

Cyprus' Efficient Structures (Revised, 2014)



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Foreword

We welcome you to our revised edition of Cyprus' Efficient Structures (Revised, 2014).

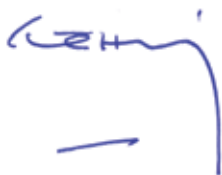
Despite the events of March 2013 and the euro group bail-in, Cyprus' unique business opportunities to international businesses have not been affected. Cyprus maintains the lowest corporate tax rate in the EU, offers an extensive network of favourable double tax treaties, has no withholding taxes on dividends and interest paid, no capital gains on profits from the sale of shares and securities and exemption of taxes on foreign dividends and interest received. At the same time, it is complying with EU Directives and OECD regulations against harmful tax practices. A significant international business hub!

The island's entry to the EU and the eurozone considerably enhanced its long standing international business advantages. Cyprus is established as a significant gateway for EU inbound and outbound investments. This complements the traditional links Cyprus has with central and eastern Europe, Russia, India and China. Further, the harmonization of EU capital markets, the adoption of the "Single EU Passport", Alternative Investments in EU etc have paved the way to significant cross border opportunities for investors wishing to capture the wider EU business market using Cypriot tax efficient structures. Corporate boards can now take decisions on tax optimization and cheap capital independently.

Public/private companies and funds (UCITS and ICIS) registered in Cyprus can be used as efficient investment vehicles. A company or fund registered in Cyprus can conduct public offers in other EU member states or have their shares admitted on an EU regulated stock exchange. Cyprus holding companies are also tax efficient and popular to invest in EU and non-EU countries.

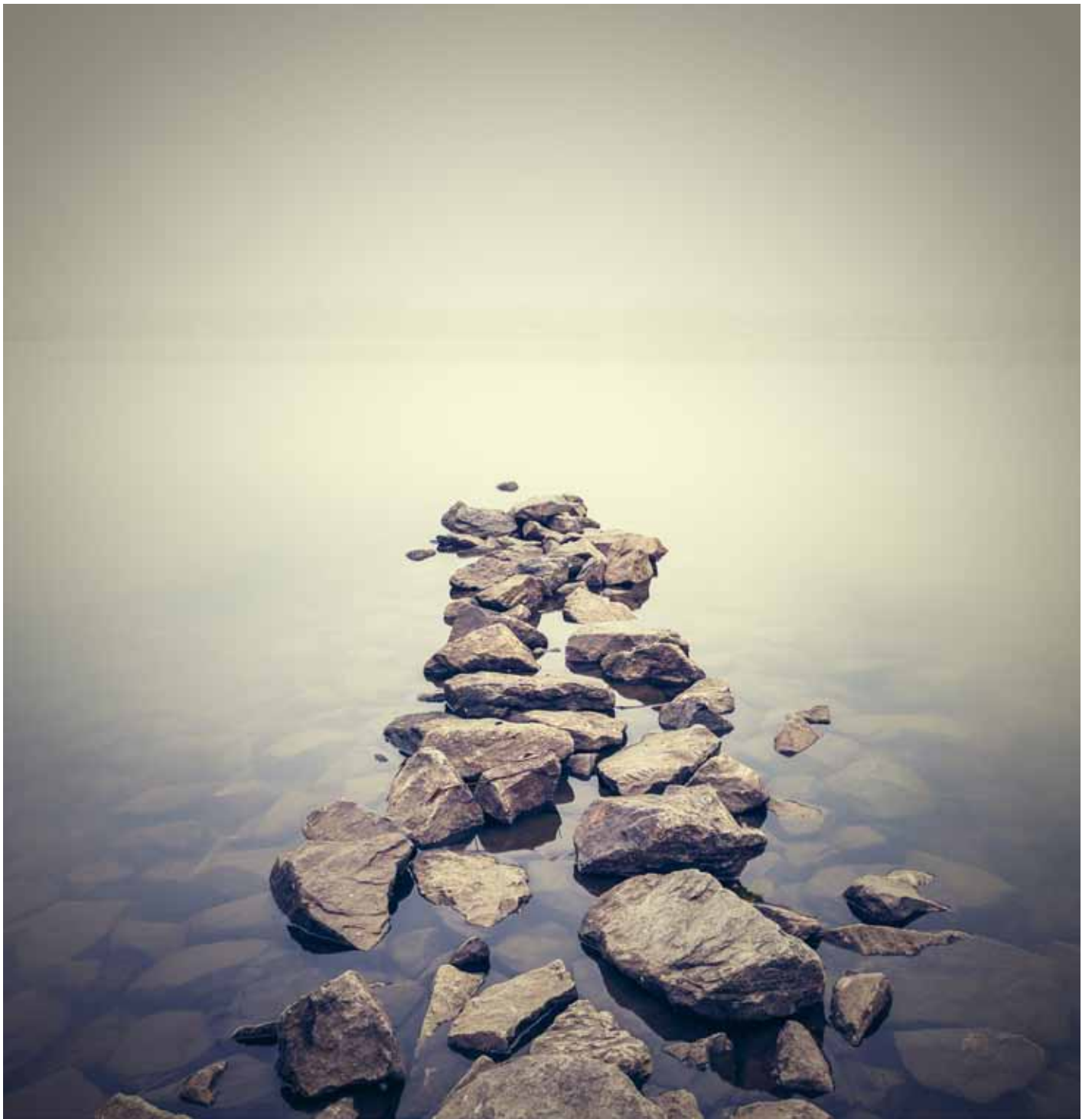
At Oneworld, we have specialist teams of professionals who can help our clients in determining their tax strategy and organization of their businesses. Our teams cover a wide spectrum of professional services which include, inter-alia, trust and corporate, financial and business advisory, tax and legal and global compliance. Together with our worldwide affiliates we can deliver integrated solutions.

We shall be pleased to assist you.

A handwritten signature in blue ink, appearing to read 'George Philippides', with a long horizontal line extending to the right and a vertical line extending downwards from the end of that line.

George Philippides
Chief Executive

January 2014



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1 Introduction

In recent years, capital has become more mobile and responsive to changes in economic and social conditions. Barriers to capital movements are disappearing, leading to a worldwide trend towards lower tax rates. Efficient tax planning has, therefore, become a very significant factor in commercial decisions and this has led to the development of numerous financial centres in the world.

Cyprus has succeeded in differentiating itself from other financial centres. It has established a favourable tax system with a wide network of double tax treaties. It also subscribes fully to EU Directives. As a result, Cyprus today is firmly established as a reputable international financial and commercial centre.

Favourable position

Comprising an area of 9.251 sq km, Cyprus is the third largest island in the Mediterranean after Sicily and Sardinia. The strategic location of the island has played an important role in its continuing development into a financial centre.

Cyprus enjoys perhaps the best type of Mediterranean climate with about 340 warm and sunny days a year. The light rainy season is confined to the period between November and March.

Cypriots are well educated. In fact, Cyprus has one of the highest percentages of university graduates per capita in the EU. This ensures an adequate supply of skilled and qualified personnel. Although the native language is Greek, English is commonly used as the business language.

The strong pro-business attitude, the multilingual and highly skilled human capital, the advanced telecommunications infrastructure have made the island one of the most progressive and efficient business locations in Europe.

Foreign investment

Foreign investment has long been considered as one of the most important elements of the country's economic prosperity. The Cyprus government has liberalized the Foreign Direct Investments (FDI) policy for both EU and non-EU nationals. Administrative procedures have been simplified and as far as the minimum level of investment and the percentage of foreign participation are concerned, no limitations apply in almost all sectors of the economy.

Events following bail-in

The eurozone's €10 bn bail-in package agreed in March 2013 has kept Cyprus in the eurozone and restored the promise to protect bank deposits by the EU-mandated €100.000 guarantee. Since then, Cyprus has conformed diligently to the terms of the memorandum agreed and in fact economic results have fared well to date and prospects are promising. It is expected that as from 2015, the Cyprus economy will return to a growth situation.



INCENTIVES FOR LOCATING A BUSINESS IN CYPRUS

Tax benefits

Main tax benefits include:

- favourable system including 12,5 percent corporation tax, low personal income taxes and no capital gains tax on the sale of shares
- extensive network of favourable double tax treaties
- low margins on intra-group loans and equity
- interest to finance the acquisition of a 100 percent subsidiary is tax allowable
- no financial transactions tax

Holding companies

Holding companies represent the majority of IBCs. The regime is beneficial, including:

- dividends are exempt from taxation, in Cyprus and abroad
- gains from disposal of shares and bonds are tax exempt
- no thin capitalization rules
- dividends paid to non-resident shareholders are not subject to withholding tax

Financing companies engaged in intra-group loans

Generous tax deductibility of general administration expenses. No withholding tax on payments of interest to non-residents.

Intellectual Property (IP) companies

The IP regime is probably the most attractive in EU, the effective tax rate is below 2,5 percent.

Other advantages

- strategic location at the crossroads of Europe, Middle East and Africa
- member state of the EU and a gateway for the movement of goods in and out of EU
- high quality professional services
- excellent infrastructure providing easy access by air and sea
- low set up and operating costs

2 Cyprus as a Location

The Cyprus economy is based on the free enterprise system. The private sector is the backbone of economic activity, with the government's role limited to monitoring the economy and the provision of public utilities which, anyway, will be privatized in the coming years.

In recent years the economy has been growing at an annual rate of nearly 4 percent. In March 2013 due to the bail-in package and the austerity measures agreed with the euro group, the economy is now in a temporary contraction which, nevertheless, is expected to start growing as from 2015. Inflation in recent years remained at a relatively low annual average level of 3,5 percent. The per capita income of the Greek Cypriots at around €21.000 is today one of the highest in the Mediterranean. This is a notable performance, when considering key socio-economic factors including excellent housing conditions, low crime rate, pollution free environment which are not reflected in the per capita income.

Cyprus and EU

The Republic of Cyprus became a member of the EU as of 1 May 2004.

The accession of Cyprus to the EU and the adoption of the *acquis communautaire* have created new challenges and opportunities in the business world in Cyprus. Moreover, a number of new funding opportunities became available from EU credits aiming mainly to support the development of business activities in the manufacturing, agriculture and agro-tourism sectors as well as human resource upgrading and the development of the rural areas of the island.

Cyprus introduced euro (€) as its official currency in January 2008.

Transit trade

The development of the container transshipment business in Cyprus started in the late 1970s. Because of the island's strategic position, efficient port facilities, minimal customs formalities, advanced business infrastructure and stable political environment, container transshipment dramatically increased in volume and expanded in scope.

The island is located at the crossroads of major international trade routes between Europe, Asia and Africa. This makes it the natural transshipment load centre for shipping lines delivering and receiving cargo to/from any combination of European and Middle East ports in the Mediterranean. Furthermore, it can act as a central depot for distribution to the markets of Europe, the Middle East, the Arab Gulf and North Africa.



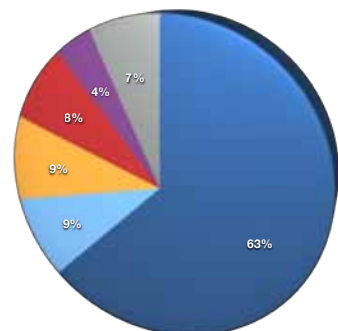
Services sector

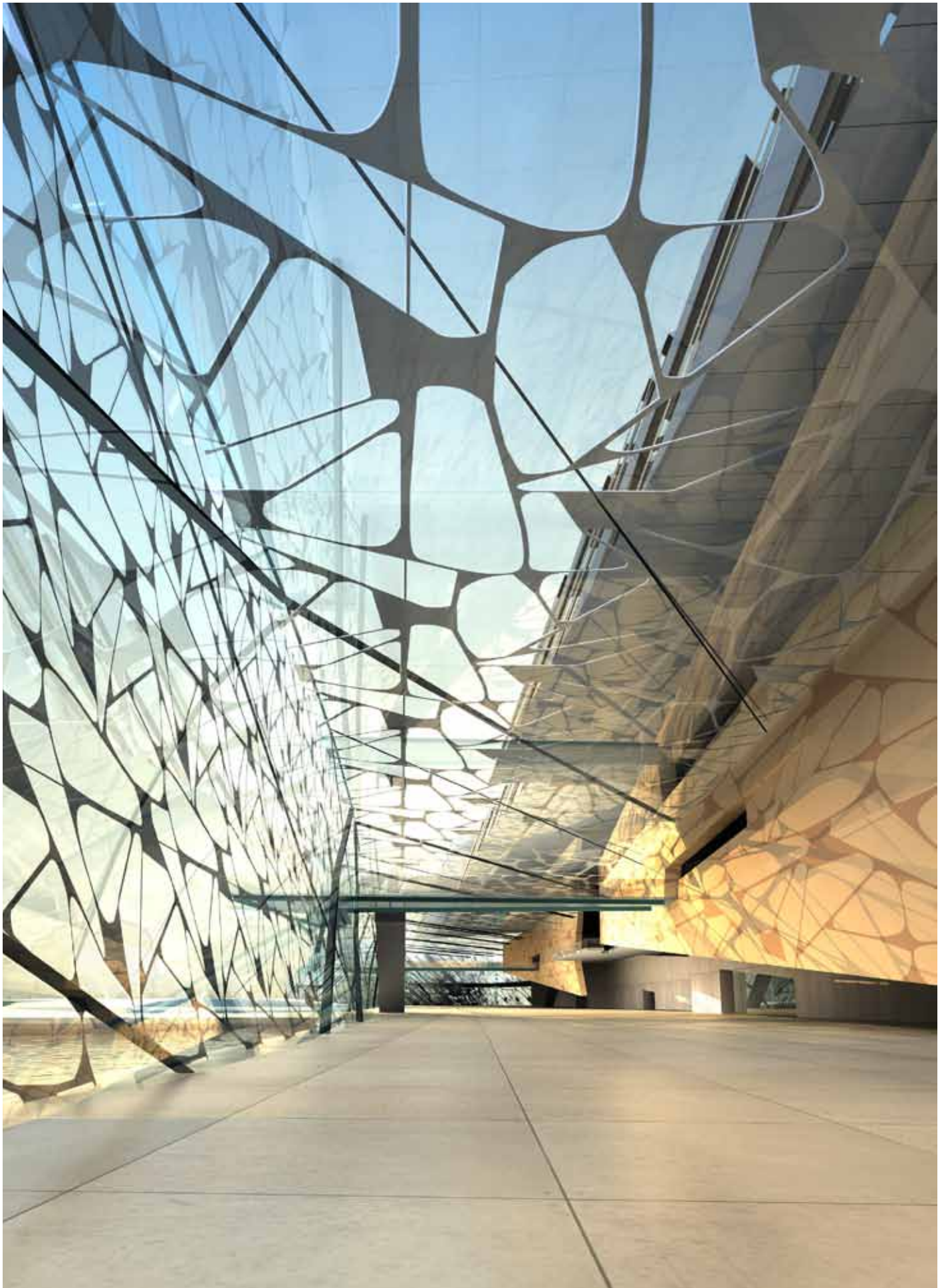
The services sector has become increasingly important as indicated by its almost 70 percent contribution to GDP and its share in employment, while the importance of agriculture and manufacturing has been declining steadily.

