

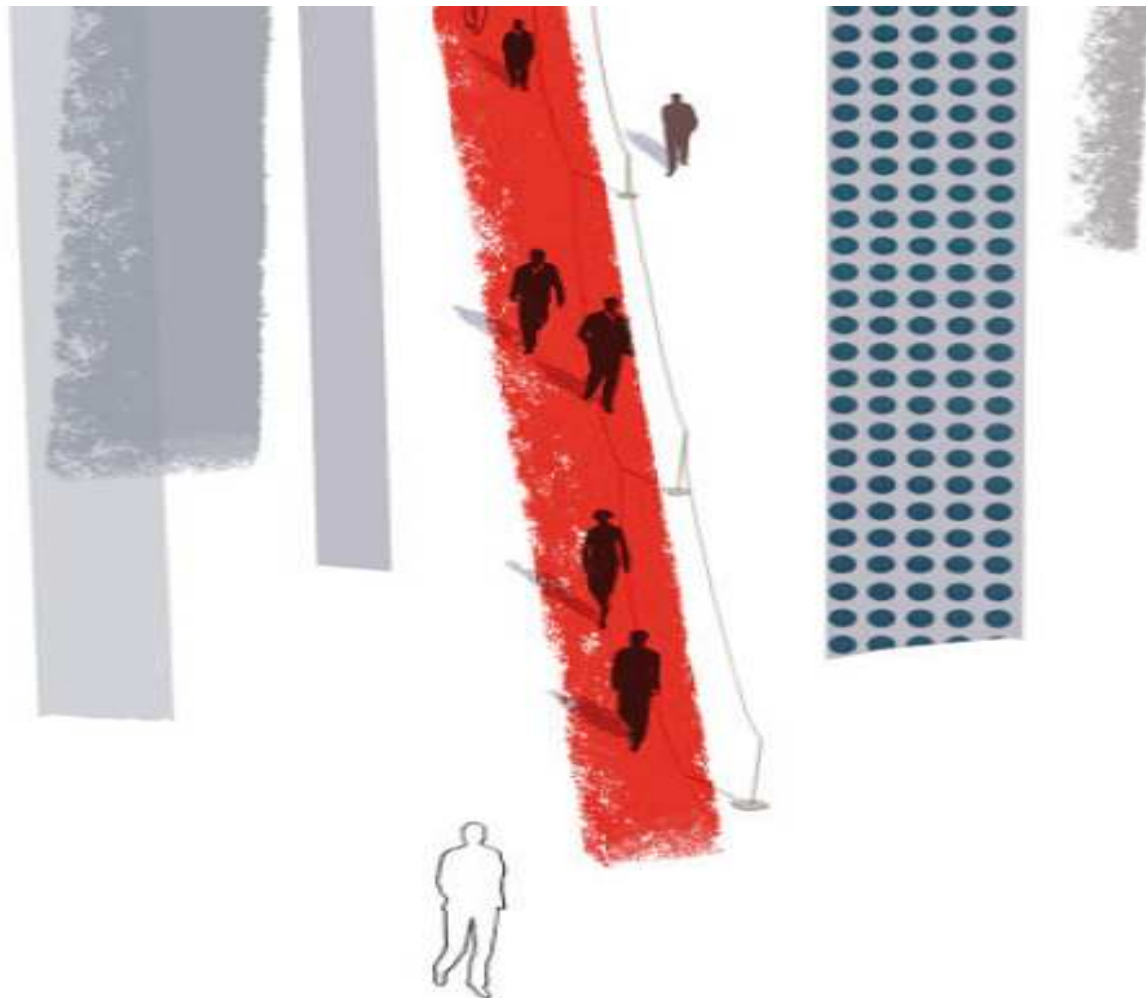


Grant Thornton

An instinct for growth™

Doing Business in Vietnam - 2012

Practical Advice for Investors



Welcome

Vietnam is a unique country providing extensive opportunities for those willing to spend time to understand the market. Although not without its problems, Vietnam's economy continues to expand and modernise, and with the opening up of previously restricted industries and sectors, to meet their WTO commitments, more opportunities continue to develop.

Grant Thornton Vietnam has prepared this guide to assist those interested in doing business in Vietnam. This guide does not cover the subject exhaustively. However, it is intended to answer some of the more important broad generic questions that may arise. When specific problems occur in practice, it will often be necessary to refer to the laws and regulations of Vietnam and to obtain the appropriate professional advice. This guide contains only brief notes and includes legislation in force as of 20 February 2012.

We hope this guide helps you in learning about and understanding business in Vietnam. Should you require professional assistance we will be only too willing to meet you to see if we can help.



Vietnam and growth opportunities

Consistently one of the world's fastest growing economies over the past 10 years, Vietnam had an impressive growth of 5.89% in 2011.

Ken Atkinson

Managing Partner - Grant Thornton Vietnam

Contents

Contents

- 2 Country overview
- 3 About Grant Thornton
- 4 Country profile
- 8 Business etiquette and travel
- 11 Key trends and statistics
- 15 Regulatory environment
- 18 Establishing a business in Vietnam
- 20 Opening up to Foreign Investment
- 21 Taxation
- 33 Labour
- 35 Banking and Capital Markets
- 38 Financial Reporting and Auditing
- 40 Grant Thornton in Vietnam
- 42 Contacts

Country overview

Geography

- Located in South East Asia
- Landmass of 331,210 km²
- Land borders with China, Laos and Cambodia

Government

- Capital: Hanoi
- Country led by the Communist Party
- Obtained full membership of the World Trade Organisation (WTO) on 1 January 2007
(As at January 2011)
- Head of the Communist Party: General Secretary, Mr Nguyen Phu Trong
- Head of State: President, Mr Truong Tan Sang
- Head of Government: Prime Minister, Mr Nguyen Tan Dung
- Head of National Assembly: Chairman, Mr Nguyen Sinh Hung

Population

- Approximately 87.84 million
- Rural population around 69.4% of total
- Male / Female ratio: 49.5% / 50.5%
- 60% of population under 30 years old

Climate and weather

The climate is sub-equatorial in the south, with two seasons (rainy/sunny) and an average temperature of 27°C. In the north the climate is sub-tropical climate, with four distinct seasons.

GDP

- 2011 GDP growth rate was 5.89% and GDP per capita is estimated at USD1,388
- An average growth rate over the previous 10 years of 7.2%

Foreign Direct Investment

- 2011 registered FDI: USD14.7 billion. 2011 disbursed FDI: USD11 billion
- 2010 registered FDI: USD18.6 billion. 2010 disbursed FDI: USD11 billion

Foreign Trade

- **2011 import value:** USD105.5 billion. Main imports include machinery and spare parts (USD15.2 billion), petroleum (USD9.8 billion), electronics computers and spare parts (USD7.4 billion), fabric (USD6.7 billion), steel (USD6.3 billion) and plastics in primary forms (USD4.8 billion).
- **2011 export value:** USD96.4 billion. Main exports include textiles (USD14.1 billion), crude oil (USD7.2 billion), footwear (USD6.6 billion), seafood (USD6.1 billion), wooden products (USD4 billion), rice (USD3.7 billion), machinery and spare parts (USD4.1 billion) and electronics and computers (USD4.3 billion)



About Grant Thornton

Grant Thornton Vietnam is a licensed accounting and consulting firm. It was established in 1993 and has full-service offices in Ho Chi Minh City and Hanoi, with five Partners and 130 professional staff.

Our key services include:

- Assurance
- Taxation
- Advisory Services
- Business Risk Services

Our firm is distinguished from other major international firms in that it is locally owned and managed by its Partners, who are totally committed to Vietnam on a long-term basis. Our Partners each have an average of 12 years work experience in Vietnam and an average of almost 30 years in the region. Our Clients benefit from this by seeing the same faces year after year. Faces that belong to professionals who live and work in Vietnam permanently and who can provide first class qualified advice based on their considerable in-country and international experience.

Grant Thornton (Vietnam) Ltd is a member firm of Grant Thornton International Ltd (Grant Thornton International). Grant Thornton International is one of the world's leading organisations of independently-owned and managed accounting and consulting firms. These firms provide assurance, tax, advisory and business risk services to privately held businesses and public interest entities. Services are delivered independently by the member firms within Grant Thornton International, a non-practising, international umbrella entity organised as a private company limited by guarantee and incorporated in England and Wales.

Grant Thornton member firms operate in over 100 countries, bringing together more than 30,000 personnel in over 500 offices worldwide. The firms are not members of one international partnership, or legal partners with each other. Nor is any one firm responsible for the services or activities of any other – but they all share a common commitment and methodologies to ensure the same high quality service to their Clients, wherever they choose to do business.

Member firms worldwide focus on helping the individuals who own the businesses they manage reach their personal and corporate goals. By providing practical, customised solutions and identifying and pursuing business opportunities, domestically and internationally, we help our Clients achieve their ambitions. Experienced professionals combine invaluable local market knowledge with technically advanced systems to help businesses prosper in today's highly competitive international markets.

Should you require further information, please do not hesitate to contact your nearest Grant Thornton office, the details of which are at the end of this document.

Country profile

Overview

Vietnam is a rapidly developing country with a dynamic and emerging market economy. Located in South East Asia, the country has positioned itself as a focal point for investment, boasting an average annual GDP growth rate of 7.2% over the last ten years. GDP growth in 2010 was 6.8% and in 2011 was 5.89%.

Vietnam comprises a landmass of 331,210 km², a vast sea area including a large continental shelf, and a string of archipelagos stretching from the Gulf of Tonkin in the North to the Gulf of Thailand in the South.

Vietnam is an elongated "S" shape with a long borderline from China in the North, Laos in the West and Cambodia in the West and South West. Vietnam has a diversified topography of plains, midlands and mountains.

The capital of Vietnam is Hanoi, which lies in the north of the country. Other major cities include Ho Chi Minh City (often abbreviated to "HCMC" and also referred to as Saigon) and Can Tho in the South, Hai Phong in the North, Hue, Da Nang, and Nha Trang on the Central and South East Coast, and Da Lat in the Central Highlands.

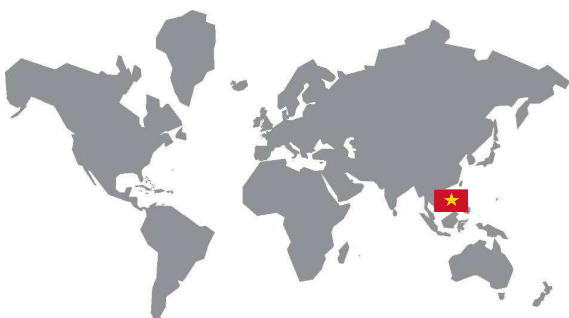
The more recent external economic challenges faced globally during the world-wide financial crisis posed a threat to Vietnam's growth and poverty reduction ambitions. However, unlike many other economies, the country continued to experience real positive growth during this period, albeit at a slightly lower level than in preceding years.

Obtaining full membership of the World Trade Organisation (WTO) on 1 January 2007 provided a major confidence-boosting impact to the economy; particularly as regards foreign direct investment; manufactured exports and property (real estate). The results of which will continue to be felt in the coming years as more sectors are opened up to foreign investment and competition.



Population and Area

Vietnam, with a land area of 331,210 km² is the 65th largest country by landmass. It is the 13th largest country by population with about 88 million people.



Population and demographics

Vietnam has the third largest population in South East Asia (after Indonesia and Philippines) and is ranked 13th in the world in terms of total population, with an estimated population of 87.84 million in 2011. Rural population accounts for approximately 69.4%.

The city of Hanoi covers a large urban and rural area in the north of the country. The registered population was around 6.76 million as at December 2011.

Ho Chi Minh City, the primary economic hub for Vietnam, had a population of around 7.6 million as at December 2011. However, the actual population of Ho Chi Minh City (and Hanoi, to a lesser extent) is likely to be significantly higher due to unrecorded migration from rural areas. In addition, Ho Chi Minh City is also bordered by the established industrial and urban areas of Binh Duong, Dong Nai and Long An Provinces, which arguably extend the City's limits into these provinces.

The country's average population growth from 1999 to 2011 was approximately 1.04 million people per year or 1.04% annual growth.

In 2011, 59% of the population were above 15 years old (working age).

Climate and weather

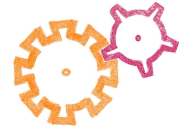
Vietnam lies in the tropical monsoon zone, characterised by warmth, humidity and abundant seasonal rainfall. There are, however, distinctive differences between Northern Vietnam and Southern Vietnam.

Southern Vietnam has a subequatorial climate, having two seasons with an average annual temperature of 27 degrees Celsius:

- Rainy/Wet season (May to October)
- Sunny/Dry season (November to April)

Northern Vietnam has a sub-tropical climate, with four distinct seasons and great fluctuations in temperature between the warmest and coolest periods.

