a Chinese invention patent with a serial number ZL99135985.7 (‘985 patent). The title of the ‘985 patent is “Iron-Titanium Composite Series Mica Pearlescent Pigment and Preparation Method Thereof”. The ‘985 patent was filed on January 10, 1997, and was subsequently issued on February 2, 1998. On the other hand, under the contract Baoding Ouke Fine Chemistry Ltd. is responsible for providing working conditions for the development of the technology as well the production of the pigment from the technology. Under the agreement, Beijing Industrial Institute may not transfer the technology or ‘985 patent to third parties, and may not disclose in any manner relevant trade secrets or other know-how to third parties. Within a period of 5 years, Baoding Ouke Fine Chemistry Ltd. may not transfer the technology or ‘985 patent to third parties. In return for the transfer and assignment of the technology and the patent, Baoding Ouke Fine Chemistry Ltd. agrees to pay RMB 1,000,000 in five cash installments to Beijing Industrial Institute, as well as 10% of the corporate shares of Baoding Ouke Fine Chemistry Ltd. Upon the receipt of RMB 1,000,000 cash payment, Beijing Industrial Institute paid RMB 860,000 to WANG, YANG and LIU’s research group. This payment was itemized as reward and remuneration for developers of the technology and the ‘985 patent. WANG, YANG and LIU are employees and research fellows of the chemistry department of Beijing Industrial Institute, and are also named inventors of the ‘985 patent. The principal of Beijing Industrial Institute and the dean of WANG, YANG and LIU’s department were also named as inventors; however, the principal and the dean, serving as supervisors, did not participate in the actual

development of the technology.

In March 1999, Baoding Ouke Fine Chemistry Ltd. issued a certificate indicating the receipt of the transfer of technology of “*Iron-Titanium Composite Series Mica Pearlescent Pigment*” in the form of intangible asset into corporate capital, with a contract value of RMB 560,000. Baoding Development District Auditing Office issued an asset examination report, indicating Baoding Ouke Fine Chemistry Ltd. had corporate asset worth RMB 5,600,000 as of September 6, 1999, and 10% of the corporate asset was made in the form of intangible asset, in the form of exclusive technology. In February 2000, Baoding Ouke Fine Chemistry Ltd. issued another statement acknowledging the receipt of the transfer of the ownership of ‘985 patent, with a face value of RMB 200,000, to be made into corporate capital. The assignment of patent ownership was thereafter recorded with the Patent Bureau of China. On March 1, 2000, Baoding Ouke Fine Chemistry Ltd.’s board of directors decided to make an increase of RMB 2,000,000 to the corporate capital, totaled the corporate capital to RMB 7,600,000. As of the increase in corporate capital, Beijing Industrial Institute’s capital investment, in the form of intangible assets, increased by RMB 200,000. Thereafter Beijing Industrial Institute still held 10% of Baoding Ouke Fine Chemistry Ltd.’s shares. The change in corporate capital was duly recorded with Baoding Municipal Commerce and Industry Bureau. Since the conclusion of the June 6, 2001 contract, Baoding Ouke Fine Chemistry Ltd. issued a corporate debenture note to Beijing Industrial University indicating its indebtedness of RMB 240,000, equal to the remainder of RMB 1,000,000 capital investment allowance promised by Baoding Ouke Fine Chemistry Ltd. in the contract. On June 30, 2001, Baoding Ouke Fine Chemistry Ltd. decided to convert its RMB 240,000 debt to Beijing Industrial University into equity; therefore the amount of Ouke Company shares held by Beijing Industrial University increased RMB 240,000, to a total of RMB 1,000,000 (representing 1,000,000 shares).

During subsequent education system reform, Beijing Industrial Institute changed its name to Beijing Industrial University. Baoding Ouke Fine Chemistry Ltd. later changed its company name to Hebei Ouke Fine Chemistry Ltd. (hereinafter referred as Ouke Company). The relevant rights and obligations of the parties in this matter
5 remained intact.

