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Our leading article examines and analyses this year's tendencies in the major jurisdictions in the world of companies. We can see the trends that can be expected in 2012 in the USA (LLCs), the British Virgin Islands, Panama, Hong Kong, the Seychelles, Belize, Cyprus, Isle of Man, Guernsey, Jersey, Gibraltar, Luxembourg, the Netherlands, Belgium, the Caribbean and Oceania, the Cayman Islands, Bermuda, Switzerland, Liechtenstein, Malaysia, the United Arab Emirates (Ras Al-Khaimah) and the Marshall Islands

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A month from now Offshore Investment, the most important professional offshore publication in the world, is expected to publish its report summarising the results from the company world for 2011. Before that, in this article we will try to outline the trends which the experts at LAVECO believe will characterise 2012. It is not our intention to be prophets, but rather, based on earlier events, law changes, processes and the individual nature of each country, we are trying to anticipate those characteristics which are likely to define 2012. Like any other similar article, this will be somewhat superficial, as it is impossible to cover every single detail, and even in the most thoroughly researched topics there is always some uncertainty, as we can see all around us in the world economic processes typical of today.

First of all, what is the significance of the role played by the offshore sector in today's world

economy? Nobody can provide exact figures, so we can only base estimates at the proportion of today's economy represented by offshore structures on snippets of informa-

tion. Today, it is likely – if we add up stock market turnover and forex and derivative deals – that more than half of global financial turnover goes through offshore companies, funds and banks. Ten years ago more than 60% of the turnover of the London Stock Exchange already went through offshore companies, and the majority of commercial real estate in the City of London is in offshore hands. These are only part of the picture, and I am convinced that the situation is no different in New York, Frankfurt or Hong Kong. It was also interesting years ago to notice that 92% of the turnover on the Russian stock exchange was performed by “foreigners”. Knowing the local situation, the majority of these “foreigners” would have been Russian investors hiding behind offshore companies. The anti-offshore “experts” always forget to mention that the financial transactions of these companies can be two-way for a given country. On the

one hand there is disinvestment, where capital leaves the country through offshore companies. At the same time though, if a region offers advantageous investment opportunities, then the opposite effect can be observed, with offshore companies appearing in the country as investors. From the country's point of view, it is important to have a positive balance: more capital should come into the country through offshore structures than leaves. With the right economic policies, a country can attract substantial offshore money into the economy, and there are numerous examples of this in recent history. Just as there are examples from the other end of the scale, when the policy makers' blinkeredness and lack of understanding of offshore affairs frighten off foreign investors.

At the same time, we consider it important to offer some guidance to those who wish to plan their future a little in advance, or who wish to make important structural decisions. The choice of jurisdiction is very much arbitrary. We have chosen to put the jurisdictions which have proved popular in recent years under the microscope. Naturally there will be exceptions, as there are also those which we consider to be on the threshold of success at the current time. We'll start straightaway with “the odd one out”, as even the USA was never exactly a classic tax haven, they still probably managed to incorporate the most companies.

USA – LLCs

It was no coincidence that American companies were so popular. Simplicity and competitive prices coupled with high prestige proved irresistible, with no other jurisdiction able to take them on in this respect. Based on the amendment to the Foreign Bank Account Reporting (FBAR) regulations in February 2011 non-resident limited liability companies (LLCs) are also required to report to the US federal tax authority, the Internal Revenue Service (IRS), by June 30th each year any bank accounts opened outside the USA in which the annual turnover exceeded 10 000 USD. Although the change in the

reporting requirement did not entail a tax obligation, the general opinion in the business world reacted acutely to the amendment. Nobody knows what the next move of the notoriously strict IRS will be, so already in 2011 the majority of people making decisions on where to establish a company decided against the USA, minimising any possible risk in the future. The number of companies being formed in the USA fell drastically in the second half of 2011. The most significant states when it comes to company formation, such as Delaware, Wyoming, Washington D.C. and New York, are clearly feeling the effect. The

situation will be no better this year either, as further changes in the regulations are likely to bring the complete withdrawal from the US in 2012. At the same time, the banks have also started to show signs of isolating American clients. If the IRS imposes exchange of information obligations on the banks, then, particularly at the beginning, the banks will treat American companies and tax-resident private individuals as "undesirables". Liechtenstein is



expected to "boot out" American clients from its banks in the first half of the year, closing existing accounts opened by Americans.



