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DID YOU PLANT THESE BEAUTIFUL FLOWERS?

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This case was written by Muzainah Mansor and Noraza Mat Udin, Universiti Utara Malaysia. It is intended to be used as the basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation.

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Introduction

On a rainy day in July 2011, Siti, an audit officer at the Inland Revenue Board of Malaysia (IRBM) was in her office trying to analyse the findings from the tax audit that she recently conducted on a company. The company, Classic Japan (M) Sdn Bhd (CJSB), was involved in the business of collecting, processing and selling fresh flowers. Siti was not satisfied with the claims made by CJSB for export tax incentive and industrial building allowance. She doubt the company's eligibility to claim the two (2) incentives.

On the first day of office after the tax audit week, her Head of Department invited her for a chat over lunch. The Head of Department said, "Siti, what do you think about the incentives claimed by CJSB?. Figures do not lie and the company's business activities are clear. Go and check what's happening, I think something is not right somewhere. Your mission is to submit a thorough audit report to me within this week before it's too late!"

Back at the office, Siti reviewed the financial statements (Exhibit 1) she obtained from CJSB and pondered the way forward to make the audit report to her Head of Department.

Background of Classic Japan (M) Sdn Bhd (CJSB)

CJSB, located in Ipoh, Perak, was established since 2006. The company sold fresh flowers from the species of *Hypericum* and *Chrysanthemum* to its holding company in Japan. All the flowers were planted on the land of the contract flower growers who were the suppliers of the fresh flowers to CJSB. The contract growers were the freehold growers who had contracts binding with CJSB to supply the fresh flowers only to CJSB under certain specifications which had been determined by CJSB. During the year 2007 to 2010, CJSB had seven contract flower growers in Cameron Highlands which were Great Land Talent Sdn Bhd, Bertam Farm Sdn Bhd, C.H. Spring Flowers United Sdn Bhd, YL Flora, Mung Seng Nursery, Kayangan Flora and Ng Farm.

CJSB stated that the four seasons in Japan were not suitable to plant flowers. Thus, the company used the services from the contract flower growers for three (3) main reasons: (i) Cameron Highlands had the suitable climate for planting flowers. Due to the limited land, CJSB had established relationships with the contract growers who were the proprietors of the land in Cameron Highland that planted a particular crop. In this way, CJSB did not have to go through the process of getting the authorisation from the local authorities to get the Temporary Occupation License and this could save the costs of CJSB. (ii) The use of contract growers prevented CJSB from employing foreign workers to do plant work as these foreign workers worked with contract growers, therefore CJSB did not have to manage foreign workers in relation to immigration, and other matters related to foreign workers. (iii) In this way, the contract growers, not CJSB, recruit and train the foreign workers. This was cost-effective and CJSB could focus on providing the necessary assistance and consultancy services to contract growers.

CJSB's Business Operation

CJSB had built its factory in 2006 on a land which was rented from Seng Heng Horticulture Sdn Bhd and was situated in Cameron Highlands, Pahang. Based on CJSB's audited account, CJSB's business activities involved trading of fresh flowers. CJSB used its factory to perform its exporting business activities. The factory was for processing and keeping the fresh flowers to fulfill the standard and quality for exporting purposes. Upon receiving the flowers from the contract growers, the

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