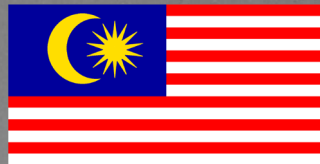




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DOING BUSINESS IN MALAYSIA





COMPANY FORMATION IN MALAYSIA

MAIN FORMS OF COMPANY/BUSINESS IN MALAYSIA

The following are the forms of business organization available in Malaysia:

1. Company

Companies are governed by the Companies Act 1965, which provides for four types of companies:

- Company limited by shares;
- Company limited by guarantee;
- Company limited by both shares and guarantee; or
- Unlimited company

In practical terms, almost all companies will be companies limited by shares, i.e., companies with limited liability, the maximum liability of a member being limited to the value of share capital. Companies may be formed as either private companies or public companies.

A private company is one which is prohibited by its articles of association to issue any invitation to the public to subscribe for shares or debentures of the company or to deposit money with the company. Shareholders / members of a private company shall not be more than fifty and are also restricted in their right to transfer their shares in the company. A public company is employed where it is intended to invite the public to subscribe for shares or debentures in the company or to deposit money with the company.

Limited Liability Partnership (LLP) is an alternative business vehicle regulated under the Limited Liability Partnerships Act 2012, which combines the characteristics of a company and a conventional partnership.

LLP is a separate legal entity from its partners. The liabilities of the partners of a LLP are limited while the LLP has unlimited capability in conducting business and holding property.

2. Partnership or Sole Proprietorship

All sole proprietorships and partnerships (excluding LLPs) are unincorporated and must be registered with the Registrar of Businesses also under the purview of the Companies Commission Malaysia. As unincorporated entities, sole proprietorships and partnerships have unlimited liability. In the case of partnerships, partners are both jointly and severally liable for the debts and obligations of the partnerships.

3. Joint Venture

Joint ventures are structured either as partnerships or as incorporated companies; the term "joint venture" does not denote a separate and distinct business entity.

4. A Foreign Company is a company incorporated outside Malaysia and it can carry on business by either:

- incorporating a local company with Companies Commission of Malaysia (CCM); or
- registering the foreign company in Malaysia with CCM

In general, CCM does allow the registration of foreign branches except for establishment involved in the wholesale and retail trade.

5. Representative/Regional Office

The representative regional office does not undertake any commercial activities and only represents its head office/principal to undertake designated functions. The representative/regional office's operation is completely funded from sources outside Malaysia.



DOING BUSINESS IN MALAYSIA

The representative office/regional office is not required to be incorporated under the Companies Act 1965. The set-up of a representative/ regional office requires the approval of the Malaysian Government.

SPECIFIC TAX CONCERNS RELATED TO ESTABLISHING A COMPANY

Income tax is imposed on income accruing in or derived from Malaysia with the general exception of resident companies carrying on a business of air/sea transport, banking or insurance, which are subject to income tax on a world income scope. (Specific exemptions are available for Malaysian banks, insurance companies and takaful companies subject to specified conditions.)

The principal classes of domestic and foreign taxpayers covered by the income tax legislation are companies, individuals, trade associations, co-operative societies, trusts, and estates. Generally, partnerships are not taxable entities. The partners and not the partnership, are taxed on the partnership income. However, Malaysia has in 2013 introduced a new business vehicle, i.e. the Limited Liability Partnership, which is given the same tax treatment as companies.

Income accruing in or derived from Malaysia is subject to income tax. Foreign income received in Malaysia by a company is not subject to Malaysian income tax. A company is resident in Malaysia for tax purposes if its management and control are exercised in Malaysia. Generally, a company is considered resident in Malaysia if the meetings of its board of directors are held in Malaysia, even if the companies are not incorporated in Malaysia.

The rate of income tax for companies is 24%. However, for a company which is resident in Malaysia, the first RM 500,000 of its chargeable income is taxed at the rate of 19%, provided its issued capital is less than RM 2.5 million. For companies carrying on petroleum operations, the rate of income tax is 38%.

A foreign branch is taxed at the rate of 28% on its income derived from Malaysia. However, interest income is taxed at the rate of 15% except where provided otherwise under the Double Taxation Agreement that Malaysia has with the country concerned.

LEGAL ISSUES RELATED TO ESTABLISHING A COMPANY

All companies need at least two directors and two subscribers, except for wholly owned subsidiaries. A company is also required to appoint a Company Secretary. All companies need a local registered office. It is possible to engage nominees to act as local directors.

