

# Basic Principles of Partnership Law in Malaysia

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Zuhairah Ariff Abd Ghadas  
Halyani Hassan

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**BASIC PRINCIPLES OF  
PARTNERSHIP LAW IN  
MALAYSIA**

*Edited by:*

**ZUHAIRAH ARIFF ABD GHADAS  
&  
HALYANI HASSAN**

**Ahmad Ibrahim Kulliyyah Of Laws (AIKOL)  
International Islamic University Malaysia**



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# CONTENTS

<i>Authors' Profile</i> .....	i
<i>Contents</i> .....	iii

## CHAPTER 1 BUSINESS ORGANIZATIONS IN MALAYSIA *Zuhairah Ariff Abdul Ghadas*

INTRODUCTION .....	1
SOLE PROPRIETORSHIP .....	1
The advantages of sole proprietorships .....	3
The disadvantages of sole proprietorships .....	3
PARTNERSHIPS .....	4
The advantages of partnerships .....	6
The disadvantages of partnerships .....	7
COMPANY .....	7
Types of Companies .....	7
Companies Limited by Shares .....	8
Companies Limited by Guarantee .....	9
Unlimited Companies .....	9
Foreign Companies .....	9
General attributes of companies .....	9
The advantages of companies .....	12
Disadvantages .....	13
CONCLUSION .....	13

**CHAPTER 2**  
**HISTORICAL PERSPECTIVES OF**  
**PARTNERSHIPS**

*Zuhairah Ariff Abdul Ghadas*

INTRODUCTION .....	15
MALAYSIAN PARTNERSHIP LAWS .....	19
DEVELOPMENT OF PARTNERSHIPS LAW IN MALAYSIA.....	22

**CHAPTER 3**  
**REGISTRATION AND SALIENT FEATURES OF**  
**PARTNERSHIPS**

*Zuhairah Ariff Abdul Ghadas*

INTRODUCTION .....	23
IDENTIFICATION OF INDIVIDUAL PARTNER WITH THE FIRM .....	23
Unlimited Personal Liability Of Each Other .....	27
Non-Transferability Of A Partner's Interest .....	27
Control By All Partners .....	28
NATURE AND ELEMENTS .....	30
Carrying On A Business .....	31
PERSONS CARRYING ON IN COMMON .....	34
With A View Of Profit .....	37
FORMALITIES AND REGISTRATION .....	40
COMPARISON WITH A COMPANY.....	42
Legal Entity .....	43
Limited Liability .....	44

**CHAPTER 4**  
**LIABILITY OF PARTNERS**  
*Zuhairah Ariff Abdul Ghadas*

INTRODUCTION .....	45
RELATIONSHIP OF PARTNERS WITH THE THIRD PARTIES .....	46
Limited partnership .....	59
LIABILITY OF PARTNERS FOR CONTRACTUAL DEBTS OF THE FIRM .....	60
LIABILITY FOR TORT AND OTHER WRONGS .....	61

**CHAPTER 5**  
**PROTECTION OF THE THIRD PARTIES AND  
PARTNERSHIP AGREEMENT**  
*Zuhairah Ariff Abdul Ghadas*

INTRODUCTION .....	69
Contractual debts .....	70
Debts Other Than Contractual .....	73
RELATIONSHIP BETWEEN PARTNERS .....	73
FIDUCIARY DUTIES .....	74
PARTNERSHIP AGREEMENT .....	78
Management And Control .....	78
Financial Affairs .....	79
Change Of Partners .....	81
Property Of The Firm .....	82

## CHAPTER 6 PARTNERSHIP PROPERTY

*Halyani Hassan*

INTRODUCTION .....	85
EXISTENCE OF PARTNERSHIP PROPERTY .....	86
PROPERTY BROUGHT INTO PARTNERSHIP AS CAPITAL .....	86
TENANCY AS PARTNERSHIP PROPERTY .....	87
PROPERTY ACQUIRED AFTER THE FORMATION OF PARTNERSHIP .....	89
PROCEDURE AGAINST PARTNERSHIP PROPERTY .....	93