- Spring (March to April) with temperatures of between 17 to 23 degrees Celsius
- Summer (May to August) with temperatures of between 30 to 39 degrees Celsius
- Autumn (September to November) with temperatures of between 23 to 28 degrees Celsius
- Winter (December to February) with temperatures of between 7 to 16 degrees Celsius

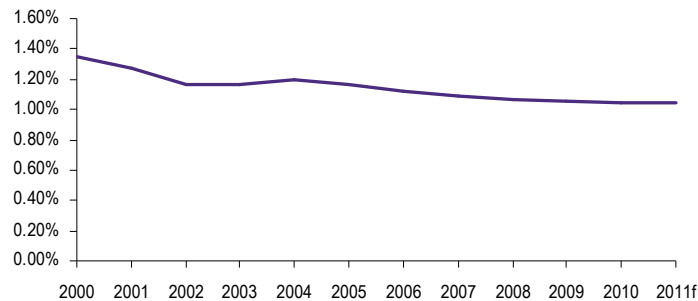


Demography

Approximately 60% of the Vietnamese population is under 30 years of age, providing Vietnam with one of the world's youngest populations.

Population growth rate (2000-2011f)

Source: Vietnam Government Statistics Office (GSO)



Language

Vietnamese is the country's official language. Foreign languages such as English, French, Russian, Chinese, Japanese and German are also used to varying degrees. English, however, is by far the most widespread foreign language and is commonly used alongside Vietnamese in legal documents relevant to foreign trade and foreign direct investment. English is also featured on the websites of many businesses (both local and foreign-owned) and Government agencies.

Political and Legal Environment

Political and legislative system

The Constitution in general establishes the rights of the people under the leadership of the Communist Party. The power of the people is exercised through the National Assembly at a central level and through People's Councils at a local level.

The National Assembly is the supreme representative and legislative body and determines domestic and foreign policies, socio-economic tasks, national defence and security issues.

The Head of State is President Mr Truong Tan Sang. He is elected by the National Assembly and represents the Nation in internal and foreign affairs.

The highest executive body in Vietnam is the Government, formerly known as the Council of Ministers. It is in charge of the general management of the economy and the State.

The court and prosecution system in Vietnam has a structure similar to the administrative system. At a central level, the Supreme People's Court is the highest judicial body in Vietnam. At a local level, courts exist at provincial and district levels.

Legal system

The Vietnamese legal system consists of a constitution, codes, laws, ordinances, decrees, decisions, circulars, directives and official letters. Although all have the force of law, only laws passed by the National Assembly are referred to as such.

Ordinances are issued by the Standing Committee of the National Assembly to regulate an area where a law is not yet promulgated or regulated. On matters the National Assembly has entrusted to the Government, it issues decrees, decisions, circulars or directives to implement the issued laws or ordinances.

Decrees, decisions and circulars are normally issued by individual ministries and other State agencies, including People's Committees, with respect to subjects within their sphere of responsibility and the force of subordinate legislation.

It should be noted that while codes, laws and ordinances are referred to by name; decrees, decisions, circulars and directives are usually referred to by number, signing date and the name of issuer.

Social and Environment

The Vietnamese population has a relatively high literacy rate compared to other countries in the region, estimated at 94% in 2012.

Living standards

Local living standards have improved since Doi Moi ("reform" or "new thought") in 1987, with an increasing Gross Domestic Product (GDP) per capita over the past twenty years. However, the increase in living standards between urban and rural areas has not been equal, with a widening gap in living standards between these two areas. The national poverty rate fell from 37.4 per cent in 1998 to 12 per cent in 2011. The poverty rate in urban centres is higher than in rural areas due to higher living costs.

For foreigners, living standards can be considered reasonably good with a relatively low cost of everyday living. Good education, accommodation, easy local and international travel, and modern media and communications are all available to reasonable standards in major cities and in important economic regions.

Labour Matters

Recruitment

Employers have the right to recruit labour directly or through employment service agencies. They can also increase or reduce the number of employees in accordance with business requirements and in compliance with the provisions of the law.

Employers must enter into labour contracts with employees. The contract should provide for either a definite term, an indefinite term or for work on a seasonal or limited basis. However, definite term contracts can only be renewed three times before automatically becoming indefinite term. Labour contracts must comply with a prescribed form published by the Ministry of Labour, War Invalids and Social Affairs (MOLISA).

Employers and employees may agree on a probationary period which must not exceed 60 days for work that requires special or highly technical skills and 30 days for other work. A probationary employee must not be paid less than 70% of the normal wage for that job.



Language

Although Vietnamese is the official language, English is becoming more accepted as the country's second language. Most students now study some English at school. English is the predominant international language for business dealings.

Employers may recruit foreigners for jobs requiring special expertise, which Vietnamese workers cannot perform. Foreigners who work for Vietnamese enterprises, organisations, or individuals must obtain a work permit from the local Labour Department. Work permits require specific documentation and can take some time to arrange, so they need to be planned in advance to ensure employment obligations are met. Additional requirements for work permits include appropriate educational qualifications for the position the work permit is being applied for, or specific identifiable experience in a particular field.

It is noted that foreigners are not required to obtain work permits in certain specific cases, such as where they are providing technical assistance for short periods of time. However there are usually other requirements that need to be met to satisfy these exceptions.

Work hours/Time zone

Normal working hours in Vietnam are 8 hours per day and 6 days a week. However, the standard working week for officials and public employees and employees in administrative organisations is 40 hours (5 days). Other organisations are encouraged to apply the standard working week of 40 hours. The total number of overtime hours should not exceed 4 hours a day or 200 hours a year.

Public Holidays in Vietnam

Public Holiday	Date	No. of days
New Year's Day	January 1	1 day
Tet holidays	Lunar new year (varies)	4 days
Hung King's Anniversary	10 th day of 3 rd lunar month (varies)	1 day
Victory Day	April 30	1 day
International Labour Day	May 1	1 day
Independence Day	September 2	1 day

Employees who have been employed for 12 months are provided with minimum of 12 days of paid annual leave (vacation) per year.

Vietnam is in the GMT +07:00 time zone



Business etiquette and travel

Business cards

Always carry business cards when you visit Vietnam and distribute them at every business meeting. When you meet someone for the first time in Vietnam, it is polite to offer your card with both hands. Upon receiving a card, do not stuff it into your pocket. Take a minute to look at the person's card, take care to pronounce their name correctly and acknowledge their title to show your counterpart that you value the opportunity to meet them. When you have finished engaging with the individual, place the business card in your wallet or purse to show respect.

If you have a business card that is in English and Vietnamese, it is good etiquette to present the card with the Vietnamese side facing upwards.

The order for a Vietnamese name is family name, middle name and given name. Vietnamese names list the surname first, so when referring to a Vietnamese person, use their given name, prefixed by the appropriate term of reference. Hence, the Prime Minister of Vietnam, Nguyen Tan Dung should be referred to as Mr Dung.

Language hints

Keep in mind that many Vietnamese have learnt English at high school or university and may not necessarily have had any particular level of contact with native English speakers. Thus you will need to speak slowly and concisely. Remember to avoid using words in English that are specific to a particular country or region, and if someone does not understand certain words, try using a different version (eg footpath, sidewalk or pavement).

It is impolite to undermine the authority of a more senior Vietnamese person by directing questions or responding to a more junior person whose English skills may be better. When using interpreters, it is polite to talk directly to the person you are dealing with and maintain eye contact.

Business attire

The climate in Vietnam can be quite hot all year round, particularly in the south so it is advisable to make allowances for this when selecting your business wardrobe. Probably the most suitable business attire is a lightweight suit for both men and women or smart trousers with a collar and tie for men, skirt and blouse for women.

Handshakes

Handshakes are used upon meeting and departing. Handshakes only usually take place between members of the same sex. Some Vietnamese use a two-handed shake, with the left hand on top of the right wrist. Always wait for a woman to extend her hand. If she does not, bow your head slightly.

Business notes

Vietnamese are a polite people and will often smile and agree with you when in fact they may not have fully understood what you have said. The smile and nod are usually to acknowledge that you have spoken, and may not always indicate a firm agreement.

It is often advisable to have bilingual sales literature, including business cards and product manuals, available for more complex negotiations. It is useful to have an agenda and relevant papers translated into Vietnamese prior to the meeting so both sides are clear on what they wish to discuss.

Eating and drinking is a major part of doing business in Vietnam. Toasting at banquets and karaoke are common after-dinner activities. Many Vietnamese men may smoke during the meal. When cognac or whisky is served at a meal, the custom is for individuals to drink only after a toast is made. The glass should be held in the right hand, which is supported by the left. Returning a toast is standard practice. Common toasts are "Tram phan tram" (100% Bottoms Up) and "Chuc Suc Khoe" (Good Health).



Names

Vietnamese names are written in the reverse order to that of many other nations. The format is family name, middle name, given name. People are called by their given name, even when adding Mr, Mrs, Miss or Ms.

Business meetings

Hierarchy and face manifest themselves in different ways at business meetings. For example, the most senior person should always enter the room first. Silence is also common in meetings where someone disagrees with another and remains quiet, so as not to cause a loss of face.

Relationships are critical to successful business partnerships. Always invest time in building a good relationship based on both personal and business lines. Any initial meeting should be used solely as a “getting to know you” meeting.

Currency

The official Vietnamese unit of currency is the Vietnamese Dong, often abbreviated as Dong or VND. Current regulations require most businesses to advertise prices in VND only. Although many businesses will accept US dollars and sometimes other foreign currencies, always carry sufficient VND for purchases for times when foreign currencies are not accepted.

When visiting Vietnam, it is still advisable to carry a supply of foreign currency, usually US dollars. Large bills receive better rates than small bills for currency conversions. US dollars have become an unofficial second currency in Vietnam and are helpful if you intend to spend a lengthy period of time in the country. Travellers' cheques in US dollars can be exchanged at certain banks.

Automated Teller Machines (ATM's or cash dispensers) have experienced dramatic growth in recent years, with more than 12,000 machines and 55,000 POS machines located across the country. These provide a safe and cheap way to obtain Vietnamese currency. However, it is wise not to depend solely on ATM's when visiting areas outside of the main urban locations.

Tipping, although not customary in Vietnam, is appreciated with small tips becoming more common in recent years for the service industries.

Gifts

Gifts are not commonly exchanged when meeting for the first time. However a small token over dinner or at an appropriate moment is always appreciated. The gift is not as important as the sentiment sent with it.

A box of chocolates, a bottle of cognac (for a man), or a small souvenir from your country will show that you are a considerate person.

Travel to Vietnam

Visas

A valid visa is required for entry into Vietnam. Legally, tourist visas are not valid for business visits, although this requirement is not strictly enforced. Vietnam has signed bilateral agreements with most ASEAN countries to exempt entry visas for ASEAN citizens visiting another ASEAN country for a pre-determined period of time. East Timor and Myanmar are exceptions at this point of time. Vietnam has also exempted entry visas for citizens of Denmark, Finland, Sweden, Japan, South Korea, Norway, and Russia for citizens visiting Vietnam for less than 15 days.

In order to obtain a business visa, a businessperson should be sponsored by an organisation in Vietnam. The sponsorship can be by the visitor's Vietnamese partner or the visitor's representative office or branch, a trade-support institution, a consulting firm or authorised agent. There is usually a visa handling fee in addition to the embassy stamping fee for this service.

Business people should send the following information to their sponsoring agency at least seven days before they wish to pick up their visa from the Vietnamese Embassy abroad:

- Full name
- Date of birth
- Nationality
- Passport number
- Name of company or organisation
- Port and date of entry and exit or tentative schedule
- Location of embassy and date for visa pickup
- Brief statement of the purpose of the visit

Visitors must submit visa application forms with photographs and their passports to the Vietnamese Embassy in their country for visa issuance and pay a visa stamping fee.

A one-month renewable visa will generally be issued. Multiple entry-exit visas, which are valid for three to six months may be obtained for visitors who have regular business in Vietnam. Although at the time of writing visas beyond three months are not being issued to visitors. It is generally easier to apply for a business visa once in Vietnam, after having arrived on a tourist visa.

Visas can be pre-arranged through certain travel agents and collected upon arrival at Hanoi or Ho Chi Minh City airports, avoiding the need to visit a Vietnamese Embassy abroad.



Visas

Most visitors require a Visa to enter Vietnam. Tourist visas are usually valid for 30 days, and can generally be extended in-country. Visas need to be pre-arranged prior to entry into Vietnam and are not available upon arrival (although pre-arranged visas can be collected at selected airports) Business Visas are required for those coming to Vietnam for business purposes.

ATM's and Money

With over 12,000 ATMs and 55,000 POS machines throughout the country, these are the easiest way to access funds when travelling in Vietnam. However, in case of difficulties it is suggested that a supply of foreign currency is held, usually US dollars.

International airports and transport

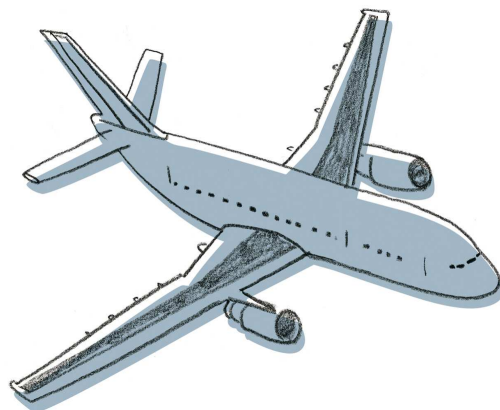
Vietnam's three main points of entry by air are Ho Chi Minh City (Saigon), Hanoi and Da Nang. Ho Chi Minh City's Tan Son Nhat international airport is located approximately seven kilometres from the city's downtown area. Allow around USD7 for the taxi fare into town. In Hanoi, the international airport is situated approximately 35 kilometres to the north of the city. The trip usually takes 45 to 50 minutes and costs approximately USD15 by airport taxi. Da Nang International Airport, the third international airport in Vietnam, is an important gateway to access central Vietnam. The airport is 2.5 km southwest of the city centre and is about a five minute drive from Da Nang city.

