

**IN THE GENERAL DIVISION OF
THE HIGH COURT OF THE REPUBLIC OF SINGAPORE**

[2022] SGHC 155

Suit No 376 of 2019

Between

- (1) True Yoga Pte Ltd
- (2) True Fitness (STC) Pte Ltd
- (3) True Fitness Pte Ltd

... Plaintiffs

And

Wee Ewe Seng Patrick John

... Defendant

JUDGMENT

[Companies — Directors — Duties]

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True Yoga Pte Ltd and others

v

Wee Ewe Seng Patrick John

[2022] SGHC 155

General Division of the High Court — Suit No 376 of 2019

Choo Han Teck J

22 – 25 March, 9 May 2022

5 July 2022

Judgment reserved.

Choo Han Teck J:

1 The three plaintiffs, True Yoga Pte Ltd (“first plaintiff”), True Fitness (STC) Pte Ltd (“second plaintiff”), and True Fitness Pte Ltd (“third plaintiff”), are private companies incorporated in Singapore. They operate a chain of fitness centres, gymnasiums, and related services in Singapore (collectively referred to as “True Group (Singapore)”). The plaintiffs are part of a group of companies known as the True Group. The True Group had a presence in Malaysia (“True Group (Malaysia)”) and Thailand (“True Group (Thailand)”). True Group (Malaysia) and True Group (Thailand) ceased operations on 10 June 2017 and 9 June 2017 respectively. The True Group also has companies in China and Taiwan, which would be referred to as True Group (China) and True Group (Taiwan) respectively.

2 The defendant, Patrick John Wee Ewe Seng, was the former Group Chief Executive Officer (“CEO”) of True Group from 19 March 2008 until his

termination on 9 May 2018. The defendant was also the director of the three plaintiffs until 30 July 2021. He signed an employment contract with the first plaintiff dated 31 March 2008 (“Employment Contract”). Clause 1.3 sets out his duties under the Employment Contract:

During your employment with the Company, you must: (a) Faithfully and diligently perform such duties as may from time to time be assigned to you by the Company or to the business of its related or associated corporations (together with the Company and the Holding Company, the group Companies or the Group) and you shall accept such offices in any Group Company as the Company may require ...

3 The previous holding company of the plaintiffs, CJ Group Pte Ltd (“CJ Group”), transferred its shares in the plaintiffs to a new holding company, True Fitness Holdings (Singapore) Pte Ltd, on 19 May 2017 (“the restructuring exercise”). On 29 May 2017, pursuant to a Sales and Purchase Agreement (“SPA”), Tongfang Kontafarma Holdings Limited (“Tongfang”) acquired majority shareholding in True Group (Singapore) through its wholly-owned subsidiary, Fester Global Limited (“Fester Global”). Under the SPA, Tongfang also acquired interests in True Group (China) and True Group (Taiwan). However, True Group (Malaysia) and True Group (Thailand) were not acquired under the SPA and remained under the ownership and management of the defendant.

4 The plaintiffs brought the present action against the defendant on the ground that the defendant had breached his contractual duties under the Employment Contract, and his fiduciary duties to the plaintiffs due to his mismanagement of the closures of True Group (Malaysia) and True Group (Thailand). In relation to the mismanagement of True Group (Malaysia) (“TM Acts”), the plaintiffs say that:

- (a) the defendant knew that True Group (Malaysia) was facing grave financial difficulties and was facing impending closure as early as February 2017. Despite this knowledge, the defendant permitted True Group (Malaysia) to publicise and sell long-term memberships, ranging from 1-year to 5-years memberships, until May 2017. A total of 43 long-term memberships were sold before the closure of True Group (Malaysia);
- (b) the defendant conducted pre-sales for a new club in Plaza Damas and pre-sold 50 memberships from 8 November 2016 to May 2017. The “new” club did not even open, and True Group (Malaysia) ceased operations thereafter;
- (c) the defendant misled the members of True Group (Malaysia) by putting up a notice on 10 May 2017, stating that the Subang Club would be closed for renovations, when in fact, it was closed because the Court bailiff was taking inventory and equipment under a writ of seizure arising from unpaid rental arrears of the Subang club premises;
- (d) the staff of True Group (Malaysia) was not informed about the closure until the official announcement on 9 June 2017, one day before the closure on 10 June 2017; and
- (e) the defendant informed the members of True Group (Malaysia) upon its closure that there was an arrangement with CHI Fitness Sdn Bhd (“CHI Fitness”) for existing members to use CHI Fitness facilities after the closure of True Group (Malaysia). However, in January 2018, the arrangement was abruptly discontinued, and no further plans were put in place for members.

