

# Bird & Bird & Trade Secrets

## *An overview of the protection of Trade Secrets in Hong Kong*

This is the 11<sup>th</sup> of a series of articles written by members of our International Trade Secrets Group, highlighting points of note regarding the protection of Trade Secrets in various jurisdictions.

Hong Kong does not have a statutory regime for the protection of trade secrets. Confidential information, including trade secrets, is protected by the common law under the law of confidence, as well as under express and implied terms of contract.

### **Trade Secrets Defined**

While there is no single definition of a trade secret in Hong Kong, the characteristics of a trade secret were summarised in the 2003 case of *AXA China Region Insurance Co Ltd v. Pacific Century Insurance Co Ltd*, namely that a trade secret or its equivalent must be information which:

- is used in a trade or business;
- is confidential, i.e. is not already in the public domain;
- can be easily isolated from other information which an employee is free to use so that any person of average intelligence and honesty would think it is improper to use the information at the disposal of a new employer;
- if disclosed to a competitor, would be liable to cause real or significant harm to the owner; and
- is restricted from dissemination by the owner of the information or the confidentiality of which has been impressed upon the receiving employee.

### **Trade Secrets Distinguished**

To further define what qualifies as a trade secret, it is helpful to distinguish trade secrets from other confidential information and from general knowledge and skills.

#### ***Trade Secrets v Confidential Information***

Some information clearly constitutes a trade secret; for example, the secret recipe for a food product. In other cases, the distinction is not so clear. In short, any confidential information which does not have the qualities listed under "Trade Secrets Defined" will not be a trade secret, no matter what description or label is given to it.

However, the fact that a database or an invention is derived from information that is in the public domain does not prevent it from being a trade secret. A customer list is capable of being classified as a trade secret if the compilation of the customer list involves mental processes, skills and labour and is compiled in such a way, e.g. through the combination of other information in a database that is not accessible to the public, and the disclosure of which would cause significant harm to the owner. Because of the significant time, skill and expense put into the finished product and the highly valuable nature of the database to a business, the courts have held that such information will be regarded as a trade secret.

The importance of the distinction between trade secrets and other confidential information is that trade secrets are protected from disclosure both during and after the end of a contractual relationship,

such as an employment relationship, whether or not there is an express contractual restriction prohibiting their dissemination. A recipient of trade secret information in the course of employment is under an implied obligation not to misuse the trade secret or make an unauthorised disclosure of it at any time.

In the employment context, where confidential information is received that does not have the quality of a trade secret, employees have an implied duty during the course of the employment not to misuse it. After the employment has ended, that implied obligation will end. However, confidential information is capable of continued protection after the employment relationship has ended by way of contractual restrictions contained in the employment contract and/or a separation agreement.

#### ***Trade Secrets v General Knowledge and Skill***

On the other hand, general knowledge and skill that is not of a confidential nature will neither amount to a trade secret nor confidential information. Information that does not have the qualities of a trade secret or confidential information cannot be protected from disclosure, even where an express covenant exists, because there is no legitimate business interest in the protection of such information. An employer cannot, therefore, restrain a former employee from using their skill, experience, knowledge and know-how for the benefit of another business, even if it was acquired in the course of employment with the employer.

However, general knowledge does not include the memorisation of confidential information (such as customer details) or even trade secrets such as a proprietary formula or manufacturing process parameters. An employee who deliberately memorises information belonging to the employer for use after termination of the employment will be in breach of the implied contractual duty of good faith.

### **Practical Considerations**

In the employment context, the following practical considerations should be considered in determining whether information is a trade secret or whether it is other confidential information that requires specific protection from disclosure:

- *the nature of the employment*: where the nature of employee's duty involves the regular handling of highly confidential information, this will increase the likelihood of some of the information in the hands of that employee constituting a trade secret;
- *the nature of the information*: the qualities of the information as illustrated above and the nature of the information will point to whether it is likely to amount to confidential information and/or a trade secret;
- *treatment of the information*: if the employer restricts access to the information to a limited number of employees, if the information is encrypted and/or marked highly confidential or top secret and if the information is treated with a sufficient degree of secrecy, such information could amount to a trade secret;

- *segregation from other information*: if highly confidential information cannot be readily separated from information that is not highly confidential, this may cast doubt on whether it is truly a trade secret;
- *impact of a disclosure of the information*: if the disclosure of the information, particularly to a competitor, would likely cause real or significant harm to the owner of the information, this increases the likelihood that such information would be considered to be a trade secret.

## Remedies

### Damages for Breach of Contract

Where a contract contains express provisions proscribing the use of confidential information, both during the contractual relationship and following termination of the relationship, the owner of the confidential information is entitled to seek relief by way of compensatory damages in the event of those provisions being breached. This is commonly seen where a contract contains post-termination restrictions, such as a covenant not to compete by using the owner's proprietary information.

### Damages for Breach of Confidence

More commonly, an aggrieved party will bring a claim for damages on the ground of breach of confidence. Where the unauthorised use of trade secrets is concerned, breach of confidence can be claimed whether or not there are contractual restrictions in place preventing the dissemination of the information. The three essential elements for a breach of confidence claim are that the information:

- must have the 'necessary quality of confidence', meaning it must not be information which is in the public domain;
- must have been imparted in circumstances which impose a duty of confidence, meaning that a reasonable person in the shoes of the recipient of the information would have realised that the information was given in confidence; and
- must have been used in an unauthorised manner.

In addition to compensatory damages, the courts have also awarded exemplary damages for breach of confidence; for example, where a person benefiting from the wrongful disclosure of the confidential information has made a profit and where the available remedies are inadequate to punish or deter the defendant for the wrongful conduct.

### Injunction

Where trade secret information has been disclosed or is threatened to be disclosed, the owner of the information has the ability to apply for an injunction to prevent the information from being used to its

detriment. However, the evidence in support of an injunction needs to be clear and not merely based on suspicion of unauthorised use. The court also has the power to award damages in lieu of an injunction in certain cases; for example, where there has been a delay in applying for the injunction and/or where, in the particular circumstances, it would be oppressive to grant the injunction, and damages would provide an adequate remedy for the breach.

### Account of Profits

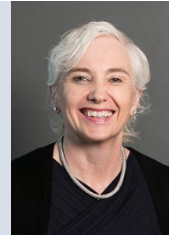
As an alternative to damages, a claimant may also apply for an account of profits. This is an equitable remedy which allows the courts to order a defendant to pay to the claimant the profits generated from its misuse of the claimant's confidential information. However, given the significant challenge of separating the defendant's other profits from those gained from the defendant's breach of confidence, and given that an account of profits will only be awarded in exceptional cases, such claims are not often pursued.

The protection of all forms of confidential information, and in particular trade secrets, is essential for businesses to remain competitive. However, prevention is always better than cure, so categorising information by levels of confidentiality and according to them appropriate levels of protection is an imperative in light of the risks and costs to the business of an unauthorised disclosure. Our global expertise in a broad spectrum of legal practice areas, including Intellectual Property, Employment, Commercial, Dispute Resolution and Privacy & Data Protection, means we are ideally placed to advise on all aspects of business protection.

### Get in touch

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