

Breaking Down Good Faith: The Importance of Context

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English law does not have a general doctrine of good faith. Instead, it may imply a duty of good faith in certain categories of contracts (i.e., so-called ‘relational’ contracts), but otherwise parties are free to include express obligations of good faith in any contract. This, however, can create uncertainty as it then falls to the courts to interpret the scope of the duty of good faith contained in such a clause, which is what happened in the case of *Re Compound Photonics Group Ltd; Faulkner v. Vollin Holdings Ltd.*

Facts

The case concerned two minority shareholder claimants, Dr Sachs and Mr. Faulkner, both of whom were removed from office as directors by the majority shareholders of Compound Photonics Group Limited (“**CPGL**” or “**the Company**”). The minority shareholders, bought an unfair prejudice petition against the majority shareholders, contending that the removal of their two appointed directors had unfairly prejudiced their rights as shareholders, in particular, due to a breach of a good faith obligation imposed on the majority shareholders in the shareholders agreement.

The High Court granted the petition, however, the Court of Appeal overturned the High Court’s decision, adopting a restrictive approach to the interpretation of the good faith clause.

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