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## CHAPTER 7

# Hong Kong

*Jyh-An Lee & Jingwen Liu*

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### OVERVIEW AND SUMMARY

Inherited from the common law tradition, Hong Kong has no statutory protection for confidential information and trade secrets.<sup>1</sup> Instead, confidential information is protected by the common law practice of breach of confidence. The breach of confidence claim covers a wide range of confidential information, including but not limited to technical know-how, commercial records, and government or even personal information.<sup>2</sup> For a breach of confidence claim to be established, three elements must be found. First, the subject information must have the necessary quality of confidence. Second, that information must have been imparted in circumstances importing an obligation of confidence. Third, there must be an unauthorized use of that information to the detriment of the party communicating it.<sup>3</sup> Once a breach of confidence has been found, the aggrieved owner of the information is entitled to the equitable remedy of injunction. Damages, including exemplary damages, are also available according to the principles set down in *China Light & Power Co Ltd v Ford*.<sup>4</sup> It is noteworthy that Hong Kong has hesitated to introduce criminal liabilities to breach of confidence. In spite of the global tendency towards criminalisation of trade secret infringement, a consultation paper issued by Hong Kong Bar Association (HKBA) in 2001 explicitly voiced against adopting such legislation in Hong Kong.<sup>5</sup>

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1. Angus Phang, Ling Ho and Mena Lo, 'Hong Kong', in Melvin F. Jager (ed.), *Trade Secrets Throughout the World* (Clark Boardman Callaghan 2019) § 17:6.

2. David Llewelyn and Tanya Aplin, *Intellectual Property: Patents, Copyright, Trade Marks and Allied Rights* (9th edn, Sweet & Maxwell 2019) 319.

3. *Coco v A.N. Clark (Engineers) Ltd* [1969] RPC 41.

4. *China Light & Power Co Ltd v Ford* [1996] 1 HKLRD 57.

5. Hong Kong Bar Association, *Consultation Paper on Unfair Competition and Intellectual Property Rights* (11 May 2001).

## 1. THE EQUITABLE ACTION FOR BREACH OF CONFIDENCE

### 1.1. The Necessary Quality of Confidence

In the commonwealth world, information is traditionally divided into three categories according to the principles laid down in *Faccenda Chicken Ltd v Fowler*: (i) information that is trivial or in the public domain; (ii) confidential information; and (iii) specific trade secrets.<sup>6</sup> For a breach of confidence to be found, the subject information cannot be trivial or easy to access from public sources. Information from both categories (ii) and (iii) is eligible subject matter for a breach of confidence cause of action. The main feature that distinguishes a trade secret from confidential information is that, in the employment sphere, a trade secret of the employer cannot be utilised by a departing employee even after the termination of his employment contract, whereas ordinary confidential information is free to be used by an ex-employee, absent an express obligation imposed by an enforceable restrictive covenant governing his post-employment behaviour.<sup>7</sup>

**Topic 1** of this chapter provides some insights on what might constitute a trade secret, as opposed to ordinary confidential information, in Hong Kong. Based on English case law, the court in *AXA China Region Insurance Co Ltd and Another v Pacific Century Insurance Co Ltd and Others* listed the following qualities essential for a trade secret:

- (1) it is used in a trade or business (*Lansing Linde* and *Faccenda Chicken* 5(b));
- (2) it is confidential, i.e., not already in the public domain (*Thomas Marshall v Guinle* and *Faccenda Chicken*);
- (3) it can be easily isolated from other information which the employee is free to use so that any man of average intelligence and honesty would think it is improper to use the information at the disposal of his new employer (*Faccenda Chicken* 5(d) and *Printers & Finishers*);
- (4) it would be liable to cause real or significant harm to the owner if disclosed to a competitor (*Lansing Linde* and *Thomas Marshall v Guinle*); and
- (5) the owner of the information must limit its dissemination or at least not encourage or permit its widespread publication or otherwise impress upon the employee the confidentiality of the information (*Lansing Linde* and *Faccenda Chicken* 5(c)).<sup>8</sup>

### 1.2. Circumstances Importing an Obligation of Confidence

When illustrating what circumstances would give rise to an obligation of confidence, the presiding judge, Mr Justice Megarry ('Megarry J'), developed the so-called reasonable man test in *Coco v A. N. Clark (Engineers) Ltd.*, ruling that 'if the circumstances are

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6. *Faccenda Chicken Ltd v Fowler* [1987] Ch 117.

7. *Ibid.*

8. *AXA China Region Insurance Co. Ltd. and Another v Pacific Century Insurance Co. Ltd. and Others* [2003] 3 HKC 1 [38].

such that any reasonable man standing in the shoes of the recipient of the information would have realised that upon reasonable grounds the information was being given to him in confidence, then this should suffice to impose upon him the equitable obligation of confidence'.<sup>9</sup> This is thus viewed as an equitable root of a binding obligation of confidence.

Confidentiality can also arise from a binding contractual obligation. In *Akihiro Oba and Others v Kishimoto Sangyo Co. Ltd. and Another*,<sup>10</sup> the Court of Appeal in Hong Kong specifically pointed out the different legal effects arising from a breach of contractual obligation and that of an equitable one. Because the 1st defendant, Mr Oba, was holding the concurrent positions of a senior manager at the plaintiff's company in Japan and a director of its Hong Kong subsidiary, his alleged misappropriation of the plaintiff's confidential information had simultaneously resulted in a breach of fidelity duty and breach of fiduciary duties. When hearing the dispute, the Court of Appeal pointed out that:

Breach of the duty of fidelity results in the common law remedy of damages; breach of fiduciary duties calls for remedies in equity. Although, since the Judicature Act of 1873, the streams of common law and equity have merged, there are essential differences in remedies which must be recognised.<sup>11</sup>

The duty of fidelity arises by implication from an employment contract. 'For breach of this duty damages are recoverable at common law.'<sup>12</sup> On the other hand, 'breach of fiduciary duty imports wider considerations'. Equitable relief for such breach is founded on the commonwealth legal tradition.<sup>13</sup>

### 1.3. Unauthorized Use to the Detriment of the Plaintiff

The third element put forward in *Coco v Clark* is that the defendant must have misused the information to the detriment of the plaintiff. First of all, there must be an unauthorized use of the subject information by the defendant. In Hong Kong, unauthorized use was sometimes found by way of drawing inference in case law, such as the leading cases of **Topic 3** and **Topic 5** of this chapter. To be specific, in both cases, since the plaintiff had adduced evidence to prove the confidentiality of the subject information and the defendant's duty of confidence, the burden shifted to the defendant to prove that he had not misused or disclosed the subject information. Given the defendant failed to discharge this burden, the court drew an inference in favour of the plaintiff to find a breach of confidence established.

With regard to the detriment, Megarry J himself questioned whether it was necessary in the establishment of a breach of confidence:<sup>14</sup>

9. *Coco v Clark*, *supra* note 3, 420-421.

10. *Akihiro Oba and Others v Kishimoto Sangyo Co. Ltd. and Another* [1996] 1 HKLRD 196.

11. *Ibid.*, [33].

12. *Ibid.*, [34].

13. *Ibid.*, [42].

14. Llewelyn and Aplin, *supra* note 2, 346.

At first sight, it seems that detriment ought to be present if equity is to be induced to intervene; but I can conceive of cases where a plaintiff might have substantial motives for seeking the aid of equity and yet suffer nothing which could fairly be called detriment to him, as when the confidential information shows him in a favourable light but gravely injures some relation or friend of his whom he wishes to protect. The point does not arise for decision in this case, for detriment to the plaintiff plainly exists. I need therefore say no more than that although for the purposes of this case I have stated the proposition in the stricter form, I wish to keep open the possibility of the true proposition being that in the wider form.<sup>15</sup>

## 2. CIVIL REMEDIES

### 2.1. Injunctions

Injunctions, as a category of equitable remedy, are a common remedy in cases involving breach of confidence. Because the leakage of confidential information normally concerns significant commercial value and irreparable economic loss, applications for interlocutory reliefs are frequently brought by plaintiffs before a final decision is reached. A random search at Westlaw Asia with keywords ‘breach of confidence’ and ‘interlocutory injunction’ revealed 67 results in Hong Kong as of 17 March 2021. Special forms of injunctions such as Mareva injunctions and Anton Piller orders are frequently sought as well. As illustrated further in **Topic 1** of this chapter, the rules governing the granting of interlocutory injunctions in Hong Kong were set down in the English case *American Cyanamid Co v Ethicon Ltd*.<sup>16</sup> In short, the court must be satisfied that, having taken into account all prima facie evidence and the balance of convenience, etc., there is a serious issue to be tried and the plaintiff has a good prospect of success at trial, before an interlocutory injunction will be granted.

Under certain circumstances, a springboard injunction is applicable. A springboard injunction is usually applied by an ex-employer to prevent its ex-employee from obtaining a head start in a competing business by misusing the former’s confidential information.<sup>17</sup> The concept arose in the area of confidential information misappropriation,<sup>18</sup> but is not confined to breach of confidence cases.<sup>19</sup> The basic idea is ‘to erase any artificial advantage a confidant might derive from being privy to confidential information which later becomes public’.<sup>20</sup> Unlike an ordinary injunction for breach of confidence, a springboard injunction can still be claimed even when the confidential information later becomes publicly accessible.<sup>21</sup> Moreover, a springboard injunction is typically applied in the absence of an express restrictive covenant between the

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15. *Coco v Clark*, *supra* note 3, 421.

16. *American Cyanamid Co v Ethicon Ltd* [1975] AC 396, at 407-409.

17. Gareth Edwards, ‘Springboard Injunctions’ (2012) *Credit Management* 41.

18. *See, e.g., Terrapin Ltd v Builders’ Supply Co (Hayes) Ltd* [1960] RPC 135.

19. *QBE Management Services (UK) Ltd v Dymoke* [2012] IRLR 458. However, it was at one time limited to cases involving misuse of confidential information both in the UK and in Hong Kong.

20. *ICAP (Hong Kong) Ltd v BGC Securities (Hong Kong) LLC & Others* [2005] 2 HKLRD 349, citing John Hull, *Commercial Secrecy: Law and Practice* (1997) at p. 63 para. 3.42.

21. Jeffrey Pinsler, ‘The Springboard Injunction and Its Future Potential in Singapore’ (2017) *The Singapore Law Gazette* <https://v1.lawgazette.com.sg/2017-09/1954.htm>, accessed 19 March 2021.

parties.<sup>22</sup> In the recent case *McLarens Hong Kong Ltd v Poon Chi Fai Corey*,<sup>23</sup> the Court of First Instance clarified that five issues must be considered when determining whether a springboard injunction should be granted:

- (1) whether there was unlawful use of the plaintiff's confidential information and/or breach of fiduciary duties by the defendants;
- (2) whether by reason of such breaches of confidence and/or fiduciary duties, the defendants have obtained an unfair competitive edge or 'head start' over the plaintiff;
- (3) whether the unfair advantage still exists at the date when the springboard injunction is sought and that it will continue to have such effect unless the relief sought is granted;
- (4) whether damages are an adequate remedy to the plaintiff; and
- (5) in deciding whether to grant any interlocutory injunction, including a springboard injunction, the court must take whichever course appears to carry the lower risk of injustice if it should turn out that it was wrong.<sup>24</sup>

As of 19 March 2021, search at Westlaw Asia with keywords 'breach of confidence' and 'springboard injunction' revealed seven results, in six of which the court decided the springboard doctrine should not be applied.

## 2.2. Damages

As illustrated in **Topic 5** of this chapter, there had been disputes among commonwealth jurisdictions with regard to whether damages, as a classical legal remedy, could be applied to address an equitable wrong. Though inconsistency occurs occasionally, an overall investigation into the pre-1873 case law of England virtually supports the proposition that damages could not be awarded for infringement against purely equitable rights.<sup>25</sup> The principle was not overhauled until the Chancery Amendment Act 1858 ('Lord Cairns' Act').<sup>26</sup> Section 2 of the Act stipulated that in any case where the Court of Chancery had jurisdiction to entertain an application for an injunction or specific performance, the court could award damages in addition or substitution therefor.<sup>27</sup> Although having been repealed for decades, the very essence of this section can still be traced in today's statutory enactment of the United Kingdom (UK): section 50 of the Senior Courts Act 1981, which provides that '[w]here the Court of Appeal or the High Court has jurisdiction to entertain an application for an injunction or specific performance, it may award damages in addition to, or in substitution for, an injunction

22. Paul Goulding, 'Commentary: Springboard Injunctions in Employment Law' (1995) 24(2) *Industrial Law Journal* 152.

23. [2019] 3 HKLRD 403.

24. *Ibid.*, [19].

