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## NEWSLETTER

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### IP UPDATE



**Patty Chan**

PARTNER  
LLB, University of Hong Kong



**Winky Leung** ASSOCIATE

BBA-JD (double degree), CUHK  
PCLL, CUHK

## Technology License Agreement in Hong Kong

Licensing is the most common mechanism by which technology transfer takes place and by which a technology developer transfers the technology to a user or commercialiser of the intellectual property. The licensing of intellectual property rights is also an effective tool for achieving the business goals of starting a new business or expanding an existing business in Hong Kong.

### I. INTRODUCTION TO TECHNOLOGY LICENSE AGREEMENT

A technology license agreement can be viewed as a partnership between the owner of the rights (i.e. the licensor) and another party who is authorized to use such rights (i.e. the licensee) in exchange for an agreed payment. It is therefore, a contract freely entered into between two parties and contains terms and conditions so agreed. In particular, by a technology licensing agreement, the licensor authorizes the licensee to use the technology owned by them under certain agreed terms and conditions.

If you are an intellectual property owner, owning rights to a patent, utility model or know-how, you may as a licensor in a technology license agreement, license your rights to foreign partners and expand your company's business to the frontiers of your Hong Kong partner's business while ensuring a steady stream of additional income. On the other hand, if your company is interested in improving the quality of your product or manufacturing a new product by using the intellectual property rights registered in Hong Kong, then you may as a licensee acquire such rights through a technology licensing agreement.

### II. TYPES OF LICENSES

Licenses are categorized into three main types, namely exclusive, sole and non-exclusive licenses.

For an exclusive license, the licensee is the only party given the right to use, manufacture, sell or distribute the technology, products, content or other licensed assets in a particular territory. Importantly, the licensor is also excluded from exploiting the intellectual property rights. This type of license is often considered where the licensee must make a substantial investment that cannot be used for a different purpose, for example investing in custom equipment, hiring specialized labor, committing resources to development of the technology in order to commercially exploit the technology.

A sole license is equivalent to an exclusive license with reservations that would allow the licensor to exploit the licensed assets with the licensee concurrently. It means that the licensee is the only person that will be granted a license to exploit the intellectual property rights, but the owner retains the right to do so as well. If the licensee's ability is

unclear, it is advisable to grant this type of license so that if the licensee fails in its obligations, the licensor can still retain the right to exploit the intellectual property.

Lastly, for a non-exclusive license, the licensor can grant as many licenses as it decides while also retaining the right to exploit the technology. This may provide the licensor with a lucrative source of income because for example if you are a technology developer, you can grant multiple licenses to commercial or academic users to exploit a particular technology. However, if substantial investment is involved in exploitation of the technology, the licensee may only agree to an exclusive license but not a non-exclusive license which does not guarantee an exclusive return of income for the investment made.

### III. KNOW-HOW AS THE SUBJECT OF LICENSE

The subject matter of a technology license agreement is often intellectual property rights and it is important to note that the license agreement will only be valid if such kind of intellectual property right is recognized in the jurisdiction of the license agreement. In other words, if your intellectual property rights are not protected in Hong Kong, then not only would you be unable to license such rights in Hong Kong, but also you would have no legal right to put any restriction on its use by anyone else in Hong Kong.

It should also be noted that intellectual property is a broad concept and includes many different kinds of intangibles such as patents, copyright, trademarks, etc. and in particular, know-how, which commonly refers to technical information, techniques, skill and expertise, can be a subject of license agreement in Hong Kong. In fact, technology licensing concerns not only knowledge that is expressed in writing, but also knowledge in the form of practical know-how. There will only be an actual transfer of technology when the licensor delivers the technology and knowledge to the licensee and the licensee learns how to effectively use, adapt and where possible improve the technology and knowledge. Parties to a license agreement, especially the licensee, should therefore pay special attention to include know-how (where applicable) as one of the subjects of the license agreement to ensure an effective transfer of technology.

### IV. FORMALITIES AND REGISTRATION OF LICENSE AGREEMENT

The formalities and registration requirement of the license

agreement differ when different types of intellectual property rights are involved as the subject matter of the license agreement in Hong Kong.

For patents, trademarks and designs, there are official registries for registration of these three types of intellectual property rights in Hong Kong. Although not legally required, it is highly advisable to put in writing the license agreement and register it with the respective registry. It is because an unregistered license is not effective against anyone who subsequently acquires a conflicting interest in the patents, trademarks or designs registration without knowledge of the license. With regards to formality requirements, if the request for recordal of a license is signed by or on behalf of the licensor, it is not necessary to file documentary evidence to establish the license. On the other hand, if the request is filed by the licensee without the signature of the licensor, documentary evidence to establish the license, for example, a copy of the license agreement must be filed.