## CHAPTER 7 DISSOLUTION OF PARTNERSHIP

*Halyani Hassan*

INTRODUCTION .....	95
CONTRACTUAL DISSOLUTION .....	95
PARTNERSHIP AT WILL .....	96
NOTICE OF DISSOLUTION .....	98
DISSOLUTION BY DEATH OR BANKRUPTCY .....	98
DISSOLUTION BY ILLEGALITY .....	99
DISSOLUTION BY COURT .....	100

## CHAPTER 8 SHIRKAH

*Halyani Hassan & Mohammad Deen Mohd.  
Napiah*

DEFINITION .....	105
SHIRKAH MUFAWADAH .....	106

SHIRKAH AL-INAN .....	106
ELEMENTS OF SHIRKAH .....	106
Number of person .....	107
Business .....	107
Formation .....	107
VIEW OF PROFIT .....	108
RIGHTS OF PARTNERS .....	109
FINANCIAL LIABILITY OF PARTNERS .....	113
DISSOLUTION OF SHIRKAH .....	114
RIGHT TO TERMINATE THE CONTRACT .....	114
CONTRACT FOR A FIXED PERIOD .....	114
DEATH TERMINATE PARTNERSHIP .....	115
VITIATION OF THE PARTNERSHIP .....	115

**CHAPTER 9**  
**LIMITED PARTNERSHIP IN MALAYSIA**  
*Zuhairah Ariff Abdul Ghadas*

INTRODUCTION .....	117
LABUAN-THE MALAYSIAN OFFSHORE .....	117
LABUAN OFFSHORE LIMITED PARTNERSHIPS .....	118
REGISTRATION .....	120
TYPE OF PARTNERS .....	122
LIABILITY OF PARTNERS .....	124
THE INTERNAL RELATION BETWEEN PARTNERS .....	125
TAX STATUS .....	126
DISSOLUTION OF THE LP .....	126
OBSERVATION .....	128



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**CHAPTER 10**  
**LABUAN LIMITED LIABILITY PARTNERSHIP**  
*Zuhairah Ariff Abdul Ghasas*

INTRODUCTION .....	131
LABUAN- THE MALAYSIAN OFFSHORE .....	132
LIMITED LIABILITY PARTNERSHIPS .....	133
The Jersey LLPs .....	134
The Body Corporate LLP .....	136
LLPs with a partnership status .....	137
Observation .....	138
DIFFERENCES BETWEEN LI.P AND A LIMITED LIABILITY COMPANY .....	139
DIFFERENCES BETWEEN LI.P AND A PARTNERSHIP ...	140
LABUAN LIMITED LIABILITY PARTNERSHIPS (LLP)...	141
Legal attributes .....	141
Registration .....	142
Liability of partners .....	143
Internal Regulation .....	144
Dissolution .....	144
Taxation .....	145
Application of laws .....	146
CONCLUSION .....	146

## CHAPTER 5

# PROTECTION OF THE THIRD PARTIES AND PARTNERSHIP AGREEMENT

*Zuhairah Ariff Abdul Ghadas*

### INTRODUCTION

Under the partnership law, it is a trite law that partners have unlimited liability to contribute towards the firm's debts. Creditors and third parties dealing with the firm are provided with certain rights and any attempt of partners to avoid unlimited liability by contract is unlikely to succeed.

Similar to the general basis of liability in a partnership, the third party's rights against the firm also lie in the principle of agency. Provided that the transaction, which was entered with the third party, was committed within the 'authority' of the partners as agent, the firm will be liable for the transaction as the principal.<sup>1</sup>

The third parties' knowledge is also important in justifying their rights against the firm. If the third parties have notice of any restrictions of the partner's authority<sup>2</sup> or does not know or believe that the partner has the authority or does not know or believe that the person is a partner, then the firm will not be liable for the transaction, which was entered by the respective partner.<sup>3</sup>

<sup>1</sup> Partnership Act 1961; s.7.

<sup>2</sup> Partnership Act 1961; s.38(1).

<sup>3</sup> Partnership Act 1961; s.7.