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PART A-THE BUSINESS ENVIRONMENT

1. General information

1.1 Geography

Malaysia is strategically located in the heart of South East Asia – consistently one of the world's fastest growing regions during the last few decades. Peninsular Malaysia extends south 800 kilometers from Thailand in the north to Singapore in the south. Sabah and Sarawak, the states of East Malaysia straddle to the northern and western coasts of Borneo.

1.2 History and Government

Malaysia gained independence from Great Britain in 1957 through peaceful negotiations. Malaysia is made up of 13 states and the federal territories of Kuala Lumpur, Labuan and Putrajaya. Nine of the states have sovereign monarchs or Sultans. Every five years, a unique system of rotation allows the nine Sultans to elect a King, the Yang Di-Pertuan Agong, from among them.

Malaysia has practiced democracy as a constitutional monarchy since independence. A federal form of government exists with a bicameral parliament consisting of a Senate and a House of Representatives.

The Barisan National, the ruling coalition representing the multiracial composition of the country, commands a two-thirds majority in Parliament. As such, Malaysia has had a relatively stale government committed to the development of the country.

Vision 2020 is the government's vision for Malaysia to become a fully developed nation by the year 2020 in every sense of the word. It is currently the country's most farsighted global. Malaysia has also crossed the threshold into the Information Age by establishing the Multimedia Super Corridor (MSC) project.

1.3 Population and Language

Malaysia's cosmopolitan population of 23.1 million (as at July 2003) is a unique mix of some of the word's oldest civilizations – the Malay, Chinese and Indian. The population is mainly concentrated in the Klang Valley, where the capital city of Kuala Lumpur is located, and along the west-coast of Peninsular Malaysia.

Bahasa Malaysia or Malay is the national language, but most people have good working knowledge of English. English is also the lingua franca of corporate business in Malaysia. Other major languages spoken include Mandarin, various Chinese dialects and Tamil.

1.4 Currency

The unit of currency in Malaysia is Ringgit Malaysia (RM). The Ringgit is divided into 100 sen.

1.5 Time, Weights and Measures

Time in Malaysia is eight hours ahead of Greenwich Mean Time. The metric system of weights and measures is used in Malaysia.

2.0 Business Entities

2.1 Forms of Business Enterprise

The principal forms of business organization are;

- Public limited liability company;
- Private limited liability company;
- Sole proprietorship;
- Partnership;
- Foreign company;
- Representative office; and
- Sales office

The most common form of organization when setting up a business in Malaysia is the limited liability company. Such limited companies ma be either private (Sendirian Berhad – Sdn Bhd) or public (Berhad – Bhd) companies.

2.1.1 Limited Liability Companies

Limited liability companies are governed mainly by the Malaysian Companies Act, 1965.

The owners' liability for the obligation of the company is limited to the amount paid-up for the shares.

		Private Companies	**Public Companies**
1.	Transfer of shares	Restricted	No restriction
2.	Number of shareholders	Limited to 50	Unlimited
3.	Sources of funds	Private	Private & public
4.	Listing	Prohibited	Approval from the Sec. Commission

The Formation

A name search is conducted and approval is needed for the name. A statutory minimum of 2 members is required. At least two directors must be residents in Malaysia. The shares may be of different classes in respect of voting rights but this information must be stated in the Company's Memorandum and Articles of Association, which sets out the Company's constitution and rules for its management and administration. On the registration of the memorandum, a Certificate of Incorporation will then be issued to the Company.

Licensing Requirements

Manufacturing sector
Any person engaging in any manufacturing activity in Malaysia must obtain a manufacturing license from the Ministry of International Trade and Industry. This applies to manufacturing companies with shareholders' funds of RM 2.5 million and above, or those engaging 75 or more full time employees according to the Industrial Co-ordination Act, 1975.

Banking and related business
Under the Banking and Financial Institutional Act, 1989, licenses to conduct any banking, financial and insurance business are t be obtained from the Ministry of Finance and the central bank, Bank Negara Malaysia.

Oil and gas industry
The Petroleum Development Act, 1974 regulates the petroleum and petrochemical industries. Foreign oil companies wishing to explore, exploit and win any oil and gas contract in Malaysia have to enter into a production sharing contract with Petronas, the national oil corporation. Any person wishing to conduct or carry on any business related to upstream petroleum activities is required to be licensed by Petronas.

2.1.2 Partnership and Sole Proprietorship

The registration of a partnership and sole proprietorship is governed by the Registration of Business Ordinance, 1956 and the Registration of Business Rules, 1957 in West Malaysia and the Federal Territory. This Act is administrated by the Registry of Business (ROB). All business activities in East Malaysia must be registered under the Trade Licensing Ordinance (for Sabah), the Business Names Ordinance (for Sarawak) or under the Companies Act, 1965.

2.1.3 Foreign Company

The operation of a foreign company is governed under the Malaysian Companies Act, 1965. A foreign company must apply for registration to the Companies Commission of Malaysia (formerly known as Registrar of Companies), subject to the approval of the Ministry of Domestic Trade and Consumer Affairs. A foreign company is required to have an agent in Malaysia. The appointed agent is responsible for the performance of all acts to be carried out by the Company under the Companies Act, 1965.

2.1.4 Representative Office

A Representative Office of a foreign corporation needs to obtain approval from the Ministry of International Trade and Industry and can only perform permissible activities for its head office or principal. The Representative Office should be totally funded from sources outside Malaysia.

The Representative Office which is approved by the Ministry of International Trade and Industry is not required to be incorporated or registered under the Malaysia Companies Act, 1965. However, the representative office is not permitted to engage in any trading/business activities, lease warehousing facilities, sign business contacts and participate in the daily management of any of its group subsidiaries, affiliates or branches in Malaysia.