25. David Capper, 'Damages for Breach of the Equitable Duty of Confidence' (1994) 14 *Legal Stud* 313, 317-319.

26. The Chancery Amendment Act 1858 (UK).

27. *Ibid.*, section 2.



or specific performance'.<sup>28</sup> As such, it is clear that in both legislation and case law, damages can be awarded against equitable wrongs.<sup>29</sup> Such damages are usually referred to as 'equitable damages'. The difference between equitable damages and common law damages is less significant; insofar, it has been described as 'a difference without a distinction'.<sup>30</sup>

The provision of Lord Cairns' Act and its successors have also been imparted to Hong Kong legislations. Section 17 of the High Court Ordinance provides that '[w]here the Court of Appeal or the Court of First Instance has jurisdiction to entertain an application for an injunction or specific performance, it may award damages in addition to, or in substitution for, an injunction or specific performance'.<sup>31</sup> In Hong Kong, the binding authority on this issue is *China Light*.<sup>32</sup> As the presiding judge, Mr Justice Godfrey JA, stated in the judgment:

'[a]s a matter of history, the common law provided no protection against the misuse of confidential information. No action for damages (the only remedy available for any wrongful act at common law) would lie. Eventually, equity, true to form, stepped in to supplement this deficiency of the common law; it made available the equitable remedy of an injunction to restrain such misuse. Now, however, under the Chancery Amendment Act 1858 (Lord Cairns' Act), damages may be granted in certain cases in lieu of an injunction'.<sup>33</sup>

More importantly, the decision has made it clear that exemplary damages are also available to a breach of confidence case.<sup>34</sup> However, as the purpose of exemplary damages is to punish rather than to compensate, they should only be applied where basic and aggravated compensatory damages are both inadequate.

### 3. EFFORTS TOWARDS CRIMINALIZATION

Treating trade secret misappropriation as a criminal offence has become an increasingly common practice worldwide.<sup>35</sup> Notwithstanding the global trend, in 2001, the HKBA published a Consultation Paper on Unfair Competition and Intellectual Property Rights, which explicitly voiced against the criminalization of trade secret misappropriation in the foreseeable future. Specifically, the paper pointed out that:

As with the tort of passing off, the action for breach of confidence has been developed gradually by the courts. Although there is some uncertainty as to the

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28. Senior Courts Act 1981, section 50 (UK).

29. Capper, *supra* note 25, 320.

30. *Ibid.*, 323.

31. High Court Ordinance (Cap. 4) section 17.

32. *China Light*, *supra* note 4.

33. *Ibid.*

34. *Ibid.*, at 30D-30E, 34H-34I and 38H.

35. According to a proposal submitted by the United States to the Asia-Pacific Economic Cooperation (APEC) at the 40th Intellectual Property Rights Experts' Group Meeting, about two-thirds of the participating economies had offered criminal prosecution of trade secret misappropriation. See U.S.-APEC Technical Assistance to Advance Regional Integration (US-ATAARI), *Trade Secret Protection in the APEC Economies* [http://mddb.apec.org/Documents/2015/IPEG/IPEG1/15\\_ipeg1\\_027.pdf](http://mddb.apec.org/Documents/2015/IPEG/IPEG1/15_ipeg1_027.pdf) accessed 20 March 2021.

scope of the cause of action, for example as to the circumstances in which someone not in a relationship with the owner of the information can nevertheless be subject to an obligation of confidence, the Bar believes that it is sufficiently flexible to be adapted and developed by the courts as necessary. The Bar sees no need to criminalise misuse of trade secrets in Hong Kong.<sup>36</sup>

The HKBA trusted that the judge-made law of confidence provided the flexibility and emphasized equitable doctrines in regulating misuse of trade secrets, rather than the textual content of a pre-made criminal ordinance.

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36. HKBA Consultation Paper, *supra* note 5.

## TOPIC 1 THE REQUIREMENTS OF TRADE SECRET IN HONG KONG

*Jyh-An Lee & Jingwen Liu*

### 1. Legal Issues

What are the requirements of a protectable trade secret?

How to distinguish a trade secret from other forms of confidential information?

Is customer information a protectable trade secret?

What constitutes duty of fidelity and obligation of confidence?

### 2. The Statutory Law

There is no statutory protection for trade secrets in Hong Kong.<sup>37</sup>

### 3. The Case Law

As of 15 February 2021, a search of cases at Westlaw Asia with keywords ‘trade secret’ and ‘confidential information’ revealed 159 results in Hong Kong. However, most of the decisions did not define what constituted a protectable ‘trade secret’. Among the five judgments decided after 2001, which clearly defined ‘trade secrets’, four of them cited *AXA* and accordingly held that there were five elements constituting a trade secret, which will be introduced below. The only decision among these five cases that did not cite the *AXA* case was made around the same time as *AXA*. The judicial practice in Hong Kong indicates the different levels of protection for confidential information and trade secrets. As explained by the court in *Willwin Development (Asia) Co Ltd v Wei Xing*, ‘[m]ere confidential information will only be protected during employment and not thereafter, in the absence of any express covenant from the employee ... This is as opposed to trade secrets of the employer, which will be protected even after termination of employment of the employee’.<sup>38</sup>

### 4. The Leading Case(s)

#### 4.1. Case Information

The High Court of the Hong Kong Special Administrative Region Court of First Instance, HCA 9093/2000, *AXA China Region Insurance Co Ltd and Another v Pacific Century Insurance Co Ltd and Others* [2001] HKCFI 912 (24 July 2001) – While this judgment only concerned plaintiffs’ application for interlocutory injunction, delivery up order and disclosure order, it provided the most comprehensive explanation regarding the definition and scope of trade secrets among all court decisions in Hong Kong.

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37. Phang, Ho and Lo, *supra* note 1.

38. *Willwin Development (Asia) Co Ltd v Wei Xing* [2016] HKEC 554 [101].

#### **4.2. Summary**

An insurance company had poached a large group of individual agents previously working for a competing company in the same industry and at around the same time launched a policy matching scheme specifically targeting policyholders of the latter. The second company subsequently found out that the client information, containing the personal particulars of its policyholders as well as the details of the sold policies stored in its internal electronic system, the access to which was strictly restricted even within the firm itself, had been carried away by those departing agents, who had subsequently joined the competitor. It therefore initiated the current action in court, seeking to enjoin both the individual agents and the competing firm from utilising its confidential information or dealing with its policyholders, on the basis of breach of implied duty of fidelity and breach of confidence, respectively. To make a decision for the current dispute, the court needed first to decide the nature of the client information in question, i.e., whether it had amounted to a protectable trade secret of the plaintiffs. After pondering on the factual grounds of the case, the court concluded that the client information in issue had met all requirements of a trade secret, and thus there was at least a serious issue to be tried as to whether it could be protected as a trade secret. Ultimately, an interlocutory injunction, among others, was granted by the court.

#### **4.3. Facts**

Both plaintiffs ('AXA') were under the AXA insurance group, carrying on the business of insurance underwriting. Like most of the insurance companies in Hong Kong, AXA sold insurance policies mainly through the insurance agents appointed by AXA under contracts called 'Agent's Contract'. It was indisputable that these agents, who did not get a basic salary from AXA but rather earn commissions out of the policies they had sold, were not employees of AXA. Each agency was run in a pyramidal structure. From bottom to top, there were agents, managers, senior managers, directors, senior directors and regional directors of the agency. AXA had an internal electronic Sales and Marketing System (SAMS), where the particulars of their policyholders and details of policies, including name, telephone number, address, policy number, expiry date, currency of account, sum insured, amount of premium, cash value, dividend, loan balance and interest thereon, payment mode and the underwriters (if any) were stored. Access to SAMS was restricted to senior branch managers and above and could only be achieved through using a designated personal computer at each agency office. Persons who were allowed access would be given a password and required to sign a Hardware Rental Agreement and Software Licence, which had made express the licensee's obligation of confidentiality.

AXA claimed that the above particulars of their policyholders and details of policies ('Client Data') were its trade secrets. Client Data include any information obtained or derived by an agent in the course of his agency with AXA, not being information known to the agent prior to such obtaining or derivation, and contained in SAMS, and any documents whether in hard copy or electronic form containing such

information and any of the documents listed in Schedule C to the Statement of Claim, whether in hard copy or electronic form.

The first defendant Pacific Century Insurance Company (PCI) was also an insurance company and AXA's major competitor. The other defendants ('the Individual Defendants') were insurance agents appointed by AXA. PCI launched a policy matching scheme in March 2000 specifically targeting AXA policyholders so that they may surrender their AXA policies and switch to PCI policies. PCI also approached AXA agents and offered them a 'hefty welcome bonus' to join PCI. As a result, a large number of AXA agents terminated their Agent's Contracts with AXA and joined PCI. Consequently, many of AXA's policyholders who were served by these agents surrendered their AXA policies and switched to PCI policies. At about the same time, AXA noticed that an unusually large amount of their client information from their SAMS had been printed out under the passwords assigned to several Individual Defendants prior to the termination of their agency with AXA.

AXA thus applied to court for interlocutory injunction to: (1) restrain PCI from disclosing, divulging or otherwise using any of AXA's Client Data, restrain PCI from accepting any application for a life insurance policy by persons whose names appeared in AXA's Client Data and who had been approached by any agent of PCI at a time when any of the Client Data were in the possession or under the control of PCI, restrain PCI from soliciting any business by representing that certain specified life insurance products of PCI match or are comparable with the corresponding AXA product and restrain PCI from accepting any application for certain specified life insurance product from any person holding a life insurance product issued by AXA and (2) restrain the Individual Defendants from disclosing, divulging or otherwise making use of any of AXA's Client Data. Specifically, the plaintiffs sought to restrain the Individual Defendants from accepting any life insurance policy application by AXA's ex-clients who had been approached by PCI, as well as those holding an AXA policy, soliciting business by representing that certain life insurance products of PCI match or are comparable with the corresponding AXA product and disclosing, divulging or otherwise making use of any of AXA's Client Data.

#### **4.4. Reasoning of the Court**

##### **4.4.1. The General Principle Applicable to the Grant of Interlocutory Injunctions**

The court first applied the *American Cyanamid* Principle, the general principle applicable to the grant of interlocutory injunctions, which had been well settled since the House of Lord's decision in *American Cyanamid Co v Ethicon Ltd.*<sup>39</sup> As established by *American Cyanamid*, '[i]n order for an interlocutory injunction to be granted, the plaintiff's first hurdle is to satisfy the court that the claim is not frivolous or vexatious; in other words, that there is a serious question to be tried ... Second, if satisfied that there is a serious question to be tried, the court shall go on to consider whether the

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39. *American Cyanamid*, *supra* note 16, at 407-409.

balance of convenience lies in favour of granting or refusing the interlocutory relief that is sought. In the balancing exercise, the court shall consider whether damages would be an adequate remedy and whether the unsuccessful party would be in a financial position to pay them ... Third, where there is doubt as to the adequacy of the respective remedies in damages available to either party or to both, then the question of balance of convenience arises. Fourth, where other factors appear to be evenly balanced it is a counsel of prudence to take such measures as are calculated to preserve the status quo'.<sup>40</sup>

#### 4.4.2. *Five-Step Test for Determining Whether There Is a Serious Question to Be Tried*

Based on the above principle, the court needed to first decide whether the plaintiffs had established that there was a serious issue to be tried. Notably, the plaintiffs' case against the Individual Defendants was based on the breach of implied duty of fidelity, whereas that against PCI was based on its breach of confidence. To answer both the questions of whether there was a duty of fidelity on the part of the Individual Defendants and whether there was a duty of confidence on the part of PCI with respect to the use of AXA's Client Data, an antecedent issue would be to determine the nature of the 'Client Data' in dispute, i.e., whether the Client Data were a trade secret or confidential information equivalent to trade secret.

After a thorough examination into the English cases concerning the definition of trade secret, the court concluded that 'a trade secret or its equivalent must be information: –

- (1) used in a trade or business (*Lansing Linde* and *Faccenda Chicken* 5(b));
- (2) [which] is confidential, i.e. not already in the public domain (*Thomas Marshall v. Guinle* and *Faccenda Chicken*);
- (3) [which] can be easily isolated from other information which the employee is free to use so that any man of average intelligence and honesty would think it is improper to use the information at the disposal of his new employer (*Faccenda Chicken* 5(d) and *Printers & Finishers*);
- (4) which, if disclosed to a competitor, would be liable to cause real or significant harm to the owner (*Lansing Linde* and *Thomas Marshall v. Guinle*); and
- (5) for which the owner of the information must limit its dissemination or at least not encourage or permit its widespread publication or otherwise impress upon the employee the confidentiality of the information (*Lansing Linde* and *Faccenda Chicken* 5(c)).<sup>41</sup>

Based on the above five-step test, the court found that, first of all, the Client Data were undoubtedly used in trade or business. Second, the Client Data included the personal particulars of AXA's policyholders, which were not in the public domain.

40. *AXA China*, *supra* note 8, [24]-[27].

41. *Ibid.*, [38].