The "star jurisdiction" of the offshore world is heading in the direction of over-regulation. International bodies such as the OECD and EU are putting more and more pressure on the islands, which may lead to serious changes. The regulation, in time,

will mean that companies registered here will have to keep full accounts as part of the requirements for transparency. However, the BVI will probably retain its position, as it has been the most well established offshore brand worldwide since 1984. Numerous

countries have copied the legal model created by the BVI. Their "crime" may be that they have grown too big and become rather conspicuous, with real economic power concentrated in the companies registered here.

BVI

PANAMA

Although in many places they don't even like the sound of the country's name, Panama is extremely popular in the majority of neighbouring Latin America. The transparency requirements have also led to changes in the regulations in Panama, with local

lawyers and company formation agents requesting more and more details from company shareholders, directors and beneficial owners, however, the issuing of bearer shares still remains an attractive factor. The large number of companies being incorporated

slows the work of the company registrar which in turn can hinder the operation of Panamanian companies. As in the case of the BVI, the momentum of earlier years will carry Panama forward in 2012.



Success will continue unbroken in 2012. Although it is part of the People's Republic of China, Hong Kong resolutely retains its English traditions in the financial system, while also integrating the requirements of the modern

business world. Due to the principle of territorial taxation, this is not even a true "offshore" company form. Income from outside the territory continues to be exempt from tax, which is still a huge draw, even if formally companies registered here have to

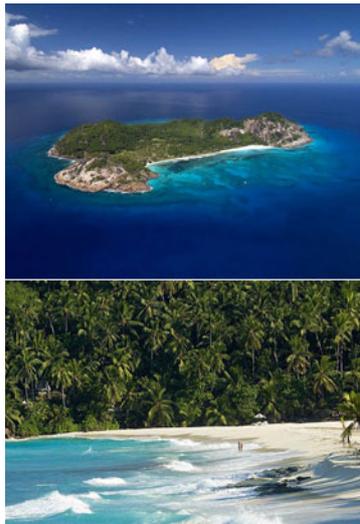
keep accounts. The recession has served to increase the need for security and stability. The financial system in Hong Kong more than meets this requirement, and there are very few similar jurisdictions where this claim can be made in the world of 2012.

HONG KONG

THE SEYCHELLES

Expected to be the big loser in 2012. In recent years the number of companies being incorporated in the islands had been growing nicely. The administrative simplicity of the International Business Company (IBC) corporate form introduced by the BVI in 1984 coupled with "cheapness" made the Seychelles very attractive to international investors. However, from March 27th 2012 every IBC registered in the islands is required to indicate in writing the place where the documents and records related to the company's operation are stored. The records which must be kept – to all intents and purposes accounts - must enable the financial position of the IBC to be determined at any time. The Seychelles International Business Authority (SIBA), the authority responsible for the registration of companies in the Seychelles, clearly as a result of external pressure, primarily from the OECD, put the proposed amendments to the law before parliament last year. Back in 1999 the Seychelles undertook to put the OECD's transparency principles into practice. So the 10-12 year delay can't be considered that bad. At the same time, we have to bear in mind that until competitors such as Belize, Panama, the Marshall Islands and the other IBC jurisdictions issue

and enforce similar requirements, investors will inevitably move on to places where they encounter the least "resistance". All the while it is possible to operate a company without having to keep accounts, then very few people will be willing to struggle with the keeping of records. All the more since certain types of expense are difficult to justify as company expenses with official invoices or receipts. This was always one of the major advantages and attractions of offshore companies with no account-keeping obligation. Basically, if there are still jurisdictions which don't strictly



