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A No 64, St 111
PO Box 172
Phnom Penh
Cambodia

T +855 23 217 510
+855 23 212 740

F +855 23 212 840

E info@bnglegal.com

W www.bnglegal.com

A Land of Opportunity

Cambodia has emerged in recent years as a high growth economy, attracting investors from around the globe. Foreign direct investment has increased significantly since the end of civil war in 1993. And while foreign investment slowed along with the global economy, economists project a strong rebound in 2010. For the adventurous investor, Cambodia offers long-term growth opportunities across a variety of sectors.

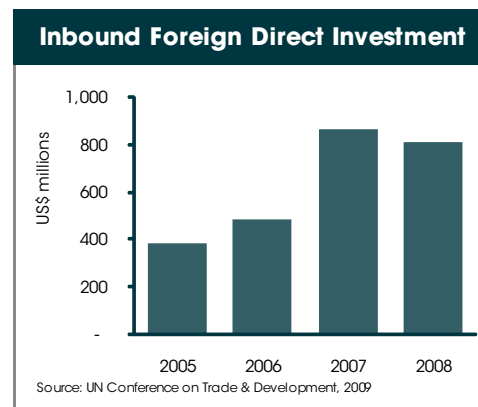
The government has proved itself welcoming to foreign capital and dedicated to building a stable investment environment. And while the country is not without its problems, much of the risk can be mitigated through proper preparation and legal counsel.

Reasons to Invest

Preferential Market Access

Cambodia is located at the heart of Southeast Asia, a region experiencing enormous economic growth over the past several decades. As a member of the Association of Southeast Asian Nations (ASEAN), Cambodia benefits from very low tariffs on most goods traded with its neighbors. By 2018, the ASEAN Free Trade Area aims to completely eliminate all tariffs.

In addition, 2010 marks the first year of the China-ASEAN Free Trade Area, a trading block of 1.7 billion people and astounding economic growth. Finally, as a WTO member and least-developed country, Cambodia benefits from preferential access to a number of markets.



Open Economy

Cambodia offers one of the region's most open economies to foreign investment. Low tax rates, investment incentives, and a one-stop-service for qualified investments all reflect the government's commitment to attracting foreign capital.

Competitive Assets

Tourism has traditionally attracted the most foreign investment. Lead by the world-class destination of Angkor Wat, Cambodia draws over a million international visitors a year. While temple tourism has already drawn significant foreign investment, significant potential remains.

In addition, the Cambodian labor force offers a competitive advantage for many firms. With low labor costs and rapidly increasing education levels, the country can offer lucrative returns for investors in labor-intensive manufacturing.

Establishing a Company

All companies that conduct commercial activities in Cambodia must be registered with the proper authorities. What sort of entity to setup and the associated registration requirements depends on the field of business.

INVESTMENT INCENTIVES

- Choice of profit-tax holiday or special depreciation allowance
- 100% import duty exemption for construction materials, production equipment and input materials
- 100% export tax exemption
- Transferability of incentives through merger or acquisition

Most investors choose to establish a private limited company, as it provides limited liability for its shareholders. Operating as a sole proprietorship or partnership is also possible, and though cheaper to establish, the owners can be held personally liable for any debts.

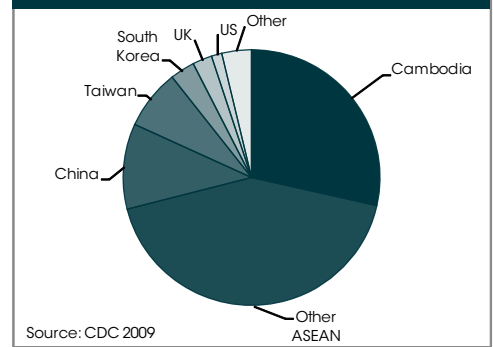
Foreign companies can also work through a subsidiary, branch or representative office, though they need to be careful not to exceed the limited allowable activities. Foreign-owned companies can undertake the same business activities as Cambodian-owned companies, with the notable exception of land ownership. However, there are a number of ways to structure an investment such that a foreign-owned company can effectively control and manage land.

While it might be possible to engage in business informally in Cambodia, it is far from prudent. Failing to properly incorporate your business can lead to expensive problems down the line.