Third, because each agent handled approximately three-hundred policyholders, the court was far from convinced that the contact details of all these policyholders could be recalled or innocently carried away in the head of an agent. Further, there was no difficulty in finding that the disclosure of the Client Data to PCI would almost certainly cause significant harm to AXA's business because PCI would thus be able to contact AXA's policyholders directly. Last but not least, with the password system and the SAMS, AXA had effectively limited the dissemination of the information and did not encourage its widespread publication. Therefore, AXA's Client Data fulfilled all requirements of a trade secret in Hong Kong. Additionally, the court explained that trade secrets include not only secret formulae for the manufacture of products but also, in an appropriate case, the names of customers and the goods which they buy.

On the premise that the subject information has amounted to trade secrets or confidential information that is equivalent to trade secrets of the plaintiffs, the court could easily find the existence of the Individual Defendants' implied duty of fidelity as well as the PCI's duty of confidence in the given scenario. Further, the court was satisfied that the plaintiffs had established a serious issue to be tried as to whether the defendants had breached their respective duties owed to the plaintiffs. As a result, all orders, including the injunction sought by the plaintiffs, were granted by the court with the amendment made in respect of the coverage of Client Data.

#### **4.5. Legal Analysis**

##### *4.5.1. Trade Secrets Enjoy Stronger Protection than Confidential Information*

In the English case *Faccenda Chicken*, Goulding J, the presiding judge at the first-instance trial, defined three classes of information: '(i) information which, because of its trivial character or its easy accessibility from public sources of information, cannot be regarded by reasonable persons or by the law as confidential at all; (ii) information which the servant must treat as confidential ... but which once learned necessarily remains in the servant's head and becomes part of his skill and knowledge; (iii) specific trade secrets so confidential that, even though they may necessarily have been learned by heart and even though the servant may have left the service, they cannot lawfully be used for anyone's benefit but the master's'.<sup>42</sup>

Goulding J distinguished trade secrets (category-iii) from other confidential information (category-ii) in the sense that the servant cannot lawfully use trade secrets even if he or she has left the service. However, a servant can use other confidential information after he or she left the service unless there is an express covenant or if the servant deliberately memorizes the confidential information during the employment.<sup>43</sup> Confidential information other than a trade secret enjoys a weaker degree of protection. The main difference lies in the post-employment protection: absent a contractual obligation, trade secrets are still to be protected by the implied duty of fidelity, while confidential information would not be similarly protected. The *Faccenda Chicken* court

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42. [1984] I.C.R. 589.

43. *Ibid.*

ruled that a customer name list was neither trade secret nor its equivalent; instead, it was category-ii confidential information. Based on *Faccenda Chicken*, the defendants in this Hong Kong case argued that the Client Data were confidential information but not trade secrets; therefore, an agent's duty of fidelity ceased upon termination of agency.

However, in the present case, the court held that the finding in *Faccenda Chicken* that a customer name list was not a trade secret or its equivalent should be limited to its facts.<sup>44</sup> *Faccenda Chicken* did not lay down any principle that neither customer lists nor customer information amount to trade secret or are equivalent to a trade secret.<sup>45</sup> Instead of following the trichotomy of information in *Faccenda Chicken*, the court cited two other English cases, *SBJ Stephenson Ltd v Mandy* [1999] EWHC 277 (QB) and *Lansing Linde Ltd v Kerr* [1991] 1 WLR 251, to explain that:

by whatever name the information is called, if it is material which in all the circumstances of the case is of such a highly confidential nature as to require the same protection as a trade secret *eo nomine*, then the law gives it the same protection as a trade secret. It is all a matter of fair and honourable dealing which a person in a fiduciary position must maintain in respect of the information he received in the course of his agency or employment.

In summary, the court did not entirely follow the *Faccenda Chicken* definition of trade secrets, which is information being 'so confidential that, even though they may necessarily have been learned by heart and even though the servant may have left the service, they cannot lawfully be used for anyone's benefit but the master's'. Instead, based on a different line of English case law, the court established its own definition of trade secrets with five elements mentioned above. Nonetheless, the court did not disrupt the common law tradition in the distinction between trade secret and confidential information.

#### 4.5.2. *PCI's Breach of Confidence*

The plaintiffs' case against the Individual Defendants was based on the breach of implied duty of fidelity, whereas that against PCI was based on its breach of confidence. Duty of fidelity may be created by express terms in a contract or by necessary implication so as to give to a transaction the effect which must have been in contemplation of the parties when they entered into the contract. The duty is readily implied to parties in a fiduciary relation, such as trustee and beneficiary, principal and agent, master and servant and solicitor and client. As Megarry J explained in *Coco v Clark*, the employees had implied obligation of confidence on the basis that 'the circumstances are such that any reasonable man standing in the shoes of the recipient of the information would have realized that upon reasonable grounds the information was being given to him in confidence'.<sup>46</sup> The court in this case ruled that the Agent's Contract imposed on the Individual Defendants an obligation of secrecy in relation to the business of AXA. Therefore, Individual Defendants were in breach of their duty of

44. *AXA China*, *supra* note 8, [48].

45. *Ibid.*, [44].

46. *Coco v Clark*, *supra* note 3.



fidelity by making copies of AXA's Client Data during the subsistence of their agency for use in competition with AXA after their agency ended.

The court cited the English case *Coco v Clark* to determine whether PCI was in breach of confidence.<sup>47</sup> The court ruled that AXA's claim of breach of confidence against PCI was substantiated according to the principle in *Coco v Clark* because AXA had proved that: (1) the Client Data which AXA sought to protect have the necessary quality of confidence about them; (2) PCI must know that the information was confidential; (3) it must have been imparted in circumstances importing an obligation of confidence; (4) there must have been an unauthorized use of the information to the detriment of AXA; and (5) PCI must have been dishonest in using the information.<sup>48</sup>

#### 4.6. *Commercial or Industrial Significance*

Confidential information and trade secrets are subject to different levels of protection in Hong Kong. Absent contractual arrangements, the protection of confidential information exists during the employment relation, whereas trade secrets protection through the implied duty of fidelity still exists after the relationship ends. Although this decision set forth the standard for determining what constitutes a trade secret, there will still be room for argument in defining confidential information and trade secrets between parties in litigation. For example, whether 'any man of average intelligence and honesty would think it is improper to use the information at the disposal of his new employer' and whether the disclosure of the subject information will cause 'real or significant harm to the owner' are always debatable. Therefore, to obtain more comprehensive protection over valuable information, businesses are advised to impose more confidence obligations on their employees and partners in the contracts.

The judgment made it clear that a wide range of commercially valuable information is trade secrets, including but not limited to secret formulae for manufacture of products, names of customers and goods they buy, designs or special methods of construction, etc.<sup>49</sup> This case also concerns the use of digital technology and database process to preserve confidential information. As the court required that 'the owner of the information must limit its dissemination or at least not encourage or permit its widespread publication or otherwise impress upon the employee the confidentiality of the information', it is now crucial for the proprietor of confidential information or trade secrets to adopt more encryption technologies in their database. These new technologies can not only reduce the possible leakage of confidential information or trade secrets but also help the information proprietor more easily claim trade secret protection in court. In this case, AXA requires passwords assigned only to senior branch managers and above as a prerequisite to access the SAMS. Other common measures include software automatically screening outgoing electronic files for sensitive keywords that may indicate trade secret leakages, automatic alerts to the system administrator to monitor abnormal internet traffic, etc.

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47. *AXA China*, *supra* note 8, [134].

48. *Ibid.*

49. *Ibid.*, [67].

In another Hong Kong case, *Deacons v White & Carter Ltd Liability Partnership and Others*,<sup>50</sup> an equity partner of a law firm switched to another together with almost all of the core members of his team. When seeking career advancement, he provided his prospective employer with a business plan incorporating the work and billing amount undertaken by him and by the entire department. In deciding whether the figures constituted the ex-employer's trade secret, the court considered the fact that such information was stored in the second highest level of access in the plaintiff's intranet, which was restricted to equity partners only, and the information system consisting of various levels of access corresponding with the seniority of employees had secured the secrecy or confidentiality of such financial information.<sup>51</sup> Therefore, businesses are advised to design their network system governing access to confidential information according to the ranks and need of individual employees.

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50. [2003] 3 HKLRD 670.

51. *Ibid.*, [137].

## **TOPIC 2 THE VALIDITY AND SCOPE OF CONFIDENTIALITY AND/OR NON-COMPETITION TERMS**

*Jyh-An Lee & Jingwen Liu*

### **1. Legal Issues**

Is a confidentiality or non-competition clause in an employee's employment contract valid and enforceable after the termination of employment?

Under what circumstances will such restrictive covenants be deemed reasonable and necessary in protecting the former employer's legitimate interests? Under what circumstances will the scope of the restraint be deemed too wide to be enforceable?

Who shall bear the burden to prove the reasonableness of such restrictive covenants?

### **2. The Statutory Law**

There is no statutory protection for trade secrets in Hong Kong. Nor is there any statute governing non-competition agreement therein.

### **3. The Case Law**

As of 19 February 2021, a search of cases at Westlaw Asia using the keywords 'confidential information', 'restrictive covenant' and 'non-competition' revealed 20 results. There were 11 decisions which specifically touched upon the enforceability of a particular non-competition covenant. Among all covenants in these 11 decisions, only 1 was acceptable to the court, while all others were viewed as unenforceable (or at least without a good prospect of success where the action was in an interim stage). A glance at the case law demonstrates the hardship facing employers in enforcing covenants of the kind.

The present case, *Degreeasia Ltd t/a Hong Kong Institute of Continuing Education v Paules Lee Siu Yuk and Others*,<sup>52</sup> has been widely cited in subsequent judgments relevant to restrictive covenants in Hong Kong. The principle set forth in the case is as below:

- (1) If the court is to uphold the validity of any covenant in restraint of trade, the covenantee must show that the covenant is both reasonable in the interests of the contracting parties and reasonable in the interests of the public.
- (2) A distinction is, however, to be drawn between (a) a covenant against competition entered into by a vendor with the purchaser of the goodwill of a business, which will be upheld as necessary to protect the subject-matter of the sale, provided that it is confined to the area within which competition on the part of the vendor would likely injure the purchaser in the enjoyment of goodwill he has bought, and (b) a covenant between master and servant

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52. *Degreeasia Ltd t/a Hong Kong Institute of Continuing Education v Paules Lee Siu Yuk and Others* (25/06/2010, HCA1686/2006).

designed to prevent competition by the servant with the master after the termination of his contract of service.

- (3) In the case of contracts between master and servant, covenants against competition as such are never upheld by the court.
- (4) The subject-matter in respect of which an employer may legitimately claim protection from an employee by a covenant in restraint of trade was further identified by Lord Wilberforce in *Stenhouse Ltd v. Phillips* [1974] AC 391, at 400, as follows: 'The employers' claim for protection must be based upon the identification of some advantage or asset inherent in the business which can properly be regarded as, in a general sense, his property, and which it would be unjust to allow the employee to appropriate for his own purposes, even though he, the employee, may have contributed to its creation.'
- (5) If the court is to uphold restrictions which a covenant imposes upon the freedom of action of a servant after he had left the service of the master, the master must satisfy the court that the restrictions are no greater than are reasonably necessary for the protection of the master in his business. For any covenant in restraint of trade to be treated as reasonable in the interests of the parties, it must afford no more than adequate protection to the benefit of the party in whose favour it is imposed.<sup>53</sup>

#### **4. The Leading Case(s)**

##### **4.1. Case Information**

The High Court of the Hong Kong Special Administrative Region Court of First Instance, HCA 1686/2006, *Degreeasia Ltd t/a Hong Kong Institute of Continuing Education v Paules Lee Siu Yuk and Others* [2010] HKCFI 567 (decided on 25 June 2010).

##### **4.2. Summary**

Two ex-employees joined a competing company, and nine customers followed them to join the company as well. The ex-employer sued the ex-employees for, *inter alia*, breach of restrictive covenant and misappropriation of trade secrets and confidential information. The court held that: (1) the one-year restraint after employment was too wide to be enforceable, and the ex-employer failed to demonstrate that such a restraint was reasonable and necessary for protecting its legitimate interests; and (2) isolated telephone numbers of customers did not constitute trade secrets. All claims of the plaintiff were therefore rejected by the court.

##### **4.3. Facts**

The plaintiff, Degreeasia Limited ('Degreeasia'), was a company offering overseas universities' degree courses to students in Hong Kong via its Hong Kong Institute of Continuing Education. The 2nd defendant, Institute of Advanced Learning, offered similar courses in Hong Kong. The 1st and 3rd defendants, both ex-employees of Degreeasia, joined the 2nd defendant after their employment with Degreeasia.

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53. *Ibid.*, [33].

