Market Entry Guide for Vietnam

2019

Licensing • Company Establishment • Transaction Support • Due Diligence • Advisory • Structuring

Ho Chi Minh City: Level 9, Abacus Tower
58 Nguyen Dinh Chieu, District 1

Hanoi: Level 13, Hanoi Tower
49 Hai Ba Trung, Hoan Kiem District

Danang: Level 3, Indochina Riverside Tower
74 Bach Dang, Hai Chau District

Email: info@domicilecs.com

www.DomicileCS.com
About Domicile Corporate Services

Domicile Corporate Services is a leading provider of professional accounting, tax, payroll, compliance, company establishment and advisory services in Vietnam, with a focus on providing exceptional services to international clients.

With offices in Ho Chi Minh City, Hanoi and Danang, we assist foreign invested and locally owned companies maintain the highest level of professional standards in Vietnam through proactive advice, compliance and reporting assistance.

Service Lines

Our Service Lines cover 5 key areas:

• Accounting, Outsourcing, Financial Reporting and Chief Accountant Appointment;
• Tax Consulting and Compliance;
• Payroll Outsourcing and Advisory;
• Licensing and Company Structuring; and
• Advisory Services and Transaction Support.

These Service Lines allow Domicile to provide a comprehensive suite of services to foreign investors, based around a multi-disciplinary approach to providing solutions and support to foreign investors in Vietnam.

Market Entry Support

A core element to Domicile’s services is the provision of market entry support to foreign investors - assisting investors to understand the options, processes and requirements for their Vietnam entry, and then to deliver on the structural and practical elements of this entry.

Our staff have significant experience across sectors and jurisdictions, and through the Service Line teams we develop solutions and advice that is specifically relevant for a planned strategy or transaction.

Compliance & Risk

Domicile is focussed on understanding and minimising risk for investors in Vietnam, and ensuring compliance is a core foundation of a foreign investment strategy. We believe that compliant businesses, which manage risks, provide the best opportunity to maximise returns to investors in Vietnam over the short and long term.

For further information, contact:

Matthew Lourey, Managing Partner
matthew.lourey@domicilecs.com

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The “Vietnam Story”

Vietnam has experienced tremendous growth (albeit from a low base) since first opening up to foreign investment in the later 1980’s and early 1990’s. The last 10 years in particular have provided significant opportunities and an exciting story for investors.

Foreign Investment Focus

Vietnam has made foreign investment a cornerstone of its economy, and has looked to provide a foundation for domestic growth and stability on the back of the foreign investment. Vietnam’s export sector is driven by foreign investment, with around 73% of all exported products being a result of foreign investors. Given the trade surplus Vietnam has maintained over recent years, the foreign investment focus continues to support and create domestic growth opportunities in the economy.

The relative political and economic stability, together with legislative processes to encourage foreign investment (whilst still protecting domestic and state enterprises), have enabled foreign investment to grow across a broad range of sectors and locations. Vietnam has also benefited from political and economic instability of other economies in Asia in recent years, with Vietnam continuing to provide a credible investment destination.
International Trade Agreements

Vietnam has been proactive in entering into Free Trade Agreements, as a foundation to long term economic stability, even where this has required significant domestic concessions.

At present, Vietnam is a signatory to the following agreements:
- Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP),
- ASEAN Economic Community
- ASEAN Free Trade Agreements with Japan, South Korea, India, China, Hong Kong, Australia and New Zealand.
- Bilateral Free Trade Agreements with Chile, South Korea, Japan and Israel.
- EU Vietnam Free Trade Agreement (signed, but awaiting ratification by the European and Vietnamese parliaments).

Vietnam is also signatory to over 70 Double Tax Agreements, and together with the expanding Free Trade Agreements, Vietnam sees itself as holding a core and stable position within the boundaries of international trade.
Market Entry Support

When looking to enter a new market, or expand existing operations, knowledge and experience is key to making the right decisions. Our multi-disciplinary approach to market entry provides a robust foundation to ensuring the correct decisions are made, and in the right timeframes.

