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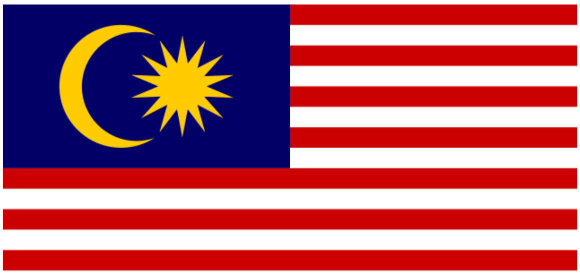
DOING BUSINESS IN MALAYSIA



GEOGRAPHY AND DEMOGRAPHICS

Malaysia is situated in Southeast Asia; comprised of Peninsular Malaysia (West Malaysia) and East Malaysia (the states of Sabah and Sarawak) which separated by the South China Sea, with land area totaling 329,847 sq. km. Peninsular Malaysia shares its border with Thailand at north and Singapore at south, while East Malaysia is located on Borneo Island sharing border with Brunei and Indonesia.

Population and Ethnic:	31.7 million (69% Bumiputra, 23% Chinese, 7% India, and 1% unlisted ethnic groups).
Language:	Bahasa Melayu is the official language for government administration. English is second language accepted by most of the government authorities and widely used in business sector.

COMPANY FORMATION

Malaysia is ranked 24th globally and 4th in Asia by the World Bank Group in 2018 ease of doing business ranking.

The establishment and operations of company are governed by CA 2016 and regulated by the Companies Commission of Malaysia (*Suruhanjaya Syarikat Malaysia*, “SSM”).

Requirements for incorporation of company

- At least a director residing in Malaysia;
- Has a registered office and keeps its accounts and records in Malaysia;
- Appoint a company secretary who must be a natural person residing in Malaysia; and
- Required to lodge annual returns with the SSM.

Procedure for incorporation

1. Application of name search;
2. Lodgement of incorporation documents.

Incorporation of company generally takes less than a week to complete.

AUDIT AND ACCOUNTING

Pursuant to CA 2016, company directors are required to prepare financial statements of the company, being audited by an approved company auditor and circulated to all member of the company.

The financial statements of private company shall be prepared in accordance to the Malaysian Private Entities Reporting Standard (“MPERS”) or Malaysian Financial Reporting Standards (“MFRS”); while all other companies shall prepare their financial statements in accordance to MFRS.

COMPANY INCOME TAX

Scope of taxation

Income tax is imposed on income accruing in or derived from Malaysia, except for income derived from businesses of air / sea transport, banking or insurance which is assessable on a world income scope.

Income attributable to Labuan business activity of Labuan entities is subject to tax under the Labuan Business Activity Tax Act 1990. However, a Labuan entity may make an irrevocable election to be taxed under the Income Tax Act 1967 in respect of its Labuan business activity.

Basic of assessment

Company is assessed to tax based on its financial year (i.e. year of assessment, “YA”) by declaring its income based on its audited financial statements.

Resident status and tax rates

A company is a tax resident in Malaysia if the management and control of its business affairs are exercised in Malaysia. Management and control is normally considered to be exercised at the place where directors hold their meetings.

Resident company is taxed at the following rates:

Chargeable income	Tax rate
First RM500,000	18%
In excess of RM500,000	24%

Collection of tax

An estimate of company’s tax payable for a YA must be furnished to the Inland Revenue Board (“IRB”) not later than 30 days before the beginning of YA. Newly incorporated company is required to provide tax estimation within the first 3 months of the beginning of its operations.

Tax is payable by 12 equal monthly instatements beginning from the second month of the company's YA. Balance of the tax payable by a company based on return submitted is due to be paid by the due date for submission of the return.

Profit distribution and business losses

Tax on company's profit is a final tax and dividends to the shareholders are tax exempted.