Investment Incentives

The Ministry of Commerce and the Council of the Development of Cambodia (CDC) are the institutions responsible for overseeing foreign direct investment and business development in Cambodia. FDI projects which are eligible for business incentives are called Qualified Investment Projects (QIPs) and must be registered with the CDC.

Origin of CDC-Registered Projects, 1994-2008

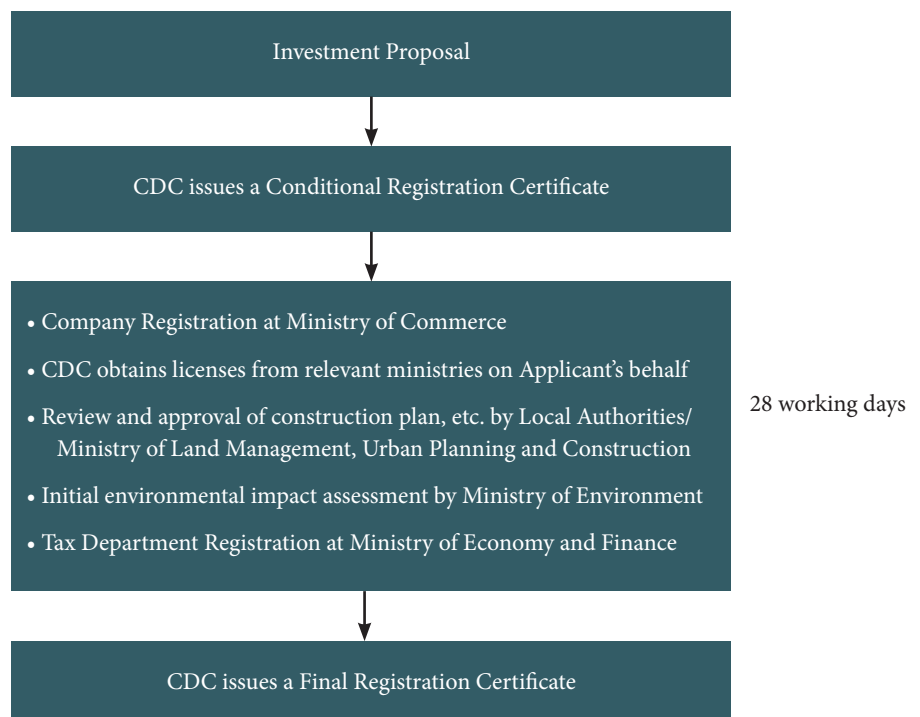


QIPs can select between a profit-tax holiday or a depreciation allowance. The tax holiday cuts the profit tax from 20% to 0% for a specific number of years. The depreciation allowance can give a generous tax break for investors that need to import large amounts of machinery or other capital goods.

In addition, all QIPs are exempted from import duties on construction materials, production equipment, and input materials. With certain exceptions, any goods manufactured by the QIP are also exempted from export taxes. With the recently established ASEAN and ASEAN-China Free Trade Areas, it is possible that traded goods could be totally free of export and import duties.

Only projects over a certain size can apply for QIP incentives. Specific activities are also excluded - such as restaurants, casinos, and professional services.

CDC APPROVAL PROCESS



GENERAL PRINCIPLES	MULTILATERAL CONVENTIONS	BILATERAL AGREEMENTS
Non-discrimination against foreigners, except in land-ownership	New York Convention on Foreign Arbitral Awards	China
Legal protections of private property	Washington Convention on Investment Disputes	European Union
Free movement of labor	Multilateral Investment Guarantee Agency	France
No price controls	Agreement on Trade-Related Investment Measures (WTO)	Germany
Stable and dollarized macroeconomic environment	ASEAN Investment Policy	South Korea
		Malaysia
		Netherlands
		Philippines
		Singapore
		Switzerland
		Thailand
		U.S.A.

Investors wishing to take advantage of investment incentives must apply to the Cambodian Investment Board, the division of the CDC in charge of reviewing applications. The process, outlined in the flow-chart, is relatively swift and straightforward. Licenses from other Ministries will be applied for by the CDC on the investor's behalf.

Other incentives are also available, depending on the industry and scale of investment. For instance, garment and agricultural investments can benefit from VAT exemptions on certain exports.

For those seeking to make a sizable investment in the country, the CDC incentives can be an attractive offer.