Services include banking and financial services, insurance, advertising, legal, architecture and civil engineering, accounting and auditing, consultancy, design, electrical and mechanical engineering, film production, market research, medical, printing and publishing, public relations, education, software development, tourism and related services, telecommunications, transportation and other services. The size and rate of growth of this sector, which has been the fastest in recent years, has led observers to describe Cyprus as a “service economy”.

GDP breakdown by sectors:

- services including tourism 63%
- manufacturing 9%
- transport and communication 9%
- construction 8%
- agriculture 4%
- other 7%





Holding companies

Cyprus is a long established reputable and tax efficient financial centre. Investors can reap the benefits of cross-border opportunities within the EU by selecting the island to host their investment holding and use it as a springboard to carry out business activities, raise funds or list their shares in EU capital markets of their choice.

It is most commonly used as an intermediate holding company jurisdiction especially:

- by groups of companies aiming at dividend income streams which, in most cases, are tax exempt
- to hold subsidiaries for significant capital appreciation that may be spun off or sold in the future as profits arising from disposals are tax exempt
- where a jurisdiction is required that does not have Controlled Foreign Company (CFC) legislation
- for repatriation of profits as dividends, interest and royalties without payment of withholding tax

- by funds or investment vehicles, as there is no tax on transactions in securities
- to achieve a tax free unwind of the holding company at some point in the future

Foreign investment

The official government policy is welcoming to foreign investment provided that this does not have adverse environmental effects. The Council of Ministers of Cyprus liberalized the FDI policy for both EU and non EU nationals as of 1 October 2004, the main features being:

- restrictions relating to the minimum level of investment and the foreigners' participation percentage have been abolished, in most sectors
- permits and authorizations that may be required are to be issued by relevant local authorities
- foreign companies now have the opportunity of investing and establishing a business in Cyprus on equal terms with local investors

KEY ECONOMIC INDICATORS		2006	2007	2008	2009	2010	2011	2012
International Reserves	€ mn	4.452,7	4.423,4	721,0	888,6	858,0	931,9	903,7
Current Account Balance	% of GDP	-7,0	-11,8	-15,6	-10,7	-9,8	-3,4	-6,9
Inflation Rate	% change	2,50	2,37	4,67	0,33	2,43	3,29	2,39
Registered Unemployed	% of Econ. Active Pop.	3,3	3,0	2,9	4,3	5,5	6,7	8,5
Gross Domestic Product (at current prices)	€ mn	14.432,5	15.829,7	17.157,1	16.853,5	17.406,0	17.878,0	17.720,2
Gross Domestic Product (real growth)	% change	4,1	5,1	3,6	-1,9	1,3	0,5	-2,4
Gross Domestic Product Per Capita	€	19.200	20.600	21.800	20.900	21.000	21.000	20.500
Gross Domestic Product Per Capita	EU 27=100	93	94	99	100	96	94	91

FAST TRACK ECONOMIC CITIZENSHIP

There are six investment ways which enable an investor to apply for naturalization.

A foreign investor may apply for naturalization if meeting anyone of the criteria 1-6 plus criterion 7 below:

1 Mixed investment and donation to a State Fund

- a. if invested an amount of €2 mn for the purchase of shares and/or bonds (or a combination) issued by the under establishment, National Investment Company, and
- b. has donated €500.000 to the government Research and Technology Fund. Pending the establishment of the National Investment Company the funds may be deposited with the government

OR

2 Direct investments

Has available direct investments in Cyprus for at least 3 years, worth at least €5 mn which include, inter alia, buying immovable property, business based and operating in Cyprus, shares of companies registered in Cyprus, acquisition of financial assets such as bonds registered and issued in Cyprus including those which will be issued by the Solidarity Fund in accordance with the National Solidarity Fund Law of 2013, participation in a company or joint venture executing a project in Cyprus.

OR

3 Bank deposits

The investor personally or through companies owned by him or trusts of which he/she is the beneficiary has fixed deposits of at least €5 mn for a minimum period of 3 years with Cyprus banks.

OR

4 Combined criteria

On the basis of a combination of the aforementioned criteria 1-3, the investor owns property in Cyprus worth at least €5 mn.

OR

5 Business activities

If the investor has incorporated companies managed in Cyprus and the companies in the 3 years preceding the application contributed to Cyprus at least €500.000 each year for payment of income taxes, VAT and fees to professionals.

Alternatively, in case the applicant is the shareholder or beneficiary of company / companies operating in Cyprus and maintains a head office in Cyprus employing at least 5 Cypriot nationals then the minimum amount contributed to Cyprus for payment of taxes, VAT and fees to professionals is reduced to €350.000 annually for each of the last 3 years preceding the application.

In case the applicant is the shareholder or final beneficiary of company/companies operating in Cyprus and has its head office in Cyprus and employs at least 10 Cyprus nationals then the minimum amount contributed to the Cyprus economy for payment of taxes, VAT and fees to professionals is reduced to €200.000 annually for each of the last 3 years preceding the application.



OR

6 Individuals whose deposits at Bank of Cyprus or at Laiki Bank have been impaired due to the measures imposed after 15 March 2013

A foreign individual that has suffered impairment on deposits in any (or both) Laiki Bank and/or Bank of Cyprus of the total amount of at least €3 mn, automatically qualifies for naturalization.

Additionally, the beneficial owner of a Cyprus company whose deposits in either or both banks has suffered an impairment of at least €3 mn also qualifies for naturalization.

In case the applicant that has suffered impairment on deposits in any Laiki Bank and/or Bank of Cyprus of the total amount of less than €3 mn, can apply provided he has invested additionally for the remaining amount up to the €3 mn, under options 1 or 2 above.

AND

7 In addition to any one of the above criteria 1-6, the investor must:

- a. have no criminal record
- b. hold a confirmation that he/she is not included in the list of persons whose assets in the EU are subject to sequestration, and
- c. own house in Cyprus worth at least €500.000 which is used as permanent residence



3 Tax Advantages

The Cypriot tax system provides to investors:

- 12,5 percent corporation tax, the lowest in EU
- exemption from tax on dividend income, in most instances
- no tax on profits from foreign Permanent Establishment (PE), in most instances
- exemption from tax on profits from shares, securities, bonds and units
- no withholding tax on the repatriation of income as dividends, interest and royalties
- extensive double tax treaties network
- access to EU Directives
- no thin capitalization rules
- absence of Controlled Foreign Company (CFC) rules thus exempting foreign income received
- flexible reorganization rules and group relief provisions

Tax system

Cyprus' tax system is in full compliance with EU requirements and also with the OECD requirements against harmful tax practices.

The main features of the tax system of Cyprus are as follows:

Scope of tax

Tax is imposed on all Cypriot resident persons (individuals and corporations) on their worldwide income.

A corporation is tax resident in Cyprus when its management and control is exercised in Cyprus.

An individual is tax resident in Cyprus when spending more than 183 days of a calendar year in Cyprus.

Corporation Tax

The corporation tax rate is 12,5 percent and the lowest in EU.

Dividend income

Corporations do not pay any tax on dividends received from other Cypriot tax resident companies.

The exemption from tax also applies to profits of a PE the Cypriot company has in another jurisdiction, subject to certain conditions.

The exemption will not be granted if:

- directly or indirectly more than 50 percent of the activities of the paying company/PE result in investment (passive) income, and
- the paying company/PE is subject to tax rate substantially lower than the Cyprus rate ("substantially" lower is defined as 6 percent or less)

When dividend income is not exempt, it is subject to 17 percent (20 percent in 2013) defence tax contribution. Tax credits for taxes paid abroad, are deductible in Cyprus.

If the profits of the PE are not exempted, they are subject to corporation tax of 12,5 percent. Tax credits for taxes paid abroad apply.

Interest income

When interest income is the result of the ordinary activities of the company or is closely connected to the ordinary activities of the company, it is subject to tax like any other "active" trading

income. If the interest income fails the test of active trading income, then it is subject to defence tax contribution at 30 percent and exempt from corporation tax.

Group finance interest income is considered as trading income.

Capital Gains Tax

Capital Gains Tax (CGT) is only imposed on the sale of land and buildings situated in Cyprus, or of shares in non-listed companies that own such property. There is no CGT on the sale of any other asset including real estate outside Cyprus and shares.

As far as shares are concerned, gains as well as trading profits from the disposal of titles are exempt from all taxes. Titles are described as shares, bonds, debentures and similar titles as well as rights thereon (options, futures, etc).

Thin capitalization

Cypriot tax legislation does not contain specific provisions relating to thin capitalization of companies ie debt to equity ratio restrictions. A Cypriot holding company may, therefore, be capitalized with loans without any risk that interest paid at arm's length to its parent company will not be deductible.

Controlled Foreign Company (CFC) legislation

Compared with many other jurisdictions, Cyprus CFC legislation is limited, targeting only certain types of income that are not derived from real business activities to create a distinction between participation (active) and investment (passive) income. The CFC provisions will be triggered if more than 50 percent of the company's activities result directly or indirectly in investment income, and the foreign tax burden of the non-resident company paying the dividend is substantially lower than the tax burden of the Cypriot company.

Other significant provisions

Losses can be carried forward up to five years.

Group tax loss relief is available for companies forming part of a group, as defined under the law, thus allowing losses of one company to be set-off against profits of another company within the group.

Mergers, acquisitions and spin offs as per the same rules as the relevant EU Directive, can be effected without tax cost.

There are no thin capitalization rules (companies can be funded almost exclusively by debt) and no CFC rules.



Royalties (IP “box regime”)

The provisions introduced in 2012 provide exemptions from tax on income related to Intellectual Property (IP). More specifically:

- 80 percent of worldwide royalty income generated from IP owned by Cypriot resident companies net of any direct expenses, is exempt from income tax
- 80 percent of profit generated from the disposal of IP owned by Cypriot resident companies net of any direct expenses, is exempt from income tax
- effective tax rate of 2,5 percent or less
- any expenditure of a capital nature for the acquisition or development of IP is claimed as a tax deduction in the year in which it is incurred and the immediate four following years on a straight line basis

The above exemptions are also available for IPs acquired or developed before January 2012.

In addition:

- no withholding taxes on payment of royalties apply when distributed out of Cyprus, provided that the holder is not a Cyprus resident and the royalty is used outside of Cyprus
- Cyprus has an extensive worldwide network of double tax treaties
- the EU Directive on Interest and Royalties providing for nil withholding taxes between EU countries and which extends also to Cyprus

Withholding taxes

Cyprus does not impose any withholding tax on dividend, interest and royalty payments made to non-Cypriot resident recipients.

In the case of royalties, the exemption applies for royalty payments when the right/asset is used outside of Cyprus.

When the royalties are connected with the use of the right/asset within Cyprus, there is a 10 percent withholding tax subject to treaty provisions, and where applicable, to the EU Interest and Royalties Directive.

Expense deductibility

Under Cypriot law all expenses incurred for the generation of income are deducted before arriving at the taxable income.

Double Tax Treaty (DTT) network and EU Directives

Cyprus has an extensive network of DTTs. Several others are under negotiation. Where there is no DTT, a Cyprus company can benefit from the EU Directives to eliminate withholding taxes when collecting income from the EU. Unilateral tax credit on foreign taxes withheld at source is also available.

EU Parent Subsidiary Directive

This Directive, as amended, was transposed into Cypriot law in the form of the Income Tax Law and the Special Contribution for Defence Law. These laws establish a liberal system of double taxation avoidance. The new tax regime extends to non-EU countries, as the laws distinguish only between residents and non-residents of Cyprus.

On the taxation of dividends, the Cypriot tax laws are even more liberal than the Directive. Foreign dividends are exempt. On a holding period, the second derogation of the Directive allows a member state not to apply the Directive. This applies to parent companies in that country that have not maintained a qualifying holding in a subsidiary company in another member state for at least two years. It also applies to subsidiary companies in a country in which a parent company in another member state has not maintained such a holding for the same period, both in respect of incoming and outgoing dividends.

Company reorganizations

The recent tax rules for reorganization of companies such as mergers, divisions, transfers of assets (including immovable property) and exchanges of shares follow the EU Merger Directive. They extend the Directive to domestic reorganizations, cross-border reorganizations involving EU member and non-EU member states and reorganizations abroad with tax implications in Cyprus. Such reorganizations do not lead to recognitions of income at company and shareholder levels and any gains made are exempt from Cypriot tax.

Losses incurred before a reorganization may be carried forward indefinitely by the new entity and losses from one activity may be offset against profits from another.

No stamp duty is payable on documents effecting a reorganization.