Services that form the core elements to our Market Entry Support are:

Financial & Taxation Due Diligence

Undertaking appropriate Financial and Taxation Due Diligence, with a clear focus on identifying and quantifying risks, provides a document for negotiation and rectification strategies.

Due Diligence strategies and processes need to be tailored to specific sectors and industries, and rely around local knowledge and experience. Our Due Diligence reports are designed around actions and risks, with identified issues highlighted and prioritised for investors to make appropriate decisions.

Commercial Due Diligence

The process of undertaking Commercial Due Diligence on a potential target ensures that a full understanding of the commercial reliance, risks and opportunities is obtained prior to transactions occurring. Related party transactions and regulatory compliance issues are commonly identified in this stage, and should be rectified as part of the transaction.

Market Reviews

Before entering a market, a common strategy is to understand the local parameters of that market, and the opportunities or gaps within, from an independent yet critical perspective. Our Market Reviews enable investors to make commercial decisions without bias, and with balanced information.

Valuations

Undertaking an effective Valuation in Vietnam is not simply about using a static profit based multiple, but the approach needs to look in depth at a target to understand future growth, risks and key drivers to the business.

Our Valuation experts use their personal experience, industry data and extensive connections to develop models and valuation results that are robust and reliable for making investment decisions.

Competitor Analysis

Understanding who the competitors are (direct and indirect) within a market segment, and then digging deeper to understand each of those competitors in depth, is a strength of our teams at Domicile. Building true understandings of competitors in an industry or segment gives power to an investor that cannot be understated when first entering the market.

“At Domicile, we spend time to understand investment motives and expected outcomes when foreign investors are looking to enter Vietnam. It is only after we truly understand the “why” can we provide our experience and advice relevant for their intentions.

There is no “one-size-fits-all” approach to Vietnam, and we take pride in tailoring our services accordingly.”

Matthew Lourey
Managing Partner
matthew.lourey@domicilecs.com
Domicile assists investors in looking at Acquisitions or Establishment; for Greenfield projects or Existing Operations. The market entry strategy for each differs accordingly, and the structures and timeframes required to execute can vary dramatically.

Corporate Structures
We assist in determining the appropriate structure for investment into Vietnam; be it an offshore holding vehicle, an onshore SPV structure, or differing combinations; we look to ensure that structures provide regulatory, corporate and operational advantages for entry and future exit.

Certain industries have limitations for foreign investors, so establishing creative, yet secure, structures to work around the limitations, are areas that Domicile is proud to assist with.

Taxation Optimisation
Structures should also be based around optimising taxation. This involves understanding opportunities with Double Tax Agreements, Transfer Pricing obligations and future plans of the investor. With an appropriate taxation optimisation strategy, ongoing operations should have maximum flexibility with lesser risks of from authorities in the future.

Capital & Treasury Management
Inbound investment is predicated on the ability to repatriate profits and loan funds as investments mature. We work with investors to understand needs, and minimise trapped or restricted funds. We provide strategies for profit and capital repatriation, to allow treasury strategies to be integrated into group or regional requirements.

Vietnam has strict currency and foreign exchange controls, however for correctly structured investments, the effect of these controls can present only limited obstacles in practice.

Exit Strategies
The future exit is almost important as the entry, with pre-determined paths for exit and repatriation of capital an encouraged approach for investors.

With foresight and experience, a well structured future exit strategy can provide significant value creation for an investment in Vietnam.
When planning your market entry process, it is critical to fully understand the options and structures that exist in Vietnam, and restrictions that can apply.

Although Financial, Tax, Legal and Commercial Due Diligence processes may be undertaken to international standards, it should be kept in mind that historic tax risks (ie, potential liabilities) can be difficult to quantify in a meaningful manner and equally difficult to effectively protect against. As a result, it is not uncommon for a new company to be established in Vietnam to acquire the assets of an existing business as part of a transaction process.