Visitors should only use metered taxis in Vietnam, preferably from one of the reputable taxi operators such as Mai Linh, Vinasun and Phuong Trang. There are many illegal or copy-cat taxi operators throughout the country. So to avoid inflated fares look for newer vehicles with distinctive corporate lettering and identification. Visitors are advised not to use transport if it is not metered unless booked through a hotel or reputable company.

Entry and departure requirements

Visitors to Vietnam can bring with them unlimited amounts of foreign currency, objects made of gold, silver, precious metals and gemstones or plated with silver or gold. However these must be declared in detail on customs forms. Foreign and Vietnamese currency equivalent to under USD7,000 and VND15 million respectively need not be declared. There is no restriction on books or other printed matter apart from pornographic or politically sensitive material.

Books and other electronic media may be screened to ensure compliance with the law. It is illegal to bring letters, packages or correspondence for others into or out of the country. It is also illegal to export antiques or images of Buddha. All luggage is x-rayed on international arrival and for all departures. Remember to keep your baggage claim tag, as it is nearly always requested when collecting baggage when travelling domestically.



Key trends and statistics

Overview

Vietnam's accession to the WTO in 2007 demonstrated that the Government is committed to continuing the opening up of the economy. This has created a positive impact on the economic growth in the past five years and further impetus to the expansion of the country's two-way international trade and has enabled a substantial reduction of trade barriers.

Import duties on inputs in the domestic manufacturing and services sector have been reduced.

There are still some goods that have restrictions, are prohibited for importation, have quantity controls, or require specific permits, such as explosive materials; cigarettes; firecrackers; certain children's toys; military technical equipment; used motor vehicles and parts; and used consumer goods.

Principal imports

In 2011, import turnover was USD105.5 billion, an increase of 24.7% compared with that in 2010, with the principal components shown in the table below:

Vietnam's Principal Imports

Source: Government Statistics Office (GSO)

Imports	2011 USD billion	2010 USD billion
Machinery and spare parts	15.2	13.5
Steel	6.3	6.2
Petroleum	9.8	5.5
Fabrics	6.7	5.4
Electronics, Computers and spare parts	7.4	5.2
Plastics (in primary forms)	4.8	3.8

Principal exports

Vietnam's total revenue received from exports has grown significantly in recent years. In the first eight months of 2011, export revenue increased by 33.3%, over 2010, to USD96.4 billion.

The principal exports are detailed in the table below:

Vietnam's Principal Exports

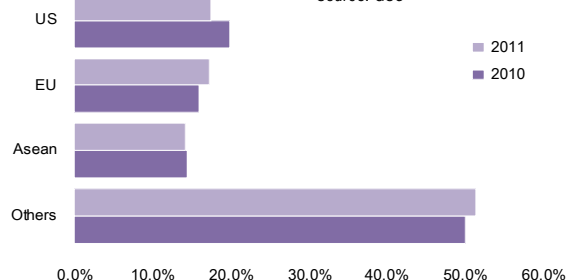
Source: Government Statistics Office (GSO)

Exports	2011 USD billion	2010 USD billion
Textiles	14.0	11.2
Footwear	6.6	5.1
Seafood	6.1	4.9
Crude Oil	7.2	4.9
Electronics and Computers	4.3	3.6
Wooden products	4	3.4
Rice	3.7	3.2

Vietnam is the world's second largest rice and coffee exporter, the world's largest exporter of black pepper and cashew nuts, and a major supplier of tea and seafood.

Vietnam's Principal Export Markets (%)

Source: GSO



Economic environment

Gross Domestic Product (GDP) Growth

In 2011, the Vietnamese economy recorded an annual growth rate of 5.89%.

The National Assembly has stated that the primary objectives of Vietnam's government in 2011 are to control inflation, to utilise the fiscal policies in order to stabilise the macro-economy, to maintain the economic growth and promote a competitive business environment, to continue the economic restructuring and to improve quality, efficiency and competitiveness.

The Consumer Price Index (CPI) showed an increase of 18.6% at the end of 2011 and is forecast to increase by 12.2% by the end of 2012. Exports value is forecast to increase by 13% and keep trade deficit at 12% in 2012. However, our current expectations are for a higher inflation rate and an improved percentage increase in exports

GDP per capita

GDP per capita has improved steadily and in line with GDP growth since 2000. The graph below shows the average national GDP; however, the actual GDP in cities such as Ho Chi Minh City and Hanoi is significantly higher.

Contributions to GDP

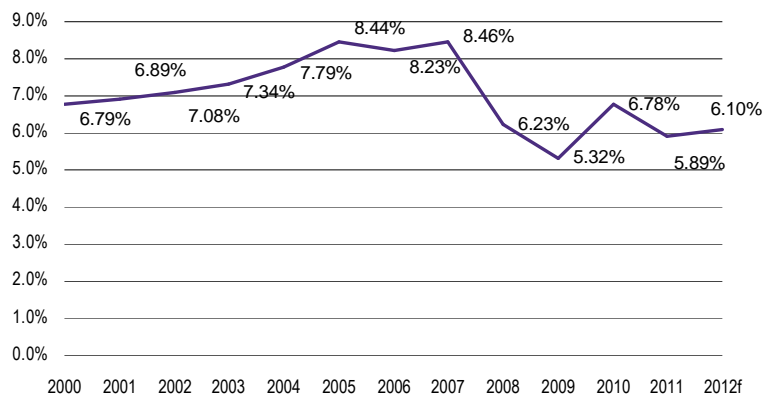
The main industries contributing to GDP include oil and gas; tourism; low-end assembly; extractive agriculture and aquaculture.

The agricultural sector's share of GDP declined from over 40% in the 1980s to approximately 17.42% in 2011. In 2011, the industry and construction sectors accounted for 40.25% of GDP, with the services sector accounting for 37.73% of GDP.

Of the sectors, the industrial and construction sector has benefited most from Vietnam's economic reform process. Since 2004, the industrial and construction sector has consistently contributed approximately 40% to GDP. In 2011, the sector provided about 40.25% of GDP. However, the sector does not have a strong base in heavy industries, such as steel, machinery and chemicals, and many facilities and technologies are outdated. This presents an obstacle to further development of this sector.

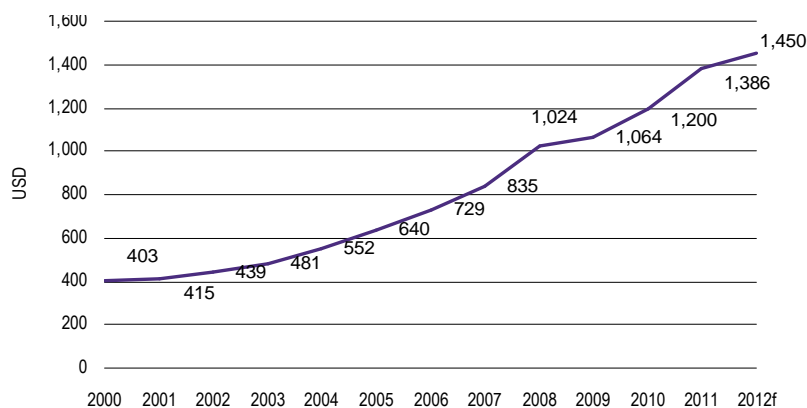
GDP Growth Rate (2000 - 2012f)

Source: GSO



GDP per Capita USD (2000 - 20112)

Source: Ministry of Planning and Investment



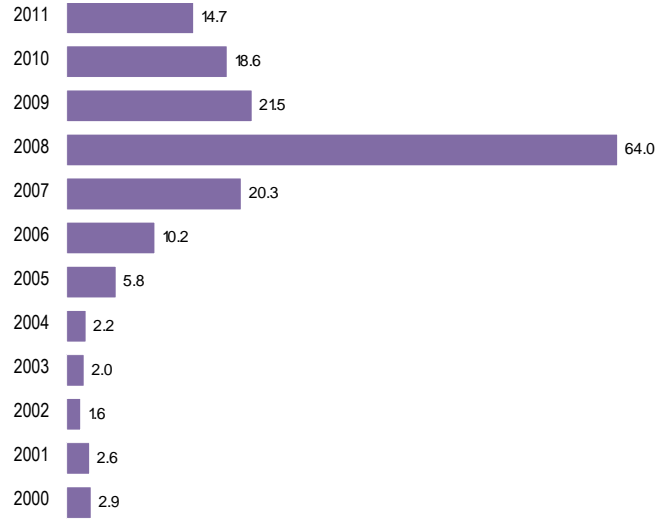
Foreign Direct Investment (FDI)

FDI has contributed considerably to the development of Vietnam's economy in recent years. The Government of Vietnam has continued to encourage foreign investors to invest in Vietnam given the relatively poor infrastructure situation the country faces and the need for foreign investment to fund economic growth.

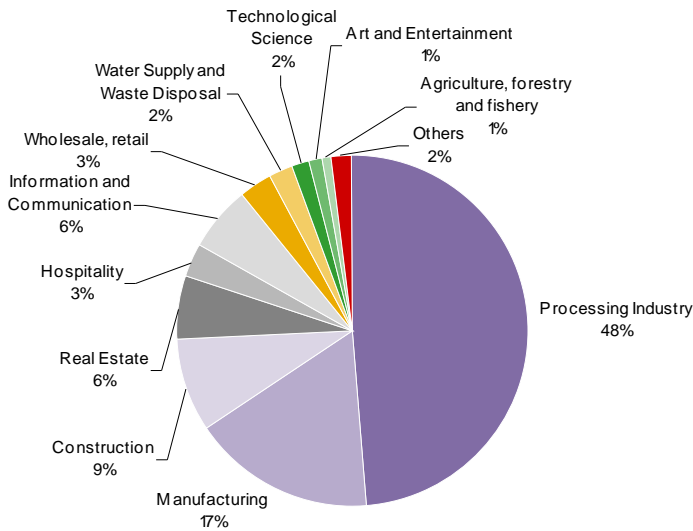
The major goal of Vietnam's FDI policy is to attract capital, advanced technology and management skills in order to explore the country's potential effectively, increase savings and improve the population's living standards.

Total registered FDI in 2011 was USD14.7 billion, equal to 79% of total registered FDI in 2010. However, disbursed FDI was estimated at USD11 billion, the same as in 2010.

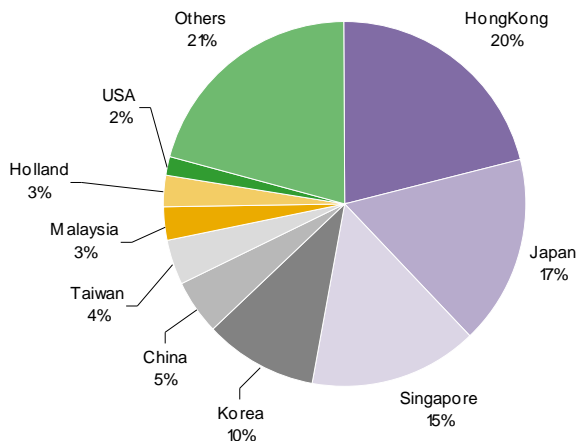
Registered FDI, USD billion (2000- 2011)
Source: GSO



Registered FDI by sectors, USD billion 2011
Source: Ministry of Planning and Investment



Registered FDI by countries and territories, USD billion 2011
Source: GSO

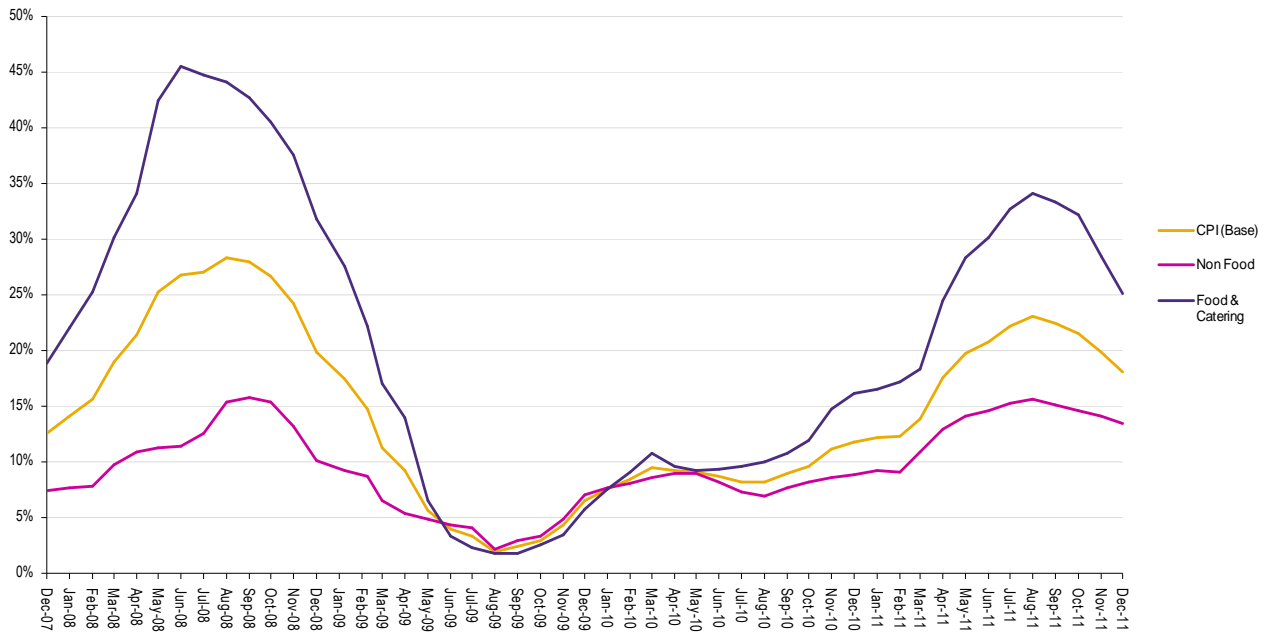


Inflation

During 2008 and into 2009 Vietnam experienced rapid inflation, peaking at 28% on an annualised basis. Although food items were the driving factor, partially lead by rice demand from neighbouring countries, non-food items such as record oil prices also had a significant effect. Annualised inflation for 2011 was approximately 18.58%.