WITHHOLDING TAXES - PAID TO CYPRUS

	Dividends %	Interest %	Royalties %		Dividends %	Interest %	Royalties %
Non-treaty countries	nil	nil	nil				
Armenia	nil	-/5	-/5	Mauritius	nil	nil	nil
Austria	10	nil	nil	Moldova	5	5	5
Azerbaijan	nil	nil	nil	Montenegro	10	10	10
Belarus	5/10/15	5	5	Norway	-/5	nil	nil
Belgium	10/15	10	nil	Poland	nil	-/5	5
Bulgaria	5/10	-/7	10	Portugal	10	10	10
Canada	15	-/15	-/10	Qatar	nil	nil	-/5
China	10	10	10	Romania	10	-/10	-/5
Czech Republic	nil	nil	10	Russia	5/10	nil	nil
Denmark	-/15	nil	nil	San Marino	nil	nil	nil
Egypt	15	15	10	Serbia	10	10	10
Estonia	nil	nil	nil	Seychelles	nil	nil	-/5
Finland	5/15	nil	nil	Singapore	nil	7/10	10
France	10/15	-/10	-/5	Slovakia	10	-/10	-/5
Germany	5	nil	nil	Slovenia	5	5	5
Greece	25	10	-/5	Spain	5/15	2	5
Hungary	5/15	-/10	nil	South Africa	nil	nil	nil
India	10/15	-/10	10/15	Sweden	5/15	-/10	nil
Ireland	nil	nil	-/5	Syria	-/15	-/10	10
Italy	15	10	nil	Tajikistan	nil	nil	nil
Kuwait	10	-/10	-/5	Thailand	10	10/15	5/10/15
Kyrgyzstan	nil	nil	nil	Ukraine	5/15	2	5/10
Lebanon	-/5	-/5	nil	United Kingdom	15	10	-/5
Malta	nil	-/10	10	United States of America	5/15	-/10	nil
				Uzbekistan	nil	nil	nil

The above table provides a summary of the withholding taxes applicable for payments to Cyprus companies from double tax treaty countries.

WITHHOLDING TAXES - PAID FROM CYPRUS

- No withholding taxes exist for **dividend** payments which are made to non-tax residents of Cyprus
- No withholding taxes exist for **interest** payments which are made to non-tax residents of Cyprus
- No withholding taxes exist for **royalty** payments if the right is used outside Cyprus



4 Holding Companies

SUITABILITY OF CYPRIOT HOLDING COMPANIES

KEY CRITERIA	FAVOURABLE (YES) / NOT FAVOURABLE (NO)	COMMENT
Incoming Dividends	YES	Extensive double tax treaties, unilateral tax reliefs and EU Directives
Dividend Income	YES	Generally not taxable
Outgoing Dividends	YES	No withholding tax to non-residents
Capital Gains	YES	Full tax exemption of gains
Reorganization and Group Relief	YES	Group relief is allowed and losses set off against future profits
Controlled Foreign Company (CFC)	YES	No CFC legislation
Thin Capitalization	YES	No provisions for debt to equity ratio
Redomiciliation	YES	Redomiciliation is permitted
Listing in International Stock Exchanges	YES	Tax efficient and easy process
Interest Income	YES	Interest taxed only at 12,5 percent
Interest and Royalties Withholding	YES	No withholding taxes, only for royalties (10 percent) for their use in Cyprus
VAT Registration	YES	Holding activities are not obliged to register
Liquidation	YES	Distribution of assets without any tax
Stamp Duty	YES	Only for assets existing in Cyprus

Holding and investment companies

A Cypriot holding or investment company is generally set up as an ordinary company resident in Cyprus which, besides participating in domestic and/or foreign companies, may also have other activities such as trading, manufacturing, financing. There are no restrictions on its activities.

The Companies Law of Cyprus, which closely resembles the UK Companies' Act 1948 provides for private and public companies. The registration procedure is simple and straightforward and is effected by filing with the Registrar of Companies the company's Memorandum and Articles of Association and pertinent particulars.

Companies are managed and controlled by the board of directors. Under Cyprus Company Law, a private company must have at least one director. In all other cases, a minimum of two directors are required.

In accordance with Cyprus' Income Tax Laws, a company is a tax resident of Cyprus if its management and control is exercised in the Republic of Cyprus. It is evident that the definition follows the OECD model convention in relation to "place of effective management". Therefore, as a minimum, management and control is considered to be exercised where the board of directors meets and takes decisions.

The formation and registration procedures, including various administrative needs such as printing of the company's letterheads, opening of statutory books and bank accounts until the certificate of incorporation is issued can normally be completed within a period of two weeks.

Cypriot companies can be either private or public.

Private companies

A private company is a company which by its Articles of Association specifically:

- restricts the right to transfer its shares
- limits the number of its shareholders to 50
- prohibits any invitation to the public to subscribe for its shares or debentures
- prohibits the issue of bearer shares

Public companies

A public company must adhere to the following:

- a minimum of 7 shareholders
- a minimum of 2 directors
- hold a statutory meeting and the directors make a statutory report to its shareholders
- may issue share warrants
- before issuing shares or debentures to the public it must issue a prospectus or a statement in lieu of a prospectus

The conversion from a private company into a public company can be done through a simple filing procedure prior to listing.

Further, the law on redomiciliation opens new dimensions to international investors and traders as non-Cyprus companies can now be redomiciled in Cyprus and can benefit from the favourable provisions of the Cyprus legislation. It also provides for Cyprus registered companies which opt to redomicile abroad. At the same time, redomiciled companies retain their previous records, investments, trading history and business connections.

Management and control

Under Cyprus tax law, a company is considered a Cyprus tax resident if its management and control is exercised in Cyprus. In general, the Cypriot Tax Authorities adopt a liberal attitude accepting that management and control is exercised from Cyprus unless residence is claimed by another country. It is, therefore, important especially where a number of jurisdictions are involved, each with different requirements regarding substance, to ensure that the Cypriot companies are properly managed and controlled from Cyprus.

The following usually ensure that substance and management and control is achieved in Cyprus:

- majority of the board are residents in Cyprus
- regular meetings are held in Cyprus, perhaps every 3-4 months and maybe more regularly, if deemed necessary

- major decisions and contracts should be approved by the board of directors in Cyprus and major contracts should, as far as possible, be signed in Cyprus
- in certain circumstances, it is advisable that a company hires offices or locates in a serviced office

In-house business facilities

Our offices in Nicosia, Oneworld House, include a stand-alone, dedicated business services centre equipped with hi-tech, telecommunications infrastructure and facilities, including:

- virtual offices suited to each client
- experienced business services team
- meeting rooms and other business services including IT and telecoms suitably configured
- on-site utilities, office cleaning and maintenance
- access 24 hours a day, 7 days a week

Cessation of activities

A Cypriot holding company held by non-resident shareholders can cease operations in Cyprus and distribute assets to its shareholders in any form (dividends, proceeds on liquidation, etc) without any tax cost to the shareholders.

If the Cypriot holding company owns immovable property in Cyprus, then its disposal at the time of ceasing operations may be subject to capital gains tax.

Use of holding companies

Cyprus is often used as an intermediate holding company jurisdiction and is of particular interest in the following circumstances:

- for groups, international or domestic investing outside Cyprus, aiming at dividend income streams. Such dividend in most cases is tax exempt in Cyprus
- to hold subsidiaries that have scope for significant capital appreciation, that may be spun off or sold in the future. Profits arising from disposals are not taxable in Cyprus
- to benefit from the favourable withholding tax provisions of the Cypriot double tax treaties network, the EU Parent Subsidiary Directive and other EU Directives
- where a jurisdiction is required that does not have CFC legislation
- to avail of the favourable repatriation provisions under Cypriot tax law which allows payment of dividend, interest and royalties, in most cases, without withholding tax
- suitable for any fund or investment vehicle, as there is no tax on transactions in securities even if this is the trading activity of the entity
- where it may be important to unwind the holding company structure in the future in a tax free manner. No capital gains tax on disposal of shares, dividends exempt from taxation subject to easily met conditions, no taxes on liquidation or capital reduction to non-Cyprus resident shareholders
- to hold real estate companies for a tax free disposal of property. Since Cyprus imposes no tax on the disposal of shares (with the exception of gains derived from real estate situated in Cyprus) a Cyprus company offers an ideal way of holding a subsidiary real estate company. By selling the shares in the subsidiary real estate company to a prospective buyer effectively allows for the tax free disposal of the property
- to hold IP companies for a tax free exit route. As Cyprus imposes no tax on the disposal of shares, a Cyprus company offers an ideal way of holding a subsidiary IP company. By selling the shares in the subsidiary IP company to a prospective investor, effectively allows for the tax free disposal of the intangible assets
- Cyprus can be used as the location for the ultimate holding company, for instance, for a group that is relocating to a new jurisdiction or on formation of a new publicly-traded corporation with international operations
- the location of a holding company is decided taking into consideration both tax and non-tax issues. We focus only on the tax aspects by taking into account the significant Cypriot tax issues relevant to a holding company together with available exemptions



BENEFITS OF CYPRIOT COMPANIES ACTING AS INVESTMENT VEHICLES

- conversion from private to public company in Cyprus is a simple filing procedure
- a public company in Cyprus can easily list on any stock exchange within the EU and benefit from “Single EU Passport” access to European securities markets
- Single EU Passport allows a company registered in Cyprus to conduct a public offer in another EU member state or have the shares admitted to trading on EU Exchange Regulated Market
- the only requirement is that the prospectus must be approved by CySEC, the Cyprus member of the Committee of European Securities Regulators (CESR)
- recognition as a mature financial services centre with developed infrastructure, a resilient economy, highly qualified professionals and minimum formalities
- corporation tax rate of 12,5 percent, the lowest in the EU
- no withholding taxes on dividends, interest, and in most cases on royalties paid to non- residents
- no tax on gains from disposal of titles, including shares, bonds, debentures, founders and other titles of companies or legal persons and rights thereon
- participation exemption system on dividends/profits from abroad
- no exit costs
- no holding period requirements for the participation exemption on dividends or for the exemption of tax on the disposal of titles

5 Redomiciliations

In line with the international practice of permitting companies to move their seat of incorporation, companies are allowed under the laws of Cyprus to change their jurisdiction. Redomiciliation enables a company to avoid liquidating the existing company and transfer its portfolio of assets to an entity incorporated for the purpose of the new jurisdiction.

As much as a company can change its registered office or registered agent within the same jurisdiction, it can also “move” to a new jurisdiction. Corporate redomiciliation is the process by which a company moves its domicile (or place of incorporation) from one jurisdiction to another by changing the country under whose laws it is registered with, whilst maintaining the same legal identity. The ease with which redomiciliation may take place has increased in recent years.



Why redomicile

Not all countries allow redomiciliation. The ones that do, tend to be Commonwealth common law as opposed to civil law jurisdictions. Notable exceptions are Austria, Hungary, Latvia, Luxembourg and Liechtenstein which are civil law countries but permit redomiciliation. We list later in the section the main jurisdictions that allow and those that do not allow redomiciliation.

To redomicile, both the existing jurisdiction (where the company is currently registered) and the target jurisdiction (where it will continue) must be on the list of countries where redomiciliation is possible. There are certain countries (UK, Hong Kong, Singapore, the Netherlands) that one might expect to allow redomiciliation and, in fact, do not. In such cases other solutions must be sought.

Companies redomicile for a variety of reasons including:

- benefit from a favourable tax environment
- take advantage of less stringent regulation and scrutiny
- align their place of registration with their shareholder base
- move to an international financial centre
- access specialist capital markets

Where an existing company migrates or redomiciles to Cyprus, the company's existing legal status, goodwill and operational history is preserved. This process will allow for companies who currently operate in more costly, difficult regulatory, high tax and high risk environments in other countries to migrate to Cyprus without triggering a disposal of their assets or a diminution in their goodwill or operating history.

Migration to Cyprus

As from 2006 a new law has been enacted in Cyprus as an amendment to the Companies' Law Cap. 113, by which:

- foreign companies can be redomiciled in Cyprus
- Cyprus registered companies can be redomiciled abroad

A foreign company registered in a country which allows redomiciliation and whose Memorandum and Articles of Association provide for the possibility of redomiciliation, may apply to the Registrar of Companies in Cyprus to be registered in Cyprus as a continuing company pursuant to the provisions of the Companies Law Cap 113.

Companies which offer licensed activities under certain provisions of the law in their jurisdiction and for which similar licenses are required in Cyprus, must produce relevant consent for their redomiciliation by the relevant Authority of their country.

Public companies

In case the foreign company is a public company, the following must be produced:

- the prospectus of the foreign company, once the shares have been offered to the public
- if it is listed in a Stock Exchange, evidence of consent of the foreign stock exchange allowing redomiciliation in Cyprus must be provided
- list of present shareholders, duly certified

Temporary registration

From the date of issuance of the temporary certificate of continuation the foreign company:

- is considered as a legal entity duly domiciled according to the laws of Cyprus
- has the same liabilities and is eligible to exercise all powers that registered companies have according to the laws of Cyprus
- the constituent document of amendment is considered as the Memorandum of the company and where applicable as its Articles of Association
- the registration of the foreign company is not lawful and is void if it is done for the purpose of establishing a new legal entity to damage or affect the continuance of the foreign company as a legal body, to affect the property of the foreign company and the way this company will maintain its assets, rights and obligations, to render ineffective any legal or other procedures filed or to be filed against the foreign company, or prohibit from any conviction, judgment, opinion, debt, order or liability against the foreign company or its officials or shareholders

Within six months from the issuance of the temporary registration certificate, the foreign company must present evidence to the Registrar of Companies that it has been struck off from the public register in the country of initial incorporation to receive the certificate of permanent domiciliation.



SELECT LIST OF COUNTRIES ALLOWING REDOMICILIATION

Andorra	Cook Islands	Lichtenstein	Seychelles
Anguilla	Costa Rica	Luxembourg	St Kitts and Nevis
Antigua	Cyprus	Macao	St Lucia
Barbuda	Dominica	Malaysia (Labuan)	St Vincent
Aruba	Gibraltar	Maldives	Grenadines
Austria	Grenada	Malta	Switzerland
Bahamas	Guernsey	Marshall Islands	Turks and Caicos
Bahrain	Hungary	Mauritius	UAE (Dubai)
Barbados	Ireland	Montserrat	Uruguay
Belgium	Isle of Man	Nauru	US Virgin Islands
Belize	Israel	Netherlands Antilles	USA (Delaware)
Bermuda	Jersey	Panama	Vanuatu
British Virgin Islands	Latvia	Philippines	
Brunei	Lebanon	Portugal (Madeira)	
Cayman Islands	Liberia	Samoa	



Opportunities with redomiciliation in Cyprus

The ability to redomicile companies to and from Cyprus opens new planning dimensions for investors and traders. Foreign companies may now more easily gain the powerful benefits provided by the Cypriot corporate tax regime. Benefits include a dividend income tax exemption, the capital gains income tax exemption, the absence of withholding tax for income distributions, an extensive network of double tax treaties, no CFC or thin capitalization rules and many more.

The Cypriot tax regime has been a very successful planning tool since its introduction and since Cyprus joined EU in May 2004.