enforce this, then investors will flock to those jurisdictions. Even if it is clear that this is only a temporary solution and the OECD will be no more tolerant with the



other jurisdictions. In time, they will force the accounting requirement on everybody, with none of the jurisdictions escaping the net. The best they can hope for is to



drag things out with clever tactics. This could be extremely important, as here gaining a bit of time could mean the difference between life and death for a

jurisdiction. If, for example, Belize doesn't introduce the account keeping requirement in the next three years, then a significant number of companies will migrate there, while the Seychelles slowly bleed to death. Then even if the same requirements are introduced three years from now, no-one will want to go back to the Seychelles. It seems that SIBA has chosen bad tactics and bad advisors. Just as their idea of the Seychelles becoming an Offshore Financial Centre (OFC) would appear to be nothing more than a pipe-dream. They have neither the basic local conditions, nor the full infrastructure, nor the commitment of the government. With one and a half banks and eight accountancy firms in the islands and a government lacking commitment it is impossible to work miracles.



Could be the big winner in 2012. Belize has a good chance of gaining anything lost by the BVI and Seychelles. Currently no amendments

have been made to the IBC laws. It is still possible to issue bearer shares, the annual tax is generally 100 USD, irrespective of turnover, and there is no book-keeping requirement. Very few jurisdictions are able to offer more attractive conditions. What is uncertain is how long this small country in

BELIZE

Central America will be able to do this. Whatever happens, a shift from the Seychelles to Belize is already noticeable at this early stage in the year. This trend will continue all the time that the requirement to keep books is not introduced in Belize.

CYPRUS

A "strong bastion" in the offshore world. The tax system introduced on January 1st 2003 has now been in place, unchanged, for almost 10 years. There have been minor modifications, but the basic model remains the same. Despite the fact that Cyprus and Greece are often tarred with the same brush, the country's stability remains unaffected. It is true that in addition to the common language and culture, there are banks in Cyprus who helped to finance the Greek state through the purchase of bonds, but a Greek-type recession in Cyprus is inconceivable. That is why investors from 3 continents find the island attractive not

only for company formation, but also as a banking paradise. Cyprus is now in the enviable position of being difficult to discriminate against thanks to its agreements for the avoidance of double taxation, as well as its completely transparent company structures and EU membership. The former "offshore smell" is also wearing off, as this is not a zero tax jurisdiction, with a basic rate of profit tax of 10%, both private individuals and companies subject to tax on their worldwide income and companies required to submit annual audited accounts in accordance with international accounting standards to the Cypriot tax authorities. Cyprus



is a place where the international bodies would have trouble finding any objection. In addition to stability, there are two important characteristics which can be attributed to the Cypriot system: commitment and liberalism. Just about everybody in the country is committed when it comes to the provision of financial services. This is equally true of the taxi driver, the banker, the accountant and the member of parliament. The majority of the

latter are also practicing lawyers, for whom the company industry and the financial services built around it are literally their bread and butter. At the same time, they are also able to exert enough pressure on the system to ensure that clients' interests are observed and that the island is able to offer more beneficial conditions than its international competitors. This is one of the major guarantees of long-term stability.



These are primarily international holding centres. Have risen gradually over many years, and specialised primarily in serving

LUXEMBOURG, BELGIUM, THE NETHERLANDS

the multi-nationals. This trend will continue in 2012. No significant "boom" is expected, or indeed targeted by the jurisdictions,

whose goals instead are discrete continuation and slow, but stable growth.