The 1st defendant, Ms Paules Lee, was employed by Degreeasia as an 'education consultant' since 25 June 2005. The employment contract included a confidentiality clause, which prohibited her from disclosing any 'information, operation procedures, [or] business practice secrecy' of Degreeasia at any time. On 1 September 2005, her position at the company was changed to a 'student services coordinator' in a new employment contract. The new contract imposed a time limit to the original confidentiality clause, which was during the time of the employment and two years after its termination. Meanwhile, a restrictive clause was added to the new employment contract, prohibiting her from enticing away any staff or clients of Degreeasia, or being employed or enticed to 'any consultancy position for salaried or non-salaried, to any relevant company, entity, association or organization in the education, training & development or whatsoever industry' within one year after leaving the company. Lee was dismissed by Degreeasia on 10 June 2006. On 4 July 2006, Lee, introduced by the 3rd defendant, joined the 2nd defendant as a 'part-time, temporary receptionist'. Lee's job at the Institute of Advanced Learning was in nature close to an education consultant, who was responsible for the promotion of the courses and recruitment of students.

The 3rd defendant, Mr Kenny Suen, had first been employed by Degreeasia as a marketing manager since 6 May 2003. The employment contract at the time did not include any confidentiality clause or restrictive covenant. On 1 February 2005, Degreeasia offered Suen another employment contract, which included restrictive clauses similar to those imposed on Lee. However, this contract was never signed by Suen. Suen decided to leave Degreeasia on 27 January 2006 and joined the 2nd defendant on 13 March 2006 as a programme manager.

During her employment at Degreeasia, Lee served as the class mistress of Class A3, the students of which were enrolled in the Benedictine College programme. Lee had access to information such as the name list, timetable, transcripts, addresses and telephone numbers of the students. According to Lee, she maintained good relationships with some students; therefore, they contacted her from time to time outside of office hours. In July 2006, after Lee switched to the 2nd defendant, she and Lam Yiu, a student from Class A3, had a telephone conversation. Over that phone call, Lee mentioned to Lam Yiu that Benedictine College had dropped in ranking and invited her to pay a visit to the 2nd defendant to explore more study possibilities. After the phone call, Lam Yiu shared what she had heard with some other students in Class A3, who were all worried about Benedictine College's dropping in ranking. Consequently, a batch of seven students ended up visiting the 2nd defendant's premises, with several other batches following. Both Lee and Suen were present during the students' visits, and Suen introduced them to a course of Utah State University (USU) offered at the 2nd defendant. Eventually, nine students previously enrolled in the Benedictine College course transferred to the USU programme.

The plaintiff claimed that both individual defendants were bound by the restrictive covenant and confidentiality clause in their respective contracts. The plaintiff also argued that in any event, both individual defendants were subject to the implied duties of fidelity during and after the employment. The plaintiff's claims against the two individual defendants were, *inter alia*, for breaching their restrictive covenants by

assuming duty at the 2nd defendant during the restrictive period and enticing students away from the plaintiff to the 2nd defendant, and that Lee had, during her employment with Degreasia, ‘compiled, duplicated or made a copy of a confidential student list containing the names, telephone numbers, contact details and addresses of Degreasia’s students and had kept it’ when she moved to the 2nd defendant. The 2nd defendant was alleged by the plaintiff to have, among others, knowingly and dishonestly committed this breach by employing the Individual Defendants and misappropriated the plaintiff’s confidential information and trade secrets. All allegations were denied by the respective defendants.

#### 4.4. Reasoning of the Court

##### 4.4.1. The Validity and Enforceability of the Restrictive Covenant

In deciding the validity of the restrictive and confidentiality clauses, the court first set out that ‘[t]he basic rule is that covenants in restraint of trade are unenforceable unless they can be shown to be reasonable in the interests of the parties and in the public interest (see *Bridge v Deacons* [1984] 1 AC 705 at 713A–B per Lord Fraser of Tullybelton). It is trite that the burden of demonstrating the reasonableness of a covenant is on the party seeking to enforce it, in this case Degreasia’.<sup>54</sup> Citing Hoffman LJ in *Steiner (UK) Ltd v Spray*, the court pointed out that ‘[i]t is clearly established that the employer is not entitled to protect himself merely against competition. The only legitimate interests which, as against a former employee, he is entitled to protect are his trade secrets and customer connections to the extent that the employee may have gained influence over the customer so they would be likely to follow the employee to his or her new employment’. It further went on to apply this principle to the present case to examine whether the restrictive covenants were valid.

In the case of Lee, the restrictive covenant included two types of prohibition: non-employment and non-solicitation restrictions. The court ruled that these restrictive covenants were unenforceable since they failed the reasonableness test. First, Lee’s last position at Degreasia was a student services coordinator, which was purely administrative, not academic, in nature. The court questioned whether there should be a post-employment restraint at all. Normally students choose to enrol in a course because of the education quality, rather than their relationship with someone like Lee. Furthermore, even if the existence of a restrictive covenant were justifiable, the language of the clause was too wide to be enforceable. The court explained that the phrase ‘or whatsoever industry’ was undoubtedly too wide. Additionally, the judge Mr Recorder Shieh, SC found the one-year period unreasonable because little training was provided to Lee when she took up the position in the first place. Accordingly, Degreasia needed no such period as long as one year to locate and train a backup to replace her. Moreover, the ambit of restriction was too wide because ‘consultancy’ was not properly defined and could potentially cover industries remote to the plaintiff’s business interests. Third, the court applied the principle of proportionality and held

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54. *Ibid.*, [32].

that enforcing the restrictive clause would essentially 'deprive Paules Lee's ability to earn a living in a way which is wholly disproportionate to any legitimate interest of Degreeasia'.<sup>55</sup>

With regard to the plaintiff's claim against Suen, as an antecedent issue, the court ruled that absent the signature of Suen, the default position of law provided that the unsigned contract incorporating the restrictive and confidentiality clauses was not binding on him, unless Degreeasia could adduce evidence for a rebuttal, which it had failed to do. The court further explained that even if such clauses were binding on Suen, the validity of such clauses would still fail the reasonableness test. As a marketing manager, Suen's position was a salesperson in nature and he did not have influence over students regarding the choice of courses. Therefore, his position did not justify a post-employment restraint.

In summary, the plaintiff's breach of restrictive covenant claims against both individual defendants failed because the restrictive covenants in question per se were unreasonable and thus unenforceable.

#### 4.4.2. *Misappropriation of Trade Secrets and Confidential Information*

The plaintiff's claim against Lee for misusing the former's confidential information or trade secrets to solicit students also failed. The court cited the threefold classification in *Faccenda Chicken* to categorise information acquired during employment as below:

- (1) information which is trivial, or accessible from public sources;
- (2) information which is confidential, either because the employee was expressly told so or because of its character, but which once learned necessarily remains in the employee's head and becomes part of his own skill and knowledge applied in the course of his employer's business; and
- (3) specific trade secrets.

For the first category (i.e., information that is trivial or publicly accessible), the use of information is not restricted, whether during or after the employment relationship. For the third category (i.e., trade secrets), no one other than the owner could legitimately use such information, no matter whether during or after the employment relationship. The rule for the second category is more complicated. During the employment period, the employee is subject to a confidentiality obligation in the employment contract. Even in the absence of an expressed obligation, the employee still bears the implied duty of good faith or fidelity during the employment. To obtain post-employment protection for information falling under this category, the employer could only rely on an express term in the form of a written contract. Nevertheless, Mr Recorder Shieh, SC made clear that a covenant explicitly prohibiting the post-employment use of 'all confidential information' of the ex-employer was invalid and therefore unenforceable. The employer could only adopt a 'suitably worded restrictive

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55. *Ibid.*, [58].

covenant against working for particular persons in particular localities and within particular timeframes'.<sup>56</sup>

Based on the above principle, Mr Recorder Shieh, SC reasoned that Lee would only be liable if she had either: '(a) utilized Degreasia's trade secrets in approaching and soliciting Lam Yiu and her group; or (b) "stolen" Degreasia's confidential information during her employment and used it for the purpose of approaching and soliciting Lam Yiu and her group'. In the present case, the evidence was insufficient to support Degreasia's claim that Lee made a wholesale copy of student lists consisting of their relevant information, but only sufficient to the extent that Lee had exchanged telephone numbers with a number of students in her class. In deciding whether these contact numbers had amounted to Degreasia's trade secrets, Mr Recorder Shieh, SC opined that '[t]hough trade secret is not limited to things such as a secret trade process or formula, I refuse to accept any suggestion that it could cover a telephone number (which belongs to the owner of the telephone, not to Degreasia) which the owner thereof is free to give out to other people'.<sup>57</sup> Furthermore, although the collection of customer information including their telephone numbers might be regarded as confidential information or trade secrets, such protection was for the efforts in the compilation rather than the telephone numbers per se. Therefore, the isolated telephone numbers given to Lee in a social context did not even qualify as confidential information, not to mention trade secrets. Therefore, the above-mentioned telephone numbers were neither confidential information nor trade secrets.

#### 4.5. Legal Analysis

A restrictive covenant is a clause in the employment contract governing the employee's post-employment behaviours.<sup>58</sup> The restrictive covenant may take the form of a non-competition, non-solicitation, non-dealing, non-poaching or non-disclosure clause.<sup>59</sup> The general principle in Hong Kong and many other common law jurisdictions is that such a post-employment restrictive covenant is invalid and unenforceable, unless it can be proven to be reasonable, not only in the interest of the contracting parties but also in terms of public interests.<sup>60</sup> The principles governing the validity and enforceability of a post-employment restrictive covenant were well illustrated in another Hong Kong case, *Natuzzi Spa v De Coro Ltd*, as below:

56. *Ibid.*, [123].

57. *Ibid.*, [143].

58. Richard E. Kaye, 'Cause of Action to Enforce Noncompetition Covenant in Employment Contract', in Thomson Reuters and West (eds), *Causes of Action (Second)* (Thomson Reuters 2019).

59. Pattie Walsh, Alison Smith and Minter Ellison, 'Protecting Business, Customer and Client Relationships from Competitors and Departing Employees in Hong Kong' (2008) 18(2) *Employment & Industrial Relations Law* 22, 23.

60. *Herbert Morris Ltd v Saxelby* [1916] AC 688; *Bridge v Deacons* [1984] 1 AC 705; *Office Angels Ltd v Rainer-Thomas and O'Connor* [1991] IRLR 214.



- (a) No employer is entitled to make use of a restrictive covenant to protect himself against competition per se. A covenant against competition per se is not reasonable and accordingly void.
- (b) An employer is not entitled to prevent his ex-employee from using the skill and knowledge in his trade or profession which he learnt in the course of his employment. Nor is he entitled to prevent his ex-employee from using in the service of some person other than the employer the general knowledge the employee has acquired of the employer's scheme of organisation and methods of business.
- (c) An employer is entitled to make use of a restrictive covenant to protect his interests in his trade secrets and in his trade connections. However, the restrictive covenant, to be valid, must afford no more than adequate protection to the party in whose favour it is imposed. It must be reasonable not only in reference to the interests of the parties concerned but also in reference to the interests of the public.
- (d) The onus of proving the reasonableness of the restriction rests on the party who seeks to enforce the restriction. The more onerous the restriction, the heavier the weight of the onus.<sup>61</sup>

Similarly, in this case the restrictive covenant between Degreeasia and Lee was unenforceable, unless Degreeasia could demonstrate the scope of the restriction was reasonable and necessary to protect its interests. Decisive factors in the reasonableness test included the nature of the employment, the duration and ambit of the restriction, the principle of proportionality, etc.<sup>62</sup>

#### **4.6. Commercial or Industrial Significance**

Restrictive covenants have been widely adopted in employment agreements to manage the risk relevant to confidential information and labour turnover. However, this case reveals that a blind inclusion of such covenants to the maximum degree may turn out to be an unfavourable legal and business arrangement. Put differently, despite the employers' ambition to maximise the protection for its confidential information, an overly broad covenant may cause its invalidity.

To be legally enforceable in Hong Kong, a covenant needs to be reasonable in its restriction of duration, geography, and scope of work. Although the court in *Degreeasia* held that the duration of one year is too long for the covenant to be enforceable, this does not mean that all covenants of more than one year are unenforceable. The determination of reasonableness is made on a case-by-case basis and concerns the role, responsibility and seniority of the employee, the nature of the employment, and the norm in the industry. In another Hong Kong case, *Rever (AMA) Salon Ltd v Kung Wai For & Others*,<sup>63</sup> the court ruled that a one-year restraint was necessary to protect the

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61. *Natuzzi Spa v De Coro Ltd* (16/06/2006, HCA4166/2003) [44].

62. *Degreeasia*, *supra* note 52.