5 In relation to the mismanagement of True Group (Thailand) (“TT Acts”), the plaintiffs say that:

(a) the defendant knew months in advance that True Group (Thailand) was facing financial difficulties and would be facing impending closure. From around November 2016, the defendant had arranged for funds to be remitted from True Group Singapore to True Group (Thailand) to finance its operations. In end-May 2017, the defendant directed that no further money was to be paid into True Group (Thailand), save for a small amount of money to sustain the administrative office in Thailand;

(b) despite his knowledge of the impending closure, the defendant allowed membership fees to be collected from about 38,903 members each month until end-May 2017. He also allowed membership plans of up to 3 years to be sold to prospective members, up until the first week of June 2017;

(c) the members of True Group (Thailand) were not informed about the closures until the day of closure. The defendant also failed to provide members of True Group (Thailand) with alternative options for the use of fitness facilities after the closure of True Group (Thailand), even though many members had prepaid term memberships; and

(d) rather than dealing with the negative effects from the closure, the defendant was ensuring that the sum of S\$3.25 million, which he had caused to be paid on 30 November 2016 to his beneficially owned company, would not be recovered by the liquidators of True Group (Thailand). The defendant appointed one Ms Moonjaisai to be a director,

so that she could be his scapegoat once the closure of True Group (Thailand) was effected.

6 The plaintiffs say that True Group (Malaysia) and True Group (Thailand) are “related or associated” corporations of the plaintiffs and that the defendant’s TM Acts and TT Acts are in breach of his contractual duties under the Employment Contract. The plaintiffs further say that the defendant’s conduct was in breach of his fiduciary duties to True Group (Singapore), given that the acts damaged the reputation of the “True” brand and were not in the best interest of True Group (Singapore).

7 The defendant says that True Group (Malaysia) and True Group (Thailand) ceased to be a “related or associated” corporation of the plaintiffs on 19 May 2017 after the restructuring exercise. The defendant further says that the plaintiffs are not the proper plaintiffs to bring this action because the proper plaintiffs are the companies under True Group (Malaysia) and True Group (Thailand), which had separate legal personalities from the plaintiffs. The defendant also says that the TM Acts and TT Acts were commercial decisions made in the best interests of True Group (Malaysia) and True Group (Thailand) given the circumstances.

8 The defendant counterclaims against the plaintiffs for wrongful termination and unpaid salary. He says that the first plaintiff wrongfully dismissed him on 9 May 2018 before the Interim Management Team (“IMT”) was set up to investigate the very acts which had been grounds for the defendant’s purported termination. The defendant also counterclaims for unpaid salary of \$120,000.00 per month for the period of 1 January 2018 to 30 April

2018, 1 May 2018 to 9 May 2018 and salary in lieu of 12 months' notice from 9 May 2018 to 8 May 2019.

9 In their defence to the counter-claim, the plaintiffs say that the defendant's Employment Contract had expired on 12 March 2018 and thus, there could be no wrongful termination on 9 May 2018. They say that even if the contract had been impliedly renewed, the defendant's termination on 9 May 2018 was justified under Clause 11.2 of the Employment Contract on the ground of wilful misconduct or gross negligence. The plaintiffs say that in this case, the termination was justified because of the defendant's TT Acts and TM Acts. The plaintiffs further say that the defendant had also misspent approximately S\$20,000.00 using True Group (Taiwan)'s corporate card for his personal purchases and was issued a Warrant of Arrest by the Taiwan Taipei District Prosecutor's office on 31 January 2019.

