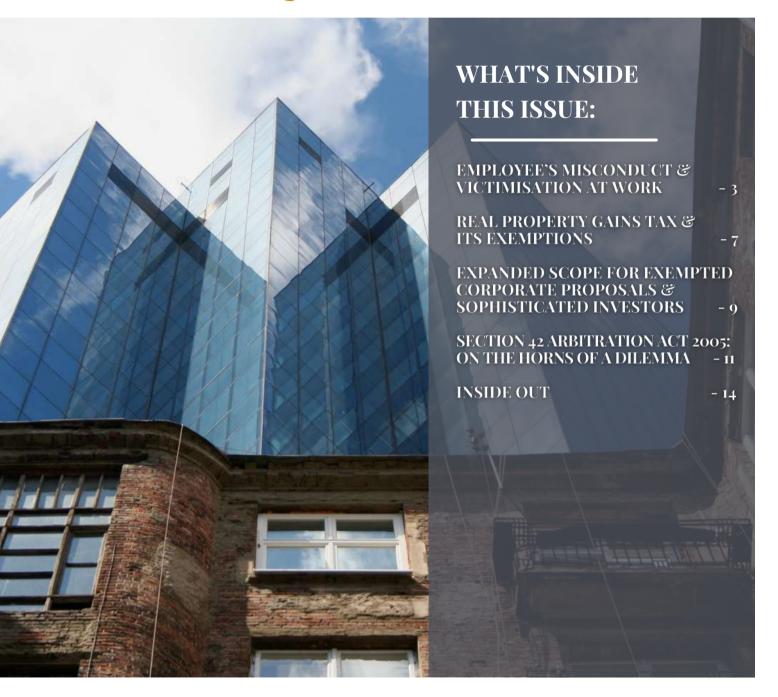


# Emphower



A MONTHLY NEWSLETTER BY

# Note from the Editorial Team

#### Dear Readers,

As our battles against the Covid-19 pandemic continues, we must remain vigilant to hold our heads up high and to be positive in our thoughts and actions. The current expectation as it stands is for Covid-19 to become endemic, which essentially means that the pandemic will not end with the virus disappearing. Instead, what is expected is for enough people to gain immunity as a result of vaccination and from natural infection such that there will be less transmission of Covid-19-related hospitalizations and deaths. As we continue to hope and pray for the best, we simultaneously wish to provide you with some good reading material on the latest legal issues in Malaysia which we cover in this edition of *Empower*.

The first article in this edition highlights a recent decision of the Court of Appeal in *Chin Hong Seng v Kumpulan Hartanah Selangor Berhad And Mahkamah Perusahaan* which concerns an appeal made by an employee against the decision of the High Court which dismissed the employee's application for judicial review to quash the award made by the industrial court. The case concerns matters in relation to the employee's misconduct and to the employee's defence that he was victimized at work and the decision of the Court of Appeal has evidently set a clear precedent on this issue.

The second article is a write up which is in respect of the exemptions that apply to Real Property Gains Tax which is provided for under the Real Property Gains Tax 1976. As most of you would know, Real Property Gains Tax is imposed on the gains made from the difference between the disposal price and acquisition price of a property and this article succinctly sets out how the exemptions operate.

The third article sets out a summary of the recent amendments to the Capital Markets and Services Act 2007 made by the Capital Markets and Services (Amendment of Schedules 5, 6 and 7) Order 2021 and it explains how the Order would help to create an investment-friendly environment in Malaysia as it now allows for more categories of investors to qualify as sophisticated investors which consequentially creates broader investment opportunities in the country.

Our fourth and final article titled "Section 42 Arbitration Act 2005: On The Horns Of A Dilemma" is of tremendous significance as well as it sets out the most recent decisions of the Malaysian courts that have dealt with this repealed provision and whether the repeal is to meant to apply prospectively or retrospectively.

Finally, do check out our *Inside Out* section to have a peek at our most recent activities.

We hope that all of you thoroughly enjoy reading this edition!



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All articles in this publication are intended to provide a summary or review of the subject matter and are not intended to be nor should it be relied upon as a substitution for legal or any professional advice.

