IN THE HIGH COURT OF JUSTICE
BUSINESS AND PROPERTY COURTS
OF ENGLAND AND WALES
CHANCERY DIVISION
INTELLECTUAL PROPERTY ENTERPRISE COURT
[2022] EWHC 1525 (IPEC)

No. IP-2018-0000157

Rolls Building
Fetter Lane
London, EC4A 1NL

Thursday 26 May 2022

Before:

HIS HONOUR JUDGE HACON

B E T W E E N :

(1) FIT KITCHEN LIMITED
(2) AMAR LODHIA — Claimants

- and -

(1) SCRATCH MEALS LIMITED
(2) SAINSBURY'S SUPERMARKETS LIMITED
(3) WAITROSE LIMITED — Defendants

DR D. SELMI (instructed by Stobbs (IP) Limited) appeared on behalf of the Claimants.

MR D. CAMPBELL QC (instructed by Waterfront Solicitors LLP) appeared on behalf of the Defendants.

J U D G M E N T
(Via Microsoft Teams)

(Please note this transcript has been prepared without the aid of documentation)

JUDGE HACON:

1 This is an application by the claimants to abandon their claim to an account of profits and to re-elect for an inquiry as to damages.

2 The background to the account is given in my judgment of 13 October 2021. I need not repeat here those background facts. I should say that I have noticed that some dates contained in that judgment are not right and I should perhaps correct them just in case the errors should lead to confusion going forward. The order consequential upon my judgment on liability in this action was made on 12 October 2020. That is the order I refer to in paras. 3, 10, 11, 17, and 19 of the judgment of 13 October 2021. Those paragraphs should have identified it as the order of 12 October 2020. That order followed a hearing of the same date. Thus, the hearing referred to in paras.11, 12, 14, and 15 is the hearing of 12 October 2020, not 2021. The mistakes were mine.

3 I should also say that as appears from the transcript of the hearing on 13 October 2021, the judgment set out in the document is not complete. After delivering an *ex tempore* judgment, there was further argument during which I was persuaded to make two further directions. First, the claimants were given leave to seek permission to re-elect for an inquiry as to damages instead of an account of profits. Secondly, since there would have to be a hearing to deal with this, I amended my earlier ruling that the claimants' strikeout application should be dismissed and, instead, allow the claimants to resume that application on a limited point of law. This is all accurately reflected in the order made on 13 October 2021.

4 I turn to the claimants' application for permission to re-elect for an inquiry as to damages. The application is supported by two witness statements of Christopher Sleep, one dated 11 October 2021 and the second dated 20 May 2022. Mr Sleep is now a director of Stobbs (IP) Limited, which firm has conduct of these proceedings on behalf of the claimants. There was also filed a yesterday a witness statement from the second claimant Mr Lodhia. Daniel Selmi appears for the claimants and Douglas Campbell QC for the defendants.

5 Dr Selmi helpfully referred me to the judgment of the Privy Council in *Tang Man Sit (deceased) v Capacious Investments* [1996] AC 514. I need to say something about the facts of that case. A landowner, Mr Tang, agreed to assign ownership of sixteen houses in the Hong Kong New Territories to the plaintiff, Capacious Investments. No assignment was executed. The houses remained empty until Mr Tang let them as homes for the elderly. This was done without the knowledge of the plaintiff. After Mr Tang's death, the plaintiff brought an action against his personal representative to enforce the agreement. The claimants were granted summary judgment. The judge ordered the defendant to assign the houses with vacant possession and further required the defendant to furnish an account of profits received from letting the houses, to pay that profit to the plaintiff and, in addition, to pay damages for breach of trust. The defendant paid the plaintiff sums in respect of part of the profits received. The plaintiff sought an assessment of damages ordered by the judge, deducting the sums received by way of an account of profits.