Business losses can be set off against income from all sources in the current YA. Any unutilised losses can be carried forward indefinitely to be utilised against any income from any business source, subjected to shareholder continuity test in case for dormant company.

Tax deductions

Tax deduction is allowed for all expenses wholly and exclusively incurred in the production of income, except for certain expenses which are specifically disallowed by the Income Tax Act, 1967 or public rulings by IRB.

Capital allowances

Depreciation charged in arriving commercial profit is not deductible for tax purposes. Capital allowances ("CA") is provided as corresponding deductions for certain fixed assets used for business. Any unabsorbed CA can be carried forward indefinitely to be utilised against income from the same business source. The board categories of qualifying expenditure ("QE") are described as follows:

Industrial buildings ("IB")

IB allowances are given on QE incurred on the construction or purchase of buildings or structures used as at 10% for initial allowance and 3% for annual allowance:

- Factory;
- Warehouse;
- Dock, wharf or jetty;
- Working farm or mine;
- Hotel registered with the Ministry of Tourism;
- Buildings used solely for storage of goods for export and imported goods that are to be processed and re-exported;
- Telecommunication, water and electricity supply facilities;
- Licensed private hospitals, maternity or nursing homes;
- Approved old folks care centre, research and training centre;
- Buildings used for approved service project; and
- Living accommodation or child-care facilities for employees.

Plant and machinery ("PM")

QE for PM includes:

- Cost of assets used for business;
- Cost of construction and installation of PM;
- Expenditure on fish ponds, animal pens, cages and other structures used for agricultural or pastoral pursuits;
- QE for a particular basis period based on amount of capital repayment made during the YA for assets acquired on hire purchases.

General rates of CA for PM are:

	Allowances (%)	
	Initial	**Annual**
Heavy machinery	20	20
General plant and machinery	20	14
Furniture and fixtures	20	10
Office equipment	20	10
ICT equipment, computer software packages and customised software comprising of consultation, licensing and incidental fees	20	20
Motor vehicles (QE for new vehicle cost RM150,000 or less is RM100,000, QE for vehicle other than than is RM50,000)	20	20

Small-value assets less than RM1,300 are eligible for 100% CA where total CA for the said asset group are capped at total of RM13,000.

TAX INCENTIVES

Various tax incentives to promote investments in Malaysia are available ranging from tax exemptions and allowances to enhanced tax deductions.

Pioneer status ("PS")

PS incentive is an exemption from income tax on statutory income granted to companies participating in promoted activities or producing promoted products , for a period of 5 or 10 years.

Investment tax allowance ("ITA")

ITA is incentive granted based on the capital expenditure incurred on IB used for the purpose of promoted activities or promoted productions, for a period of 5 to 10 years.

REAL PROPERTY GAINS TAX ("RPGT")

RPGT from disposal of real property including shares in real property company ("RPC"). RPC is a controlled company which total tangible assets consists of 75% or more in real property and/or shares in another RPC.

RPGT rates:

Disposal	Rates for company
Within 3 years	30%
In 4th year	20%
In 5th year	15%
In the 6th or later	5%

For each disposal, both disposer and acquirer are required to submit RPGT return respectively with 60 days from the date of disposal, which is generally taken as the date of the written agreement of the disposal.

GOODS AND SERVICES TAX ("GST")

GST has been implemented since 1 April 2015 at rate of 6%.

Scope of taxation
GST is chargeable on all taxable supplies of goods and services made in the course or furtherance of business in Malaysia by a taxable person. GST is also charged on importation of goods and services into Malaysia except for exempted supplies.

GST registration
Company is taxable and required to register for GST when its annual turnover exceeding RM500,000. Calculation of annual turnover for registration purposes is based on the total value of taxable supplies for any rolling 12 months period.

Company is required to notify his liability to be registered for GST within 28 days from the end of the month where the annual turnover exceeds or expected to exceed RM500,000. Company makes taxable supplies below the threshold is not liable to be registered but may register on voluntary basis.