For copyright and know-how, since there is no official registry in Hong Kong for registration of the same, it is not possible for a license agreement to be registered against such intellectual property rights. However, it is legally required for an exclusive license agreement for copyright to be in writing and signed by or on behalf of the copyright owner. Although these requirements do not apply to non-exclusive licenses for copyright or any type of license for know-how, it is strongly advisable to have a written license agreement to define the scope of the intellectual property rights involved and the respective obligations of the parties.

### V. MAIN TERMS FOR LICENSE AGREEMENT

Standard terms in a technology license agreement include:

- Parties
- **The rights granted**
- **Duration and territory of the license**
- **Licensee's and licensor's obligations**
- License fees / Royalty
- Infringements of intellectual property rights
- Warranties and/or indemnities
- Confidentiality
- **Termination of the agreement and effects of termination**
- Governing law and jurisdiction

### **The Rights Granted (“the Granting Clause”)**

A license agreement must define clearly the kind of intellectual property rights involved. For example, licensing technology with no clear written specification or other documentation and vague references to the subject matter should not be accepted as the licensed subject matter. It is advisable to attach a schedule to the license agreement for more specific references to the nature and definition of the intellectual property rights being licensed. The description should be clear enough so that, in case of a dispute, a judge or an arbitrator who may not be knowledgeable about the technology can still make a decision as to what kind of intellectual property right is included.

Further, the granting clause cannot be ambiguous and it must identify and specify the scope of the rights which may vary depending on the needs of the parties. It may be narrowly phrased to only include rights to distribute the technology in its existing form or broadly phrased to include rights to modify the technology and make new related products and/ or technologies from it.

To avoid doubt, the licensor may include in the license agreement restricting the licensee to assign, transfer or sublicense the rights granted to the licensee, which will safeguard the licensor's rights.

### **Duration and Territory of the License**

In addition to specifying a clear duration in the license agreement, the license agreement must also specify whether the licensed rights are intended to be limited to a designated country, region, or territory. It should be noted that, although the People's Republic of China, Hong Kong and Macau are often referred to as the Greater China Region, they are separate jurisdictions with different applicable laws. Consequently, one should specify whether the reference to the People's Republic of China as the territory in a license agreement includes Hong Kong and/or Macau.

It should also be noted that limiting the subject matter of the license agreement to intellectual property rights registered or granted in certain countries does not limit the territory in which the license may be exploited. If the licensor wishes to impose restrictions on the region where the license can be used, it should be specified in the license agreement, for example by specifying a territory which the products bearing the licensed trademark or produced using the licensed technology can be

distributed. If the products are to be distributed on the Internet or in digital form or by electronic means, the licensee should also ensure that it is granted the right to distribute the product or technology in electronic form and on the Internet.

### **Licensee's and Licensor's Obligations**

As a commercial agreement, the parties can stipulate any agreed terms in the license agreement according to their negotiations.

For the licensee to fully exploit the licensed technology, it may be included in the license agreement an obligation for the licensor to assist the licensee in the development or exploitation of the technology being licensed, especially when the licensed technology is new or complex. Besides, to preserve the licensee's right to the technology, the licensee may also impose obligation on the licensor to take reasonable steps to maintain the subject intellectual property rights.

On the other hand, the licensor may deem it necessary to restrict the manner of use of the licensed technology by the licensee or impose obligation on the licensee to comply with the licensor's requirements for maintaining the quality control of the products bearing the licensed trademark or produced using the licensed technology.

### **Termination of the Agreement and Effects of Termination**

Once the term of the license agreement has expired, the license will be terminated unless this has been renewed. However, there are post-termination issues that should be addressed in the license agreement. A common issue is whether the licensee can continue to sell the inventory of products produced by utilizing the technology licensed after termination of the license agreement. The parties may provide in the license agreement that there will be grace period allowed for the licensee to clear out the inventory or alternatively, the licensee shall cease distribution of the products and the rights to the inventory shall be transferred to the licensor immediately after termination.

Further, it is also prudent to stipulate the obligations which survive termination of the licensee agreement. For example, if there is a transfer of manufacturing materials and confidential information during the license period from the licensor to the licensee, it is of the licensor's interest to include in the license agreement clauses imposing obligation on the licensee to return those manufacturing materials within a specified time

period and obligation not to disclose any confidential information received.

In Hong Kong, a technology license agreement can be freely entered into between the parties concerned with no specific legal regulations governing the same. If well drafted, a technology license agreement can soundly govern the relationship between the licensor and licensee, and function as an effective tool in aiding both parties to achieve their business goals in Hong Kong.