6 The Hong Kong Court of Appeal ruled that a claim to an account was inconsistent with a claim for damages and by taking the payments arising from the account of profits, the plaintiff had elected to take that remedy and was not entitled thereafter to claim damages, save for diminution in the value of the houses. The Privy Council held that when summary judgment was entered, the plaintiff should have been required to make an election between an account of profits or an inquiry as to damages. It was not. In all the circumstances, the acceptance by

the plaintiff of payment of part of the profits did not constitute an election for an account of profits. Moreover, the defendant did not make the payment under a misapprehension that the plaintiff had made an election. The plaintiff had therefore been entitled to claim an assessment of damages giving credit for the sums already received instead of claiming an account of profits.

7 Lord Nicholls, giving the judgment of their Lordships, said at p.520 - 521 that the issue which lay at the heart of the case was whether the plaintiff had elected to take the remedy of an account of profits. He discussed the principles governing an election. At pp.521 - 522, he said this:

> "In the ordinary course the decision made when judgment is entered is made once and for all. That is the normal rule. The order is a final order, and the interests of the parties and the public interest alike dictate that there should be finality. The principle, however, is not rigid and unbending. Like all procedural principles, the established principles regarding election between alternative remedies are not fixed and unyielding rules. These principles are the means to an end, not the end in themselves. They are no more than practical applications of a general and overriding principle governing the conduct of legal proceedings, namely, that proceedings should be conducted in a manner which strikes a fair and reasonable balance between the interests of the parties, having proper regard also to the wider public interest in the conduct of court proceedings. Thus in *Johnson v. Agnew* [1980] A.C. 367 the House of Lords held that when specific performance fails to be realised, an order for specific performance may subsequently be discharged and an inquiry as to damages ordered. Lord Wilberforce observed, at p. 398: 'Election, though the subject of much learning and refinement, is in the end a doctrine based on simple considerations of common sense and equity.'"

8 Lord Nicholls later added at pp.525 - 526:

> "In these unusual circumstances it would make no sense to treat receipt of the amount of HK$ 1,807,774 as an election by the plaintiff for an account of profits and against damages. To treat receipt of this payment as an election would lack a rational basis, given the terms of the judge's order, and given the continuing steps to proceed with the assessment of damages. It would also be extremely unfair to the plaintiff. It would mean that by accepting payment of one sum due under the court order of 25 August 1992, the plaintiff had unknowingly and inadvertently disabled itself from enforcing payment of a much larger amount due under the same order. That would be unfair, because there is no reason to doubt that, in so far as the two remedies are inconsistent in the present case, the plaintiff, armed first with any further information it required, would have chosen damages had it been required to elect at the time judgment was entered.
>
> The conclusion would be otherwise if in the light of all the circumstances it would be inequitable to permit the plaintiff, after receiving the secret profits payment, to proceed with the damages claim even though it gave credit for the amount received. There is no such inequity in this case. The defendant did not make the payment under any misapprehension about the plaintiff's intentions. The belatedness of the plaintiff's choice did not prejudice the defendant."

9 Lord Nicholls was thus clear that finality was in the public interest and that the normal rule once a claimant has made an election between an inquiry and an account would be that he may not re-elect. The key feature in the *Tang Man Sit* case, which meant that the usual rule did not apply, was that the plaintiff had not on the facts made an election at all. That does not apply in the present case; the claimants did make an election for an account of profits. The question, therefore, is whether there is any matter which would make it unfair to require the claimants to stick with their election, sufficiently unfair such that the court's discretion should be exercised to disapply the usual rule.

10 The only matter raised by Mr Sleep in his evidence in support of the application to re-elect is that, to use his words, it would be "hugely inequitable and unjust" if the claimants were forced to continue with the account of profits and the court were to disallow any award. The reason given by Mr Sleep is that if the claimants continued with the account of profits and it is found they have acted with unclean hands, the claimants will end up with no monetary compensation at all. I find this an unattractive argument. If the claimants did act with unclean hands, as alleged, about which I state no view, then the law must follow its course and any prejudice to the claimants is entirely their own fault. The claimants are, in effect, asking for the court's discretion to be exercised to allow an inquiry as to damages so that they can escape the consequences of an argument that they acted improperly. That does not seem to me to be a good reason for a re-election.

