

Stratech Systems Ltd v Nyam Chiu Shin (Yan Qiuxin) and Others
[2004] SGHC 168

Case Number : Suit 505/2003
Decision Date : 11 August 2004
Tribunal/Court : High Court
Coram : Choo Han Teck J
Counsel Name(s) : N Sreenivasan and Collin Choo (Straits Law Practice LLC) for plaintiff; S Suressh and Melissa Quek (Harry Elias Partnership) for first and second defendants; Goh Phai Cheng SC, Christopher Goh and Melvin Lum (Ang and Partners) for third defendant
Parties : Stratech Systems Ltd — Nyam Chiu Shin (Yan Qiuxin); Wong Leh Hung; Guthrie Engineering (S) Pte Ltd

Tort – Confidence and trade secrets – Whether plaintiff adduced sufficient evidence to sustain an action for unauthorized use of confidential information and trade secrets.

Tort – Inducement of breach of contract – Whether third defendant guilty of inducing first and second defendant to join company in breach of their civil obligations to plaintiff.

11 August 2004

Judgment reserved.

Choo Han Teck J:

1 The facts of this case are connected to those in Suit No 546 of 2003. Stratech Systems Ltd was the plaintiff in both suits. Guthrie Engineering (S) Pte Ltd, the third defendant here, was the sole defendant in Suit No 546 of 2003. The first and second defendants were former employees of the plaintiff. The plaintiff and third defendant were business partners which became rivals and competitors. They had originally collaborated to secure a contract to design and install for the Land Transport Authority (“LTA”) an automated electronic system for the collection of toll from foreign vehicles entering Singapore through three checkpoints. In that venture, the tender was awarded by the LTA to the third defendant and the latter, in turn, sub-contracted large parts of the contract to the plaintiff. The plaintiff and third defendant subsequently quarrelled over the sub-contract as well as the post-contract work done to maintain the system for the LTA. Consequently, the plaintiff sued the third defendant for breach of contract in Suit No 546 of 2003. That action has been tried and judgment handed down: see *Stratech Systems Ltd v Guthrie Engineering (S) Pte Ltd* [2004] SGHC 146.

2 The original vehicle entry permit system (“VEPS”) was commissioned by the LTA on 9 May 2000. On 6 February 2003, the LTA requested the third defendant to integrate the VEPS with the electronic road pricing system (“ERPS”). The plaintiff was initially asked to develop this link. It is important to note that in the previous development programmes in respect of the VEPS the plaintiff had been using the “V” series as its nomenclature for the software programmes and filenames. The last fully-established programme in the series was known as V115. The programme for the development of the VEPS-ERPS link was dubbed V116.

3 In March 2003 the plaintiff asked for payment from the third defendant in respect of the VEPS contract and the signing of a formal maintenance contract. This led to two civil actions. In the first, the plaintiff sued the third defendant in Suit No 546 of 2003 for breach of the sub-contract and for payment in respect of work done on the VEPS-ERPS link. The second was this present suit. In this

action, it will be useful to note that the first and second defendants were programmers working on the V116 programme for the plaintiff. The first defendant was the leader of a team of programmers that included the second defendant, Armin Budiman, Frankie Tan and Ng Tiong Khoon. The plaintiff and the third defendant differed as to what the nature of the VEPS-ERPS work was – whether it was a new job or an enhancement of the old one – but this was not material to the true issues for reasons that will become apparent shortly. It is, however, relevant to note that the plaintiff's case was based on the assertion that all the work done by the first defendant and her team to integrate the VEPS with the ERPS was done on a file named "V116", and that that file was stored in the five computers that the plaintiff kept at the LTA's console room. As far as the third defendant was concerned, the integration work was merely "work-in-progress".

