

特許庁委託事業

**THE INVESTIGATION OF IP TRADING IN
HONG KONG (BRAND AND CONTENT)
REPORT**

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Contents

Chapter 1: Pre-contract phase - HK as an enticing business environment for brands ...	4
Section 1: HK as an enticing market for Japanese brands.....	4
1. Introduction to the Hong Kong market.....	4
2. Free Trade	4
3. Infrastructure.....	5
4. Financial Integration.....	5
5. Customer Spending Patterns in Hong Kong.....	5
6. Position of Japanese brands and content in the Hong Kong Market	7
Section 2: HK's legal environment related to brand licensing.....	9
1. Introduction	9
2. International agreements protecting IPR	9
3. Local Legislation	11
4. Hong Kong Customs & Excise Department.....	16
5. Strengths and Advantages of Hong Kong's Legal System.....	16
Section 3: Potential partners for Japanese companies	18
Section 4: IP Trading platforms.....	20
Section 5: IP-related points to consider before entering HK market.....	24
1. Trade Marks – which classes are important for registration?.....	24
2. Company incorporation and company name protection	25
3. Points to note when participating in showcases and fairs.....	27
4. Law Reforms – Madrid Protocol.....	28
Chapter 2: Negotiation and signing of contract.....	32
Section 1: Basic steps – from negotiation to conclusion	32
Section 2: Due diligence prior to the signing of contract	35
Introduction.....	35
How long does due diligence take?.....	36
Due diligence service providers	36
Section 3: Key points concerning the contract (main points to negotiate)	38

1. Key terms and common disputes	38
2. Difference between Japanese and Hong Kong contract customs.....	46
3. Difference between Japanese law-governed and Hong Kong law-governed contracts	47
4. Essentiality and content of the trade mark license clause in distribution contracts	48
Chapter 3: Post-contract phase	50
Section 1: Quality Control.....	50
Section 2: Dispute Resolution Methods	53
Appendix.....	54
Sample Agreement #1: Trademark Licensing Agreement	55
Sample Agreement #2: Trademark and Trade Secret Licensing Agreement	74
Sample Agreement #3: Copyright Licensing Agreement.....	100

CHAPTER 1: PRE-CONTRACT PHASE - HK AS AN ENTICING BUSINESS ENVIRONMENT FOR BRANDS

Section 1: HK as an enticing market for Japanese brands

1. Introduction to the Hong Kong market

Hong Kong is a Special Administrative Region of the People's Republic of China ("PRC"). Under the principle of "one country, two systems", Hong Kong maintains a high degree of autonomy over its economic, trade, financial and monetary matters, which form the cornerstones of Hong Kong's position as an international financial centre. The Basic Law in Hong Kong provides and guarantees many advantages for doing business in Hong Kong, such as free port, separate customs territory, judicial independence, free movement of goods and capital, as well as the maintenance of a low tax regime. The Basic Law also provides that Hong Kong may participate in international organizations and international trade agreements independently, using the name "Hong Kong, China".

Hong Kong's economic freedom and competitiveness have constantly and consistently been recognized by international institutions. The Fraser Institute has ranked Hong Kong as the world's freest economy in the Economic Freedom of the World 2021 Annual Report, a ranking that Hong Kong has gained and maintained since the inception of the report.

In addition to its unique status under 'one country, two systems' where Hong Kong enjoys the advantages of being part of the PRC, while at the same time having its own independent economic, social and legal systems, Hong Kong also benefits from the 'Belt and Road Initiative' ("B&R"), acting as the key link and major platform to connect businesses in the PRC and other regions under the B&R initiative.

2. Free Trade

In terms of trade, Hong Kong has signed free trade agreements with 20 economies, including the Member States of the European Free Trade Association, the Association of Southeast Asian Nations, and Georgia. Hong Kong has also signed 22 Investment Promotion and Protection Agreements with foreign economies, to enhance and protect two-way investment flows and to ensure investors would enjoy similar protection in respect of their investments, whether overseas or in Hong Kong.

3. Infrastructure

In terms of infrastructure, the Hong Kong International Airport is one of the world's busiest, with more than 100 airlines connecting to more than 220 destinations worldwide. Hong Kong enjoys a convenient geographical location where most major Asian cities can be reached within a 4-hour flight, and is only a 5-hour flight away from half the world's population. The Hong Kong-Zhuhai-Macao Bridge, Guangzhou-Shenzhen-Hong Kong Express Rail Link also serves to strengthen the connectivity and proximity to the PRC.

4. Financial Integration

In relation to financial integration, Hong Kong remains a popular destination for new listings, and was ranked 4th in terms of global Initial Public Offering (IPO) proceeds raised in 2021. Since 2009, Hong Kong has ranked 1st for IPO proceeds raised seven times.

Hong Kong also has the world's largest offshore pool of renminbi (RMB) funds, and RMB foreign exchange and interest rate derivatives market. Traders in the B&R regions are able to settle their PRC trade in RMB through Hong Kong's payment system. Traders can also take advantage of and invest their RMB liquidity in 'dim sum bonds', i.e. bonds denominated in RMB and issued in Hong Kong.

5. Customer Spending Patterns in Hong Kong

According to the Census and Statistics Department's statistics as of 2021, the proportion of the population aged between 15 and 64 years was 68%, with 47% obtaining at least secondary level education, and the median monthly employment earnings being HK\$20,000.

Studies have shown that over 40% of the city's population are weekly online shoppers; with a total average annual spend of average consumers (aged between 15 and 65) being up to HK\$15,004 on products online¹ and cementing Hong Kong's position with the second highest spenders in the APAC region. Moreover, more than 97% of the population or average consumers (aged between 15 and 65) own a smart phone, and as of 2020, more than 75% of the population has a tablet device, laptop or desk

¹ PwC's March 2021 Global Consumer Insights Pulse Surveys

computer in their household. Furthermore, surveys have shown that consumers continue to rely on digital platforms throughout the COVID-19 pandemic, and spend more with companies that provide digital experiences, as opposed to traditional in-store experience. As of 2022, over 75% of online shoppers have shopped cross-border. Such provides great market potential for brand consumers to explore Hong Kong as a new market for their businesses.

Studies have shown that the financial position of consumers in Hong Kong has been impacted by the COVID-19 pandemic, and consumers have in general reduced their spending in luxury and non-essential goods, and have re-allocated their spending to daily essentials such as groceries and food. As of 2020, food was the second largest commodity/service section, taking up 27.4% of the monthly expenditure of households in Hong Kong.

That said, Hong Kong's position as Asia's luxury goods' shopping hub is not entirely lost. There are indications of pandemic fatigue evidenced by the slight recovery in non-essentials spending after the second wave of COVID-19 in March 2020. Also, studies have reflected positive views of consumers; in a survey conducted in 2020, it was revealed that despite the negative impacts of the COVID-19 pandemic, 60% of Hong Kong consumers still purchased luxury clothing and jewelry, as well as luxury watches and luxury beauty and cosmetics. Also, 33% of consumers had already spent more on luxury goods in 2020 than originally planned, and around 48% indicated they were inclined to buy more luxury items after COVID-19². The importance of e-commerce platforms was also noted, as 55% of consumers preferred buying through the official brand websites.

Hong Kong's position as an international financial centre is therefore strengthened by its strong eCommerce ecosystem, which can use Hong Kong's advantages in terms of its free trade, ease in travelling and entering into the PRC and Asian markets, as well as financial integration.

² Ruder Finn & Consumer Search Group China Luxury Forecast 2020.

6. Position of Japanese brands and content in the Hong Kong Market

Hong Kong and Japan have historically enjoyed a long term and very close trading relationship with each other. In 2021, Japan was Hong Kong's 6th largest trading partner, whereas Hong Kong was Japan's 9th ranking trading partner. The total merchandise trade between Hong Kong and Japan amounted to over HK\$380,000 million in 2021.

Also, in a survey conducted in 2021 covering over 9,000 companies in Hong Kong with parent companies located outside Hong Kong, it was noted that approximately 1,400 of them were set up by the Japanese companies, making up the largest group of overseas companies.

Furthermore, Hong Kong has also consistently and constantly ranked in the top 5 biggest sources of inbound visitors to Japan for consecutive years. Whilst tourism between Hong Kong and Japan has been severely impacted by government restrictions due to the COVID-19 pandemic, it is anticipated to rebound as soon as the relevant restrictions are lifted or relaxed.

Mr. Kuninori Matsuda, the ambassador and consul general of Japan in Hong Kong during 2015 to 2018, previously voiced his opinion in 2018 on Hong Kong's fascination with Japan³. According to Mr. Matsuda, almost one-fifth of Hong Kong travelers have visited Japan more than 10 times. He also commented that Hong Kong's love for Japan stems from various factors, such as the similarities found in both cities, the strong import and export relationship, as well as the fact that Hong Kong's Japanese community was formed as early as 1850, and has played a key part in Hong Kong's modern culture. Mr. Matsuda also stated that from 1960s to 1980s, Japanese constructions companies were active in Hong Kong's infrastructure development, and that Hong Kong had all the major Japanese department stores during those times. As a result, consumers in Hong Kong have grown up being closely affiliated with Japanese brands.

3

https://sc.mp/2HK7AOd?utm_source=email&utm_medium=share_widget&utm_campaign=2143437

Hong Kong's love for Japan is also reflected in the city's fascination for Japanese brands. According to a public survey in 2022, Uniqlo, the Japanese retail company was ranked as the third most recommended brand amongst Hong Kong consumers with a score of 75.8%, whereas SK-II, the Japanese-based multinational cosmetics company was ranked eight with a score of 74.2%, demonstrating that Hong Kong consumers hold Japanese brands and products in high regard.

Furthermore, despite the restrictions caused by the COVID-19 pandemic, Don Don Donki, the Japanese discount store chain also saw the opening of its tenth store in Hong Kong in 2022, signifying its optimistic views in relation to the Hong Kong market. According to Don Don Donki's official financial reports, the store in Tseung Kwan O Monterey Place recorded over HK\$42 million (¥518 million) in sales solely in December 2020. In terms of annual business revenue, Hong Kong was the most lucrative market in Asia in 2020, with overall revenue reaching ¥20.91 billion. The high profitability of the stores in Hong Kong despite the COVID-19 pandemic further signifies the strong and prospective market in Hong Kong for Japanese brands, and also the popularity and recognition of Japan-brand specialty stores.

Section 2: HK's legal environment related to brand licensing

1. Introduction

Hong Kong's legal system is premised upon the rule of law and judicial independence, which is the foundation for its stability, prosperity as well as leading position as one of the world's leading international financial centres.

Hong Kong's unique position lies in the fact that it enjoys a high degree of autonomy under the principle of 'one country, two systems'. Hong Kong continues to practice the common law system, which is based on the English common law system inherited from being a former British colony, and making it the only common law jurisdiction within the PRC which practices a civil law system. As such, in addition to statutes enacted in Hong Kong, the courts of Hong Kong will also make decisions based on case law.

Hong Kong is an economically and technologically developed city where businesses increasingly invest in creative works and intangible assets. It is a creative hub, producing films, television shows, publications, fashion and other designs that are internationally well-known with a broad-based market. In addition, as an international trading centre, protection of intellectual property rights ("IPR") is necessary, and plays an important role to reassure potential investors that Hong Kong has a free and fair market place, therefore attracting them to conduct business here.

2. International agreements protecting IPR

Intellectual property is a subject with complex and varied history in different countries. Whilst the laws protecting IPR are territorial in nature, intellectual property has become very globalized. Many countries recognize and apply various international agreements concerning IPR in their domestic laws.

To shed light on the intellectual property system in Hong Kong, attention is drawn to the following important IPR treaties to which Hong Kong is a party:-

A. Paris Convention 1883

The Paris Convention applies to industrial property including patents, trade marks, industrial designs, utility models, service marks, trade names, geographical indications and the repression of unfair competition. There are three substantive provisions that the

Convention provides for:-

1. *National treatment*: each contracting state must grant the same protection to nationals of other contracting states that it grants to its own nationals.
2. *Right of priority*: on the basis of a regular first application filed in one of the contracting states, the applicant may, within a certain period of time, apply for protection in any of the other contracting states with those subsequent applications enjoying priority over applications filed by others during the said period of time.
3. *Common rules*: the Convention lays down a few common rules that all contracting states must follow. Some of the most important include the fact that patents granted in different contracting states for the same invention are independent of each other, and that the registration of a mark obtained in one contracting state is independent of its possible registration in any other country, including the country of origin; consequently, the lapse or annulment of the registration of a mark in one contracting state will not affect the validity of the registration in other contracting states.

B. Berne Convention 1886

The Berne Convention deals with copyright protection. It is based on three basic principles and contains a series of provisions determining the minimum protection to be granted. The three fundamental principles are:-

1. *National treatment*: each contracting state must grant the same protection to nationals of other contracting states that it grants to its own nationals.
2. *Automatic protection*: Protection must not be conditional upon compliance with any formality.
3. *Independence of protection*: Protection is independent of the existence of protection in the country of origin of the work.

C. Universal Copyright Convention 1952

Its main features are the following:-

1. No signatory nation should accord its domestic authors more favourable copyright treatment than the authors of other signatory nations, though no

- minimum protection for either domestic or foreign authors is stipulated;
2. A formal copyright notice must appear in all copies of a work and consist of the symbol ©, the name of the copyright owner, and the year of first publication; a signatory nation, however, might require further formalities, provided such formalities do not favour domestic over foreign works;
 3. The minimum term of copyright in member nations must be the life of the author plus 25 years (except for photographic works and works of applied art, which have a 10-year term); and
 4. All adhering nations are required to grant an exclusive right of translation for a seven-year period, subject to a compulsory license under certain circumstances for the balance of the term of copyright.

D. Agreement on Trade-Related Aspects of IPR (“TRIPS”) 1994

TRIPS is to date the most comprehensive multilateral agreement concerning various IPR. The three key features of the agreement are:-

1. *Standards*: TRIPS sets out the minimum standards of protection to be provided by each member, for example, by requiring the substantive conventions of the Paris Convention and the Berne Convention to be complied with.
2. *Enforcement*: TRIPS lays down certain general principles applicable to all IPR enforcement procedures and contains provisions on civil and administrative procedures and remedies, provisional measures, special requirements related to border measures and criminal procedures
3. *Dispute settlement*: Disputes between World Trade Organisation (“WTO”) Members in respect of their TRIPS obligations are subject to the WTO’s dispute settlement procedures.

3. Local Legislation

In addition to international agreements, Hong Kong has also enacted various local legislation and ordinances to protect IPR, including the following:-

A. Trade Marks Ordinance (Cap. 559)

Any sign which is capable of distinguishing the goods or services from one provider to another, and is capable of represented graphically is registrable as trade marks in Hong

Kong. The most common trade marks consist of words, names, logos, letters, numerals, characters (for example Chinese, Japanese, Korean characters) and colors. Some uncommon types of trade marks are sounds, smells and the shape of goods (3-dimensional marks) or their packaging, which require specific requirements to be fulfilled for registration.

The Trade Marks Ordinance provides the framework for the registration of trade marks, such as the basis and criteria for registration, and the rights afforded to a trade mark upon successful registration. A trade mark owner has the exclusive right to use the registered trade mark in the course of trade or business. He has the right to take legal action under the Trade Marks Ordinance against any infringing or unauthorized use of his trade mark.

The initial period of registration is 10 years from the filing date of the application for registration, and is renewable indefinitely for further periods of 10 years each.

B. Patents Ordinance (Cap. 514)

The Patents Ordinance concerns protection of inventions which are patentable, i.e. if it is (i) new, (ii) involves an inventive step and (iii) capable of industrial use.

To be new and to involve an inventive step, the invention must not be part of the state of art anywhere in the world before the filing of the patent application. If a prior publication, be it in writing or orally or by other means, embodies a clear direction pointing to the crux of the invention applying for a patent, or that invention is in fact obvious to the skilled person, the alleged invention may not be patentable. Therefore, inventors should be aware that no disclosure of the invention should be made before the filing of patent application to avoid it becoming part of the state of art.

The Patents Ordinance nevertheless grants a grace period of six months prior to the filing of application during which the inventor can exhibit the invention in prescribed exhibitions, or disclose it in order to stop an evident abuse of the invention, and still preserve the invention's patentability.

To be capable of industrial use means that an invention can be put to practical application. An invention cannot be patentable if it is, for example, just scientifically

informative but of no practical application. Pursuant to this concept, the Patents Ordinance rules out certain categories as being patentable: such as any discovery, scientific theories and methods of conducting medical surgery.

There are two types of patents that are granted in Hong Kong, (i) standard patents and (ii) short-term patents. Standard patents have a term of protection of up to 20 years, whereas short-term patents have a term of protection of up to 8 years.

C. Registered Designs Ordinance (Cap. 522)

Inventive designs of textile, housewares, toys, accessories and other consumer products that appeal to the eyes can bring lucrative profits to businesses. As a result, these designs are almost always copied in an amazingly speedy pace once they are released to the market. Very often, upon the release of a novel product in a trade show, one may purchase those copycat equivalents (of inferior quality though) from a street hawker in the next week or so. This is where the need to register a new design comes into place.

Under the Registered Designs Ordinance, a design is registrable if the following are satisfied:-

1. New design: the design must have worldwide novelty, which means that the design is not published anywhere in the world before filing of the registration (save under confidential disclosure or certain recognized exhibitions). A design would not be considered new if it only differs from other designs in immaterial details or in features which are variants commonly used in the trade;
2. Design that appeals to the eyes (i.e. of aesthetic consideration, appearance not dictated by the function of the article);
3. Design that is not contrary to public order / not immoral (e.g. pornographic designs); and
4. Design that is not a computer program or protected layout design (typography).

It should be noted that the first requirement of novelty is a rather stringent one. You may destroy your own right to register a design if you put it on a trade show without first applying for registration. The definition of “design” under section 2 of the Registered Designs Ordinance excludes “a method or principle of construction; or features of shape

or configuration of an article which are dictated solely by the function which the article has to perform; or dependent upon the appearance of another article of which the article is intended by the designer to form an integral part". For example, body panels, doors, bonnet lids and windscreens of a car were held not to be separately registrable designs. However, spare parts of an article can be registered separately if they are sold and to be used separately. For example, wing mirrors, seats, wheels and steering wheels of a car, which could be sold separately, are separately registrable.

The initial period of registration is 5 years from the filing date of the application for registration. This may be extended for an additional 5 years each subject to a total period of registration of not more than 25 years from the filing date of the application.

D. Copyright Ordinance (Cap. 528)

Copyright protects creativity, essentially the skills, labor, investment, time and effort which are involved in compiling a work. Sufficient copyright protection builds an encouraging environment where creativity can flourish and hard work of writers, artists, designers, and other creators will be rewarded. At the same time, the public are able to benefit from the fruits of creations with an abundance of creative work. Copyright law attempts to maintain a balance between the rights of copyright owners and rights of society as a whole.

Copyright is a property right given to the owner of an original work. Such right may subsist in traditional classes works including literary works, such as novels, poetry and computer programs; dramatic works such as dancing and acting; artistic works such as drawings, paintings and sculptures, as well as musical performances. With the rise of modern technology, other forms of work such as films, sound recordings, cable programs and different published editions of literary, dramatic or musical works are also capable of copyright subsistence.

Copyright subsistence is automatic upon the creation of the work, and it is not necessary to register a copyright in Hong Kong to receive protection. It is worth noting that there is no official registry in Hong Kong for the registration of copyright works. However, voluntary registration is possible in some jurisdictions such as the United States and the People's Republic of China.

It should also be noted that the Copyright Ordinance adopts an “open copyright system”, meaning that there are no requirements of the nationality or of the work’s place of first publication for a work to be eligible for copyright protection in Hong Kong, unless the Chief Executive expressly denies or limits protection for works originating from jurisdictions with non-reciprocating copyright protection.

Generally copyright expires 50 years after the creator of the work dies, though the protection period may vary slightly depending on the type of work. For example, copyright in sound recordings last for 50 years from the year the recording is made; if the recording is not issued to the public immediately, the duration runs from the year of the subsequent time of release.

It should be noted that the interplay between copyright protection and registered design protection is governed by a set of rather complicated rules. In short, copyright protection of a design work would be 25 years from the end of the calendar year in which articles incorporating the corresponding design are first marketed if the design is registered. Such protection will be reduced to 15 years if the design is not registered. Hence, by not registering a design which is registrable, the designer / owner will shorten his own duration of monopoly.

E. Trade Descriptions Ordinance (Cap. 362)

The Trade Descriptions Ordinance seeks to protect consumers by prohibiting unfair trade practices such as providing false trade descriptions, false, misleading or incomplete information, false marks and misstatements etc. during or in the course of trade. The Trade Descriptions Ordinance also contains offences against misleading omissions i.e. (1) omitting or hiding material information, (2) producing material information that is unclear, unintelligible, ambiguous or untimely, or (3) failing to identify the commercial intent; aggressive commercial practices, bait advertising, bait and switch, and wrongly accepted payments.

The definition of “trader” under the Trade Descriptions Ordinance is wide, and includes any and all persons who carry on a commercial practice in Hong Kong, notwithstanding the practice is directed to overseas consumers. Directors and other officers of a body corporate may also be liable if the body corporate commits an offence under the Trade Descriptions Ordinance. The maximum penalty is HK\$500,000, and imprisonment for 5

years. In addition, an aggrieved consumer may also commence private action against the trader for damages if they have suffered loss or damage in relation to the conduct of the trader, which amounts to an unfair trade offence under the Trade Descriptions Ordinance. The Court may order the convicted party to compensate the aggrieved consumer for any financial loss that is caused by such offence.