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## EMPLOYEE'S MISCONDUCT & VICTIMISATION AT WORK

# CASE SUMMARY: CHIN HONG SENG V KUMPULAN HARTANAH SELANGOR BERHAD & MAHKAMAH PERUSAHAAN

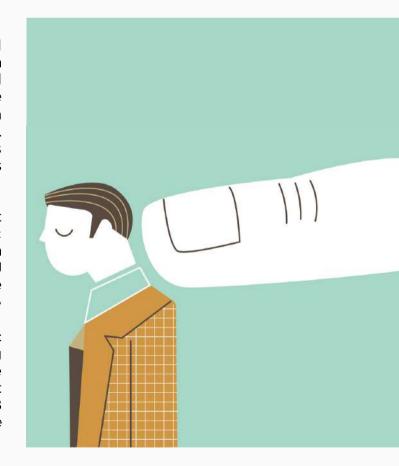
WRITTEN BY TEOH YEN YEE

#### **INTRODUCTION**

- 1) This is the Court of Appeal's decision in an appeal by the Employee against the decision of the High Court which dismissed the Employee's application for judicial review to quash the Award made by the Industrial Court.
- 2) The Employee was the General Manager of Finance employed by Kumpulan Hartanah Selangor Berhad ("KHSB"). It is the most senior finance position in KHSB. His duties include the proper management of the company's funds and setting proper procedures regarding the use of the same.
- 3) KHSB was the property arm of Kumpulan Darul Ehsan Berhad ("KDEB").
- 4) On 12.11.2018, the Industrial Court dismissed the claim brought by the Employee against the Company and held that the termination was with just cause and excuse.

#### **BACKGROUND FACTS**

- 5) On 6.2.2008, KDEB entered into a sale and purchase agreement with Majlis Agama Islam Selangor to purchase 2 parcels of land in Section 14, Petaling Jaya ("**PJ Land**"). The purchase of the PJ Land was financed by a loan facility of RM 45 million taken by KHSB. While the registered owner of the PJ Land is KDEB, the beneficial owner of the PJ Land is KHSB pursuant to a trust deed.
- 6) Based on 4 allegations or charges against the Employee, KHSB held a domestic inquiry against the Employee relating to a transfer of share of a company, KHSB PJ Sentral Sdn Bhd ("KHSB PJSSB") under the name of the Employee to KHSB. The Employee was both a shareholder and director of KHSB PJSSB. The domestic inquiry was also related to payments being allowed and caused to be made by the Appellant using KHSB's funds, without authorisation, to settle the liabilities of KHSB PJSSB. It was also related to payments made in respect of the PJ land.



7) The domestic inquiry was held based on four charges against the Appellant as follows:

#### a) **Charge No. 1:**

That the Employee in his capacity as General Manager Finance had, on 23.2.2011 attempted to transfer one (1) ordinary share of KHSB PJSSB under his name to KHSB by lodging form 32A of the Companies Act 1965, Section 103(1) to Suruhanjaya Sekuriti Malaysia (SSM) without obtaining prior authorization and approval from the Board of KHSB to accept the said share.

#### b) Charge No. 2:

That the Employee in his capacity as General Manager of Finance had, on 3.9.2010 caused the amount of RM2,200.00 to be released to Emiquest Corporate Services Sdn Bhd being payment for the incorporation of KHSB PJSSB, which is not a registered subsidiary or associated company of KHSB.

#### c) Charge No. 3:

That the Employee in his capacity as General Manager of Finance had, on 7.6.2011 certified for payment on behalf of KHSB PJSSB, the sum of RM12,720.00 to Perunding Trafik Klasik Sdn Bhd from the fund of KHSB for traffic survey for the Proposed Mixed Commercial Development at the PJ Land.

#### d) Charge No. 4:

That the Employee in his capacity as General Manager of Finance had, on 27.5.2011 caused the amount of RM138,300.00 to be released to Majlis Bandaraya Petaling Jaya being payment for the submission fee for development order for the Proposed Mixed Commercial Development at the PJ Land on behalf of KHSB PJSSB.