4 When the plaintiff was not paid in respect of its claims against the third defendant for the VEPS work and maintenance, it ceased all work, that is, the maintenance work in respect of the VEPS, and the development work in respect of the integration between the VEPS and the ERPS. It stopped work on the integration of the systems on 25 March 2003, and the maintenance work in respect of the VEPS on 28 March 2003. Armin was instructed to bring his computer from the LTA's console room back to the plaintiff's office and there to make a copy of his work on the integration programme (then titled "V116") on to the plaintiff's server as well as a copy on to a compact disk. After that was done, Armin made a copy of V115, re-installed it into his computer and renamed it "V116". There were some contentious aspects at this point but they are not significant enough, in my view, to affect the outcome of this dispute. One of the disputes concerned the question whether the compact disk had been broken and discarded as Armin testified, or whether it was still in the possession of the defendants. It will be more helpful, presently, to see what all this has led to in so far as this suit is concerned. But first, it is important to note that on 25 April 2003 the first defendant terminated her employment contract by paying two months' pay in lieu of notice to the plaintiff. About that time, the second defendant similarly terminated his employment contract with the plaintiff. Both of them were employed almost immediately by a company called Electrical Product International Pte Ltd ("EPI"), a subsidiary of the third defendant whose business as a cable trader was totally unconnected to that of its parent company or of the plaintiff. However, the first and second defendants were directly seconded by EPI to work for the third defendant on the VEPS-ERPS integration.

5 In this action the plaintiff claimed damages against the first and second defendants for breach of contract in that, contrary to an express term of contract of employment, they entered the employment service of a competitor before the stipulated nine-month mandatory restriction period was over. The specific clause in question is cl 9 which reads as follows:

9. Termination

...

9.3 You shall not, during the continuance of your employment with the Company and after the termination of your employment with the Company, canvass, solicit, interfere with or entice away any person or entity who shall at any time during the continuance of your employment hereunder have been in the employment of or in the habit of dealing with the Company.

9.4 You shall not, during the continuance of your employment with the Company and for a period of nine (9) months after the termination of your employment with the Company, and whether on your own accord or as an employee, partner or otherwise, directly or indirectly engage or be concerned in any business in direct competition with the Company or be employed by any person or entity who shall at any time during the continuance of your employment

hereunder have been in the employment of or in the habit of dealing with the Company in Singapore.

The first two defendants were also sued for damages for breach of their duties of fidelity and good faith for allegedly divulging "confidential information, trade secrets, and business information" to the third defendant in breach of cl 8, which provides as follows:

8 Confidentiality

8.1 You shall not either during the continuance of your employment hereunder or after termination of your employment except in the proper course of your duties with the Company divulge to any person and/or outside party any information as to the practice, business dealings or affairs of the Company or any of its customers or any company in the habit of dealing with the Company and shall use your best endeavours to prevent the publication or disclosure of any trade secret or any information concerning the business technology or finances of the Company or any of its dealings, transactions or affairs which may come to your knowledge during or in the course of your employment.

The third defendant was sued for inducing the first and second defendants' breach of contract. It was also sued for wrongfully retaining and using confidential information belonging to the plaintiff, namely, the computer programme known as "V116".

6 The evidence showed that some time about 10 April 2003 Foong Siew Peng, the third defendant's manager, contacted the first defendant and asked if she would work for the third defendant and also to ask if her team members from the plaintiff would similarly join it. According to the second defendant as well as Armin (who was called as a witness by the first and second defendants) the first defendant contacted them and told them about the third defendant's proposal. Armin said that he received a text message from her over his mobile phone. The team members had a meeting about the proposal. They were concerned by the plaintiff's withdrawal from the VEPS-ERPS project, but were also worried about being sued if they joined the third defendant company. The evidence in court from the first and second defendants, which was corroborated by Foong, was that the third defendant agreed to indemnify the employees should they be sued successfully by the plaintiff. In the present case, lawyers were provided and paid by the third defendant in defending the first and second defendants. The first and second defendants also secured a 20% increase in pay when they joined the third defendant. Armin, who joined after the nine-month prohibition period was over, was paid a little more than \$7,000 compared to the \$2,000 to \$3,000 he was earning with the plaintiff. Hence, Mr N Sreenivasan, counsel for the plaintiff, submitted that the increase was to cover the months of unemployment after he left the plaintiff. Furthermore, Foong candidly conceded that the first and second defendants were formally employed by EPI instead of the third defendant "in order to put more distance" between them (the employees) and the third defendant. It was obvious that the former employees of the plaintiff, as well as the third defendant, were worried about the restraining clause in the employees' contract of employment. It is also clear to me that the third defendant initiated all the steps taken to procure the employment of the plaintiff's employees. Given the circumstances of the case, the third defendant would thus be liable for inducing a breach of contract of employment if it could be shown that the first and second defendants, as well as Armin, were in breach of their contracts of employment. It is to this point that I now turn.