4. Hong Kong Customs & Excise Department

The primary enforcement agency of the Trade Descriptions Ordinance is the Hong Kong Customs & Excise Department (“**HKCED**”). In addition to monitoring unfair trade practices, the HKCED also has power to commence criminal proceedings, where the relevant parties may be liable to criminal sanctions against any infringement of IPR. The HKCED is responsible for investigating complaints and instigating criminal action against infringement of IPR and/or false trade descriptions, and has extensive powers of search and seizure. The HKCED also cooperates with overseas enforcement authorities and owners of trade mark and copyright in a combined effort to combat infringement of IPR.

5. Strengths and Advantages of Hong Kong’s Legal System

In relation to Hong Kong’s legal system, the rule of law and common law legal system provides a strong foundation for businesses to operate and thrive in Hong Kong. Hong Kong is highly regarded as a legal hub for a variety of modes of dispute resolution. In particular, Hong Kong is recognized as an international hub due to its strong pool of arbitrators, independent judiciary system as well as its unique status as a bilingual common law jurisdiction. Hong Kong courts are widely recognized as adopting a pro-arbitration and pro-enforcement approach, which are key attributes that underpin Hong Kong’s position as an attractive venue for commercial dispute resolution.

Hong Kong has entered into the Arrangement concerning Mutual Assistance in Court-ordered interim measures in aid of arbitral proceedings by the Courts of the Mainland and of the Hong Kong Special Administrative Region which took effect in October 2019. Under this Arrangement, parties to arbitral proceedings that are seated in Hong Kong may, before an arbitral award is issued, apply to the PRC courts for preservation measures that are related to the proceedings. The Arrangement has proved to be significant development, and represents the first time where parties to

arbitrations that are seated offshore, may be able to seek preservative measures within the PRC. The Arrangement has proven to be a popular tool for parties. According to relevant statistics released by the Hong Kong International Arbitration Centre (HKIAC), as of late 2021, there had been 50 applications under the Arrangement, with 23 different PRC Courts issuing preservation orders, concerning approximately RMB10.9 billion worth in assets. Hong Kong's position as a leading international hub remains strong and well maintained, and it remains the only jurisdiction outside the PRC that can provide such mutual assistance service.

Specifically in relation to IPR, Hong Kong had established a new IP Specialist List in 2019, which shall deal with all interlocutory applications and trials in intellectual property cases before a designated intellectual property judge. The new IP Specialist List has brought Hong Kong up to speed and in line with other developed economies which have also established specialized IP lists, such as the UK, Japan, Singapore and PRC. The new IP list is expected to greatly improve delays in various matters proceeding to trial, and to ensure that cases are dealt with in an expeditious manner.

Section 3: Potential partners for Japanese companies

Hong Kong's highly developed licensing market makes it a great location for brand owners to explore further opportunities. Amongst the various potential markets or industries, some in particular have achieved higher success, including apparel and accessories, food and beverage, toys and gift items, and food chains etc. Due to the diverse licensing environment, brand owners can easily choose to enter into long term licensing or franchising relationships, or opt to enter into one-off licenses depending on their needs.

Below are some instances of licensing found in Hong Kong in recent years, and is not meant to be exhaustive.

Apparel and accessories

Local brands in Hong Kong commonly explore licensing opportunities with international brands and companies. For example, the Hong Kong local fashion brand :CHOCOLATE has entered into various Japanese character licensing agreements for production on the same onto their apparel and accessories products, such as the Japanese character Kumamon, Disney's Tsum Tsum, and South Korea's LINE FRIENDS.

Food and beverage

7-Eleven is one of the most successful and famous franchises in the world. In Hong Kong, the operating rights have been granted to The Dairy Farm Company, Limited for almost 40 years. Through the local efforts on expanding the franchise, to date, 7-Eleven has more than 900 stores in Hong Kong and Macau, delivering convenience to consumers that a 7-Eleven store can be found almost at every street corner, opening 24 hours a day, 7 days a week.

Alternative to the above, brand owners may also explore franchising in relation to cafes, food chains etc. depending on their lines of businesses. Some successful local franchising stores found in Hong Kong include The Coffee Academics, UCC Café, Pacific Coffee Company etc.

Toys and gift items

Although Hong Kong has few home-grown brands and properties for licensing, many

famous brand owners have chosen to entrust their exclusive property rights to Hong Kong licensing agents, in order to further develop the business in Asia. The various licensing agents and companies in Hong Kong provide a wide range of services, such as assisting in merchandising, films, publishing, music, and promotions of the licensed characters. Some prominent brands that have been licensed to local licensing agents include Sanrio, Doraemon, Dragonballz, Sailormoon etc., among which, Sanrio was awarded the Best Licensee Award in 2020 by the Asian Licensing Association, recognizing the excellent efforts made to promote the brand locally.

Collaborations for promotional campaigns, specific goods

In addition to the above specific licensing, many brand owners may choose to partner with local companies for promotional campaigns or for one-off campaigns only instead of entering into long-term licenses.

One popular method is to enter into promotional campaign with local shopping malls. For example, LEGO had collaborated with the Tuen Mun Town Plaza in 2019 to set up interactive game zones, in order to promote its brand as well as offer hands-on experience to the public.

As for specific goods, as face masks have become essential to our daily lives, many retailers have launched special designs of face masks with licensed characters to attract consumers. Some licensed characters that have collaborated with face masks companies include Snoopy, Le Petit Prince, Kakao Friends, Moomin and Pokemon.

Section 4: IP Trading platforms

Hong Kong, as one of the world's leading exhibition venues, hosts a large number and variety of showcases, conventions, fairs and trade shows every year. With more than 50 exhibition and convention venues of different sizes, the main exhibition venues in Hong Kong are the Hong Kong Convention and Exhibition Centre (HKCEC) in Wanchai, the AsiaWorld-Expo (AWE) in Lantau Island, and the Kowloonbay International Trade and Exhibition Centre. Some of the fairs and shows held at these venues are amongst the largest of their kind in the world.

In 2019, Hong Kong hosted more than 100 exhibitions, attracting more than 1.6 million overseas visitors⁴. Hong Kong has received worldwide recognition as one of the best exhibition destinations. In 2020, Hong Kong was crowned “Best City for Meetings in Asia” in the Smart Travel Asia Awards and “Most Anticipated Overseas Meeting & Incentive Destination (Short Haul)” in the China Travel Industry Awards.

According to the Chief Executive's 2021 Policy Address⁵, the Government intends to provide a subsidy of over \$1 billion, to expand additional convention and exhibition facilities including redeveloping the sites of three government towers into related facilities, hotels and offices.

The fairs and shows held in Hong Kong therefore represent a great opportunity to witness the latest innovations and releases in the related fields. The available fairs and shows include but are not limited to the following, many of which are the largest of their kind in Asia and have obtained the seal of approval from UFI, the Global Association of the Exhibition Industry:-

- Hong Kong Jewelry Show – Asia's largest jewelry event
- Art Basel Hong Kong – the leading art fair in Asia
- Hong Kong Electronics Show – Asia's largest electronics fair where innovative products are launched
- Ani-Com and Games Hong Kong – featuring comics, animation, video games, toys and collectibles

⁴ <https://research.hktdc.com/en/article/MzEzODk1MDk2>

⁵ <https://www.policyaddress.gov.hk/2021/eng/p46.html>

- Hong Kong Food Expo – Hong Kong’s leading food trade event
- Hong Kong Computer & Communications Festival – the largest exhibition for the I.T. industry in Hong Kong
- Hong Kong Watch and Clock Fair – the largest timepiece exhibition in the world (open to trade visitors only)
- Consumer Electronics, Mobile Electronics, Gifts and Fashion Trade Exhibitions – the world’s largest electronics sourcing event (open to trade visitors only)

In addition, Hong Kong also hosts a number of licensing and franchising shows, including the Hong Kong International Franchising Show, Hong Kong International Licensing Show, as well as the Asian Licensing Conference.

Hong Kong International Franchising Show (“HKIFS”)

The HKIFS serves as a platform for traders from different countries and regions to share trade insights, connect and form new business partnerships, as well as explore new opportunities in potential markets. As of 2019, the show had featured over 100 franchise brands from over 17 countries and regions, and attracted visitors from more than 50 countries worldwide⁶.

Hong Kong International Licensing Show (“HKILS”)

The HKILS is one of the most important licensing-focused exhibitions in the Asia. The main objectives are to assist licensors and licensing agents to search and form partnerships and to expand their network in Asia, and also to provide a convenient one-stop platform for related parties to feature, source, and promote new products and licensing-related services⁷. As of 2021, the show had featured over 250 exhibitors, 42% of which were from B&R countries, and attracting over 6,200 buyers and visitors worldwide⁸. Such achievement remains significant, despite the travel restrictions due to the COVID-19 pandemic.

Asian Licensing Conference (“ALC”)

The ALC is a leading licensing event organized by the Hong Kong Trade Development Council (“**HKTDC**”). The ALC aims to promote and facilitate licensing and business

⁶ http://info.hktdc.com/dm/hkifs/2020/pdf/2019FairReport_Eng.pdf

⁷ <https://event.hktdc.com/fair/hklicensingshow-en/HKTDC-Hong-Kong-International-Licensing-Show/>

⁸ [http://info.hktdc.com/dm/hkils/2021/pdf/Post_Event_Report_HKILS_Online_2021_\(EN\).pdf](http://info.hktdc.com/dm/hkils/2021/pdf/Post_Event_Report_HKILS_Online_2021_(EN).pdf)

opportunities in Asia. It provides the latest developments and news in global licensing, as well as the hot topics in relation to the business environment and market trends to assist investors to expand their business networks, and explore opportunities for collaboration. As of 2020, the conference had featured 31 speakers from 10 countries worldwide, and over 1,200 participants from 10 countries worldwide⁹. To cope with the challenges caused by the COVID-19 pandemic, the 2022 conference was held online, attracting more than 25,000 viewers from 42 countries worldwide and successfully generated more than 100 one-on-one business matching meetings online, cementing Hong Kong's position as a leading international intellectual property and licensing hub¹⁰.

The licensing and franchising shows have assisted many brands in expanding their presence in Asian markets. For example, the Japanese brand CRAFTHOLIC has been a regular participant in the HKILS since 2015 to further expand its overseas market. CRAFTHOLIC's representative Ms. Rena Manita had previously commented that: "The Hong Kong International Licensing Show's business matching service has provided CRAFTHOLIC optimal business opportunities. Meetings with interested buyers and in-depth business discussions among industry players have also led the company to seal deals as well as success"¹¹.

In addition to the above shows and exhibitions, the HKTDC also hosts a large variety of fairs to further promote business and partnerships in Hong Kong. To cope with the advancement in technology, the HKTDC further launched the Asia IP Exchange (AsiaIPEX), a free online platform and database that aims to facilitate IP property trade, as well as connect global IP players with each other. To date, the AsiaIPEX has formed alliances with more than 35 strategic partners worldwide, as well as with local R&D centres and technology transfer units of local universities¹². Over 28,000 tradable IP listings are available on the portal, including copyright, patents, designs and trade

⁹ <https://alc.hktdc.com/en/s/Previous-Conference-Information>

¹⁰

<https://www.hktdc.com/event/hklicensingshow/en/press-release/asian-licensing-conference-explores-latest-trends-and-forges-new-business-opportunities>

¹¹

<https://www.hktdc.com/event/hklicensingshow/en/japanese-firm-set-to-tap-asian-markets-with-licensed-brand-crafttholic>

¹² https://www.asiaipex.com/AboutUs/AsiaIPEX_EN

marks, in a variety of sectors including biotech, nanotech, medical, electronics, textile, film and publishing etc.¹³

Whether you are an owner interested in selling your IP, a manufacturer looking to buy technologies to upgrade your operation, or an IP service provider offering quality IP intermediary services, you will find AsiaIPEX a useful resource.

¹³ <https://www.ip.gov.hk/en/trading-ip.html>

Section 5: IP-related points to consider before entering HK market

1. Trade Marks – which classes are important for registration?

Trade marks are registered in different classes (for example clothing, toys, watches, insurance etc.) depending on the goods or services the marks are used for. Usually a brand name will cover not only products or services concerned but also related products and/or services which span over more than one class. Some goods are not so obvious as to which class(es) they belong to. Companies should therefore carefully select the relevant classes when filing application in order to obtain sufficient scope of protection.

The most obvious and important class for application would be the main business of the company. For example, the main class for a toy company would be class 28 concerning games, toys and playthings; the main class for a cosmetics company would be class 3 concerning non-medicated cosmetics and perfumery, and the main class for a fashion company would be class 25 concerning clothing, footwear and headwear.

That said, due to the significant developments of digital technologies and ecommerce, many companies would also consider offering their products over the internet, instead of only through physical stores. In such instances, many traders also create an e-shop on the internet or an online trading platform to facilitate the e-business.

In order to cope with the expansion of business and goods and services provided, there are a number of supplementary classes that may not be directly related to the main business of the company, but may nevertheless be important in the daily business and operations.

As an example, if the company sells goods of its own, but also operates a shop or e-shop that may sell goods belonging to others, then class 35 concerning advertising; business management; business administration; office functions may also be relevant.

In another example, if a company offers clothing goods, but also produces placards, and signs, as well as paper bags with their logo printed on it, then in addition to class 25 (concerning clothing), they may also wish to obtain protection in class 16 (for paper made goods).

As most companies may offer their businesses in a variety of different areas, it may be

tricky to pick the correct trademark classes and obtain adequate protection. It is therefore advisable for companies to seek assistance from an experienced trademark lawyer to ensure that their trademarks are adequately protected.

2. Company incorporation and company name protection

A. Confusingly similar company names

In addition to trade mark protection, companies should also consider the advantages of setting up a local corporation for the purpose of conducting or facilitating their business activities in Hong Kong.

Hong Kong is considered one of the best cities to establish and run a business. This is due to a variety of factors, such as a strategic and convenient geographical location, attractive tax regime, an effective and reliable legal system, as well as an efficient and mature infrastructure in transportation and communications, and a favorable pro-business environment.

It is not unusual in Hong Kong to find companies registered in names which are confusingly similar to others. This is particularly true in the Chinese context as traditionally, the Chinese community has a tendency to use auspicious characters in the company names, such as “發” (wealthy), “龍” (dragon) or “運” (luck) etc. As a natural result of this, there are a large number of companies with confusingly similar names. Where such companies do not have genuine businesses, they are also known as “shadow companies”.

Regardless of the size of the business, a company may be concerned that their goodwill may be damaged by the existence of confusingly similar company names as the general public may not be able to differentiate between companies with similar names, in particular, those incorporated by bad faith traders with an intention to ride on the goodwill and reputation of others.

B. Remedy: claim for trade mark infringement and passing-off

The problem of shadow companies has risen exponentially due to the ease in incorporating companies in Hong Kong. The Registrar of Companies is empowered to direct a name change within 12 months of incorporation of the shadow company if the Registrar of Companies considers that the shadow company's name is “the same as” or

“too like” a name appearing in the Registrar’s index, or to strike off the shadow company for being defunct if it is not in operation or carrying on business. In that case, the aggrieved company can lodge a complaint with the Companies Registry of Hong Kong (the “**Registry**”) against the shadow company.

If the shadow company has been incorporated for more than 12 months, a company can commence trade mark infringement and/or passing-off action against the companies with confusingly similar names for an injunction to restrain the latter from using the names. Upon being served with the injunction order, the Registry would direct the shadow companies to change their names. If the latter fail to change their names in accordance with the direction, the Registry is empowered to replace the names of the shadow companies with their company registration numbers.

C. Prevention: avoid incorporating companies with names that are “too like”

With reference to the “Guideline on Registration of Company Names for Hong Kong Companies” (the “**Guideline**”) published by the Registry in January 2014, the Registry plays a passive role in the prevention of incorporation of shadow companies. The Guideline states that registration of a company name does not mean that the name is protected, neither does it mean that such a name is not liable to challenge by others, and also that “The registration of a company name with the Companies Registry does not confer any trade mark rights or any other intellectual property rights in respect of the company name or any part thereof. Applicants should, therefore, ensure that they do not adopt a name which resembles a registered trade mark or is “too like” the name of another company.”

The Guideline also contains what criteria the Registry would take into account in forming an opinion that two names are too like. The following examples are supplied by us for illustration:

1. *Names which are the same* - for example, “KWUN TONG ENGINEERING LIMITED” would be considered “too like” “KWUN TONG ENGINEERING COMPANY LIMITED”.
2. *Names which are phonetically identical* - for example, “HING LUNG” is aurally similar to “HING NUNG”.

3. *Names in which the slight variation in spelling does not make a significant difference* – for example, “KWUN TONG COLOUR LIMITED” and “KWUN TONG COLOR LIMITED”.
4. *Grammatical variations which do not have significant difference* – for example, “ADVANCE” and “ADVANCED”.
5. *Names which contain the same distinctive element:-*
 - a. Where the names are sufficiently qualified – for example, between “ABC CLOTHING LIMITED” and “ABC FOOD LIMITED”
 - b. Where the names are not sufficiently qualified – for example, “ABC CLOTHING LIMITED” and “ABC APPAREL LIMITED”.

Despite the power given to the Registrar of Companies, currently it has not taken a proactive approach in exercising the power conferred to him to direct shadow companies to change their names pursuant to s.108 of the Companies Ordinance (Cap. 622 of the Laws of Hong Kong). The task of clearing existing shadow companies is currently shared by the Registry and the Court. If the Registry is going to take up this task, it would not be an easy one, particularly in light of the large number of shadow companies already incorporated and existing on the register.

D. Conclusion

After all, whether two company names are “too like” is a question of judgement and very much has to be viewed case by case. While the Registrar of Companies might not take too active a role in clearing out existing shadow companies, those who seek to incorporate a new company are always advised to conduct a thorough search on the Registry for similar names, lest they should infringe others’ intellectual property rights. It is also **crucial** to obtain trade mark registration at the Hong Kong Trade Marks Registry to safeguard the companies’ intellectual property rights.

3. Points to note when participating in showcases and fairs

Trade shows offer a great platform for different brands to showcase their products and innovation, and to meet with consumers and/or other brands to explore businesses and chances for future collaboration. Brand owners can gather feedback on their products before officially releasing them to the public. At the same time, brand owners can analyze their competition, and reflect on whether their own marketing strategies and

technologies are up to date.

To ensure success when participating in showcases and fairs, brand owners should be minded to obtain protection over their IPR in advance. Brand owners should ensure that their trademarks, designs and patents are all applied-for or registered before publishing them to the public.

When exploring new business opportunities with other traders, business owners should be minded to confirm whether the other traders have obtained valid protection of their IPR as well. For local companies, it may also be beneficial to conduct a brief search to ensure that their company is validly incorporated and registered with the Companies Registry.

4. Law Reforms – Madrid Protocol

A. Introduction

The trade mark registration system in Hong Kong and most other jurisdictions only confers territorial protection. For instance, a Hong Kong-registered trade mark (other than a well-known trade mark) will not be afforded protection in Taiwan to the same extent as trade marks registered there. In order to have its trade mark rights comprehensively protected, it is most often recommended for a trade mark owner to apply for registration in every jurisdiction where its business interests lie or could potentially lie. International registration through the Madrid System is a means designed to facilitate such multi-jurisdictional trade mark registration.

The new Trade Marks (Amendment) Ordinance 2020 (“**Amendment Ordinance**”) came into effect on 19 June 2020. Under the Amendment Ordinance, the Registrar of Trade Marks of the Intellectual Property Department of Hong Kong (the “**IPD**”) shall make rules for implementing the Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks (“**Madrid Protocol**”) in Hong Kong.

The HKSAR Government is currently pressing ahead with the relevant preparatory work for the implementation of the Madrid Protocol in Hong Kong, namely preparing the relevant subsidiary legislations to provide for the procedural details of the application of the Madrid Protocol in Hong Kong, setting up a dedicated information technology system for facilitating the application of the Madrid Protocol and obtaining the

agreement by the Central People's Government concerning the application of the Madrid Protocol in Hong Kong. The Government targeted to implement the Madrid Protocol in Hong Kong as early as by 2022-2023, but it has not been implemented yet as of the end of March 2024.

B. Significance of the Madrid Protocol

The Madrid Protocol is an international agreement administered by the World Intellectual Property Organization (the “**WIPO**”) that allows an applicant to file for international registration of trade marks to the WIPO via the trade mark office where the basic registration is held (i.e. the domestic office, or office of origin). The applicant can designate multiple contracting parties (currently, there are 112 members to the Madrid Protocol covering 128 countries, including China, the European Union, the United States, Japan, South Korea, Singapore etc.) in which protection is sought for the international application. This means that an applicant can register a trade mark in multiple countries by filing a single international application, and by paying one set of fees. After registration, the owner enjoys the convenience of managing their trade mark portfolio in different designated territories through a single procedure with the WIPO. This contrasts with the traditional system, which requires an applicant to register separately in every jurisdiction where they wish to obtain protection for a trade mark.

C. Comparison with Filing Individual Domestic Trade Mark Applications

The advantages under the Madrid System are apparent: an applicant may apply for registration in one or more jurisdictions by filing a single application (in a single language) with the office of origin and paying one set of fees. If a trade mark owner has business interests in a large number of jurisdictions, filing a single international application may save costs whether at the application phase or at subsequent renewals or recordation of changes, and may facilitate management of its trade mark portfolio. An application can also be subsequently made to extend the international registration to other jurisdictions which were not initially designated.

Nevertheless, a major weakness of the Madrid System is what has become known as the “central attack”. Any refusal, withdrawal or cancellation of the domestic application or registration at the office of origin within 5 years of the registration date of the international registration will lead to the refusal, withdrawal or cancellation of the international registration in the same manner. Although the refusal, withdrawal or cancellation of the international registration can be remedied by transforming the

international registration into domestic applications in each designated jurisdiction, this could incur much more time and costs than filing individual domestic applications at the outset.