- 8) The Employee pleaded not guilty to all charges and presented evidence which was available to him during the domestic inquiry held on 8.2.2012 and 9.2.2012.
- 9) By a letter dated 29.6.2012, KHSB informed the Employee that he was guilty of all the four charges against him. Based on the recommendation, KHSB decided to terminate the employment with immediate effect.
- 10) Being dissatisfied with KHSB's decision, the Employee made a representation under Section 20(1) of the Industrial Relations Act 1967 and his representation was referred to the Industrial Court.
- 11) On 12.11.2018, the Industrial Court dismissed the Employee's claim against KHSB and held that the termination was with just cause and excuse ("Award").
- 12) Dissatisfied with the Industrial Court's decision, the Employee challenged the said Award by filing an application for judicial review to quash the Award at the High Court.



#### ISSUES FOR THE DETERMINATION BY THE HIGH COURT

- 13) The issues to be determined by the High Court are as follows:
  - a) Whether the Industrial Court had committed an error in deciding that KHSB PJSSB is not a registered subsidiary or an associated company of KHSB;
  - b) Whether the Industrial Court had committed an error in deciding that the Employee knew that the Chief Executive Officer ("CEO") of KHSB had no power to give the Employee the authority to transfer the share at the material time:
  - c) Whether the Industrial Court had committed an error in deciding that the Employee had approved the payments for KHSB PJSSB at the material time; and
  - d) Whether the Industrial Court had committed an error in failing to consider the Employee's evidence during the trial that he was not aware that KHSB's Board of Directors ("KHSB's Board") had made a final decision on the development of the PJ Land.

The High Court dismissed the application for judicial review to quash the Award and held that there was ample evidence to support the Industrial Court's findings against the Employee.

#### **DECISION BY THE COURT OF APPEAL**

- 14) The Employee appealed and the Court of Appeal held as follows:
  - a) First, there was no instruction from KHSB to the Employee for him to incorporate KHSB PJSSB. This was borne out by the fact that there was no evidence tendered during trial to that effect. In addition, the Employee admitted that only KHSB's Board could authorise the taking over of another company by KHSB;
  - b) There was evidence to show that KHSB's Board did not at any time agree for the incorporation of KHSB PJSSB. As such, the Employee acted outside his capacity in the incorporation of KHSB PJSSB and the latter could not be considered as a subsidiary of KHSB:
  - c) In respect of the Employee's contention that the corporate structure in KHSB's annual report for 2010 had indicated that KHSB PJSSB was a subsidiary of KHSB, the Court of Appeal found that the report was prepared under the direction of the then Company Secretary who was subsequently charged in a domestic inquiry for wrongly causing the report to state a false information and her service was also terminated by KHSB. Such wrong information was corrected in the annual report for 2011. As such, the Employee was wrong to have relied on the 2010 report.
  - d) There was evidence to prove that the Employee knew that KHSB PJSSB was not a subsidiary of KHSB.
  - e) In respect of Charge No. 1, the transfer of share, it is to be noted that the Employee had contended he could transfer the share of KHSB PJSSB to KHSB because the former CEO had authorised the transfer. However, the former CEO was not authorised by KHSB's Board, even if he had authorised the transfer. Further, there were documents produced in the trial to show the transfer of the share approved by the Employee proving that the Employee was involved in the transfer of the share.
  - f) In respect of the other charges regarding payments, the Employee who was a director of KHSB PJSSB, had authorised and caused the payments in respect of Charges Nos. 2, 3 and 4 to be made using KHSB's funds for the benefit of KHSB PJSSB. These payments were never approved to be made by KHSB.

- g) Essentially, the Employee being in a senior management position must not simply say that his actions were all justified because he had the instructions of his superiors when there was no such evidence.
- h) There were three separate inquiries done to determine the misconduct of the Employee, the former CEO and the Company Secretary. The High Court had not failed to appreciate that the former CEO and the Company Secretary had not been found guilty in the domestic inquiries as they are irrelevant to the present proceedings. In each inquiry, there was a separate panel and different witnesses were called.
- 15) On the contention of the Employee that he was victimised and there was mala fide in the action taken against him by KHSB, first, the Employee did not raise these two issues in his challenge against the Award. The Employee also did not raise victimisation in his statement when filing the application for Judicial Review. Since these were not raised, the High Court could not be faulted for not addressing these issues in the Judicial Review application.