11 No other ground is advanced in the evidence of Mr Sleep. Dr Selmi, counsel for the claimants, did suggest other grounds on which the discretion should be exercised to allow the claimants to re-elect. He said firstly that the election for an account of profits was made under protest because the claimants at that time did not believe that they had sufficient information to make a proper election. That does not change the fact that an election was made. If the claimants believed that they were not able to make an election because of insufficient information, the way forward was to apply for further information. The application may or may not have succeeded but they chose to go ahead with the election and it was made.

12 The next point made by Dr Selmi in argument was that the election for an account of profits was made in good faith. The claimants believed that my order of 12 October 2020, following judgment on liability, was final in permitting the claimants to elect for an account and that, therefore, no argument on unclean hands would ever be available to the defendants. I doubt that at the hearing of 12 October 2020 the claimants, or those representing them, gave any detailed thought or possibly any thought at all as to whether the effect of my order at that date would be to preclude the defendants from running an argument of unclean hands. I refer to my judgment of that date. The defendants expressly reserved the right to run the argument of unclean hands as a defence and the claimants raise no objection at that hearing.

13 Moreover, I fail to see the relevance of what the claimants secretly thought, assuming they did. Either the defendants are entitled to run a defence of unclean hands as a matter of law and/or the court's discretion or they are not. Either way, it is not a reason for allowing the claimants to re-elect for an inquiry.

14 Also, as Mr Campbell pointed out, the defendants first raised the allegation of unclean hands in May 2020. This was before the trial on liability. There was an attempt to raise the issue of unclean hands at the trial. In the event, witness statements were withdrawn by the claimants which were relevant to the unclean hands allegation and the point fell away so far as the trial was concerned. I refer to this at paras.23-24 of my judgment of 13 October 2021.

15 There was also evidence from Ms Law and Mr Pugh, submitted on behalf of the second and third defendants, in October 2020. That evidence makes it clear that the second and third defendants intended to rely on an allegation of unclean hands. This was before the hearing of 13 October 2020 at which I gave directions, including a direction that the claimants could elect between an inquiry or an account. At that hearing, counsel for the claimants acknowledged that the defendants intended to raise the issue of unclean hands.

16 In short, by the time of the election made, the claimants can have been in no doubt at all that all three defendants intended to run an allegation of unclean hands.

17 Another point made by Dr Selmi was that the claimants now believed, quite aside from the allegation of unclean hands, that they will gain more from an inquiry than an account. I have no idea whether that is right but it seems to me this will never be a good reason to allow a claimant to change its mind unless the change is soundly based on some good reason such as the emergence of new evidence of which the claimant could not reasonably have been aware at the time of making its election, particularly if it was concealed by the defendant. Nothing of that nature is suggested here.

18 Finally, it is said that an inquiry would take only one day when an account would take two days. I am not at all sure whether that is right and it is disputed by the claimants. I am not satisfied that this gives a good reason for the claimants to re-elect.

19 As for the defendants, Mr Campbell submitted that an account has now been pleaded and that it would be a waste of costs for the parties to have to start again and points in an inquiry. The claimants say this could be compensated in costs but given the costs cap which apply in this court, it may not be the case that the defendants would be fully compensated. The other self-evident prejudice to the defendants if I were to allow the claimants to re-elect is that the defendants would be deprived of an argument of unclean hands which may or may not be a good argument but it seems to me it is the one that they are entitled to run.

20 Taking all the foregoing into account, I take the view that the balance of prejudice is clearly in favour of dismissing the claimants' application to re-elect. The application is therefore dismissed.

L A T E R

21 This is the renewed hearing of an application by the claimants to strike out the defendants' allegation of unclean hands which has been pleaded by the defendants as part of its case in response to the claimants' claim for an account of profits.

22 As presented today, the claimants' case is that in this court parties are required to plead their case in full at the liability stage and should not be permitted to keep part of their case undisclosed until pleadings at the quantum stage. I am not sure that this argument complies with para.5(b) of my order of 13 October 2021. However, in deference to the argument presented by Dr Selmi, I will deal with it.