Another weakness lies in the special status of Hong Kong as a special administrative region. While Hong Kong enjoys a high degree of autonomy, retains its separate legal system from the PRC and thus operates its own trade mark office, Hong Kong is a part of the PRC. The Madrid Protocol is an international agreement restricted to states, of which the PRC is a contracting party. The intended application of the Madrid Protocol by Hong Kong as a special administrative region of the PRC is made possible through some special arrangements with the WIPO. By reasons of the above, mutual designations between the Registry of Hong Kong and the CTMO of the PRC for international applications filed by a Chinese national or a legal entity domiciled in Hong Kong or Mainland China are **not possible**. An international application based on a domestic application/registration in Hong Kong therefore cannot be relied on under the Madrid Protocol for extending territorial protection to the PRC, and vice versa. In other words, trade mark applicants who are Chinese nationals or legal entity domiciled in Hong Kong or the PRC have to make separate applications in these two places in order to obtain protection. This limits the convenience afforded by the Madrid Protocol to local or PRC applicants.

Since there will be two designating offices in the PRC, one being the CTMO and the other being the Registry in Hong Kong, international applicants will have the option of seeking territorial extension of protection of international applications designating both Hong Kong and the PRC, or one of the two jurisdictions according to their business needs. International applicants should pay attention that designation made only to the PRC will not automatically apply to Hong Kong, and vice versa. It is necessary to obtain protection in each region separately and independently.

D. Conclusion

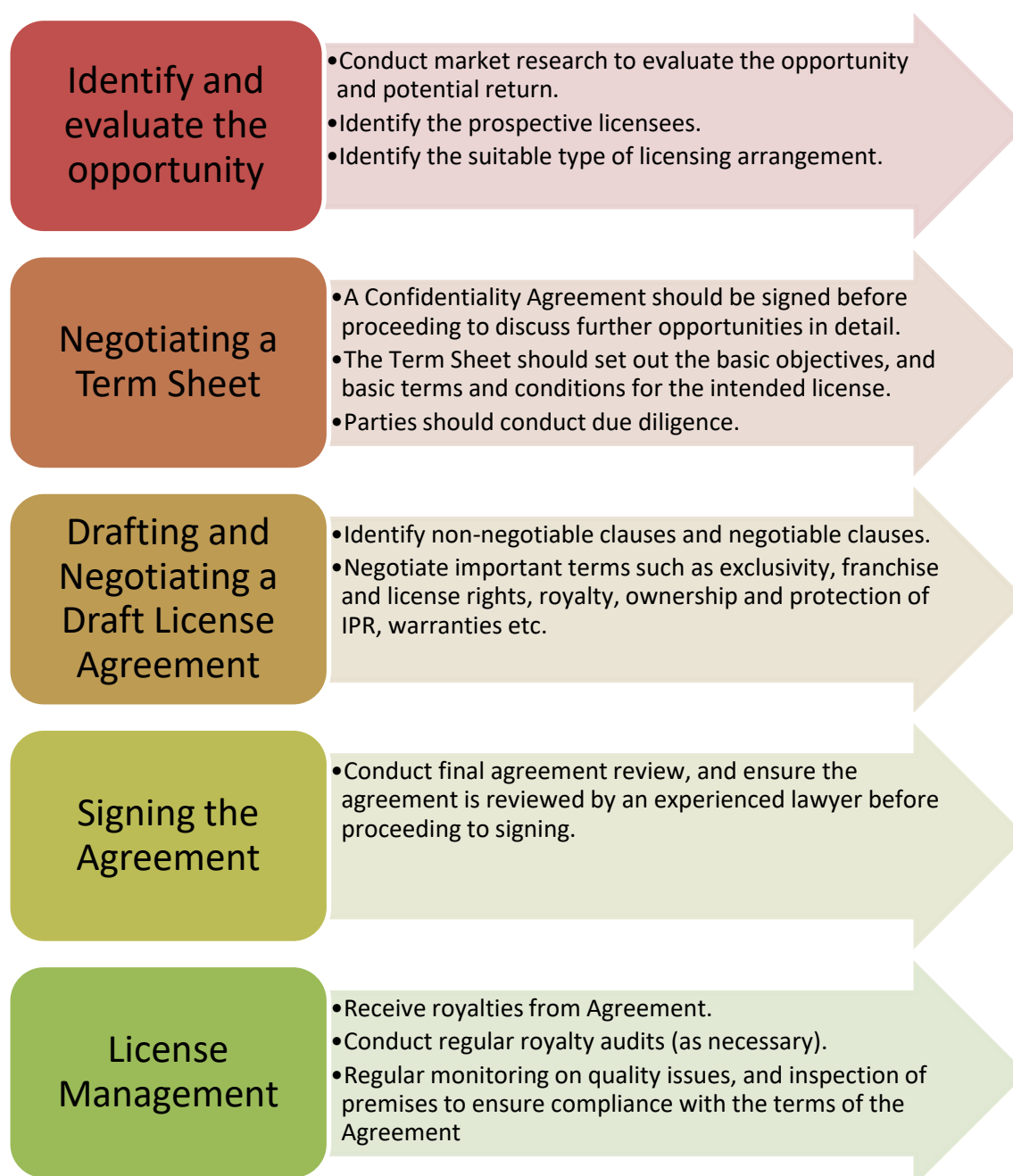
Implementing the Madrid Protocol will further enhance the competitiveness of Hong Kong as an international business and intellectual property trading hub. However, since local corporations or businesses cannot rely on the Madrid Protocol to obtain trade mark protection in the PRC, its efficacy may be curtailed. The HKSAR Government has indicated that they are discussing with the PRC authorities to put in place a special arrangement between Hong Kong and the PRC to facilitate reciprocal filing.

Whether an international application under the Madrid Protocol could save costs and be more efficient than individual domestic trade mark applications depends on several factors, such as the relevant markets of interest. With the risk of “central attack” in mind, it is prudent to consult local trade mark agents about the risk of refusal, revocation or withdrawal of the domestic application or registration before the office of origin, before considering applying for international registration under the Madrid System.

CHAPTER 2: NEGOTIATION AND SIGNING OF CONTRACT

Section 1: Basic steps – from negotiation to conclusion

License agreements should be drafted on a case-by-case basis to meet the specific needs of each party. The below outline and guidelines simply serve to illustrate a general license agreement process and is not intended to be exhaustive.



Identify and evaluate the opportunity

- Brand owners should conduct proper market research to evaluate the potential business opportunity and the potential return. Such would include market researches on similar products and the retail prices, the expected costs of manufacture etc.
- Brand owners should identify suitable prospective licensees who have the necessary technology, equipment and experience to carry out the intended works under the prospective license agreement.
- Brand owners should identify the type of licensing arrangement that is suitable for the prospective venture. For example, if only sale of goods is required, a simple license agreement may suffice. However, if manufacturing rights will also be granted, then a more comprehensive license agreement stipulating manufacturing rights may be required.

Negotiating a Term Sheet

- A Confidentiality Agreement or a Non-Disclosure Agreement (“**NDA**”) should be signed between parties to protect the information that will be shared before further discussions on the potential business opportunity.
- NDAs are important where sensitive information will be shared, including research and development, potential patents, client lists and information, negotiations etc. It provides clarity to both parties on what information can and cannot be shared, as well as consequences for breach.
- If the NDA is breached by one party, the other party may commence court action to prevent future disclosure, as well as for monetary damages.
- Parties should first agree on a Term Sheet setting out the basic objectives, and basis for the intended license. Once the broad set of terms are agreed, parties can then start to negotiate the comprehensive terms for the license agreement.
- Parties should conduct due diligence to identify issues that may affect the value of the prospective product of process, or hinder the development or commercialization of the same.

Drafting and Negotiating a Draft License Agreement

- Parties should negotiate other important terms such as exclusivity, franchise and license rights, royalty, ownership and protection of IPR, warranties etc. Some

useful questions to consider may be as follows:-

- What are the benefits and drawbacks of the IP license?
- What rights will be granted and what restrictions will be imposed?
- How much will the Licensor be paid?
- How can I ensure my IPR continues to be protected?
- It may be useful for parties to first identify non-negotiable clauses and negotiable clauses.
- It is important to note that there is no perfect license agreement or perfect terms. Ultimately, it would vary and depend on what is acceptable to both parties. Parties should therefore be flexible in the negotiations, so that both parties can move forward expeditiously and achieve a win-win situation.

Signing the Agreement

- Once parties come to agreement on the terms of the license, it should be recorded in a written document that will be signed by both parties.
- It is important for the brand owner to engage an experienced lawyer to prepare, review and finalize the draft license agreement, to ensure that the terms are as agreed between parties and are not ambiguous, and do not leave the brand owner in a disadvantageous position.

License Management

- The brand owner should continue to monitor and ensure compliance of the terms of the license agreement.
- The brand owner should ensure royalty audits are conducted to check and determine whether the Licensor is receiving the proper amount of payment due under the license.
- The brand owner should also monitor the products that are manufactured under the license, to ensure that they comply with the quality standards. Where necessary, they should also conduct inspection of the Licensee's premises to ensure that the premises and all equipment are up to standard.

Section 2: Due diligence prior to the signing of contract

Introduction

Due diligence refers to the detailed investigations conducted against a person or business, prior to entering into a contract of commencing a new business venture. The aim of due diligence is to identify any potential issues or liabilities which may arise. The different areas of conducting due diligence include the following:-

1. Financial

This includes an investigation into the business health of the other party. The latest company annual return and company filing can be obtained via the Companies Registry of Hong Kong. The audited financial statements of the other party should also be obtained, to ascertain the assets and liabilities of the other party including loans, mortgages and indemnities as well as tax liabilities, and to assess whether they have sufficient cash flow and a stable financial performance.

In relation to franchise and manufacturing agreements, it may also be necessary to inquire on whether the other party has entered into any leases or holds any real estate property and machinery, and the current condition of the equipment, stock and depreciation.

2. Commercial

This includes an investigation on the other party's business reputation, any known controversy, and also an investigation on the major business market to assess competition, and the prices similar goods are sold at.

Where the contemplated agreement concerns product manufacture and license, brand owners may wish to obtain a list of the products manufactured by the other company to check for quality standards and issues. A full and complete list of products and services offered may also be obtained to ascertain the production capacity of the other company.

3. Operational

This includes an investigation on the background of the other party, including its ownership structure, organization chart, list of shareholders and directors and key personnel etc.

It is also important to verify that the other party has actual business operations at its registered address, and is doing business where it claims.

4. Legal

This includes an investigation on any legal risks that may arise and affect the rights or obligations of the other party, such as any existing or threatened claims or litigation. A thorough search should be conducted to determine the civil and criminal litigation history of the other party and confirm whether the company or its principals have been involved in any civil or criminal matters.

In addition, an IP investigation should also be conducted to ascertain any IPR owned by the other party, and whether there are any existing or threatened claims over the same, in particular claims of infringement.

How long does due diligence take?

The length of time required for the due diligence exercise may vary depending on the size and complexity of the matter. For example, the due diligence required for a sale and purchase will be different from the due diligence required for a share sale. This is because in a share sale, the buyer would also inherit the liabilities and risks of the company, therefore the due diligence conducted should be much broader and much more detailed. Typically, the due diligence period for straight forward deals for small to mid-sized businesses may range from 30 to 60 days. The length may be shortened or extended due to the amount of information that is available, the turnaround time and communications with the other party.

There is no standard requirement on how extensive the due diligence investigations should be. Brand owners should consider each particular transaction on a case-by-case basis in determining the same.

Due diligence service providers

There are a large number of due diligence service providers in Hong Kong, including law firms and accounting firms etc. Under usual circumstances, both parties to an agreement would disclose and provide each other with the required information and documents for conducting the due diligence investigations.

However, if there are any special circumstances where additional due diligence is required, such as where fraud is suspected, it may also be necessary to engage investigators to conduct undercover operations to obtain evidence. In such cases, investigation companies may need to be engaged.

Section 3: Key points concerning the contract (main points to negotiate)

1. Key terms and common disputes

While parties are free to negotiate their terms of license, it is understandable that the parties would have different expectations. Licensors would hope to gain maximum return with limited exposure, while Licensees would hope for flexible and wide scope of rights with limited intervention from the Licensor.

Court cases have shown that poorly drafted agreements can lead to differences and disputes. The below table sets out some key terms commonly found in IPR license agreements, which may be taken as reference when negotiating and finalizing a license agreement.

It should be noted that each case may differ depending on the circumstances, and the below examples are not intended to be exhaustive. Interested parties should seek independent legal advice to make sure that their positions are fully protected.

Clause	Comments	Common types of disputes with partners
<i>General clauses</i>		
Description of IP Rights and scope of license	The scope should be precisely and accurately described as this may affect the scope of use, and scope of warranties as to title (including non-infringement), which may in turn affect how the license agreement can be enforced in the future.	Licensors would prefer a more precise description, while Licensees prefer a widely drafted description. Ambiguity may lead to disputes and affect the scope of warranties as to title, and effectiveness of the agreement.
Exclusivity and transferability	Licenses may be exclusive or non-exclusive, or sole licenses, and may be transferrable or non-transferrable. Parties should carefully consider the impact of each type, in relation to competition on the market place to which the mark is to be applied etc. Non-exclusive licenses may mean potentially more income (as multiple licenses can be granted), and competition between different licensees may increase competition and quality of goods.	Licensees would prefer exclusive licenses to avoid competition with other Licensees, which would affect their business and market demand.
Territories and trade channels	Territories should be specified, with proper non-solicitation clauses included to prohibit the licensee from selling products to others outside of the licensed territory. Whether the license is granted only for a specific channel or the whole market in all channels would directly affect the Licensor's potential returns, as well as their own use of	Licensors would prefer to reserve specific territories and channels for their own exploitation, whereas Licensees would prefer the freedom to exploit all territories and channels on their own, as well as full freedom to sell to any party within the licensed territories.

	their IPR in different markets.	
Term and renewal	A shorter term may mean less product sales and less potential returns for the Licensor. However, having a long term with automatic renewal may lead to inadequate monitoring of the quality standards of the products. Brand owners should seek to obtain a balance between the two, so that there is sufficient time to achieve performance targets which at the same time ensuring they are able to monitor compliance of the license requirements.	Licensors would prefer shorter terms with no automatic renewal so that they may check and ensure compliance before granting any renewals to the licensee, whereas Licensees would prefer automatic renewals with no changes to the existing terms and conditions.
Royalties	There are many different ways to calculate royalties. The most common type of consideration for a trade mark licensing agreement is payment of an upfront fee together with an ongoing royalty payment based on sales of the licensed products. This term should be negotiated carefully in detail as collecting royalties is the main aim for the Licensor to grant a license in the first place. Deductible items from the calculation of net sales and royalties payable are up to agreement by both parties.	Licensors would prefer regular payments at regular intervals with proper financial reports, but Licensees would prefer longer payment intervals with minimal reporting requirements.
Payment and reporting terms	Parties should agree on an agreed format, procedure and regular durations for submitting sales reports and payment of royalties. Proper procedures for calculating fees and the	Licensees would prefer not to allow Licensors to challenge the royalty reports after they have been accepted. Such may cause additional administrative

	<p>arrangements for refunds should also be agreed in advance.</p> <p>Licensor should always retain the right to challenge royalty reports even after acceptance to protect the interests of the Licensor. This is particularly important if the Licensor discovers any audit deficiencies.</p>	costs on their part.
Audit Rights	This refers to the Licensor's right to inspect and audit production/sales records and account books, etc. This clause is important as it allows the Licensor to check that records are correct, and that they have received properly calculated royalty payments.	Licensors would prefer complete freedom to audit at their convenience, whereas licensees would like to restrict the exercise of this right by the Licensor to limited number of times, and upon reasonable notice.
Termination and effect of termination or expiration	This clause includes the rights of the Licensor and/or either party to terminate the agreement and the basis for doing so, as well as the effects of termination such as the Licensee immediately ceasing use of the IPR, payment of all outstanding sums and providing a final royalty report etc.	Licensors would prefer a wide discretion to termination in the event of breach, whether actual, threatened or anticipatory, whereas Licensees would prefer if termination is only applicable to material breaches.
<i>Protection of IPR</i>		
Registration of License	The law surrounding the requirement to register licenses differs across jurisdictions. Some jurisdictions require prior registration of license, otherwise the Licensee may lose their rights to compensation etc. against third parties.	N/A

	Brand owners should therefore clearly set out in the relevant agreements whether it is mandatory to register licenses and if so, which party shall be responsible for registering the same.	
Registration and Maintenance of IPR	This refers to the registration, protection and maintenance of IPR, and refers to the Licensor's continued prosecution of applications to protect the IPR.	Licensees may require the Licensors to demonstrate commitment to diligently prosecute all applications, and ensure the IPR are secured and maintained so that the exclusive rights are protected.
Enforcement of IPR	It is important for brand owners to maintain rights over their IPR, including the full right to control enforcement action. Brand owners should ensure that they are promptly notified of any such enforcement proceedings, and that they have full discretion to either defend or instigate the proceedings in their own name, or to direct the Licensee to do so in their stead.	Parties may disagree over the conduct of the proceedings, as well as which party shall bear costs in relation to the same. It is advisable to come to agreement on this term before executing the license agreement to avoid confusion and delay caused to the proceedings.
<i>Warranties and Remedies</i>		
Licensor's Warranties	This refers to the Licensor's promises about the property being licensed.	Licensees may require express warranties in relation to invalidity or infringement of IPR of third parties.
Licensee's Warranties	This concerns the Licensee's promises about the transaction.	Licensors may require Licensees to assume all liabilities arising from product liability, using the IPR outside the agreed scope etc.
Indemnification	This concerns each party's future obligations in the event	Licensors would generally require Licensees to

	the trademarks or products are found to infringe on a third party's rights.	indemnify the Licensors against all losses and damage suffered from the Licensee's breach.
<i>Quality control clauses</i>		
Design and production standards	It is crucial for the Licensor to include a stringent mechanism to guarantee the standard of the goods that will be manufactured and/or sold in relation to the licensed mark. There should be a proper mechanism and timeline for the submission of designs, samples and prototypes for approval before the goods are released into the market, and the right to demand a recall from the market if the products are found to be defective.	Licensors would prefer to impose strict requirements and control over all procedures and technical specifications as well as right to recall, but Licensees would prefer least intervention from the Licensor and no right of the Licensor to demand a product recall which shall be subject to the Licensee's remedial actions.
Rights to modify	Brand owners should maintain full rights to modify the designs of the products at any time, and restrict the rights of the Licensee to make any modifications unless with written approval.	Licensees may request that they be given reasonable time to implement any such amendments, and that if they make certain amendments, the Licensor should not unreasonably withhold approval against the same.
Improvements	Brand owners should ensure that if improvements are made by the Licensee, the Licensee should immediately notify and disclose the same to the Licensor. The agreement should also specify which party shall own the rights to the improvements, or whether they shall be owned jointly.	Disagreement may arise in relation to which party contributed to the improvements, and/or whether the improvements were only made possible upon reviewing the other party's confidential information.

<i>Additional clauses relevant to promotion and sales rights</i>		
Premium Items	Where the Licensee is also granted rights to manufacture premium items for promotion purposes, parties should determine which party shall bear such costs, and whether any such costs would count towards royalty calculations.	Dispute may arise over which party shall bear the costs for production of premium items as well as other expenses.
Marking	In relation to the production of products, brand owners should specify if there is a particular way in which the Licensee should mark the products with the trademarks.	If there are no provisions over how the trademarks should be affixed, there is a danger that the Licensee would not use the trademarks as registered, and the trademarks may be subject to vulnerability due to non-use.
Seconds, Overruns	Where the agreement involves manufacture and sale of products, brand owners may wish to impose rules or guidelines on whether the Licensee can sell seconds (products with defects but still merchantable) or overruns (excess production).	Brand owners should consider whether to grant the Licensee the right to sell seconds and overruns bearing their trade marks, and whether it may potentially damage their goodwill and reputation.
Sell-off	Proper arrangements should be put in place in relation to unsold items after the agreement is terminated or expired.	Licensors would prefer if there is a limited sell-off period upon termination or expiration with full royalty accounting, whereas Licensees would prefer freedom to dispose of such items.
<i>Additional clauses relevant to franchise rights</i>		
Property lease	The agreement should set out which party shall be responsible for procuring the lease to the premises from which the franchise operates.	If the franchisor holds the lease, this may give them additional control over the franchisee.

Restraint on trade	The franchise agreement should always contain a restraint clause, where the franchisee cannot conduct the same or similar business for a certain period of time, within a certain area.	The length of time and area covered should not be excessive if it will put the franchisee out of work completely. Court cases have held such clauses may not be enforceable and would depend on the balance of convenience: BFAM Partners (Hong Kong) Ltd v. Gareth John Mills & Segantii Capital Management Limited [2021] HKCFI 2904.
<i>Boilerplate clauses</i>		
Language	It is not uncommon for parties to execute bilingual agreements. However, caution should be paid to specify which language shall prevail in cases of uncertainty.	The translation of difference languages in an agreement may lead disputes in relation to the interpretation.
Governing law and jurisdiction	It is important to specify the laws that can govern the agreement. In the event of litigation, courts will respect this clause and use the specified law as agreed by parties. This <i>clause</i> is particularly important where the parties are from different jurisdictions.	Both parties would prefer to use their choice of governing law and jurisdiction, especially where parties are from different jurisdictions.
Dispute Resolution	This clause defines how parties will resolve disputes. There are different methods such as litigation, mediation and arbitration.	Having a dispute resolution mechanism would assist parties to manage the risks and costs arising from the dispute resolution.

2. Difference between Japanese and Hong Kong contract customs

Contracts are important agreements between individuals or legal entities, which define the rights and responsibilities of both parties. By entering into an agreement, the parties assume a duty to perform, and also a right to demand performance from the other party. Contracts are therefore a set of rules that governs the formation of the relationship, the obligations of parties and enforcement of such obligations.

While contracts are common in everyday life, there remain some customary differences between countries, and also striking differences between the attitudes and behaviors of western businessmen and Japanese businessmen who maintain traditional beliefs.