3.0 Labour Relations and Working Conditions

3.1 Availability of Labour

One of Malaysia's key assets is her human resource. Malaysia has a young and reasonably educated work force. Almost 70% of the country's population is below the age of 35 years. The literacy rate is high at 94% and school leavers entering the job market have at least 11 years of basic education.

A large proportion of Malaysia's labour force possesses the basic skills required by industry. There is an increasing supply of professionals, technologists and skilled workers graduating from both local and foreign universities, colleges and technical and industrial training institutions.

The labour market in Malaysia is free and competitive and the employer-employee relationship is generally cordial and harmonious. Labour cost in Malaysia is low in comparison to the industrialized countries. Although labour cost in Malaysia is higher than certain neighbouring countries like Thailand and Indonesia, labour productivity in Malaysia is higher due to education and the greater availability of skilled labour. Labour productivity has grown steadiy at more than 3.3% per annum over the last few years.

3.1.1 Current Trend

In Malaysia, employment of foreign workers is allowed in the construction, plantation, service (domestic servants, hotel industry, trainers, and instructors) and manufacturing sectors. Nationals of Cambodia, India, Indonesia, Kazakhstan, Laos, Myanmar, Nepal, Philippines, Sri Lanka, Thailand, Turkmenistan, Uzbekistan and Vietnam are allowed to be employed.

The immigration Department is the authority for the employment of foreign workers belonging to the skilled, semi-skilled and unskilled categories (i.e. does not include expatriates under the management, professional and technical/supervisory categories).

Approval is based on the merits of each case and subject to conditions that will be determined from time to time. An employer's application to employ foreign workers will only be considered after efforts to find qualified local citizens and permanent residents have failed.

To ensure that foreign labour is employed only when necessary, an annual levy on foreign workers is imposed.

3.2 Labour

The Employment Act, 1955 provides considerable safeguards for the employee in his or her terms of employment as well as in general working conditions. But only certain categories of persons come within the purview of the Act. They are:

- An employee whose monthly wages do not exceed RM1, 500;
- Any employee engaged in manual labour;
- Any employee hired to operate or maintain motorized vehicles for the transport of passengers or goods,
- Any employee who continuously supervises other employees engaged in manual work;
- Any employee who is employed on a Malaysia registered vessel; and
- Domestic servants.

At senior level, the terms of a contract of employment are arrived at by agreement between the individual employee and the employer.

In certain industries, employee relationships (except senior management personnel) are governed by trade union agreements. Collectively agreed terms may be incorporated in an individual's contract of employment by express reference or by implication. This is regulated by the industrial Relations Act, 1967.

The Employee Provident Fund Act, 1991 stipulates a compulsory contribution for employees. Within the provision of the Act, all employers and employees (except foreign workers) must contribute to the EPF at the minimum rate of 12% and 11% of employees' monthly wages respectively.

All foreign workers and expatriates and their employers are exempted from compulsory contributions. They can, however, choose to contribute at RM 5.00 per employee per month and 11% of the employee's monthly wages.

The Human Resources Development Fund (HRDF) operates on the basis of a levy/grant system. Employers who have paid the levy will qualify for training grants from the fund to defray or subsidies training costs for their Malaysian employees.

Manufacturing companies contribute as follows:

Companies that employ 50 or more Malaysian workers	1% of employees' monthly wages
Companies that employ less than 50 to a minimum of 10 employees, with a paid-up capital of RM2.5 million or more	1% of employees' monthly wages
Companies that employ less than 50 to a minimum of 10 employees, with a paid-up capital of less than RM2.5 million. (Note: For this category, the government has approved a subsidy of RM 1 for RM 1 spent on training)	Option of registering with the HRDF and paying a levy of 0.5% of employees' monthly wages

3.3 Working conditions

3.3.1 Wages and salaries

There is no national minimum wage law applicable in Malaysia. Basic wages rates vary according to location and industrial sector. Supplementary benefits which include bonus, free uniforms, free or subsidized transport, performance incentives and other benefits vary from company to company.

The rate for payment of overtime work:

Normal working days	one-and-a-half times the hourly rate of pay
Rest days	two times the hourly rate of pay
Public holidays	Three times the hourly rate of pay

3.3.2 Fringe benefits

Compulsory fringe benefits include employers' contributions to the employees provident fund (currently at 12%), social security organization, maternity benefits of 60 days, insurance coverage of 1.25% of the employee's wages for employees for accidents including travel to and from the place of work, sick pay for a period of 14 days to 22 days based on number of years of service.

In a country of full employment and high mobility of labour, Employee Share Option Schemes (ESOS) have become increasingly popular in Malaysia as a means of motivating staff and in maintaining their loyalty.

3.3.3 Hours of Work and Paid Holidays

An employee cannot be required to work:

- For more than 5 consecutive hours without a rest period of at least 30 minutes;
- For more than 8 hours a day;
- In excess of the spread over a period of 10 hours in a day; or
- For more than 48 hours in one week.

An employee is entitled to be paid annual leave for every 12 months of continuous service with the same employer of:

- 8 days if employed for less than 2 years
- 12 days if employed for 2 years or more but less than 5 years
- 16 days if employed for 5 years or more

An employee is entitles to be paid holiday at least 10 gazetted public holidays in one calendar year and on any day declared as a public holiday under Section 8 of the Holiday Act, 1951.

4.0 Residence and Work Permits

Foreign companies are allowed to bring in expatriate personnel in areas where there is a shortage of trained Malaysians to do the job. In addition, foreign companies are allowed to retain key posts that are permanently filled by foreigners.