CULTURAL CONCERNS RELATED TO ESTABLISHING A COMPANY

There are no specific cultural concerns to be considered when establishing a company in Malaysia.

OTHER COUNTRY-SPECIFIC ISSUES RELATED TO ESTABLISHING A COMPANY

Accounting and Other Records

A foreign company desiring to establish a place of business or to carry on business within Malaysia is required by the Companies Act 1965 to register itself with the Registrar of Companies.

Filing Requirements

A foreign company with operations in Malaysia is required to lodge with the Registrar of Companies within two months of its annual general meeting a certified true copy of its balance sheet and other documents required to be attached to its balance sheet by the law applicable to the company in its place of incorporation or origin.

Financial Statements

The requirement of audited financial statements is similar to those companies incorporated in Malaysia.



PERMANENT ESTABLISHMENT IN MALAYSIA: BRANCH OR SUBSIDIARY?

DEFINITION OF A PERMANENT ESTABLISHMENT

There is no definition under Malaysian Companies Act, 1965 and Income Tax Act, 1967.

In Double Tax Agreement (DTA) that Malaysia had with the other treaty countries, Permanent Establishment is defined as a fixed place of business through which the business of an enterprise is wholly and partly carried on.

DEFINITION AND MAIN DIFFERENCES BETWEEN A BRANCH AND A SUBSIDIARY

A Branch or "Foreign Company" as defined under Malaysia's Companies Act 1965 is "a company, corporation, society, association or other body incorporated outside Malaysia". The Branch does not need to have a Company Secretary. Instead it must appoint an "Agent" under a memorandum of appointment or power of attorney to represent the Branch. The agent must be a person who is residing in Malaysia. He will be authorized to accept on behalf of the Foreign Company all documents such as official notices and court summonses (if any).

A subsidiary on the other hand is a business that is wholly or partially owned by another parent company or holding company.

The main difference between branch and subsidiary is that a branch is not a separate legal entity from the parent company. The branch is the parent company but one that has a legal and physical presence in Malaysia. On the other hand, a subsidiary although owned by the parent is an entirely separate legal entity from the parent company.

Activities conducted by the branch office must be similar to that of the parent company as it is merely an extension, while the subsidiary company is allowed to undertake activities which is different from the parent company.

TAX AND ACCOUNTING OBLIGATIONS

A foreign company in Malaysia will be required to register for corporation tax, good and services tax (GST), payroll taxes and other applicable taxes. For corporation taxes the submission for income tax return is seven month from the company's financial year end. The GST is payable depending on the company's yearly turnover either monthly (RM5 millions turnover) or quarterly (below RM5 millions turnover)

Employer Compliance Obligations

An employer is required to notify the IRBM via Form CP22 of the commencement of employment of its employees in Malaysia within one month of the date of commencement of employment. An employer must declare the total remuneration paid to employees for employment performed in Malaysia on Forms E and EA. This is regardless of whether the employee's salary and/or allowance are paid in or outside Malaysia.

Accounting Obligation

Financial statements of companies incorporated in Malaysia are required to be kept in a manner that will sufficiently explain its transactions and enable them to be conveniently and properly audited. Under the Companies Act 1965 and the Income Tax Act 1967, transactions of the company must be recorded within sixty days of the date of transactions and the records must be kept in Malaysia and be retained for at least seven years.

In this regard, the financial statements are to be prepared in accordance with "approved accounting standards" issued and adopted by the Malaysian Accounting Standards Board (MASB). Compliance with the approved accounting standards in preparing financial statements pursuant to any laws administered by the CCM, the Securities Commission and the Central Bank of Malaysia, is mandatory and legally enforceable. The MASB, which is established under the Financial Reporting Act 1997, is responsible to develop, issue and adopt accounting standards.



DOING BUSINESS IN MALAYSIA

Presently, there are two sets of standards being issued and adopted by the MASB; namely Malaysian Financial Reporting Standards (MFRSs) and Malaysian Private Entity Reporting Standards (MPERSs).

REGISTRATION FORMALITIES

A foreign company may carry on business in Malaysia by either:

- registering a branch office if the investor is a foreign company;
- incorporating a Malaysian company as its subsidiary;

Foreign branch companies must be formally registered with the Companies Commission of Malaysia (CCM) before commencing business in Malaysia. They are allowed to engage in a wide range of businesses in Malaysia except some and in some instances approval must first be obtained from the Domestic Trade Division, Ministry of International Trade and Industry.