To western businessmen, contracts are legal agreements that legally bind each party, and may be the only or main basis for defining the obligation between parties. Negotiations may be more confrontational with each party trying to achieve the most advantageous position in the agreement.

On the other hand, the Japanese culture tends to seek harmony with counter parties, and to build and maintain an ongoing social relationship between parties that is based on trust, instead of simply a formal agreement. It is often the case that after such mutual trust has been built, Japanese companies may act based on verbal agreements as opposed to concluding and simply following a written binding agreement between parties.

Where written agreements are concluded, it may not contain all necessary terms in detail. Rather, Japanese may view such agreements as a mere communication of declarations of intent towards a common goal. As such, it may lead to a situation where the conduct of the contractual relationship is not regulated, in terms of liability, penalties, termination etc. Such important clauses may be left to the discipline and conduct of the parties based on good faith, and may cause disagreement between parties.

Hong Kong, being a formal British colony, employs a more western approach in contract negotiations that is more risk-tolerant, and seeks to include all terms governing the relationship to avoid confusion. Being an international business hub with foreign investors from all countries worldwide, contractual arrangements and agreements are therefore critical to the conduct of business. Contracts therefore tend to be longer and detailed comparatively.

During the negotiation stage, it is common for non-Japanese companies, including Hong Kong companies, to present draft contracts that are very advantageous to them as a starting point, with the expectation that parties would negotiate the terms and conditions, and settle at a mid-way point that is acceptable to both parties. On the other hand, Japanese companies may present draft contracts that are already neutral to both parties from the onset, and expect little or no negotiations to take place in relation to the same.

Whilst companies from different countries may have different styles and preferences in negotiating contracts, it should be noted that such differences are due to different traditional customs. Parties should therefore bear in mind that the opposing parties may not be used to the same contractual practices, and understand that such differences are not necessarily due to a lack of trust. Rather, it shows that both parties have a common goal to negotiate and enter into an agreement with terms that are acceptable to both sides, and to avoid future dispute between parties.

3. Difference between Japanese law-governed and Hong Kong law-governed contracts

In addition to different customs, there are also slight differences between Japanese-law governed and Hong Kong law-governed contracts. Below are some key differences that parties may bear in mind during negotiation process.

A. Registration of license

Certain exclusive licenses, such as patent license and trademark licenses, must be registered in order to be enforceable. Non-exclusive licenses may also be registered to put potential parties on notice of such license, but it is not mandatory.

It is not mandatory to register licenses in Hong Kong per se, but in order for the license to be effective against third parties acquiring an interest in or to the IPR, the license must be duly registered.

B. Language

Japanese companies primarily use and contract in Japanese, whereas other countries commonly contract in English. This may pose as an obstacle for Hong Kong companies,

as Japanese is not an international language, and Japanese legal terms are considered more abstract and could be difficult to grasp for non-Japanese persons. English is therefore the preferred language for Hong Kong companies, as well as other foreign persons.

It is possible to draft agreements bilingually to include both Japanese and English for clarity purposes. However, in such situation, it is recommended to specify which language shall prevail over the other in case of dispute.

C. Governing Law and jurisdiction

HK courts tend to uphold the spirit of the agreement based on what is agreed between parties.

In situations where a contract includes foreign parties who are not based in Hong Kong, it is recommended to include a governing law clause that expressly stipulates the chosen applicable law to avoid confusion and disagreement.

D. Indemnification

Indemnity clauses are undertakings given by one party to compensate the other party, in relation to the effects of certain acts, omissions, contractual default or negligence of that party. Parties are free to contract and agree on the scope of indemnity under Hong Kong law.

In contrast, it should be noted that the concept of indemnification does not exist under Japanese law. Instead, contracting parties may be entitled to certain remedies due to breach of contract, such as damage claims and specific performance.

4. Essentiality and content of the trade mark license clause in distribution contracts

When a party enters into a distribution agreement for the sale of particular products, it is essential to also grant trade mark licensing rights relevant to the brand and/or goods in order for the licensee to promote and advertise the branded products to potential customers, and to generate sales. Such activities may potentially impact the goodwill and reputation of the brand owner, and the branded product.

Therefore, when entering into distribution contracts, brand owners should ensure that all important terms, such as those mentioned in the table above are included. Particular attention should also be paid to the following terms.

A. Scope of use

Brand owners should specify the scope of use allowed under the license, to ensure that the licensee will follow the scope and manner of use of the trade marks, that the quality normally associated with the branded products are maintained, and that the licensee truthfully identifies themselves as the authorized licensee of the trade marks. Such is important, to ensure that consumers will recognize the brand owner as the true owner of the trade marks and branded products, despite the fact that the trade marks are used, and the branded products are sold by the distributor and licensee.

B. Goodwill

In entering the license and distribution agreement, the brand owner should ensure that there are terms stipulating that any goodwill created by the distributor during the course of the license and distribution agreement shall accrue to and benefit the brand owner, and that the brand owner is involved in the marketing and advertising of the branded products that are the subject of the distribution agreement.

Similarly, the brand owner should also ensure that upon termination of the agreement, any rights and goodwill associated with the trade marks during the course of the agreement shall return to the brand owner.

C. Enforcement

It is in the interest of both the brand owner and distributor to protect the branded products, and to prevent any unauthorized sale, infringement, and counterfeiting activities in the distributor's territory. Brand owners may prefer to maintain full rights to control enforcement action. The actual arrangement is subject to agreement by both parties, but in any event, the distribution agreement should set out clearly the respective rights and obligations of both parties when a potential litigious matter arises, including who will control the conduct of any such legal proceedings, who shall bear the costs, and whether there would be any monetary apportionment in relation to damages or settlement.

CHAPTER 3: POST-CONTRACT PHASE

Section 1: Quality Control

Upon signing of the relevant IP agreements, the parties should nevertheless continue to monitor and ensure compliance with the agreement. This is particularly important if the license agreement allows the Licensee to manufacture and sell goods bearing the trade marks of the Licensor, in order to protect the reputation and quality of goods of the Licensor, as well as maintaining the value of the Licensor's trade marks. As good practice, it is useful to impose quality control provisions in the license agreement and have firm guidelines for proper steps for manufacturing and use of trade marks. Below are several items that may be included in the quality control provisions:-

1. IP due diligence

Brand owners may wish to conduct background and reputation checks in relation to the prospective licensees, to ensure that they have a good reputation in the business and were not previously involved in any court proceedings in relation to breach of IPR, or quality issues etc.

2. Provide clear guidelines, specifications and requirements for trade mark use and product manufacture

If trade marks are to be affixed onto the products, it may be useful to provide electronic copies to the Licensee to ensure that they are used as-is and the Licensees does not create their own version of the trade marks, and to ensure that they are printed correctly and in good quality.

If a specific color must be used in relation to parts of the product, the brand owner should make it clear to the Licensees and ensure that they abide with all such requirements.

3. Sample requests and product inspections

Brand owners may wish to include mechanisms for prototype production, inspection and

approval before a product is manufactured and released into the market under the license agreement. Such would give the brand owners an opportunity to first check the product for its safety, appearance, functionality etc. Brand owners may also request for the full set of packaging and instruction manuals (as the case may be) along with the prototype, all for approval before they are issued to the public.

4. Approval system for manufacturing products and obtaining product approval

The license agreement should include a comprehensive system for the Licensee to submit samples to the Licensor for approval, before they are allowed to proceed and manufacture the products and related goods for sale. Under good practice, the license agreements should provide that the Licensor's failure to provide written approval shall not be deemed as automatic approval, but should be viewed as disapproval of the submitted samples. The license agreement should also provide that disapproved samples should not be retained and should be destroyed.

However, the abovementioned situation may not always be workable to parties and may cause significant delays and disruption to the manufacture timeline. As such, it is common for parties to mutually agree on a set time frame for submitting and reviewing the samples and providing written approval or disapproval. In the event of disapproval, the Licensor should provide reasons for disapproval, so that the Licensee shall be able to make improvements accordingly.

5. Post-contract site visits

It is common for brand owners to include clauses in the license agreement allowing the Licensor to inspect the premises and/or factories of the Licensee to ensure that the production methods are up to the quality standards set by the Licensor. This may include inspecting the factories and premises, manufacturing process and machinery, raw materials, finished products, financial, personnel and company records etc.

Whilst this right should be reserved by the Licensor, it is however recognized that such inspections may disrupt the normal business operations of the Licensee. As such, it is common practice to specifically state in the license agreements that advanced notice

must be provided before conducting any such inspection, and that the inspection must take place during normal business hours.

It is also common that parties would set a maximum number of inspections per year, as well as reasons and circumstances for requesting additional inspections, to prevent disruption to the Licensee's operations and business.

Section 2: Dispute Resolution Methods

Similar with other disputes, a brand owner may commence civil action against other persons or companies, to defend its rights and resolve disputes concerning trade marks, copyright, patents, and even domain names in Hong Kong.

That said, often there are situations where litigation may not be the best and most efficient method to resolve disputes. Hong Kong, as a leading center for international legal and dispute resolutions services in the Asia-Pacific Region, offers other alternative dispute resolution mechanisms such as arbitration and mediation to enable parties to resolve disagreements without the need to result to litigation.

The Hong Kong International Arbitration Centre (“**HKIAC**”) in Hong Kong is one of the top three most preferred alternative dispute resolution institutions in the world. The HKIAC contains a large panel of international experts who are qualified arbitrators, mediators, or otherwise, seasoned practitioners, who are fluent in a wide range of languages, in order to assist different clients with their specific needs. The HKIAC is highly experienced in handling arbitration, mediation, as well as domain name disputes, whether complex or simple, and is able to facilitate hearings in Hong Kong, Shanghai, Seoul, as well as virtual hearings.

For further information, please refer to the HK ADR-related manual.

APPENDIX

Sample Agreement #1: Trademark Licensing Agreement

(This example is for the sales of trade marked products, and does not involve any rights to manufacture. For an example that includes the right to manufacture, please refer to Sample Agreement #3.)

This AGREEMENT is made the [•] day of [month] [year].

BETWEEN:-

- (1) [Name of Licensor] whose registered office is situated at [Registered address of Licensor] (the “**Licensor**”); and
- (2) [Name of Licensee] (Business Registration Certification no.: [•]) whose registered office is situated at [Registered address of the Licensee] (the “**Licensee**”)

WHEREAS:

- A. The Licensor is the proprietor of the intellectual properties including but not limited to (a) trade marks more particularly described in the attached **Schedule A** (the “**Trademarks**”) and (b) Know-how, Trade Secrets and related (the “**Know-how and Trade Secrets**”) in relation to [•] around the world.
- B. The Licensee wishes to import, advertise, promote and sell the said goods bearing or with reference to the Trademarks, Know-how and Trade Secrets in [•] (the “**Licensed Territory**”).
- C. The Licensor is prepared to grant and the Licensee is willing to obtain an exclusive license to import, advertise, distribute and sell the Licensed Products in the Licensed Territory on the terms and conditions hereinafter appearing.

NOW, THEREFORE, in consideration of the mutual covenants, conditions and terms hereinafter set forth, and for other good and valuable consideration, **IT IS HEREBY AGREED** as follows:

1. INTERPRETATION

1.1 In this Agreement the following expressions shall have the following meanings unless the context otherwise requires:

- “Intellectual Properties”** shall mean any and all intellectual property rights of any nature anywhere in the world whether registered, registrable or otherwise, including patents, utility models, trade marks, registered designs and domain names, applications for any of the foregoing, trade or business names, goodwill, copyright and rights in the nature of copyright, design rights, rights in databases, moral rights, know-how, trade secret and any other intellectual property rights which subsist in any documents, process, manufacturing, information, techniques, business methods, drawings, logos, instruction manuals, lists and procedures and particulars of customers, marketing methods and procedures and advertising literature, in relation to [•] products and/or production, provided by the Licensor in the course of and/or during the term of this Agreement;
- "Trademarks"** shall mean the trademarks in word and/or logo form as shown on Schedule A of this Agreement.
- “Know-how and Trade Secrets”** shall mean including but not limited to any and all information in any form in relation to [•] production, process, materials, calculations, know-how, secrets, manufacturing, techniques, business methods, ingredients, recipes and/or knowledges; and
- "Licensed Products"** shall mean the [•] or such other goods as may be further agreed by the parties from time to time to be permitted to be sold by or for, the Licensee in the Licensed Territory bearing the Trademarks and Know-how and Trade Secrets.

- 1.2 References to statutory provisions shall be construed as reference to those provisions as amended or re-enacted or as their application is modified by other provisions (whether before or after the date hereof) from time to time and shall include any provisions of which they are re-enactments (whether with or without modification).
- 1.3 References herein to Clause(s) and Schedule(s) are to clause(s) in and schedule(s) to this Agreement unless the context requires otherwise and the Schedule(s) to this Agreement shall be deemed to form part of this Agreement.
- 1.4 All representations, warranties, undertakings, indemnities, covenants, agreements and obligations given or entered into by more than one person are given or entered into jointly and severally.
- 1.5 The headings are inserted for convenience only and shall not affect the construction of this Agreement.
- 1.6 Unless the context requires otherwise, words importing the singular include the plural and vice versa and words importing a gender include every gender.

2. GRANT OF LICENSE

- 2.1 The Licensor hereby grants to the Licensee for the term of this Agreement:-
 - (a) the exclusive right to use the Trademarks and/or Know-how and Trade Secrets for the import, advertising, promotion, sale and distribution of the Licensed Products bearing or with reference to the Trademarks and/or Know-how and Trade Secrets in the Licensed Territory only and subject to the terms and conditions contained in this Agreement; and
 - (b) for the avoidance of doubt, the right to use the Trademarks and/or Know-how and Trade Secrets in each case is strictly confined to Licensed Products as specified in this Agreement within the Licensed Territory unless the parties shall further agree to extend the scope of the Licensed Products in advance in writing.

2.2 The Licensee hereby accepts from the Licensor with effect from the effective date of this Agreement an exclusive and non-transferable license to use the Trademarks and/or Know-how and Trade Secrets in the Licensed Territory as aforementioned subject to the terms and conditions herein contained.

3. PERIOD

3.1 This Agreement shall be for an initial term of [•] months with effect from the date of this Agreement unless sooner terminated in accordance with the provisions herein. At the end of the initial term, the parties may enter into negotiations to renew this Agreement for such additional term upon the same conditions set forth herein (excluding the provisions for renewal) or as may be modified in writing and signed by both parties.

3.2 In the event that the parties are unable to reach an agreement to extend or renew this agreement, the Licensee shall immediately cease the use of the Trademarks and/or Know-how and Trade Secrets on any of the Licensed Products and deliver up all remaining stocks of all unsold Licensed Products to the Licensor pursuant to Clause 14.1(b)(iii) below unless an arrangement can be agreed between the parties on the orderly disposal of all such goods bearing or with reference to any of the Trademarks and/or Know-how and Trade Secrets.

4. THE RIGHTS OF THE LICENSOR

4.1 The Licensor shall have full control over the manner in which the Licensee uses the Trademarks and/or Know-how and Trade Secrets. Save and except for the Licensed Products, the Licensee agrees that the Licensee will not use any of the Trademarks and/or Know-how and Trade Secrets on or in connection with any other goods or in any other manner which has not been approved by the Licensor in writing.

4.2 The Licensee agrees to permit representatives of the Licensor to inspect the facilities including but not limited to those situated in places or premises where the Licensed Products are stored during business hours with or without prior notice, to ensure the requirements contained in this Agreement are fulfilled. If

the requirements have been violated, the Licensor may, at its sole discretion, declare this Agreement to be terminated with immediate effect.

5. USE OF TRADEMARKS AND/OR KNOW-HOW AND TRADE SECRETS

- 5.1 Licensee shall not use any of the Trademarks and/or Know-how and Trade Secrets, or any reproduction or variation thereof, in any manner whatsoever (including advertising and promotion) without obtaining the prior written approval of Licensor.
- 5.2 Licensee shall affix or apply to all Licensed Products offered for sale, and all Licensed Products sold pursuant to this Agreement, tags or carding bearing or using any of the Trademarks in strict conformity with the Licensor's specifications and guidelines if so requested by the Licensor, from time to time.
- 5.3 All Licensed Products shall be sold directly under and/or by reference to the Licensee's own name and address. The Licensee shall not use the Licensor's name and/or address or any variation, translation, adaption or abbreviation thereof on the Licensed Products.
- 5.4 [Save for Clause 5.3 above,]the Licensee shall not permit the trade name, trademark, names, logo or any other identification of any person, company or business entity other than the Licensor to appear on the Licensed Products bearing any of the Trademarks without the express prior written approval and if approval is given, on such terms and conditions as the Licensor may impose.
- 5.5 Promptly upon the request of the Licensor, the Licensee shall submit to the Licensor free of charge specimen samples of all labels, advertisements, promotions, products, stationery, packaging, brochures and publicity and other materials relating to the use any of the Trademarks by the Licensee and not to use any such materials until the Licensor or its designated agent have certified its approval in writing and on such terms and conditions as the Licensor may impose.

6. COVENANTS OF THE LICENSEE

- 6.1 The Licensee hereby acknowledges that the Licensor is the sole owner of the Trademarks and/or Know-how and Trade Secrets and acknowledges the rights of the Licensor in and to each of the Trademarks as a registered and unregistered mark and/or Know-how and Trade Secrets and as a trading and business name or otherwise as a proprietary right of the Licensor. The Licensee agrees that any goodwill arising from its use of the Trademarks and/or Know-how and Trade Secrets shall accrue to the benefit of and belong to the Licensor.
- 6.2 The Licensee further acknowledges the exclusive right of the Licensor to use or to grant to any third party the right or license to use the Trademarks and/or Know-how and Trade Secrets in the Licensed Territory and any other territories if the Licensor so desires.
- 6.3 At all times and without exception, the Licensee shall have no claims or rights to any of the Trademarks, Know-how and Trade Secrets. The Licensee shall not assert or represent expressly or impliedly that it has any ownership in any of the Trademarks and/or Know-how and Trade Secrets, nor shall the Licensee directly or indirectly at any time during the term of this Agreement or thereafter do or cause to be done any act or thing which might impair or affect the validity of the Trademarks and/or Know-how and Trade Secrets or in any way diminish the rights of the Licensor in and to the Trademarks and/or Know-how and Trade Secrets or in any way debase the Trademarks and/or Know-how and Trade Secrets or reduce its commercial value to the Licensor.
- 6.4 The Licensee shall not apply for or obtain registration of any Trademark in any part of the world including but not limited to the Licensed Territory which is identical, confusingly similar or includes any of the Trademarks or any part thereof nor to challenge any registration secured or oppose applications filed by the Licensor for the Trademarks or any marks including any of the Trademarks in any part of the world.
- 6.5 The Licensee shall not carry out any act or suffer any omission that may damage the reputation of or adversely affect any of the Trademarks and/or Know-how

and Trade Secrets and/or the Licensed Products in any way whatsoever whether by using any of the Trademarks and/or Know-how and Trade Secrets on or in relation to any goods or services (including but not limited to the goods) as a trade name directly or indirectly.

- 6.6 The Licensee shall co-operate fully and in good faith with the Licensor for the purpose of securing, preserving and protecting the Licensor's rights in and to the Trademarks and/or Know-how and Trade Secrets and shall provide all reasonable assistance in relation to any application to register the Licensor as the proprietor of the Trademarks and/or Know-how and Trade Secrets and to register the Licensee as the registered user of the Trademarks in the Licensed Territory upon the request of the Licensor and any action for protection or enforcement of the Trademarks and/or Know-how and Trade Secrets in the Licensed Territory if necessary.
- 6.7 The Licensee shall draw the attention of the Licensor of any improper or unlawful use or infringement of any of the Trademarks and/or Know-how and Trade Secrets in the Licensed Territory immediately after they have come to its notice, and in performing this Agreement the Licensee shall use every effort to safeguard the property rights and interests of the Licensor and if so requested by the Licensor will give full co-operation to the Licensor in any action in respect of or in relation to any of the Trademarks and/or Know-how and Trade Secrets.
- 6.8 The decision as to whether or not to take proceedings against an infringer shall in all cases rest within the absolute discretion of the Licensor.
- 6.9 If the Licensor agrees to take proceedings against an infringer it shall do so at its own expense and shall be entitled to any damages recoverable. The Licensee shall agree to be a co-plaintiff upon the request of the Licensor on the basis that the Licensor shall be responsible for the Licensee's legal costs which may be incurred with the specific prior written consent of the Licensor and subject to hiring such counsel as the Licensor may appoint. The Licensee shall upon request of the Licensor execute any documents and do any other things reasonably necessary or desirable for the prosecution of such actions.
- 6.10 This license is personal to the Licensee. None of the rights and licenses

granted to the Licensee under this Agreement may be assigned, transferred, mortgaged, charged or sub-licensed by the Licensee whether in whole or in part without the specific prior written consent of the Licensor and which consent may or may not be given at the sole and absolute discretion of the Licensor. The grant to the Licensee herein contained shall be deemed to be by way of license only and shall not confer on the Licensee any interest or rights in any of the Trademarks and/or Know-how and Trade Secrets or any other rights the Licensor may have in relation to the Licensed Products.

- 6.11 The benefit of this Agreement and all rights hereunder may be assigned or transferred by the Licensor at any time during the term of this Agreement and shall inure to the benefit of the Licensor's successors or assigns.
- 6.12 All aspects of the distribution, sale, advertising and promotion of the Licensed Products by the Licensee shall be at the risk and responsibility and for the account of the Licensee. The Licensee shall act as an independent contractor and the Licensor shall not be responsible for any breach by the Licensee of any obligations imposed by law on the Licensee in its capacity as an employer or as distributor and/or seller of Licensed Products. The Licensee shall indemnify the Licensor against all actions claims demands costs charges and expenses of any third party arising out of or in connection with the distribution, use, sale, advertising or promotion of the Licensed Products made by the Licensee.