ISLE OF MAN, GUERNSEY, JERSEY, GIBRALTAR

British protectorate territories, and once the "pearls" of the offshore world. These days, however, their influence has waned considerably. This is the result of a process lasting some 15 years. The British take the know-your-client (KYC) requirements more seriously than most, and they bombard new clients – and often even foreign partners they have been working with for decades – with numerous questions. They ask

clients to provide incomprehensible and sometimes even impossible certificates and documents, as if they want to scare them off and don't want to serve new clients at all: thank you very much, but they can live off the old ones, whom they know (?) and aren't (all that) afraid of. Paranoid fear in connection with money laundering and other crimes is characteristic of these jurisdictions. Service providers, lawyers and

bankers are obliged to file extremely strict reports if they suspect anything. On July 1st 2011, the Bribery Act came into force, introducing the category of "passive corruption", on the basis of which a lawyer can be guilty if all he did was register a company which was then used for corruption. The fact of cooperating is sufficient for a case to be brought and guilt to be



established. Although as yet there have been no specific cases, this is a time-bomb which will probably explode in 2-3 years, making the British protectorate territories even less attractive.



If we touched on the British territories above, then it is also worth mentioning the British territories in the Caribbean (Anguilla, Antigua and Barbuda, Barbados), as

well as independent countries (Saint Vincent and Grenadine, Grenada, Saint Lucia) and small island nations in Oceania (Vanuatu, Nauru, Palau) which,

THE CARIBBEAN AND OCEANIA

although they are part of the game, play a relatively insignificant role internationally, and this is unlikely to change. The couple of thousand companies registered

in these jurisdictions is too insignificant to increase their share of the market. This tendency is likely to

remain unchanged this year, as these tiny countries are unable to offer anything extra, which would

make them really attractive, or at least more attractive than the rest of the competition. Those who

have achieved something don't give up their positions lightly.



Speaking of not giving up positions! These two jurisdictions

stubbornly hold on to the positions they have achieved in the international financial world. They can be described as international financial centres in the true sense of the word. They rose primarily due to their proximity to the

USA and thanks in no small part to the earlier economic growth in the United States. It was not only the companies industry which flourished, but also the financial services, banks, investment funds and insurance companies which are built on it. Today the situation is much worse than it was, though "inertia" carries both jurisdictions

forward, even if the Cayman Islands experienced serious financial problems at the start of the worldwide financial recession. It is also unavoidable that capital which earlier was deposited as savings in such countries and jurisdictions is recalled to cover the financial deficiencies caused by the recession.

THE CAYMAN ISLANDS, BERMUDA

SWITZERLAND

A difficult jurisdiction. As we stated at the beginning, this analysis, like any other, will be subjective. In the international business world Switzerland receives "double classification". On the one hand it is considered as a banking paradise, and on the other hand a company paradise. Despite the continuous flow of scandals which just won't go away, Switzerland is still very sellable thanks to its centuries old history and well-established brand name. Today, Swiss banking secrecy is one of the world's great false illusions – we need look no further than the UBS scandal, where

client details were handed over to the US tax authorities. We can not speak about offshore companies here, as the incredibly complicated corporate tax regulations mean that every company registered in Switzerland is required to pay tax, and the rates of dividend tax are particularly high by international standards. In reality, Switzerland is a true status symbol, which will continue to be in demand in certain business segments because of its name, even if the operating costs and bureaucracy are very high.



LIECHTENSTEIN

If Switzerland is for the rich, then Liechtenstein is for the super-rich. This is true of both the company industry and the banking sector. The small alpine country has never wanted to go into "mass-production", preferring to concentrate on a small section of the market, the world's rich, who wanted to place part of their assets securely. Their position has also deteriorated considerably as a result of entering into tax agreements. The Anglo-Liechtenstein

agreement is a particular example of this, but other agreements have also called the country's discretion into question. In addition to the weakening of bank secrecy, companies are now subject to profit tax at the rate of 12.5%. This is 25% higher than the 10% payable in Hungary, Bulgaria and Cyprus. As in the case of Switzerland, the tightening of the rules is leading to a large number of bankers turning their attention to the Far East, and Singapore in particular.