The regime can now be utilized by foreign companies without a need to fully restructure (ie transferring assets and liabilities to a newly incorporated Cyprus company followed by a liquidation of the former entity). As such, several potential tax issues often related to an international restructuring may be avoided. Significant savings in administration, tax and other costs are typically realized through redomiciliation. It will present additional opportunities for clients with entities in offshore jurisdictions with no double tax treaty network who wish to bring their structure onshore without crystallizing any disposals of underlying assets.



6 IP and Royalties

Royalties are the payments of license fees or commissions by one individual or entity to another for the use of Intellectual Property (IP). IP can take several forms:

- copyrights which can include literary works, dramatic works, musical works, scientific works, artistic works, sound recordings, films, broadcasts, published editions, databases, publications, software programs
- patented inventions
- trademarks (and service marks), designs and models that are used or applied on products

The above is a non-exhaustive list.

Registrable IPs need not to be registered in Cyprus to benefit from IP regime.

The aim is to generate the income arising from these rights in the most tax efficient manner possible. The ideal candidate for royalty routing is a client who has a new IP right, when there is little difference between the fiscal book value and the real value of that right and it can be transferred to an offshore company at minimal value. Once the intellectual property rights are vested in this company they are then licensed to other, usually onshore, intermediary corporations.

The introduction of the new IP “box regime” in 2012, means that there is no need for the use of the traditional offshore company as the ultimate parent company as the IP owner and the Cyprus entity being the collection agent.

Ideal IP location

IP can be one of the most valuable assets of an organization. Choosing the right location for the centralization and management of IP is a very important strategic business decision. The ideal location to establish an IP structure is one that can serve the organization’s business strategies/ model, safeguard and protect its IP and contribute to its tax optimization.

Cyprus offers an efficient IP tax regime coupled with the protection afforded by EU member states and by the signatories of all major IP treaties and protocols.

Benefits of Cyprus IP

The new regime provides exemptions from tax of income related to IP. More specifically:

- 80 percent of worldwide royalty income generated from IP owned by Cypriot resident companies (net of any direct expenses) is exempt from income tax
- 80 percent of profit generated from the disposal of IP owned by Cypriot resident companies (net of any direct expenses) is exempt from income tax



- effective tax rate of 2,5 percent or less
- any expenditure of a capital nature for the acquisition or development of IP is claimed as a tax deduction in the year in which it was incurred and the immediate four following years on a straight-line

All the above exemptions are also available for IPs acquired or developed before January 2012.

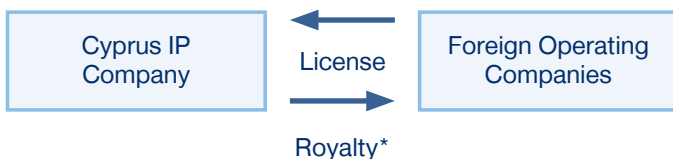
In addition:

- no withholding taxes on payment of royalties when distributed out of Cyprus, provided that the holder is not a Cyprus resident and the royalty is used outside of Cyprus
- tax is only paid on the licence fee retained by the Cyprus company
- Cyprus has an extensive worldwide network of double tax treaties
- the EU Directive on Interest and Royalties providing for nil withholding taxes between EU countries and which extends also to Cyprus
- Cyprus corporate tax rate is at 12,5 percent, the lowest within the EU

Example

Assume that a Cyprus IP company licenses its IP to its operating foreign Companies and in return it receives royalty income of €100.000 per year.

Structure is depicted below:



The expected annual tax for the Cyprus IP Company will be as follows:

	€
Annual royalty income	100.000
Direct expenses (assume)	<u>(20.000)</u>
Net income	80.000
80% deemed deduction	<u>(64.000)</u>
Taxable income	<u>16.000</u>
@ 12,5% Income tax	2.000
Effective tax rate	2%

* Under the majority of Cyprus double tax treaties the withholding tax on royalty payment is nil

Cyprus is signatory to international conventions for IP, including:

- European Community Trademarks
- Convention Establishing the World Intellectual Property Organization (WIPO)
- The Madrid Agreement Concerning the International Registration of Marks (the Madrid Agreement) and Protocol to the Madrid Agreement
- The Patent Cooperation Treaty
- Berne Convention for the Protection of Literary and Artistic Works
- Paris Convention for the Protection of Industrial Property
- Conventions for the Protection of Procedures of Phonograms Against Unauthorized Duplication of their Programs
- WIPO Performance and Phonograms Treaty
- Rome Convention for the Protection of Performers, Producers, of Phonograms and Broadcasting Organizations
- Trademark Law Treaty
- WIPO Beijing Treaty on Audiovisual performances

7 Securitizations

Securitization is the funding and risk transferring method of choice for an increasing number of issuers and one of the largest growing contributors to the global capital markets.

Although securitization transactions, as they are known today, were made popular in the US, non-US transactions are taking a bigger share of the overall securitization markets. Securitization may be of interest to any large corporation that owns suitable financial assets, whether a pool of debts or revenue streams.

For the banking system, securitization allows for lower liquidity ratios and risks linked to financial sectors and regions, for companies and households, better financing conditions.



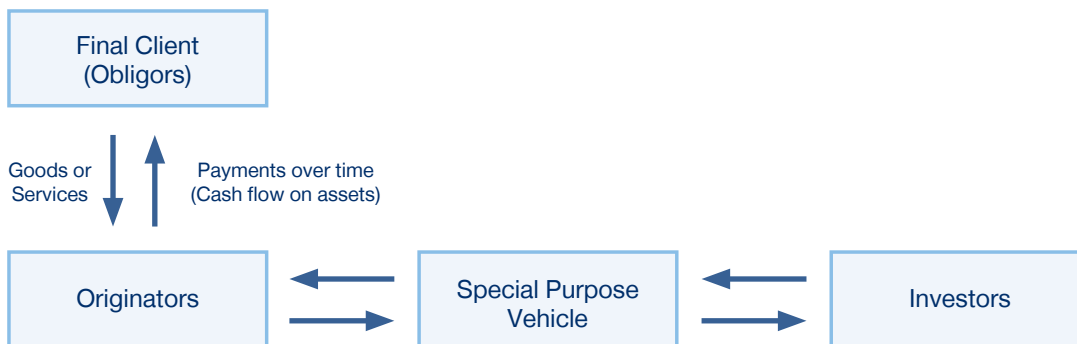
What is securitization

Securitization is a type of structure financing in which a pool of financial assets is transferred from an originating company to a Special Purpose Vehicle (SPV). The SPV subsequently issues debt packages solely backed by the assets transferred, and payments derived, from those assets.

Historically, asset securitization began with the structures financing of mortgage pools in the 1970s. Over the years, the transactions were structured more efficiently and loan originators replicated the process to other types of loans. Today, we recognize many types of collateral as receivables (including mortgaged-backed, property, rent) as well as different types of CDOs, Auto, Credit Card or Consumer Loans.

Due to the repackaging, new fungible financial assets are created that benefit from a portfolio effect. Acquisition, classification, collateralization, composition, pooling and distribution are functions within this process. From an originator's perspective, securitization enables specific ownership risks to be transferred to parties more able to manage these risks, allows the capital market to be accessed with higher debt ratings than their general corporate rating and provides other benefits.

Securitization may be described as a financing structure that allows for the conversion of receivables and other assets into tradable securities via Special Purpose Vehicles (SPV)



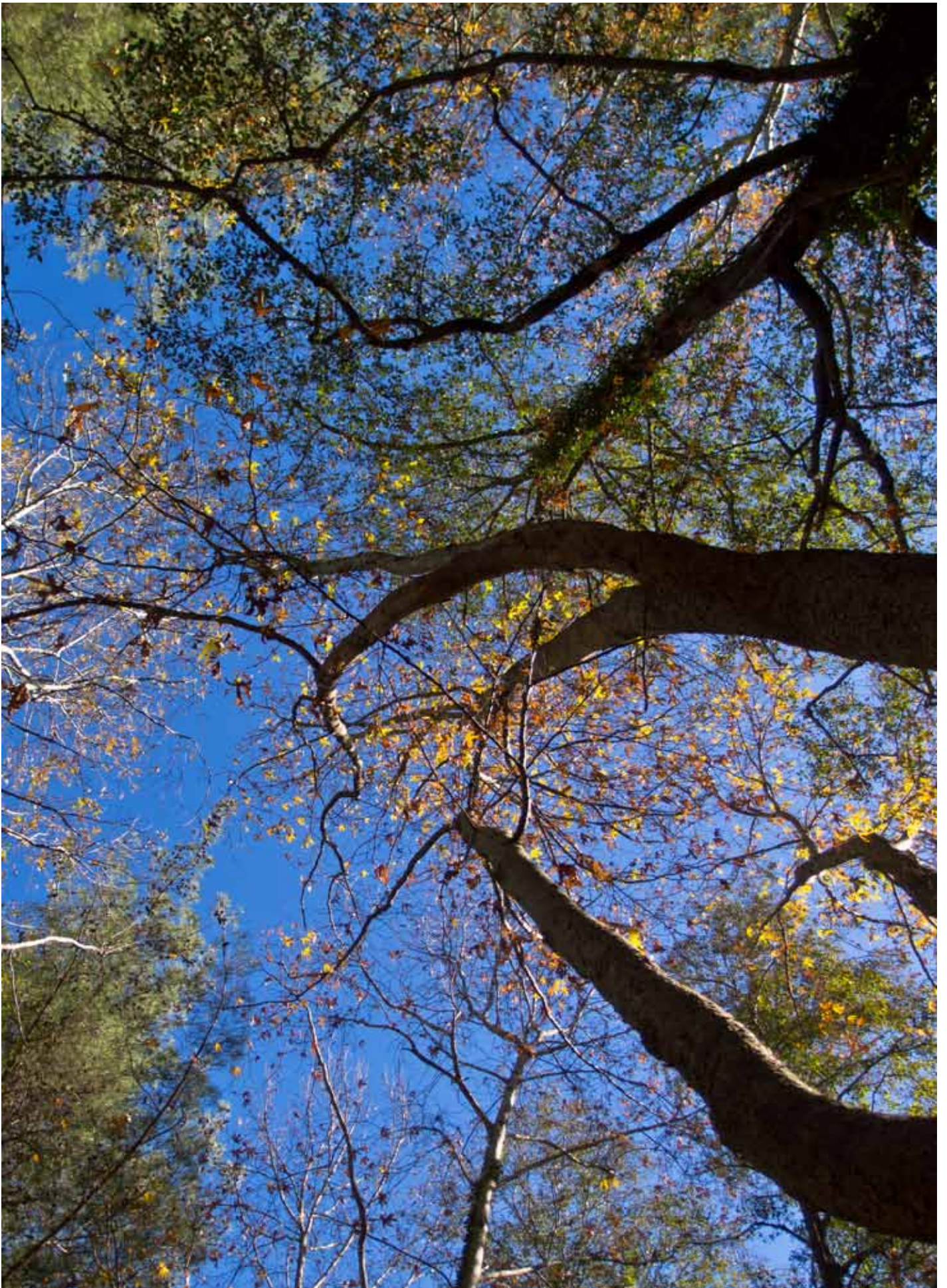
Nature of SPV

The Law allows the securitization vehicle to either take the legal form of a company or that of a fund run by a Management Company.

The main characteristics are:

- securitization company

The by-laws of the securitization company may entitle the board of directors to create one or more separate compartments of each corresponding liabilities, so that the result of each pool is not influenced by the risks and liabilities of other compartments. Each compartment can be liquidated separately.



■ securitization fund

The SPV can be organized in a pure contractual form as a securitization fund. The fund does not have a legal personality. It will, however, be entitled to issue units representing the rights of the investors and issued according to the management rules. In the absence of a legal personality, the fund may be organized as a co-ownership or a trust. In both cases, the fund will be managed by management company, which will be a commercial company with a legal personality. As for the securitization company, the capital may be split into compartments, which may be liquidated separately.

Securitization vehicles issuing securities to the public on a regular basis fall under the supervision of the Cyprus Securities and Exchange Commission (CySEC) which grants the authorization to the former to perform their activities. The supervision by CySEC extends to the following aspects:

- approval of the by-laws or management rules of the SPV and the management company
- CySEC should be notified of the board members of the SPV and the management company as well as of the shareholders of the management company
- the assets of the SPV need to be held in custody

No regulatory formalities are provided for the securitization vehicles issuing securities in a private placement.

Benefits of securitization

Below is a listing of the common benefits of securitization. However, securitizations are structured financings and it is important that potential issuers understand that range of options and related implications to make informed decisions. While these benefits have varying degrees of importance for different originators, the common hallmark of securitizations is the desire for lower capital cost.

■ benefits for originators

Securitization improves return on capital by converting an on-balance sheet lending business into an off-balance sheet fee income stream that is less capital intensive. Depending on the type of structure used, securitization may have the following benefits:

- provide efficient access to capital markets
- minimize issuer specific limitations on ability to raise capital
- convert illiquid assets to cash
- diversify and target funding sources, investor base and transaction structures
- raise capital to generate additional assets or apply to other more valuable uses. For example, it allows lines of credit to be recycled quickly to generate additional assets as well as free long-term capital for related or broader uses

- generate earnings
- complete mergers and acquisitions as well as divestitures, more efficiently
- transfer risk to third parties

■ benefits to investors

- broad possible combinations of yield and risk. Securitized assets offer a combination of attractive yields (compared with other Instruments of similar quality), increasing secondary market liquidity, and generally, more protection by way of collateral coverages and/or guarantees by entities with high and stable credit ratings

- higher returns

■ benefits to borrowers

- better credit terms. Borrowers benefit from the increasing availability of credit terms, which lenders may not have provided if they had kept the loans on their balance sheets. For example, lenders can extend fixed rate debt, which many consumers prefer over variable rate debt. Without overexposing the existence of a market for mortgage-backed securities, credit card lenders can originate very large loan pools for a diverse customer base at lower rates

8 International Trusts CIT

Cyprus International Trusts (CIT) are set up under the International Trust Laws enacted between 1992 till 2013, regulating the establishment and administration of international trusts in the island.

The doctrines of equity, on which trust law is based, have long formed a part of the legal system in Cyprus, inherited from the time of being a British colony. The object of the recent legislation was to modernize and update the existing legal framework.

CITs are exempt from taxation and can be used effectively for tax and other planning considerations.

The definition of a CIT and the most important provisions of the International Trusts Law of Cyprus provide attractive opportunities for a wide range of investors as compared to the other common-law international jurisdictions.