#### **KEY TAKEAWAYS FROM THE CASE**

- 16) Based on our reading and understanding of this decision by the Court of Appeal, the key takeaways are as follows:
  - a) Victimisation is a serious issue that must be properly and adequately pleaded by giving all particulars upon which the charge is based to enable the employer to fully meet the case: and
  - b) The Industrial Court in determining whether the termination of the employee was with just cause or excuse, need not consider the decision made by the company against the other employees. It is also not for the employee to question why the employer should take disciplinary action against him and not another.





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## REAL PROPERTY GAINS TAX & ITS EXEMPTIONS





Real Property Gains Tax Act 1976 ("RPGT Act") has authorised the Inland Revenue Board to impose Real Property Gains Tax ("RPGT") on chargeable gains accrued from the disposal of real property. RPGT is imposed on the gains made from the difference between the disposal price and acquisition price.



The RPGT rates are as set out in Schedule 5 of the RPGT Act as follows[1]:

	RPGT RATES		
	PART I	PART II	PART III
DISPOSAL PERIOD	Other than Part II & Part III  [eg: individual, partnership, executor of the estate of a deceased person who is a citizen or a permanent resident]	Company incorporated in Malaysia or trustee of a trust  [eg: company, co-operative, association, society and organisation]	Individual who is not a citizen and not a permanent resident, or an executor of the estate of a deceased person who is not citizen and not a permanent resident, or a company not incorporated in Malaysia.
Disposal within 3 years after the date of acquisition	30%	30%	30%
Disposal in the 4th year after the date of acquisition	20%	20%	30%
Disposal in the 5th year after the date of acquisition	15%	15%	30%
Disposal in the 6th year after the date of acquisition	5%	10%	10%

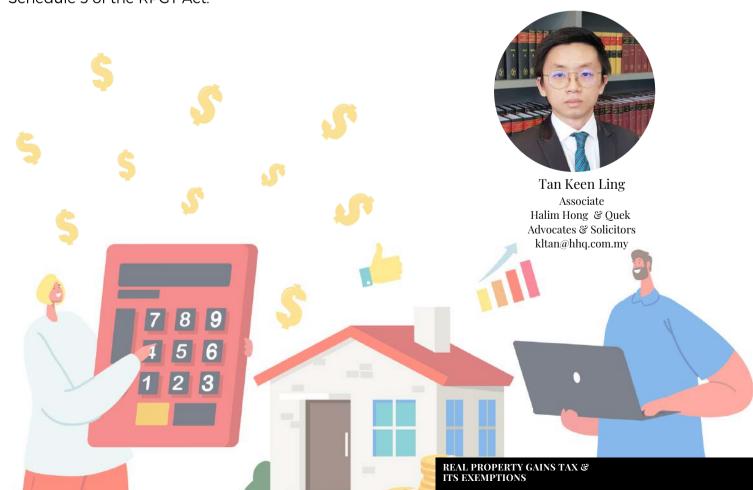
<sup>[1]</sup> Inland Revenue Board of Malaysia's website http://www.hasil.gov.my/bt\_goindex.php?bt\_kump=5&bt\_skum=7&bt\_posi=1&bt\_unit=1&bt\_sequ=2&bt\_lgv=