Taxation

Cambodia has a more lenient tax regime compared to most neighboring countries. Corporate tax rates are low, and filing requirements are simple and streamlined. In addition, Qualified Investment Projects can benefit from attractive tax breaks, as determined by the CDC.

Tax Registration

All companies are taxable under the Self Assessment System (Real Regime Tax System), regardless of the type of business activity or the level of annual revenue. Real regime system taxpayers must annually submit a tax declaration, a balance sheet, results account and tables of complementary information to the tax administration.

Once a business is registered with the Ministry of Commerce, it must then register at the Large and

Medium Tax Payers Bureau (LMTB) of the Tax Department for a tax identification number (TIN).

Patent Tax

When registering for the TIN, the company must also pay a Patent Tax for the first year. This tax is an annual business registration tax. It is due on each business activity and each location of the company.

Stamp Tax

A newly established company, branch or representative office is also required to register with the Tax Department's local tax branch office and pay the stamp duty within 15 days of registration at the Ministry of Commerce.

Tax on Profit

The Tax on Profit is the debt of a resident taxpayer on income from Cambodian sources and from foreign sources. For a non-resident taxpayer, this tax is assessed on income from Cambodian sources only.

BUSINESS ACTIVITY	TAX ON PROFITS
General Business	20%
Natural Resource Exploitation	30%
Insurance	5%
Tax-exempt QIP	0%
QIP during transition period	20%

MAIN BUSINESS TAXES

- Patent Tax
- Stamp Tax
- Value-Added Tax
- Tax on Profits
- Minimum Tax

ABOUT US

BNG Legal is a leading Cambodian law firm providing comprehensive legal services to foreign and local clients.

Registered with the Bar Association of the Kingdom of Cambodia, our legal professionals combine international standards with local expertise.

We differentiate ourselves by coupling a deep understanding of the local business environment with international professionalism and integrity.

We facilitate business, investment and trade between Cambodia and the rest of the world through innovative and cost-effective legal services.

Superior knowledge of local protocol, local procedure, and local people is necessary for any business to succeed in Cambodia.

Conducting daily business in Cambodia, BNG Legal is up to date with the newest procedures and requirements, helping clients efficiently and successfully complete any project.

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Minimum Tax

The Minimum Tax is a separate and distinct tax from the tax on profit. It is imposed at the rate of 1% of the annual turnover inclusive of all taxes, with the exception of VAT. It is payable at the time of the annual liquidation of the tax on profit. The minimum tax may be reduced by the annual tax on profit that is actually paid.

Compared to many other countries, Cambodia is a relatively low-tax regime. Furthermore, the simplicity of the tax code makes compliance relatively straightforward. Failure to properly register and pay, while unfortunately common, can entail grave consequences for any reputable business.

Special Economic Zones

Special Economic Zones have recently been introduced to Cambodia. All industrial activities are brought together into one special development under the auspices of the SEZ. Each zone contains a production and service area and may also include a residential area to accommodate workers.

SEZs offer a one-stop service for imports and exports, with government officials stationed on-site to provide administrative services. Applications to establish factories within the SEZs are dealt with on-site as well as all administrative clearances, permits, and authorisations. Businesses within the SEZs also benefit from a number of fiscal advantages, including income tax, customs, and VAT breaks.

Since the adoption of the sub-decree establishing economic zones, the government has approved 21 SEZs, located along the border with Thailand and Vietnam, Sihanoukville and Phnom Penh. Of the 21, six have commenced operations.

GDP Growth & Inflation



Source: IMF 2009



Repatriating Profits

The U.S. dollar is widely used in business and daily life in Cambodia. The national currency, the Cambodian Riel, hovers at about 4,000 Riel to the dollar, as the government is committed to maintaining exchange rate stability.

Investors can freely convert accounts in Riel to dollars. Though the Foreign Exchange Law allows the National Bank of Cambodia to implement exchange controls in the event of a crisis, this power has never been exercised. Several regional banks have opened in recent years, making it even easier for investors to move funds in and out of the country.

CDC-REGISTERED INVESTMENT, BY SECTOR, 1998-2008

Sector	US\$ millions	Number of Projects
Garments	449.4	401
Tourism	434.4	88
Petroleum	203	5
Agriculture	177.1	74
Wood Processing	98.3	15
Telecommunications	92.5	15
Food Processing	91.5	12
Construction	63.6	14
Footwear	27.8	21
Total	2,432.4	88

Source: CDC 2009