[Part II]

On October 17, 2008, the accountant of Ouke Company made a wire transfer of
10 an amount of RMB 67,500 under her personal name to Beijing Industrial University. The receipt of the wire transfer indicates that the transfer was made for the payment for research materials fees. On March 13, 2009, LIU, WANG, YANG and Beijing Industrial University entered into an agreement, the title of which is “Agreement Regarding the Distribution of Benefits in Relation to Ouke Company Shares”, and
15 agreed that after the deduction of university management fees and other applicable fees and taxes, the rest of the benefits in relation to Ouke Company shares, including distribution, dividend and other profits generated from the shares shall be distributed evenly among the three people. This agreement was thereafter recorded with the research management department of Beijing Industrial University. The research
20 management department of Beijing Industrial University made a note on the agreement on March 23, 2009, stating that according Beijing Industrial University rules and policies, 10% of the profit shall belong to the department of the research group, another 10% shall belong to Beijing Industrial University as research management fund, and the rest 80% shall belong to the research group and shall be
25 distributed according to researchers’ mutual agreement. The agreement was further noted by the finance department of Beijing Industrial University, indicating its concurrence with the opinions of the research management department. The principal

of Beijing Industrial University signed and agreed with the notes of agreement on November 10, 2009. In the same month, Beijing Industrial University made payments of RMB 18,000 each to WANG and YANG, after taking 20% from Ouke Company's October 17, 2008 wire transfer. The payments to WANG and YANG were itemized
5 by the finance department of Beijing Industrial University as distribution of profits in relation to Ouke Company shares.

On December 12, 2009, Guangdong Zhongshan Technology Development Company acquired Ouke Company's shares held by Beijing Industrial University through an auction agency. On January 5, 2010, Beijing Industrial University,
10 Guangdong Zhongshan and Ouke Company entered into a stock transfer agreement, and agreed that Beijing Industrial University sold and transferred its 1,000,000 Ouke Company shares to Guangdong Zhongshan, for RMB 5,450,000.

[Part III]

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On Oct 20, 2011, Ouke Company issued "Statement on Working Relationship with WANG, YANG and LIU in Execution of Agreement Regarding Exclusive Technology Investment as Capital". The statement restates the contract entered between Baoding Ouke Fine Chemistry Ltd. and Beijing Industrial Institute on June 6,
20 2001, and further states, *inter alia*, that WANG, YANG and LIU, employees of Beijing Industrial Institute, were sent by Beijing Industrial Institute to work with Baoding Ouke Fine Chemistry Ltd. to set up the production line, and were responsible for the technologies during equipment calibration and mass production stages. LIU also served as a member of the board of directors, who was appointed by Beijing
25 Industrial Institute in its capacity as Baoding Ouke Fine Chemistry Ltd.'s shareholder. WANG, YANG and LIU also made improvements to handle the issues during the exploitation of the technology. On Oct 26, 2011, Ouke Company issued another

statement, stating that Ouke Company increased its capital and stock in the amount of 135,000,000 shares in 2008. Newly issued shares were open for purchase with a premium over the par value as of an increase in Ouke Company's corporate asset value. After the increase in capital, Ouke Company decided to compensate its
5 shareholders who did not acquire newly issued shares for the premium. Therefore, on Oct 17, 2008, a payment of RMB 67,500 was wire transferred to Beijing Industrial University as compensation for premium of shares, made in the personal name of Ouke Company's accountant. The receipt of the wire transfer payment was annexed to the statement.

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CLAIMS TO THE COURT

WANG and YANG claim the following to the court, requesting a fair decision
15 for their legally protected rights:

1. Beijing Industrial University shall pay WANG and YANG remuneration and reward for their service technical achievement and service invention, in the amount of RMB 1,271,700 for each person;

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AND

2. Beijing Industrial University shall bear the litigation costs.

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[List of Suggested References]

5 *Please note that the following list of references is provided ONLY for a general
understanding of the facts and legal background of this matter and for the
convenience of competitors. The list of references is not exhausted. Professional
research and judgment are further required. Additional references may also be
considered useful for this matter. English version of the following references may be
provided upon special request.*

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1. Patent Law of the People's Republic of China
2. Law of the People's Republic of China on Promoting the Transformation of
Scientific and Technological Achievements
3. Contract Law of the People's Republic of China
- 15 4. Company Law of the People's Republic of China
5. Interpretation of the Supreme People's Court concerning Some Issues on
Application of Law for the Trial of Cases on Disputes over Technology
Contracts
6. Civil Procedure Law of the People's Republic of China

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