63. *Rever (AMA) Salon Ltd. v Kung Wai For, Danny and Others* (24/10/2001, HCA10399/2000).

interests of the plaintiff, an A-grade hair salon<sup>64</sup> practising in the commercial area of Tsim Sha Tsui in Hong Kong. The court reached this conclusion after considering the dependence of a hair salon on its regular customers, the ease with which a customer may be persuaded to follow an employee who leaves, the difficulty in policing and enforcing a non-soliciting provision, and the number of salons and number of A-grade salons in Hong Kong and in Tsim Sha Tsui specifically.<sup>65</sup>

There was no geographic limit in the restrictive covenant in *Degreeasia*. Generally speaking, an unlimited covenant in geography is not per se invalid, but the employer must show a business presence of an international character and the reasonableness of the restraint in light of its worldwide competition.<sup>66</sup> *Degreeasia* clearly did not fall into this kind, as its services specifically targeted local students in Hong Kong. Therefore, another takeaway from this case is that to play safe, local businesses may wish to tailor a precise locality term, taking into account the reach of its business and the characters of its industry. In *Rever (AMA) Salon*, the scope of the restraint was precisely defined to ‘a radius of 1 mile of the premises of the Company ... where such premises were on Hong Kong Island and within a radius of 3/4 mile of the premises of the Company ... where such premises were on Kowloon’.<sup>67</sup> Additionally, the ambit of works prohibited by the restrictive covenant is also subject to the reasonableness test. Overly broad terms such as ‘whatsoever industry’ are highly likely to be void. Additionally, other considerations such as the hardship on the employee and public interest may also affect the reasonableness determination.

In summary, business and legal professionals are advised to consider a variety of factors relevant to the subject employment when drafting a restrictive covenant.

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64. At the time of the litigation, the grade of hair salons was determined by the charge of a basic shampoo and cut. The salon was categorised as A grade if it charged more than HKD 350, B grade if the charge was between HKD 250 and HKD 350, and C grade if it was below HKD 250. See *Rever (AMA) Salon*, *supra* note 63.

65. *Rever (AMA) Salon*, *supra* note 63.

66. *Cranston Print Works Co. v Pothier*, 848 A.2d 213, 220 (R.I. 2004).

67. *Rever (AMA) Salon*, *supra* note 63.

### TOPIC 3 THE BURDEN OF PROOF AND ITS REVERSAL

Jingwen Liu & Jyh-An Lee

#### 1. Legal Issues

On what evidential grounds can a breach of confidence claim be established?  
Who shall bear the burden of proof in a breach of confidence claim?  
When will the burden shift to the defendant in a breach of confidence case?

#### 2. The Statutory Law

There is generally no statutory protection for trade secrets in Hong Kong.<sup>68</sup>

#### 3. The Case Law

As of 8 March 2021, search for cases with keywords ‘duty of confidence’ and ‘inference’ at Westlaw Asia revealed 38 results in Hong Kong. Although most of the cases do not directly deal with the issue of who shall bear the burden of proving a misappropriation, an inference has been drawn in five of the above cases against the defendants, whose breach was either established by the court or at least considered as raising a serious issue to be tried.

An inference to be drawn, despite not being a complete reversal of burden of proof, allows the burden to be partly shifted to the defendant when prima facie evidence has been adduced on the part of the plaintiff. When it comes to a breach of confidence cause of action in particular, the case law in Hong Kong has made clear that even though the legal burden of proving breach is on the plaintiff, once he has proved the confidential nature of the information and the duty of confidence on the part of the defendant, the burden then shifts to the defendant to adduce evidence to show that he had not misused or disclosed the information which is confidential in nature.<sup>69</sup>

That said, in most cases, the finding of a breach of confidence by way of inference is not common. As the court in *Devere Group Hong Kong Ltd v Nicholas Edward John Smith* put it, when reaching a conclusion of breach of confidence as an inference to be drawn, ‘[a]ny such inference must be properly grounded in the primary facts of this case’.<sup>70</sup> The general principles guiding the drawing of an inference in Hong Kong can be found in *Nina Kung v Wong Din Shin*.<sup>71</sup> In particular, the said decision warned against the risk of courts ‘indulging in conjecture under the guise of drawing an inference where the primary evidence does not logically and reasonably justify the particular inference in question. It is not permissible merely to choose what may be the more likely of two guesses if neither was properly justified by the primary facts’.<sup>72</sup>

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68. Phang, Ho and Lo, *supra* note 1.

69. *William Allan v Messrs Ng & Co. (A Firm) and Another* [2012] 2 HKLRD 160 [150].

70. *Devere Group Hong Kong Ltd v Nicholas Edward John Smith* [2014] HKEC 570 [33].

71. *Nina Kung v Wong Din Shin* (2005) 8 HKCFAR 387.

72. *Ibid.*, [185]-[187].

#### **4. The Leading Case(s)**

##### **4.1. Case Information**

The District Court of the Hong Kong Special Administrative Region, DCCJ 1178/2009, *Dunamis International Co Ltd v Chan Hong Kit and Others* [2010] HKDC 242 (20 October 2010).

##### **4.2. Summary**

Ex-employees started their own business in competition with the plaintiff. Ex-employees used acquired customer information and a price list compiled by the plaintiff and stored in the plaintiff's internal databases to solicit customers away from the plaintiff by offering better prices. The plaintiff sued for, *inter alia*, breach of confidence for misusing the confidential information contained in these databases. The court held that when it came to breach of confidence, it was always a matter of inference as to whether the subject information was utilised by the defendants, given the envisaged difficulty for the plaintiff to adduce direct evidence to prove such breach. Because it was not likely to be a coincidence that the defendants' company had traded with numerous customers of the plaintiff located in different regions around the globe whose information was hard to find through the internet, the defendants' failure to offer a reasonable explanation aided the inference to be drawn in favour of the plaintiff.

##### **4.3. Facts**

The plaintiff was a wholesaler of mobile phones and mobile phone accessories incorporated in Hong Kong with customers around the world. All three defendants were former employees of the plaintiff. The 1st defendant, Mr Chan Hong Kit, had been employed by the plaintiff since 25 April 2005 as a salesperson. The 2nd defendant, Mr Wong Kwok Man, was employed as a sales coordinator by the plaintiff on 24 April 2007, and the 3rd defendant, Mr Sham Lai Kam, first came on board as the plaintiff's IT technician on 25 June 2007. The court found that all three defendants were governed by the plaintiff's 'Internal Rules and Regulations', which provided that, without the company's consent, an employee should not, within six months after resignation, take up occupation at any companies of the same kind; otherwise, the company reserves the right to claim compensation for all its loss.

The plaintiff had compiled the information of all its clients or potential clients in its customer database. The entries therein included the names, addresses, email addresses, phone numbers, contact persons, the passwords assigned to the customers for their access to the plaintiff's website for price quotation, the models which the customers had previously ordered and the special pricing codes which represent the gap between the price and the cost of each product sold, etc. Together with the customer database was a price list consisting of particulars and descriptions of the products, costs it secured from its suppliers and prices it offered to different customers. Both the customer database and the price list were considered sensitive in nature, and thus their internal access was restricted to the sales and IT persons of the plaintiff

exclusively. Meanwhile, for the sake of smooth communication with clients, each of the plaintiff's staff members was provided with a company email address as well as a Hotmail account with the sole purpose of setting up an MSN account to keep contact with the clients. The plaintiff, however, stressed internally to its employees that any order from clients should be placed through the company account, whereas Hotmail was not an official work email account.

On 7 April 2008, the director and founder of the plaintiff, Mr Lee, decided to dismiss the 1st defendant Chan due to his unsatisfactory performance. Prior to informing Chan about the decision, Lee instructed the plaintiff's sales manager, Mr Fung, to log into Chan's Hotmail account and check his MSN records. Mr Fung then found that the password to Chan's Hotmail account had been changed. He subsequently requested Chan to provide the new password, and the request was refused by Chan. It was not until the next day when Chan was formally discharged by Lee did he agree to cooperate and provide the new password to the plaintiff. By that time, it was discovered that most of the emails in his Hotmail account and MSN records had been deleted.

Since the departure of Chan, the 3rd defendant Mr Sham had taken up a concurrent position of a sales coordinator to fill Chan's shoes. However, given the close friendship among the three defendants, Mr Lee specifically warned Wong and Sham that they should never share any plaintiff's information with Chan since the latter was no longer an employee of the company. However, Mr Fung logged into Wong's Hotmail account in around early June 2008 and discovered that there was a chat history between Wong and 'Peter (UK)', whose registered email address happened to be the same one appearing on Chan's resume. In their conversation, the price list was imparted to this 'Peter (UK)' as requested. Because the plaintiff became suspicious and particularly concerned about the close relationship among the three defendants, both the 2nd and 3rd defendants were dismissed on 15 June 2008.

On 11 June 2008, a company named 'Masterfone' was incorporated in Hong Kong, with a registered business scope of 'trading and entertainment production'. Under cross-examination, it was conceded that the four shareholders of Masterfone were actually the respective parents of the three defendants and a common friend of the three. All three defendants had helped set up the business and were engaged in its operation after their dismissal at the plaintiff.

The plaintiff alleged that some of its customers to which the 1st and 2nd defendants were the responsible sales and contact person while they were working at the plaintiff had been doing business with Masterfone, and as a result, they did not place orders with the plaintiff as frequently as they had before. Five such customers were enumerated by the plaintiff, and one of them had even explicitly confessed to the plaintiff that they had been doing business with Masterfone because it had offered better prices. According to the plaintiff, all of these customers were small- or medium-sized companies based in North America or Europe. Some of them might not even have an official website and thus it was difficult to locate their information online. The plaintiff therefore brought this suit to the court, alleging the defendants had, *inter alia*, breached their duties of fidelity owed to the plaintiff, the relevant clauses in their employment contracts, and duties of confidence.

#### 4.4. Reasoning of the Court

##### 4.4.1. *Whether the Customer Database and the Price List Were Trade Secrets of the Plaintiff*

When determining the confidentiality of the subject information contained in the databases, the court cited several English cases and laid down the following principles:

- (i) A trade secret is information which, if disclosed to a competitor, would cause real harm to the owner of the secret. It must be information used in a trade of business, and the owner must limit the dissemination of it or at least not encourage or permit its widespread publication. It includes not only secret formulae for the manufacture of products but also, in an appropriate case, the names of customers and the goods which they buy.<sup>73</sup>
- (ii) To determine whether a particular piece of information is a trade secret or equivalent to a trade secret, it is necessary to consider: (a) the nature of the employment, for example, whether the status of the employee was such that he regularly handled confidential information and recognised it as such or whether the information was only handled by a restricted number of employees; (b) the nature of the information itself; (c) whether the employer had stressed the confidentiality of the information to the employee; and (d) whether the information could be easily isolated from other non-confidential information which was part of the same package of information.<sup>74</sup>

Having regard to the above criteria, the court concluded that the customer database and the price list at issue constituted not only confidential information but also trade secrets of the plaintiff. Specifically, the court took into account the following factors:

- (i) the information contained in the customer database and the price list was used in the plaintiff's business;
- (ii) only a limited number of employees who had been designated as 'authorized persons' could have access to the customer database and the price list;
- (iii) if the information contained in the customer database and the price list was disclosed to the plaintiff's competitor, real or significant harm would be caused to the plaintiff. Lists of customers, their contact information, their record of past purchases and the prices offered are no doubt valuable items of information which, if disclosed to competitors, would enable those competitors to lure the plaintiff's customers away;
- (iv) the 1st defendant admitted during cross-examination that the information contained in the customer database was sensitive information, and himself would never give away Masterfone's list of customers to its competitors because if that were done, Masterfone's business might well be adversely affected; and

73. *Lansing Linde Ltd. v Kerr* [1991] 1 WLR 251 at 260.

74. *Faccenda Chicken Ltd. v Fowler* [1986] 1 All ER 617 at 626e-627g.

- (v) as some of the customer companies do not have their own website, it was difficult for the plaintiff's competitors to find out information about them.<sup>75</sup>

Notably, one of the arguments put forward by the defendant's counsel was that there was no evidence showing that the plaintiff had impressed the defendants on the confidential nature of the customer database and the price list. This argument was rejected by the court, on the grounds that the said information was restricted to only limited members of the plaintiff, a password was required to get access, the 1st defendant acknowledged that he would deem such customer information of Masterfone to be sensitive himself, and the confidential nature of such information would be recognised by 'a man of ordinary honesty and intelligence'.<sup>76</sup> As a result, the information contained in the customer database and price list was categorised by the court as trade secrets.

#### 4.4.2. *Whether the Defendants Had Breached Their Duties of Confidence*

Although some of the plaintiff's claims were dismissed by the court because of inadequate evidence, inference was drawn in favour of the plaintiff regarding the defendants' breach of confidence by the defendants' providing of the customer database and price list to Masterfone. In particular, the court agreed with the plaintiff's counsel and held that 'it is always a matter of inference as to whether a company had made use of the confidential information of a plaintiff because the plaintiff will seldom be able to have direct evidence of a defendant using such confidential information'.<sup>77</sup> In the present case, the plaintiff had adduced evidence (e.g., the MSN records) to show that Masterfone had done business with quite a few small- and medium-sized enterprises located in the US, Poland, Canada, Slovakia, etc., which were all previous clients of the plaintiff with their information stored in the customer database. Further, there was also evidence from one of these client companies stating that they had been placing orders from Masterfone since June 2008 because the latter had offered a more competitive price to them.