For expatriates earning less than RM2, 500 (US$658) per month:

With employment contracts:-
-less than 24 months* : RM1, 200 (US$316) levy per year
-24 months and more* : RM 1, 200 (US$316) levy per year

For expatriates earning RM2, 500 (US$658) and above per month:

With employment contracts:-
-less than 24 months* : RM1, 200 (US$316) levy per year
-24 months and more** : No levy

For employment pass:
-RM 200 (US$53) per year for an expatriate in a management / professional / technical post
-RM 300 (US$79) per year for an expatriate in a key post (a post permanently filled by an expatriate)

* Visit Pass Temporary Employment ** Employment Pass

PART B-FINANCE AND INVESTMENT

1.0 Regulatory Agencies

A foreign investor considering forming a company and investing in Malaysia is required to seek approval for the project from the Ministry of International Trade & Industry (MITI). Application for the establishment of industrial ventures are handled by Malaysian Industrial Development Authority (MIDA), a government body which has been set up to co-ordinate all aspects of country's industrialization programme and also processes applications for manufacturing licenses.

The Foreign Investment Committee (FIC) is responsible for monitoring and ensuring that investment activities are undertaken in line with the objectives of the New Economic Policy (NEP). The objectives of the NEP are to achieve national unity by eradicating poverty and restructuring society to correct economic imbalances. The FIC guidelines apply to various transactions involving foreign interests such as any proposed acquisition by foreign interests of any substantial property, plant and equipment in Malaysia and any proposed acquisition of assets or any interests, or any merger or takeover of companies and businesses in Malaysia by any means which will result in ownership or control passing to foreign interests.

Managerial/Technical Posts for Expatriates

Any company with foreign paid-up capital of USD 2 million will be automatically be allowed ten expatriates' posts including essential posts. Additional expatriate posts will be given when necessary upon requests.

Any company with foreign paid-up capital of less than USD 2 million will be considered for expatriate posts on the basis of the following:-

a) Key posts can be considered where the foreign paid-up capital is at least RM 500,000. However, this is considered as a guideline only and the number of essential posts allowed depends on the merits of each case.

b) For executive posts which require professional qualifications and practical experience, expatriates may be employed up to a maximum period of 10 years subject to the condition that Malaysians are trained eventually to take over the posts.

c) For non-executive posts which require technical skills and experience, expatriates may be employed up to maximum period of 5 years subject to the condition that Malaysians are trained to eventually take over the posts.

1.1 Foreign Investment

In order to attract foreign investors, Malaysia has relaxed some of its long-standing restrictions. It is however the Government's policy to encourage projects to be undertaken on a joint-venture basis. The following guidelines are applicable to new investment, and existing companies which are undertaking expansion and diversification in the manufacturing sector for both local and foreign investors:

a) Investors can now hold 100% equity irrespective of the level of exports.

b) This relaxation is applicable for all application received by 31 December 2003 to set up manufacturing projects with exceptions to paper packaging, plastic packaging, plastic injection moulded components, metal stamping, metal fabrication and electroplating, wire harness, printing and steel service centres for which specific equity guidelines are applicable.

c) All projects approved under this policy will not be required to restructure their equity after the period.

Malaysia has to-date signed Investment Guarantee Agreements (IGAs) with Association of South-East Asian Nations (ASEAN) and Organisation of Islamic Countries (OIC) and 67 other countries. It is a testimony of the Government's desire to increase the confidence of foreign investors in Malaysia. An IGA provides the foreign investors with protection against nationalization and expropriation, free transfers of profits, capital and other fees.

T cater for the needs o f export-oriented industries, export-processing zones known as Free Trade Zones (FTZ) have been developed where customs formalities are reduced to the minimum. Companies in FTZ's are allowed duty free importation of raw materials, components and parts, and machinery directly required in the manufacturing process.

1.2 Patents, Trademarks and Copyrights

Patents, trademarks and copyrights are governed under the Trademark Act, 1976, Patents Act, 1983, and Copyright Act 1987. Applications for trademarks and patents have to be registered with the Minister of Domestic Tarde and Consumer Affairs and be renewed every year.

2.0 Multimedia Super Corridor (MSC) and Knowledge-based Economy

2.1 The Multimedia Super Corridor (MSC) is an expense of 'Green-field Corridor', 15 kilometers wide and 50 kilometers long. It stretches from the Kuala Lumpur City Center ('KLCC') itself down south to the site of the region's largest international airport, the Kuala Lumpur International Airport ('KLIA') in Sepang. MSC is designed to transcend the world's most advance technology zones and to become Asia's premier technology hub for multimedia developers and users.

In its center, two of the world's first Smart Cities are being developed. Putrajaya is the new government's administrative capital of Malaysia where the concept of electronic-government will be introduced. Whereas, Cyberjaya is an intelligent city with multimedia industries, R&D centers, a Multimedia University, and operational headquarters for multinationals wishing to direct their worldwide manufacturing and trading activities through the usage of multimedia technology.

The Multimedia Development Corporation (MDC) envisions a 20-year time-frame for the full implementation and execution of the MSC, when Malaysia will have achieved leadership in the Information Age.

There will be three phases of activities:-

Phase 1 The MDC will successfully create the Multimedia Super Corridor, attract a core group of world-class companies, launch seven flagship applications, put in place a world-leading framework of cyberlaws, and establish Cyberjaya and Putrajaya as world-first intelligent cities.

Phase 2 MSC will link to other cybercities in Malaysia and the world. It will create a web of corridors and establish a second cluster of world-class companies. It will also set global standards in flagship applications, champion cyberlaws within the global society, and establish a number intelligent globally linked cities.

Phase 3 It is expected that Malaysia will be transformed into a knowledge-based society – being a true global test bed for new multimedia and IT applications and a cradle for a record number of multimedia companies. It will have a cluster of intelligent cities linked to the global information super highway, and become the platform for the International Cybercourt of Justice.

The MSC brings together three important elements:-

1. a high-capacity global telecommunications and logistics infrastructure built upon digital optical fibre backbone;

2. new policies and cyber-laws designed to enable and encourage electronic commerce, facilitate the development of multimedia applications, and position Malaysia as the regional leader in intellectual property protection; and

3. an attractive living environment.