STANDARD LEGAL OBLIGATIONS AND FORMALITIES FOR A BRANCH

Companies act 1965 and Registration of Business Act 1956

A branch office of a foreign company can be registered with the CCM provided that the charter, memorandum and articles of association or other instruments constituting or defining the constitution of the foreign company and the laws governing the foreign company in its country of incorporation will not prohibit or restrict the establishment of the branch office in Malaysia. The branch office will be entitled to carry on its business activities according to the objects and powers provided under its constitution.

Income Tax Act 1967

If the authorities grant approval to establish a branch, the profits of the branch are then not subject to Section 108 of the Income Tax Act, 1967, on the repatriation of profits. One or more agents must be appointed and they must be resident in Malaysia. The appointed agent is answerable for the performance of all acts required to be done by the company under the Companies Act, 1965.



HOW TO HIRE MY FIRST EMPLOYEE IN MALAYSIA

MAIN LEGAL STEPS TO FOLLOW TO HIRE A FIRST EMPLOYEE

- Employer needs to register with Employee Provident Fund (EPF) and Sosial Security Corporation (SOCSO)
- If employee does not have a SOCSO number, they must apply for one from SOCSO
- Employer must comply with the national minimum wage (RM950 per month)
- Employee must be given a written appointment letter
- Employer is responsible for making correct deduction of tax, EPF

Other Employers' Rights and Responsibilities

If the employment period of an employee in a Malaysian company exceeds 1 month, he has to be given a written contract. The minimum requirements of the contract content are set in the Malaysian Employment Act of 1955.

A contract has to set terms and conditions relating to the weekly or monthly amount of working hours, the probation and termination period, overtime payment and holidays and further details as salary or the exact title of the job. An employer can set own conditions and particulars but they must not fall below the minimum requirements of the Employment Act.

Notice of Termination

The usual period when a notice of termination has to be handed in by either the employer or the employee, depends on the duration of employment. If not stated differently in the contract, the periods according to which the notice of termination is related are:

- employed for less than 2 years (4 weeks notice)
- employed for 2-5 years (6 weeks notice)
- employed for more than 5 years (8 weeks notice)

Probation Period

During the probation period, which is set individually by the employer, the employee can be dismissed without notice. The same applies to termination on the side of the employee. The probation period is usually between 1 and 6 months and the dismissal has to be justified. If a dismissal on the side of the employer is given after this period, and is not due to misconduct of the employee, the latter is entitled to layoff benefits. The basis on which the amount of days paid is calculated, is the same as for the probation period (employed for less than 2 years, from 2-5 years, or for more than 5 years).

CAN SOMEBODY DO BUSINESS FOR ME AND NOT BE AN EMPLOYEE?

Yes, you can hire an agent or sub-contractors.



HOW TO READ FINANCIAL STATEMENTS IN MALAYSIA

**MALAY CORPORATION SDN. BHD.
STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2016**

	Note	2016 RM	2015 RM
NON-CURRENT ASSETS			
Property, plant and equipment	5	10,041,910	6,641,386
Investment property at cost	6	476,428	-
Investment property at fair value	6	5,999,768	4,094,179
Goodwill	7	5,216,330	3,828,841
Other intangible assets	8	4,163,426	4,222,640
Subsidiaries	9	2,000,000	2,000,000
Investment in associates	10	1,484,315	1,240,119
Investment in jointly controlled entities	11	305,535	450,153
Other financial assets	12	440,531	612,201
Deferred tax assets	13	10,985	31,164
Total Non-current Assets		30,139,228	23,120,683
CURRENT ASSETS			
Biological assets carried at fair value through profit or loss	14	150,233	100,275
Inventories	15	797,885	669,861
Trade and other receivables	16	2,241,475	1,475,188
Gross amount due from customers for contract work		101,398	108,183
Other financial assets	12	96,802	155,781
Cash and cash equivalents	17	303,930	486,923
Total Current Assets		3,691,723	2,996,211
TOTAL ASSETS		33,830,951	26,116,894



MALAY CORPORATION SDN. BHD.
STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2016
(Continued)