The court held that although the burden was always on the plaintiff to prove its case, the circumstances in this case required the defendants to bear certain burden of proof as well. Since the defendants failed to explain why Masterfone transacted with a large number of the plaintiff's previous customers, it could be inferred that those business transactions were not mere coincidence. Instead, what could be inferred here was that the defendants utilised the plaintiff's customer database as well as the price list to divert business away to Masterfone. Therefore, it was unproved how the subject information was disclosed, misappropriated, or utilised by the defendants, but considering their previous positions at the plaintiff, their access to the subject information, and their clinging relationship with Masterfone (that Masterfone was indeed set up by them), the court found as a matter of inference that the three defendants had provided

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75. *Dunamis International Co Ltd v Chan Hong Kit and Others* (DCCJ1178/2009, unreported, 20 October 2010) [153].

76. *Ibid.*, [156].

77. *Ibid.*, [232].

the customer database and price list to Masterfone and thus breached their respective duties of confidence.

As a result, the court ordered against the defendants, restraining them from relying on and/or making use of the customer database (or any part thereof) and from disclosing the customer database (or any part thereof) to any third party until further order.<sup>78</sup>

#### 4.5. *Legal Analysis*

In a case concerning a breach of confidence claim, onerous burden of proof is on the plaintiff with respect to the confidentiality of the subject information, the importation of a duty of confidence, and the occurrence of the alleged breach to the detriment of the plaintiff.<sup>79</sup> If any compensatory damages are claimed, the plaintiff also has to prove it has suffered actual loss due to the misconduct and to quantify the loss in sum.<sup>80</sup> If the plaintiff has adduced sufficient evidence on the confidentiality of the information and there exists a contractual or equitable duty of confidence, the burden will shift to the defendant to prove it did not commit the alleged breach, to the extent that, had the defendant failed to discharge its burden of proof, an inference may be drawn at the discretion of the judge in favour of the plaintiff, given the anticipated hardship faced by the plaintiff to adduce direct evidence to prove a breach.<sup>81</sup> Yet, it should not be regarded as a total reversal of the general position of law, as the drawing of inference is always subject to the factual circumstances and judges' discretion, and consequently less certain than a statutory presumption.

In *Coco v Clark*, Megarry J identified three elements in establishing a breach of confidence claim.<sup>82</sup> To substantiate a claim based on breach of confidence, all three elements must be proven to the court's satisfaction. The burden of proof of each element is analysed below.

##### 4.5.1. *Confidentiality and Relevance of the Information*

In any breach of confidence litigation, the plaintiff needs to prove that the subject information is used in trade or business,<sup>83</sup> it is confidential and not in public domain,<sup>84</sup> it is easily separated from other information which an employee is free to utilise,<sup>85</sup> it will be detrimental to the owner if disclosed to a competitor,<sup>86</sup> and it has been in limited circulation due to the precautions taken by the owner.<sup>87</sup> The plaintiff also has to prove

78. *Ibid.*, [243].

79. *Coco v Clark*, *supra* note 3.

80. *William Allan*, *supra* note 69.

81. *Dunamis*, *supra* note 75, [232].

82. See text accompanied by *supra* note 3.

83. *Lansing Linde*, *supra* note 73; *Faccenda Chicken*, *supra* note 74, 5(b).

84. *Thomas Marshall (Exports) Ltd v Guinle* [1979] Ch 227; *Faccenda Chicken*, *supra* note 74.

85. *Faccenda Chicken*, *supra* note 74, 5(d); *Printers & Finishers Ltd. v Holloway* [1965] R.P.C. 239.

86. *Lansing Linde*, *supra* note 73; *Thomas Marshall*, *supra* note 84.

87. *Lansing Linde*, *supra* note 73; *Faccenda Chicken*, *supra* note 6, 5(c).



that precautionary measures have been taken to maintain the secrecy of the subject information.

In the present case, witnesses were called upon by the plaintiff to demonstrate that the latter relied heavily upon the customer database and price list in its daily operation, and the plaintiff had limited their access to only staff members in the sales and IT departments, to each of whom a password was assigned to prevent the leakage of confidential information. The plaintiff also illustrated that once the information stored in the databases was leaked, significant harm would be caused to its business because its competitors would be able to seduce its customers away by offering better prices, as price was highly sensitive in the mobile wholesale businesses.

#### 4.5.2. *An Express or Implied Duty of Confidence*

An express clause of confidentiality in a contract is normally a proper documentary proof of the confidence obligation.<sup>88</sup> Absent an explicit agreement, whether the implied duty of confidence will survive the expiration of the contract and impose a post-termination obligation depends on factual circumstances.<sup>89</sup> While a non-contractual obligation of confidence arises from equity, the finding of the obligation by equity normally involves judges' discretion.<sup>90</sup> Little guidance has been provided to aggrieved plaintiffs as to how the 'circumstances importing an obligation of confidence' could be proved on evidence. The plaintiff may alternatively claim a breach of fiduciary duty by proving the fiduciary relationship between the parties.<sup>91</sup>

#### 4.5.3. *The Misuse of the Information to the Detriment of the Plaintiff*

While the burden is always on the plaintiff to prove its case in a civil dispute,<sup>92</sup> *Dunamis* has made clear that when it comes to breach of confidence, inference can be drawn in determining whether the confidential information has been utilised. Inference, as classically defined, is 'the link by which an evidentiary fact is connected with the principal, which latter is said to be inferred or deduced from the evidentiary one, or to be a conclusion from it'.<sup>93</sup> As supported by the *Dunamis* court, the rationale behind the inference is the anticipated difficulties for the plaintiff to adduce direct evidence proving such breach.<sup>94</sup>

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88. Emir Crowne and Tasha De Freitas, 'Canada's Inadequate Legal Protection Against Industrial Espionage' (2013) 13 *Chicago-Kent Journal of Intellectual Property* 192, 204.

89. In the employment context, this may include: (i) the nature of the employee's employment; (ii) the nature of the information itself (whether or not the information can be classified as a trade secret or requires the level of protection of a trade secret); (iii) whether the employer impressed upon the employee the confidentiality of the information (not only in words but also in attitude towards the information); and (iv) whether the relevant information could be easily isolated from other information the employee is allowed to disclose. See *Faccenda Chicken*, *supra* note 6.

90. Crowne and Freitas, *supra* note 88, 203.

91. *Ibid.*

92. *Dunamis*, *supra* note 75, [237].

93. John Reynolds Gulson, *Philosophy of Proof in Its Relation to the English Law of Judicial Evidence* (G. Routledge 1905).

94. *Dunamis*, *supra* note 75, [232].

A similar approach was adopted in the High Court decision *William Allan v Messrs Ng & Co. (A Firm) and Another*,<sup>95</sup> in which a solicitor's firm had acquired confidential information from its quasi-client from a general and informal consultation and subsequently misused that information to represent the opposite party in a parallel suit. The court held that once the plaintiff has proved to the satisfaction of the court that: (1) the subject information had been imparted to the defendants; (2) the subject information was confidential in nature; and (3) the subject information was relevant to the parallel proceedings, 'the burden shifted to the defendants to adduce sufficient evidence to show that they had not made use of the confidential information or disclosed the same'.<sup>96</sup> The shift of burden of proof was not disputed in the appeal to the Hong Kong Court of Appeal.<sup>97</sup>

#### 4.5.4. *The Validity of a Covenant in Restraint of Trade*

Like in many other common law jurisdictions, the general principle in Hong Kong provides that a covenant in restraint of trade is generally unenforceable, unless it can be shown to be reasonable in the interests of the parties and the public.<sup>98</sup> The onus of proving the reasonableness of such restrictions is on the party who seeks to enforce the covenant, i.e., the plaintiff.<sup>99</sup> A plaintiff has to demonstrate that the duration, geographic range and type of work restricted by the relevant clauses are necessary to protect its legitimate interests. In the present case, the court held that a six-month restriction was reasonable in protecting the plaintiff's sensitive information in the mobile industry. The court also ruled that the term 'any companies of the same kind' was a reasonable restriction. However, the court ultimately decided that the restrictive covenant was unenforceable because it imposed no geographic limit.

#### 4.5.5. *The Damage Caused to the Plaintiff*

Lastly, the burden to prove the actual damage suffered by the plaintiff as a result of the defendant's wrongdoing is on the plaintiff as well. The plaintiff is obliged to prove both the existence and the amount of such damage caused by the defendant's breach of confidence and their causal relationship. In the event that the causation between the wrong and the damage cannot be established or the amount of damage cannot be specified on evidential grounds, the court would grant nominal damages,<sup>100</sup> which only consist of a trivial sum of money, as a symbolic recognition of the harm caused to the plaintiff by such condemned wrongdoing. The allocation of the burden to the plaintiff seems reasonable insofar it is only at the plaintiff's convenience to collect evidence to prove the actual loss suffered by it in a specified period of time.

95. *William Allan*, *supra* note 69.

96. *Ibid.*

97. *Ibid.*

98. *Bridge v Deacons* [1984] 1 AC 705 at 713A-B *per* Lord Fraser of Tullybelton.

99. *Degreeasia*, *supra* note 52, [32].

100. *Ibid.*, [58].

#### **4.6. Commercial or Industrial Significance**

Preventing sensitive business information from being unduly disclosed to competitors has become a common concern of entities of all sizes. However, when such proprietary information was misappropriated, not all proprietors have the necessary resources to bring a legal action to court or substantiate their claims with adequate evidence. An unduly onerous burden of proof allocated to the plaintiff may cause the wrongdoer as well as the downstream recipient of such information to escape liabilities.<sup>101</sup>

In this regard, it was exemplified in *Dunamis* that as long as the plaintiff can prove that the information itself has the necessary quality of confidence and it has been imparted in circumstances importing an obligation of confidence, the burden will then shift to the defendant to show that it did not misuse the information. If the defendant fails to provide a reasonable explanation, an inference would likely be made by the court in favour of the plaintiff.

Understanding the allocation of burden of proof is critically important for both plaintiffs and defendants in litigation concerning breach of confidence. Parties that are not able to bear the burden of proof stand slim chance to win the litigation. Therefore, the rule governing burden of proof in lawsuits concerning breach of confidence plays a decisive role in the outcomes of their litigation.

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101. Crowne and Freitas, *supra* note 88, 212.

## TOPIC 5 THE DAMAGES

*Jingwen Liu & Jyh-An Lee*

### 1. Legal Issues

What are the available remedies for a breach of confidence claim? Under what circumstances shall nominal damages, aggravated damages, or exemplary damages be granted in a breach of confidence case?

How is the amount of compensatory damages to be measured? What is the relationship between a loss of profit and account of profit claim?

### 2. The Statutory Law

Section 17 of the High Court Ordinance of Hong Kong provides that '[w]here the Court of Appeal or the Court of First Instance has jurisdiction to entertain an application for an injunction or specific performance, it may award damages in addition to, or in substitution for, an injunction or specific performance'.<sup>102</sup>

### 3. The Case Law

The general principle in Hong Kong is that the compensatory damages payable to a plaintiff are subject to the actual loss suffered by the plaintiff. However, as pointed out by *William Allan*,<sup>103</sup> exemplary damages remain one of the remedies and should be applied where compensatory damages are deemed inadequate. That said, the use of such punitive damages is extremely exceptional. When the Court of the Appeal delivered the judgment of the present case in 2012, there were merely 13 cases in Hong Kong since 1976 in which exemplary damages were granted.<sup>104</sup> When it comes to a breach of confidence cause of action in particular, a search for cases at Westlaw Asia with keywords 'breach of confidence' and 'exemplary damages' revealed 23 cases in Hong Kong as of 9 March 2021. In five of the above cases, the plaintiff has claimed damages, including exemplary damages, in its summons, for the defendant's breach of confidence. Nevertheless, the present case was the only one in which exemplary damages were granted. In *China Light*,<sup>105</sup> the court, despite having recognised the appropriateness of awarding exemplary damages in breach of confidence cases, refused to grant such a remedy in this very decision, given that the factual situation did not fall into the scope of exemplary damages. Moreover, in *Deacons v White & Case*,<sup>106</sup> the court, citing the English precedent *A v Bottrill*,<sup>107</sup> developed a 'test of outrageousness' in deciding whether to award exemplary damages. Following such strict criteria, the claim against the defendants failed, for their conduct, despite having amounted to

102. High Court Ordinance (Cap. 4) section 17.

103. *William Allan*, *supra* note 69.

104. *Ibid.*, [70].

105. *China Light*, *supra* note 4.

106. *Deacons v White & Case*, *supra* note 50.