The Malaysia Government has targeted seven multimedia applications. These flagship applications are:

- Electronic government
- Tele-medicine
- Smart school
- National multipurpose card
- Research and development
- World-wide manufacturing webs
- Borderless marketing centers

<u>MSC Status Companies</u>

Malaysia offers businesses a unique opportunity through the MSC. Malaysia is pleased to offer MSC status to companies that are prepared to set up operations within the MSC or otherwise contribute significantly and strategically to the MSC's development,

The MSC status would be particularly interesting for Malaysian and international companies that are:

- Developing or utilizing multimedia technologies to provide value
- Considering expansion in the Asian markets
- Prepared to contribute to the creation and development of any the flagship application
- Willing to take advantage of the MSC's high-performance, low-cost infrastructure and ground-breaking cyber-laws.

Companies seeking MSC status will need to fulfill three criteria:

- They must be a provider or heavy user of multimedia products and services
- They must employ a substantial number of knowledge workers
- They should be able to outline how they will transfer technology and/or knowledge to Malaysia, or otherwise contribute to the development of MSC and the Malaysian economy.

Companies with MSC status are entitled to enjoy a set of incentives. For example; pioneer status with tax exemption of 100% of statutory income for a period of 5 years; investment tax allowance of 100%, duty-free importation of multimedia equipment; intellectual property protection and a pioneering and comprehensive framework of cyber-laws; freedom to source capital and borrow funds globally and etc.

2.2 In line with developments in the global environment, Malaysia recognizes the need to transform of the economy to a knowledge-based economy (K-economy) to take advantage of the opportunities created by new information and communications technology. The K-economy presents a strategy to generate and exploit knowledge to create new value in the economy, thereby contributing to increase total factor productivity and raising the long-term growth potential of the economy.

Recognizing the need to overcome the present challenges in making the shift, the government initiated the development of the National K-economy Master Plan. The National K-economy Master Plan will be holistic in approach and will outline the choice of key strategies to transform Malaysia into a highly competitive and resilient economy.

In addition to strategies to ensure the increasing application of knowledge in the production process in all sectors of the existing production-based economy, it will also outline strategies to ensure accelerated development of viable knowledge-empowering and enabling industries as well as high value-added knowledge-intensive industries.

3.0 Banking and Other Means of Finance

3.1 The Banking System

Bank Negara Malaysia ('BNM') is the central bank and is responsible for supervising the banking system. It also issues the Malaysia currency, acts as a banker and financial adviser to the government, administers foreign exchange control regulations, and is lender of last resort to the banking system.

Islamic Banking was established to cater to the needs of the Muslim community in an Islamically acceptable manner via the creation of a comprehensive financial system operating alongside the conventional one serving both Muslims and non-Muslims. One of the differences between Islamic and conventional banking is the prohibition of imposing any form of interest upon its services. Instead, Islamic banking relies primarily on profit-sharing.

The Malaysia government also continue to support the growth of small and medium scale enterprise (SMEs) by providing adequate and easier accessibility to funding sources, especially softer loan conditions with respect to collateral requirement, lower cost of borrowing and more expeditious loan approvals as well as flexible repayments schedules.

3.2 Equity Market

The Malaysian stock market has come a long way since it first traded in the 1970's. The Kuala Lumpur Stock Exchange (KLSE), which was established 1973, is a self-regulating organization that issues listing and disclosure standards required to be maintained by public listed companies and is also responsible for the surveillance of the market place. With effect from 20 April 2004, the stock exchange will be known as Bursa Malaysia (BM). Companies can choose to list their shares on the Main Board, Second Board and the Malaysia Exchange of Securities Dealing & Automation Quotation (MESDAQ) market.

The criteria for listing are:-

Criteria	Main Board	Second Board
Minimum Share Capital	RM 60 million	More than RM 40 million but less than RM 60 million
Profit performance	i) Profit track records of three financial years, with an aggregate after-tax profit of not less than RM30 million, the minimum after tax profit for the most recent year should be RM8 million; ***OR*** ii) Profit track records of five financial years, with an aggregate after-tax profit of not less than RM30 million, the minimum after tax profit for the most recent year should be RM8 million.	i) Profit track records of three financial years, with an aggregate after-tax profit of not less than RM12 million, the minimum after tax profit for the most recent year should be RM4 million; ***OR*** ii) Profit track records of five financial years, with an aggregate after-tax profit of not less than RM12 million, the minimum after tax profit

		for the most recent year should be RM4million
Public Shareholding	At least 25%	At least 25% but not more than 50%

The MESDAQ market is operates as a unique market with a separate identity from the MESB main and second Boards, catering specially for the capital raising needs of technology and high-growth potential companies.

There are twelve priority technology areas for the listing of technology companies on MESDAQ. The areas are:

- Advanced electronics and information technology;
- Telecommunication;
- Equipment instrumentation, automation and flexible manufacturing systems;
- Biotechnology, bioconversion and genetic engineering;
- Healthcare;
- Electro-optics, non-linear optics and optoelectronics;
- Advanced materials;
- Energy;
- Aerospace;
- Transportation;
- Emerging technologies and
- Services.

There will be less stringent company admission requirements. Some of the criteria are the issued and paid-up capital upon listing on the MESDAQ market should not be less than RM2 million.

With effect from 2 September 1997, public companies were allowed to buy back their own shares under the amended Section 67A of the Companies Act, 1965. The move is designed to enable companies to exert some control over their share prices, return surplus cash to shareholders, strengthen the net asset value of the shares and prevent or inhibit potential takeover bids. However, this is subject to various regulations under the Security Industry Act, 1983, the Securities Commission Act, 1993, the Takeover Panel Code and the guidelines of the Securities Commission and the BM. The companies intending to buy back their shares have to be solvent.

It is BM’s aspiration to become a world class stock exchange offering unique investment opportunities in a fast developing capital market within the industrializing Malaysia economy.