7. UNAUTHORIZED MARKS

- 7.1 Boxes, tags and cards bearing or using the Trademarks shall not contain any other trademark, trade name, design indicia, or any other endorsement ("**Unauthorized Marks**") thereon; nor shall Licensee use any such Unauthorized Marks in any manner whatsoever in connection with the sale, promotion, advertising, or distribution of the Licensed Products without Licensor's consent.
- 7.2 In the event that any Unauthorized Marks shall be subject to claims of infringement by any third party, the Licensee herein shall fully indemnify the Licensor for or in respect of any and all consequence actions, claims, demands, damages, costs, expenses or any other remedies which the Licensor may suffer.

7.3 Licensee shall use the Trademarks in accordance with generally accepted proper trademark usage standards or in such other manner as may be specified by the Licensor. [Licensee shall place the proper trademark notice after the Trademarks which shall appear on or in relation to (1) each of the Licensed Products offered for sale under this Agreement; (2) all packaging bearing one or more of the Trademarks; (3) all business materials; and (4) all advertising using the Trademarks.]

8. DESIGN AND PRODUCTION STANDARDS

8.1 Licensee agrees that: (1) the Licensed Products and the packages shall be of a high standard and of such style, appearance, distinctiveness and quality as to protect and enhance the prestige of Licensor and of the Trademarks and the related goodwill; (2) the Licensed Products shall be packaged, sold and distributed in accordance with all applicable laws and regulations; and (3) the policy of sale, distribution and exploitation by Licensee shall be of a high standard.

8.2 Licensee shall submit samples of the following to Licensor or its authorized representative for Licensor's prior written approval each time before production of each shipment of:

- (a) all Licensed Products that Licensee proposes to offer for sale under or by reference to any of the Trademarks and/or Know-how and Trade Secrets, including all designs, printings, packaging, boxes, colors and styles that Licensee proposes to use as, for, on, or in connection with the Products bearing any of the Trademarks;
- (b) all packaging that Licensee proposes to use that bear one or more of the Trademarks and that are to be used in connection with the Licensed Products; and
- (c) all business materials that Licensee proposes to use in relation to the Trademarks and/or Licensed Products.

- 8.3 Upon receipt by Licensor or its authorized representative of samples of the Products and packaging, Licensor shall promptly advise Licensee of Licensor's approval or other comments in writing or shall set forth Licensor's reasons for denial of approval in case approval is refused.
- 8.4 After the written approval of Licensor has been obtained for samples of any of the Licensed Products or packaging, Licensee shall not depart therefrom in any material respect, without again obtaining prior approval from Licensor.
- 8.5 Upon Licensor's written request, Licensee shall furnish, without cost to Licensor, at least such number of additional samples selected at random at the rate of one out of each design and color from production runs for the Licensed Products being sold by Licensee hereunder, together with any and all related packaging.
- 8.6 All materials submitted by Licensee to Licensor for approval pursuant to Clause 8.2 above shall be sent to Licensor at such address in the Licensed Territory or such other place as the Licensor may designate from time to time.

9. RECALL OF LICENSED PRODUCTS

- 9.1 If Licensee is notified by any third party in writing or otherwise ("**Third-Party Notice**"), of any complaint of any nature in respect of any Licensed Products, Licensee shall immediately notify Licensor in writing and provide Licensor with the specific details of such Third-Party Notice. Licensor shall solely determine whether Licensee shall undertake a market withdrawal or recall (a "**Recall**") of any Licensed Products based on the Third-Party Notice and any other available information, and in accordance with all applicable laws and rules of any authority. Notwithstanding the foregoing, Licensor's decisions regarding any Recall shall be final. In the event of a Recall, Licensee shall fully cooperate with Licensor and take all actions necessary or desirable as requested by Licensor, which may include written notification to, and retrieval of the Products from, all distribution channels.

10. OBLIGATIONS OF THE LICENSEE

10.1 The Licensee hereby undertakes and agrees with the Licensor that the Licensee shall:-

- (a) at all times during the continuance of this Agreement observe and perform the terms and conditions set out in this Agreement;
- (b) conduct its business in accordance with the highest business standards and will not perform any act which will or may reflect adversely upon the business, integrity or goodwill of the Licensor;
- (c) keep full, proper and up to date books of account and records showing clearly all inquiries transactions and proceedings relating to its sale of the Licensed Products, shall permit the duly authorized representatives of Licensor at Licensor's expense to inspect the said books and all other relevant books of account of the Licensee and take copies thereof and shall give all such other information as may be necessary or proper to enable the amount of royalties and other payments payable hereunder to be ascertained as aforesaid at any time during usual business hours of the Licensee;
- (d) deliver to the Licensor by the [•]th day of each calendar month, a true and complete sales report in writing detailing the sales quantities, total revenue and net revenue of all Licensed Products sold in the Licensed Territory in the preceding month;
- (e) not offer the Licensed Products for sale at any price other than that, or within the range mutually agreed by the Parties; and
- (f) not incur any liability on behalf of the Licensor or in any way pledge or purport to pledge the Licensor's credit.

11. FURTHER UNDERTAKINGS BY THE LICENSEE

11.1 The Licensee undertakes:

- (a) to keep the Licensor fully informed of any change in the shareholdings or control of the Licensee or the management of the Licensee's business;
- (b) not to alter specifications and directions from the Licensor nor interfere with or change the form in which the Trademarks and/or use or change the form in which Know-how and Trade Secrets are approved by Licensor for use by Licensee;
- (c) to immediately remedy any unsatisfactory use of the Trademarks and/or Know-how and Trade Secrets after receiving notice of such unsatisfactory use from the Licensor.

12. PAYMENT AND REPORTING

12.1 In consideration of the grant of license under Clause 2 above, the Licensee shall make or procure payments to the Licensor according to the terms and conditions as agreed.

12.2 The Licensee shall compute and deliver to the Licensor by the [•]th day of each calendar month, a true and complete sales report in writing in a format consisting of the quantity sold, total revenue and net revenue of all Licensed Products sold in the Licensed Territory in the preceding month (the "**Sales Report**"). For avoidance of doubt, the Parties shall mutually agree upon a budget with specified price margin for the sale of the Licensed Products in the Licensed Territory.

12.3 The Licensee shall pay to the Licensor [•]% of the net revenue as reflected in the Sales Report, by the last working day of each following calendar month.

12.4 All payments shall be made in Hong Kong dollars by means of international bank transfer to the Licensor's account (details as follows), or as otherwise directed by the Licensor:

Bank name:	[•]
Bank address:	[•]
Account holder name:	[•]
Account number:	[•]
SWIFT code:	[•]

12.5 Costs of any currency conversion, taxes or charges, or other costs or expenses incurred by Licensee shall be wholly borne by the Licensee and are not recoverable from Licensor.

13. EVENTS OF TERMINATION

13.1 The Licensor shall have right to terminate this Agreement at any time by giving the Licensee [•] months' prior written notice.

13.2 The Licensor shall have the right to terminate this Agreement forthwith on the occurrence of any of the following events:-

- (a) the Licensee enters into a deed of call option in favor of the Licensor and the Licensor in its sole discretion, exercises the call option;
- (b) the Licensee is in breach of any of the terms of this Agreement and fails to remedy that breach within [•] days of written notice from the Licensor requiring it to do so; or
- (c) if the Licensee is unable to pay its debts as they fall due or a petition is presented or meeting convened for the purpose of winding up the Licensee or the Licensee enters into liquidation whether compulsorily or voluntarily or compounds with its creditors generally or has a receiver appointed of all or any part of its assets or takes or suffers any similar action in consequence of debt; or
- (d) the Licensee assigns or grants a sub license of this Agreement or

purports to do so without the specific written consent of the Licensor; or

- (e) the Licensee fails to pay any sum payable hereunder to the Licensor and the Licensee fails to remedy the breach within [•] days of the Licensee having received written notice from the Licensor requiring it to do so;
- (f) the Licensee has any restriction or limitation placed on the existing powers of its directors to manage its business or on the powers of its shareholders to elect those directors;
- (g) the Licensee or related person and/or company competes with the Licensor by incorporating factory or company in any place to sell and/or manufacture [•], without obtaining prior consent of the Licensor.

14. CONSEQUENCES OF TERMINATION

14.1 Upon the expiration or termination of this Agreement for whatever reason, the Licensee :

- (a) shall forthwith cease and desist from further using the Trademarks and/or Know-how and Trade Secrets and shall deliver to the Licensor all the materials including but not limited to all instruction books, technical pamphlets, photographs, catalogues, advertising material, specifications and other materials, documents, papers, designs whatsoever sent to the Licensee and relating to the business of the Licensor or the Trademarks and/or Know-how and Trade Secrets (other than correspondence between the Licensor and the Licensee) which the Licensee may have in its possession or under its control; and any documents in any form containing the same, or do such act to demonstrate to the satisfaction of the Licensor that all such items have been destroyed;
- (b) shall Immediately:
 - (i) pay all amounts owed to the Licensor;
 - (ii) shall not carry on the business under incorporating or by

reference to any of the Trademarks or any word or words so similar thereto as to be likely to cause confusion, shall not use and/or apply any Know-how and Trade Secrets;

- (iii) shall at the Licensee's sole expense, return all unsold Licensed Products in its possession to the Licensor's designated address at [•] within three (3) months of termination;
- (iv) shall execute any and all necessary documents, with respect to the cancellation of the Licensee as a registered user (if applicable); and
- (v) certify in writing the Licensee's compliance with the terms of this Agreement.

14.2 The termination or expiration and non-renewal of this Agreement shall not relieve the Licensee of its obligations under this Agreement, including without limitation, the Licensee's obligation to make payments for all unpaid and outstanding amounts due to the Licensor that have been accrued as of the date of termination or expiration of this Agreement.

15. CONFIDENTIALITY

15.1 To the extent that and for as long as the information made available to the Licensee hereunder is not, or does not, become published or otherwise generally known to the public, or become known to the Licensee from sources not under a similar obligation of confidence, the Licensee agrees that neither it nor any of its directors, officers, employees or agents shall, without the prior written consent of the Licensor, directly or indirectly, use whether for the benefit of the Licensee or others, disclose, publish or otherwise bring to the knowledge of other persons, firms or corporations within or without the Licensed Territory any including but not limited to financial or trading information, confidential information furnished in connection with the services hereunder, including any written or oral specifications, know-how, trade secrets, drawings, data or technical information concerning the Licensed Products. The Licensee's obligation of confidentiality shall survive termination of this Agreement.

15.2 Each party understands and agrees that, during the term of this Agreement, it may be furnished with or otherwise have access to information that the other party considers to be confidential business and technical information, marketing plans, research, drawings, designs, plans, methods, techniques, processes and know-how, whether tangible or intangible and whether or not stored, compiled or memorialized physically, electronically, graphically or in writing. Each party agrees to secure and protect the confidential information of the other in a manner consistent with the maintenance of the other party's rights therein, using at least as great a degree of care as it uses to maintain the confidentiality of its own confidential information of a similar nature, but in no event use less than reasonable efforts. Each party will not make available any portion of the confidential information of the other party to third parties, except as necessary to perform its obligations under this Agreement or as expressly authorized in this Agreement.

16. PROTECTION AGAINST INFRINGEMENT

16.1 In the event of a third party commencing litigation against any of the parties for unfair competition and/or infringement arising out of or in relation to any dealings with the Licensed Products in the Licensed Territory:-

- (a) the Licensee must promptly notify the Licensor in writing of any allegation of infringement;
- (b) the Licensee must make no admission without the Licensor's written consent; and
- (c) the Licensee must at the Licensor's request allow the Licensor to conduct any action or defense and if it decides to settle all negotiations and litigation and must give the Licensor all assistance as may be required by the Licensor.

17. ENTIRE UNDERSTANDING

17.1 This Agreement embodies the entire understanding between the parties hereto

and supersedes all other agreements in connection with the import, distribution and sale of the goods described herein. The terms cannot be modified, supplemented or rescinded except by writing signed by both parties.

18. SEVERABILITY

- 18.1 Every provision of this Agreement is severable. If any term or provision hereof is held to be illegal or invalid for any reason whatsoever, such illegality or invalidity shall not affect the validity of the remainder of this Agreement.

NOTICE

18.2 Any notice to be given to any party pursuant to this Agreement shall be in writing and shall be sufficiently given to any party at the party's address as set out in this Agreement or registered office for the time being of the party to be served or to such other address as may have been last notified in writing by such party to the other parties hereto and shall by delivering the same to the party concerned at such address, be deemed to be duly delivered on the date upon which notices were personally delivered or if sent by facsimile transmission, 24 hours after transmission with confirmation report or 5 days later if sent by fully pre-paid post.

18.3 The facsimile number (if any) of each party is:-

The Licensor : [•]

Fax: [•]

The Licensee: [•]

Fax: [•]

19. FORCE MAJEURE

19.1 If there is any total or partial failure of performance hereunder by any party occasioned by strikes lockouts combinations of workmen or any cause whatsoever beyond the reasonable control of a party thereby affected then once the cause has been notified by that party to the other parties such failure shall not be deemed to be a breach of this Agreement which shall continue in suspense or part performance for the period during which such cause exists. As soon as practicable after such notification the parties shall consult with each other to decide how if at all the effects of the force majeure can be mitigated. If the cause of such suspension or partial performance exists for a period of more than six (6) months and substantially affects the operation of this Agreement then any of the parties not claiming relief under this clause shall be at liberty to terminate this Agreement on giving to the other thirty (30) days' notice of its intention to do so and this Agreement shall terminate on expiration of such notice.

20. WAIVER

20.1 Failure by the Licensor to insist upon strict performance of any of its terms and conditions hereunder at any time, or delay in exercising any of its remedies, shall not constitute a continuing waiver or relinquishment of such terms and conditions or a waiver of any default, nor of the remedy.

21. GOVERNING LAW AND DISPUTES

21.1 This Agreement (including, without limitation, matters regarding the enforceability, scope, and tort claims related to them) will be construed in accordance with, and governed by the laws of Hong Kong excluding its conflicts of law provisions and under the non-exclusive jurisdiction of the courts of Hong Kong.

IN WITNESS WHEREOF the parties have entered into this Agreement the day and year first above written.

SIGNED by [•])
the duly authorized representative)
for and on behalf of [•])
in the presence of : -)

SIGNED by [•])
the duly authorized representative)
for and on behalf of)
[•])
in the presence of : -)

SCHEDULE A

[•]

Sample Agreement #2: Trademark and Trade Secret Licensing Agreement

(This example concerns the license of trademark and trade secret rights, in the context of a franchising agreement (store operation service).)

This AGREEMENT is made the [•] day of [month] [year].

BETWEEN

- (1) [Name of Franchisor] whose registered office is situated at [Registered address of Franchisor] (the "**Franchisor**"); and
- (2) [Name of Franchisee] (Business Registration Certification no.: [•]) whose registered office is situated at [Registered address of the Franchisee] (the "**Franchisee**")

WHEREAS:

- A. Franchisor is engaged in the business of [•] (the "**Business**") which is operated in accordance with a distinctive system and plan utilizing and comprising certain Proprietary Marks, confidential information, standards, specifications, techniques, identifying schemes and materials, insignia, management methods and standard operational procedures and has expended substantial time, effort and money in the development and implementation of the same.
- B. The Franchisee desires to obtain the benefit of the knowledge, skill and experience of the Franchisor and the right and franchise to operate the Business and to use the operating system of the Franchisor upon the terms and subject to the conditions set out below.

NOW, THEREFORE, in consideration of the mutual covenants, conditions and terms hereinafter set forth, and for other good and valuable consideration, **IT IS HEREBY AGREED** as follows:

1. INTERPRETATION

- 1.1 In this Agreement the following expressions shall have the following meanings

unless the context otherwise requires:

- “Big Four”** shall mean the four largest professional accounting firms in Hong Kong, namely Deloitte, Ernst & Young, KPMG and PricewaterhouseCoopers.
- “Business”** shall mean the franchise business of [•] operated and conducted under the Proprietary Marks using the System.
- “Proprietary Marks”** shall mean the patents, trade marks, trade names, logos and designs, registered or unregistered, details of which are set out in **Schedule 1** to this Agreement and all other patents, trade marks, trade names, logos, designs, symbols, emblems, insignia, fascia, slogans, copyrights, know-how, information, drawings, plans and other identifying materials and intellectual property rights whether or not registered or capable of registration and all other proprietary rights whatsoever owned by or available to the Franchisor adopted or designated now or at any time hereafter by the Franchisor for use in connection with the System.
- “System”** shall mean the distinctive business format and method developed and implemented by the Franchisor in connection with the operation of the Business utilizing and comprising the Proprietary Marks, and certain standard operational procedures, plans, directions, specifications, methods, management and advertising techniques and identification schemes, and any improvements thereto.
- “Territory”** shall mean the geographical area of [•] within which the Franchisee may operate the Business.

“Products” shall mean the products whether or not identified by the Proprietary Marks, approved by the Franchisor to be sold or provided by the Franchisee in the course of the Business under the name of [•].

“Premises” shall mean the business premises approved by the Franchisor in accordance with the terms of this Agreement at which the Franchisee may operate the Business.

“Gross Sales” shall include all sums invoiced by the Franchisee whether or not received, and all cash and credit transactions including the value of all goods and services sold or rendered in the relevant trading period whether or not invoiced, and all other sums received in or about the conduct of the Business from whatever source including any loss of profits insurance claims paid to the Franchisee, but shall not include the local sale tax; customer refunds or allowances.

“Expiry Date” shall mean the date of expiry of the initial Term (as defined hereinbelow) granted pursuant to Clause 3.

1.2 References to statutory provisions shall be construed as reference to those provisions as amended or re-enacted or as their application is modified by other provisions (whether before or after the date hereof) from time to time and shall include any provisions of which they are re-enactments (whether with or without modification).

1.3 References herein to Clause(s) and Schedule(s) are to clause(s) in and schedule(s) to this Agreement unless the context requires otherwise and the Schedule(s) to this Agreement shall be deemed to form part of this Agreement.

1.4 All representations, warranties, undertakings, indemnities, covenants, agreements and obligations given or entered into by more than one person are

given or entered into jointly and severally.

1.5 The headings are inserted for convenience only and shall not affect the construction of this Agreement.

1.6 Unless the context requires otherwise, words importing the singular include the plural and vice versa and words importing a gender include every gender.

2. APPOINTMENT AND GRANT

2.1 The Franchisor hereby grants to the Franchisee during the continuance of this Agreement and any further period for which it may be renewed or extended and upon the terms and conditions herein contained a **non-exclusive** license to operate the Business in the Territory under the Proprietary Marks in accordance with the System and subject to the terms and conditions set out below.

2.2 The Franchisee shall be entitled to describe itself as the Franchisor's authorized Franchisee or distributor for the Product but shall not hold itself out as the Franchisor's agent for sales of the Products or as being entitled to bind the Franchisor in any way.

3. COMMENCEMENT AND TERM

3.1 This Agreement shall commence on the execution hereof and shall continue in force thereafter unless and until determined in accordance with its terms for an initial term of 5 years ("**Term**") subject to the Franchisee's right of renewal contained in the next following clause.

4. RENEWAL

4.1 Subject to the provisions of Clause 4.2 below, the Franchisee may at its option renew the Agreement herein granted at the expiration of the said initial Term for a further term of 5 years by giving notice in writing to the Franchisor exercising the said option not less than 3 months before the Expiry Date.

4.2 Notwithstanding the giving of due notice pursuant to Clause 4.1 above, the renewal shall only be effective provided that:

- (a) the Franchisee has throughout the term properly observed and performed all its obligations under this Agreement and is not at the Expiry Date in default under any such obligations;
- (b) the Franchisee has achieved the minimum performance targets (“**Minimum Performance Targets**”) as set out in **Schedule 2** throughout the Term;
- (c) no later than 28 days prior to the Expiry Date the Franchisee has executed a new franchise agreement in the form then used by the Franchisor which new terms may differ from terms of this Agreement, including but not limited to the new minimum performance targets to be designated by the Franchisor; and
- (d) prior to the Expiry Date the Franchisee has as the Franchisor may request completed or agreed in writing to perform at its own expenses such maintenance, renovation, repairs and refurbishment of the Premises and/or Facility (as defined hereinbelow) and the equipment, fixtures and fittings used in the Business as the Franchisor may require within the time prescribed by the Franchisor.

5. TERRITORY

5.1 The right and license granted to the Franchisee to operate the Business shall extend only to the Territory and the Franchisee agrees that it will not make any use nor will it permit or authorize any use directly or indirectly of the System or the Proprietary Marks nor sell or deliver the Products or make available the Business outside the Territory nor will it knowingly offer or provide any information or assistance concerning the System or the Proprietary Marks or sell or deliver the Products or make available the Business to any person, firm or undertaking who intends or may seek to use or resell them outside the Territory.

5.2 The Franchisor may itself operate or make use of or license person(s) other than

the Franchisee to operate or make use of the System under the Proprietary Marks [in the Territory] and/or outside the Territory.

- 5.3 Subject to the prior written approval of the Franchisor, the Franchisee is required to at its own costs and expenses and at its own risk operate the Business at such places and in such number of Premises as the Franchisee shall think just within the Territory.

6. INITIAL OBLIGATIONS OF FRANCHISOR

In connection with the commencement of the Business by the Franchisee the Franchisor agrees and undertakes as follows:

- 6.1 To provide the Franchisee with consultation and advice concerning site selection criteria, and the location, suitability and acquisition of the Premises and required facility ("**Facility**").
- 6.2 To provide the Franchisee with standard specifications for conceptual design, internal layout, signs, fixtures and fittings and consultation and advice relating to the construction, conversion, refurbishment and opening of the Premises and Facility.
- 6.3 To provide to the key employees and personnel of the Franchisee initial on job training in the standards, procedures, techniques and methods comprising the System, at such place and at such times as shall be specified by the Franchisor before the set-up of the Facility, the cost of travel and subsistence in connection therewith being borne by the Franchisee.
- 6.4 To provide to the Franchisee the unique recipe for the making of the Products.