It should also be pointed out that there is a disparity between the expenditure of the average urban resident versus that of a rural resident, with the impacts of price fluctuations affecting both groups differently. It is also important to remember that Vietnam is a net food exporter, with the majority of rural residents actually receiving a net benefit from the rising food prices, as they are net food sellers.

Vietnam Annualised Inflation (CPI) (2007 - 2011)
Source: GSO



Regulatory Environment

Overview

Vietnam is a Socialist State. The political system is dominated by the Communist Party, the sole political party and the only body that can form a Government. The National Assembly is an elected body and the highest legislative authority, with a term of five years. The Assembly elects its Standing Committee, which consists of the National Assembly Chairman, Vice Chairmen and members: The Standing Committee manages the daily affairs of the National Assembly when it is not in session.

The Government is the highest executive body of the State and is in charge of the general administration of the country. The Government includes the Prime Minister, Deputy Prime Ministers, Ministers and Chairpersons of agencies at the ministerial level.

Below the Central Government are People's Councils and People's Committees. People's Councils are directly elected by the people and People's Committees are elected by People's Councils. There are three levels of People's Committees and People's Councils: provincial, district and commune (or ward).

The People's Supreme Court and the People's Supreme Inspectorate are the highest legal authority in Vietnam. The Constitution is the Supreme Law of the country. Legal decisions are made by the People's Courts, the People's Inspectorate, Military Tribunals and Special Tribunals.

The legal system of Vietnam has been criticised for its incompleteness and inconsistencies in the past. The Government has made efforts to improve the legal system to create a more attractive investment environment to encourage foreign investors and to maintain a more stable environment for development.

Many new laws have been promulgated and existing laws have been reviewed and amended to bring them closer to international standards.

Land, Housing and Real Estate

Land and real estate have been among the hottest issues in Vietnam over the past decade. This is principally because land, according to Socialist doctrine, belongs to the people and is administered by the State. As such, individuals or entities cannot own land.

Rather, they can only be granted "Land Use Rights" by the State. Buildings and fixtures, which are attached to the land, are therefore a critical issue.



Land in Vietnam

All land is owned by the entire people with the State as the representative owner. In accordance with Socialist doctrine, individuals and entities cannot "own" land. Instead, they are granted Land Use Rights by the State to use the land in a specified manner.

Exchange Controls

The management of foreign exchange for foreign-invested enterprises and foreign parties to business contracts is regulated by the State Bank of Vietnam (SBV).

Foreign invested enterprises and parties to business contracts must open bank accounts in Vietnamese Dong or foreign currencies with banks permitted to operate in Vietnam. Where necessary, Vietnamese enterprises with foreign-owned capital may open accounts with banks abroad with the approval of the SBV.

Furthermore, foreign invested enterprises and parties to business co-operation contracts are able to buy foreign currencies from commercial banks to cover permitted transactions. Although they have the right to cover, there is no guarantee that their foreign currency demands can be met, except for infrastructure development and other “critically important” projects.

Intellectual Property

Vietnam recognises the importance of protecting intellectual property rights (IPR), which include patents, trademarks and service marks, copyright and industrial designs. With the implementation of the Bilateral Trade Agreement provisions regarding IPR, Vietnam has made a commitment to protecting intellectual property. The Bilateral Trade Agreement's property rights chapter was modelled on the WTO Agreement on Trade-Related aspects of Intellectual Property.

The National Office of Intellectual Property (NOIP) is the authority responsible for the registration of intellectual property. Foreign organisations and individuals who seek to register their intellectual ownership should file their applications through an authorised agent, who will transfer their applications to the NOIP.

The Office of Copyright Protection under the Ministry of Culture and Information is responsible for the protection of copyrights.

Patent and Industrial Designs

The term of protection for patents is 20 years while the term of protection for industrial designs is 15 years from the filing date. There are also provisions to protect the layout designs of integrated circuits, confidential trade secrets and industrial designs.

Trademarks

A trademark is protected for 10 years from the filing date; renewals may be filed for additional ten-year periods.

Copyright

The length of protection of a copyright is fifty years from the author's death. Copyright protection is extended to written works; works expressed orally, stage performances; films, video recording, television and sound broadcasts or recordings; photographic works; musical works and live musical performances; sculptures and works of fine arts; architectural works; computer software and computer-related works; scientific projects and textbooks; geological maps; translations, adaptations or transformed works, anthologies and encrypted program-carrying satellite signals.

Dispute Settlement

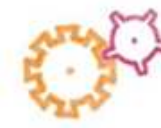
In Vietnam, disputes are encouraged to be settled by negotiation first and if unsuccessful, parties can choose to settle disputes either in court or by arbitration.

The court hierarchy of Vietnam has three tiers, namely Supreme People's Court, Provincial People's Courts and District People's Courts.

If the parties involved do not want to settle disputes in a local court (due to cost or time factors), they can refer to arbitration (both local and foreign). In these situations it is important to ensure that proper arbitration provisions are included in the contract or in a separate arbitration agreement as appropriate. An arbitral award given by an arbitration centre in accordance with the provisions of the Law on Commercial Arbitration will be enforceable in Vietnam.

There are a number of centres for arbitration in Vietnam including those operated by the Vietnam Chamber of Commerce and Industry. It is also common for foreign entities in Vietnam to use Singapore or Hong Kong arbitration for resolution due to their developed Commonwealth legal systems.

The award determined by a foreign arbitration will be enforceable in Vietnam after it is recognised by a Vietnamese court.



Dispute Settlement

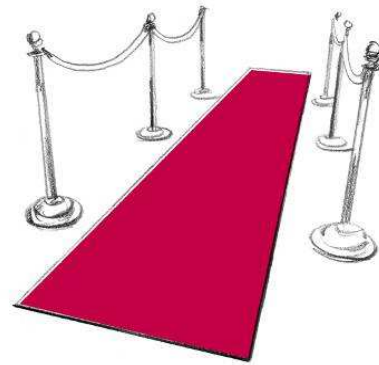
Common practice is for agreements involving foreigners to include a dispute settlement clause conferring power to arbitrate in a foreign location. This is often preferable for a few reasons, including consistency and transparency. However, caution needs to be taken as the arbitration agreement is only enforceable in Vietnam once the decision is recognised by a Vietnamese court.

Investment Guarantees

The Government guarantees fair treatment for all investors. Capital and other legal assets of investors will not be expropriated or confiscated by administrative authorities; and businesses with foreign invested capital will not be nationalised. Foreign investors are allowed to remit investment capital and profits, loan principal and interest, and other legal proceeds and assets abroad.

In general, expatriates working for businesses with foreign invested capital in Vietnam are allowed to remit their income abroad without additional taxes.

According to the Law on Investment, foreign investors are protected from adverse impacts which may arise in circumstances due to changes in the law or Government policies. It is stipulated that if the changes cause disadvantages to the investors, the investors will still be entitled to the guaranteed incentives as stipulated in the original certificate of investment or be compensated by being entitled to compensatory tax exemptions, be permitted to amend its operations, or by other means of compensation. Moreover, if the changes create more favourable conditions to the investors, they will be entitled to the benefits stemming from such changes.



Establishing a business in Vietnam

Overview

Since 1 July 2006, both foreign and domestic investment laws were unified and are now regulated by the Law on Investment and the Law on Enterprises.

The Law on Investment introduces a common regime for investment by both domestic and foreign investors, and includes a single law governing both domestic and foreign investment, covering both direct and indirect sources.

Together, the Law on Investment and the Law on Enterprises changed Vietnam's business environment and made a far more level playing field, however some gaps still remain.

The table below summarises the system under these laws:

Enterprise Form	Characteristics	Management, Decision Making and Liability
Limited Liability Company 2 forms exist	- 1 member Limited Liability Company - 2 or more members Limited Liability Company Limited Liability Companies cannot issue shares or stocks. Maximum 50 shareholders.	Companies (if there is more than 1 shareholder) elect a members council. If there are more than 11 members, then a Supervisory Board is to be established. A General Director, appointed by the members, is in charge of daily operations.
Joint Stock Company	3 or more shareholders required. Company is divided into shares, which can be freely transferred or sold. Can issue ordinary and preference shares	General Meeting of Shareholders elects a Board of Management. The Board elects a General Director to run daily operations. A Supervisory Board is required for most joint stock companies, depending upon the number and type of investors.
Partnership	Requires at least 2 General Partners (which must be individuals). Can also have Limited Liability Partners.	Not a separate legal entity and cannot issue securities of any form. General Partners are individually liable for the partnership debts
Private Enterprise (Sole trader)	An individual trading under his/ her own name.	No legal entity status (other than being an individual) Full individual liability for all debts.
Joint Ventures and Business Co-operation Contracts	Are forms of Joint Ventures.	Structure and regulations based upon respective agreements between the parties.

Enterprise Forms in Vietnam

Source: Law on Enterprises and Law on Investments

Representative Offices and Branches

In accordance with the Law on Commerce, foreign traders can also set up a resident Representative Office or Branch in Vietnam.

The following regulations are in place regarding Representative Offices and Branches:

- All foreign businesses, which have been in operation for more than a year will be allowed to open representative offices in Vietnam
- Foreign businesses shall only be entitled to set up a branch in Vietnam with the condition that it has been in operation for at least five years
- Licences for representative offices and branches will be valid for five years but may be extended or re-issued upon expiry
- Branches shall be entitled to do business in accordance with the branch licences
- Representative offices and branch staff shall be subject to the relevant tax obligations, in accordance with the laws of Vietnam
- Branches shall have to follow the accounting regime, as required by the laws of Vietnam. The financial year runs from 1 January to 31 December. Other year-ends can only be used subject to Ministry of Finance approval
- Branches are required to report annually to the Ministry of Industry and Trade, once a year, on the operational and financial position of the business.

Representative offices are required to submit annual reports to the provincial Industry and Trade Department office.



Opening up to foreign investment

Before and after WTO accession

Since opening up its economy to foreign investment in the late 1980's, Vietnam has experienced dramatic improvements in living standards and the economy in general. This modernisation and economic growth led to a long period of negotiation and finally accession to full WTO membership in 2007.

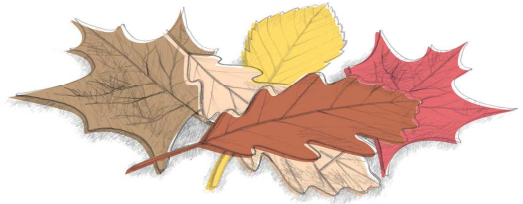
In the period from 1989 to 2007, the number of foreign invested projects increased significantly, as did the value of the projects. However the growth in number and value of projects jumped dramatically following Vietnam's membership of the WTO.

To comply with conditions of WTO membership, Vietnam passed a range of laws opening up selected markets and industries to foreign investment that were previously restricted. Some of these restrictions were removed with immediate effect, whilst others were to be phased in by 2015

Vietnam moved towards implementing a single rate of tax for all distilled spirits above 20% alcohol content, removing the previous complicated and distorting tax structure, and at the same time the government also reduced the Special Consumption Tax on imported spirits above 20% alcohol from 65% to 45%.

Vietnamese laws were implemented so that in 2009 we saw foreign investors more easily acquiring 100% of the shares or capital of existing Vietnamese enterprises, which was previously restricted or problematic in implementation.

There are, of course, a range of goods excluded from WTO negotiations that have restrictions, are prohibited for importation, have quantity controls, or require a specific permit, such as explosive materials, cigarettes, firecrackers, certain children's toys, military technical equipment and facilities, used motor vehicles and parts, and used consumer goods.



Taxation

General Overview

Vietnam's economy has shifted from being centrally based to a market based economy after the commencement of the "Doi Moi" policy in 1986. As a result, the tax system of Vietnam has undergone crucial reforms ever since. For instance, as Vietnam obtained memberships of international organisations such as ASEAN in 1995 and WTO in 2007, tax policy and tax reform have moved towards better alignment with international rules and practices, as well as improving tax collection and administration.

In 2007, the Law on Tax Administration, which provides rules on tax administration, management of information, tax collection and enforcement, was first implemented. In addition, it has provided guidance in areas previously open to wide interpretation.