In September 2003, the Securities Commission announces that foreign incorporated companies with Malaysian operations would also be allowed to list their shares on the BM.

The Malaysia Derivates Exchange Berhad (MDEX) uperates under the supervision of the Securities Commission and is governed by the Futures Industries Act (FIA) 1993. MDEX will continually strive provide safe and effective risk management tools to both commodity and financial commodities.

4.0 Accounting and Audit Requirements

4.1 Statutory Requirements

The financial statements of a limited liability company must be audited at least once a year by an approved company auditor. The company's directors have a duty to prepare its financial statements. An appointed auditor must prepare an audit report on the financial statements for the shareholders of the company.

Accounting and audit requirements set out in the Companies Act, 1965. The accounting standards are set by the Malaysian Accounting Standards Board (MASB).

4.2 Financial Statements and Directors' Reports

In every calendar year, a company shall lay at its annual general meeting

- The audited income statement;
- The audited balance sheet; and
- The directors' report on the state of affairs of the company.

In addition, copies of the audited financial statements together with the auditors' report must be sent to all shareholders of the company not less than 21 days before the date of the annual general meeting.

4.3 MASB Standards

In Malaysia, directors are required to prepare financial statements that give a true and fair view of the state of affairs of the company (and where applicable the group) at the end of the financial year and of the profit and loss and cash flows of the company (or the group) for the financial year. According to Section 166A of the Companies Act 1965, approved accounting standards are to be applied in rlation to any published financial statements of the commercial, industrial or business enterprises in Malaysia and of overseas subsidiaries and associated corporations where those financial statements are to be incorporated in consolidated financial statements in Malaysia. For the purpose of both the Companies Act 1965 and the Financial Reporting Act 1997, MASB Standards issued, International Accounting Standards (IASs) and Malaysia Accounting Standards (MASs) adopted by the Malaysian Accounting Standards Board are "approved accounting standards". With the publication in the Gazette of the Financial Reporting (Publication of Approved Accounting Standards) Regulations

1999, the legal status of MASB's approved accounting standards, pursuant to the Act, has been further clarified. Hence, compliance with these approved accounting standards is mandatory and legally enforceable.

4.4 Key Aspects of Malaysia Accounting Practice

Fundamental Accounting Assumptions in Malaysia follows the fundamental accounting assumptions set by the International Financial Reporting Standards Board (Formerly known as International Accounting Standards Board) which are as follows:

a) Going concern
b) Consistency
c) Accrual

Group Accounting A parent company must consolidate all subsidiaries, foreign and control is intended to be temporary or where it operates under severe long-term restrictions which significantly impair its ability to transfer funds to the parent. There are two methods of group accounting i.e. merger accounting and acquisition accounting.

Inventories are stated at the lower of cost and net realizable value determined on the first-in-first-out or weighted average basis. Cost of raw materials comprises the original cost of purchases plus the cost of bringing the inventories to their present condition and location.

Foreign Currency Transaction in foreign currencies are converted into Malaysian Ringgit at rates of exchange ruling on transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Malaysian Ringgit at the approximate rates of exchange at that date. Gains or losses on foreign exchange are taken up in the income statement.

Deferred Taxation Deferred tax assets and liabilities are provided for under the liability method at the current tax rate in respect of all temporary difference between carrying amount of an asset or liability in the balance sheet and its tax base including unused tax losses and capital allowance.

A deferred tax asset is recognised only to the extent that is probable that taxable profits will be available against the deductible temporary difference can be utilized. The carrying amount of a deferred tax asset is reviewed at each balance sheet date. If it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized, the carrying amount of the deferred tax asset will be reduced accordingly. When it becomes probable that sufficient taxable profit will be available, such reduction will be reversed to the extent of the taxable profit.

Hire-Purchase Assets financed by hire-purchase arrangements are capitalized ad property, plant and equipment and the corresponding obligations are treated as liabilities. Finance charges are allocated to the income statement over the period of the agreements to give a constant periodic rate of charge on the remaining hire-purchase liabilities.

Lease Contracts The classification of leases adopted is based on the extent to which risks and rewards incidental to the ownership of a leased asset lie with the lessor or the lessee. A lease is classified as an operating lease if substantially all the risks and rewards incidental to ownership are not transferred. A finance lease is otherwise.

Property, plant and equipment may be revalued upwards. However, the entire class of property, plant and equipment to which that asset belongs should be revalued as well. When the value is increased, it should be credited to equity under revaluation surplus. A revaluation decrease should be charged directly against any related revaluation surplus in respect of that same asset. In all other cases, a decrease is recognized as an expense.

Construction Contract When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract should be recognized as revenue and expenses respectively by reference to the state of completion of the contract. When the outcome of a construction contract cannot be estimated reliably, revenue should be recognized only to the extent of contract cost incurred.

4.5 Books and Records

Every company must keep such accounting and other records that will

- Sufficiently explain the transaction and the financial position of the company
- Enable a true and fair view of the income statement, balance sheet and any documents required to be attached thereto to be prepared from time to time.

The financial statements must be recorded and kept:

- In such a manner as to enable them to be conveniently and properly audited
- Within 60 days of the completion of transaction to which they relate
- For 7 years after the completion of the related transactions or operations; and
- At the registered office, or at such other place in Malaysia as the directors think fit.

All amounts shown in the financial statements must be expressed in Malaysian currency. The corresponding amount for the prior year must shown. The financial statements shall include a statement of accounting policies adopted by the company.

5.0 Exchange Control

With the return of stability of the financial markets, Malaysia's selective exchange control measures introduced since 1 September 1998 have been progressively relaxed to enhance their effectiveness and to ensure efficient implementation.