7 The employment contracts of the first and second defendants, as well as Armin (all of whom I shall, for this purpose, refer to collectively as "the employees"), with the plaintiff contain a termination clause to the effect that the employees can terminate the contract by giving two months' notice of termination, or by payment of two months' salary in lieu of such notice. In this case, the

evidence was that the employees elected to pay the salary in lieu of notice because the third defendant was in a hurry to employ them. It was also proved to my satisfaction that the salary in lieu in each case was borne by the third defendant. This fact is relevant for the purpose of establishing whether the third defendant was liable for inducing the employees to leave their employer. But that by itself is not the same thing as inducing a breach of contract. A person cannot be said to have induced another to breach his contract of employment if all that was done by the employee was to tender a notice of termination or payment in lieu which was provided for as a term of the contract. The crucial question concerned cl 9 of the employment contracts. If that clause was valid and enforceable, then the third defendant would be liable on account of its enticement, procurement and assistance in the breaching of cl 9 with the knowledge that the employees would be in breach of the clause. It is important to state at this point that whether the third defendant knew it was assisting a breach is a finding of fact for this court. It is not a subjective matter which the third defendant may escape responsibility for by merely declaring that it did not believe that cl 9 was an impediment. Foong testified that he did not think that cl 9 prevented the third defendant from employing the employees and that the reason EPI was used to employ them was an act in excess of caution. While I find that Foong was frank and candid in his testimony, and I can accept that he personally (though not the third defendant) believed that cl 9 was not a problem, this could not validate the breach. The fact is that the third defendant was aware of cl 9 and suspected that it might be a potential problem. The fact that one of its principal officers (Foong) took it into serious consideration and concluded in good faith that it was not a problem (in other words, that he was wrong) does not absolve the third defendant because the test is an objective one. Was a breach of cl 9 a breach of the contracts of employment? If it was, then would a person who induced an employee into committing a breach of cl 9 be said to have induced a breach of his or her contract of employment? I think that it would be so. Otherwise, it is only too easy to provide an excuse from the effect of a reasonable restrictive clause and conclude that the term does not apply in a given case. Whether it applies or not is a question to be decided by the court. In this case, I must first determine whether the clause is valid and applicable and, secondly, whether the third defendant did an act that induced the employees to violate the terms of that clause. I have first determined the second part for convenience, and now turn to the first part.

8 The question here is whether cl 9 is a valid and binding term, and if so, whether it applied in this case. Mr Goh Phai Cheng, counsel for the third defendant, focused his submission on two points. First, he argued that because the plaintiff "walked out" on them (the third defendant and LTA), cl 43.4 of the main contract between the plaintiff and the third defendant obliged the third defendant to take such steps as were necessary to carry on with the maintenance of the VEPS. Counsel maintained that the contract provided a right to employ anyone, including the employees of the plaintiff. The relevant clause provided as follows:

43.4 In the event of termination of the Contract as provided for in Clause 43.1 or Clause 43.3 or in accordance with law, the following shall apply:

(a) (i) all payments that shall have been made under the Contract shall be refunded by the Contractor to the Authority forthwith Provided Always that such refunds as aforesaid shall not prejudice or affect any right of actions or remedy which shall have accrued or shall thereafter accrue to the Authority as a result of the termination of the Contract or as a result of the breach of the Contract by the Contractor;

(ii) the Contractor shall upon written notice from the Authority be required to remove, at the Contractor's expense, the System or any part thereof specified in the notice from the location at a date specified by the Authority, and in default the Authority may (without being responsible for any loss or damage) remove and sell the same, holding the proceeds less all

expenses incurred to the credit of the Contractor;