10 In relation to the defendant's counterclaim for unpaid salary, the plaintiffs say that the defendant had negotiated and agreed with one Xing Hu (acting on behalf of Tongfang) during acquisition discussions, to reduce his salary from S\$120,000.00 per month to S\$22,500.00 per month from June 2017 onwards. The defendant denies this and says that the mutual understanding between him and Xing Hu was for him to be compensated in other ways to account for the reduction in his salary. He further says that since there was no follow-up concerning the alternative forms of compensation, the mutual understanding between him and Xing Hu was repudiated, and therefore, he did not waive his entitlement to his salary of S\$120,000.00.

11 The three main issues in this case are:

- (a) did the defendant owe a contractual or fiduciary duty to the plaintiffs to adequately manage the closures of True Group (Malaysia) and True Group (Thailand) (“the Duty Issue”);
- (b) if so, did he breach his duty by his conduct in the TM Acts and TT Acts (“the Breach Issue”); and
- (c) did the plaintiffs wrongfully terminate the defendant’s employment, and should therefore compensate the defendant for unpaid salary (“the Wrongful Termination Issue”).

12 In relation to the Duty Issue, I think that it is incontrovertible that the defendant owed contractual and fiduciary duties to the plaintiffs to properly manage the closures of True Group (Malaysia) and True Group (Thailand). The defendant’s Employment Contract expressly provides that the defendant must “faithfully and diligently perform such duties as may from time to time be assigned to [him] by the [first plaintiff] or to the business of its related or associated corporations”. This suggests that the defendant’s contractual duties are not limited to managing the businesses of the first plaintiff — it also includes managing the businesses of other entities in the True Group when required. This must be obvious since the defendant, as Group CEO of the True Group, would be expected to manage True Group’s businesses across different countries in the interests of the Group.

13 The defendant says that the plaintiffs did not “assign” him the duty to properly manage the closure of True Group (Thailand) and True Group Malaysia, but, surely, that goes without saying. The defendant had accepted in his written answers that he was managing True Group (Malaysia) and True Group (Thailand) in the months prior to their closures. The evidence also shows

that he had discussed with potential white-knight investors and insolvency lawyers to plan the companies' exit from the Malaysia and Thailand markets. He was the person in charge of handling the closures of True Group (Thailand) and True Group (Malaysia) — there was no one else who had executed the exit plan, nor had the authority to do so.

14 The defendant further says that True Group (Thailand) and True Group (Malaysia) are not “related or associated corporations” after the restructuring exercise on 19 May 2017. He refers s 6 of the Companies Act 1967 (2020 Rev Ed) (“CA”) which defines “related companies” to be (i) a holding company; (ii) a subsidiary; or (iii) a subsidiary of a holding company. He says that True Group (Thailand) and True Group (Malaysia) no longer shared a common holding company after the restructuring exercise. That would not be right. First, it is not in the Employment Contract that the parties had intended to adopt the statutory definition of the term “related companies” in the CA. Second, clause 1.3 of the Employment Contract expressly refers to “related or associated corporations” which suggests a broader ambit than “related companies”. Even if True Group (Malaysia) and True Group (Thailand) ceased to be “related companies” after the restructuring exercise, I am of the view that they were at least “associated companies”. Third, the TM Acts and TT Acts did not only occur after the restructuring exercise. In particular, the sale of long-term memberships and the misleading notice at the Subang Club took place before 19 May 2017.

15 Therefore, I reject the defendant's arguments and I find that the defendant owes a contractual duty to the plaintiffs to properly manage the closure of True Group (Malaysia) and True Group (Thailand). I also find that the defendant, as a director of plaintiffs, owes a fiduciary duty to the plaintiffs to manage the closure of regional groups within the True Group in a manner

that serves the best interest of the plaintiffs. This duty includes taking into account the closure's impact on True Group's branding and reputation, and True Group's businesses in other countries.

16 In relation to the Breach Issue, I am of the view that the defendant had breached his duties to the plaintiffs in failing to properly manage the closures of True Group (Malaysia) and True Group (Thailand). First, the evidence shows that the defendant knew months in advance that True Group (Malaysia) and True Group (Thailand) were facing financial difficulties and might be closing down within months. In February 2017, he discussed with one Trevor Brennan, CEO of Jatomi Fitness Group ("Jatomi"), for Jatomi to take over their gyms in Malaysia and Thailand. In March 2017, he entered into similar negotiations with one Martin Darby, CEO of Evolution Wellness, during which he stated that "we have decided to exit both the Malaysian and Thailand markets and we hope to avoid a disorderly closure" and that "[we] wish to have this done within the next month [ie by April 2017]". This suggests that the defendant knew that True Group (Malaysia) and True Group (Thailand) were likely to be closed down within a short time.