Vietnamese companies are only permitted to undertake activities for which they are licensed, and although the majority of business activities are permitted for foreign investors in Vietnam, there are restrictions. Care should be taken in understanding the requirements or ability to undertake desired activities accordingly. This will have an impact on the appropriate structures and processes when undertaking entry into Vietnam.
Overview of the Company Establishment Process

In Vietnam, the process of establishing (incorporating) a company generally involves the submission of an application file to the Department of Planning and Investment (“DPI”) for Investment Licenses. Subsequent to obtaining the licenses, the company is required to undertake certain post-licensing procedures.

The licensing process for a foreign invested company in Vietnam generally includes three basic stages (unless Ministerial or specific pre-approvals are required, then additional steps can arise):

- **Stage 1:** Application for an Investment Registration Certificate (the “IRC”); (effectively, the foreign approval stage)
- **Stage 2:** Application for an Enterprise Registration Certificate (the “ERC”);
- **Stage 3:** Initial post licensing (procedures implemented after the establishment of a new company):
  a) Application for making public notification of the establishment of the new company
  b) Purchase and provision of Company Seal
  c) Application for announcement of the Seal specimen;
  d) Decision of appointment of the General Director/Director

Further post-licensing (compliance) activities can then begin, including tax registrations and bank account matters.

1. General Requirements

To start a company in Vietnam, investor(s) are required to have:

- At least one Legal Representative, being an individual (of any nationality) who generally resides in Vietnam.
- An office address in Vietnam,
- Evidence that the investor(s) have sufficient financial capacity to remit the approved Charter Capital into Vietnam within 90 days from company establishment.

In addition to the above, investors are required to prepare documents to support the identification of investors.

Company’s in Vietnam are limited to provide services in accordance with their requested Business Lines.

It is important to note that certain Business Lines are restricted, or are not part of the WTO commitments for foreign investment in Vietnam, and therefore additional work may be required to secure Ministerial or other approvals (where possible) for certain business activities.

Care should also be taken to understand any additional post-establishment sub-licenses for Business Lines, and to understand the relevant requirements for these sub-licenses that are issued and controlled by the relevant authorities or departments.
2. Documents Required for Applications

The common documents required for a standard application for the establishment of foreign-owned enterprise ("FOE") are listed below. These documents may vary slightly depending on the jurisdiction of the investor, and is intended as a general guide:

<table>
<thead>
<tr>
<th>For Corporate Investors</th>
<th>For Individual Investors</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Legalized Certificate of Incorporation and all amendments thereof</td>
<td>Legalized Passport (or Vietnamese ID card)</td>
</tr>
<tr>
<td>2. Legalized Charter and/or Articles of Incorporation of the investors and all amendments thereof</td>
<td></td>
</tr>
<tr>
<td>3. Legalized Passport (or Vietnamese ID card) of the authorized representative(s)</td>
<td></td>
</tr>
<tr>
<td>4. Bank statement/letter showing the investors cash balances or audited financial statements</td>
<td>Letter from the Investors’ bank confirming cash balances</td>
</tr>
<tr>
<td>5. Lease contract or Memorandum of Understanding in relation to the FOE’s Vietnam office address</td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>Documentation in relation to the leasing right of the landlord (&quot;Landlord Documentation&quot;). The documentation typically includes:</td>
</tr>
<tr>
<td>7. Passport (or Vietnamese ID card) of the proposed Legal Representative of the FOE</td>
<td></td>
</tr>
</tbody>
</table>

3. Timeline

An indicative timeline for the establishment of a foreign-owned Vietnamese company is illustrated below:

<table>
<thead>
<tr>
<th>Indicative Timeline</th>
<th>Weeks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discussion &amp; Document Preparation</td>
<td>W1</td>
</tr>
<tr>
<td>Application for an Investment Registration Certificate (the &quot;IRC&quot;)</td>
<td>W2</td>
</tr>
<tr>
<td>Application for an Enterprise Registration Certificate (&quot;ERC&quot;)</td>
<td>W4</td>
</tr>
<tr>
<td>Initial Post Licensing (Seal, Establishment Publication, etc)</td>
<td>W6 W7 W8</td>
</tr>
</tbody>
</table>

*Note: Where Ministerial or other specific approvals are required then this timeline can be significantly different.*
Undertaking any transaction is time consuming. Ensuring the appropriate in-country support team, with significant transaction experience, is vital. Domicile works with you through the transaction process, assisting with key elements to the deal.