The main exchange control requirements in place now are as follows:-

1. <u>Current Account Transactions</u>

   a) Payment for Import of Goods and Services

      There are no restrictions on payments, irrespective of amount, to non-residents for import of goods and services. However, such payments are required to be made in foreign currency.

   b) Export Proceeds

      All export proceeds are required to be repatriated back to Malaysia in accordance with the payment schedule as specified in the sales contract, which in any case should not exceed six months from the date of export.

   c) Import and Export of Currency by Travelers

      All traders are required to complete Travelers' Declaration Form ("TDF") at the immigration check-point upon their exit or arrival at Malaysia only if the amount of currency notes including traveler's cheques being carried exceeds the permissible limits. Residents and non-resident travelers are allowed to bring into Malaysia any amount of foreign currency notes, including traveler's cheque.

2. <u>Capital Account Transaction</u>

   a) Foreign Direct Investment

      Foreign direct investors are freely allowed to repatriate their investments, including capital, profits, dividends and interest.

b) Investment Abroad by Residents

Residents are required to seek prior approval from the Controller to remit funds in excess of RM 10,000 for overseas investment.

MSC status companies will continue to be exempted from all exchange control rules to meet their own requirements.

PART C – THE TAX SYSTEM

1.0 Tax Structure

The tax structure in Malaysia can be classified into two categories i.e. direct taxes and indirect taxes. Direct taxes are administered by the Inland Revenue Board (IRB) whereas the indirect taxes are administered by the Royal Customs & Excise Department. The law governing income tax is the Income Tax Act 1967.

The following is a summary of these two taxes:

Direct Taxes	**Indirect Taxes**
Income Tax	Sales Tax
Real Property Gains Tax	Service Tax
Stamp duty	Customs Duty
	Excise Duty
	Import Duty

There are 6 classes of income which is subject to income tax:

I. business;
II. employment;
III. dividends, interest or discounts;
IV. pensions, annuities or other periodical payments;
V. rents, royalties or premiums; and
VI. other gains or profits of an income nature not mention above.

Malaysia operates an imputation system of taxation. Under this system, the income tax paid by a company resident in Malaysia on its profit is fully passed on or imputed to the shareholders when a dividend is paid.

Malaysia's principal tax incentives for the manufacturing, agriculture and tourism sectors are contained in the Promotion of Investment Act 1986 and the Income Tax Act 1967. They include the Pioneer Status, Investment Tax Allowance or Reinvestment Allowance. Pioneer Status and Investment Tax Allowance grant relief from income tax and are provided to companies participating in a promoted activity or producing a promoted product. Reinvestment Allowance provides relief for reinvestment on qualifying capital expenditure incurred on expansion, modernization, automation or diversification. Other incentives in the form of double tax deductions are also provided to encourage exports, R & D and training.

A resident company other than a company carrying on business of banking, insurance, shipping and air transport, will not be taxed on income arising from sources outside Malaysia and received in Malaysia.

For non-residents, income arising from sources outside Malaysia but received in Malaysia is exempted from tax.

Malaysia has signed a total of 55 double taxation agreements with various countries. The treaty agreements aim to alleviate either wholly or partly, the burden of double taxation on the same income that are derived in one country and remitted to another country.

2.0 Basis of taxation

Malaysia has shifted from the preceding basis to the current year basis of taxation with effect from the year 2000. With the change, the taxation period and the year of assessment would be the same calendar year. However, for companies, the taxation period for a year of assessment (except the cases where the accounts are prepared for less than twelve months) is usually the financial year of the company.

Companies came under the self-assessment system of taxation with effect from the year 2001. The self-assessment system for salaried individuals, businesses, partnerships, trust bodies and co-operative societies will be implemented in the year 2004. Under the self-assessment regime, the responsibility of computing the tax liability is shifted from the IRB to the taxpayer and accordingly the taxpayer is expected to submit tax return and compute the tax liability based on the tax laws, guidelines and regulations issued by the IRB.

Under the self-assessment system, it is a statutory requirement for companies, trust bodies and co-operatives societies to notify its estimate of tax payable for a year of assessment to the IRB in advance and settle the estimated tax payable in twelve equal monthly installments payable by the tenth day of each month. The first installment is due and payable by the tenth day of the second month financial year. Where a company, trust body and co-operatives society first commences operation in a year of assessment, the estimate of tax payable for that year of assessment should be made known to the IRB within three months from the date of commencement of operation. The installment payments will commence from the sixth month of that year of assessment. Any installments not paid within the stipulated time are liable to a ten percent penalty.

Notwithstanding the above, a company, trust body or co-operative society is required to submit tax return within seven months from the financial year end. No notice of assessment will be issued as the tax return is a deemed notice of assessment. The balance of tax payable after taken into account the installment payments for that year of assessment must be paid by the last day of seventh month from the financial year end as penalties will be imposed for late payment. A 10% penalty is imposed on any tax not paid on due date and an additional 5% penalty if such tax is still not paid within the next 60 days.

In the case of an individual however, the tax return has to be submitted to the IRB by 30 April in the year following the year of assessment. Since the return submitted is a deemed noticed of assessment, the balance of tax payable must be paid by 30 April failing which a 10% penalty will be imposed with a further 5% penalty if such tax is not paid within the next 60 days.

3.0 Tax Filing Requirements

Every company, private or public, resident or non-resident, carrying on a business in Malaysia must file an annual return of income if it is chargeable to tax. A copy of the audited financial statements of accounts must accompany the annual return.

PART D – TAXES ON BUSINESS

1.0 Corporate Tax System

A company is resident in Malaysia if its control and management is exercised in Malaysia. The place of incorporation is of no relevance. Control and management is normally considered to be exercised at the place where the directors hold their meeting. Resident and non-resident companies will be taxed at 28%.

1.1 Deductions

Deductions are allowed for all expenditure incurred wholly and exclusively in the production of income. Expenses which qualify for deductions are that expenditure which is revenue in nature. Capital expenditure does not rank for deduction.

1.2 Losses

Business losses are deductible against income from all sources in the current year whereas brought forward losses are deductible against income from business sources only.