#### AN INDIVIDUAL MAY APPLY FOR RPGT EXEMPTIONS AS FOLLOWS: -

- a) Section 8 of the RPGT Act
  - A Malaysian citizen or Malaysian permanent resident may apply for a once in a lifetime RPCT exemption in respect of the disposal of one private residence. This application shall be in writing and is irrevocable.
- b) Paragraph 3(1)(a), Schedule 2 of the RPGT Act RPGT exemption is also available for individuals in the devolution of the deceased's property as the disposal price of the property shall be deemed to be equal to the acquisition price on the devolution of the deceased's property to his executor or legatee. Thus, there is no RPGT as there are no gains accrued from the devolution of the deceased's property.
- c) Paragraph 12, Schedule 2 of the RPGT Act
  A Malaysian citizen may apply for RPGT exemption when he is disposing of the property by
  way of gift to a recipient as the disposal shall be deemed to have received no gain and
  suffered no loss. However, this is only limited to the donor and the recipient where they are
  either husband and wife, parent and child, or grandparent and grandchild.
- d) P.U. (A) 360/2018 of the Real Property Gains Tax (Exemption) Order 2018
  A Malaysian citizen may apply for RPGT exemption in respect of the disposal of a property for a total consideration or market value, whichever is higher, of not more than RM200,000.00 in the sixth and subsequent years.
- e) P.U. (A) 218/2020 of the Real Property Gains Tax (Exemption) Order 2020 A Malaysian citizen may apply for RPGT exemption in respect of the disposal of residential properties on or after 1 June 2020 until 31 December 2021. This exemption is only limited to the first three units of residential properties disposed by the individual.

#### **CONCLUSION**

Thus, an individual shall utilise the above RPGT exemptions when disposing of his property to achieve greater financial profit. Otherwise, he will be subject to the RPGT rates as set out in the Schedule 5 of the RPGT Act.



## EXPANDED SCOPE FOR EXEMPTED CORPORATE PROPOSALS & SOPHISTICATED INVESTORS

#### WRITTEN BY SIA KAR SOON

This article sets out a summary of the recent amendments to the Capital Markets and Services Act 2007 ("CMSA") made by the Capital Markets and Services (Amendment of Schedules 5, 6 and 7) Order 2021 ("Amendment Order").

The Amendment Order came into operation on 1 July 2021 except for paragraph 3 in relation of Part III of Schedule 6 and paragraph 4 in relation to Part III of Schedule 7 which will come into operation on 1 January 2022.

## REQUIREMENT FOR APPROVAL, REGISTRATION, AUTHORISATION OR RECOGNITION BY THE COMMISSION

Section 212(5) of the CMSA provides that a person who intends to make available, offer for subscription or purchase, or issue an invitation to subscribe for or purchase unlisted capital market products including unlisted Islamic securities but excluding units in a unit trust scheme, shall:

- a) seek authorisation of the Securities Commission ("**Commission**") or in the case of a foreign securities or capital market product, recognition by the Commission, under Division 3A; and
- b) register with the Commission, a disclosure document containing information and particulars as may be specified by the Commission under section 92A.



#### **REQUIREMENT FOR PROSPECTUS**

Section 232(1) of the CMSA provides that a person shall not issue, offer for subscription or purchase, make an invitation to subscribe for or purchase securities or in the case of an initial listing of securities, make an application for the quotation of the securities on a stock market of a stock exchange unless:

- a) a prospectus in relation to the securities has been registered by the Commission under section 233; and
- b) the prospectus complies with the requirements or provisions of the CMSA.

Section 231 of the CMSA provides that the provisions relating to the requirement for prospectus shall not apply to an excluded offer, excluded invitation or excluded issue under Schedules 6 and 7 of the CMSA. The exemptions set out under Schedules 6 and 7 of the CMSA generally relate to the offers to certain categories of sophisticated investors such as accredited investors, high net worth entities and high net worth individuals.

As an example, to the extent, a proposed offering is offered to sophisticated investors under Schedules 6 and 7 of the CMSA including in relation to offering to individual who has a gross annual income exceeding RM300,000.00 in the preceding 12 months, it would be deemed as an "excluded offer" or "excluded invitation" and be exempt from the requirement for prospectus.

### EXPANDED SCOPE OF PROPOSALS NOT REQUIRING APPROVAL, AUTHORISATION OR RECOGNITION BY THE COMMISSION

The Amendment Order now expands Schedule 5 of the CMSA to include the following exemptions:

- a) a prospectus in relation to the securities has been registered by the Commission under section 233; and
- b) the prospectus complies with the requirements or provisions of the CMSA.

#### **EXPANDED SCOPE OF SOPHISTICATED INVESTORS**

The Amendment Order now expands Schedules 6 and 7 of the CMSA to include the following categories of sophisticated investors, among others:

- individuals with investments of RM1 million in capital market products, either on their own or through joint accounts with their spouse;
- b) CEOs and directors of licensed or registered persons under the CMSA; and
- c) corporations that manage funds of their related companies with assets of more than RM10 million.