Later in 2007 the National Assembly also passed the first Law on Personal Income Tax, covering taxation of all income of individuals in Vietnam for the first time. This Law introduced the concept of personal and family deductions in determining taxable income of individuals. In 2008, three major tax laws were amended:

- Corporate Income Tax
- Value Added Tax
- Special Sales Tax

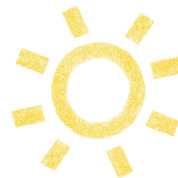
All four of these laws were implemented in 2009.

Corporate Income Tax ("CIT")¹

Organisations conducting business and earning taxable income are subject to CIT. These include:

- Enterprises established pursuant to the law of Vietnam
- Foreign enterprises earning income in Vietnam with or without a resident establishment in Vietnam
- Enterprises established pursuant to the Law on Co-Operatives
- Professional entities established pursuant to the law of Vietnam
- Any other organisation conducting activities of production or business that earns income.

Foreign companies, foreign organisations, and foreigners conducting business in Vietnam other than pursuant to the Law on Enterprises and the Law on Investment or having income sourced in Vietnam are to pay CIT in accordance with the regulations on taxation of foreign contractors.



¹ **Corporate Income Tax**- Vietnamese Corporate Income Tax applies to all Vietnamese entities, along with foreign entities having income in Vietnam. Caution needs to be exercised to ensure that foreign enterprises understand when they may be subject to CIT even when they do not have a physical presence in Vietnam.

Taxable income

Taxable income includes income earned from production and trading of goods and services.

Other taxable income includes:

- Income from capital transfers and real property transfers
- Income from transfer, leasing out or liquidation of assets
- Interest on deposits and loans or income from sales of foreign currency
- Recoveries from contingency reserves
- Recoveries from written-off debts
- Income being debts payable to unidentifiable creditors
- Unreported income from business in previous years
- Other income including income from business outside Vietnam

Basis of tax assessments

Assessable income = Taxable income - Losses carried forward from prior years

Taxable income = Gross turnover - Deductible expenses + Other income

** Income from real property transfers must be separately determined in order to declare and pay tax

Tax rates

The CIT rate is generally 25%, except for those business establishments conducting prospecting, exploration and mining, which are subject to CIT rates from 32% to 50%.

Where an enterprise has already paid income tax outside Vietnam, the amount of CIT already paid will be credited at a maximum rate less than the total amount of CIT

However, the credit is capped at the Vietnamese tax calculated on the income paid offshore.

CIT payable = Assessable income x Applicable CIT rate

Tax incentives²

Companies engaged in preferred areas of investment or located in special geographical areas are generally entitled to preferential tax rates, as follows:

- 10% CIT rate for 15 years for new investment projects in an area with especially difficult socio-economic conditions, in economic zones and in high-tech zones established under the decision of the Prime Minister; and to new investment projects in the sectors of high technology, scientific research and technological development, investment in development of especially important infrastructure facilities of the State, and production of software products
- 10% CIT rate for the entire operational period is applicable to income of education and training, occupational training, health care, culture, sport and the environment
- 20% CIT rate for the first 10 years applies to new investment projects in areas with difficult socio-economic conditions
- 20% CIT rate for the entire operational period is applicable to agricultural service co-operatives and to people's credit funds

Aside from the preferential tax rates, qualified projects may also be entitled to tax exemption or fifty percent reduction of CIT for a certain number of years during the incentive period.

Allowable deductions

Taxpayers are allowed to deduct from their taxable income such reasonable and valid business expenses as provided under the law. In general, a business expense will be deductible if it is not in the list of prohibited deductions and satisfies all three of these conditions:

- The expenses actually arose and relates to the business of the enterprise
- It is not in the list of prohibited deductions
- The expenses are accompanied by complete invoices and source vouchers as stipulated by law

Losses

Businesses that incur losses after tax finalisation are entitled to carry forward those losses to be offset against the assessable income continuously and entirely within 5 years from the year in which the loss arose.

Enterprises that incur a loss from real property transfers are only entitled to carry forward the loss to be offset against assessable income from the same activities.

² **Tax incentives** – Traditionally a tool widely used by government agencies to attract investment into Vietnam, the range of tax incentives available has been reduced in recent years. New start-up businesses may have to compete with more established enterprises with long-term legacy incentives but which new entrants cannot access.

Tax declarations and payment

Taxpayers subject to CIT are to file tax declarations and pay taxes on a quarterly and annual basis.

Declaration/Documents	Deadline
Quarterly income tax return filed and taxes paid	30 th day of the following quarter
Annual CIT finalisation return filed and taxes paid	90 days from the end of the fiscal or calendar year

Enterprises are to pay tax in the place where it has its main head office. If an enterprise has a “dependent accounting production establishment” in another province or city, the amount of CIT assessable and payable will be determined in accordance with the ratio of expenses between the production establishment and the main head office.

Capital assignment tax

Taxable income earned by organisations assigning part of the entire capital investment in a business establishment to other organisations (including sale of an entire enterprise) is subject to 25% CIT. The tax is imposed on the assigned value of the capital less initial value and assignment expenses.

If the foreign transferor is a resident of a country which has an existing tax treaty with Vietnam, the provisions of the tax treaty will take precedence.

Transfers of real property

Economic organisations trading goods and services that earn income from the assignment or transfer of property (including the assignment of land use rights and assets on the land) will be subjected to the tax rate of 25%.

Dividends

Dividends or income distributed from activities being capital contributions, joint ventures or associations with a domestic enterprise after payment of CIT are tax-exempt income. No profit remittance tax is imposed.

However, profits can only be remitted on an annual basis.

Interest and royalties

Interest and royalties paid to foreign parties are generally subject to a withholding tax of 10% unless the applicable tax treaty dictates a different rate.

Transfer pricing³

Related party transactions must be conducted at arm's length and must comply with the transfer pricing rules and documentation requirements. Parties are related if they hold directly or indirectly at least 20% of the equity or the total property of the other business establishment. Furthermore, in case of certain significant suppliers, customer and funding relationships between unrelated parties, related parties can be defined as one business establishment that directly or indirectly controls more than 50% of the sales turnover (*) of the other business establishment

**Calculated on the basis of each type of product*

Vietnam transfer pricing rules generally adopt the revised Organisation for Economic Co-operation and Development (OECD) transfer pricing guidelines and acceptable methods of determining the “arms length principle” such as comparable uncontrolled price, cost plus, resale price, comparable profits and profit split.

Contemporaneous documentation is required to be prepared and maintained. Such documentation is required to be translated into Vietnamese and presented to the tax authorities within 30 days of receiving a written request. In addition, a declaration is required to be filed together with the CIT return providing details of related transactions and the methodologies adopted.

Science and Technology Development Fund

Vietnamese enterprises are entitled to deduct up to 10% of their annual assessable income to establish a Science and Technology Development Fund (“the Fund”).

The enterprise has 5 years to utilise at least 70% of the Fund. Otherwise, the enterprise is required to pay CIT on the unused amount or the amount used for different purposes including the interest arising on such amount of CIT.



³ **Transfer pricing** – formalisation of the concept of transfer pricing is a recent introduction to the Vietnamese tax regime, and one that presents substantial risks to enterprises operating across borders. Expectations are that stringent enforcement will commence shortly, so it is strongly recommended that all companies look to ensure they are in compliance with transfer pricing regulations.

Value Added Tax (“VAT”)

Taxpayers

Organisations and individuals producing and trading VAT taxable goods and services in Vietnam, or importing VAT taxable goods or services from foreign countries are liable to pay VAT.

VAT exempt goods and services

Main categories of goods and services not subject to VAT include			
Products of cultivation	Husbandry	Aquaculture	Seafood and fish products that have not yet been processed
Assignment of capital	Transfers of Land Use Rights	Securities business activities	Animal breeding stock and plant varieties including breeding eggs, young animals, seedlings, seeds, sperm, embryos and genetic materials
Salt products	Life insurance	Credit services	Importation and distribution of newspapers, magazines, specialised newsletters, political books, textbooks and teaching materials
Derivative financial services	Publications	Educational and vocational training	Medical health services and veterinary services including medical examinations

Other items exempt from VAT when imported include
Machinery, equipment and materials that are not yet able to be produced domestically and are required for direct use in scientific research and technological development activities
Machinery, equipment, replacement parts, specialised means of transportation and materials which are not yet able to be produced domestically and are required to be imported to carry out prospecting, exploration and development of petroleum and natural gas fields
Aircraft, drilling platforms and watercraft which are not yet able to be produced domestically and which are required to be imported to form fixed assets of enterprises or are leased from foreign parties for use in production and business or in order to be sub-leased

Business establishments are not entitled to a credit and refund of input VAT in respect of goods and services used by businesses, which are not subject to VAT.

Applicable VAT rates

Rates	Applicable to
0%	Exported goods and services; construction and installation operations of export processing enterprises; goods sold to duty-free shops; international transportation, and to goods and services that are not subject to VAT and that are exported, except for the following: technology transfers and intellectual property transfers to foreign countries; services being reinsurance offshore; credit services, assignment of capital and derivative financial services; post and telecommunications services; and export products being exploited natural resources and mined minerals that have not yet been processed
5%	Areas of the economy considered as essential goods and services, including clean water for manufacturing and for living purposes; fertilisers; ore used for production of fertilisers; pesticides and growth stimulants for animals and crops; feed for cattle, poultry and other animals; fresh food produce; sugar and its by-products; products made from jute, sedge, bamboo, rattan, thatch, coconut fibre, coconut shell, water hyacinth, and other handmade products produced by using agricultural raw materials; semi-processed cotton; newsprint; medical equipment and instruments; medical sanitary cotton and bandages; preventive and curative medicines; and pharmaceutical products and pharmaceutical materials which are the raw materials for producing preventive and curative medicines; scientific and technological services as stipulated in the Law on Science and Technology
10%	All other goods and services not subject to the 0% and 5% rates

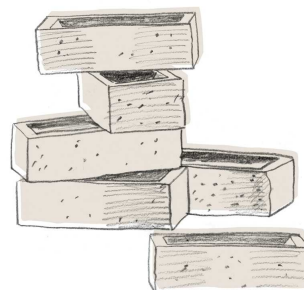
(Source: Circular 129/2008/TT-BTC)

Methods of calculating VAT

VAT payable is to be calculated by the tax credit method or by calculating tax directly on the basis of added value.

The tax credit method applies to business establishments that fully implement the regime on accounting, invoices and source vouchers as stipulated by law, and register to pay VAT by the tax credit method.

The method of tax calculation based directly on added value only applies to business establishments, foreign organisations and individuals conducting business without a resident establishment in Vietnam, which have income arising in Vietnam and do not implement the regime on accounting, invoices and source documents; and activities of purchasing and selling gold, silver and precious stones.



Credit for input Value Added Tax

Business establishments that pay VAT in accordance with the tax credit method are permitted a credit for input VAT as follows:

- Input VAT levied on goods and services used by businesses subject to VAT is fully credited
- Input VAT levied on goods and services that are used in a business that has elements subject to VAT and elements not subject to VAT, only the amount of input VAT levied on the goods and services used in elements subject to VAT will be credited
- Input VAT levied on fixed assets used in both VAT businesses and non-taxable businesses will be fully credited

Upon determination of the tax payable for a month, creditable input VAT arising during such month will be declared and credited. Where the business establishment discovers an amount of VAT which was not deductible upon declaration, due to omission of an invoice or receipt for tax payment which was not declared for credit, it is permitted to make a declaration for an additional credit; the maximum period for the declaration and additional credit is six months from the month date on the invoice or receipt omitted.

Both the following conditions must be satisfied to be able to credit the input VAT:

- There is an added value invoice for the purchase of the goods and services or a receipt for payment of VAT at the import stage
- There is evidence of payment via a bank for the purchased goods and services, except where the goods and services have a value below VND20 million.

VAT declarations and payment

The monthly Value Added Tax declaration is to be submitted and tax paid no later than the 20th day of the following month.



Foreign Contractors

Withholding tax for foreign contractors

Foreign corporations doing business in Vietnam or earning income in Vietnam without establishing a legal entity therein are subject to a withholding tax on foreign contractors, particularly CIT and VAT.

Depending on whether or not the foreign contractors adopt Vietnamese Accounting Standards, the FCT can be applied on a deemed method or a deduction method. Generally, the former is used in most cases. The majority of services carry the rate of 5% each for both VAT and CIT under the deemed method.

In addition, a hybrid method where a foreign contractor can pay VAT under the deduction method and pay CIT on withholding basis on the gross value of the contract can also be applied for qualified foreign contractors.

