

Deloitte Tax Challenge 2013

Team category – Final stage case study

Background

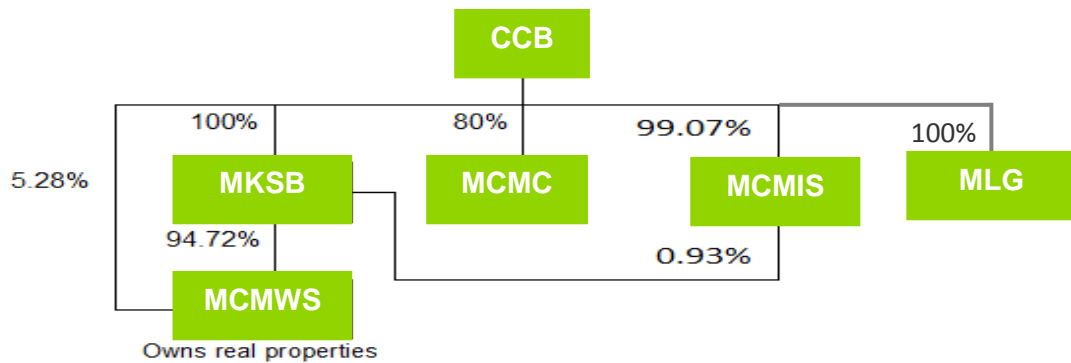
1. C&C Berhad (“CCB”) is a public limited liability company, incorporated and domiciled in Malaysia and is listed on the Main Market of Bursa Malaysia. CCB is principally engaged in investment holding and provision of management services to subsidiaries in the business of manufacturing and marketing of fertilisers, chemicals and pharmaceuticals products.
2. CCB directly owns shares in the following companies:

Name of company	Ownership percentage	Principal business activity
MKSB	100%	Marketing of chemical products
MCMC	80%	Manufacturing and marketing of coagulant products
MCMIS	99.07%	Manufacturing and trading of polymers
MLG	100%	Labuan company - dormant

3. CCB has made substantial investment into MKSB, MCMC, MCMIS and MLG as follows:

Source of fund	Application of fund	Amount RM	Annual interest expense RM
Loan proceeds from bank	Share investment in MKSB	100m	2.5m
	Share investment in MCMC	200m	5.0m
Proceed from issuance of shares	Share investment in MCMIS	10m	-
	Share investment in MLG	5m	-
Total		315m	7.5m

4. The current corporate structure is depicted as follows:



5. MKSB has interest expense of RM1.444 million attributable to the share investment in MCMWS.

6. MCMWS owns the following real property:

Description of property	Date of acquisition	Market value RM'000	Net book value RM'000
Industrial land	07/08/2006	13,800	12,200
	Total	13,800	12,200

Section 108 balance, cash and retained earnings of MCMWS to date are as follows:

	Section 108 RM'000	Cash at bank RM'000	Retained loss RM'000
MCMWS	1,500	5,500	500

7. MCMC was incorporated on 30 June 1987 and is a controlled company since the date of incorporation. CCB acquired 80% shares in MCMC in 1987 (more than five years). Based on the audited financial statements, no new shares were issued by MCMC for the past 5 years.

MCMC acquired its one and only piece of real property (i.e. land in Pasir Gudang, Johor) on 10 November 1992 for the construction of a factory building.

The market value of the long leasehold land and leasehold buildings was RM5.681 million and RM16.145 million respectively in year 1992. These are the only real properties owned by MCMC throughout the years.

The financial position of MCMC as at 31 December 1992 is as follows:

Land and building	21.8m
Inventories	15.0m
Cash at bank	2.0m
Total tangible assets	38.8m

Section 108 balance, cash and retained earnings of MCMC as at to date are as follows:

	Section 108	Cash at bank	Retained profit
	RM'000	RM'000	RM'000
MCMC	3,500	10,500	80,500

Some of the financial information applicable to MCMC are as follows:

	MCMC RM'000
Total issued share capital @ RM1 each	20,000
Profit after tax	20,137
Shareholders' fund	140,830

PE multiple = 5

MCMC is poised to invest an additional capital expenditure of RM1 billion in 2014 to expand its existing plant in Kelantan and 100% of the additional produce will be exported overseas.

- MCMIS was incorporated on 17 October 1995. It is a controlled company as the shares were wholly owned by CCB since the date of incorporation. The shares in MCMIS were acquired by CCB in 5 tranches over the years spanning 1995 to 2001. The latest share tranche was purchased in 2011.

MCMIS had never acquired any real properties and only acquired shares in DES and IES.

Both DES and IES have also never acquired any real properties nor shares in a real property company.

MCMIS have the following unabsorbed business loss and unabsorbed capital allowance based on the tax computation for YA 2012:

Name of company	CCB direct ownership (prior restructure)	CCB direct ownership (after restructure)	Unabsorbed business loss c/f to YA2013 RM'm	Unabsorbed capital allowance c/f to YA2013 RM'm
MCMIS	99%	-	3.2	4.6

Some of the financial information applicable to MCMIS are as follows:

	MCMIS RM'000
Total issued share capital @ RM1 each	128,959
Profit after tax	15,202
Shareholders' fund	131,838

PE multiple = 5

MCMIS is projected to have annual profit of RM7 million from manufacturing and trading of polymers and chemical products.

9. MLG is a Labuan company incorporated in 2010 and has remained dormant. MLG has the intention to activate the company.
10. CCB has the intention to undertake the following corporate restructuring exercise for its business:
 - a) CCB intends to sell its entire shares owned in MCMC and MCMIS to MKSB in return for shares in MKSB for a consideration of RM46 million and RM121 million respectively; and
 - b) MCMWS has an option to transfer all its real properties at net book value of RM12.2 million or market value of RM13.8 million to CCB in order to set off the amount owing by MCMWS to CCB of RM9.6 million.
 - c) CCB intends to embark on a new business dealing with international trading in petroleum related products which is likely to be profitable. All the purchases and sales will be transacted with foreign entities in foreign currencies.
 - d) CCB also plans to undertake an aquaculture business which has an investment cost of RM5 million.

