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In the Privy Council

No. 35 of 1983

ON APPEAL

FROM THE SUPREME COURT OF HONG KONG

(APPELLATE JURISDICTION)

CIVIL APPEAL NO. 28 OF 1983

(On Appeal from High Court Action No. 1530 of 1983)

BETWEEN

ROBIN M. BRIDGE — **(Defendant) Appellant**

and

DEACONS (A FIRM) — **(Plaintiff) Respondent**

CASE FOR THE APPELLANT

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34 1. This is an appeal from a judgment dated the 3rd day of May, 1983 of the Court of Appeal of Hong Kong (Leonard, V.-P., Cons and Fuad, JJ.A.), dis-
7 missing an appeal from a judgment dated the 1st day of March, 1983 of the High Court of Hong Kong (Hunter, J.) whereby it was ordered (inter alia) that the Appellant whether by himself, his servants or agents, be restrained until the trial of this Action or further Order from:-

6 Without the written consent of the Respondent acting as a solicitor, notary, trademark or patent agent or in any similar capacity in the Colony of Hong Kong whether as a principal, clerk or assistant, for any person, firm or company who was at the time of his ceasing to be a 10
partner or had, during the period of three years prior to 31st December, 1982 been a client of the Respondent, unless the Appellant acts in any such capacity in the course of employment with Government or any public body or with any company or organisation which is not itself engaged in professional practice in any of the above fields.

and that the costs of the application be the Respondent's costs in the cause, with Certificate for two counsel for the first day of the hearing, and a special allowance for the Respondent's solicitor on the fourth and fifth days of the hearing and that there be a speedy trial.

47.11 2. The Respondent is one of the two oldest and largest firms of solicitors practising in Hong Kong, and the Appellant was, prior to his retirement on the
49 31st day of December, 1982, a partner thereof in charge of the Respondent's intellectual and industrial property department.

61.26 3. The issue on this appeal depends on the construction of Clause 28(a) of the Respondent's partnership agreement dated the 10th day of June, 1968 and which provides as follows:

> "Except on dissolution, no partner ceasing to be a partner for any reason whatsoever shall for a period of 5 years thereafter act as a solicitor, notary, trademark or patent agent or in any similar capacity in the Colony of Hong Kong whether as principal, clerk or assistant for any person, firm or company who was at the time of his ceasing to be a partner or had during the period of 3 years prior thereto been a client of the partnership Provided however that this Clause shall not apply to a partner acting in any such capacity in the course of employment with Government or any public body or with any company or organisation which is not itself engaged in professional practice in any of the above fields."

4. It is the Appellant's case that Clause 28(a) is unenforceable as against him as being in unreasonable restraint of trade.

93 5. The Appellant joined the Respondent as an assistant solicitor on the 1st day of May, 1967, after completing his articles of clerkship in England. He
98.6 became a salaried partner of the Respondent on the 1st day of July, 1973, and a
98.28 capital partner on the 1st day of April, 1974 when he was 31 years of age.

49.8 6. By the time the Appellant became a capital partner of the Respondent, he had developed an interest in the area of intellectual and industrial property law which was an area of law engaged in by the Respondent. This area of the law had been developing fairly quickly in Hong Kong in the period since 1973 and by July, 1974, the Respondent had intended for the Appellant to become the partner responsible for this area of practice which had been or was about to be recognised as a department of the Respondent in its own right.

7. When the Appellant retired from the Respondent on the 31st day of
49.22 December 1982, the Respondent's practice in the field of intellectual and

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industrial property had, under the Appellant's guidance, become the largest practice of any firm in Hong Kong.

49.37

8. The Appellant gave one year's notice of retirement from the Respondent on the 1st day of December, 1981 because of some fundamental disagreement over the running of the intellectual and industrial property department. Neither the reasons of the Appellant for his retirement nor the length and adequacy of that notice are matters now in issue.

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9. The Respondent issued the Writ of Summons in these proceedings on the 4th day of February, 1983, and on the same date issued a summons for interlocutory relief to restrain the Appellant from acting contrary to the provisions of Clause 28(a) of the Partnership Agreement and from soliciting Clients of the Respondent and from inducing employees of the Respondent to act in breach of their contracts of employment with the Respondent. That summons was returned for hearing on the 11th day of February, 1983 before Hunter, J. in chambers.

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10. On the 1st day of March, 1983, Hunter, J. gave judgment for the Respondent in terms of the order set out in paragraph 1 herein.

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11. The reasoning of Hunter, J. can be summarised as follows:-

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(a) The partnership agreement bound the Appellant;

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(b) The Appellant was a party to the partnership invoking Clause 28(a) against other outgoing partners;

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13.38

(c) A supplemental partnership agreement entered into on the 24th day of April, 1979 by the Appellant and the other partners impliedly confirmed the validity of Clause 28(a) of the original agreement.

(d) The covenant contained in Clause 28(a) of the partnership agreement was prima facie enforceable because, in addition to (a), (b) and (c) above,

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it was entered into "between solicitors who must be presumed to know the law in this respect, and so the covenant can be said to be their collective estimation of what was reasonable in the view of the partners

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collectively to protect the firm connection," "and the Court has to proceed with great circumspection before it starts substituting its own views for the partners' as to what is reasonable."