23 Dr Selmi referred to some case law on this of which the most relevant is a judgment I gave in *Kohler Mira Ltd v Bristan Group Ltd* [2014] EWHC 1931 (IPEC). This was the judgment in an inquiry as to damages following a finding that the marketing of certain of the defendants' electric showers infringed the claimant's UK unregistered design rights. In the inquiry, the defendant, Bristan, relied on s.233(1) of the Copyright, Designs and Patents Act 1988. This section provides that a claimant who succeeds in proving infringement of a design right is not entitled to damages if the defendant did not know and had no reason to believe that design

rights subsisted in the relevant design. The claimant, Kohler, argued that reliance on s.233(1) should have been pleaded at the liability stage and that it was now too late to rely on it as a defence to the payment of damages for infringement. I said this:

> "[5] Bristan advanced the following reasons in support of its case that, notwithstanding its failure to plead or otherwise raise s.233(1) at the trial before Judge Birss, it could do so now.
>
> (i) Time was short at the trial.
>
> (ii) The trial was also concerned with RCDs, in relation to which Kohler did not succeed. But had it succeeded, Kohler would have obtained an injunction and damages such that there would be no reason to be concerned about the level of parallel damages for infringement of UDRs. Argument in relation to s.233(1) would have been a waste of time.
>
> (iii) Section 233(1) only bites on damages prior to 6 December 2011.
>
> (iv) Kohler relied on a number of UDRs of which 4 were held to attract design right protection and to be infringed. The innocence defence might have been sensitive to which UDRs were held to subsist and be infringed.
>
> [6] Kohler argued that it was too late now to take the point under s.233(1). Its reasons were:
>
> (i) It is too late as a matter of law, see the judgment of Warren J in *Adobe Systems Inc v Netcom Online.co.uk Limited* [2012] EWHC 446 (Ch).
>
> (ii) Kohler would have cross-examined the relevant witnesses at trial, whereas Bristan has not called the witnesses who know the relevant facts at the inquiry.
>
> [7] Taking Bristan's points first, the issue being addressed in *Adobe* was not quite the same as that arising in these proceedings. In *Adobe* there was a consent order by which the defendants acknowledged that their importation of certain products had infringed the claimant's registered trade mark. At the inquiry the defendants sought to raise three arguments which, if correct, would have established that in fact they had defences to the allegation of trade mark infringement. These three new arguments were:
>
> (a) the claimant's trade mark rights had been exhausted by the time of the defendants' importation since the products had been marketed with the consent of an undertaking economically linked with the claimant;
>
> (b) the claimant had abused its dominant position contrary to Art.102 of the Treaty on the Functioning of the European Union ('TFEU');
>
> (c) the claimant had entered into agreements restricting competition contrary to Art.101 of TFEU.
>
> Warren J assumed without going further that all three points were arguable. Regarding the first of them, Warren J had no hesitation in ruling that it was too late to raise the defence at the inquiry because of the public interest in

the finality of litigation (see [37] - [39]). In relation to the second and third new arguments, Warren J took the view that the position was less straightforward since there was a countervailing policy consideration, namely that the courts should not enforce arrangements which are in breach of competition law (see [40]). Nonetheless the strong public interest in the finality of litigation should prevail and the fact of the order having been made meant there was no failure to meet the requirements of EU competition law (see [49]-[53]). It was also not open to the defendants to raise exactly the same defences under the guise of arguments in relation to the assessment of quantum of damages (see [83]-[84]).

[8] The present case differs in that Bristan does not seek to impugn any part of the order of Judge Birss made following his judgment. His declaration that certain of Kohler's UDRs were infringed is unchallenged. Bristan argues that s.233(1) is only engaged now because it is just about the availability of damages - it is not concerned with infringement.