Nature of trust

A trust is established by an individual (the *Settlor*) and is a mean whereby property (the *Trust Property*) is held by one or more persons (the *Trustees*) for the benefit of another or others (the *Beneficiaries*) or for specified purposes. The Settlor can be a Trustee and the Settlor and the Trustees or any of them can be Beneficiaries. A Protector who can be the Settlor may be appointed to oversee the work of the Trustee.

In law, the Trustees are the owners of the trust property, although they may not deal with it as absolute owners but rather in accordance with the provisions of the law relating to trusts and the rights of the beneficiaries as set out in the trust documents. In other words, the trustees are under a binding obligation to deal with the trust property in accordance with the law and the directions set out in the trust document.

The latest amendments to the International Trust Law adopted in March 2012 have enhanced the efficiency and competitiveness of CITs as an asset management and investment tool.

The legislative developments which position Cyprus as a prime jurisdiction in the area of international trusts are mainly the following:

Flexible definition

The definition of a CIT has become more flexible:

- allows the settlor / beneficiary to become a Cyprus resident as long as neither the settlor nor the beneficiary take up residence during the calendar year preceding the year the trust was set-up
- the previous restriction on investment in immovable property in Cyprus has been lifted. It is now possible for the trust property to include real estate in Cyprus
- at least one of the trustees, during the whole duration of the trust, is a permanent resident of Cyprus

A trust can still qualify as a CIT for the purposes of the law even if the settlor, trustee or the beneficiaries are Cypriot companies or partnerships. In fact this provides unique opportunities for a wide range of investors.

Additional protection against application of foreign laws or decisions

Building on existing clauses, additional firewall provisions were inserted to enhance the validity of the trust vis-à-vis foreign laws and court proceedings in other countries:

- the trust's validity, management, disposition of property, variations of its terms or the exercise of the functions of the trustee/ protector are regulated by Cyprus' Law and are not affected by the application of any foreign law
- in the event of the settlor's bankruptcy, or liquidation, no Cyprus or foreign law shall invalidate the trust and no claim can be brought against the property transferred into the trust. Asset protection in the context of bankruptcy / liquidation applies to the extent that it is proven in Court that the trust was not made with the intention to defraud the creditor. The burden of proof lies with the creditor
- the trust or disposition is not affected by the laws of any other jurisdiction which prohibits or does not recognize the concept of a trust
- the trust or disposition is protected against foreign inheritance law and against foreign laws which regulate personal relationships. They are also protected against judicial or administrative decisions of other jurisdictions which are based on foreign inheritance laws or other laws regulating personal relationships

Jurisdiction and choice of laws

The amendments to the law clarify the issue of the choice of law that will govern the trust and confer express powers on the courts to assert jurisdiction. The main aspects of the new provisions are:

- the new law grants the settlor the authority to choose the law that will govern the trust. If the Cyprus law is chosen in an explicit or implied manner this shall be effective and conclusive
- if a choice of law has not been made but the law of closest connection to the trust is the Cyprus law, again the application of Cyprus law will be valid and conclusive

- the law confers jurisdiction to the Cyprus courts if the law of the trust is the law of Cyprus. Further, the law allows Cyprus courts to assert jurisdiction if certain conditions are met such as, any of the trust assets are located in Cyprus, the management of the trust is carried out in Cyprus, the trustee is a Cyprus resident etc

Reserved settlor's powers

The settlor is entitled to reserve powers to himself in respect of any beneficial interest in the trust property or any of the powers he exercises as a settlor, or conferred to him in his capacity as the trust protector or enforcer. For instance, the settlor may vary the terms of the trust, distribute or dispose income or capital of the trust property and appoint or remove a trustee.

Perpetuity

The old rule on the duration of the trusts for a maximum of 100 years from the date of creation has been abolished. Trusts created after the law was amended may exist in perpetuity. Subject to any express terms of the trust, any payment or disposition of income or capital of the trust to another trust is not invalidated by reason of that other trust continuing to be valid when the first trust is terminated.

Confidentiality

No disclosure of information is permitted unless a request is submitted by the beneficiary (in regards to specific category of information) or a court order for disclosure of information is issued. In such cases, the law provides specifically for the conditions which should be met for the issuance of a court order and for the category of documents and information which may be disclosed.

Taxation

If the beneficiary is a Cyprus resident the income and the profits of the trust earned from sources within and outside Cyprus are subject to the relevant Cyprus tax laws.

If the beneficiary is not a Cyprus resident only the income earned and the profit made from sources in Cyprus are subject to Cyprus tax laws.

Tax aspects

International trusts are governed by the local trust law and are not taxed in Cyprus.

In fact, CITs enjoy important tax advantages providing significant tax planning opportunities to interested parties. The following tax privileges are indicative of the possible options for tax minimization:

- all income, whether trading or otherwise, of a CIT (ie a trust whose property is located and income is derived from outside Cyprus) is not taxable in Cyprus
- dividends, interest or other income received by a trust from a Cyprus company are also neither taxable nor subject to withholding tax provided that the beneficiaries are not tax residents in Cyprus. Even though a trust with shares in a Cypriot company may not be a CIT, the exemption relies on the fact that Cypriot tax is imposed only on Cyprus residents. As the beneficiaries are not residents of Cyprus, no tax is imposed on the distributions made to the trust
- gains on the disposal of the assets of a CIT are not subject to capital gains tax in Cyprus
- an alien who creates a CIT in Cyprus and retires in Cyprus is still exempt from tax if all the property settled and the income earned is abroad, even if he is a beneficiary
- a CIT created for estate duty planning purposes would not be subject to estate duty in Cyprus

Local trusts ie trusts under which either the settlor or any beneficiary is a Cypriot resident, will still be treated as transparent vehicles for income tax purposes. In the case of Cypriot offshore trusts, provided that no local profit is included, no Cypriot tax will be levied on their income, capital or distribution.

Types of trusts

There are various types of CIT that can be set up in Cyprus. The choice depends on the circumstances of the settlor and pertinent objectives.

They include:

Discretionary trust

It is possible for a settlor in Cyprus to establish a Discretionary Trust based on Cap 193, which states that the powers of trustees can be expanded by the settlor in the trust deed.

A Discretionary Trust grants the trustees discretion to pay the income or capital of a trust fund to any or all of a particular class of persons defined in the trust deed. The trustee may also be given discretion in deciding when to pay any money to any of the members of the class. Thus, none of the beneficiaries has any right to be paid any money out of the trust fund, since the trustee may exercise discretion and postpone any such payment or ever decide not to pay a particular beneficiary at all.

Fixed trust

Another type of trust is a Fixed Trust, which does not give the trustees any discretion when distributing the assets to the beneficiaries. An example of this type of trust is one which requires the trustees to distribute the income of the trust property to a particular individual, during that individual's lifetime and thereafter distribute the capital to a named beneficiary or beneficiaries in specified shares.

Fixed and Discretionary trust

It is possible to have a combination of a Fixed and Discretionary Trust. The trustees may have discretion as to the distribution of income for a period of time but are required to distribute the capital ultimately in fixed proportions. Conversely, they may be required to distribute the income to a specified person or persons in fixed proportions but may have discretion as to how to distribute the capital amongst a class of beneficiaries.

Trading trust

Under a Trading Trust the trustee is usually a limited liability company which has powers to carry on business and the trust has trading functions and employees to manage its business. Third parties are not aware of the existence of the trust as all documentation used are in the name of the trustee company.

Purpose trust

The Cyprus International Trusts Law of 1992 provides a legal definition of a Purpose Trust. This can be useful adjunct to international corporate planning and can be used to accumulate corporate earnings for general corporate purposes rather than for a defined group of individuals.

Protective trust

This trust is appropriate when a beneficiary is given a life interest which may become discretionary on certain defined events.

Strong points

A CIT has many advantages, including:

- may exist in perpetuity
- its income can be accumulated for the entire duration of the trust
- if its terms so provide, the law applicable to it can be changed to a foreign law, provided that the new law recognizes the validity of the trust and the respective interests of the beneficiaries
- asset protection is the cornerstone of the International Trust Law. The current legislation is designed to limit the power of creditors to set aside transfers of assets into a trust. The law makes it difficult to invalidate the trust even in the event of a settlor's bankruptcy unless clearly fraudulent intention was behind the creation of the trust. The onus of proof lies on the creditor and any action must be brought within two years from the payment or transfer
- confidentiality is an additional feature of the International Trusts Law of Cyprus which ensures that the trustee or any other person, including officers of the government and of the Central Bank of Cyprus, may not disclose to any person any information or documents in relation to the name of the settlor or any of the beneficiaries, the consultations or reasoning of the trustee regarding the exercise of his power, discretion or duties and the accounts of the CIT
- the income and the profits of a CIT derived or deemed to be derived from a source outside Cyprus are completely exempt from income tax or any other tax imposed in Cyprus such as capital gains, special contribution for defence etc. The property of the trust is not subject to estate duty
- no law, Cypriot or foreign, relating to inheritance or succession affect any transfer or disposition in favour of the trust in any way or otherwise affect its validity
- significant tax privileges including:
 - income not taxable
 - dividends, interest and royalties being exempt from tax
 - gains on disposal of assets are tax free
- all or any part of the trust funds may be invested anywhere, so long as the trustee exercises the diligence and prudence that a reasonable person would be expected to exercise in making investments

9 Investment Firms CIF

There are many reasons why accessing the European Securities Markets is becoming increasingly attractive. European exchanges in recent years compare favourably with those in the United States in both IPO volume and value terms. Other than providing liquidity and access to a diverse pool of investors, European listings provide companies with the appropriate status for further European and international expansion.

With its entry into the EU in May 2004, Cyprus has become one of the most attractive countries to set-up and conduct investment and financial services.

The Investment Firms Law

The Cyprus Investment Firms Law 144(I) 2007-2012 (the “Law”) provides the legal framework for the provision of investment services as well as for the registration, regulation of operations and supervision of Cyprus Investment Firms (CIFs).

Under the provision of the Law, the following entities may provide investment services on a professional basis:

- *CIF*: investment firms operating within Cyprus, excluding credit institutions, provided that the CIF has obtained the appropriate authorization from the Cyprus Securities and Exchange Commission (CySEC)
- *credit institutions established in Cyprus*: provided that the credit institutions have received an authorization from the Central Bank of Cyprus (CBC) in accordance with the provisions of the Banking Acts 1997 to 2000 for the provision of investment and ancillary services
- *investment firms with their registered offices outside Cyprus*: whether rendering investment or ancillary services through a branch or operating on a cross border basis without a branch, provided they have been granted a licence from the regulators of an EU member state

Investment services

Investment services include any of the following:

- reception and transmission of orders for one or more financial instruments
- execution of orders on behalf of clients
- dealing on own account
- portfolio management

- investment advice
- underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis
- placing of financial instruments without a firm commitment basis
- operation of Multilateral Trading Facilities (MTF)

Ancillary services

Ancillary services include any of the following:

- safekeeping and administration of financial instruments for the account of client
- granting credits or loans to an investor to allow him to carry out a transaction in one or more financial instruments
- advice to undertakings on capital structure, industrial strategy and related matters
- foreign exchange services where these are connected to the provision of investment services
- investment research and financial analysis
- services related to underwriting

Minimum share capital

An initial capital of at least €200.000 is required if a CIF provides one or more of the following investment services and holds clients' money and/or clients' financial instruments:

- reception and transmission of orders in relation to financial instruments



- execution of orders on behalf of clients
- portfolio management
- provision of investment advice

A CIF that provides investment services as stated above but does not hold clients' money and/or clients' financial instruments, and which for that reason may not at any time place themselves in debt with their clients, may have an initial capital of:

- €80.000, or
- €40.000 and professional indemnity insurance covering EU member states or some other comparable guarantee against liability arising from professional negligence, that it enters into with an insurance undertaking representing an amount of at least €1mn

An initial capital of at least €1mn is required if a CIF provides one or more of the following investment services and/or performs the following investment activities:

- dealing on own account
- underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis
- placing of financial instruments without a firm commitment basis
- operation of Multilateral Trading Facility (MTF)

A CIF that is also registered under the Insurance Service Law to provide insurance intermediary services in the insurance sector must comply with the requirements of the Law, and in addition must have an initial capital of:

- €40.000, or
- €20.000 and professional indemnity insurance covering EU member states or some other comparable guarantee against liability arising from professional negligence, that it enters into with an insurance undertaking, representing an amount of at least €500.000

Procedure for licensing

The business objective of a CIF should be the provision of those investment and ancillary investment services for which it has received a licence by CySEC.

A CIF must be licensed by CySEC, which is the relevant regulatory and supervisory authority. In this respect, a written application to CySEC must be submitted and accompanied by a number of documents including:

- a business plan, which should include a description of the operations, the organization structure, forecasts for the first two financial years and the names of at least two experienced and reliable persons who shall run the business
- draft Memorandum and Articles of Association such as they are expected to be formulated after the granting of the CIF authorization
- excerpt of the criminal record, certificates of non-bankruptcy and resumes of the members of the board of directors, the executives and shareholders possessing a qualifying holding, as well as their answers to a questionnaire issued by CySEC



- draft internal regulations (Operations Manual) depending on the investment and ancillary services which the company proposes to provide
- description of the proposed computer network and electronic infrastructure
- draft regulation in accordance with acceptable practices for the prevention of the legalization of the proceeds of criminal activities

CySEC reserves the right to request the submission, together with the application, of any additional documents not listed above.

If the shareholders possessing a qualified holding in the applicant company (10 percent or more) are legal entities, then CySEC will also require the details for all natural persons who are the ultimate beneficial shareholders.

CySEC will reach a decision within 4 months following the submission of a duly completed application, on either granting a CIF authorisation or refusing the application.

During this 4 month period CySEC may request additional information or clarifications regarding the application submitted.