Type of supplies
1. Standard-rated supply
Supply of goods and services which subject to GST at rate of 6%. All supplies of goods or services, imported goods and services except those prescribed as zero-rated and exempt supplies will be standard-rated supplies.

2. Zero-rated supply
Supply of goods or services which is subjected to GST at rate of 0%. Zero-rated supplies include but not limited to the following:
- Certain essential goods (i.e. rice, sugar, plain flour and cooking ol);
- Certain medicines and medical devices;
- Treated water to domestic consumers;
- Export of goods; and
- International services.

3. Exempt supply
Supply of goods and services that is exempt from GST as prescribed in the GST (Exempt Supply) Order 2014, which include but not limited to the following:
- Sale, lease or letting of residential property;
- Public transportation;
- Supply of investment precious metals for investment purposes;
- Life insurance/reinsurance;
- Healthcare services by private healthcare facilities.

Recovery of input tax
GST incurred on acquisitions (input tax) of goods and services in making taxable supplies may be deductible against GST payable. Input tax incurred in making exempt supplies is not deductible against GST payable.

Company which makes both taxable and exempt supplies is only allowed to claim input tax related to its taxable supplies. Input tax that relates to both taxable and exempt supplies must be apportioned based on the value of taxable supplies as a percentage of total supplies

Blocked input tax
Input tax recovery is disallowed for certain types of purchases include but not limited to the following:
- Passenger motor cars;
- Recreational club subscriptions;
- Benefits for employees' family members; and
- Entertainment to non-employees or non-customers.

OTHER DUTIES

Import duties
Import duties are levied on goods imported into Malaysia at rates ranged from 7% to 60%, on an ad valorem or specific basis. Raw material, machinery, essential foodstuffs and pharmaceutical products are generally non-dutiable or subject to duties at lower rates.

Export duties
Export duties are generally imposed on Malaysia's main commodities such as crude petroleum and palm oil for revenue purposes.

Excise duties
Excise duties are imposed on a selected range of goods manufactured in Malaysia or imported into Malaysia. Goods which are subject to excise duties include liquors, cigarettes containing tobacco, motor vehicles, motorcycles, playing cards and mah-jong tiles. Rate of excise duties range from 5 cents per

cigarettes to 105% for motor vehicles. No excise duty is payable on dutiable goods that are exported.

LICENSED MANUFACTURING WAREHOUSE ("LMW")

Manufacturers who export 80% or more of their products can apply for LMW status, where raw material, components and machinery used in production are exempted from import duties.

FREE ZONE

Free Zone is deemed to be a place outside of Malaysia for customs purposes. Goods and services can be brought into, produced or provided in Free Zone without customs or excise duty.

There are 2 types of Free Zones in Malaysia: Free Industrial Zone ("FIZ") and Free Commercial Zone ("FCZ"), where manufacturing and trade activities can be conducted in FIZ and FCZ respectively.

FREE TRADE AGREEMENTS

Malaysia has concluded several regional and bilateral free trade agreements which feature preferential trariff treatment accorded to member countries.

The followings are free trade agreements which currently in force:

- ASEAN Trade In Goods Agreement;
- ASEAN-China Free Trade Agreement;
- ASEAN-Korea Free Trade Agreement;
- ASEAN-Australia-New Zealand Free Trade Agreement;
- ASEAN-Japan Comprehensive Economic Partnership Agreement
- ASEAN-India Trade In Goods Agreement;
- Preferential Trade Agreement Amongst D-8 Member States;
- Malaysia-Pakistan Closer Economic Partnership;
- Malaysia-Japan Economic Partnering Agreement;
- Malaysia-Chile Free Trade Agreement;
- Malaysia-India Comprehensive Economic Cooperation Agreement;
- Malaysia-New Zealand Free Trade Agreement;
- Malaysia-Australia Free Trade Agreement; and
- Malaysia-Turkey Free Trade Agreement.

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