17 In April 2017, after Jatomi and Evolution Wellness declined their interest in taking over True Group's gyms in Malaysia and Thailand, the defendant then approached insolvency lawyers in Malaysia and Thailand to seek advice on how to liquidate True Group (Malaysia) and True Group (Thailand) in an organised manner. On 10 April 2017, the defendant asked his Thai lawyers whether the liquidators could get him to refund the payment of S\$3.25m by True Group (Thailand) to CJ Holdings in November 2016 if True Group (Thailand) enters into voluntary liquidation before 29 May 2017. This fortifies my finding that the defendant had already decided that the businesses of True Group

(Malaysia) and True Group (Thailand) were not financially viable and he was already finding ways to close them.

18 Despite his knowledge that True Group (Malaysia) and True Group (Thailand) were heading for closure, the defendant did not stop the sales of long-term membership packages. In May 2017, a month before its closure, True Group (Malaysia) sold 43 new membership plans, comprising two 5-year memberships, 11 3-year memberships, 13 2-year memberships, 11 1.5-year memberships, and six 1-year memberships. For True Group (Thailand), up to the first week of June 2017 the defendant was still accepting membership terms of up to three years to be sold. He knew that True Group (Thailand) and True Group (Malaysia) were facing impending closures and would not be able to fulfil these long-term memberships. He ought to have known that these sales would have an adverse impact on True Group's reputation and its businesses in other countries. This suggests a *prima facie* breach of the defendant's duty to act diligently and in the best interests of the plaintiffs in managing the closure of True Group (Malaysia) and True Group (Thailand).

19 In his defence, the defendant says that the plaintiffs were aware that he had to close down True Group (Malaysia) and True Group (Thailand) by 31 December 2017 pursuant to the SPA, and cannot now object to that. He says that it was uncertain that the sale to Tongfang would have gone through in May 2017 and so he could not discontinue business operations in Malaysia and Thailand pending the completion of the acquisition. That would not be right. First, the plaintiffs' claims concerned the manner in which the defendant managed the closures and not the closures themselves. Second, as mentioned above, the defendant's conduct since February 2017 suggests that he had already given up on carrying on businesses in Malaysia and Thailand even

before the completion of the sale. Third, although the defendant was not required to cease all businesses in True Group (Malaysia) and True Group (Thailand) before the completion of the sale, he should not have allowed the sale of long-term memberships (up to 5-year memberships) to new members when he knew that True Group (Malaysia) and True Group (Thailand) were facing impending closures within months. The defendant ought to have known that the members would be outraged, and reasonably so, upon the closure of the gyms which would in turn damage True Group's reputation and businesses in other countries.

20 Second, the defendant's abrupt closure of True Group (Malaysia) and True Group (Thailand) and his failure to implement alternative options for the members upon closure were also in breach of his duties to the plaintiffs. The staff of True Group (Malaysia) and True Group (Thailand) were not informed about the closure until days before the closure and the members were only informed on the day of the closure itself. Furthermore, the defendant misled the members of True Group (Malaysia) into believing that the gyms would remain operational by putting up a notice on 10 May 2017 stating that the Subang Club was closed for renovations when, in fact, it was closed because the Court bailiff was taking their inventory and equipment under a writ of seizure. Because of his concealment of material information, neither the staff nor the members were prepared for the abrupt closures of True Group (Malaysia) and True Group (Thailand) in June 2017.

21 The defendant also did not provide alternative options for members of True Group (Thailand) who had prepaid for long-term memberships, leaving them with no recourse after the date of closure. Although the defendant arranged for members of True Group (Malaysia) to use facilities at CHI Fitness after the

closure, this ended within eight months of closure after being assured that the arrangement would last for 24 months. Mr Nicholas Kraal, who assisted the defendant in managing the closure of True Group (Malaysia), testified that the defendant instructed the team to ignore inquiries about the arrangement with CHI Fitness because “[t]here is no appropriate reply for this matter”. The defendant ought to have known that the abrupt closure of True Group (Malaysia) and True Group (Thailand) and the lack of alternative options for members would have incurred the wrath of the members and damaged the reputation of True Group and the plaintiffs’ businesses.