CySEC must be satisfied with the paperwork submitted including:

- content of manuals
- due diligence information provided for legal and physical shareholders and personnel
- sufficiency in quantity and quality of the staff to be employed

Practical criteria

In general to grant a CIF authorization, CySEC must be satisfied that the applicant company has and maintains throughout its operation:

- the minimum capital required under the Law
- shareholders possessing a qualifying holding or that are otherwise capable of exercising an influence over the management and business strategy, must be fit to ensure the sound and prudent running of the company
- two experienced and reliable persons to manage its business, and that the said persons are capable of fulfilling their duties. One of these two executives should be employed by the company on a full time basis and reside in Cyprus. They should both be accessible and available to appear before CySEC with reasonable notice
- adequate technical and financial resources
- appropriate control and safeguarding arrangements for electronic data processing and adequate internal control mechanisms
- reliability, experience, professional skill and professional diligence of the persons who direct its business
- adequate structures and mechanisms in order to guarantee the protection of investors' assets and eliminate any conflict of interest that may arise between the company or the staff and clients' interests
- fully-fledged office with established telecommunications and PC networks, staffed with employees on a full time/part time basis as described in the organization chart
- heads of the core services departments must possess relevant professional competence certificates from the Ministry of Finance of Cyprus. A CIF has a 12 month period subsequent to the issue of the license to comply with this requirement

After the granting of the authorization, a CIF must comply with the on-going obligations provided by the law and the relevant CySEC directives.



TAX ADVANTAGES

CIFs are subject to tax in an identical manner as any other Cyprus entity, briefly:

- corporation tax rate of 12,5 percent
- no tax on disposal of titles, whereby titles are defined as shares, bonds, debentures, founder and other titles of companies or legal persons and rights thereon
- participation exemption system on dividends/profits from abroad
- no withholding taxes on dividends, interest, and – in most cases – on royalties paid to non-residents
- no minimum holding period for the participation exemption on dividends or for the exemption of tax on the disposal of titles
- absence of any withholding taxes on interest payments made abroad
- absence of withholding taxes on dividend payments from Cyprus
- no thin capitalization, no CFC rules
- relative simplicity and certainty of Cypriot tax regime
- extensive network of tax treaties

OTHER ADVANTAGES

- EU member state, compliant with EU laws and regulations
- a public company in Cyprus can list easily on any stock exchange within the EU and benefit from Single EU Passport access to European Securities Markets
- recognition as a mature financial centre with developed infrastructure, a resilient economy, highly qualified professionals and minimum formalities
- licensing in Cyprus and the existence of a regulatory framework improves transparency and legitimacy with regard to shareholders, authorities and others
- legislation in place and constantly under review to regulate and harmonize operations in the financial services sector
- facilitation of operations of brokerage firms and enhanced prestige on the international markets
- can be used as a springboard for access and easy setting up in prestigious financial markets within the EU (Single EU Passport)
- pool of highly educated and qualified professionals and expert support

10 Private Funds ICIS

Traditionally the regulated schemes in Cyprus have been the International Collective Investment Schemes (ICIS), which come in the legal forms of unit trusts, variable or fixed capital companies or investment limited partnerships. All four of the schemes mentioned may be established with limited or unlimited duration.



Legal form

Private ICIS funds, which are the current type of funds licensed by the Central Bank of Cyprus (CBC) under ICIS Law (No.47(I) of 1999, (“the law”)), are ICIS that can have up to 100 investors, also known as unit-holders. A private ICIS, is set up as a vehicle to be used by a number of investors to enable them to collectively join their investment funds, have them professionally managed and invested by independent professional managers and, in the case of successful investment, extract their profits in a tax efficient manner.

These funds are targeted to experience investors and not to the general public. The sole object of an ICIS must be the collective investments of funds of its unit holders which cannot be less than 2 and not more than 100.

One of the major differentiations of Cypriot law over other jurisdictions' alternative funds is that an ICIS can take a number of legal forms:

International Fixed Capital Company

An international fixed capital company incorporated under Companies Law and licensed by the CBC to operate as an ICIS with a capital that cannot vary. The initial minimum capital required to set up such a form is €50.000.

International Variable Capital Company

An international variable capital company incorporated under Companies Law and licensed by the CBC to operate as an ICIS with a share capital that varies according to the participating investors at any given time and is equal to the Net Asset Value (NAV) of the shares of the company at any given time.

This form is the most popular amongst investors and managers, as it exempts the company from varying its capital with the Registrar of Companies, therefore avoiding stamp duty and long court procedures for decreases in capital.

International Unit Trust Scheme

An international unit trust scheme is created under the Cyprus International Trust Law (CIT law), licensed by the Central Bank to operate as an ICIS, while the provisions of the trusts law being applicable to the necessary extent. Assets placed under such an ICIS are held by the fund's trustees on trust for its beneficiaries.

International Investment Limited Partnership

An international investment limited partnership is registered under the Partnerships Law and licensed by the Central Bank to operate as an ICIS. As with all limited partnerships there must be a general partner appointed who manages the fund and is responsible for the assets and liabilities of the fund. The limited partner will also be a member of the scheme. A general partnership can also have companies as partners.

All ICIS established under any of the above four legal forms may be licensed with unlimited or limited duration and may be structured in such a way as the promoters may determine provided that adequate protection is afforded to the unit holders.

The units issued by an ICIS must be, at the option of unit-holders, redeemed or repurchased directly out of the assets of the ICIS.

A person, whether natural or legal, submitting an application to the Central Bank of Cyprus to be involved with the establishment, management or administration of an ICIS, must be a “fit and proper person”. In determining whether a person is fit and proper, CBC takes into account relevant educational and professional qualifications, experience, reputation and capital resources available to it.

Setting up a regulated ICIS in Cyprus entails professional regulated services by regulated advocates, to whom the competence to establish legal entities is reserved under Cyprus Law. Both during the establishment and throughout its operation, an ICIS also involves other professionals, which must be approved by the CBC.

Beyond the necessary and crucial involvement of lawyers in the establishment and towards legal support throughout its operation, the roles in an ICIS also include the following:

Schemes may have the following investment objectives:

- Real estate fund investment objectives ie a scheme with a portfolio comprising mainly of investments in securities offered by real estate related companies but may, also include direct property and other property related interests. There is a wide variety of different types of real estate funds, from specialist funds to general commercial property funds. Most of the commercial property funds have a wide

commercial property base, thus offering investors a sufficient variety of underlying assets to build a diversified portfolio of property investments especially in Central Europe, Russia and other CIS Countries

- Private equity fund investment objectives ie a scheme acquiring substantial participation in companies of a particular sector or of a particular geographical area, which are either newly constituted or on listing route. These schemes aim in particular to achieve tax free capital gains
- Funds of funds investment objectives ie schemes investing in other funds
- Master/ feeder structure investment objectives. Such a scheme invests between 85-100 percent of assets (the feeder investment fund) in a foreign fund (the master investment fund)
- Experienced investor fund investment objectives. Experienced investor reserved to institutional, other professional investors and high net worth individuals

Other requirements

All private ICIS must have an Investment Manager. If the Investment Manager is a company, it may, either be incorporated in Cyprus and regulated by the CySEC as a financial services firm, or in an EU jurisdiction where there is adequate supervision of financial services firms. If the Manager is not based in Cyprus, the ICIS is required to appoint an independent Administrator in Cyprus.

The minimum subscription by investors in an ICIS which is marketed solely to experienced investors is €50.000 or equivalent. A private ICIS does not need to have minimum subscription.

In case of a Unit Trust Scheme, besides the need for a Manager, it must also have a Trustee.

CBC in exercising the powers conferred on it by section 67 of the ICIS Law (No.47 (I) of 1999)(the Law), has issued regulations which were cited as “Regulation on Books, Records and Other Document to be Kept by the Investment Manager of the Scheme and/or its Trustee” and “Regulations on Annual and Half Yearly Reports”.

All books and records of the schemes as specified from time to time by CBC must be maintained in the local jurisdiction.

Every scheme has the obligation to appoint an auditor. An auditor means a person qualified to be appointed as an auditor under the Cyprus Companies Law Cap 113 and approved by CBC under the Law. The annual financial statements must be audited. There is no requirement to audit the interim financial statements.

Every scheme is required to make available their annual reports and half-yearly report within three months of the end of the financial year, and within two months of the end of the half year.

The annual financial statements must be audited by external auditors in accordance with International Standards on Auditing (ISA).

In addition, the scheme’s auditor must undertake to report to CBC annually on whether the scheme has complied with its obligations under the Law.

Investment Manager

An ICIS may be managed internally through its executive Directors (minimum two, “four eyes principle”) appointed upon the formation of the ICIS who must be approved as to their investment experience and capacity by CBC or through a third party. Although such an Investment Manager should be a licensed Cyprus investment firm, suitably qualified individuals or corporate entities can also be approved to act as Investment Managers of a particular scheme pursuant to the relevant review and authorization of CBC.

The duties and requirements imposed upon the investment manager under the Law include, inter alia, the following:

- must prepare and keep up to date the constitutional documents
- shall manage the property of the ICIS
- Will make decisions as to the constituents of its property, in accordance with the most recently published principal constitutional documents in the exclusive interest of the investors
- shall comply with the objectives of the fund

- must be willing to redeem or repurchase units in the ICIS, at a price related to the net asset value of the fund
- shall not charge unfairly or excessively for the services it provides to the ICIS
- must send a copy of reports and accounts and revised offering memorandum issued by the ICIS to each unit-holder
- the Manager meets the necessary legal requirements and CBC regulations
- the Trustee, where applicable, meets the minimum legal requirements and CBC regulations
- Furthermore, CBC must be satisfied that the constitutional documentation and the offering memorandum of the scheme contain the information prescribed by CBC and that they are in an acceptable form

Custodian

An established banking institution, in Cyprus or in another jurisdiction can be appointed as the Custodian of an ICIS, subject to such bank being approved by CBC. The Custodian Bank shall bear responsibility for holding and safeguarding the assets placed under the ICIS, should these be tangible or intangible assets. It may be the case where for particular funds the requirement for a Custodian can receive exemption.

Administrator

ICIS without physical presence in Cyprus per se must appoint Administrators that are approved by the Central Bank to administrate the fund in Cyprus. The fund's Cypriot Administrators render their services with regard to book-keeping and accounting, compliance, reporting, filing, share issue transfer and redemption and other relevant services.

Procedure for approval

The following documents must be lodged:

- a written application by the applicant company or its local professional advisors
- questionnaires completed for the directors and founder members
- standard application form completed along with the references
- an offering memorandum to be prepared and approved by CBC prior to its circulation to prospective investors
- the Directors, the Promoters, the Investment Manager and the Trustee of the scheme are competent, experienced and honest

Corporate tax

Significant tax incentives and considerations include:

- no subscription tax on the net assets of the fund
- the definition of "securities and titles" is wide and includes units in ICIS. As profits on disposals of securities and titles are exempt from tax in Cyprus, gains on disposals of units are also exempt
- exemption from tax on foreign dividends
- exemption from tax on profit from sale of securities
- no withholding tax on income repatriation by the ICIS
- no tax if management and control is outside Cyprus
- interest received by open and closed-end ICIS is considered active interest income and taxed only at 12,5 percent corporate tax
- no minimum participation on inbound dividends to qualify for tax exemption
- the liquidation of open and closed-end CIS is not taxable if the unit-holders are not tax residents of Cyprus

Cyprus' double tax treaty network can provide substantial attractions as ICIS can collect dividend and interest from Cypriot treaty partners at the withholding tax rates provided under the DTT. Also significant is that profit generated from the sale of securities is only subject to tax in Cyprus, and hence tax exempt.



New definition for dividends under the Cyprus – Russia double tax treaty which impacts ICIS

Distributions from mutual funds and similar collective investment vehicles other than real estate investment trusts or real estate investment funds or similar vehicles primarily investing in immovable property will be subject to the normal withholding

tax rates applying to dividends ie 5/10 percent. This clarifies an uncertainty that existed regarding the withholding tax rates that should apply on such distributions.

The definition of dividends has also been extended to cover distributions from shares held in the form of Depositary Receipts (ADRs and GDRs).

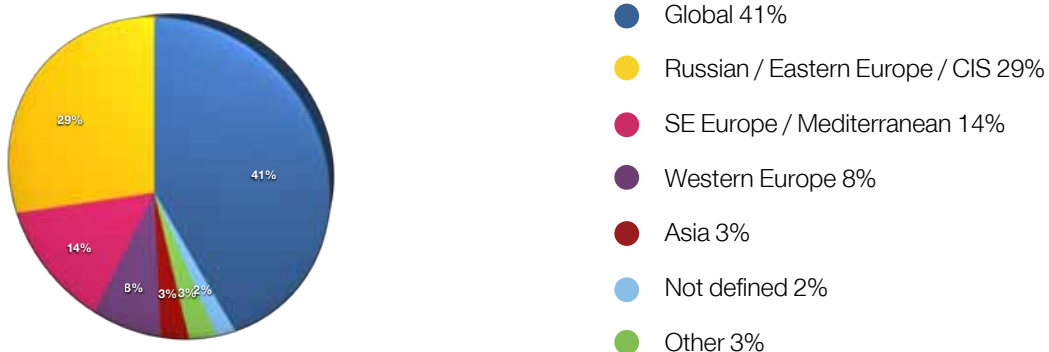
Analysis of ICIS

Investment Focus



On the almost 100 ICIS currently established, investment has been targeted in a wide spectrum of jurisdictions. The regional focus of all currently established ICIS is summarized in the diagram below:

Regional Focus





11 Mutual Funds UCITS

Following the EU accession in May 2004 and harmonization to the *acquis communautaire*, and the EU Directives regulating funds, fund availability has grown, with the addition in Cyprus of Undertakings for Collective Investments in Transferable Securities (UCITS). The Open-Ended UCITS and related Issues Law 2004 (Law 200(I)/2004) was introduced in 2004.

Cypriot UCITS

Two classes of funds comply with the definition of UCITS as set out in the EU Directive.

Mutual funds which invest in transferable securities are similar to Unit Trusts and are managed by a Management Company, while the fund itself has no legal personality.

The other type is a Variable Capital Company, which again invests in transferable securities. This is a limited liability company and its issued share capital must be variable and equal to the value of the assets of the company after deduction of liabilities.

The regulation and supervision of Cypriot UCITS, and the authority issuing permits for distributing Agents for Foreign UCITS and non-UCITS, is the Cyprus Securities and Exchange Commission (CySEC). The minimum issued share capital for both types of UCITS is €1.706.000.

CySEC is the authority which issues permits for the Management Companies as long as the latter have experienced shareholders, competent organization, personnel, technical infrastructure and know-how and, of course, the financial capability to fulfill their obligations. The business of the management company shall be managed by at least two persons who fulfill their requirements of the law. The minimum issued share capital of the Management Company is €768.000.