(iii) the Authority shall be entitled to recover from the Contractor any damages, costs and expenses which the Authority may sustain or incur in consequence of such termination; all such damages, losses, costs and expenses which are or become so recoverable under the Contract together with any sum payable by the Contractor as liquidated damages, may be deducted from any money that may then be due to the Contractor and if the money then due to the Contractor under the Contract or deposited by him under the Contract as aforesaid is not sufficient for that purpose, the balance remaining unpaid shall be a debt due from the Contractor to the Authority, and may be set off against any other monies which may be or become due to the Contractor from the Authority or may be recovered as a debt due from the Contractor in any court of competent jurisdiction;

OR, at the sole discretion of the Authority:

(b) (i) the Authority may carry out and complete the works on its own or employ and pay other person or persons to carry out and complete the works and he or they may enter upon the location and use all materials, software and equipment thereon, and may purchase all materials necessary for the purchase aforesaid;

(ii) the Contractor shall if so required by the Authority assign to the Authority and without further payment the benefit of any contract for the supply of material and/or works intended for use under the Contract or for the execution of any works and the Authority shall pay the agreed price (if unpaid) for such material or works supplied or executed after the said termination;

(iii) the Contractor shall during the execution or after completion of the works under this sub-clause as and when required remove from the location any materials within such reasonable time as the Authority may specify in a written notice to him and in default the Authority may (without being responsible for any loss and damage) remove and sell the same, holding the proceeds less all expenses incurred to the credit of the Contractor;

(iv) until completion of the works under this sub-clause no payment shall be made to the Contractor under the Contract; provided that upon completion as aforesaid and the verification within a reasonable time of the account added to the monies paid to the Contractor before such termination exceeds the total amount which have been payable on due completion, the difference shall be a debt payable to the Authority by the Contractor, and if the said amount added to the said money be less than the said total amount, the difference shall be a debt payable by the Authority to the Contractor; provided always aforesaid shall not prejudice or affect any right of action or remedy which shall have accrued or shall thereafter accrue to the Authority as a result of the termination of the Contract or as a result of the breach of the Contract by the Contractor;

(v) in the event of the completion of the works being undertaken by the Authority, allowance shall be made, when ascertaining the amount to be certified as expenses properly incurred by the Authority, for the cost of supervision, interest and depreciation on equipment and all other usual overhead charges and profits, as would be incurred were the work carried out by the Contractor.

I agree that one possible reading of the above clause permits the third defendant to employ anyone, including an employee of the plaintiff, notwithstanding the restrictive covenant clause in the employment contract. However, a reasonable reading must include the interpretation that the third defendant is permitted to employ the employees only if it does not create a civil wrong (such as

inducing a breach of contract) in the process. The next point advanced by Mr Goh was that the third defendant did not habitually deal with the plaintiff. The reference to habitual dealing in cl 9 must refer to the dealings between the two companies and not a habitual dealing between the employees of the two companies. The evidence from the third defendant's witnesses, and indeed the record itself, indubitably showed that the plaintiff's employees were dealing constantly with the employees of the third defendant in the VEPS project. That is as strong a compliance with the term "habitual dealing" as can be envisaged. That argument of counsel does not advance the defence any further. Counsel for the defendants also argued that the restrictive period was unreasonably long, but I do not think so.

9 I therefore find the third defendant liable for inducing a breach of contract by the first and second defendants. However, on the evidence, it seems palpably clear that the plaintiff suffered no real or substantial damage. If the third defendant had not induced the termination of employment by the first and second defendants, and they had proceeded to join the former of their own accord, there would have been no damage at all. Furthermore, there was no evidence of what damage the plaintiff suffered by the absence of the two employees (three, counting Armin). There will, therefore, be judgment for the plaintiff against the third defendant on this ground, but I only order nominal damages of \$1,000.