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(e) Although the Appellant's connection was only with clients of the intellectual property department, those clients are clients of the Respondent, without the other partners of which, the Appellant would not have been enabled to specialise.

(f) The covenant contained in Clause 28(a) of the partnership agreement was not against the public interest despite the lack of expertise in this

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area of the law in Hong Kong, and the unreported decision of the Court of Appeal in England in *Oswald Hickson Collier* v. *Carter-Ruck,* decided
20.18 on the 20th day of January, 1982 was criticised and not followed.

12. Against that decision, the Appellant appealed to the Court of Appeal of
23 Hong Kong by a Notice of Appeal dated the 7th day of March, 1983. A supple-
31 mental Notice of Appeal was filed and served on the 29th day of March, 1983.

13. In the Court of Appeal, the parties agreed that the hearing of the
32.26 summons before Hunter, J. was to be treated as the trial of the action with the consequence that those grounds of appeal relating to the interlocutory nature of
32.32 the hearing were no longer in issue. The Appellant also gave permanent undertakings in terms of paragraphs 2 and 3 of the summons before Hunter, J. and these are no longer issues between the parties.

34 14. The Court of Appeal gave judgment on the 3rd day of May, 1983, Fuad, J. A. delivering the only reasoned judgment, dismissing the appeal. The reasoning of the Court of Appeal did not differ in substance from that of Hunter, J., and can be summarised thus:-

39.8 *(a)* There was mutuality when the Appellant joined the Respondent as a capital partner.

39.15 *(b)* At that time, the Appellant was an experienced professional man dealing with his future partners at arm's length.

39.18 *(c)* The Court would take into account that on retirement, the Appellant was entitled to be paid some HK$3,500,000.00 (almost all of which was in respect of accrued profits due in any event to the Appellant at the date of his retirement); the amount expressed to be paid in respect of his share of the goodwill valued at HK$59,000.00 (which figure consisted of his share of the "office assets" which included the library, office equipment etc. in addition to goodwill) was not to be looked at in isolation.

(d) The fact that the Respondent had not adduced evidence to justify the necessity of the covenant contained in Clause 28(a) of the partnership agreement is not material in this case as it is not clear what could have
41.3 been said to advance the Respondent's case in this respect, and that "it is difficult to conceive of any professional partnership which is to continue not being anxious to retain their existing clients."

41.30 *(e)* There is no justification for applying different criteria to covenants of this kind between solicitors, depending on their prestige and the number of their clients.

42.30 *(f)* The applicability of the unreported decision of *Oswald Hickson Collier* v. *Carter-Ruck was doubted.*

15. The Appellant's case can be summarised as follows:-

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(a) Any covenant in restraint of trade is prima facie unenforceable.

(b) Such a covenant is only enforceable if the party seeking to enforce it can show that it is reasonable as between the parties, as to which the burden is on him. After he has succeeded in showing that the covenant is reasonable between the parties, it would be prima facie enforceable unless the party against whom it is sought to enforce the covenant can show that it is against the public interest to do so.

(c) In this context, the concept "reasonable as between the parties" means no more than that the covenant must not be wider than is reasonably necessary to protect the legitimate interest of the party seeking to enforce it. If it goes any wider, then, unless it can be severed (as to which it is agreed that Clause 28(a) of the partnership agreement cannot be) the whole covenant is rendered unenforceable.

(d) A party who seeks to enforce such a covenant to protect its legitimate interest must first identify that interest by evidence. It is not sufficient merely to assert the desirability that there should be some restriction on the activities of the party to be enjoined. If such an interest does not exist or is not or cannot be identified, the party who is seeking to enforce the covenant cannot show that it is reasonable as between the parties.

(e) In this case, the Appellant has only acted for those clients of the
76.36 Respondent who made use of the intellectual and industrial property department of the Respondent. In 1981 the total of delivered bills of the Respondent was HK$132,000,000 of which only about HK$6,000,000 was attributable to that Department — i.e. about 4.5%.

(f) The Appellant has had no connections or dealings with the vast bulk of the Respondent's clients in respect of whom he is in no different position from any other solicitor in Hong Kong; indeed he may be at a positive
78.10 disadvantage, because his incontested evidence was that it would be virtually impossible for him in the future to undertake work outside intellectual and industrial property work.

(g) If the Respondent had taken such a covenant from any other solicitor or firm of solicitors in Hong Kong, such a covenant would not be enforceable as it would be a bare covenant against competition.

(h) The rationale behind this, it is respectfully submitted, is because in respect of the non-intellectual property department clients of the Respondent, the Appellant does not have any unfair advantage over the Respondent in respect of them.

69.18 *(i)* Mr Wimbush, the senior partner of the Respondent, himself made clear at a meeting with the Appellant on 14th September 1982 that the Respondent's real concern related only to clients of the Intellectual Property Department when he said:-

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"You can injure Deacons — in the area of TM [i.e. trademark] work".