7. CONTINUING OBLIGATIONS OF FRANCHISOR

The Franchisor agrees at all times during the continuance of this Agreement:

- 7.1 To permit the Franchisee to operate and promote the Business under the trade name [•] in accordance with the terms of this Agreement.
- 7.2 To provide the Franchisee with advice, know-how and guidance relating to the management, promotion and methods of operation to be employed in connection with the System.
- 7.3 To provide on-site training and advice to the employees of the Franchisee at the Premises and/or the Facility in connection with the System, the cost of travel and subsistence in connection therewith being borne by the Franchisee.
- 7.4 To assist the Franchisee in procuring supplies of Products, services and equipment as may be required by the Franchisee to commence and operate the Business.

8. OBLIGATIONS OF FRANCHISEE

The Franchisee agrees as follows:

- 8.1 Upon the execution of this Agreement and prior to the commencement of the Business permit the Franchisor to register, where applicable, the particulars of this agreement at the trade marks registry in the territories or elsewhere as required by the Franchisor in respect of each of the trade marks of the Franchisor set out in Schedule 1 and to execute such other agreements during the continuance hereof in relation to such trade marks as the Franchisor may require.
- 8.2 At the costs and expenses of the Franchisee to acquire such Premises and Facility in accordance with the terms of this Agreement and to ensure that the Premises and Facility are without delay following such acquisition altered, refurbished, equipped and fitted out in accordance with the requirements of the Franchisor.

- 8.3 To officially open and operate the first [•] no later than [date] (“**Opening Date**”).
- 8.4 To operate the Business in accordance with the requirements of the Franchisor notified to the Franchisee from time to time.
- 8.5 To ensure that adequate financial resources are available by way of working capital and otherwise to ensure that it is able to fulfill all the obligations herein contained.
- 8.6 To operate the Business strictly in accordance with and to conform in all respects and at all times with the System as modified from time to time and not at any time to use any additional trade mark, trade name or symbol with the System without the prior consent in writing of the Franchisor.
- 8.7 To comply with all advices and instructions given by the Franchisor with regard to the operation of the Business.
- 8.8 Forthwith on commencement of the Business to engage all staff and other persons required for the successful operation of the Business and to ensure that all such staff and replacements for such staff who are trained in the System and any such further training as required by Franchisor.
- 8.9 To use only such signs, display materials, promotional literature, equipment and other items in connection with the Business as shall be approved in writing by the Franchisor and immediately to desist from the use or display of any signs, materials or objects as the Franchisor directs.
- 8.10 At all times to maintain the interior and exterior of the Premises and Facility and all parts thereof to the highest standard of decoration, repair and cleanliness and promptly to ensure that any requirements of the Franchisor in this regard are fulfilled.
- 8.11 To maintain sufficient stocks and employ sufficient staff to meet demand from the customers of the Business.

- 8.12 To promptly pay all suppliers of goods and services sold or provided to the Franchisee for the purposes of the Business.
- 8.13 To consult with the Franchisor as to the scale and level of prices and charges to be levied in the course of the Business.
- 8.14 To permit the Franchisor and its representatives at reasonable times and upon reasonable notice to enter upon the Premises and Facility for the purposes of ascertaining whether the provisions of this Agreement are being complied with.
- 8.15 To comply with all statutes, bylaws, regulations and requirements of any government or other competent authority relating to the conduct of the Business.
- 8.16 To notify the Franchisor of all material customer or other complaints received within twenty-four (24) hours of receiving the same. The Franchisee must handle all complaints in such way as the Franchisor from time to time direct.
- 8.17 To notify the Franchisor immediately if any party commence legal proceedings against the Franchisee in relation to the operation of the Business. The Franchisor shall have the option of taking conduct of the proceedings on behalf of the Franchisee.
- 8.18 To sell only such Products as permitted by the Franchisor upon the terms and conditions therein set out by the Franchisor.
- 8.19 To require the execution of an undertaking by all of its employee requiring the former:-
- (a) not to divulge or use whether directly or indirectly for its own benefit or that of any other person, firm or company any confidential information or knowledge concerning the Business, the Propriety Marks or the System which may be communicated to such employee or which such employee may otherwise acquire, and
 - (b) to comply with the obligations of the Franchisee under Clause 9.2 of the Agreement,

the Franchisee shall at its own expense take such steps in order to enforce or restrain any breach of the terms of any such undertaking;

8.20 To insure with a major reputable insurance company with sufficient cover against all normal and reasonably foreseeable risks relating to the conduct of the Business including without prejudice to the generality of the foregoing:

- (a) public and employers liability;
- (b) product liability, howsoever arising;
- (c) all risks insurance for the full replacement value of all equipment, fittings and stock and other items used in relation to the Business in the Territory damaged as a result of fire, flood, explosion impact, vandalism and burglary and loss of profits;
- (d) buildings insurance in respect of the Premises;

the above insurances will name Franchisor as additional insured in the amounts and for the length of time sufficient to cover the Franchisee's liabilities under this Agreement. The said insurances shall include cross liability clause, i.e. the right of recovery by the Franchisee shall not be precluded in respect of claims made against them by Franchisor. Certified copies of all cover notes and insurance policies and proof that premiums have been paid are to be sent to the Franchisor.

8.21 To inform the Franchisor immediately upon notified of any circumstances in relation to the use of Premises and/or Facility which would affect its fulfillment of obligations herein, including but not limited to early termination of lease of the Premises and/or Facility. The Franchisor shall use its best endeavor to acquire new Premises and/or Facility to ensure the unhindered operation of the Business.

9. RESTRICTIONS ON FRANCHISEE

9.1 During the continuance of this Agreement, the Franchisee agrees as follows:

- (a) not to commence operating the Business until the Franchisor has approved the Premises and the construction and conversion thereof;
- (b) not to operate the Business or any part of the System at any location without the prior approval in writing of the Franchisor;
- (c) not to sell, assign, transfer, charge or sub-license the Business, the System, or Proprietary Marks nor any part thereof without the prior consent of the Franchisor;
- (d) not to sell any product from other sources or other commodities without prior written approval of the Franchisor;
- (e) not to cause or permit to subsist any circumstance which may constitute a breach of any insurance policy maintained pursuant to this Agreement;
- (f) not to alter or convert the Premises or the internal layout thereof or the fixtures and fittings therein nor install any equipment nor alter, erect or display any sign or other medium of advertisement whether inside or outside the Premises without in every case seeking and obtaining the prior consent in writing of the Franchisor;
- (g) not to do or omit to do any act or thing which may in the sole opinion of the Franchisor bring the System or the Proprietary Marks into disrepute or which may in the sole opinion of the Franchisor damage or conflict with the interests of the Business or other franchisees of the Franchisor;
- (h) not to use or publish any advertisements, signs, directory entries or other forms of publicity whether or not relating in whole or not to the Business or display the same on or at the Premises unless the same shall have first been submitted to and approved by the Franchisor;

- (i) to seek prior approval of Franchisor from time to time prior to directly or indirectly engaging in any [•] business or undertaking other than the Business, and to disclose the same to the Franchisor immediately if such prior approval has not been obtained;
- (j) not to use any of the Proprietary Marks as part of its corporate name;
- (k) not to make any modifications to the Products or their packaging;
- (l) not to alter, remove or tamper with any Proprietary Marks, or other means of identification used on or in relation to the Products and the Business;
- (m) not to use in the Territory any trade marks or trade names so resembling any trade mark or trade names of the Franchisor as to be likely to cause confusion or deception; and
- (n) not to do or authorize any third party to do any act which would or might invalidate or be inconsistent with any Proprietary Marks of the Franchisor and shall not omit or authorize any third party to omit to do any act which, by its omission, would have that effect or character.

9.2 The Franchisee covenants during the term of this Agreement and for a period of one year after the expiration or termination for any reason of this Agreement whether itself or together with any other person, firm or company in any capacity whatsoever save as authorized hereunder directly or indirectly:

- (a) not to be engaged, or interested, or concerned in any business which is in the sole opinion of the Franchisor similar to or competitive or in conflict with the Business;
- (b) not to employ or seek to employ any person who is at that time or has at any time in the previous two years been employed by the Franchisor or any other franchisee or related companies of the Franchisor or any business carried on under the Proprietary Marks using the System nor otherwise directly or indirectly induce or seek to induce any such person

to leave his or her employment; and

- (c) not to solicit customers or former customers or business partners of the Business nor divert or seek to divert any customer or former customers or business partners from the Franchisor or any other franchisee or related companies of the Franchisor,

and the Franchisee will procure its employees to undertake to the above.

- 9.3 The Franchisee hereby acknowledges that the System and all other information and knowledge relating to the System is of a strictly confidential nature and Franchisor's property and accordingly, the Franchisee covenants that it will not and it will procure that no other person shall at any time without the prior written consent of the Franchisor whether before or after termination of this Agreement divulge or use whether directly or indirectly for its own benefit or that of any other person, firm or company any of such information or knowledge relating to the System which may be communicated to or otherwise acquired by the Franchisee, its directors, agents or employees.

10. TRADEMARKS

- 10.1 The Franchisor warrants that it is entitled to license the Proprietary Marks to be utilized in the System throughout the Term of this Agreement hereby granted.
- 10.2 The Franchisee shall ensure that each reference to and use of any of the Proprietary Marks is in a manner from time to time approved by the Franchisor and accompanied by an acknowledgement, in a form approved by the Franchisor, that the same is a trade mark (or registered trade mark) of the Franchisor and the Franchisee is only a licensee of the Franchisor authorized to use the same. For the avoidance of any conceivable doubt, both parties acknowledge and agree that any goodwill and/or reputation acquired and/or developed in respect of the Proprietary Marks within the Territory shall be vested solely in the Franchisor and shall in no way be associated with the Franchisee.
- 10.3 The Franchisee will notify the Franchisor forthwith of any and all circumstances coming to the attention of the Franchisee, its directors, agents and employees

which may constitute an infringement of any of the Proprietary Marks or any suspected passing off by any unauthorized person and shall take such reasonable action in connection therewith as the Franchisor may direct at the expense of the Franchisor.

- 10.4 The Franchisee shall take such action in relation to the use of any of the Proprietary Marks in the Business as the Franchisor may from time to time direct in order to make sure that the Proprietary Marks are adequately protected under the law.

11. FEES AND PAYMENT

- 11.1 In consideration of the grant of the right and license to operate the Business, the Franchisee shall pay to the Franchisor or such other person as the Franchisor may direct:

- (a) the sum of HK\$[•] by way of initial fee ("**Initial Fee**") in the manner specified hereunder:-
- (i) a sum of HK\$[•] shall be paid upon execution of this Agreement;
 - (ii) a sum of HK\$[•] shall be paid within 7 days upon the commencement of provision of training to the Franchisee's employees in accordance with Clause 6.3; and
 - (iii) the balance of HK\$[•] shall be paid within 7 days from the date when the first Premise is in operation, and in any event, within 7 days of the Opening Date.

- 11.2 In addition to the Initial Fee above, a royalty fee ("**Royalty Fee**") shall be payable by the Franchisee to the Franchisor on the [•]th day of each calendar month during the Term commencing from the date of the operation of the first Premises and in any event, commencing from the Opening Date. The monthly Royalty Fee shall be equivalent to the [•]% of the Gross Sales, and if the monthly Gross Sales is less than one-twelfth of the Minimum Performance Target as set out in Schedule 2, the one-twelfth of the Minimum Performance Target is

payable as monthly Royalty Fee. There shall be an annual clearing of the Royalty Fee, the annual clearing shall be based on the actual annual Gross Sales times [•]% to work out the actual annual Royalty Fee. The actual annual Royalty Fee payable shall be set off from or paid in addition to the advance payment of monthly Royalty Fee on the [•]th day of the following month.

- 11.3 In the event that any sums due to the Franchisor are not paid by the Franchisee on the due date, such sums shall bear interest from day to day at all annual rate of [4 percent above the base rate from time to time of the Hongkong and Shanghai Banking Corporation Limited] until actual payment is made.
- 11.4 All monies referred to in this Agreement including but not limited to the Initial Fee, Royalty Fee, Gross Sales shall be in [Hong Kong currency].
- 11.5 The above fees shall not include any other matter payable under the Agreement which shall be invoiced separately to the Franchisee and paid promptly by the Franchisee in accordance with the Franchisor's terms and conditions as stated on such invoice.

12. ACCOUNTS AND RECORDS

- 12.1 The Franchisee shall :
- (a) maintain an accurate account and record of all Gross Sales made by the Business in each month up to the close of business on the last working day of each month and shall prepare in a form approved by the Franchisor a monthly Gross Sales account thereof. The monthly Gross Sales account shall be signed and confirmed by a director duly nominated by the Franchisee and shall remit the same to Franchisor on or before the [5th day] of the following month for review;
 - (b) submit to the Franchisor for its review audited report of the annual Gross Sales account within 60 days after the expiration of every twelve (12) months accounting period at its own costs and expenses. The expression of "accounting period" under herein means the period from 1st of April of a year to 31st of March of the following year (both dates

inclusive). The audited report shall be certified by a director duly nominated by the Franchisee and as well as a certified public accountant which is one of the Big Four to be true and correct. Upon the annual Gross Sales account being confirmed by the parties, the parties shall pay or set off such sum in accordance with Clause 11.2 above;

- (c) maintain at the Premises in a form approved by the Franchisor full and accurate books of account and shall at all times keep or cause to be kept complete, accurate and true records of sales records and shall permit the Franchisor or its duly authorized agent during business hours to inspect any such accounts and records and to take copies thereof at the expenses of the Franchisor;
- (d) install at its own expenses electronic cash registers at the Premises. The Franchisor may at any time at its own expenses appoint the Franchisor's authorized officers, employees, auditors or agents and operate electronic checking devices to check the daily Gross Sales of the Business. The Franchisee shall at all times and at such frequency as shall be determined by the Franchisor permit such operation and make available and open its books and records to the Franchisor, its duly authorized officers, employees, auditors or agents; and
- (e) preserve all such accounts and records for not less than three years notwithstanding the expiry or termination of this Agreement.

13. TERMINATION

13.1 The Franchisor may terminate this Agreement by giving 3-month notice in writing to the Franchisee without reason.

13.2 The Franchisor may terminate this Agreement forthwith by giving notice in writing to the Franchisee in any of the following events:

- (a) If the first [•] is not opened within 1 year of the execution of the Agreement. The portion of Initial Fee payable pursuant to Clause 11.1(a) shall remain payable, and if paid, shall be forfeited by the Franchisor.

- (b) if the Minimum Performance Target is not achieved at any time;
- (c) if the Franchisee shall at any time fail to pay any amounts due and payable to the Franchisor hereunder for a consecutive period of [3 months];
- (d) if the Franchisee shall fail to submit to the Franchisor in a timely manner any of the accounting or management information required to be so submitted;
- (e) if the Franchisee shall fail to operate the Business in accordance with the System;
- (f) if the Franchisee shall in the opinion of the Franchisor misuse or in any way impair the goodwill associated with any of the Proprietary Marks or takes any action to contest the validity or ownership thereof;
- (g) if the Franchisee shall purport to effect any assignment of any of the rights or licenses herein granted other than in accordance with the terms hereof;
- (h) if the Franchisee fails to obtain any prior written approval or consent of the Franchisor expressly required by this Agreement;
- (i) if the Franchisee discloses or permits or suffers the disclosure of any part of the Franchisor's confidential information contrary to the terms hereof;
- (j) if the Franchisee or any officer, director or employee of the Franchisee gives to the Franchisor any false or misleading information or makes any misrepresentation in connection with obtaining this Agreement or at any time during the continuance of this Agreement in connection with the Business;
- (k) if any material change shall occur in the management, shareholders, ownership or control of the Franchisee or the Business otherwise than in

accordance with the provisions of this Agreement;

- (l) if any member of the management of the Franchisee shall be convicted of indictable criminal offence or one involving dishonesty or is in the opinion of the Franchisor guilty of gross moral turpitude;
- (m) if the Franchisee is evicted from or unable to operate the [•] in any one of the Premises and that the Franchisee is unable to acquire a new Premise and resume operation of the [•] within [3 months]; or
- (n) if the Franchisee otherwise neglects or fails to perform or observe any of the provisions of this Agreement or commits any breach of its obligations hereunder, which breach if remediable is not remedied to the satisfaction of the Franchisor within thirty days of a notice in writing to the Franchisee requesting its remedy, provided that the Franchisor shall not be obliged to give such notice in the case of a persistent breach which shall be one which has occurred more than once in any twelve month period.

13.3 This Agreement shall automatically terminate without notice being given to the Franchisee in any of the following events:

- (a) if the Franchisee shall become insolvent by reason of its inability to pay its debts as they fall due or shall enter into liquidation whether voluntarily or compulsorily other than for the purposes of a reconstruction or amalgamation or shall make any arrangement or composition with its creditors or shall suffer the making of an administration order in respect of all or any part of its assets or takes or suffers any similar action in consequence of a debt;
- (b) if any party takes or threatens any action including but without limitation the commencement of legal proceedings to enforce or foreclose any lien or mortgage over or in respect of any property of the Franchisee or to forfeit any estate or interest of the Franchisee in the Premises or enters or seeks to enter into possession thereof.

14. CONSEQUENCES OF TERMINATION

14.1 Upon the termination or expiration of this Agreement for any reason, the Franchisee shall :

- (a) immediately pay to the Franchisor the full amount of all monies then or thereafter due hereof together with any interest thereon up until the date of payment;
- (b) immediately cease to operate the Business and to use the System and shall not thereafter hold itself out in any way as a franchisee of the Franchisor and refrain from any action that would or may indicate any relationship between itself and the Franchisor;
- (c) immediately cease to use in any way whatsoever any and all of the Proprietary Marks and any other trade names, logos, devices, insignia, procedures or methods which are or may be associated with the Proprietary Marks or the System;
- (d) return to the Franchisor or otherwise dispose of or destroy as the Franchisor shall direct all signs, advertising materials, stationery, invoices, forms, specifications, designs, records, data, samples, models, programs and drawings pertaining to or concerning the Business or the System or bearing any of the Proprietary Marks;
- (e) remove or permanently cover all signs or advertisements identifiable in any way with the Franchisor and in the event of failure promptly so to do, to permit the authorized agents of the Franchisor to enter on the Premises for such purposes;
- (f) return all items of equipment held on loan or hire from the Franchisor under the terms of this Agreement, if any;
- (g) do all such acts and things and execute all such documents as the Franchisor shall require, in particular but without limitation such notification of cessation of use of the Proprietary Marks as is necessary

for the purpose for recording the same at the Trade Marks Registry; and

(h) otherwise perform its obligations and observe the covenants set out in Clause 9.2 and 9.3 hereof.

14.2 The expiration or termination of this Agreement shall be without prejudice to the accrued rights of the parties and any provision hereof which relates to or governs the acts of the parties hereto subsequent to such expiry or termination hereof shall remain in full force and effect and shall be enforceable notwithstanding such expiry or termination.

15. ACKNOWLEDGMENTS BY FRANCHISEE

15.1 The Franchisee hereby acknowledges the exclusive rights of the Franchisor to own the System and the Proprietary Marks and all matters comprised therein and itself to utilize the same and to grant to any other person a license to use the System and the Proprietary Marks and to amend and modify the same by variation, addition, renewal, substitution or however otherwise.

15.2 The Franchisor acknowledges that in giving advice to the Franchisee, assisting the Franchisee to establish the Business, recommending equipment and materials and assessing the suitability of the Franchisee and the Premises, the Franchisor has based its recommendations on experience actually obtained in practice but that the Franchisor does not give any guarantee or warranty with regard to such matters or generally in connection with the sales volume profitability or any other aspect of the Business. The Franchisee acknowledges that it has sought independent advice, and that the decision to enter into this Agreement has been taken solely on the basis of the judgment and experience of the Franchisee having taken such independent advice. Accordingly, the Franchisee acknowledges that no representation, warranty, inducement or promise express or implied had been made by the Franchisor or relied upon by the Franchisee in entering into this Agreement.

16. NO PARTNERSHIP OR AGENCY

16.1 The Franchisee shall not represent itself as being the Franchisor nor an agent,

partner, employee or representative of the Franchisor and shall not hold itself out as such nor as having any power or authority to incur any obligation of any nature express or implied on behalf of the Franchisor and nothing in this Agreement shall operate so as to constitute the Franchisee an agent, partner, employee or representative of the Franchisor.

- 16.2 The Franchisee shall bear all costs, expenses and risks in establishing and operating the Facility as well as the Business.

17. NO WARRANTIES WITHOUT AUTHORITY

- 17.1 The Franchisee shall make no statement, representation or claim and shall give no warranty to any person in respect of the Business, the Products or the System, without the express prior written consent of the Franchisor.

18. INDEMNITY BY FRANCHISEE

- 18.1 The Franchisee hereby agrees and undertakes fully and effectively to indemnify and keep indemnified the Franchisor as well after as before the expiry or termination hereof for and against all damages, loss, claims, demands, expenses (including legal and professional expenses), costs and liabilities which the Franchisor may at any time incur as a result of any and all breaches by the Franchisee of the obligations under this Agreement.

19. EXCLUSION OF LIABILITY

- 19.1 Notwithstanding anything to the contrary in this Agreement, the Franchisor shall not, except in respect of death or personal injury caused by the negligence of the Franchisor, be liable to the Franchisee by reason of any representation or implied warranty, condition or other term or any duty at common law or under statute, or under the express terms of this Agreement, for any loss of business, contracts, profits or revenue or for any consequential special or indirect loss or damage arising out of or in connection with any act or omission of the Franchisor (whether occasioned by the negligence of the Franchisor or its employees or agents or otherwise) relating to the operation of the Business or provision or use

of the Products.