It is also necessary for an UCITS to appoint a Custodian, responsible for keeping the assets of the fund. CySEC requires that the Custodian must have mechanisms which aim, as a minimum, to protect the property of the Mutual Fund under its custody and prohibit its use for own account or for the benefit of third parties. The Custodian can be either a Cypriot bank or a foreign bank with an active branch in Cyprus.

The Management Company and the Custodian must at all times act independently of each other.

UCITS have to comply with certain investment restrictions including:

- no more than 10 percent of the assets may be invested in securities which are not traded in an active stock exchange
- no more than 10 percent of the assets of an UCITS may be invested in a single issuer
- the above 10 percent limitation may be raised to a maximum of 35 percent if the securities are issued or guaranteed by a central or local government of any country
- the 10 percent limitation may be raised to a maximum of 25 percent where the UCITS is investing in securities in the form of bonds issued by a reputable credit institution
- CySEC may authorize UCITS to invest 100 percent in securities issued or guaranteed by the government or a local authority of a country or by a public international body accepted by CySEC
- UCITS should notify CySEC and should receive authorization from CySEC if it intends to invest in another UCITS or an equivalent scheme elsewhere
- CySEC may authorize an UCITS to employ techniques for the purpose of efficient portfolio management and providing protection against exchange risks
- an UCITS may not acquire either precious metals or certificates representing them

ADVANTAGES

Investment in Mutual Funds entails important benefits which make it one of the most popular investment choices for the public:

- low investment risk

The funds of investors are placed in various securities. As a result, variances of such a diversified portfolio are reduced and its investment risk minimized. Also, Mutual Funds are being internationally regarded as the most “democratic” constitution in the field of investments, as they achieve the same return for all investors, not depending on the level of the capital invested
- professional management

The valuation of the various complicated investment alternatives is a difficult task for the average investor. The fund managers are sufficiently experienced and have an eligible infrastructure in order to be able to determine investment opportunities either in Cyprus or in the international markets of capital. Moreover, the activities of the fund managers are supervised by CySEC which is licensing them.
- significant pool for negotiations

No matter what the level of the capital invested by each investor in a Mutual Fund, such a fund is treated as a pool fund, having the power of its total assets and can benefit from favourable terms on buying or selling financial assets and any other securities in the money and capital markets
- liquidity

Liquidity is a key parameter for any type of investment. Liquidity means that the investors have their capital on their disposal any time that is needed. Mutual Funds offer the ability to investors to buy or sell in a short period of time
- transparency and easy watch on the investment

Investors have the opportunity to follow the course of their investment as the relevant regulations provide for a series of informative papers to be available for investors, as well as the Net Asset Value (NAV) of the Mutual Fund is daily disseminated through the economic press
- robust legislative framework

To safeguard and promote the investors’ interests, Mutual Funds are supervised, licensed and monitored by the UCITS law. They define specific obligations for the Management Companies and impose restrictions concerning the way Mutual Funds deal with the funds of investors. The same restrictions apply to the work of the Custodian and the Trustee



Foreign UCITS

CySEC requires all foreign UCITS, which qualify under the relevant EU directive, based in another EU member state that wish to market their units/shares in Cyprus to apply to CySEC for registration.

In this respect a written application to CySEC must be submitted by the foreign UCITS with the following particulars:

- duly certified power of attorney by the foreign UCITS for submission of the application to CySEC
- attestation by the competent authorities in the state of domicile confirming that the foreign UCITS fulfills the conditions set out by EU Directive 85/611/EEC
- fund rules or instruments of incorporation
- latest prospectus
- latest annual and half yearly reports

- detailed information on the arrangements made for the marketing, issuance and redemption of units/shares in Cyprus
- information on the sales representative of the foreign UCITS in Cyprus to ensure that the marketing and redemption of units/shares in the Republic is carried out in accordance to the provisions of the Cyprus law

The application should be submitted jointly with a chosen representative.

The financial year of an UCITS has the duration of a calendar year. The first financial year ends at 31 December in the calendar year in which the UCITS started its operations.

The annual reports are audited according to ISA.

The annual and half yearly reports must be submitted to CySEC and placed at the disposal of the unit holders within two months from the end of the period to which they refer.

SINGLE EU PASSPORT

The Prospectus Directive (Directive 2003/71/EC) that came into effect in July 2005 has been implemented in EU member states. It harmonizes requirements for the drawing up, approval and distribution of the prospectus to be published:

- when securities are offered to the public in an EU member state, or
- when securities are admitted to trading on a regulated market situated or operating within an EU member state

In 2005, Cyprus harmonized the local legislative framework in line with the EU Prospectus Directive. It has also adopted the Markets in Financial Instruments Directive (MiFID) which aims at strengthening the European capital market. An important outcome of the Prospectus Directive and MiFID is the provision of issuers with a “Single EU Passport” of prospectuses. The practical implication is that the approval of a prospectus by the authorities of an EU exchange regulated market of any member state allows the issuer to raise capital on a pan-EU basis.

It is a key criterion in the EU’s Financial Services Action Plan (FSAP) which is designed to create a single market of financial services. It reinforces the unified concept of “Single EU Passport”, initiated by the EU Directive for Investment Services - which allows investment firms to offer products and services across the EU, without restrictions of borders or protection or national regulatory regimes. It liberalizes Europe’s capital markets by exposing them to pan-European competition, while seeking to introduce common standards of regulation and investor protection.

Each EU member state designates a central competent administrative authority responsible for carrying out the obligations provided for in the Prospectus Directive and for ensuring that the provisions adopted are applied.

If an offer of securities is made to the public or admission to trading on an exchange regulated market is sought in an EU member state other than the home member state only, the central competent administrative authority shall be entitled to approve the prospectus.

For companies registered in Cyprus that wish to conduct a public offer in another EU member state or have their shares admitted to trading on any EU exchange regulated market, the relevant prospectus must normally be approved by CySEC. The Cypriot legislation on prospectuses is harmonized to the Prospectus Directive and allows in some cases for the prospectus to be used in other EU member states without the need for further administrative procedures.

CySEC is established as a public corporate body and is the competent authority for approving prospectuses in Cyprus. It is a member of the Committee of European Securities Regulators (CESR), whereby CySEC’s official liaise with their counterparts in other EU countries to enhance consistent supervision and enforcement of the single market for financial services. Since the implementation of the Prospectus Directive, CySEC has granted “Single EU Passport” approval to a number of prospectuses.

In order to facilitate the cross-border exercise of shareholders’ rights, the EU Commission has removed legal obstacles to electronic participation in meetings and the facilitation of voting by non-resident shareholders without the need to attend the meeting. There is also cross-border product distribution. A more coherent regulatory regime is created in Europe.

12 Alternative Investment Funds AIF

To harmonize regulations across the EU and establish effective oversight on Alternative Investment Funds (AIF) and their Managers (AIFM), the EU Parliament in 2010 adopted the Alternative Investment Fund Managers Directive (AIFMD) to be put in force across EU by 2013 and for non-EU domiciled AIFs and AIFMs by 2015.

Cyprus was one of the first EU member states to implement the AIFM Directive into national law. The Alternative Investment Fund Managers Law of 2013 (the “Law”) which was enacted by the House of Representatives in July 2013, transposed the AIFMD into Cyprus law

The implementation of the Law introduces a regulatory and supervisory framework in Cyprus for managers of AIFs, being collective investment undertakings which do not qualify as Undertakings of Collective Investment in Transferable Securities authorized in Cyprus under the UCI Law of 2012 (Law 78(I)/2012).

The Law introduces, inter-alia, the following:

- an EU wide “passport” under which AIFMs are enabled to provide cross border management and marketing services to AIFs
- detailed regime regarding depositary functions of safekeeping, cash monitoring and oversight
- operating conditions for AIFMs including internal control and compliance, risk management, liquidity management, transparency, delegation arrangements, conflicts of interest and remuneration policies
- rules regarding third country undertakings

Scope

The EU regulators pushed through this Directive casting a wide spectrum, aiming to capture authorization and supervision aspects of AIFs located within EU borders and/or marketed in the EU. In addition, EU AIFMs managing non-EU funds and non-EU AIFMs managing EU AIFs or which market non-EU AIFs are still potentially covered by the Directive.

Regarding AIFM activities, the Law allows the following activities:

- a Cyprus AIFM may manage Cyprus AIFs or AIFs of another member state or third country
- an EU or third country AIFM may manage Cyprus AIFs
- a Cyprus AIFM may market units or shares of AIFs they manage in other member states or third countries
- an EU or third country AIFM may market units or shares of AIFs they manage in Cyprus

Notably, AIFMD applies to both internal and external AIFMs. The key difference is that the internal ones can only service a single AIF whereas external ones may manage multiple AIFs and may extend their license to be allowed to:

- Manage UCITS funds (subject to authorization under UCITS Directive)
- Manage portfolios in accordance with mandates given by investors on a discretionary client by client basis
- Provide the non-core services of:
 - investment advice
 - safekeeping and administration in relation to shares or units of funds
 - reception and transmission of orders in relation to financial instruments



The timelines for implementation are as follows:

- EU AIFMs managing EU AIFs must apply for a licence by 22 July 2014
- Non-EU AIFMs managing EU AIFs must apply for a license by 22 July 2015
- Non-EU AIFMs managing non-EU AIFs can apply for a license as of 22 July 2015 or opt-out by not marketing in the EU. In the interim, they can continue to be marketed on the basis of local private placement rules
- Ultimately any AIFM intending to market in the EU needs to become authorized by 22 July 2018

Highlights of Law

- The competent authority for the authorization and supervision of Cypriot AIFMs is the Cyprus Securities and Exchange Commission (CySEC)
- Eligible legal form for setting-up a Cyprus AIFM is a limited liability company by shares.
- Minimum initial capital for a Cyprus AIFM is set at €125.000 plus professional liability insurance or additional own funds. The authorization period is 3 months
- Localization of the depositary of a Cypriot AIF in another EU member state up to 2017 is possible, if the depositary is a credit institution
- Certain AIFs are allowed to appoint another entity than a credit institution or a MiFid Investment Firm as depositary, eg a fiduciary services provider. This possibility is provided for closed-ended AIFs, which invest in assets other than “assets subject to custody”, within the meaning of the AIFM Law, or act as private equity investment funds
- Transitional marketing period until July 2014 for marketing of non-EU AIFs in Cyprus: Only national private placement rules without the additional AIFM Law marketing requirements apply
- External verification of the valuation procedures and/or valuations of a Cypriot AIFM may be required by CySEC, if the valuation function is performed internally or by an external valuer not considered to be independent
- Provisions ensuring redomiciliation of an EU or non-EU AIFM to Cyprus have been adopted
- Special rules for Cyprus management companies of Undertakings for Collective Investment in Transferable Securities (UCITS management companies) applying to be additionally authorized as AIFMs. They are not required to provide the initial minimum capital of €125.000 and the additional own funds required, when assets under management exceed €250.000.000.



The meaning of “managing” one or more AIFs

The AIFM law regulates, in transposition of the AIFMD, every Cyprus based legal person that manages one or more AIFs notwithstanding whether these AIFs are Cyprus, EU or non-EU based.

From 2015 on the AIFM Law shall also apply to non-EU AIFMs having designated Cyprus as their “member state of reference” for their management and/or marketing activities in the EU.

The Law takes a look-through approach regarding the determination of the entity that qualifies as an AIFM. It is not important which entity is contractually designated as the principal manager of the AIF; decisive is which entity is effectively “managing” the AIF, ie providing at least risk or portfolio management services to the AIF. If more than one entities are managing the AIF within the above sense, then only one of them will have to be chosen to act as the AIFM. This may affect regulated Cypriot entities offering asset management services to AIFs, eg Cypriot MiFID Investment Firms (CIFs) in the following cases:

- When the CIF is acting as a delegate of the principal manager of the AIF, whereas the principal manager is considered to be a “letter-box” entity
- When the CIF is acting as the principal Manager of an offshore AIF
- When the CIF is acting as the principal Manager of a Cypriot International Collective Investment Scheme (ICIS)

In these cases, if the CIF is effectively managing the AIF and intends to continue managing it, then it will have to renounce on its CIF status and apply to be authorized as an AIFM. The reason is that CIFs are not allowed to act as an AIFM, within the AIFM Law scope.

Other Cypriot regulated entities that are affected by the Law are Cyprus UCITS Management Companies managing AIFs. However, Cyprus UCITS management companies are given the possibility to additionally obtain a license pursuant to the AIFM Law, while retaining their initial UCITS management company license.

Applicability of AIFM Law

Apart from the exempt entities stipulated in the Law, there are entities that qualify as AIFMs within the meaning of the AIFM Law but may nevertheless, benefit from a lighter regime than authorization and compliance. They are subject to registration and not authorization.

Such entities must provide CySEC with information on their identities and the identities of the AIFs they manage. Further, explain the investment strategies they pursue through their AIFs, the main instruments, in which they are trading as well as the main exposures and most important concentrations they have.

Determining whether an AIFM will be subject to the registration regime depends on the aggregate of the assets under management (AuM) in the AIFs managed by it. For Cyprus AIFMs managing only unleveraged AIFs with a lock-up period of 5 years, whose AuM in aggregate do not exceed €500.000.000 the lighter regime applies. This regime also applies to Cyprus AIFMs managing AIFs, including leveraged ones, whose AuM do not exceed €100.000.000.

Cyprus AIFMs thresholds will be subject to authorization and ongoing compliance with the Law. As an exchange, they will be benefiting from the so called “passport”. The passport offers them the possibility to manage and market EU AIFs throughout the EU by means of an electronic notification procedure without any further authorization being required. Cyprus AIFMs managing non-EU AIFs, will also be subject to the Law authorization and compliance with most of its provisions.



However, they will not be able to benefit from the Law passport until 2015. Cypriot AIFMs below thresholds are not granted passport either, unless they choose to opt-in.

AIFs in scope include non-UCITS funds, Private Equity funds, Real Estate funds, Venture Capital funds, Hedge Funds, Infrastructure funds, Fund of funds, Mezzanine funds and other fund structures which could be regulated or unregulated, structured in various legal forms and of a variety of physical locations or residencies. In the case of Cyprus this means the regulation of the Cyprus ICIS funds. Out of scope AIFs include AIFs with a single investor, family offices and holding companies.

Authorization

The file on the AIFM needs to incorporate information on the persons conducting the business, the qualifying shareholders, program of activity, organizational structure, remuneration policies and delegation arrangements.