107. *A v Bottrill* [2002] UKPC 44.

a cynical disregard for the rights of the plaintiff, was not vindictive or malicious or so outrageous that nothing less than an award of exemplary damages would have achieved justice.<sup>108</sup> Overall, the case law seems to suggest that exemplary damages, although available, are not common remedies for breach of confidence in Hong Kong.

#### **4. The Leading Case(s)**

##### **4.1. Case Information**

The High Court of the Hong Kong Special Administrative Region Court of Appeal, CACV 13/2011, *William Allan v Messrs Ng & Co. (A Firm) and Another* [2012] HKCA 119; [2012] 2 HKLRD 160; [2012] 2 HKC 266 (6 March 2012).

##### **4.2. Summary**

The 2nd defendant, Mr Christopher Erving, was a partner at the 1st defendant, Messrs Ng & Co., a solicitor's firm in Hong Kong ('the firm'). The plaintiff, Mr William Allan, was a practising barrister while his ex-wife ('the wife') was in medical practice.

The 2nd defendant, who had previously handled the plaintiff's consultation pertaining his divorce proceedings, ended up representing the opposite party, i.e., the wife in the said proceedings. The husband sued the solicitor together with the firm for, *inter alia*, breach of fiduciary duty and breach of confidence and sought exemplary damages. The trial judge supported the husband's claims and granted exemplary damages in the amount of HKD 2.14 million, consisting of the commission fees payable to the firm by the wife in the divorce proceedings and the costs ordered against the husband in the interlocutory proceedings relating to the divorce procedures as well as the present case, with both pre- and post-judgment interest to run from the date of the writ. The Court of Appeal upheld the decision that the solicitor and the firm were jointly and severally liable for damages, including exemplary damages. However, it disagreed with the trial judge on the amount. Specifically, the Court of Appeal pointed out that when assessing damages in general, it was important to distinguish between the different headings of damages to be awarded, be they compensatory, aggravated, or exemplary. As a result, the Court of Appeal held that the plaintiff should only be entitled to a nominal sum of HKD 100 for compensation because he failed to prove the actual loss caused by the defendants' conduct. As for exemplary damages, the court investigated the precedents in Hong Kong and agreed on an amount of HKD 400,000. Additionally, the court ruled that for the amount of HKD 100, there was no need to award interest, while for the amount of HKD 400,000, interest should only run from the day of the judgment.

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108. *Deacons v White & Case*, *supra* note 50.

### 4.3. Facts

On 29 April 1994, the wife filed a petition for divorce against the plaintiff. However, in the following days, both the wife's solicitor at the time and herself wrote to the plaintiff, stating her intention to pursue no further in the divorce proceedings if the plaintiff agreed to a settlement. On 12 or 13 May 1994, authorised by the plaintiff, the plaintiff's sister Alison approached the 2nd defendant through phone, with a hope to retain him as the plaintiff's solicitor in the divorce proceedings. During the 45-minute conversation, confidential information pertaining to the personal details, occupation and financial income of the plaintiff and the wife, the assets of the plaintiff and means of acquisition, the wife's grounds for divorce, the plaintiff's stances, bottom lines, and tactics in relation to the custody and financial issues in the divorce proceedings was imparted. Alison also mentioned that she was deeply concerned with confidentiality given the delicate situation in the divorce proceedings and was assured by the 2nd defendant that the information would be kept confidential. The telephone call resulted in a meeting arrangement for the plaintiff and the 2nd defendant. However, the meeting was postponed by the plaintiff himself on the morning of the agreed date, as he received a message from the wife and sensed an amicable settlement was possible. No retainer was paid to engage the 2nd defendant for the subject matter.

At around the same time, the wife started to be suspicious of the billing of her own solicitors. On 17 May 1994, she also approached the 2nd defendant, recommended by a friend, for general advice. After several meetings, she orally instructed the firm to act for her. On 26 May 1994, a Notice of Change of Solicitors was filed on behalf of the wife by the firm and delivered to the plaintiff thereafter. Upon receiving the Notice, the plaintiff and Alison both called the 2nd defendant to condemn his behaviour and urge him to cease representing the wife. On 8 July 1994, both the wife and the firm wrote to the plaintiff, informing him of her decision to proceed with the divorce. On 12 July 1994, the plaintiff engaged another firm to act for him in the proceedings.

While the divorce matters intensified, the plaintiff brought suit against the defendants in the present case on 28 October 1994 and applied for an interlocutory injunction prohibiting the defendants from acting for the wife, which was dismissed by Justice Sears on 10 November 1994, with costs against the plaintiff. However, at that time, his bank accounts were all frozen as requested by the wife and he was evicted from the matrimonial home. Given his mental collapse and inability to pay outstanding debts owed to both his own solicitors and the defendants arising from the interlocutory injunction proceedings, he wrote to his own solicitors hoping to withdraw the current action. On the other hand, a bankruptcy application was filed by the defendants against him. At the hearing of the plaintiff's application for stay of the bankruptcy on 22 July 1996, Justice Patrick Chan advised the wife to 'make a conscious decision to retain a solicitor' and 'consider the interest of the child'. It was not until then that the wife replaced the defendants and retained another firm as her solicitors. The divorce proceedings had been extremely protracted and not concluded until 21 July 2001. Nevertheless, the present case was not withdrawn eventually, as the plaintiff secured legal aid. In front of the Court of First Instance, the plaintiff sued for, *inter alia*, exemplary damages for breach of confidence.

#### **4.4. Reasoning of the Court**

##### *4.4.1. The First-Instance Decision*

At first trial, the trial judge, Justice To ('To J'), confirmed the confidentiality of the subject information, being the stances, bottom lines and tactics imparted to the 2nd defendant by Alison on behalf of the plaintiff during the phone call. He defined the relationship between the plaintiff and the 2nd defendant as a quasi-client-solicitor relationship, which indisputably gave rise to a duty of confidence. Moreover, the court supported the argument that once the confidentiality of the subject information had been established, the burden shifted to the defendants to prove they never disclosed or misappropriated such information. In particular, To J pointed out that under the Hong Kong Solicitors' Guide to Professional Conduct, a solicitor was bound by both a duty to hold in confidence all information of his client acquired in the course of the professional relationship<sup>109</sup> and a duty to pass on to his client all material information relevant to the subject matter regardless of the source.<sup>110</sup> A solicitor was in breach of these duties if he acquired the information from a former client and used that information to act for a present client.<sup>111</sup> In the present case, the 2nd defendant's duty owed to his present client would require his breach of confidence owed to his former quasi-client, i.e., the plaintiff.

At trial, both the parties and the court agreed that it was extremely difficult to prove the actual damages suffered by the plaintiff since there was no knowing how the divulged information had shaped the direction of the divorce proceedings. Hence, the plaintiff abandoned the compensatory claim and opted to concentrate on exemplary damages. Nevertheless, To J found that although the amount of the damages could not be specified, the damages could be readily presumed, as if it were not for the divulged information, the divorce proceedings would have at least 'proceeded more smoothly, incurring less time and costs', and the current litigation, the interlocutory proceedings and the costs incurred therefrom would have been avoided, nor would the plaintiff have suffered the bankruptcy crisis. Therefore, although there was no sufficient evidence to support the compensatory damages claim, To J held that the plaintiff was still entitled to at least nominal damages, in addition to the exemplary damages being sought. Based on the findings of the defendants' conduct being 'extremely outrageous' and 'utterly unreasonable', the judge felt it necessary to display the court's firm disapproval of such behaviours by granting exemplary damages. Taking into consideration: (1) the blameworthiness of the defendants' conduct; (2) the degree of vulnerability of the plaintiff; (3) the harm or potential harm directed specifically at the plaintiff; (4) the need for deterrence; and (5) the advantage wrongfully gained by the defendants from the misconduct, To J ordered exemplary damages including the following components:

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109. Law Society of Hong Kong, *The Hong Kong Solicitors' Guide to Professional Conduct* [http://www.hklawsoc.org.hk/pub\\_e/professionalguide/volume1/default.asp](http://www.hklawsoc.org.hk/pub_e/professionalguide/volume1/default.asp) (1998) Vol. 1 para. 8.01.

110. *Ibid.*, para. 8.03.

111. *William Allan*, *supra* note 69.

- (1) the profits the defendants made from acting for the wife, at \$1.19 million (having regard to the costs incurred by the wife of \$2.38 million and, on a 'rough assessment', assumed half of that represented the defendants' gross profits);
- (2) the costs the defendants were awarded in successfully opposing the interlocutory injunction application and the costs the defendants should have paid the plaintiff in that application, at \$750,000 (taking the agreed costs of \$375,000 awarded to the plaintiff, which the judge assumed to have been paid by the plaintiff with interest, and awarded a like amount to the plaintiff as the plaintiff's own costs); and
- (3) the miscellaneous costs orders the defendants were awarded in the bankruptcy proceedings and charging order over the matrimonial property, at \$200,000 (this was a 'notional sum' allowing for the plaintiff's costs in the bankruptcy proceedings and the costs incurred in the charging order).

The total amount had arrived at \$2.14 million, with interest to run on the first and third items from the date of the writ in the current action (i.e., 28 October 1994), and on the second item from the date for judgment of agreed costs (i.e., 29 November 1995).<sup>112</sup> Moreover, the judge directed the Law Society to commence disciplinary proceedings against the 2nd defendant and consider removing him from the rolls of solicitors. The dispute was then brought to the Court of Appeal.

#### 4.4.2. *The Court of Appeal Decision*

Based on the finding that the 2nd defendant's wrongdoing was 'reasonably incidental' to the firm's business, the court found the firm and the 2nd defendant jointly and severally liable for whatever damages would be decided for the 2nd defendant's breach of confidence. The court also considered whether exemplary damages were applicable at all and whether the amount was reasonable.

##### 4.4.2.1. *The Applicability of Exemplary Damages in General*

With reference to the authority of *A v Bottrill*,<sup>113</sup> the presiding judge of appeal, Justice Kwan JA ('Kwan JA'), concluded that the rationale for exemplary damages was to punish rather than to compensate. They were intended to be additional to compensatory damages, which were to make up for the pecuniary and non-pecuniary loss suffered by a plaintiff.<sup>114</sup> Citing Lord Nicholls in *A v Bottrill*, the court explained that:

In the ordinary course the appropriate response of a court to the commission of a tort is to require the wrongdoer to make good the wronged person's loss, so far as a payment of money can achieve this. In appropriate circumstances this may include aggravated damages. Exceptionally, a defendant's conduct in committing a civil wrong is so outrageous that an order for payment of compensation is not an adequate response. Something more is needed from the court, to demonstrate that

112. *Ibid.*, [26]-[28].

113. *A v Bottrill*, *supra* note 107.

114. *William Allan*, *supra* note 69, [52].



such conduct is altogether unacceptable to society. Then the wrongdoer may be ordered to make a further payment, by way of condemnation and punishment.<sup>115</sup>

As such, there was a clear distinction between compensatory and exemplary damages. Kwan JA warned against the possibility of the boundary becoming less obvious, were a combined award to be made.<sup>116</sup>

Meanwhile, the court made it clear that exemplary damages should be considered 'a remedy of last resort'. It is only if the available remedies are inadequate to punish and deter the defendant that exemplary damages should be considered.<sup>117</sup>

#### 4.4.2.2. The Applicability of Exemplary Damages Against Equitable Wrongs

The defendants' counsel argued that damages, including exemplary damages, as a common law remedy, should not be misused in correcting an equitable wrong, being the breach of confidence claim under the current circumstance. The counsel cited a classic case of 1872 in England<sup>118</sup> as well as a subsequent judgment in Australia<sup>119</sup> to demonstrate that a court of equity had no jurisdiction to grant punitive monetary awards for breach of fiduciary duties. However, Kwan JA pointed out that the same practice was not followed by courts in Canada<sup>120</sup> and New Zealand,<sup>121</sup> and had caused confusion and inconsistency among commonwealth jurisdictions. To address the contradicting approaches, the Law Commission of England issued a Report on Aggravated, Exemplary and Restitutionary Damages in 1997 ('Law Commission Report'), which recommended that 'exemplary damages should be available for equitable wrongs' to pave way for a uniform resolution.<sup>122</sup> In Hong Kong, the widely cited case law *China Light* explicitly stated that 'exemplary damages are available in cases of breach of confidence'.<sup>123</sup>

#### 4.2.2.3. The Assessment of Exemplary Damages

The Court of Appeal disagreed with the trial court's calculation of damages. Specifically, the trial judge had erred in his calculation in three ways: he had included what was in essence compensatory damages in the sum of exemplary damages, being the second and third components of the amount (\$750,000 for costs of both parties in the interlocutory injunction proceedings and \$20,000 for costs in the bankruptcy proceedings and charging order over the matrimonial home) that had been granted to the plaintiff. Meanwhile, the first component of \$1.19 million, being the fees incurred for representing the wife in the divorce case, was actually an account of profits. It was not

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115. *A v Bottrill*, *supra* note 107, [20].

116. *William Allan*, *supra* note 69, [53].

117. *Ibid.*, [55].