#### **CONCLUSION**

The Amended Order would help to create a relatively investment-friendly environment by allowing more categories of investors to qualify as sophisticated investors with broader investment opportunities. The issuers also can have access to larger groups of investors.



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#### SECTION 42 ARBITRATION ACT 2005: ON THE HORNS OF A DILEMMA

#### WRITTEN BY PAN YAN TENG & LIM REN WEI

#### **INTRODUCTION**

Section 42 of the Arbitration Act 2005 essentially allows for the court's intervention by allowing the parties to refer to the court on questions of law arising out of an arbitral award. The court then had powers to confirm, vary, set aside, or to remit the award to the tribunal for reconsideration.

However, pursuant to the Arbitration (Amendment) (No. 2) Act 2018 ("Arbitration Amendment Act 2018"), which came into force since 8 May 2018, Section 42 of the Arbitration Act 2005 ("Section 42 of AA 2005") was repealed. In other words, Section 42 of AA 2005 has been deleted, and parties to arbitration proceedings are no longer able to make an application to the court and to invoke its jurisdiction to vary or set aside the award.

That being said, since the Arbitration Amendment Act 2018 came into force, there have been various court's decisions regarding the applicability of Section 42 of AA 2005 on whether the repeal applies retrospectively or prospectively. In **Proton Edar Sdn Bhd v Electric Angels (MSC) Sdn Bhd [2019] MLJU 2002**, Azizul Azmi Adnan J stated that "with the repeal of section 42, it is no longer possible to refer questions of law to the court and to invoke its jurisdiction either to vary or set aside the award." However, from perusing the subsequent High Court judgments which considered the subject matter on this issue, it would seem that this area of law is not finally settled as to whether the repeal of Section 42 of AA 2005 would apply retrospectively or prospectively.

#### CASE LAWS RELATING TO THIS ISSUE

One of the earlier cases which decided on this issue was the case of **AMDAC** (M) Sdn Bhd v BYD Auto Industry Co Ltd [2020] 11 MLJ 281. In this case, the High Court was invited to determine the issue of whether a party could invoke the repealed Section 42 of the Act in relation to an arbitration commenced prior to the coming into force of the Arbitration Amendment Act 2018. Despite that Nantha Balan J (now CJA) considered the argument that since the Arbitration Amendment Act 2018 is silent on whether the repeal is prospective or retrospective, the demise of a substantive right is to be construed as taking effect prospectively and not retrospectively, however, Nantha Balan J went on further and opined that:

"the true (and only possible) intention of Parliament by repealing s 42 was for the repeal to apply retrospectively and to close the door to a s 42 challenge with effect from 8 May 2018 in respect of any award that is published on or after 8 May 2018. The award here falls in that category. In the result, AMDAC's complaints pursuant to s 42 of the Act are accordingly dismissed in limine."

About 6 months later, the judgment of *Pembinaan Limbongan Setia Berhad v Josu Engineering Construction Sdn Bhd* [2020] MLJU 192 was published, and the High Court reached a very different conclusion on the same subject matter. In this case, the Defendant had sought to strike out the Plaintiff's Originating Summons seeking relief under Section 42 of AA 2005. In determining the issue on whether the repeal of Section 42 of AA 2005 would apply retrospectively or prospectively, Aliza Sulaiman JC (now High Court Judge) had followed the test where if the repeal of a written law would affect substantive rights if applied retrospectively, then, prima facie that law must be construed as having prospective effect only, unless there is a clear indication in the enactment that it is in any event to have retrospectivity. Consequently, Aliza Sulaiman JC concluded that the repeal of Section 42 of AA 2005 has prospective, rather than a retrospective, effect.

Two months later, Aliza Sulaiman JC considered the same issue in the case of **Johawaki Development Sdn Bhd v Majlis Agama Islam Wilayah Persekutuan and another Summon [2020] MLJU 660**. The question which arose in this case was whether the repeal of Section 42 of AA 2005 applies prospectively, namely for arbitration proceedings that commenced on or after 8.5.2018 or is only applicable to the present case where the arbitration commenced in 2012 but the Award was published only on 14.12.2018. the Court held that an arbitration award must have been awarded before Section 42 of 2005 was repealed, for a party to be able to make an application under Section 42 of AA 2005.