20. ASSIGNMENT

20.1 This Agreement and all the rights of the Franchisor hereunder may be assigned, transferred or otherwise dealt with by the Franchisor and shall inure to the benefit of the successors and assigns of the Franchisor.

20.2 This Agreement is personal to the Franchisee which may not without the written consent of the Franchisor, assign, mortgage, charge (otherwise than by floating charge) or dispose of any of its rights, or sub-contract or otherwise delegate any of its obligations under this Agreement.

21. RESERVATION OF RIGHTS

21.1 All rights and licenses not specifically and expressly granted to and conferred upon the Franchisee by this Agreement are for all purposes reserved to the Franchisor.

22. SEVERABILITY

22.1 Each of the restrictions and provisions contained in this Agreement and in each clause and sub-clause hereof shall be construed as independent of every other such restriction and provision to the effect that if any provision of this Agreement or the application of any provision to any person, firm or company or to any circumstances shall be determined to be invalid and unenforceable then save as provided in clause 22.2 below such determination shall not affect any other provision of the Agreement or the application of such provision to any person, firm, company or circumstance all of which other provisions shall remain in full force and effect.

22.2 In the event that any provision of this Agreement shall be held to be invalid or unenforceable by a court of law or other competent authority in a way which in the sole opinion of the Franchisor materially adversely affects the right of the Franchisor to receive payment of fees or other remuneration or the terms on which the Franchisor supplies goods or services to the Franchisee or any

territorial exclusivity conferred hereunder or the System or Proprietary Marks, then and in any such case the Franchisor may without liability terminate this Agreement by notice in writing to the Franchisee to that effect and in such circumstances the provisions of clause 14 above will apply.

23. FORCE MAJEURE

- 23.1 None of the parties to this Agreement shall be responsible to any other party for any delay in performance or non-performance due to any causes beyond the reasonable control of the parties hereto, but the affected party shall promptly upon the occurrence of any such cause so inform the other party in writing, stating that such cause has delayed or prevented its performance hereunder and thereafter the parties hereto shall review the terms of this Agreement so as to try best efforts to restore the party or parties to the same relative positions as previously obtained hereunder.

24. WAIVER

- 24.1 No failure of the Franchisor to exercise any power given to it hereunder or to insist upon strict compliance by the Franchisee with any obligation or condition hereof and no custom or practice of the parties at variance with the terms hereof shall constitute a waiver of any of the Franchisor's rights hereunder.
- 24.2 No waiver by the Franchisor of any particular default by the Franchisee shall affect or impair the Franchisor's rights in respect of any subsequent default of any kind by the Franchisee, nor shall any delay or omission of the Franchisor to exercise any rights arising from any default affect or impair the Franchisor's rights in respect of the said default or any other default of the Franchisee hereunder. Subsequent acceptance by the Franchisor of any payments by the Franchisee shall not be deemed a waiver of any preceding breach by the Franchisee of any of the terms covenants or conditions of this Agreement.

25. NOTICES

- 25.1 Any notice required to be given hereunder by any party hereto shall be in writing sent by prepaid recorded delivery or registered post or by facsimile or by email

and shall be deemed effective if sent by post at the expiration of 72 hours after the same was posted whether or not received or if by facsimile, 24 hours after dispatch to the correct facsimile number or email of the addressee. Each of the parties hereto shall notify the others of any change of address, facsimile number or email within 48 hours of such change.

26. ENTIRE AGREEMENT

26.1 This Agreement constitutes the entire agreement between the parties and supersedes all prior agreements in connection with the subject matter hereof. No director, employee or agent of the Franchisor is authorized to make any representation or warranty not contained in this Agreement and the Franchisee acknowledges that it has not relied on any such oral or written representations. No variation or waiver of any of the provisions of this Agreement shall be binding unless in writing and signed by a duly authorized director or employee of the Franchisor and the Franchisee.

27. APPLICABLE LAW

27.1 This Agreement and all rights and obligations of the parties hereto shall be governed and construed in accordance with the Laws of Hong Kong and the parties hereto hereby submit to the non-exclusive jurisdiction of the Courts of Hong Kong.

27.2 Any dispute, controversy or claim arising out of or relating to this Agreement, including the existence, validity, interpretation, performance, breach or termination thereof or any dispute regarding non-contractual obligations arising out of or relating to it shall be referred to and finally resolved by arbitration administered by the [Hong Kong International Arbitration Centre] under the [Hong Kong International Arbitration Centre Administered Arbitration rules] in force when the Notice of Arbitration is submitted. The seat of arbitration shall be [Hong Kong]. The number of arbitrators shall be [one]. The arbitration proceedings shall be conducted in English.

IN WITNESS WHEREOF the parties have entered into this Agreement the day and year first above written.

SIGNED BY the FRANCHISOR)
for and on behalf of)
[•])
in the presence of:-)
)

SIGNED BY the FRANCHISEE)
for and on behalf of)
[•])
in the presence of:-)
)

SCHEDULE 1
TRADEMARKS

<u>The Mark</u>	<u>No.</u>	<u>Class</u>	<u>Date of Registration</u>	<u>Goods</u>
[•]	[•]	[•]	[•]	[•]

SCHEDULE 2
MINIMUM PERFORMANCE TARGETS FOR FIRST FIVE YEARS

- (a) First Year - HK\$[•]
- (b) Second Year - HK\$[•]
- (c) Third Year - HK\$[•]
- (d) Fourth Year - HK\$[•]
- (e) Fifth Year - HK\$[•]

Sample Agreement #3: Copyright Licensing Agreement

(This example relates to character licensing, and involves the right to manufacture and sell the licensed goods.)

This AGREEMENT is made the [•] day of [month] [year].

BETWEEN

(1) [Name of Licensor] whose registered office is situated at [Registered address of Licensor] (the “**Licensor**”); and

(2) [Name of Licensee] (Business Registration Certification no.: [•]) whose registered office is situated at [Registered address of the Licensee] (the “**Licensee**”)

Licensor and Licensee shall at times be referred to collectively herein as the “**Parties**”.

RECITALS

A. Licensor is the sole owner (hereinafter referred to as “**The Owner**”) of Merchandising Rights with respect to the Property. The Licensor has the right to grant license with respect to the Property.

B. Whereas, Licensor desires to grant, and Licensee desires to acquire, a license to manufacture, distribute and/or sell articles utilizing the Property subject to the terms and conditions as set forth below.

NOW THEREFORE, in consideration of the mutual covenants, conditions and terms hereinafter set forth, and for other good and valuable consideration, **IT IS HEREBY AGREED** as follows:

1. DEFINITIONS AND INTERPRETATION

1.1. In this Agreement the following expressions shall have the following meanings unless the context otherwise requires:-

“Business Day”	shall mean a day other than a Saturday, Sunday or public holiday in the Hong Kong Special Administrative Region during which banks are open for business.
“Effective Date”	shall mean the date of this Agreement.
“Licensed Products”	shall mean the products on which the whole or any part of the Property have been reproduced pursuant to Clause 2.1.
“Merchandising Rights”	shall mean the right to grant commercial use of name, nickname, image, likenesses, photographs, descriptions, biography, supports, and other aspects of identity as applicable, in relation to the distribution and exploitation of all types of products and services or with all other kinds of exploitations of the activities in relation to the Property, including the exclusive right to exploit rights in relation to motion pictures including the right to grant the commercial use of titles, characters, themes and any other characteristics of the motion pictures as well as all photographs and visual representations of the characters of such motion pictures.
“Net Sales”	shall mean the full amount billed to Licensee’s end-retail customers less actual certified returns (provided, however, that such returns must be supported by credit memoranda actually issued to the customer and shall not exceed gross sales of shipped Licensed Products and sales taxes (if applicable)).
“Premium Items”	shall mean any Licensed Products used for the purposes of increasing the sale of another item, promoting or publicizing any product or service; fundraising or as giveaways to motivate a sales force, merchant, consumer or any other person to perform a specific act, or acting as a tie-in.

“Property” shall mean all trade marks, designs and copyrights over the [Licensed Products], as indicated in the attached Schedule 1.

“Term” Commencing on [•] and expiring on [•] (both days inclusive) unless sooner terminated as provided herein.

“Territory” Hong Kong Special Administrative Region, the People’s Republic of China and [•] only.

1.2. In this Agreement, unless otherwise specified:

(a) Clause, Schedule and paragraph headings shall not affect the interpretation of this Agreement.

(b) The Schedules form part of this Agreement and shall have effect as if set out in full in the body of this Agreement. Any reference to this Agreement includes the Schedules.

1.3. a reference to a statute or statutory instrument or any of their provisions is to be construed as a reference to that statute or statutory instrument or such provision as the same may have been or may after the Effective Date be amended or re-enacted;

1.4. grammatical variants of terms defined in this Clause 1 will bear their corresponding meanings; and

1.5. a reference to:

(a) "approval" or "consent" means the prior written approval or consent of the relevant party;

(b) "notice" means written notice as defined in Clause 13;

(c) a "third party" means any person other than the parties or their respective Affiliates;

2. GRANT OF LICENSE

- 2.1. The Licensor hereby grants to the Licensee as of the Effective Date, subject to, and in accordance with, for the term of this Agreement, a non-exclusive, non-transferable license to manufacture, distribute, market, advertise, publish and otherwise promote the use of the Property in the Territory.
- 2.2. No license is granted for the manufacture, sale or distribution of Licensed Products to be used as Premium Items. In the event the Licensee desires to use the Licensed Products as a Premium Items, the Licensee acknowledges and agrees that it shall be obligated to seek and obtain a separate license from the Licensor and that the third party user thereof shall also obtain a separate license from the Licensor for such use of Licensed Products.
- 2.3. The Licensee shall ensure that there are sufficient quantities and assortments of the Licensed Products available throughout the Territory to meet public demand. The agreed quantities and assortments of the Licensed Products shall be subject to the execution of a Production Agreement or in accordance to the written approval of the Licensor as attached to this License Agreement as Schedule 2, as applicable.
- 2.4. The Licensee undertakes that the manufacture, distribution, sale, promotion and advertisement of the Licensed Products comply with all foreign, national, federal, state and local laws, treaties, rules and regulations.
- 2.5. No license is granted hereunder for the use of the Property for any purpose other than on or in connection with the Licensed Products as set forth herein.
- 2.6. The Licensee shall not actively solicit orders for the Licensed Products outside the Territory. In the event it receives any unsolicited orders for the Licensed Products from any other country outside the Territory, it shall refer such order to the Licensor forthwith.
- 2.7. The Licensor reserves to itself all rights not expressly granted to the Licensee under this Agreement including the right to use or license the use in the Territory

of the Property on the Products as Premiums. Any one or more of such reserved rights may be exercised or enjoyed by the Licensor, directly or indirectly, at any and all times.

- 2.8. No use by the Licensor of the Property in any media or manner shall be deemed by the Licensee to interfere with the limited grant made to it by the Licensor pursuant hereto.
- 2.9. The Licensor is entitled to purchase from the Licensee the Licensed Products at wholesale price for the purpose of sale.

3. ROYALTY

- 3.1. The Licensee shall pay to the Licensor for each unit of the Licensed Products sold and/or distributed a royalty at the rate of [•] percent ([•]%) of Licensee's Net Sales of the Licensed Products covered by this Agreement (the "**Royalty Rate**").
- 3.2. The Royalty Rate shall be paid in Hong Kong dollars computed upon each unit of the Licensed Products sold, shipped or otherwise distributed by the Licensee or any of its distributors, wholesalers, retailers, affiliated and associated or subsidiary companies and/or their employees (the "**Related Companies**").
- 3.3. For avoidance of doubt, cost of shipping, cost of packaging, advertising or promotional expenses, cash or volume discounts, uncollectible accounts, bad debts or other costs or expenses incurred by the Licensee in the manufacture, sale, distribution, advertisement or promotion of Licensed Products shall not be deducted from the Net Sales.
- 3.4. The Licensee shall pay, and hold the Licensor forever harmless from, all taxes, customs duties, levies, imposts or any similar charges now or hereafter imposed or based upon the manufacture, delivery, license, sale, possession or use hereunder by or to the Licensee of the Licensed Products (including, but not limited to sales, use, inventory, income and value added taxes on sales of Licensed Products), which charges shall not be deducted from the Licensor's Royalties.

4. PAYMENT AND REPORTING

- 4.1. Royalty shall be computed and reported in a format mutually agreed upon between the Parties, consisting of the invoice price or “top-of-the-line” price, as applicable, quantity sold; Royalty Rate; deductions for actual certified returns and sales tax (if applicable) (“**Royalty Reports**”).
- 4.2. The Licensee shall make quarterly royalty payments as set forth herein. The Licensee shall deliver Royalty Reports to the Licensor within [•] ([•]) Business Days after the close of each calendar trimester during the Term, commencing with the first full calendar trimester following the Licensee’s execution of this Agreement, i.e. on or before the [•]th Business Day of the succeeding month following the completion of the calendar trimester. For the avoidance of doubt, Royalty Report must be submitted even if no royalty payment shall be paid to the Licensor.
- 4.3. An item shall be deemed sold when it is ordered and then invoiced or shipped, whichever is sooner.
- 4.4. Royalties may be computed in the currency of the country where the Licensed Product is sold. For the avoidance of doubt, royalties shall be paid to the Licensor in Hong Kong dollars at the exchange rate received by the Licensee at the time of conversion. The Licensee shall be solely responsible for all costs of any currency conversion to Hong Kong dollars and taxes or charges concerning such currency conversion and such costs shall not reduce the amounts due to the Licensor hereunder.
- 4.5. The Licensor shall review the Royalty Report and shall communicate its approval / comments for changes within [•] ([•]) Business Days of the Licensor’s receipt thereof. Upon the Licensor’s satisfaction of the contents of the Royalty Report, the Licensor shall provide the Licensee with an invoice for each payment due (“**Royalty Payment**”).
- 4.6. The Licensee shall remit Royalty Payments due to the Licensor within [•] days of receipt of the invoice. All payments shall be paid by the Licensee by means of international bank transfer.

4.7. All payments will be made in Hong Kong dollars to the Licensor's account (details as follows) or as otherwise directed by the Licensor:

Bank name:	
Bank address:	
Account holder name:	
Account number:	
SWIFT code:	

4.8. The Licensee shall be responsible for payment of foreign or national withholding taxes upon royalties becoming due to the Licensor (if appropriate), such sums to be deducted from royalties due before they are remitted.

4.9. Acceptance of any Royalty Report or Royalty Payment by the Licensor shall not preclude the Licensor from questioning the correctness of the same at any time during or after the Term. In the event of any inconsistencies, the Licensor shall notify the Licensee of such mistakes or errors in writing, and the Licensee shall immediately rectify such mistakes or errors and send to the Licensor the appropriate payment within [•] days of such notice.

4.10. All royalties shall be non-refundable and shall be made without set-off of any amount whatsoever, whether based upon any claimed debt or liability of the Licensor to the Licensee.

4.11. The Licensee shall keep and maintain accurate books of account and records covering all transactions relating to this Agreement at its usual place of business. The Licensor or its designee shall be entitled to:

4.11.1. audit and inspect such books and records, at any time or times during or after the Term of the Agreement during reasonable business hours and upon [•] ([•]) days prior written notice to the Licensee; and

4.11.2. obtain copies and summaries of such books and records, solely with reference to transactions relating to the Agreement. The Licensee shall retain all such books of account and records for a minimum of [•] ([•])

months after expiration or termination of this Agreement.

- 4.12. If the Licensor or the Licensor's duly authorized representative discovers a deficiency in the royalties paid to the Licensor for any period under audit (an "**Audit Deficiency**"), the Licensor shall notify the Licensee in writing, and the Licensee shall within [•] ([•])days of such notice promptly pay such Audit Deficiency to the Licensor.
- 4.13. Where an Audit Deficiency is discovered, the Licensee shall fully reimburse the Licensor for all costs and expenses incurred by the Licensor in connection with such audit.
- 4.14. In calculating costs for an internal auditor to perform such audit, the Licensor or its designee shall bill its personnel costs incurred in performing such audit on an hourly basis at the hourly salaried rate of the personnel performing such services multiplied by a factor of [•] ([•]).
- 4.15. Where an Audit Deficiency is discovered, the Licensor may, at its sole option, immediately terminate the Agreement upon notice to the Licensee. Despite such termination by the Licensor, the Licensee shall be required to remit the owed Audit Deficiency and associated costs and expenses to the Licensor.
- 4.16. Without prejudice to any other rights of the Licensor hereunder, time is of the essence regarding all payments due hereunder and the Licensee shall pay interest on any Audit Deficiency, as well as on all delinquent Royalty Payments hereunder, at [•] percent ([•]%) per annum above the "prime rate" or best lending rate of The Hongkong and Shanghai Banking Corporation Limited from time to time in effect and calculated from the date on which such payment was due but in no event at a higher rate than allowed by law.

5. DESIGN, PRODUCTION STANDARDS AND QUALITY CONTROL

- 5.1. The Licensee acknowledges that if the Licensed Products manufactured and sold by it under this Agreement are of inferior quality in material and/or workmanship, the substantial goodwill which Licensor has cultivated and now possesses in and to the Property will be impaired, diminished and/or diluted. The Licensee

undertakes that the Licensed Products, as well as all packaging, wrapping materials, labels, hangtags, press releases, advertising, promotional displays or other materials of any and all types prepared in connection with the Licensed Products (collectively, "Collateral Materials") shall be of the highest standard and quality.

5.2. The Licensee undertakes not to produce any Licensed Products based on rejected Pre-Production Design Documents as defined below. The Licensee shall not begin to manufacture, permit a subcontractor to begin the manufacture, and/or sell or distribute any particular Licensed Product under this agreement without obtaining the written approval of the Licensor in respect of the Pre-Production Design Documents, prototype and Production Samples of the Licensed Product in accordance with this Clause 5.

5.3. The following approval process shall be followed :

Step 1: The Licensee shall submit to the Licensor all pre-production samples of materials out of which Licensed Products will be made, and artwork for the Licensed Products and their Collateral Materials (collectively, "**Pre-Production Design Documents**") to the Licensor for approval. The Licensor shall communicate its approval / disapproval / request for changes within [•] ([•]) Business Days of the Licensor's receipt thereof.

Step 2: The Licensee shall duly make modifications to any Pre-Production Design Documents / prototypes where changes have been requested, and resubmit the modified Pre-Production Design Documents / prototypes to the Licensor for approval. The Licensor shall communicate its approval / disapproval / request for changes within [•] ([•]) Business Days.

Step 3: Based upon the approved Pre-Production Design Documents, the Licensee may manufacture prototypes of Licensed Products.

Step 4: Prototypes of the Licensed Products will be sent to the Licensor for approval. The Licensor shall communicate its approval / disapproval / request for changes within [•] ([•]) Business Days of the Licensor's receipt thereof.

Step 5: The Licensee shall produce Licensed Products based ONLY upon the prototype elements approved by the Licensor.

- 5.4. All Licensed Products shall be manufactured, sold, labeled, packaged, distributed and advertised in accordance with all applicable laws, regulations, industry standards, safety standards, and codes of practice, and import and export controls in each applicable country including, without limitation, all child-safety and regulations in each legal jurisdiction within the Territory in which the Licensee sells the Licensed Products.
- 5.5. The Licensee shall submit, at the Licensee's expense, a maximum number of [•] ([•]) samples of each finished Licensed Product from the first production run ("**Production Samples**"), together with any Collateral Materials, if applicable, to the Licensor for the Licensor's prior written approval before production. The Licensor shall communicate its approval / disapproval / request for changes within [•] ([•]) Business Days of the Licensor's receipt thereof. The Licensee shall make modifications and resubmit the Production Samples to the Licensor for written approval before commencing the manufacture and production of the Licensed Products.
- 5.6. The Licensor shall have the right to purchase additional Production Samples within a reasonable quantity at the actual cost of the Licensed Products.
- 5.7. In the event that the quality standards mentioned in this Clause 5 is not met, the Licensee shall, upon written notice of such disapproval from the Licensor, discontinue the manufacture and distribution of such Licensed Products and/or the Collateral Materials related thereto, unless the Licensee shall have remedied such failure of quality to the Licensor's satisfaction within [•] ([•]) Business Days after the Licensee's receipt of notice thereof. Failure of the Licensee to duly remedy such quality issue or to discontinue the manufacture of and distribution of the Licensed Products and/or Collateral Materials pending approval from the Licensor shall entitle the Licensor to terminate this Agreement upon written notice to the Licensee.
- 5.8. In the event there is a material departure from the approved Pre-Production Design Documents, the Licensor shall have the right to terminate this Agreement

with respect to such Licensed Products by providing written notice to the Licensee as set forth herein. The Licensee shall, upon written notice from the Licensor, discontinue the manufacture and distribution of such Licensed Products and/or the Collateral Materials related thereto unless the Licensee shall have remedied such failure of quality to the Licensor's satisfaction within [•] ([•]) Business Days after the Licensee's receipt of notice thereof. Failure of the Licensee to duly remedy such quality issue or to discontinue the manufacture of and distribution of the Licensed Products and/or Collateral Materials pending approval from the Licensor shall entitle the Licensor to terminate this Agreement upon written notice to Licensee. If there are other Licensed Products under this Agreement not affected by this paragraph, this Agreement shall remain in full force and effect as to those other Licensed Products only.