118. *Vyse v Foster* (1872) LR 8 LRCh App 309.

119. *Harris v Digital Pulse Pty Ltd* (2003) 56 NSWLR 298.

120. *Norberg v Wynrib* [1992] 2 SCR 226.

121. *Aquaculture Corporation v New Zealand Green Mussel Ltd* [1990] 3 NZLR 299.

122. Law Commission, *Report on Aggravated, Exemplary and Restitutionary Damages* (Law Com No. 247, 1997) paras 5.54-5.56.

123. *China Light*, *supra* note 4, at 29C to F, 30C to E, 34H to I and 38H.

proper for either form to be included in the calculation of exemplary damages, which was aimed to be punitive and should be applied in addition to, not in replacement of, compensatory damages or restitution of enrichments. Furthermore, even if the three components were deemed individually acceptable, the plaintiff should have only been awarded either the sum of the first item or the other two since compensatory damages and an account of profits were meant to be alternative rather than cumulative. In any event, the total amount of \$2.14 million was deemed ‘unreasonable and wholly excessive’.

Kwan JA first acknowledged To J’s decision that the plaintiff was entitled to a nominal sum of compensatory damages and ordered an amount of \$100 to be paid under this heading. Next, although not satisfied with the amount decided in the first trial, he explained that this was ‘an appropriate case for an award of exemplary damages’. Had the plaintiff relied on either a loss or an account of profit claim and adduced evidence thereof, he would still find the compensation or the quantum of restitution inadequate to punish and deter the defendants, and order exemplary damages to be paid. As neither the compensation payable nor the account of profits was a proper method to calculate exemplary damages, the final figure was determined by the judge’s discretion. Kwan JA referred to previous cases in Hong Kong where exemplary damages were applied, among which the highest sum was set at \$200,000. However, given that the said decision had been 12 years old at the time of the appeal, inflation was taken into account, as were the disciplinary proceedings against the 2nd defendant at the Law Society, the defendants’ undertakings not to enforce their rights acquired in the previous court proceedings against the plaintiff, and the general principle of proportionality. Overall, he deemed \$400,000 would be a proper amount under this heading.

The last issue was to decide whether it was reasonable to order the defendants to pay interest on the determined amount over a 15-year period, starting from the date of the writ of this protracted litigation. Citing multiple common law precedents, Kwan JA held that unlike compensatory damages, on which interest may be awarded to run from the date of the writ, ‘[i]nterest before judgment should not be awarded on exemplary damages, as the function of this kind of award is to punish and deter the defendant and the plaintiff is not being kept out of money which should have been paid to him’.<sup>124</sup>

#### 4.5. *Legal Analysis*

##### 4.5.1. *The Availability of Damages in Breach of Confidence Cases*

In common law jurisdictions, there has been a long-established distinction between legal and equitable remedies, alongside the ancient distinction in England between courts of law and courts of equity.<sup>125</sup> Though courts of the two kinds have merged since

124. *William Allan*, *supra* note 69, [76].

125. Tyler J. Bowles, ‘Employment Discrimination: Distinguishing Between Equitable Remedies and Compensatory Damages’ (2008) 15 *The Journal of Law and Economics* 11, 12.

the late nineteenth century,<sup>126</sup> the concepts of legal and equitable reliefs are retained.<sup>127</sup> The most typical legal remedy is an award of monetary damages,<sup>128</sup> while equitable remedies include injunctions, specific performance, reformation, quiet title, reinstatement, equitable rescission, equitable lien, constructive trust, subrogation and accounting for profits, etc.<sup>129</sup>

In Hong Kong, the most important case law is *China Light*,<sup>130</sup> in which the court cited Lord Cairns' Act in the UK and stated that:

As a matter of history, the common law provided no protection against the misuse of confidential information. No action for damages (the only remedy available for any wrongful act at common law) would lie. Eventually, equity, true to form, stepped in to supplement this deficiency of the common law; it made available the equitable remedy of an injunction to restrain such misuse. Now, however, under the Chancery Amendment Act 1858 (Lord Cairns' Act), damages may be granted in certain cases in lieu of an injunction, and this has caused some confusion.<sup>131</sup>

In the present case, the defendants' counsel argued that since exemplary damages were designed to be punitive, the court had no power to grant a punitive monetary award against such breach of fiduciary duty.<sup>132</sup> Kwan JA disagreed and explained that the practices were inconsistent among commonwealth jurisdictions and some of them not only contradicted the Law Commission Report but also ran against the principle set down in *China Light*, in which the Court of Appeal had concluded that exemplary damages were available in cases of breach of confidence.<sup>133</sup>

#### 4.5.2. Different Types of Damages

The error of the trial judge's calculation of damages derived from his fusion of compensatory and exemplary damages. In hearing the appeal case, Justice Fok JA added to Kwan JA's judgment that '[i]t is important to keep in mind some basic distinctions between compensatory (or basic) damages, aggravated damages and exemplary damages as these differences are significant both in terms of substance and procedure'.<sup>134</sup> When assessing the amount of the damages to be awarded, it is material to first find out what types of damages are to be awarded, be they special, general, aggravated or exemplary. The qualitative characterisation would have a significant impact on the quantitative determination.

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126. Samuel L. Bray, 'The Supreme Court and the New Equity' (2015) 68 *Vanderbilt Law Review* 997, 1046, 1054; *Franks v Bowman Transp. Co.*, 424 U.S. 747, 763 (1976); Samuel L. Bray, 'The System of Equitable Remedies' (2016) 63 *UCLA Law Review* 530, 537.

127. Gaylord A. Jentz, Kenneth W. Clarkson and Roger LeRoy Miller, *West's Business Law: Alternative UCC Comprehensive Edition* (3rd ed., West Publishing Company 1987).

128. Alexander J. Black, 'Undue Influence and Unconscionability in Contracts and the Equitable Remedy of Rescission in Canada' (2011) 17 *New England Journal of International and Comparative Law* 47, 48.

129. Bray, 'The System of Equitable Remedies', *supra* note 126, 541-542.

130. *China Light*, *supra* note 4.

131. *Ibid.*

132. *William Allan*, *supra* note 69, [38].

133. *China Light*, *supra* note 4.

134. *William Allan*, *supra* note 69, [81].

## 4.5.2.1. Compensatory Damages

Compensatory damages are awarded to make up for the loss suffered by a victim as a result of wrongdoing. Compensatory damages can be further divided into specific damages and general damages. The former refers to the quantifiable pecuniary loss sustained by the plaintiff and will be decided by the court based on different metrics, such as cost for medical treatment, while the latter reflects the non-pecuniary loss such as damages for pain, suffering, loss of amenities and injury to reputation, etc., on which the court will have to show some discretion to quantify with reference to the special circumstances.<sup>135</sup>

When establishing his claim for compensatory damages, a plaintiff will have to prove the wrongdoing of the defendant, the loss suffered by itself, and the causal link between the act complained of and the loss alleged. For equitable damages, it requires no less than ordinary common law damages for the causation and remoteness evaluation to be passed.<sup>136</sup> A plaintiff will also have to prove, on the balance of probabilities, both the fact and the amount of the damage. 'If the fact of damage is shown, but no evidence is given as to its amount so that it is virtually impossible to assess damages, this will generally permit only an award of nominal damages.'<sup>137</sup>

When calculating the compensatory damages payable to the plaintiff, a loss of profit claim is one of the typical options. A loss of profit claim is a method for a plaintiff to quantify and justify its claim for a fixed-amount compensation. It provides a method of calculating compensatory damages, being the profits a plaintiff could have made if it were not for the defendant's misbehaviour. This is to be distinguished from an account of profit claim, which, in contrast, is a classical equitable remedy seeking to reconstitute the unjust enrichment from the wrongdoer.

## 4.5.2.2. Nominal Damages

By definition, nominal damages are 'a trivial sum of money awarded to a litigant who has established a cause of action but has not established that he is entitled to compensatory damages'.<sup>138</sup> Nominal damages usually come into play and fill compensatory damages' shoe when the claimant is entitled to compensation as a general matter of law, but there is simply no actual loss caused by the alleged breach or no sufficient evidence to prove the same. In this regard, nominal damages serve as a symbolic recognition of the harm of the wrongdoing with only a declaratory effect.<sup>139</sup> Though some have been arguing that nominal damages are to be divorced from compensatory damages,<sup>140</sup> they are still compensatory in nature.<sup>141</sup> In the present case, both the trial judge and judges of appeal had recognised the plaintiff's entitlement to

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135. *Ibid.*, [82].

136. *Akihiro Oba*, *supra* note 10, [48].

137. *ICI Swire Paints Ltd v Techni Motor & Engineering & Trading Co* (HCA 7251/1995, 29 January 2003).

138. The Restatement (Second) of Torts, section 907.

139. 25 C.J.S. Damages § 17.

140. *See, e.g.*, Jacob A. Stein, *1 Stein on Personal Injury Damages Treatise* (3rd ed., Clark Boardman Callaghan 1997) § 1:3.

nominal damages given his failure to prove the actual loss caused by the defendants' misuse of confidential information.

#### 4.5.2.3. Aggravated Damages

Non-pecuniary loss in a tort claim sometimes involves hurt feelings or mental distress. Where such feelings are involved, aggravated damages over and above the normal range of general damages may be granted, as a compensation to the injury caused to the plaintiff's pride, dignity and such as a consequence of the defendant's conduct.<sup>142</sup> The idea of aggravated damages was first laid down by *Rookes v Barnard*, where Lord Devlin stated that 'the manner of committing the wrong may be such as to injure the plaintiff's proper feelings of dignity and pride. These are matters which the jury can take into account in assessing the appropriate compensation'.<sup>143</sup> According to Lord Devlin, aggravated damages are still compensatory in nature, the application of which is because of the increase of the injury caused to the plaintiff due to the mental suffering, rather than to be punitive.<sup>144</sup> In this regard, aggravated damages are to be distinguished from exemplary damages, the application of which would go through a stricter scrutinization insofar as basic and aggravated damages are deemed inadequate.

#### 4.5.2.4. Exemplary Damages

Unlike the typical purpose of damages, which is to compensate, the purposes of exemplary damages are to punish and to deter. This facet of exemplary damages has made it an anomaly in the civil sphere since it has more or less blurred the functions of civil and criminal laws.<sup>145</sup> Nevertheless, as pointed out by Fok JA in the present case, they remain a part of the common law of England as well as that of Hong Kong.<sup>146</sup> In *Rookes*, Lord Devlin strictly restricted the use of exemplary damages to three categories of cases: (1) oppressive, arbitrary or unconstitutional action by the servants of the government; (2) where the defendant's conduct has been calculated by him to make a profit for himself which may well exceed the compensation payable to the plaintiff; and (3) where exemplary damages are expressly authorized by statute.<sup>147</sup> In the present case, both the trial judge and the judges of appeal agreed on the notion that the behaviour of the defendants, as professional solicitors, was so disgraceful that it deserved the court's express disapproval by way of awarding exemplary damages.

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141. See, e.g., *Fairfield v American Photocopy Equipment Co.*, 138 Cal App 2d 82, 291 P2d 194; *Booth v Quality Dairy Co.*, 393 SW2d 845 (Mo App); Allan, *supra* note 2, [84].

142. *William Allan*, *supra* note 69, [83].

143. *Rookes v Barnard* [1964] AC 1129, [1964] 1 All ER 367.

144. *Ibid.*, at 407; Hardinge Stanley Giffard Halsbury, *Halsbury's Laws of England* (3rd edn, 1969) Vol. 12 para. 1189, at 472-473.

145. Harvey McGregor, *McGregor on Damages* (18th edn, Sweet and Maxwell 2009) at §11-001.

146. *William Allan*, *supra* note 69, [85].

147. *Rookes*, *supra* note 143.

**4.6. Commercial or Industrial Significance**

Under some circumstances, the existence of exemplary damages has made Hong Kong an ideal forum for owners of confidential information to take actions against wrongdoers. For example, in *Shenzhen Futaihong Precision Industry Co Ltd v BYD Co Ltd*, BYD asked the court to stay an action brought by its business rival because there was a parallel suit between the parties at Shenzhen Intermediate People's Court of the People's Republic of China. The court rejected BYD's request, on the basis that should the dispute be stayed for the Shenzhen action, the plaintiff would be deprived of the potential advantages of exemplary damages, as well as other forms of equitable remedies.<sup>148</sup> In this regard, the significance of the present case is that it clarified that an award of exemplary damages was applicable to a breach of confidence claim, and meanwhile explained its interrelation with compensatory, nominal and aggravated damages. Moreover, in addition to illustrating the correct way to consider various factors for damage assessment, this judgment exemplified the methods to calculate different types of damages, including compensatory damages, nominal damages, and aggravated damages, in a breach of confidence case.

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148. *Shenzhen Futaihong Precision Industry Co Ltd v BYD Co Ltd* [2008] HKEC 1093.