1.4 Depreciation

Depreciation charged in the financial statements is not recognized but instead, reliefs for capital expenditure in the form of capital allowances are given as deductions.

Capital allowances are deductible against income from business sources and are divided into four broad categories:

a) Capital allowances on plant and machinery
b) Industrial building allowance
c) Agriculture allowance
d) Forest allowance

For plant and machinery an initial allowance of 20% is given in the year the qualifying capital expenditure is incurred. Except for assets for which Special Rules apply, the rates for annual allowance on plant and machinery are categorized into 3 main categories:-

Heavy machinery & motor vehicles	20%
General plant & equipment	14%
Others	10%

The rates of capital allowances for other qualifying expenditure are as follows:-

	Initial allowance	Annual allowance
Industrial building	10%	3%
Qualifying agricultural expenditure	-	10%-50%
Forest allowance	-	10%-20%
Computer and IT equipment	20%	40%
Environment control equipment	20%	20%

2.0 Operational Headquarters (OHQ)

Special tax incentives are granted for the establishment of an OHQ in Malaysia by multinational companies (MNC) for managing and providing certain services to its offices or its related companies outside Malaysia. These services include management and administrative services, treasury and fund management services, financial advisory services, R&D, training and personnel management.

An approved OHQ is granted full tax exemption for ten years on statutory income arising from qualifying services provided to its related companies overseas. Dividends paid out from tax exempt income are exempted from tax in the hands of the shareholders. This would mean that business income arising from the provision of qualifying services by an OHQ or interest on foreign currency loans extended by an OHQ or royalties received from research and development work carried out in Malaysia by an OHQ to or on behalf of its offices or related companies outside Malaysia will be exempted from income tax for ten years.

It has been proposed in the 2004 Budget, effective from year of assessment 2003 that income arising from qualifying services provided to its related companies in Malaysia will also be given tax exemption provided such income does not exceed 20% of the OHQ income from qualifying services is subject to income tax. Prior to the proposed amendment, income from such services provided to its related companies in Malaysia is subject to income tax.

OHQ can also freely obtain credit facilities in foreign currency for its treasury and fund management operations, as well as open foreign currency accounts to retain export proceeds and other receivables.

Locally incorporated companies, Malaysia or foreign-owned, which have a sizeable network of companies outside Malaysia can apply for OHQ status.

3.0 International Offshore Financial Centre

Labuan was established on December 1, 1990 as an international offshore financial center to promote the development of offshore activities such as trust and fund management, banking, insurance, investment holding and petroleum operations. A company may elect for the tax to be fixed at RM20,000 or a tax rate of 3% on the net profit. Depending on the types of activity carried out, certain income is also exempted from Malaysia tax.

4.0 International Procurement Centre (IPC)

Presently, a large number of multinational companies undertake procurement and sale of raw materials, components and finished products for its group of companies in Malaysia and abroad. Locally incorporated companies can apply for IPC status, which allows benefits such as exemption from current regulations on foreign equity ownership in wholesale and retail trade, and permission to open foreign currency accounts to retain export proceeds, approval for expatriate posts based on IPC's requirements and custom's duty exemption upon importing raw materials, components or finished products.

5.0 Partnership and Joint Ventures

No assessment is raised on the partnership but each individual partner is assessed on his share of the partnership income. No deductions are allowed for partners' wages, interest payable on partner's capital and private expenses charged to the partnership accounts.

6.0 Indirect Taxes

6.1 Sales Tax

This is an ad valorem single stage tax imposed at the import and manufacturing levels. Manufacturers are required to be licensed under the Sales Tax Act 1972. However, manufacturers whose annual sales turnover do not exceed RM100, 000 in the preceding year and is not expected to exceed RM 100,000 during the next 12 months are exempted from licensing.

The tax rate ranges 5% to 25% based on classes of goods. The general rate for sales tax is 10%. However, raw materials and machinery for use in the manufacture of taxable goods are normally exempted from the tax. Certain primary commodities, basic foodstuff, basic foodstuff, basic building materials, certain agricultural implements and heavy machinery for use in the construction industry, certain tourism and sport goods, books, newspapers and reading material are also exempted.

6.2 Service Tax

This tax is imposed on any taxable services provided by nay taxable person. The taxable services would include the provision of food, drinks and tobacco, provision of rooms for lodging, provision of premises for meetings, conventions, and cultural and fashion shows; health services, legal, professional, accounting, advertising and other consultancy firms. Generally, the imposition of service tax is subject to a specific threshold based on annual turnover ranging from RM 150,000 to RM 300,000 at the rate of 5%.

Management service provided by a company to companies within the same group is exempted from the service tax. Courier services provided from a point within Malaysia to a destination outside Malaysia will also be exempted from the service tax of 5%.

6.3 Excise Duty

Excise duties are levied on selected products manufactured locally, namely, colour televisions, refrigerators, cigarettes, liquors, air-conditioners, playing card, manjong tiles, petrol, diesel and motor vehicle. The goods are listed under the Excise Duty Order, 1991.

Companies with Licensed Manufacturing Warehouse (LMW) status that manufacture goods subject to excise duty are exempted from licensed under the Excise Duty Act, 1976.

6.4 Import Duty

Import duties are levied on a large number of imports and are imposed either at an ad-valorem or specific rates. The ad-valorem rates of import duties vary from 2% to 300%. For computation of import duties, the value of goods is determined in accordance with the World Trade Organization (WTO) principles of customs valuation. Over the last few years, import duties on a wide range of raw materials, components and machinery have been abolished or reduced.

Under the ASEAN Common Effective Preferential Tariffs (CEPT) programme under import duties imposed on most goods from ASEAN countries will be reduced to 0% to 5% by the year 2003.