[9] That may be right, but seems to me to ignore policy issues which, although they are not identical to those considered by Warren J, are important for all that. Parties should know where they stand in relation to each side's arguments by the time the pleadings are closed - not least in the IPEC. If it is a defendant's case that damages to which the claimant would be entitled if he wins are never going to be available because of s.233(1), this should be made clear in the pleadings for the trial on liability. It may have a significant effect on the way the claimant pursues the proceedings and also the degree to which the claimant may be amenable to settlement. If the claimant succeeds at trial, knowledge of whether an argument is being advanced under s.233(1) might easily affect whether the claimant elects to go for an inquiry or an account of profits. Mr Cuddigan, who appeared for Bristan, argued that if Kohler made the wrong election in the present case, that was its own fault for not taking into account the possibility that Bristan might rely on s.233(1). I reject that. It was Bristan's choice whether to rely on the subsection and Kohler's right to know in good time what choice Bristan had made.

[10] In this court cards should not be held behind the back of litigants after the case management conference, to be played as and when seems tactically best, or alternatively only when a party notices that a card might be put into play.

[11] If Bristan had pleaded reliance on s.233(1), it would have been perfectly legitimate at the case management conference in the substantive proceedings for Bristan to have raised the question whether, as a matter of procedural economy, argument on the point might better be left to the inquiry, if there was to be one. The various arguments now raised by Bristan (summarised above) could have been advanced. The court might have decided they were telling and may have ruled that s.233(1) should be left to the inquiry. There would have been no question of either party concealing part of its case from the other and in particular Kohler would have approached the proceedings in full knowledge of all points being taken against it.

[12] It seems to me that just as Warren J felt he had a discretion to allow defences to be raised for the first time at an inquiry (or so I infer from his

> judgment) and that such discretion should be exercised by reference to policy considerations, I should approach Bristan's application to rely on s.233(1) in the same way. In my judgment Bristan is not entitled to rely on that subsection for the reasons of policy I have referred to. These are not outweighed by other considerations."

24 There is no doubt that a party should plead its entire case at the liability stage, including arguments relating to relief. As I said in *Kohler Mira*, all cards should be on the table. If a party does not do this, it is at risk that it will be barred from advancing the unpleaded argument at the hearing on quantum. However, as I also said in *Kohler Mira*, this is a matter for the discretion of the court not an inflexible rule. The discretion must be exercised by reference to the policy requirement of finality and, as implied in *Kohler Mira*, by reference to the particular facts of the case, in particular, the balance of prejudice to the parties.

25 In *Kohler Mira*, the claimant had no notion that the defendant would rely on s.233(1) until after the claimant had elected for an inquiry as to damages. Witnesses who were aware of the defendant's knowledge relevant to s.233(1) had, of course, not been cross-examined about it at the liability trial and had not been called to give evidence of the inquiry. Self-evidently, the claimant was prejudiced by the late reliance on s.233(1).

26 By contrast in the present case, the defendants raised their intention to rely on an allegation of unclean hands well before the claimants' election for an account. As I discussed in my earlier judgment today, there is no question of the defendants having kept their cards close to their collective chest. The defendants even tried to raise the allegation of unclean hands at the liability trial but were, in effect, prevented from doing so by the claimants withdrawing certain evidence.

27 Also, in the present case, the witness who would deal with the defendants' allegation of unclean hands is the second claimant, Mr Lodhia. It is entirely within the claimants' control to call Mr Lodhia to give evidence to deal with this matter.

28 The prejudice to the defendants, if they are not permitted to advance an allegation of unclean hands, is self-evident. They will be shut out from arguing what they regard as an important part of their case.

29 In my view, on the facts of this case, I should not exercise the court's discretion to strike out the defendants' allegation of unclean hands. The claimants' application to strike out that allegation is therefore dismissed.

CERTIFICATE

Opus 2 International Limited hereby certifies that the above is an accurate and complete record of the Judgment or part thereof.

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Official Court Reporters and Audio Transcribers
5 New Street Square, London, EC4A 3BF
Tel: 020 7831 5627 Fax: 020 7831 7737
civil@opus2.digital

This transcript has been approved by the Judge.