- 5.9. All materials submitted by the Licensee to the Licensor for approval pursuant to this Clause 5 shall be sent to the Licensor at such address as stated in Clause 13.2 below or such other place as the Licensor may designate from time to time.
- 5.10. All Pre-Production Design Documents, prototype and/or Production Samples of the Licensed Product which have been rejected by the Licensor shall be destroyed by the Licensee at the Licensee's cost. The Licensee shall deliver a written confirmation to the Licensor confirming such destruction, within [•] ([•]) Business Days of receipt of such rejection.
- 5.11. The Licensee shall at all times be prohibited from manufacturing any products based on the rejected Pre-Production Design Documents, prototype and/or Production Samples of the Licensed Product. In the event the Licensor discovers any manufacture of the same, the Licensee shall immediately destroy such products at the Licensee's cost, and the Licensee shall deliver a written confirmation to the Licensor confirming such destruction within [•] ([•]) Business Days. Failure of the Licensee to duly destroy such products shall entitle the Licensor to terminate this Agreement upon written notice to the Licensee. The Licensor expressly reserves all rights to claim against the Licensee for any loss arising from, in connection with or resulting from such prohibited act.

6. OWNERSHIP

- 6.1. The Licensee acknowledges that The Owner is the owner of the Property and the Licensee shall not challenge The Owner's claim to ownership of the Property.
- 6.2. Neither this Agreement nor any action, omission or statement by the Licensor or the Licensee, nor the Licensee's use of the Property in connection with the Licensed Products shall in any way confer or imply an assignment of rights, title or interest thereto, or to any element or portion thereof or any other rights, including, without limitation, copyrights, trade marks, trade names, service marks or goodwill associated therewith, the ownership of which shall be and at the times remain solely and exclusively with The Owner.
- 6.3. The Licensor reserves all rights now known or hereafter devised in and to the Property as conferred by the Merchandising Rights, the Licensor's copyrights and trade marks including but not limited to the Licensor's name and logo throughout the universe in perpetuity to the extent it owns or controls such rights.
- 6.4. The Licensee acknowledges that the Property is valuable and has a substantial amount of goodwill built into it and that the Licensor is The Owner of the Property. Any goodwill derived from the use by the Licensee of the Property shall accrue to The Owner.
- 6.5. The Licensee shall not, during the Term, any extension and/or renewal thereof, or at any time thereafter, dispute or contest, directly or indirectly, The Owner's ownership in and to the Property, the Licensor's exclusive right (subject to the rights granted in this license) to use and/or exploit the Property under the Merchandising Rights, nor shall the Licensee assist or aid others whether directly or indirectly in doing so.

7. INTELLECTUAL PROPERTY, TRADE MARKS & COPYRIGHT

- 7.1. Intellectual Property Rights shall mean all vested contingent and future intellectual property rights including but not limited to goodwill, reputation, rights in confidential information, copyright, trade marks, logos, service marks, devices plans, models, diagrams, specifications, source and object code materials, data and processes, design rights, patents, know how, trade secrets, inventions, get up, database rights (whether registered or unregistered) and any Licensed Products

or registration for the protection of these rights and all renewals and extensions thereof existing in any part of the world whether now known or in the future created.

7.2. The Licensee shall not make any alteration or amendment to the Pre-Production Design Documents, the Property or any Collateral Materials or any other documents and materials as may be relevant under the terms of this Agreement unless otherwise agreed by the Licensor in writing.

7.3. The Licensee shall not apply to register, or register, any copyright, trade mark, design or other type of Intellectual Property Rights for any goods or services in any country with respect to:

7.3.1. The whole or any part of the Property or any related materials; or

7.3.2. Any trade or service mark or any other designation which consists of, or comprises, or is confusingly similar to, the whole or any part of the Property.

7.4. The Licensee acknowledges:

7.4.1. The Owner of the Property shall be the owner and copyright proprietor of the Licensed Products and the intellectual properties associated thereto.

7.4.2. The Owner shall have the right to register trade marks and/or claims to copyright for any design incorporating the Property as may be reasonably necessary, in the Licensor's sole discretion, to protect The Owner's interests in and to the Property.

7.4.3. If deemed necessary by the Licensor and upon request which shall not be unreasonably withheld, the Licensee shall execute assignments in favor of The Owner of any and all copyrights, trade marks or other Intellectual Property Rights of whatever kind relating to the Property exclusively.

7.4.4. If the Licensor requires any samples of the Licensed Products or any

photographic reproductions of the same, for use in the filing of copyright claims or trade mark applications, the Licensee shall provide the Licensor with the same at the Licensor's expense.

- 7.5. The Licensee represents and warrants that it will provide notice on the Licensed Products and all Collateral Materials including but not limited to labels, packaging, wrapping, advertising and promotional materials bearing any reproductions or use of the Property in the format set out below:

[State the agreed format:

e.g. [•] Official Licensed Product.

[•]. All Rights Reserved.]

The position and format of the legal line on the Licensed Products shall be discussed with and approved by the Licensor.

- 7.6. The Licensee acknowledges that the omission of the notice as provided in Clause 7.5 above shall be considered a material breach of this Agreement and the Licensor's recourse shall include but not be limited to the right to immediate termination of this Agreement, penalties and/or additional compensation for such omission and/or equitable relief as the Licensor deems fit.
- 7.7. The Licensee shall not, during the Term, any extension and/or renewal thereof, or at any time thereafter, dispute or contest, directly or indirectly, the validity of any of the copyrights or trade marks pertaining hereto or The Owner's ownership thereof, nor shall the Licensee assist or aid others whether directly or indirectly in doing so.
- 7.8. The Licensee shall not, directly or indirectly, do, assist the doing of, nor permit to be done any act that may diminish or might jeopardize or invalidate any of the rights of the Licensor in the Intellectual Property Rights.
- 7.9. The Licensee shall not permit any copying, duplication, reproduction or other exploitation of the Property (or any portion or element thereof) by its employees, managers, executives, directors, contractors or any third party contractor or sub-licensee as applicable, except as expressly authorized hereunder.

7.10. The Licensee shall not commingle on the Licensed Products manufactured hereunder (or in the advertising or promotion thereof) the names, characters and/or likeness owned by any other third party without the Licensor's prior written consent.

8. TERMINATION

8.1. This Agreement shall commence on the Effective Date and, unless terminated earlier in accordance with this Clause 8, shall remain in force for the Term.

8.2. Without affecting any other right or remedy available to it, the Licensor shall have the right to terminate this Agreement on giving the Licensee not less than [•] ([•]) months' written notice of termination.

8.3. Without prejudice to any other rights, the Licensor shall have the right to terminate this Agreement, or a portion thereof, upon [•] ([•]) days prior written notice to Licensee, at any time that the following may occur:

8.3.1. The Licensee has not begun distribution of any Licensed Products in the Territory on the sixth month following the Effective Date.

8.3.2. If the Licensee is not actively marketing and/or attempting to sell the Licensed Products for more than [•] ([•]) consecutive months, once distribution of the Licensed Products has begun.

8.3.3. If the Licensee fails to remit any payment due hereunder or to deliver any of the Royalty Reports, and if such default shall continue for a period of [•] ([•]) Business Days after written notice of such default is sent by Licensor to Licensee.

8.3.4. The events mentioned under Clause 5.7 herein.

8.3.5. The events mentioned under Clause 5.8 herein.

8.3.6. The events mentioned under Clause 5.11 herein.

- 8.3.7. If the Licensee is in breach of any obligation herein.
- 8.4. Without prejudice to any other rights, the Licensor shall have the right to terminate this Agreement with immediate effect by giving written notice to the Licensee if:
- 8.4.1. A second breach of Clause 8.3.3, regardless of whether the Licensee had cured any prior failure or breach.
- 8.4.2. If the Licensee is unable to pay its debts when due, or shall make any assignment for the benefit of creditors, or shall file or permit to be filed any petition under the bankruptcy or insolvency laws of any jurisdiction, country or place, or shall have or suffer a receiver or trustee to be appointed for its business or property, or be adjudicated a bankrupt or an insolvent.
- 8.4.3. If the Property is not being used pursuant to the terms and conditions of this Agreement.
- 8.4.4. If the Licensee fails to perform any of the material terms, conditions, agreements or covenants contained in this Agreement which breach is irremediable.
- 8.4.5. The events mentioned under Clause 4.15 herein.
- 8.4.6. A material breach as mentioned in Clause 7.6 herein.
- 8.4.7. If there is a material breach of any representation or warranty made by Licensee in connection with this Agreement, and such default shall continue uncured for a period of [•] ([•]) Business Days after receipt by the Licensee of written notice thereof.
- 8.5. The Licensee will be solely responsible for and will fully indemnify the Licensor in respect of any claims, demands, suits judgment and/or any action including legal proceedings that may be brought against the Licensor and all Licensor's losses, damages, expenses and costs occasioned thereby or resulting therefrom.

9. EFFECT OF EXPIRATION OR TERMINATION

- 9.1. Upon the expiration or termination of this Agreement, all rights granted to the Licensee hereunder shall automatically and immediately revert to the Licensor.
- 9.2. Forthwith upon termination or expiration, the Licensee agrees to discontinue further creation and/or development of the Licensed Products, cease sales and distribution of all Licensed Products and destroy all artwork and designs incorporating the Property within [•] ([•]) days after the expiration or termination.
- 9.3. On expiration or termination, the final Royalty Report shall be delivered within [•] days of expiration or termination, and will include details of all Licensed Products sold, all Licensed Products in the course of manufacture, and all Licensed Products manufactured but not yet disposed of at such date.
- 9.4. The Licensee shall make Royalty Payment for all Licensed Products sold in accordance with Clause 4 above.
- 9.5. For Licensed Products that are in the course of manufacture or that have been manufactured but not yet disposed of at the date of expiration or termination, upon the Licensor's approval of the final Royalty Report and the Licensee's payment of the Royalty Payment in accordance with Clause 4, the Licensee shall then be free to sell at wholesale price, or dispose of such Licensed Products, provided that the Licensee is in compliance with these terms as at the date of termination. The Licensor reserves its right to claim against the Licensee for any Audit Deficiency in relation to the final Royalty Report and for any loss arising from, in connection with or resulting from any breach of this clause.
- 9.6. The Licensee's obligations existing prior to termination or obligations under Clause 4 and this Clause 9 shall survive termination of this Agreement and the Licensee shall not be relieved or released from any of these obligations.

10. LICENSEE'S REPRESENTATIONS, WARRANTIES & INDEMNIFICATION

- 10.1. The Licensee represents, warrants and agrees that:

- 10.1.1. It is a corporation duly organized, validly existing and in good standing under the law.
- 10.1.2. It has full corporate power and authority to conduct its business as now being conducted and as contemplated hereby, and holds all necessary licenses and permits from all government entities for the proper conduct of said business.
- 10.1.3. It has the unrestricted right, power and authority to enter into this Agreement and to perform its obligations hereunder, and neither the execution and delivery of this Agreement nor the consummation of the actions contemplated hereby will (i) violate any provisions of its charter documents, (ii) violate, conflict with or constitute a default under any contract to which it is a party or (iii) violate any law binding on it.
- 10.1.4. It will comply with all applicable laws, regulations, ordinances and other requirements involving the use of the Property and the conduct of the Licensee's business in connection therewith.
- 10.1.5. It will not harm, misuse or bring disrepute to the Property.
- 10.1.6. Any and all work created by the Licensee under this Agreement apart from the materials provided to the Licensee by the Licensor is and shall be wholly original with or fully cleared by the Licensee and shall not copy or otherwise infringe the rights of any third parties, and the Licensee hereby indemnifies the Licensor and will hold the Licensor fully harmless from any claim of infringement or otherwise involving the Licensee's performance hereunder.
- 10.1.7. At the request of the Licensor, the Licensee shall execute such form(s) of assignment of copyright or other papers as the Licensor may reasonably request in order to confirm and vest in the Licensor the rights in the properties as provided for herein.
- 10.1.8. If any third party makes or has made any contribution to the creation of the artwork authorized for use hereunder, the Licensee agrees to obtain

from such party, prior to commencing work, a full confirmation and assignment of rights so that the foregoing rights shall vest fully in the Licensor. The Licensee assumes all responsibility for such third parties and agrees that the Licensee shall bear any and all risks arising out of or relating to the performance of services by them and to the fulfillment of their obligations.

10.1.9. The Licensee shall maintain during the term of this Agreement, and for at least [•] months thereafter, general liability insurance with an internationally reputable, credit-worthy, unaffiliated insurance company, which insurance shall include product liability coverage and shall be in amounts and of a type customarily maintained by companies similarly situated, provided that such insurance shall provide at least in coverage per occurrence. On or prior to the first shipment of Licensed Product, the Licensee shall deliver to the Licensor evidence of its insurance.

10.2. The Licensee hereby indemnifies and agrees to defend and hold harmless forever the Licensor, and their respective agents, representatives, employees, attorneys, successors and assigns from and against any and all claims, demands, losses, costs and expenses (including attorneys' fees reasonably incurred by Licensor), investigations, damages, judgments, penalties and liabilities of any kind or nature whatsoever, directly or indirectly arising out of, resulting from, relating to or connected with (a) any unauthorized use of the Property by the Licensee and/or its Related Companies; (b) any breach of any obligation, representation, warranty or covenant of the Licensee and/or its Related Companies; (c) any alleged defects and/or inherent dangers in or use by any person or entity of any Licensed Products; (d) the Licensee's design, manufacture, distribution, shipment, advertising, promotion or sale of the License Products or the promotional and packaging material and/or Collateral Materials by itself and/or by its Related Companies; (e) any defamation or invasion of the right of privacy, publicity or other personal or property right; (f) any breach of any confidentiality or trade secret provision or agreement ; (g) any use of any design, patent, process, method or device; or (h) any infringement of any copyright or trade mark not licensed hereunder by the Licensor; (i) the Licensee's non-compliance with any applicable federal, state or local laws or with any other applicable regulations.

10.3. The Licensee shall as soon as it becomes aware of (i) any use or proposed use by any third party which may amount to infringement of the Intellectual Property Rights, or (ii) any allegations that the Intellectual Property Rights infringes any third party right, promptly notify the Licensor and will make no comment or admission to anyone else regarding these matters. Unless otherwise agreed:

10.3.1. The Licensor will have the conduct of all claims regarding infringement or alleged infringement of the Intellectual Property Rights.

10.3.2. The Licensor may direct the Licensee to defend any such claim at the Licensee's sole cost and expense.

10.3.3. The Licensor may, at its option, engage counsel to defend such claim at the Licensee's sole cost and expense for which the Licensee shall pay within [•] ([•]) Business Days upon being invoiced therefore.

10.3.4. No settlement of any claim for which indemnity shall be made hereunder shall be made by the Licensee without the prior written consent of the Licensor.

10.3.5. The Licensee shall on request, fully co-operate with the Licensor regarding any such claim.

11. NO PARTNERSHIP OR AGENCY

11.1. This Agreement does not constitute and shall not be construed as constituting a partnership, agency, or joint venture between the Licensor and the Licensee. The Licensee shall have no right to obligate or bind the Licensor in any manner whatsoever and nothing herein contained shall give or is intended to give any right of any kind to any third party.

12. SUB-LICENSING

12.1. The license hereby granted is and shall be personal to the Licensee and shall not be assignable by any action of the Licensee or by operation of law, and any attempt as such assignment shall be null and void.

12.2. The Licensee shall not have the right to grant any sub-licenses. The Licensor reserves all the rights to grant sub-licenses to others regarding the Property. Notwithstanding the foregoing, the Licensee may have Licensed Products manufactured by a third party, provided that the Licensee has obtained the prior written approval of Licensor in each instance and subject to signature by the third party manufacturer of the Manufacturer's Agreement attached to this License Agreement as Schedule 3.

12.3. Notwithstanding any of the other provisions contained in this Agreement, the Licensor acknowledges that the Licensee intends to use various trading companies in the manufacturing and developing and distribution of the Licensed Products and that the trading companies also have the rights granted herein, provided that the Licensee shall be liable to the Licensor for the Royalty Reports and all payments to Licensor hereunder for all Licensed Products sold by the various trading companies and the Licensee will assume all responsibility for such third parties arising out of or relating to the performance of services by them and to the fulfillment of their obligations.

12.4. This Agreement shall inure to the benefit of and shall be binding upon the Licensor's successors and assigns.

13. NOTICE

13.1. Whenever notice is required to be given under this Agreement, it shall be deemed to be good and sufficient notice if in writing, signed by an officer or an authorized agent of the party serving such notice and sent by e-mail or mailed by registered or certified mail, or personal delivery or overnight air to the other party at the address stated below unless notification of a change of address is given in writing.

13.2. For the purpose of delivery of notices under this Agreement, the address and e-mail address of the Licensor is:

Address:

Email:

Attention:

13.3. For the purpose of delivery of notices under this Agreement, the address and e-mail address of the Licensee is:

Address:

Email:

Attention:

13.4. Any such notice or communication shall be deemed to have been given on (i) the day such notice or communication is personally delivered, (ii) three (3) days after such notice or communication is mailed by prepaid certified or registered mail, (iii) one (1) working day after such notice or communication is sent by overnight courier, or (iv) the day such notice or communication is sent electronically, provided that the sender has received a confirmation of such electronic transmission.

14. FORCE MAJEURE

14.1. The Licensee agreed that all the employees, managers, executives, directors, contractors of the Licensee shall comply with the terms and conditions of this Agreement.

14.2. Neither party shall be liable for failure to perform any of their obligations hereunder when such failure is caused by or results from events, circumstances, or causes beyond its reasonable control, such as (i) strike, blacklisting, boycott or sanctions however incurred; (ii) acts of God, public enemies, authority of law, embargo, quarantine, riot, insurrection or war; (iii) inability to obtain raw materials; or (iv) any other cause beyond their respective control.

14.3. In the event either party is unable to perform its obligations as a consequence of any of the contingencies set forth in this section for a period of [•] ([•]) months or more, either party hereto may terminate this Agreement, which termination shall relieve each party of any liability to the other based upon such termination.

15. ENTIRE AGREEMENT

15.1. This Agreement contains the entire understanding of the parties. There are no representations, warranties, promises, covenants of understandings, oral or otherwise, other than those herein contained.

16. CONFIDENTIALITY

16.1. This Agreement and the contents hereof constitute a confidential business relationship between the Parties. Each Party acknowledges that significant damage could be done to the other should the terms of this Agreement become public knowledge. Both Parties agree that they will not at any time during this Agreement, and for a period of [•] ([•]) years after the expiry or termination of this Agreement, disclose or reveal the terms of this Agreement to any third party (excluding agents, attorneys, representatives, and others with whom they have a legal obligation to disclose) and that they will exercise reasonable precautions to ensure that neither they nor their employees or agents shall allow the terms of the Agreement to become public knowledge.

16.2. No Party shall use any other Party's confidential information for any purpose other than to perform its obligations under this agreement.

17. CLEARANCES

17.1. Notwithstanding any rights granted by the Licensor herein with respect to the Property, the Licensee shall be solely responsible for obtaining all consents and permissions necessary in connection with the activities contemplated hereby including, without limitation, all permissions from copyright owners of all photographs, images, illustrations, stills, and/or artwork used in the advertising, sale or distribution of the Licensed Products and all persons appearing therein, whether depicting the Property or otherwise.

18. VARIATION

18.1. The terms of this Agreement may not be amended, modified, waived, discharged or terminated except by the express written agreement signed by the Parties

hereto.

18.2. No waiver by either party of a breach or default hereunder shall be deemed waiver by such Party of a subsequent breach or default of a like or similar nature.

19. GOVERNING LAW

19.1. This Agreement, its validity, construction and effect, and any dispute or claim arising out of or in connection thereto shall be governed and construed in accordance with the laws of Hong Kong, without reference to its conflicts of laws' principles.

19.2. Nothing in this Agreement is intended to be contrary to the laws of any country or political sub-division thereof. In the event that any of the subsection or particular terms or conditions set forth herein are held to be unenforceable by a court with competent jurisdiction, such subsection or particular term of condition therein shall be deemed modified to the extent required within the jurisdiction of such Court and the Agreement shall otherwise remain in full force and effect in such jurisdiction and in its entirety in other jurisdictions.

19.3. During the pendency of any action relating to this Agreement, Licensee shall remain obligated to continue to remit Royalty Reports and made Payments as provided herein.

20. DISPUTE RESOLUTION

20.1. The Parties agree that arbitration shall be the sole, mandatory and exclusive forum to settle any controversy or claim arising out of or relating to this Agreement, or the breach thereof.

20.2. Any dispute, controversy or claim arising out of or relating to the Agreement, or breach hereof, shall be submitted to arbitration under the Hong Kong International Arbitration Centre Administered Arbitration Rules in force when the Notice of Arbitration is submitted in accordance with these Rules.

20.3. The arbitration tribunal ("**Tribunal**") shall consist of one (1) arbitrator. The

arbitrator shall be appointed by the Licensor. The place of arbitration shall be Hong Kong and the language to be used in the arbitration shall be English.

20.4. Any award made by the Tribunal shall be final and binding on the Parties, and the Parties agree to be bound thereby and to act accordingly.

20.5. Any award made by the Tribunal may be entered in any court having the jurisdiction thereof.

20.6. The costs of arbitration and the costs of enforcing the arbitration award (including witness expenses and reasonable legal fees) shall be borne by the losing Party, unless otherwise determined by the arbitration award.

21. COUNTERPARTS

21.1. This Agreement may be executed in any number of counterparts by the Parties; each of which when so executed and delivered shall be a duplicate original, but all the counterparts shall together constitute one and the same agreement.

IN WITNESS WHEREOF the parties have entered into this Agreement the day and year first above written.

("Licensor")

("Licensee")

Signature:

Signature:

(with authorized company chop)

(with authorized company chop)

Name:

Name:

Date:

Date:

Schedule 1

[all trade mark, design and copyright over the [Licensed Products]]

Schedule 2

[Production Agreement]

Schedule 3

[Manufacturer's Agreement]

[特許庁委託事業]
香港知財取引調査（ブランド・コンテンツ編）

2024年5月
禁無断転載

[調査受託]
ONC Lawyers

独立行政法人 日本貿易振興機構
香港事務所
(知的財産部)