CIT for foreign contractors

CIT to be withheld = CIT-taxable turnover x CIT rate (%)

Foreign Contractor CIT rates as a percentage of taxable turnover

Business Activities	CIT rates as % of taxable turnover
Trading: distribution and supply of goods, raw materials, supplies, machinery and equipment associated with services in Vietnam	1%
Services, lease of machinery and equipment, insurance	5%
Construction	2%
Other production or business activities; and transportation (including sea and air transportation)	2%
Leases of aircraft, aircraft engines, aircraft spare parts and ocean going vessels	2%
Reinsurance	2%
Assignments (transfer) of securities	0.1%
Loan interest	5%
Income from royalties	10%
Reinsurance to overseas	0.1%
Services together with supply of machinery and equipment	2%
Construction without the supply of materials or machinery and equipment	2%
Construction with supply of materials or machinery and equipment	2%

(Source: Decree 122/2011/ND-CP)

VAT for foreign contractors

VAT to be withheld= Added value x VAT rate

Added value= VAT taxable turnover x Added rate (%)

Foreign Contractor VAT rates as a percentage of taxable turnover

Business Lines	Rates of added value as % of taxable turnover
Services, machinery and equipment leasing businesses, and insurance contracts	50%
Construction, assembly and installation that includes supplying materials, machinery and equipment	30%
Construction, assembly and installation that does not include supplying of materials, machinery and equipment.	50%
Transportation, production and other businesses	30%

(Source: Circular 134/2008/TT-BTC)

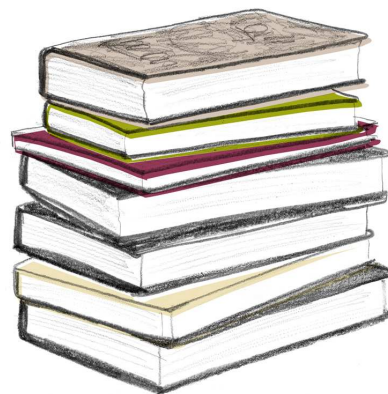
Double Tax Agreements

Vietnam has negotiated 62 Double Tax Agreements (DTA's) with other nations. However, to be applicable the relevant parties must comply with the documentation requirements in order to benefit from the relevant tax treaty terms and conditions.

Preferential treaty provisions take precedence over the general tax regulations.

Countries with existing tax treaties with Vietnam				
Algeria	Australia	Austria	Bangladesh	Belarus
Belgium	Brunei Darussalam	Bulgaria	Canada	China
Cuba	Czech Republic	Denmark	Egypt	Finland
France	Germany	Hong Kong	Hungary	Iceland
India	Indonesia	Ireland	Israel	Italy
Japan	Kazakhstan	Kuwait	Laos	Luxemburg
Malaysia	Mongolia	Morocco	Mozambique	Myanmar
Netherlands	North Korea	Norway	Oman	Pakistan
Philippines	Poland	Qatar	Rumania	Russia
Saudi Arabia	Seychelles	Singapore	Slovakia	South Korea
Spain	Sri Lanka	Sweden	Switzerland	Taiwan
Thailand	Tunisia	Ukraine	United Arab Emirates	United Kingdom
Uzbekistan	Venezuela			

Notably, of Vietnam's major trading partners, there is no tax treaty with the United States at present.



Personal Income Tax

The new Law on Personal Income Tax took effect on 1 January 2009. This replaced the previous ordinance and regulations covering Income Tax of High Income Earners in Vietnam.

Taxpayers

Resident individuals are subject to PIT and are taxable on worldwide income, with non-resident individuals being taxed on income arising within Vietnam.

Residency

Any individual is considered a resident for tax purposes if he satisfies one of the following conditions:

- Being present in Vietnam for a period of one hundred and eighty-three (183) days or more within one western calendar year or for twelve (12) consecutive months
- Having a regular residential location in Vietnam in one of the following cases:
 - Having permanent residence recorded in the residence card or temporary residence card, or
 - Having a lease contract of ninety (90) days or more

A non-resident is any individual who does not satisfy the above conditions.

For individual stays in Vietnam of more than 90 days but less than 183 days in a tax year; or in 12 consecutive months from the date of arrival in Vietnam, the individual will be viewed as a Vietnam tax non-resident if the individual can prove that he/she is a tax resident of another country.

Taxable income

Taxable income generally comprises 10 main types of income: business income; salaries and wages; income from capital investments; income from capital transfers; income from real property transfers; winnings or prizes; royalties; income from franchises; income from inheritances and receipts of gifts.

Tax-exempt income

Income not subject to tax generally includes: one-off regional transfer allowances for foreigners moving to reside in Vietnam; the cost of one return air ticket paid by the employer for a foreign employee to return home for holiday once per year; employee training fees paid to training centres; school fees of expatriate employees' children paid directly to schools in Vietnam; and the taxable value of employer-provided accommodation being the lower of the actual rental paid and 15% of the employee's gross taxable income (excluding the taxable housing). In addition, income not subject to tax includes:

income from real property transfers between certain related parties; income from the transfer of a sole residential house or residential land use right in Vietnam; receipt of an inheritance or gift of real property between certain related parties; interest on money deposited at a bank or credit institutions; income from life insurance policies; foreign currency remitted by overseas Vietnamese; that part of night shift or overtime salary payable that is higher than the day shift or normal working hours salary stipulated by the Labour Code; scholarships; compensation payments from life and non-life insurance contracts and compensation for labour accidents.

Progressive tax rates for resident Individuals on salary and business income received by residents

Tax bracket	Portion of Annual Assessable Income (VND)	Portion of monthly Assessable Income (VND)	Tax Rate
1	Up to 60 million	Up to 5 million	5%
2	From 60 to 120 million	From 5 to 10 million	10%
3	From 120 to 216 million	From 10 to 18 million	15%
4	From 216 to 384 million	From 18 to 32 million	20%
5	From 384 to 624 million	From 32 to 52 million	25%
6	From 624 to 960 million	From 52 to 80 million	30%
7	Over 960 million	Over 80 million	35%

(Source: Circular 84/2008/TT-BTC)

Resident Individual Tax rates (flat rates) on other income than salary and business income

Income source	Tax rate
Income from capital investment (such as dividends and interest)	Exempt until 31 December 2012
Income from copyright and commercial franchising	5%
Income from winnings and prizes	10%
Incomes from inheritances and gifts	10%
Income from capital transfers	20%
Income from securities transfers	0.1% on transfer price or 20% on capital gain
Income from real estate transfers	2% on transfer price or 25% on capital gain

(Source: Circular 84/2008/TT-BTC)

Assessable income

Assessable income from salaries and wages is total taxable income less the following deductions:

- Insurance premiums for compulsory social insurance and medical insurance and premiums for other insurance that is compulsory pursuant to law
- Deductions for family circumstances
- Deductions for contributions to charitable, humanitarian or study promotional funds (“charitable funds”).

Deductions for family circumstances comprise the following two components:

- A deduction applicable to all taxpayers of VND4,000,000 per month (VND48,000,000 per year)
- A deduction for each dependant of VND1,600,000 per month.

The level of deduction for dependants is determined on the principle that each dependant may only be assessed for deduction on one occasion from the taxable income of one taxpayer.

Dependants are individuals whom the taxpayer has the responsibility to rear or care for, and comprise: Children, including adopted and illegitimate children, who are still minors; children who are handicapped or unable to work and children currently studying.

Individuals who do not receive income or who receive income that does not exceed VND500,000 per month including a spouse who is incapable of working; a parent, parent-in-law or stepmother, stepfather who are retired or incapable of working; and any other feeble person including grandparents, brothers-in-law, sisters-in-law, nephews and nieces for whom the taxpayer directly rears or cares.

Deductions are allowable for contributions to charitable and humanitarian funds are as follows:

- Contributions to institutions or establishments that raise or care for children in an especially difficult situation, for disabled people, or for elderly feeble people
- Contributions to charitable, humanitarian and study promotional funds.

Tax rate on business income for non-residents

Business Income	CIT Rates
Gross income from sales of goods	1%
Gross income from services	5%
Gross income from production, construction, transportation and other business activities	2%

(Source: Circular 84/2008/TT-BTC)

Salaries and wages for work done in Vietnam are subject to 20% income tax in Vietnam regardless of where the income is paid.

Tax rates on other income for non-residents

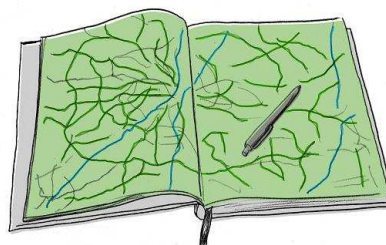
Type of Income	CIT Rates
Capital investments (such as dividends and interest)	5%
Royalties and franchises	5%
Winnings and prizes	10%
Inheritance and gifts	10%
Capital transfer*	0.1%
Transfers of real property* *based upon transfer value, not profit	2%

(Source: Circular 84/2008/TT-BTC)

Income subject to withholding tax

The following types of income are subject to withholding tax at source:

- Income of non-resident individuals
- Income of resident individuals being:
 - Salary
 - Income from capital investments
 - Income from capital transfers and from
 - Transfers of securities
 - All types of prizes
 - Income from copyright (royalties)
 - Income from franchising



Tax declarations and payment

Income paying organisations making payments of income subject to withholding tax are required to make monthly tax declarations not later than the 20th day of every month. If an income paying body deducts lower than VND5 million, it can make the tax declaration on a quarterly basis not later than the 30th day of the first month of the following quarter. The total income withheld must be finalised not later than 90 days after the end of the western calendar year.

Business individuals who comply with the accounting regime for invoices and source documents must submit provisional quarterly declarations not later than the 30th day of the first month of the following quarter and submit the annual finalisation declaration not later than the 90th day after the end of the western calendar year.

The following individuals earning salary are required to submit a monthly declaration not later than the 10th day of the following month:

- An individual receiving income being salary paid by an entity located in a foreign country
- A Vietnamese individual with income being salary paid by an international organisation, embassy or consulate in Vietnam.
- Tax finalisation, on the other hand, is applicable to individuals with income being a salary in the following cases:
 - Where the amount of tax payable in the year is greater than the amount already deducted or provisionally paid in the year, or tax obligations that arise throughout the year for which deductions or provisional payments have not yet been made
 - Where the taxpayer requests a tax refund or an offset of tax in the following period
 - Where a resident individual being a foreigner upon termination of his or her contract to work in Vietnam and before exiting Vietnam.

Taxes due based on the declarations must be paid not later than the deadline for filing the declarations.

Other taxes

Registration Fees

The following are exempt from registration fees: residential houses and residential land of poor households; residential houses and residential land of ethnic minority people in communes, wards and townships in areas with difficult conditions; and inland watercraft (including fishing boats) with total engine deadweight under 15 tons, watercraft with total main engine capacity under 15 horsepower, and watercraft with capacity to carry less than twelve (12) people. Registration fees are calculated as a percentage of the value of the asset as follows:

Assets	Rates
Land and housing	0.5%
Ships and boats	1%
Deep-sea fishing boats	0.5%
Motorcycles	1% to 5%
Passenger vehicles with less than 10 seats	15%
Other vehicles (including semi-trailers and farm vehicles) that are not passenger vehicles with less than 10 seats and which are not specialised vehicles	2%
Shotguns and sports guns	2%

The maximum registration fee is VND500 million per single asset, except for passenger vehicles with less than 10 seats. Buildings for production or business are calculated in general as one building within the precinct of a single production and business establishment.

Export duties

Export is encouraged and thus, most goods and services exported are exempt from tax. Export duties are only charged on a limited range of items. For example mineral resources, forest products and scrap metal. Export duty rates of these items range from 0% to 45%. The rates are specified in the Export Tariff List promulgated by the Ministry of Finance. Exported gold has been subject to export rate of 10% from 2011.



Import duties

Generally, all goods crossing Vietnamese borders are subject to import duties. In particular:

- Goods imported through Vietnamese border gates or border by road, river, seaport, airport, international railway, international post and other locations for customs procedures clearance
- Goods transferred from the local market to non-tax areas or vice versa
- Other goods traded or exchanged that are considered as imports.
- The following goods are not subject to import duties:
 - Goods transited and transported by mode of border gate trans-shipment through Vietnam's border gates or border under the customs law
 - Humanitarian aid goods
 - Goods imported from abroad into non-tariff zones and only used therein
 - Goods brought from one non-tariff zone to another.

1

Import tax rates include preferential tax rates, particularly preferential tax rates and ordinary tax rates. Preferential tax rates are applicable to imports originating from countries or groups of countries or territories that grant most-favoured-nation treatment in trade relations with Vietnam. Taxpayers declare the origin of goods themselves and are held responsible for declarations regarding the origin of goods. Particularly preferential tax rates are individually specified for each item covered by decisions released by the Minister of Finance. Ordinary tax rates are applicable to imports originating from countries, groups of countries or territories that do not grant most-favoured-nation treatment or special import tax preferences to Vietnam. The ordinary tax rate is equal to 150% of the preferential tax rate.

Apart from being subject to import tax, in certain situations Vietnam also imposes an anti-dumping tax, anti-subsidy tax and anti-discrimination tax or safeguard tax, in accordance with existing rules.

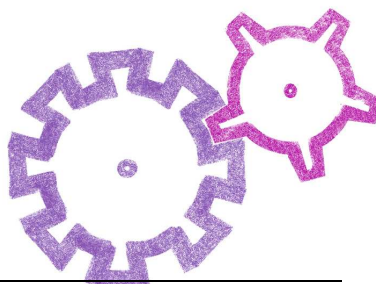
Special Sales Tax (“SST”)⁴

Goods generally subject to SST include: cigarettes, cigars and other products processed from tobacco; spirits and beer; passenger vehicles of less than 24 seats; two-wheel motor vehicles with a cylinder capacity above 125cc; aircraft and yachts; various types of petrol; air-conditioners with a capacity of 90,000 BTU or less and playing cards.

Businesses subject to SST include: dancehalls; massage lounges and karaoke parlours; slot machines and other similar types of machines; betting businesses; golf and lotteries.

The amount of SST payable is equal to the taxable price multiplied by the SST rate, which ranges from 10% to 70% depending on the taxable goods or services.

