

# 40

## Inner Mongolia Little Fat Sheep Restaurant Chain Co., Ltd. v. Hebei Huite Little Fat Sheep Restaurant Chain Co., Ltd.

*Citation: The Hebei Province Higher People's Court's Civil Judgment No. Jiminsanzhongzi 42/2004*

*Date of judgment: March 1, 2005*

### **Procedural history**

The Inner Mongolia Little Fat Sheep Restaurant Chain Co., Ltd. (IMLFS) sued, in the Shijiazhuang City Intermediate People's Court, the Hebei Huite Little Fat Sheep Restaurant Chain Co., Ltd. (Huite) and Zhou Wenqing for unfair competition by using the words "Little Fat Sheep" and infringement of the right in the registered mark. In the first-instance judgment, it was decided that the act of Huite and Zhou Wenqing did not constitute unfair competition, nor infringe the trademark right. The IMLFS appealed to the Hebei Province Higher People's Court.

### **Issue**

1. Determination of the name particular to famous service
2. Whether a corporation's legal representative should be held liable for act of unfair competition of the corporation.

### **Facts**

The IMLFS was a provider of restaurant services, and its name was changed twice: on November 1, 2000, it changed the name Baotou City Little Fat Sheep Restaurant set up on September 13,

1999 into the name the Baotou City Little Fat Sheep Chain General Store; and later, in July 2001, into the present name.

On August 18, 2000, Zhou Wenqing concluded a contract, which was nullified in 2001, with the Baotou City Little Fat Sheep Restaurant, the predecessor of the IMLFS, to be part of the restaurant chain. On August 16, 2001, Zhou Wenqing signed, on behalf of the Muslim Little Fat Sheep Hotel, the Little Fat Sheep Supplementary Franchise Agreement with the IMLFS, in which it was agreed that the latter allowed the Muslim Little Fat Sheep Hotel to go on running the two branch restaurants it had set up in Shijiazhuang City, but not to open up any other new branches, nor carry on any marketing activities relating to the products using the patented representation and the font of the general corporation.

Upon the expiry of three years of the Muslim Little Fat Sheep Hotel's business in the name of the IMLFS under the Agreement, Zhou Wenqing, together with another party, obtained, on September 9, 2009, the registration to have set up the Hebei Inner Mongolia Little Fat Sheep Chain Co., Ltd., and he, holding 60% of the shares, was the legal representative of the business. Huite had set up many chain restaurants after that, and used the name "Little Fat Sheep" at shop fronts, on plaques and in advertisements.

For this, the IMLFS sued Huite and Zhou Wenqing for unfair competition and infringement of its right in the "LITTLE FAT SHEEP" registered trademark.

In the first-instance judgment, it was held that the term "little fat sheep" was a name commonly used for baby sheep of one or two years old, and the name used in respect of restaurants was descriptive of the service and the character thereof; it was not distinctive; the name "little fat sheep" was used by many restaurants around the country, and it was a generic name in the restaurant industry of instant-boil slices on mutton; the IMLFS did not have the right to prevent Huite from using the "LITTLE FAT SHEEP" name on the ground that the term "LITTLE FAT SHEEP" was the name particular to its famous service or it had concluded the agreement with the latter; Huite's regular use of said generic name did not infringe the IMLFS's right in the "LITTLE FAT SHEEP" registered trademark.

Other facts the court ascertained included: a one-or-two-year-old baby sheep was commonly known as “little fat sheep” in the Xilin Gol League, Inner Mongolia. On September 14, 2001, the Inner Mongolia Jinyu Group Co., Ltd. once filed an application with the Trademark Office for registration of the trademark “LITTLE FAT SHEEP” in goods in class 42. On July 9, 2002, the Trademark Office refused said application on the ground that, used as a mark in the service mentioned, “Little Fat Sheep” was descriptive of the character of the service. The IMLFS once filed, in 2001, an application for registration of the trademark “LITTLE FAT SHEEP” with the Trademark Office, and the Trademark Office refused it, holding that “little fat sheep” was a generic name. The IMLFS’s applications for registration of the trademark “LITTLE FAT SHEEP” in goods and service in classes 29 and 42 were approved respectively on October 7, 2002 and January 7, 2003.

During the second-instance hearing of the present case, the Trademark Office made, on November 12, 2004, the Reply (No. Shangbiaochizi 92/2004) to have established, as a well known mark, “小肥羊” (the three Chinese characters meaning “little fat sheep”), LITTLE SHEEP and the device” that the IMLFS used in respect of the service of restaurant in class 42. Said mark was approved for registration (No. 3043421) on December 20, 2004.

### **Rule of law**

Article 5 (2) of the Unfair Competition Law *A business operator shall not harm his competitors in market transactions by resorting to any of the following unfair means: ... (2) using, for a commodity without authorization, the name, package, or trade dress particular to another’s famous commodity, or using a name, package or trade dress similar to that of another party’s famous commodity, thereby confusing the commodity with that famous commodity and leading the purchasers to mistake the former for the latter.*

### **Reasoning**

1. Whether “little fat sheep” was a name particular to the famous service in the restaurant industry?

In the present case, the IMLFS first used “LITTLE FAT SHEEP” as a service name in the restau

rant industry to show the way the service was provided “not using any seasoning while eating the mutton”, which was quite different from the generic name of the service of the kind: dip-boil slices of mutton and vegetables in chafing dish. The IMLFS’s long-time and wide use of “LITTLE FAT SHEEP” made the relevant consumers naturally associate “not using any seasoning while eating the mutton” when “little fat sheep” was mentioned, and rendered its IMLFS’s restaurant service famous in the industry. While the one-or-two-year-old little sheep was indeed called “little fat sheep” in the Hilin Gol League, Inner Mongolia Autonomous Region, for the consumers, “little fat sheep” represented the IMLFS’s service of “not using any seasoning while eating the mutton”, rather than the baby sheep. The IMLFS first used “LITTLE FAT SHEEP” in restaurant service, and added to it the specific meaning through its business operation, and consumers would associate “little fat sheep” with IMLFS. Consequently, “LITTLE FAT SHEEP” had become a name particular to the IMLFS’s famous service. At the time when Huite used said name, the IMLFS enjoyed relatively high reputation to an extent. Without authorization from the IMLFS, Huite knowingly used the “LITTLE FAT SHEEP” service name in its company name, at the shop fronts and on plaques, which was an act of “taking advantage of it”.

From the IMLFS’s registration, the “LITTLE FAT SHEEP” mark had never been used, so there was no such matter as causing confusion on the part of consumers. For this reason, Huite did not infringe the “LITTLE FAT SHEEP” registered mark.

2. Whether Zhou Wenqing should also be held liable in the present case?

The present case was one of dispute arising from unfair competition and infringement of the trademark right. Huite, a company of limited liability, could independently bear its civil liability, while Zhou Wenqing, legal representative of Huite, should not be held civilly liable for unfair competition. Zhou Wenqing’s own act of breaking the contract which the IMLFS mentioned should not be heard in the present case.

***Holding***

1. The IMLFS enjoyed the right in the name “LITTLE FAT SHEEP” particular to its famous service. Huite’s use of the name “LITTLE FAT SHEEP”, an act of “taking advantage of it”, consti-

tuted an act of unfair competition, so should bear the corresponding civil liability.

2. Zhou Wenqing personally did not infringe the IMLFS's trademark right.