10 I now turn to the issue of confidential information. The crucial question is whether there was any confidential information or trade secret belonging to the plaintiff that had been wrongfully taken or used by the defendants. This question was relevant to the defence of all three defendants. The plaintiff did not particularize what it had regarded as confidential information and trade secrets belonging to it. The basis and relevance of giving the necessary particulars have been amply discussed in cases such as *Lock International Plc v Beswick* [1989] 1 WLR 1268 at 1274-1275 where Hoffman J made the point that assertions of confidentiality are no substitute for evidence of what the plaintiff's secrets really are. Mr Sreenivasan generated a veil of importance to the programme file known as V116. But all that we know about it is that it was the programme that was being developed by the first defendant and her team, principally Armin, to integrate the VEPS and ERPS. V116's source codes were written in Pascal, a computer language. V116 enabled the VEPS and ERPS to integrate, but what aspect or part of it was confidential was not disclosed, let alone why it was confidential. Mr Sreenivasan alluded to the saving of time, but that was inadequate because not every time-saving device is a trade secret or is confidential in nature. It is also important to note that the plaintiff was not claiming a breach of copyright in the copying or use of the source codes, nor for trespass in accessing the file. Its case was strictly for damages for unauthorised use of confidential information and trade secrets. In this regard I find nothing in the evidence that required me even to adjudicate as to whether any particular piece of material was or was not confidential or a trade secret. The difficulties in making a list of matters that can be regarded as trade secrets were discussed by Neill LJ in *Faccenda Chicken Ltd v Fowler* [1987] Ch 117. It was pointed out by him that not everything an employer tells his employee is to be regarded as confidential is, in law, confidential; and that includes instructions used in the course of employment and so on. What it all means, therefore, is simply that the court must decide on the evidence whether the facts alleged in the case amount to confidential information or trade secrets – the familiar and basic reminder of the court's duty at first instance. Here, there was a clear conflict of evidence as to whether the third defendant was using V115 (as it alleged) or the confidential V116 (as the plaintiff alleged). On the balance, I accept the evidence of the defendants. Mr Sreenivasan made the obvious point that the evidence came from the defendants only because they – in particular the first and second defendants and Armin – were the only ones who had direct knowledge of these matters. He argued that these employees were serving their own interests. I think that that might well be so. The evidence of such witnesses might often be slanted or biased, if not entirely false. However, they might still speak truthfully or objectively. The first defendant might not have been as candid as the other witnesses of the defendants when it came to

the question of whether she was being employed by the third defendant or EPI, but her evidence generally was plausible and consistent on the whole. The second defendant was a straightforward and forthright witness in all aspects of his evidence, and Armin was similarly plausible. Mr Sreenivasan challenged the credibility of Armin's evidence in regard to the compact disk that the plaintiff said Armin used to copy V116 and which he said had been broken and thrown away. I am inclined to accept Armin's evidence in this instance because his evidence impressed me generally and, which is equally important, I was unable to find anything that inclined me to think that his story was probably untrue.

11 I shall deal very briefly with the evidence of the plaintiff's expert witness Mr Daniel Chong and that of the plaintiff's employee, Nellore Siva Sai. These two witnesses testified as to the similarities between the files in the plaintiff's version of V116 and the files found in the third defendant's computers that were seized and studied under an Anton Piller order. The sum of their evidence is that there were some similarities in the files and source codes in the two materials under comparison but nothing to indicate that the one was copied from the other. Apart from the defendants' denial, which I accept, it must be borne in mind that these were files and material written in a computer language by computer programmers and was something easily replicated without recourse to copying. There were some points that might lead one to the supposition that the defendants' version was a copied one, but those were points based on the assumption that copying is quickest. That might be true in many instances, but the facts before me were a little more complex, and clearer proof was required – the burden of which was the plaintiff's responsibility to discharge.

12 The plaintiff's claim against the first and second defendants in respect of the alleged use of confidential information and trade secrets must therefore be dismissed. Its claim against the third defendant must also similarly be dismissed. I shall hear the parties on the question of costs at a later date if they are unable to agree on costs.

Plaintiff's claim allowed in part against the third defendant, and dismissed as against the first and second defendants.

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