**Data Room Management**

From assisting with data room establishment, to managing the data request and document management process, we help make the due diligence and discovery processes systematic and controlled throughout the transaction process.

**Transaction Advisory**

Based upon the understanding of the proposed transaction, the market, the parties, and the future plans, Domicile works with our clients throughout transaction planning and completion, so that risks, issues and key commercial considerations are covered.

The aim is to move towards commercially successful completion, avoiding transaction failure in the final stages, and avoiding future problems post completion.

**Deal Negotiation**

Having an independent party to advise and assist through the difficult yet vital deal negotiations, removing “personalities” from the negotiations, will provide the greatest chance to move to successful completion.

Vietnamese vendors can often present roadblocks at the last minute into negotiations, and predicting and managing the expectations, are important.

"Despite the best intentions from all parties, deals can collapse. This is where Domicile, and our Vietnam experience can really pay off. We understand the fundamentals of transactions, and seek to identify potential issues before they arise; pro-actively managing these as part of the transaction process."

**Thi Le**

Director - Advisory Services

thi.le@domicilecs.com
Post Transaction: Tax & Integration

Reaching “completion” for a transaction starts a new journey for investors. This requires understanding and ensuring appropriate focus is placed on the key components for operational success. Domicile’s ongoing services teams assist in all elements of post-transaction support, and work with investors to develop and monitor plans for these.

Licensing Support
Looking at director appointments, registered addresses, company Charters, branch registrations, business lines and sub-licenses are all items that likely needed attention and action post-transaction. Domicile is uniquely equipped to attend to and ensure these taken care of.

Integration
Integrating acquired operations into existing structures; localising and implementing group policies and procedures; rationalising duplicated operations. Domicile works to document and develop integration plans and monitoring for a range post-transaction integration requirements.

Taxation
The taxation considerations post-transaction should not be understated. From Transfer Pricing requirements and strategies, to standard compliance planning and fulfillment of obligations, there needs to be a plan put in place detailing priorities and timeframes, with a clear monitoring and reporting programme on top of these.

Compliance
The ongoing compliance obligations of Vietnamese entities involve a significant number of lodgements, along with paper records (“dossiers”) retained and signed for the majority of transactions and accounting actions. Having a master “Compliance Plan”, and monitoring and reporting against this plan is important.

SPA Monitoring
Conditions and obligations contained in an SPA, both financial and practical, should be separately recorded and a formal monitoring programme put in place. This allows investors to minimise risk, and make sure that all parties to the transaction complete and undertake their committed obligations.

Payroll Support
Ensuring the standardised labour programmes, from labour contracts to internal regulations, are put in place in line with the new investor’s requirements, and that amendments to existing strategies stay in line with labour regulations is important.

Labour laws are complicated, and together with an appropriate labour plan (ie, outsourced payroll, compensation and benefits, and labour compliance), significant benefits can be achieved.

“Once a transaction has reached completion, the real challenges may just be beginning. Where existing operations require integration, or simply the implementation of changes, the management and monitoring of these require practical experience and a multi-disciplinary approach. This is an area where Domicile can truly provide measured benefits for investors.”

Jason Turnbull
Partner
jason.turnbull@domicilecs.com
Operations in Vietnam have numerous dependencies that separately and combined will have an impact on the success of an investment. Items that need to be considered for successful investments include:

**Staffing**
The quality, training and availability of staff in the required field needs to be understood. The budgetary elements, recruiting planning, and expatriate support are all elements to be planned for and understood to realise the investment potential.

**Repatriation - Capital, Profits and Operations**
Short and long term consideration to how funds are to repatriated from Vietnam should be planned from the outset. Domicile can work with investors to determine strategies that minimise trapped capital, utilise loans for (relatively) unrestricted funds flows into and out of Vietnam, and develop treasury planning models for annual dividend payments.

Consideration needs also to placed on operational payments, including regional management re-charges, to understand the Foreign Contractor Withholding Taxes payable, and how to make these work to an investors’ advantage.