22 The defendant says that he had no control over the timing of the eventual closures because the abrupt closures were caused by creditors filing winding-up petitions against True Group (Thailand) and True Group (Malaysia). He says he was not to blame for the abrupt closure of True Group (Thailand) because True Group (Thailand)’s staff had staged a walk-out on 9 June 2017 and that caused all business operations to cease. That argument does not help the defendant. First, he knew that True Group (Malaysia) and True Group (Thailand) were facing financial difficulties and impending closures since February 2017. He cannot now say that the closures in June 2017 were unexpected. Second, a reasonable director in his position would have made appropriate plans in those circumstances to prevent public anger over the closures. Although the defendant tried to make arrangements with CHI Fitness to provide members of True Group (Malaysia) with some alternative options after the closure (which ultimately failed), nothing was done for the members of True Group (Thailand). Third, he cannot blame the staff of True Group (Thailand) for walking out on 9 June 2017 when he was the one who decided to cut funding to True Group (Thailand) on 31 May 2017 and for the remaining funds to be used only to maintain the head office.

23 Third, the defendant's conduct suggests that he was more concerned with evading responsibility as a director of True Group (Malaysia) and True Group (Thailand), rather than dealing with the consequences of the closures on staff and members. As early as January 2017, he appointed one Ms Moonjaisai, the wife of his friend's tailor, as a director of True Group (Thailand). On 30 May 2017, just days before the closure of True Group (Thailand), the defendant resigned his directorship, leaving Ms Moonjaisai as the sole director to deal with the legal consequences of winding up and the creditors' claims. He similarly resigned as director in True Group (Malaysia) before its closure to avoid the risk of winding up and the ongoing lawsuits commenced by ex-employees. While these actions may not be breaches of the defendant's director duties in themselves, they shed light on his priorities and personal interests in managing the closures. The evidence shows that Moonjaisai was at a complete loss as to how to deal with the closure of the business.

24 For the aforementioned reasons, I am of the view that the defendant breached his duties to the plaintiff in managing the closures of True Group (Malaysia) and True Group (Thailand). By selling long-term memberships when True Group (Malaysia) and True Group (Thailand) were facing impending closures, and failing to provide alternative options for members after the abrupt closure of the gyms, the defendant tarnished True Group's reputation and damaged True Group (Singapore)'s business. Therefore, I find that he had failed to act diligently and in the best interest of the plaintiffs.

25 Turning to the Wrongful Termination Issue, one has first to determine the duration of the defendant's employment. It is not disputed that the defendant's employment was extended to 12 March 2018 under the express terms of the Employment Contract. The defendant says that his employment

was further extended beyond 12 March 2018 by mutual understanding with the first plaintiff. The defendant referred to numerous instances where the first plaintiff's employees continued to seek his advice and approval in his capacity as Group CEO after 12 March 2018. He says that the first plaintiff also continued to pay its share of his CPF contributions after 12 March 2018. The defendant further says that on 12 April 2018 and 8 May 2018, Tongfang sent letters to him requesting him to "resign from [his] position as CEO of the True Group", which must mean that he was still the Group CEO at that time. He claims that the Minutes of the Board of Directors' meeting of TFKT True Holdings on 24 May 2018 expressly acknowledged that he was owed salary as Group CEO from the period of 1 February 2018 to 9 May 2018. The plaintiffs say that there was no such mutual understanding, and that it is irrelevant whether the first plaintiff's employees treated him as the Group CEO because his Employment Contract expired on 12 March 2018.