Malaysia has progressively transferred 10,116 products into the Inclusion List under ASEAN Free Trade Area (AFTA) since 1993. These products constitute 97% of Malaysia’s total tariff lines of which:

- 99.26% have import duties of not more than 5%
- 60.3% of these products attract no import duties; and
- 0.74% have specific duties and will be reduced to 0% to 5% in 2010

The average Malaysia AFTA rate was reduced from 2.7% in 2001 to 1.9% in 2003. Therefore, the consumers in ASEAN are now offered a wider variety of quality goods produced regionally at lower prices and the local investors can enjoy economies of scale in production.

6.5 Export Duty

This is an ad-valorem duty levied on depleting resources and certain commodities such as crude oil, rubber, pepper, palm oil, tin, etc. With the exception of crude petroleum, which is subject to a flat rate of 10%, the duties are levied on sliding scale based on cost plus concept. Thus no export duties are collected when the prices of commodities fall below a threshold price which reflects the cost of production of each of the commodities.

MISCELLANEOUS TAXES

1) Quit Rent and Assessments on Property

The above is imposed by the State Governments and Local Authorities and may from the State to State. Quit rent is a charge on land and calculated with reference to the location and usage of the Land. Assessments are rates paid to meet the costs of local services and calculated based on the annual value of the property.

2) Road Tax

A road tax is imposed on every motor vehicle on an annual basis. The rate is dependent on the engine capacity of the vehicle, the status of the vehicle, the usage and whether it is petrol or diesel powered.

3) Entertainment Duty

This is a duty on public entertainment and the rate varies with the type of entertainment and the price of admission.

PART E – TAXES ON INDIVIDUALS

1.0 Taxation of Individuals

An individual's residence status determines his income tax rate, personal reliefs and exemptions from tax on external income remittances. In general, an individual is resident if his stay in Malaysia is for 182 days or more in a basis year.

Malaysia has changed its income tax system from Preceding Year Basis to Current Year Basis effective from Year of Assessment 2000.

All individuals are liable to tax on income accrued in and derived from Malaysia.

A resident individual is taxed on his chargeable income at graduated rates from 0% to 28% after the deduction of personal reliefs. A non-resident individual is liable to tax at the flat rate of 28% and he is not entitled to any personal reliefs. However, certain types of income received by non-resident individuals are subject to withholding tax at 10% to 15% which is a final tax. A non-resident employee is exempt from tax on his employment income derived from Malaysia if he is in Malaysia for a period not exceeding 60 days in a calendar year. This exemption is not extended to employment exercised by a public entertainer.

Effective from the YA 2004, income remitted to Malaysia by a resident is exempted for taxation.

1.1 Tax Computation

The chargeable income of a resident individual is arrived at by deducting from his total income the following personal reliefs:

Types of Relief

Personal	8,000
Wife	3,000
Medical expense for parents	5,000
Medical expense for taxpayer, spouse or children on serious diseases	5,000
Disabled wife	3,500
Disabled person	6,000
Unmarried children below the age of 18	1,000
Contribution to approved pension funds and life insurance	6,000
Contribution to medical and educational insurance	3,000
Children above the age of 18 studying in institutional of higher education	
-local	4,000
-overseas	1,000

1.2 Tax Rebate

Tax liability of a resident individual whose chargeable income does not exceed RM35, 000 is given a tax rebate of RM350. A rebate of RM500 is granted for the purchase of personal computer per family. No rebate will be given for the next four successive years.

1.3 Real Property Gains Tax

Real property gains tax is charged on arising from the disposal of real properties and shares in real property companies. The tax rates are as follows:-

Disposals After the Date of Acquisition	**Rate (%)**	
	By a Company	**By Individual**
Within two years	30	30
In the third year	20	20
In the fourth year	15	15
In the fifth year	5	5
In the sixth year and thereafter	5	Nil

An individual will be given an exemption equal to RM 5, 000 or 10% of chargeable gain whichever is greater. An individual who is a citizen or a permanent resident enjoys a one-time tax exemption on the gains arising from the disposal of his private residence.

For non-permanent residents, tax is levied at a flat rate of 30% for disposal within 5 years after the date of acquisition. For disposal in the 6Th year and after the date of acquisition, the rate is 5%.

The RPGT return must be submitted to the Tax Authorities within one month from the date of disposal.

The Government has also exempted the real property gains tax for disposal of property by individual and company for the period from 1 June 2003 to 31 May 2004.

PART F – LIVING IN MALAYSIA

1.0 An Unsurpassed Lifestyle

Malaysia is among the most friendly and hospitable place in the world to work and live in. Expatriates and their families will enjoy a safe and comfortable living environment with 21st century amenities, good healthcare and medical facilities, excellent educational institutions, and world-class recreational and sports facilities,- at costs much lower than most of their own countries.

Life in Malaysia is an adventure. Her year-long warm and sunny climate, allows for an unsurpassed lifestyle, especially for people who love the outdoors. Malaysia's national parks, jungles untouched by man, provide endless adventure with their magnificent rivers and towering mountains – the most famous being Mount Kinabalu, one of the largest mountain in South-East Asia. Island gateways and crystal-clear waters are ideal for snorkeling and scuba diving, while cool hills resorts provide a quiet retreat for those who want a short respite from the busy city.

2.0 Comfortable Housing

There is a wide selection of comfortable housing in Malaysia. According to a survey on expatriate living costs by the Malaysian International Chambers of Commerce & Industry, monthly rentals for accommodation in Petaling Jaya, a satellite town outside Kuala Lumpur, to RM 15, 000 (USD 3,950) for luxury bungalow in the post neighborhood of Damansara Heights, nearer to the city.

Disclaimer Notices

This guide is designed to give an understanding into doing business in Malaysia together with relevant background information.

It does not cover the subject in detail but is intended to answer some of the important questions that may arise. It will often be necessary to refer to the laws and regulations of Malaysia and to obtain appropriate accounting and legal advice when specific problems occur in practice.

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