**Regulatory and Compliance**
The future intentions of investors may involve expanded operations, and these plans may come with additional limitations and obligations from a regulatory and compliance perspective. Understanding constraints and putting plans in place at early stages will assist in the future success of the investment.

**Transfer Pricing & Documentation**
Transfer Pricing compliance is a focus area of the Vietnamese authorities, much like in other jurisdictions in recent times, and understanding the documentation and procedures that apply in Vietnam is important when conducting planning for investment. Domicile can assist with ensuring appropriate understanding, and that documentation and procedures meet the needs of Vietnamese and regional compliance.

**Asset Identification and Management**
Monitoring and controlling assets in Vietnam, including sufficient documentation and recording, will enable control within operations, but also enables value to be obtained on disposal. Appropriate evidence should be maintained in Vietnam to confirm ownership of assets, in turn empowering the entity to later sell these are realise the value within.

**Exit Strategy Management**
The exit strategy of any investor into Vietnam is almost as important as the entry strategy. Unless assets can be realised and investments repatriated, then investments should be carefully considered.

We help investors ensure that their capital structures, repatriation strategies, and ability to exit without trapped funds at an appropriate time in the future are paramount elements to their initial investment consideration and market entry strategy.
Within Vietnam there are sectors in which full or partial foreign ownership is prohibited or restricted, or which require additional licensing or permissions before proceeding. Certain Business Lines are effectively discretionary for approval by authorities, so understanding the current approach by the authorities is an important element to initial planning.

Business Lines & Restrictions

We work with investors to understand their expected activities within Vietnam, in order to build a profile of required Business Lines for their investment license.

Where certain business lines are restricted, or have additional requirements, we look at alternative Business Lines that may be available without restrictions, or to develop strategies that allow the intended operation without the certain Business Lines being required.

Creative structures and Business Line determination can make the difference for an investment.

Structures & Nominees

Developing structures for investments can be more challenging when investment restrictions exist, but care should be taken when seeking to use “Nominees” in Vietnam. There may be ways to work around these, but significant risks exist with Nominee approaches, and these should be discouraged without due consideration of the impact and implications.

Joint Ventures and Local Partners

Where restrictions exist, or where local partners present opportunities for joint investment, there are important structural considerations to take on board.

Often strategies include a fully foreign owned local structure, which in turn becomes an investor or contractor with the Vietnamese partner, but in a manner where IP, assets and knowledge that are brought into country and protected and controlled by the foreign investor. If the local relationship experiences difficulties in the future, then this allows for the foreign investment in Vietnam to be protected and to continue into the future with less risk.

Company Charter Strategies, and Shareholder Agreements

A core protection for foreign investors, particularly those undertaking investments with other parties, is to understand the options for creative Company Charter development (ie, embedding certain rights), and the limitations and options for shareholder agreements - including the use of offshore structures and agreements where it can be effective.

Domicile can advise and help develop strategies that protect, and which are effective for particular arrangements.

Not all sectors in Vietnam permit 100% foreign ownership, and many have particular restrictions and additional requirements.

Assisting investors to understand and map restrictions, allows us to put in place effective strategies to manage these constraints and minimise investor risk, all within a structure that makes the investor comfortable.

Phuong Vo
Head of Licensing
phuong.vo@domicilecs.com
Contact Us

Matthew Lourey
Managing Partner
matthew.lourey@domicilecs.com

Phuong Vo
Head of Licensing
phuong.vo@domicilecs.com

Jason Turnbull
Partner
jason.turnbull@domicilecs.com

Thi Le
Director - Advisory Services
thi.le@domicilecs.com

Ho Chi Minh City: Level 9, Abacus Tower
58 Nguyen Dinh Chieu, District 1
Phone: +84 (0)28 6291 5779

Hanoi: Level 13, Hanoi Tower
49 Hai Ba Trung, Hoan Kiem District
Phone: +84 (0)24 3226 3314

Danang: Level 3, Indochina Riverside Tower
74 Bach Dang, Hai Chau District
Phone: +84 (0)236 366 4662

Email: info@domicilecs.com
www.DomicileCS.com