	Note	2016 RM	2015 RM
CAPITAL AND RESERVES			
Share capital	18	11,320,200	11,050,200
Share premium	19	1,242,500	458,500
Treasury shares	20	(500,000)	-
Premium for option on Irredeemable Convertible Unsecured Loan Stocks	21	29,810	-
Property revaluation surplus	22	933,718	553,718
Translation reserves	23	943,706	685,440
Equity-settled employee benefits reserves	24	25,500	14,500
Retained earnings	25	9,422,556	4,397,260
TOTAL EQUITY		23,417,990	17,159,618
NON-CURRENT LIABILITIES			
Deferred tax liabilities	13	1,184,989	929,279
Retirement benefit obligation	26	66,743	72,240
Provisions	27	30,449	44,888
Finance lease payables	28	91,622	105,812
Other borrowings	29	623,146	265,977
Other financial liabilities	30	100,000	-
Total Non-current Liabilities		2,096,949	1,418,196
CURRENT LIABILITIES			
Trade and other payables	31	1,863,793	1,115,196
Gross amount due to customers for contract work		3,211	1,453
Current tax liabilities		34,598	68,272
Provisions	27	163,358	165,268
Finance lease payables	28	56,966	53,476
Bank overdrafts	29	280,316	324,225
Other borrowings	29	5,813,770	5,711,190
Deferred revenue	32	100,000	100,000
Total Current Liabilities		8,316,012	7,539,080
TOTAL LIABILITIES		10,412,961	8,957,276
TOTAL EQUITY AND LIABILITIES		33,830,951	26,116,894



**MALAY CORPORATION SDN. BHD.
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR 30 JUNE 2016**

	Note	2016 RM	2015 RM
Continuing Operations			
Revenue	34	23,743,683	19,326,112
Cost of sales		<u>(12,966,796)</u>	<u>(11,656,606)</u>
Gross profit		10,776,887	7,669,506
Other income		352,383	381,590
Distribution costs		(618,208)	(663,922)
Administrative expenses		(1,669,263)	(1,014,755)
Other expenses		(214,557)	(213,573)
Finance costs		<u>(243,782)</u>	<u>(256,549)</u>
Profit before tax	35	8,383,460	5,902,297
Tax expense	36	<u>(1,203,963)</u>	<u>(1,168,682)</u>
Profit from continuing operations		7,179,497	4,733,615
Discontinued Operations			
Profit from discontinued operations		<u>9,086</u>	<u>15,796</u>
Profit For The Financial Year		7,188,583	4,749,411
Other Comprehensive Income, Net of Tax			
Items that will not be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		258,266	231,391
Gain on revaluation of property, plant and equipment		<u>380,000</u>	<u>-</u>
Total Comprehensive Income For The Financial Year		<u>7,826,849</u>	<u>4,980,802</u>



DOING BUSINESS IN MALAYSIA

MALAY CORPORATION SDN. BHD. STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

	Share Capital RM	Premium RM	Treasury Shares RM	Option on ICULS RM	Property Revaluation Surplus RM	Translation Reserves * RM	Equity-settled		Retained Earnings RM	Total RM
							Employee Benefits Reserves RM			
Balance at 1 July 2014	11,045,200	450,000	-	-	553,718	454,049	9,000	1,896,959	14,408,926	
Profit for the financial year	-	-	-	-	-	-	-	4,709,341	4,709,341	
Other comprehensive income for the financial year	-	-	-	-	-	-	-	-	231,391	
Total comprehensive income for the financial year	-	-	-	-	-	-	-	4,709,341	4,940,732	
Dividends	5,000	-	-	-	-	-	-	(2,209,040)	(2,209,040)	
Issue of ordinary shares	-	8,500	-	-	-	-	-	(1,500)	12,000	
Recognition of share-based payments	-	-	-	-	-	-	7,000	-	7,000	
Balance at 30 June 2015	11,050,200	458,500	-	-	553,718	685,440	14,500	4,397,260	17,159,618	
Profit for the financial year	-	-	-	-	-	-	-	7,262,336	7,262,336	
Other comprehensive income for the financial year	-	-	-	-	380,000	258,266	-	-	638,266	
Total comprehensive income for the financial year	-	-	-	-	380,000	258,266	-	36	7,900,602	
Dividends	37	-	-	-	-	-	-	-	-	
Issue of ordinary shares	270,000	784,000	-	-	-	-	-	(2,237,040)	(2,237,040)	
Buy-back of ordinary shares	-	-	(500,000)	-	-	-	(6,000)	-	1,048,000	
Issue of ICULS	-	-	-	29,810	-	-	-	-	(500,000)	
Recognition of share-based payments	-	-	-	-	29,810	-	-	-	29,810	
Balance as at 30 June 2016	11,320,200	1,242,500	(500,000)	29,810	933,718	943,706	17,000	9,422,556	23,417,990	



