Hong Kong employment update

Interlocutory injunction to enforce employee's post-termination paid non-compete clause

09 December 2021

Introduction

In *BFAM Partners (Hong Kong) Ltd v Mills & Anor* 1. [2021] HKCFI 2904, the Court of First Instance of the High Court granted an interlocutory injunction against the first defendant to enforce a six month paid non-compete clause in his contract of employment with the plaintiff (his former employee). While the judgment turns on its facts, it is a detailed analysis of the relevant legal principles involved in the grant of such an injunction. The case illustrates the interplay between different post termination restrictive covenants in an employment contract in the context of a highly skilled employee and industry – in particular, the need for employers to be protected by reasonable and proportionate non-compete covenants together with confidentiality clauses.

Some Key Points

- Post termination restrictive covenants which amount to a restraint of trade are prima facie unenforceable, unless they are reasonably necessary to protect an employer's legitimate business interests and are no wider than reasonably necessary.
- What is reasonably necessary depends on the context – for example, it will be less difficult for an employer to justify a post termination restrictive covenant in a contract of employment for a senior employee as compared with a junior graduate.
- "Reasonableness" is determined by reference to matters at the time of entering into an employment contract. However, this does not prevent the courts from having regard to some matters that happen after an employment contract has commenced – for example, in this case, the first defendant (the former employee) had taken on more responsibilities as part of his role as a technology officer which were consistent with a de facto senior role (in part, to cover for another senior employee).
- While employers should strive, insofar as is reasonably necessary, to have comprehensive protection by means of post termination restrictive covenants such covenants should be tailor-made ("bespoke") having regard to the level of an employee's seniority and the nature of their employment – generally, an employer can justify more protective post termination restrictive covenants (for example, in terms of duration and geography) as regards senior employees and a "one size fits all" approach is not advisable.
- While employers may have commercial reasons for wanting to extend the reach of certain post termination restrictive

covenants with respect to some employees, they should be aware that post termination restrictive covenants that are found to be unreasonable (and in restraint of trade) will not be rewritten by the court – such covenants will be unenforceable and deemed void.

- Post termination restrictive covenants come in many different forms – for example, non-solicitation, non-dealing, non-poaching and non-compete clauses. They can be supplemented by delivery-up and confidentiality clauses. In this case, the non-compete clause (of itself) was important to the plaintiff, even though there were comprehensive confidentiality and delivery-up clauses in the standard terms and conditions of the first defendant's contract of employment.
- In this case, the first defendant was entitled to be paid his full salary during the period of the non-compete clause – six months. This factor (together with the nature of the first defendant's more senior de facto role and responsibilities) was clearly instrumental in the exercise of the court's discretion to grant an interlocutory injunction to enforce the non-compete clause for six months.
- The interrelationship between confidentiality clauses and non-compete clauses is not an easy area of the law and, in any given case, is fact sensitive. An employer cannot prevent a former employee from using general know-how and trade information acquired during their employment, but they can protect trade secrets and confidential information that they have a legitimate interest in protecting.

Background

The plaintiff company is a Hong Kong company that provides fund management services to institutional investors. The first defendant is an experienced and highly skilled technology professional in the financial industry. He was employed by the plaintiff as a technology officer as from 11 February 2019 for a fixed term of one year. In August 2019 the plaintiff and first defendant agreed that he would be put on permanent terms with the position of "Head of Platform Technology". His base salary was purportedly US$300,000 per annum.

The contract of employment contained various usual post termination restrictive covenants, including non-poaching, non-solicitation and non-compete. The non-compete clause was for a period of six months and restricted to Hong Kong – in short, the first defendant agreed not to compete (by himself or others) with respect to products or services of the same or a similar type provided by the plaintiff for six months from the effective date of his resignation. In February 2021 the defendant resigned and commenced garden leave on 1 May 2021. He was entitled to full pay for the restrictive period of six months.

During his approximately two years of employment with the plaintiff, the first defendant appears to have come into possession of a not insignificant amount of information, which the plaintiff claimed was confidential regarding their working practices and strategies. The degree to which these practices and strategies were confidential or known or remembered by the first defendant was disputed.

On or about 24 May 2021 the first defendant went to work as a "Chief Technology Officer" for the second defendant in Hong Kong – a company that also operates in the funds industry. The plaintiff was willing to pay the first defendant during his restrictive period, but payment initially appears to have been rejected by the first defendant.

On 27 July 2021 the plaintiff commenced proceedings against the first and second defendants seeking (among other things) to enforce the non-compete clause by means of an injunction against the first defendant.

Given that the notional trial date would be after the restrictive period of the non-compete clause (1 May to 31 October 2021) it was not disputed that the grant or refusal of an injunction would effectively dispose of the proceedings.