MALAYSIA: SINGAPORE, LABUAN

Both Malaysian territories may be interesting in 2012, but for different reasons. Singapore can be analysed primarily as a banking paradise. Companies registered here are subject to 17.5% tax on their worldwide profits, so they can not be considered competitive, or rather there are better options available in the international market. The banks, on the other hand, represent the financial culture which is heading here from Switzerland. And that is exactly what they want, to become the mini Switzerland of the Asian area. It is true that in this

field they will have to go head-to-head with Hong Kong, whose position is significantly more stable. Labuan may prove interesting as a company formation jurisdiction. The agreements for the avoidance of double taxation signed by Malaysia with numerous countries also cover Labuan, which may prove attractive to foreign investors. Companies registered here can choose between paying 3% profit tax or a fixed annual tax of 20 000 ringi (approx. 6 700 USD), and in the latter case it is not necessary to keep accounts.

There are also a number of company formation jurisdictions which are relatively insignificant at the moment, but which, bearing in mind the current trends, may increase their market-share significantly in 2012 by attracting clients from other jurisdictions.



UNITED ARAB EMIRATES – RAS AL-KHAIMAH

The whole territory of the Emirates is tax-free, and orientated culturally towards tax exemption. At the same time, until now it was fairly difficult for foreigners to establish companies here. However, Ras Al-Khaimah, one of the smallest and poorest of the 7 Emirates, has visibly eased the pressure, allowing for 100%

foreign ownership of offshore companies established in its two Free Trade Zones. Naturally, these companies can not carry out any activities within the Emirates. They can, however, open bank accounts in any of the Emirates, such as, for example, Abu Dhabi, which today is not only reliable, but also developing dynamically, with a stable business background.

MARSHALL ISLANDS

It seems that this small country has been unaffected by the crisis hitting the IBC companies. The Marshall Islands have been in the top 3 jurisdictions when it comes to international ship registration for years, and are probably one of the most liberal jurisdictions in the world for company formation. It is still possible to issue bearer shares, there is a fixed annual tax,

companies can be formed with a single director, it is not necessary to keep accounts, and generally there are not too many requirements when establishing a company. This liberalism will be attractive in 2012, as in 2011 we could already see that there was demand for this "category".



LAVECO life:

LAVECO at MIPIM



LAVECO staff took part in MIPIM, the international real estate exhibition held in Cannes, France from March 6th to 9th, for the fourth time. Numerous interested parties came to visit us at stand R32.37 in the Riviera Hall. There were also many familiar faces from previous years who came back to see us. It is always a pleasure to welcome back old acquaintances, and to chat about the current situation or discuss business solutions in which we both share an interest.

In addition to strict business meetings, there was also time

for some light-hearted entertainment. The various confectionery,

Hungarian Tokay wines and goose liver available to visitors to



our stand were particularly popular. The main prize in the raffles on March 6th and 7th was a bottle of vintage 1972 6-butt Tokay Aszu wine. The winners were presented with the noble bottles by László Váradi, managing director of LAVECO Ltd.

All of us who attended the exhibition agreed that this year's event was richer in content and more successful than events of earlier years. The truth is, we are already waiting for the next MIPIM event, where we can continue our business discussions.

KDB Bank – a new possibility for the opening of bank accounts

LAVECO Ltd. has entered an agreement with the KDB Bank, whereby in the future LAVECO clients will be able to open accounts with the bank. Under the terms of the agreement, clients of LAVECO Ltd. can open accounts in any Hungarian branch of the bank at pre-arranged appointments.

It is advisable to contact our customer service department as it is worth checking the exact terms in advance. Sending the company papers to the bank in advance, for example, can speed up the account opening process and means having to spend less time waiting in the branch. Checking

the paperwork usually takes 2-3 working days, after which the bank informs the client whether or not they will be able to open an account. Further information about the bank can be found on their website at www.kdb.hu. If you are interested in our account opening service with the KDB in

Hungary, please contact Mónika Machal in our Budapest office on +36 1 456 72 00.



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