The SST taxable price must be calculated in Vietnamese Dong. A taxpayer having turnover in a foreign currency must convert it into Vietnamese Dong at the average trading rate on the inter-bank foreign currency market as announced by the State Bank of Vietnam on the date when such turnover arose, for the purposes of determining the SST taxable price. In the case of imported goods, the conversion of foreign currencies into Vietnamese Dong to fix the taxable price is to be conducted in accordance with the Law on Import and Export Duties.



⁴ Special Sales tax - Special sales taxes are applied to goods that are deemed to be a luxury or an indulgence. The make-up of the list of goods and services subject to the tax is often controversial, as are the rates applied, especially for common items such as household air-conditioners.

Natural Resources Tax

All organisations and individuals engaged in exploiting or mining natural resources in compliance with the laws of Vietnam, irrespective of their industry, scope and operational form, are liable to register, declare and pay royalties.

Taxable resources means all natural resources existing in the land, islands, internal waters, sea territory, exclusive economic zones (including maritime areas common to both Vietnam and a neighbouring country) and the continental shelf under the sovereignty of the Socialist Republic of Vietnam, including: metallic mineral resources; non-metallic mineral resources including soil, stone, sand, gravel, coal, gemstones, mineral water and natural thermal water; oil; gas or natural gas; natural forest products; natural marine products; natural water including surface water, ground water and other natural resources under the law on natural resources.

The taxable value of a resource is the selling price of each item or unit of resource at the place of mining in accordance with the principle of market price. The royalty rates vary from 0% to 40%.

Exemptions or reductions in royalty taxes include offshore fishing by high-capacity vessels; natural water used for generation of hydropower that is not fed into the national power grid; and soil or combined soil products for ground levelling or construction works.



Tax Administration

Tax registration

The following entities are required to register for taxation purposes:

- Business organisations, households and individuals
- Individuals who have income liable to personal income tax
- Organisations and individuals responsible for withholding and paying taxes on taxpayers' behalf
- Other organisations and individuals defined by the tax law.

Deadline for registration

Tax registrants are required to undertake tax registration within 10 working days after:

- They are granted business registration certificates or establishment and operational licences or investment certificates
- They commence their business operations. For organisations not subject to business registration, or households and individuals subject to business registration but having not been granted business registration certificates
- Responsibility for withholding and paying taxes on taxpayers' behalf arises
- Personal income tax liability arises
- A claim for a tax refund is made.

If taxpayers conduct their own tax calculations, the deadline for tax payment is the last day of the time limit for submission of tax declaration dossiers. However, if tax administration agencies conduct tax calculation or tax assessment, the time limit for tax payment is stated in the notices of the tax administration agencies.

Tax inspections

Tax inspections can be conducted on a regular basis but no more than once a year. Tax inspection durations must not exceed thirty days from the date of notification of the tax inspection decision. However these may be extended for an additional period not exceeding thirty days.

Penalties for tax violations

A taxpayer who pays tax later than the deadline is to pay the outstanding tax amount plus a fine equal to 0.05% of the tax amount for each day the payment is late.

Taxpayers that make incorrect declarations, thereby reducing taxes payable or increasing refundable tax amounts are to pay the full amount of the under-declared tax or return the excess refund, and will also pay a fine equal to 10% of the under-declared or excess refunded tax amounts together with a fine for late payment of the tax.

A taxpayer that commits acts of tax evasion or tax fraud is liable to pay the full amount of tax according to regulations and a fine will be imposed of between one and three times the evaded tax amount.

Deadlines for submission of tax declaration dossiers and payment of taxes

Declaration/Document	Deadline
Monthly tax declaration dossiers	20 th day of the following month
Annual tax declaration dossiers	30 th day of the first month of the new financial year
Quarterly declaration dossiers	30 th day of the following quarter
Annual tax finalisation dossiers	90 th day from the year end of the financial year
For taxes that are declared and paid per each time a liability arises	10 th day from the date the tax each liability arises
Termination of contracts or operations, corporate reorganisation or transformation of corporate ownership	45 th day from the date of termination of the contract or operations, corporate reorganisation or transformation of ownership

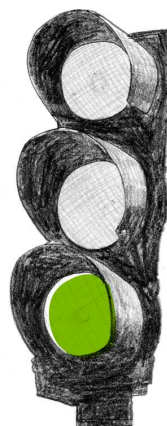
(Source: Circular 60/2007/TT-BTC)

Statute of Limitations

The Law on Tax Administration provides that the statute of limitations for tax penalties is as follows:

- Violation of tax procedures - two years from the date the act of violation is committed
- Tax evasion or tax fraud, acts of late tax payment and declaration of inadequate amount - five years from the date the act of violation is committed.

Past the statute of limitations, the taxpayer will still be liable for the unpaid taxes but no longer for penalties and interest.



Labour

Wages

The legal minimum wage for unskilled workers from 1 October 2011 to 31 December 2012, depending upon location of employment, ranges from VND1,400,000 to VND2,000,000 per person per month for local companies. Employees who work overtime are entitled to additional wages. The normal overtime rate must be at least 150% of the standard rate. On scheduled days off the overtime rate must be at least 200% of the standard rate and for public holidays the overtime rate is 300% of the standard rate.

Social security

A compulsory social insurance scheme applies to all enterprises, bodies and organisations that hire employees under labour contracts with a definite term of over three months and for labour contracts with indefinite terms. Employers and employees must pay contributions to the State Social Insurance Fund equal to 17% of gross income by the employer and 7% by the employee.

The Fund covers the employees' benefits during sick leave, maternity leave, retirement, allowances for work-related accidents and occupational diseases, and survivors' benefits. The ceiling level for social insurance is 20 times the Government's minimum wage or /VND16,600,000 (approximately USD790)

In addition, employers and employees are required to contribute to the State Health Insurance Fund to partially cover health care benefits. The contributions currently constitute 4.5% of gross income, with 3% being the responsibility of the employer and 1.5% the responsibility of the employee. Unlike the other social contributions, the health care contribution requirements also apply to expatriate employees.

Pensions

Monthly pensions are provided from the Social Insurance Fund where an individual has contributed social insurance for more than 20 years and when they reach 60 years of age for men, or 55 years of age for women.

Unemployment Insurance

The unemployed are entitled to three months unemployment benefits if they have paid between 12 and 36 months of unemployment insurance; six months of benefits if they have paid 36 to 72 months insurance and nine months of benefits if they have paid 72 months to 144 months of unemployment insurance. Ex-employees will be paid an unemployment allowance for one year if they have paid over 144 months of unemployment insurance.

The allowance is up to 60 percent of the person's previous average of the previous 6 month's salary.

Funding for the unemployment insurance comes from the State, enterprises and labourers. Employees, employers and the state each contribute an amount equal to 1% of the employee's monthly salary to an unemployment insurance fund.

Employment Benefits

Public holidays

Please refer to Page 7 for details of public holidays in Vietnam.

Sick pay

The Social Insurance Fund covers sick-leave allowances for employees and also for female employees taking care of their sick children. The maximum time granted per year for sick leave is 30 days (in most industries and professions), with 15 days permitted for taking care of sick children. The allowance granted in lieu of salary is equal to 75% of the salary.

Workers' compensation

Workers suffering labour accidents or work related diseases are entitled to an allowance equal to 100% of their salary during the initial treatment period.

Employers are responsible for the allowance and all the examination and treatment expenses. After the conclusion of the treatment, the worker will receive further allowances from the Social Insurance Fund based on the degree of disability and illness. If a worker dies as a result of a work related injury or disease, his family will be entitled to death benefits covered by Social Insurance Fund. Employers have an additional obligation to pay compensation representing at least 30 months salary to workers who suffer a reduction of more than 81% of their labour capacity, or they must pay an equivalent amount to the close relatives of a worker who dies as a result of a labour accident or disease not caused by his own negligence. In cases where the injury or death of the worker is due to their own fault, the labourer will still receive an allowance equalling at least 12 months salary.

Health care

Basic health care is covered by the Social Insurance Fund. However, private schemes are becoming more popular, especially among foreign employers.

Annual Leave

Employees who have been employed for 12 months are provided with a minimum of 12 days of paid annual leave (vacation) per year.

Trade unions

All companies, whether Vietnamese or foreign, must permit their staff to form trade unions. Disputes between employers and employees should be resolved through negotiations with the participation of Trade Unions.

Foreign employers are required to contribute 1% of total salary expenses into a union fund.

Termination

Both employer and employee may terminate a labour contract in certain circumstances specified in the Labour Code, but must give 45 days notice in respect of indefinite term contracts, 30 days notice in respect of definite term contracts and three days notice in respect of seasonal contracts. In some cases, the employer is required to discuss the termination and reach an agreement with the executive committee of the trade union.

Personnel limitations - foreign employees

Where employment positions require specialist skills or senior management responsibilities that Vietnamese staff cannot fill, organisations are authorised to recruit foreigners to fill that position. However, the employer must have a plan or programme of training to enable a Vietnamese national to take over the job and replace the foreigner at a point in the future. For most positions, foreign employees must provide original copies of relevant educational qualifications in order to obtain a work permit.

However, as Decree 46 came into effect on 1 August 2011, the regulations relating to Employment and Administration of Foreigners Working in Vietnam have tightened the rules on work permits for foreigners. In particular, foreigners who do not have valid work permits are generally unable to obtain work visas and can, in a worst case scenario, be deported. Under this new Decree, a signed training contract between the employer and Vietnamese staff who will replace the foreigner is required as a compulsory dossier for the application of renewing the work permit. Furthermore, when employers consider hiring new staff, they are generally required to publish recruitment ads in regional and national Vietnamese newspapers 30 days before hiring foreigners and they must give priority to hiring Vietnamese employees. However, this requirement is not applicable for recruitment agencies and international schools. There are other crucial additions in Decree 46 that employers need to take into careful consideration to ensure compliance when contemplating hiring foreign employees.

Circular 31 was released on 3 November 2011 to help the implementation of Decree 34 and 46 on recruitment and clarify how to manage foreign employees. Circular 31 came into full effect on 18 December 2011.

Banking and Capital Markets

Banking System

Vietnam's banking system was divided into a two-tier structure in 1988 when the State Bank of Vietnam (SBV) assumed the regulatory and supervisory roles for the banking sector, with commercial activities shifting to credit institutions.

The SBV acts as both the Central Bank and as a Government Agency of the Socialist Republic of Vietnam. Operating under the tight direction of the Government, the SBV is subject to the Government's or the Prime Minister's approval for key areas of operation.

Since dividing into a two-level system, the Vietnam banking system has expanded rapidly. At the end of October 2011, the total assets of the commercial bank system reached over VND4,713 trillion, growing 13.5% from the end of 2010. The group of commercial joint stock banks reached higher growth than the average level with 16.4% from December 2010.

Vietnam's credit institutions comprise state-owned commercial banks (SOCBs), joint-stock commercial banks, joint-venture banks, 100% foreign-owned banks, branches of foreign banks, credit cooperatives, finance leasing companies and finance companies.

Four SOCBs dominate the domestic banking sector; the Bank for Foreign Trade of Vietnam (*Vietcombank*); the Vietnam Joint Stock Commercial Bank for Industry and Trade (*Vietinbank*); the Bank for Investment and Development of Vietnam (*BIDV*); and the Vietnam Bank for Agriculture and Rural Development (*Agribank*).

In recent years, the market share of SOCBs has been declining gradually from 47.6% in 2009 to 41.3% in 2010 and 39% by the end of October 2011. Instead, the strong growth of commercial joint stock banks with market shares in terms of total assets increasing over the years from 41.2% in 2009 to 44.3% in 2010 and 45.4% by the end of October 2011.

Most joint-stock commercial banks were initially capitalised at low levels. However, in 2008 all joint-stock banks increased their capital to a minimum of VND1,000 billion (USD60 million) to meet revised legal capital requirements. Banks have been required to have a registered capital of at least VND3,000 billion or approximately USD180 million, by the end of 2011.

Over the last three years, foreign banks have expanded their presence in Vietnam. There are 48 foreign bank branches; five joint-venture banks, and five 100% foreign-owned banks in accordance with Vietnam's WTO commitments (HSBC, Standard Chartered Bank, ANZ Bank, Shinha Bank-Korean Bank and Hong Leong Bank Berhad-Malaysia Bank). Further, there are nine non-bank credit institutions and 54 representative offices from 22 countries and territories.

Current legislation states that the total foreign share holding in local Vietnamese banks must not exceed 30%. Within this limit the maximum share holding permitted to a foreign bank as a strategic partner is 15% (which can be increased to 20% with the approval of the Prime Minister), while a non-bank investor that is not a strategic investor can own 5%.



Banks in Vietnam

From a low base, the banking system continues to expand at a rapid rate. Despite GDP growth of just 5.89% in 2011, lending growth in Vietnam during the year was 20%.

Bank restructuring programme

Since early 2000, a comprehensive reform and restructuring programme of the banking sector has been under way. The programme goals are to ensure the efficiency and stability of the banking system; to expand banking services and to restructure state-owned commercial banks and joint-stock commercial banks. The reform programme is focused on four key areas: the introduction of international banking standards to banking management and activities; active liberalisation of the banking sector; improvement of the regulatory framework and the enhancement of transparency.

As a part of the restructuring programme, Vietcombank and Vietinbank were equitised in 2007 and 2008. The government still owns 100% of BIDV and Agribank, Vietnam Development Bank and Vietnam Bank for Social Policies – the latter two being policy banks. Post-equitisation, the Government currently holds 76% of Vietcombank and 80.31% of Vietinbank and 96% of Mekong Housing Bank.