MALAY CORPORATION SDN. BHD.
STATEMENT OF CASH FLOW
FOR THE FINANCIAL YEAR 30 JUNE 2016

	2016	2015
	RM	RM
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Profit before tax	8,383,460	5,902,297
Adjustments for:		
Amortisation of other intangible assets	208,748	151,708
Defined benefits plan	37,693	31,270
Depreciation of property, plant and equipment	1,228,514	876,403
Dividend income	(72,400)	(59,150)
Gain on disposal of investment property	(9,817)	-
Gain on fair value adjustment for other financial assets	(64,256)	(15,914)
Gain on fair value adjustment for investment property	(53,911)	(35,993)
Loss on fair value adjustment for jointly controlled entities	144,618	100,000
Loss on fair value adjustment for biological assets	13,230	10,800
Gain/loss on disposal of a subsidiary	(1,459)	-
Gain/loss on disposal of property, plant and equipment	(22,383)	(18,764)
Gain/loss on disposal of other financial assets	(243,897)	(150,391)
Impairment losses on trade receivables	6,363	6,789
Impairment losses on non-financial assets	4,007	1,629
Impairment losses on inventories	-	18,592
Interest expense	243,782	256,549
Interest income	(9,118)	(14,239)
Provision for legal costs	347	
Provision for warranties	113,718	91,634
Reversal of impairment losses on non-financial assets	(1,198)	-
Reversal of impairment losses on trade receivables	(348)	(732)
Reversal of impairment losses on inventories	(14,558)	-
Reversal of provision for warranties	(72,911)	(31,695)
Share options expenses	17,000	7,000
Unrealised loss on foreign exchange	31,440	29,948
Operating profit before changes in working	<u>9,866,664</u>	<u>7,157,741</u>
(Increase)/Decrease in biological assets	(65,288)	(40,189)
Increase in inventories	(157,254)	(104,831)
Increase in trade and other receivables	(1,372,500)	(486,903)
Increase/(decrease) in trade and other payables	<u>270,129</u>	<u>513,486</u>
Cash generated from operations	8,541,751	7,039,304
Contributions to defined benefit plan	(37,693)	(31,270)
Income taxes paid	(1,003,364)	(765,940)
Interest paid	(228,649)	(255,907)
Interest received	9,118	14,239
Utilisation of provision for warranties	<u>(57,503)</u>	<u>(60,078)</u>
Net cash from operating activities	<u>7,223,660</u>	<u>5,940,348</u>



MALAY CORPORATION SDN. BHD.
STATEMENT OF CASH FLOW
FOR THE FINANCIAL YEAR 30 JUNE 2016
(Continued)

	2016	2015
	RM	RM
<u>CASH FLOWS FORM INVESTING ACTIVITIES</u>		
Additions of other intangible assets	(148,616)	(1,498,563)
Advance to associates	(63,636)	(50,782)
Disposal of a subsidiary, net of cash and cash equivalents disposed off	423,004	-
Dividend received	72,400	59,150
Proceeds from disposal of investment property	55,483	-
Proceeds from disposal of other financial assets	877,792	674,312
Proceeds from disposal of property, plant and equipment	40,362	36,018
Purchases of investment property	(1,106,076)	(1,262,256)
Purchases of other financial assets	(338,990)	(336,517)
Purchases of property, plant and equipment	(3,938,352)	(595,178)
Net cash (used in)/from investing activities	<u>(4,126,629)</u>	<u>(2,973,816)</u>
<u>CASH FLOWS FROM FINANCING</u>		
Dividends paid	(2,237,040)	(2,209,040)
Preference Shares	100,000	-
Proceeds from government grant	-	100,000
Unsecured Loan Stocks	400,000	-
Proceeds from issuance of ordinary shares	48,000	12,000
Proceeds from other short term borrowings	177,788	150,463
Repayments of finance lease	(424,458)	(436,127)
Repayments of other short term borrowings	(232,015)	(186,914)
Repayments of term loans	(373,787)	(188,874)
Repurchases of own ordinary shares (treasury shares)	(500,000)	-
Net cash used in financing activities	<u>(3,041,512)</u>	<u>(2,758,492)</u>
Net (decrease)/increase in cash and cash equivalent	55,519	208,040
Cash and cash equivalents at beginning of financial year	248,411	40,371
Cash and cash equivalents at end of financial year	<u>303,930</u>	<u>248,411</u>