The issue for the court to decide (at an interlocutory pretrial stage) was whether it should grant an injunction against the first defendant (to enforce the non-compete clause) and this required a determination of what course of action would notionally do less harm – namely: (i) granting an injunction to the plaintiff (the employer) and their failing at trial on the merits or (ii) refusing to grant an injunction and the plaintiff going on to succeed at trial on the merits. In short, at an interlocutory stage, the court should take whichever course of action was likely to cause less prejudice. 2. Supra note 1, at paras. 21 and 22.

Decision

In a detailed written decision, the court granted an interlocutory injunction against the first defendant and made the following findings (among others) based on the evidence.

Correct Timeframe

While the correct time for determining the reasonableness of a non-compete clause is the making of the employment contract, the court could allow evidence of relevant matters after the contract had commenced where to do so was reasonable and envisaged by the parties. In this case, in assessing the reasonableness of the non-compete clause, it was permissible to take into account the fact that the first defendant had taken on extra senior responsibilities as part of his permanent position.

Confidential Information

The first defendant had acquired information during the course of his employment in respect of which the plaintiff could argue was confidential and claim legitimate protection – including, for example, relating to the plaintiff's business operations and trading strategies. The information had not lost its confidential status through decay or the passage of time, such that it remained confidential. Moreover, the court recognised the principle in *Faccenda Chicken Ltd v Fowler* [1987] 3. [1987] 1 Ch. 117. – namely, that employees are entitled to make use of such confidential information as they are able to carry away with them in their heads for the purpose of any business of their own or that of a new employer, as part of their accumulated skill and knowledge. The judge stated:

"On the evidence available before the court, it seemed to me that the plaintiff has shown that the confidential information in question can fairly be regarded as a separate part of the 1st defendant's stock of knowledge which a man of ordinary honesty and intelligence would recognise to be the property of the plaintiff."

Non-Compete Clause

The non-compete clause appeared to go no further that was reasonably necessary to protect the plaintiff's legitimate interests during the restrictive period (six months). For example:

- the plaintiff's unchallenged evidence suggested that the life cycle of their trading strategies would be approximately six months, after which relevant confidential information would lose its commercial value
- the non-compete clause was restricted to the plaintiff's products and services provided in Hong Kong
- the delivery up and confidentiality clauses all had their uses, but they did not (of themselves) prevent the disclosure of the plaintiff's legitimate confidential information. The judge stated:

  "As a general proposition, a non-competition clause may be necessary to protect an employer's confidential information even if there is a confidentiality clause in the employment contract. This is because it is often difficult to prove whether the information is or is not confidential." [5]
- it was in the contemplation of the plaintiff and the first defendant at the time of entering into the employment contract that the first defendant would have access to some confidential information.

Prejudice to the Parties

Balancing the parties' competing interests, granting the interlocutory injunction would carry the lowest risk of injustice between the parties. For example:

- if the injunction was refused and the plaintiff later won on the merits at a trial it would (on the facts) be difficult and costly for the plaintiff to quantify their financial loss as a result a proven breach of the non-compete clause
- there was no evidence to suggest that the plaintiff would not honour their undertaking (to the court as part of the grant of injunctive relief) to compensate the first defendant in the event that the plaintiff was later ordered to pay compensation to the first defendant should the interlocutory injunction be found to have been incorrectly granted, and
- the plaintiff had offered and was willing to pay the first defendant his basic salary during the period of the non-compete clause.

Comment

Subject to remaining arguments as to the amount of the legal costs between the parties, it appears that the case will be brought to a resolution. The period of the non-compete clause ended on 31 October 2021 after which the first defendant is free to take up his position with the second defendant.

By the time that the court had heard the plaintiff's application for an interlocutory injunction there remained less than two months for the period of the non-compete clause to expire. It is interesting that the plaintiff still chose to pursue legal remedies – this might suggest something about the commercial and competitive nature of the business that the plaintiff and the second defendant are engaged in. The first defendant appears to be a highly skilled information technology strategist who learnt a lot during his approximately two years with the plaintiff and the plaintiff may have been keen to send a message to their senior staff and/or the market that (as best they can) they will protect their business operations.

It also appears to be the case that the plaintiff's representatives presented a wealth of consistent evidence (on oath or affirmed) to support the plaintiff's position – as a result of which they probably presented a better story, which gives an interesting insight into the internal operations of a fund manager.

Overall, the outcome in the case will be welcomed by well-resourced employers that operate in a highly competitive business where senior level recruitment can be time-consuming and difficult. In this case, the plaintiff was protected by a non-compete clause that (on the evidence) went no further than was reasonably necessary to protect their legitimate interests in the funds industry and given the seniority of the individual concerned.

Contact Us

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A shorter version of this article was originally published in the Litigation Newsletter of the *International Law Office: www.internationallawoffice.com*

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