(j) A covenant which the Appellant accepts would have been reasonable between the parties (and which would have applied to all partners equally) could have been inserted in the Partnership Deed if it had been confined to clients for whom a retiring partner, such as the Appellant, personally acted (or for whose work he was generally responsible by, for instance, files of the Respondent having been opened bearing that retiring partner's reference).

(k) Whether a covenant in restraint of trade is between employer and employee, partners or vendor and purchaser, the fundamental basis of reasonableness as between the parties is to ensure that the party seeking to be enjoined is not in a position to exploit, in a case of this nature, the client connection he had built up before he left his employment, or retired from the partnership or sold his business.

(l) What is capable of constituting a legitimate interest is a question which depends on all the circumstances of a particular case, and if a purchaser is generally entitled to impose a more extensive restraint than an employer, that too is because, generally, a vendor of a business will know the totality of the business which he has contracted to sell and the vast majority of the clients thereof, whereas an employee is likely to have had, depending on his position, a less extensive connection with or knowledge of the affairs of the employer's clients. The principle is equally applicable to a retiring partner. It is a matter of degree and what can be protected has to depend on all the circumstances of the particular case which would include the nature and extent of the retiring partner's client connection. It is submitted that where there is no relevant client connection, as is this case in respect of the vast bulk of the Respondent's clients in this case, a covenant which purports to cover all of them is far too wide and therefore unenforceable.

16. It is respectfully submitted that Hunter, J. attached far too much weight to the fact of the parties being solicitors, and in the process ignored the basic principle that only an identified legitimate interest can be the subject matter of protection. If Hunter, J. is right, then any covenant in restraint of trade entered into by solicitor partners or others who have taken legal advice, must automatically be valid irrespective of any other factor.

17. It is also respectfully submitted that Hunter, J. was wrong in saying
13.37 that the supplemental partnership agreement entered into on the 24th day of April, 1979 impliedly confirmed Clause 28(a) of the original agreement. There was and is no evidence that Clause 28(a) was even discussed at that time, and all the indications are that the 1979 agreement dealt in isolation with something entirely different. In any event, such a finding does not go any way to identifying what is the legitimate interest for which protection is sought nor can it negate the necessity of such evidence.

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18. Similarly, in the Court of Appeal of Hong Kong, Fuad, J.A. was prepared to infer that the absence of evidence of a legitimate interest to be protected was not material because any partnership must be anxious to retain their existing clients. This, it is respectfully submitted, is to confuse what is a legitimate interest capable of protection with what a party considers desirable to be protected against. If Fuad, J.A. is correct, a covenant against acting for former clients, no matter how widely drawn, would always be enforceable.

19. It follows from the above that, since it is for the Respondent to identify the legitimate interest and to justify the width of the covenant, it has also failed to justify the period of five years in Clause 28(a) of the partnership agreement. See *Esso Petroleum Co. Ltd.* v. *Harper's Garage (Stourport) Ltd.* 1968 A.C. p. 269 @ p. 299-301 and *Herbert Morris Ltd.* v. *Saxelby* 1916 1 A.C. p. 688 @ p. 715.

20. As to the second limb of public policy, the Appellant submits further or in the alternative that the unreported decision of the Court of Appeal in *Oswald Hickson Collier* v. *Carter-Ruck* is correctly decided.

21. It cannot be in the public interest that those former clients who were advised by the Appellant should be barred from resorting to the Appellant, despite the willingness of the Appellant to act for them, because of some contract to which they are not parties.

22. This situation is aggravated when it is accepted that expertise in the field of intellectual property law in Hong Kong is in very short supply, and those clients of the Respondent who went to it because of the Appellant would be deprived of the services of a solicitor who is intimately familiar with their problems.

23. On the 18th day of May, 1983, the Court of Appeal of Hong Kong made an order granting leave to appeal to Her Majesty in Council.

24. The Appellant submits that this appeal should be allowed with costs before Her Majesty in Council and the Courts below for the following amongst other

REASONS

1. BECAUSE Clause 28(a) of the partnership agreement is not enforceable against the Appellant as being in unreasonable restraint of trade.

2. BECAUSE the Respondent has not identified by evidence what is the legitimate interest it is seeking to protect itself against from the Appellant by the operation of Clause 28(a) of the partnership agreement.

3. BECAUSE there is no such legitimate interest.

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4. BECAUSE Clause 28(a) covers all of the Respondent's clients, the vast bulk of which the Appellant has had no connection with, it is therefore a covenant in gross against the Appellant so far as those clients are concerned, and is not enforceable.

5. BECAUSE a covenant for 5 years is excessive and unjustifiable.

6. BECAUSE it is against the public interest for a specialist solicitor, where such expertise is not plentiful, to be restrained from acting for those former clients who had entrusted him with their affairs and with which affairs, such a solicitor is intimately familiar.

7. BECAUSE further or in the alternative the unreported decision of the Court of Appeal of England in *Oswald Hickson Collier* v. *Carter-Ruck* is correct. 10

ANTHONY S. GRABINER Q.C.
ROBERT G. KOTEWALL

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CASE FOR THE APPELLANT

Dated the day of 1983.

MESSRS. HERBERT SMITH & CO.,
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Attn. Mr. H.R.A. Anderson

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