While the banking industry has been rapidly developing, Vietnam is still a largely cash-based society. This is evidenced through the fact that only about 32% (28,000,000) of Vietnam's population of approximately 88 million held ATM cards as at the end of 2011.

Deposit insurance in Vietnam was introduced in 2000. Under this regulation, banks are required to participate in the deposit insurance scheme run by the Deposit Insurance Corporation. The maximum insured amount is VND50 million per account, per individual, per bank.

The State Bank of Vietnam will focus on restructuring weak banks in 2012 to ensure the liquidity in the entire banking system, while avoiding any bankruptcies in the sector. 2012 will be the first year of the State Bank's restructuring programme for credit institutions. The programme will last until 2020.

The successful merger of SCB, TinNghiaBank and the Ficombank established a firm foundation for the State Bank of Vietnam to boost the bank restructuring process for the future. The local banking system can be restructured within three possible scenarios:

- Commercial banks with the same owners and controlling shareholders can be merged into a single bank.
- Small banks may try to resolve their liquidity problem through mergers with larger banks who will hold controlling shareholdings.
- Small banks can be acquired by an external institution, which will reorganise their operation and inject funds for these banks to overcome their liquidity problems.

This trend can move in two directions:

(1) banks raise capital by issuing shares under private placements to new shareholders, or (2) existing shareholders sell shares to outsiders.

Legal treatment

Under the current regulations, credit institutions are permitted to provide a wide range of products and services from traditional banking to fund management or securities services. In practice, due to licensing restrictions, the non-traditional banking services are generally provided by banks through separate legal entities.

Although there are still differences in the legal treatment given to the foreign credit institutions and domestic credit institutions, under the WTO commitments, Vietnam has committed to levelling the playing field for both domestic and foreign credit institutions.

Under the WTO's commitment, Vietnam has allowed the establishment of 100% foreign-owned banks since 1 April 2007. Although the first 100% foreign-owned bank did not start formally operating until 1 January 2009. The scope of operations of foreign banks in Vietnam will be progressively expanded in line with the Vietnam's WTO and other international commitments. Similar progress will be applied to domestic credit institutions.

Capital markets

The Vietnam securities markets are monitored and regulated by the State Securities Commission. The Ho Chi Minh City Securities Trading Centre (HOSTC) was the first to be opened in July 2000. Five years later, in an effort to establish a new market for trading securities of small and medium enterprises, the Hanoi Securities Trading Centre (HASTC) was inaugurated in March 2005. All bond transactions are traded on HASTC. In July 2007, HOSTC was upgraded to a full stock exchange and renamed Ho Chi Minh City Stock Exchange (HOSE). In January 2009, HASTC was also upgraded to stock exchange level and renamed Hanoi Stock Exchange (HNX). A project to merge the nation's two stock exchanges has been mapped out. The merger is expected to reduce technology, infrastructure, facility and human resource costs, and help securities firms cut down on the cost of connecting their systems between the two bourses. However, it is undefined when the merger will materialise.

The market for unlisted public companies, UPCoM which was established in June 2009, aims to narrow transactions on the free market, improve information transparency of companies and reduce risks for investors.

The total capitalisation of Vietnam's listed securities markets has risen to USD42.4 billion (35% of GDP) as at December 2011. At 30 December 2010 the total capitalisation was USD35 billion, 50% of GDP.

The HOSE index decreased by 27.46% and the HNX index fell by 48.6% in 2011. The average market price earnings ratio was about 7.4 as at 31 December 2011, compared with 11 at the end of 2010.

Up to December 2011, there were 695 enterprises listed on both markets, 133 enterprises listed on UPCoM, 102 securities companies (brokers) and 47 investment management companies operating in Vietnam.

The number of stock investors has also increased sharply. By mid year 2011, the number of trading accounts reached over 1.1 million, much higher than the 3,000 recorded in late 2000. The number of trading accounts held by foreign investors also increased to 15,569 accounts in 2011; over four times that of 2006.

Under the current regulations, foreign investors may hold up to 49% of the charter capital of a listed company (other than banks). The holding of fixed-income securities is not subject to any restriction. The Government is considering loosening these caps to promote market liquidity.

Under WTO commitments, the 30% foreign equity limitation for shareholdings in Vietnamese companies was removed in 2007, with the exception of credit institutions.

All securities transactions in Vietnam must be conducted in Vietnamese Dong. In order to sell and buy securities of listed enterprises, foreign investors must trade through a specialised Vietnamese Dong account opened with a securities company.



Financial Reporting and Audit

Assurance

Accounting and auditing practice in Vietnam has dramatically improved in recent years. This is as a result of the introduction of and continuing improvements in the accounting and auditing standards. In addition there has been the establishment of professional bodies, an increase in the number of qualified accountants and auditors and the development of relevant laws and regulations.

The governing function of the accounting and auditing profession was previously managed by the Ministry of Finance (MOF) until the establishment of the Vietnam Association of Certified Public Accountants (VACPA) in 2005. With the establishment of VACPA, certain functions relating to the administration and management of the accounting profession have been transferred to VACPA, including:

- Continuing professional education for members
- Controlling memberships and approving practicing conditions for members
- Performing quality control reviews of accounting and auditing firms in coordination with the MOF
- Taking part in the organisation of CPA examinations.

The regulatory functions relating to the issuance of certificates and registrations of accountants and auditors, and the issuance of accounting and auditing standards are still under the control of the MOF, although there are plans to delegate such role in the near future.

Financial reporting

Laws and regulations

There are currently 26 Vietnamese Accounting Standards which were issued during the period from 2001 to 2005. These standards were adopted from and

primarily based on the International Accounting Standards issued by the International Federation of

Accountants (“IAS”) prevailing at the time of issuance, and in harmony with the development of Vietnam’s economy, legislation and accounting practice. Detailed guidance on the implementation of standards is issued by the MOF along with the promulgation of the related standards.

As many of these standards are now outdated due to the continuous improvement and amendments of the International Financial Reporting Standards issued by the International Federation of Accountants (“IFRS”), the Ministry of Finance is conducting a project to update and issue new standards to replace those outdated ones. Accordingly, the first 7 amended Vietnamese Accounting Standards will be issued in 2012 and become effective for the reporting year beginning 1 January 2013.

In addition, several decisions and circulars have been issued to regulate and provide detailed guidance on accounting treatment and reporting requirements for local and foreign invested business entities, small and medium sized companies and for some special industries such as banking and financial institutions, insurance companies, fund management companies, investment funds and securities companies. The form of financial statements, chart of accounts, account books and accounting documents is also stipulated by these decisions and circulars.

All companies and corporations are required to comply with the Vietnamese Accounting Standards and Systems. Any deviation from Vietnamese Accounting Standards and Systems need prior written approval from the Ministry of Finance.

Fundamental requirements in accounting and financial reporting

The Law on Accounting stipulates that the financial statements of the enterprises established in Vietnam should be prepared in accordance with the following fundamental requirements:

- Framework: Vietnamese Accounting Standards and System (VASs)
- Financial year: Year ending 31 December
- Language: Vietnamese
- Reporting currency: VND

Any departures from these requirements need prior written approval from the Ministry of Finance.

Filing and submission of statutory financial statements

The submission of the statutory financial statements and related auditors' reports thereon (if applicable) to various Ministries and Departments of the Government is required within 90 days from the end of each financial year.

Auditing

Laws and regulations

The Law on Independent Auditing, which governs the audit practice in Vietnam, was released on 29 March 2011 and took effect on 1 January 2012. The MOF has issued thirty seven Vietnamese Standards on Auditing (VSA), the majority of which have been adopted from the International Standards of Auditing (ISA) issued by the International Auditing and Assurance Standards Board (IAASB) with little alterations.

To keep pace with the amendments in ISA, the MOF is also conducting a project to update the current VSA. In particular a total of thirteen exposure drafts containing the amended standards have been released for discussion in 2011 and they are expected to be issued in 2012.

The Regulations on Quality Controls for Accounting and Auditing Services were issued by the MOF in May 2007. The MOF is also working on the Vietnamese Standard on Quality Control, which is currently in draft form and is based on the International Standards on Quality Control (ISQC 1). It is expected to be issued in 2012.

Statutory audit

In accordance with current Vietnamese laws and regulations, the following entities are required to have their annual financial statements audited by an independent auditing firm: all foreign invested entities, banks, credit institutions and development funds, financial institutions and insurance companies, public companies, securities companies, auditing companies, state owned enterprises and category "A" projects. Statutory audits in Vietnam are performed in accordance with the Vietnamese Standards on Auditing.

Audit of public interest entities

Public interest entities which include listed entities, public entities, financial institutions, financial services companies and insurance companies are required to submit reviewed financial statements at mid-year and audited financial statements at the end of the year. The mid-year review and year end audit should be performed by auditing firms duly registered and approved by the MOF and the State Securities Commission of Vietnam (SSC).

The MOF is responsible for the selection of auditing firms that are allowed to perform independent audits of public interest entities. The MOF issues the relevant guidance and criteria for qualification and approval. The list of auditing firms approved to audit public interest entities is reviewed and revised annually and published on the websites of SSC, VACPA and the MOF usually around November and December each year.

There are currently only 43 approved firms, including Grant Thornton Vietnam.

Grant Thornton in Vietnam

Grant Thornton Vietnam

Grant Thornton Vietnam was established in 1993. Our Partners have an average of almost 30 years experience in South East Asia and 12 years in Vietnam. Our mission is **“To be the leading service provider in the Greater Mekong region, providing distinctive client service and bold leadership through empowered people”**.

Whether we are acting as independent auditors, advising on funding a business, looking into tax issues, or restructuring a business, meeting our Clients' objectives and expectations, through practical solutions based on our practice values of integrity, reliability and personal attention, is our aim.



We received the Certificate of Merit from the Prime Minister of Vietnam, for our contribution to the development of the Auditing Profession, 2005 - 2011.

Assurance

In today's ever-changing business climate, effective management of resources and speedy access to information are crucial. Our approach to assurance services is focused on enhancing the value of our audit services to businesses and business owners, ensuring the integrity of financial information and helping to reduce compliance costs. Clients benefit from our proprietary audit software to deliver a cost-effective, risk-based, paperless audit.

We provide assurance services to:

- Public companies
- Foreign invested companies
- Locally owned business
- Non Governmental Organisation and donor funded projects.

Advisory Services

Our Advisory Services team can help you achieve your objectives by developing effective plans and strategies relevant to your business goals. Whether you are seeking to acquire a business, looking to expand, making new investments, undertaking a financial restructuring in a turnaround phase or seeking to divest, our extensive range of services including; Lead Advisory, Transaction Support, Business Valuation, Equitisation Consulting, Listing Preparation, Business Improvement, Restructuring, Project Finance and Succession Planning will be of benefit to you.

With careful planning and co-ordination, we will help you make sure your business thrives – in addition we will ensure that the chosen strategy is “right” for your business and that you get the best value.

Tax Services

Our committed tax professionals can maximise your earnings by combining a comprehensive knowledge of tax regulations and the capacity to plan creatively to reduce your taxes.

We help corporate Clients structure their investments in Vietnam and assist those operating internationally to capitalise on the lowest effective tax rates across multiple jurisdictions. For expatriate and local personnel, we can recommend tax-effective salary packages and advise on offshore solutions. We also help you deal with the tax authorities and provide regular tax updates, training and seminars.

Business Risk Services

Grant Thornton offers a broad range of Business Risk Services that stand out because we focus on turning compliance obligations, risk concerns and performance questions into opportunities for business improvement.

We work with you to understand your business and the risks to which you are exposed. We detect inefficiencies in existing processes, control systems and technological capabilities and then create sound strategies to mitigate your risk and improve the efficiency of your operations.

While the specific findings, recommendations and deliverables are unique for each and every Client, our highly experienced team can provide you with an objective, unbiased and comprehensive view of your situation, and help you address any issues identified.



Contacts

Further Information

If you require further information or assistance with any aspect of commencing, acquiring or doing business in Vietnam, please contact us.

We are always available for an introductory meeting to see how Grant Thornton can assist you, or to simply provide an insight in doing business in Vietnam.

Ken Atkinson
Managing Partner
T +84 8 3910 9100
E Ken.Atkinson@vn.gt.com

Downloads

For additional downloads and technical information about doing business in Vietnam please visit:

www.gt.com.vn

Ho Chi Minh City

28th Floor
Saigon Trade Center
37 Ton Duc Thang Street
District 1

T +84 8 3910 9100
F +84 8 3914 3748

Hanoi

8th Floor
Vinaplast-Tai Tam Building
39A Ngo Quyen Street
Hoan Kiem District

T +84 4 2220 2600
F +84 4 2220 6449

Audit and Assurance

Alan Dy
Partner
T +84 8 3910 9100
E Alan.Dy@vn.gt.com

Advisory Services

Nguyen Thi Vinh Ha
Partner
T +84 4 2220 2600
E VinhHa.Nguyen@vn.gt.com

Tax Services

Matthew Facey
Director
T +84 8 3910 9100
E Matthew.Facey@vn.gt.com

Business Risk Services

Nguyen Thi Vinh Ha
Partner
T +84 4 2220 2600
E VinhHa.Nguyen@vn.gt.com