26 However, I am of the view that the defendant's employment was impliedly extended beyond 12 March 2018 on the same terms as the Employment Contract. The employees' regard of the defendant as Group CEO is relevant because it supports the defendant's case that the parties acted as though he was still the Group CEO after 12 March 2018. If the defendant's employment had ended on 12 March 2018, one would have expected the plaintiffs to notify their employees that the defendant was no longer the Group CEO and should no longer be consulted in his capacity as Group CEO. Not only were there no such notices, the plaintiffs continued to address the defendant as Group CEO of the True Group in their subsequent correspondences, including in their requests for his resignation in April and May 2018. Therefore, I find that the defendant's employment was extended by the mutual understanding of the parties and subsisted until 9 May 2018 when he was terminated.

27 We have next to determine the quantum of the defendant's salary. The plaintiffs say that the defendant's monthly salary was reduced from S\$120,000.00 to S\$22,500.00 with effect from June 2017. The plaintiffs say that the agreement was recorded in an email between the defendant and one Xing Hu (acting on behalf of Tongfang) which is reproduced below:

Per our conversation, for a prosper future partnership, as True CEO and shareholder you are willing to cut 2/3 of your existing USD 1.14 million annual salary [which translates to a monthly salary of S\$120,000] to USD 380,000 [which translates to a monthly salary of S\$22,500]

28 The defendant says that the email did not constitute a binding agreement, but just an "agreement to agree". He says that he accepted the lower remuneration because Tongfang agreed to make up for the shortfall in an agreeable mode within three years (ie by May 2020). The defendant also says that Tongfang failed to make up for the shortfall and therefore, he should be entitled to his original salary of S\$120,000 per month. But in the defendant's own case, he acknowledges that he accepted the salary reduction. His only grievance seems to be that Tongfang did not provide him alternative modes of "compensation" as promised. Although this may be a potential cause against Tongfang, it does not affect the validity of the agreement between the defendant and the first plaintiff.

29 More importantly, the defendant confirmed to the first plaintiff's auditors that it was "complete and accurate" to say that his salary for the year 2017 was S\$757,500, which works out to S\$120,000 per month from January to May 2017 and S\$22,500 per month from June to December 2017. If there were no binding agreement to reduce his wages at all, one would have expected the defendant to notify the auditors that his reported salary for the year 2017 was inaccurate. The defendant says that he had informed the plaintiffs in

February 2018 that he was still entitled to his salary of S\$120,000.00 per month. However, there is no evidence that the plaintiffs had accepted this — the defendant cannot rely on his unilateral declaration to go back on a binding agreement between the parties. Therefore, I find that the defendant has agreed to reduce his monthly salary from S\$120,000.00 to S\$22,500.00 with effect from June 2017.

30 The final issue is whether the defendant was wrongfully terminated on 9 May 2018. Given my findings above, I am of the view that the plaintiffs had sufficient grounds to terminate the defendant's employment on 9 May 2018 for the defendant's mismanagement of the closures of True Group (Malaysia) and True Group (Thailand). It will not be necessary for me to consider the TT Acts, save to say that I am of the opinion that the defendant's use of corporate funds for his personal purchases in Taiwan, is a possible, but not necessarily sufficient, ground for termination. Since the defendant's employment was terminated for cause under clause 11.2 of the Employment Contract, he is not entitled to 12 months' salary in lieu of notice, which is only applicable for termination without cause under clause 11.1.

31 In conclusion, I find that the defendant is entitled to unpaid salary for the period of 1 January 2018 to 9 May 2018 at the rate of \$22,500 per month. The defendant acknowledges that he was paid S\$22,500.00 in January 2018 and S\$11,589.30 for February to 12 March 2018. After deducting the part-payments, the plaintiff should pay the defendant S\$62,660.70 for unpaid salary. I also find that the defendant breached his contractual duties and director's duties because he mismanaged True Group (Malaysia)'s and True Group (Thailand)'s closures. The quantification of the plaintiff's losses would be determined at a later date

unless parties are able to resolve that issue by agreement or mediation. To that end, I reserve the issue of costs to a later date.

- Sgd -
Choo Han Teck
Judge of the High Court

Jordan Tan, Victor Leong (Audent Chambers LLC) (instructed) and
Anthony Yvette Loretta (LVM Law Chambers) for the plaintiffs;
Rai Vijay Kumar, Joavan Christopher Pereira and Jasleen Kaur
(Arbiters Inc Law Corporation) for the defendant.