Subsequently, in *Tokio Marine Insurans (M) Berhad v Hi-Poly Industries Sdn Bhd* [2020] MLJU 1446, Darryl Goon Siew Chye J (as His Lordship then was) similarly held that the repeal of Section 42 of AA 2005 was not retrospective, and thus the right to invoke it, can only vests when an award is made and not before. His Lordship further explained what it meant by effective prospectively, i.e. Section 42 of AA 2005 could no longer be invoked in respect of arbitration awards made after the repeal had come into force. The decision in **AMDAC** was also acknowledged in this case and His Lordship opined that the decisions in both cases are "although perhaps by a different route, the same conclusion was arrived at."

On the other hand, in **Mammoth Empire Construction** Sdn Bhd v Kenwise Sdn. Bhd. and another summons [2020] MLJU 1473, a case where the Plaintiff referred 6 questions of law pursuant to Section 42 of AA 2005 to the court, and the Defendant raised a preliminary objection against the Plaintiff's reference, on the ground that the court has no jurisdiction to hear the Plaintiff's Reference OS because Section 42 of AA 2005 has already been repealed on the date of filing of Plaintiff's Reference OS. Wong Kian Kheong, J held that His Lordship was unable to follow the decision in AMDAC because the Arbitral Proceedings had commenced before the coming into force of the Arbitration Amendment Act 2018 and the Plaintiff had a Vested Right/Remedy within the meaning of s 30(1)(b) and (d) Interpretation Acts 1948 and 1967 to file the Plaintiff's Reference OS under Section 42 of AA 2005 regarding the Award.

It is important to note that the High Court's decision in **AMDAC (M) Sdn Bhd v BYD Auto Industry Co Ltd [2020]**11 MLJ 281 has been affirmed by the Court of Appeal pursuant to an Order dated 21.9.2020. However, at the date of publication of this article, the Grounds of Judgment of the Court of Appeal are yet to be published.



At this juncture, it would seem that there are, in general, 2 school of thoughts (although 1 has been affirmed by the Court of Appeal) when it comes to the applicability of Section 42 of AA 2005. One school of thought looks at the date when the arbitration award is made/issued while the other looks at the date of the commencement of the arbitration proceedings.

#### **CONCLUSION**

As we can observe from the cases, these different approaches may cause uncertainties and some trouble for the successful party as the unsuccessful party in an arbitration proceeding may resort to an appeal pursuant to Section 42 of AA 2005, even though the Act has been repealed in 2018. Consequently, the enforcement of the arbitration award may be delayed.

At the time of this article, the authors are informed that there are 3 pending appeals to the Court of Appeal on this issue, namely:

- Pembinaan Limbongan Setia Berhad v Josu Engineering Construction Sdn Bhd [2020] MLJU 192:
- ii) Johawaki Development Sdn Bhd v Majlis Agama Islam Wilayah Persekutuan and another Summon [2020] MLJU 660; and
- iii) Tokio Marine Insurans (M) Berhad v Hi-Poly Industries Sdn Bhd [2020] MLJU 1446.

Although legal practitioners and concerned parties may be eager to obtain a clear and final determination on the law revolving around this subject matter, we may have to adopt a wait and see approach to see whether the position in AMDAC will be followed by the Courts in the other cases pending appeal.



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## inside OUT



Who says lawyers only read cases and write submissions? Like anv other people, lawyers are also human beings who need to maintain a healthy body, especially during these difficult times. In this aspect, the Malaysian Bar plays an active role to motivate its members through its Malaysian Bar Fitness Challenge 2021, of which our lawyers in HHQ and HLP had participated and enjoyed the event.

We would like to congratulate our Partner, Leon Gan who to list himself managed within the top 10 male the runners for 100m while HHQ-HLP category team 1 and team 2 managed to be listed within the top 10 runners for the 600m category. Well done! Some of the shots of our runners captured during the event...





















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