Information on the AIF must cover investment strategy, arrangements for the appointment of the depositary, description of any delegation arrangements at AIFM and depositary levels, valuation procedure and pricing methodology, liquidity risk management, any costs to be borne by the investors, arrangements to ensure fair treatment of investors, identity and arrangements with the prime broker, and information on how periodic information will be disclosed to investors.

As to the time required to obtain the authorization, the applicant is informed within three months, a period which can be extended in specific circumstances. When granted, the authorization is valid across EU member states and ESMA will keep a central register identifying each authorized AIFM.

Continuous obligations

The ongoing obligations applicable to authorized AIFMs fall under the following key areas:

- *Minimum capital*: down to €125.000 for an external AIFM with an additional amount of 0,02 percent of the value of the portfolio in excess of €250 mn, capped at €10 mn
- *Remuneration policies*: discouraging inconsistent risk taking
- *Risk management system*: must be hierarchically separated from the operating units
- *Maximum leverage*: must be set as well as the right to re-use collateral granted under the leveraging agreement
- *Liquidity management system*: to monitor risk and ensure compliance with set obligations
- *Valuation*: procedures to ensure proper and independent valuation
- *Independent depositary*: single depositary for each AIF
- *Delegation*: permitted for some functions as long as the AIFM does not become a 'letter-box' Entity
- *Reporting obligations*: relating to investment strategy and objectives, of the AIF, use of leverage, risks, investment restrictions, contractual business, delegation arrangements, liquidity risk management, valuation procedure, pricing
- *Financial information*: annual report within 6 months from the year end. Additional regulatory reporting requirements to home regulator
- *Investment in listed and non-listed entities/ anti-asset stripping measures*: specific disclosure obligations apply when crossing ownership thresholds



Marketing AIF

The Directive also regulates the marketing of the AIF. It introduces a passport for the distribution of AIF to professional investors in the EU: once authorized in an EU member state, the AIFM can market the AIF it manages to professional investors (as these are defined by MiFID) in all other EU member states using the simplified regulator to regulator notification mechanism.

It is clarified that:

- Investment by investors without marketing (or “reverse solicitation” or “passive marketing”) is not regulated by AIFMD, and
- EU passporting of the marketing and distribution of AIFs is only applicable with respect to professional investors. Marketing and distribution to retail investors is subject to separate approval by each EU member state

WHY SET UP AIF/AIFM FUND IN CYPRUS

Cyprus based AIFMs and AIFs will benefit from low tax burdens levied on Cyprus based corporations. Further, non-Cypriot investors in Cyprus AIFs will, at the time of a redemption from, or distribution of, a Cyprus AIF, benefit from an extensive double-taxation treaty network that are in place in Cyprus.

The tax regime applicable to corporate funds in Cyprus is one of the most favourable in the EU. Further, the Cyprus tax regime has recently undergone several amendments in order to increase the island's competitiveness in the fund industry. At the fund level the AIF would be subject to corporate income tax on the same basis as any other corporate structure in Cyprus, ie at a rate of 12,5 percent. Any profits realized by way of redemptions from holdings in other companies (including other AIFs) would be considered a disposal of an investment and consequently any profits from the disposal would be entirely excluded from corporate income tax or any other form of taxation in Cyprus. For this reason Cyprus AIFs may be ideal vehicles for private equity investments.

At the investor level, receipts from redemptions in an AIF would

be considered a disposal of securities (or equivalent) so the redemption proceeds exceeding the capital contributed by the investor, i.e. any profit, would be completely exempted from taxation in Cyprus. Despite this, if capital losses arise on the disposal of assets they can be carried forward indefinitely and set-off against other tax liabilities.

Dividends received by the AIF from a non-Cyprus tax resident subsidiary will, in the vast majority of cases, be exempt from corporate income tax in Cyprus. Cyprus resident non-corporate investors in an AIF would be liable to a reduced rate of deemed dividend distribution, so tax on only 3 percent dividend income would be payable instead of 17 percent.

With respect to a non-Cyprus resident investor in a Cyprus AIF, such investor based in a country party to a double-taxation treaty with Cyprus, would be highly likely to benefit from substantial tax relief over any profits received from redemption or income received, on a dividend. The extent of the relief will in many cases, reduce the tax payable by the investor in his/her home jurisdiction to zero.

13 Cyprus Stock Exchange CSE

Regulated markets

Cyprus has three main EU regulated exchange markets, the Main, the Alternative and the Parallel markets of the Cyprus Stock Exchange (CSE). The regulatory authority for these markets is the Cyprus Securities and Exchange Commission (CySEC).



	REGULATED MARKETS			NON-REGULATED MARKET ECM
	MAIN	PARALLEL	ALTERNATIVE	
Admission Criteria				
Minimum Market Capitalization	€15mn, maintaining the year prior to the listing, shareholders' equity that exceed €8.5mn	€3,5mn, maintaining the year prior to the listing, shareholders' equity that exceed €3mn	€1mn, maintaining the year prior to the listing, shareholders' equity that exceed 90% of estimated market capitalization	N/A
Equity Capital	€13,6mn (2 previous years)	€5mn (2 previous years)	€1mn (2 years before listing)	N/A
Dispersion (minimum investors in brackets)	25% (1000)	20% (300)	10% (100)	No minimum share capital must be dispersed among the general public. Satisfactory number of shareholders
Minimum Financial Track Record	4 years with positive net position in the year preceding listing	3 years with positive net position	3 years	2 years (if applicable)
Mandatory Adoption of Corporate Governance Code	Fully	Partially	N/A	N/A
On-Going Obligations				
Financial reporting	<ul style="list-style-type: none"> Annual audited accounts Semi-annual report under IAS 34 Quarterly accounts 	<ul style="list-style-type: none"> Annual audited accounts Semi-annual report under IAS 34 Quarterly accounts 	<ul style="list-style-type: none"> Annual audited accounts Semi-annual account under IAS 34 Quarterly accounts 	<ul style="list-style-type: none"> Annual audited accounts Semi-annual report under IAS 34
Interim management statement	Within every six month period of the financial year	Within every six month period of the financial year	Within every six month period of the financial year	N/A
Announcement of dates of Board of Directors' meetings	10 days before meeting	10 days before meeting	10 days before meeting	N/A
Publication and submission of dispersion report	Last working day of each quarter in the calendar year	Last working day of each quarter in the calendar year	Last working day of each quarter in the calendar year	Last working day of the calendar year
Profit warning announcement	Within 2 months of the period end	Within 2 months of the period end	Within 2 months of the period end	N/A
Announcement of dealings between the listed entity and member of its management	Next working day	Next working day	Next working day	N/A
Maintain a NOMAD	N/A	N/A	N/A	Yes on a continuous basis
Maintain website	YES	YES	N/A	N/A



Non-regulated market

On 30 September 2009, CSE launched a new market called the Emerging Companies Market (ECM). ECM is governed by a simplified regulatory environment which has been specifically designed for the needs of small and emerging companies.

ECM companies are governed by the regulative decisions of CSE which set out the requirements and guidance for companies quoted or wishing to be quoted on ECM.

Targeted market

ECM is aimed at:

- private companies seeking funding and easy access to the secondary market
- investors seeking new type of investment, vehicles taking into account the higher risks of the ECM
- public companies not wishing to incur the higher costs of regulated markets

General suitability considerations

Planning and good preparation are crucial to a successful flotation. The following are the key suitability issues that need to be addressed:

- preparation of a well thought out and constructed, attractive investor plan
- suitability of existing capital and organization structure
- establishing an experienced board of directors and management team
- corporate governance implications
- suitability of the financial track record
- quality of management information and financial reporting procedures
- tax planning
- legal issues

Eligibility for admission

A company must meet the listing requirements as set out in the regulative decisions of CSE. The main requirements are set out below:

- Trading records and audited financial statements for at least two years preceding application, if applicable
- “Newly established companies” can be admitted to the ECM, provided that the Council of the CSE is satisfied that investors are provided with adequate information to enable them to assess properly the value of the titles
- The issuer should be a public company, with a satisfactory number of investors
- No minimum market capitalization restrictions
- No minimum shareholder equity restrictions
- Appointed and retention of a Nominated Advisor (“NOMAD”)*
- No minimum dispersion (no minimum numbers of shares to be in public hands)
- Production of an admission document

Ways to obtain a listing

- **by public offer:** if the offer is higher than €2,5 mn and is addressed to more than 100 potential investors, a Prospectus and an approval from the Cyprus Securities and Exchange Commission (“CySEC”) are required. In addition document needs to be filed and be approved by CSE
- **by private placement:** if the offer is:
 - only addressed to institutional investors; or
 - to fewer than 100 potential investors or funds raised are less than €2,5 mn, no Prospectus is required; only an Admission Document which needs no approval from CySEC

* the NOMAD must be registered with CSE

14 Oneworld

At Oneworld Ltd we provide solutions to clients. A significant proportion of our business is trust and corporate registration and administration for private individuals. Many corporate clients come to us for a complete solution and for many we set-up and administer their individualized tax efficient structures. We also render international tax advice, financial advisory, accounting and payroll, VAT and customs, corporate finance and other pertinent services.

Like our clients, we maintain the highest professional standards, code of conduct and integrity. Our due diligence procedures more than meet the requirements of the highly regulated jurisdictions in which we work. Our staff is trained comprehensively in anti-money laundering and “know your client” procedures. As one would expect, confidentiality is paramount in all our dealings, and our staff are bound by law to maintain professional confidence.

We are one of the leading corporate providers and we bring a depth of experience to our work and dealings with clients. Our personnel consists of chartered accountants, lawyers, financial advisors, tax specialists, administrators and company secretaries as well as a highly trained and knowledgeable corporate and support staff.

Our Services

Corporate and Trust

- Company and Trust Formation
- Domiciliary and Management
- International Structuring
- Registrar and Shareholders
- Intellectual Property
- Fund Administration

Financial Advisory

- Corporate Finance
- Listings
- Financial Due Diligence
- Business Recovery
- Mergers and Acquisitions
- Venture Capital

Tax and Legal

- International Tax
- EU Direct Tax
- Transfer Pricing
- Legal Services
- Legal Support

Global Compliance

- Accounting Services and Reporting
- VAT Registration
- HR and Payroll
- Fund Valuation Services

Business Advisory

- Domiciliary and Management
- Internal Audit
- Regulatory Compliance
- Corporate Strategy
- Performance and Reward Management
- HR Management
- IT Services



Business centre

Oneworld provides cost-effective offices and meeting rooms on flexible terms, all backed up by a fully-trained support team and state of the art IT and telecoms infrastructure. So whether you are starting-up a new business venture or setting-up a temporary office, we can provide you with flexible support solutions enabling you to match your office and meeting room space to your business needs, which is the key to success.

Facilities include:

- ISDN enabled, high speed
- video-conferencing facilities
- controlled temperature
- lifts serving all floors
- secure high speed internet access
- voice mail services

Virtual office plus

This innovative product features everything that is in Virtual Office. All offices are fully furnished and equipped with high speed internet access and telephones.

Office

You can establish a local business presence wherever you need to be. Your local phone number is answered in your company's name and calls are handled according to your instructions. Mail and faxes are forwarded to you wherever you are.

Telephone answering

Local phone number is answered in your company's name and calls are handled according to your exact instructions. The caller can leave a message or we shall forward the call to you, wherever you are.

Mailbox plus

You can establish a local presence. Your prospects and clients can send you mail at any of our world class business address, and we will forward it to the destination of your choice.





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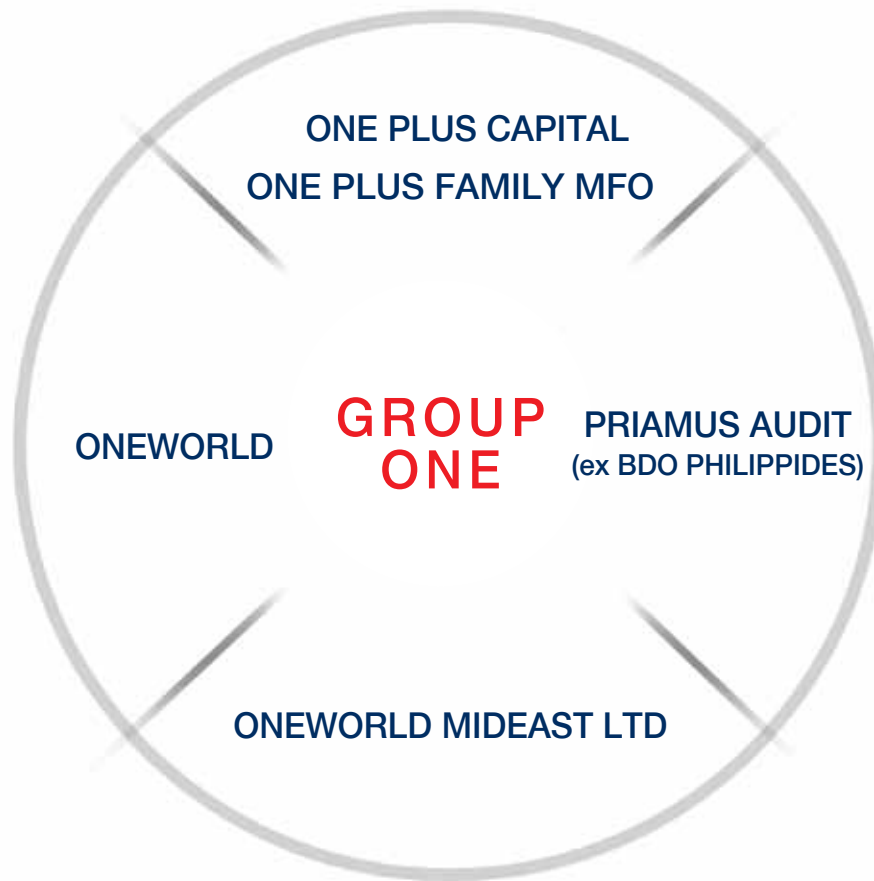
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1986 Afxentiou & Philippides

Member of Clark Kenneth Leventhal. George Philippides co-founded and managed the practice, a dynamic firm providing audit, tax and business services.

1992 Horwath Philippides

Member of Horwath International. George was chairman and CEO. Continued the success of the previous firm.

1999 Horwath CIS

(in addition to Horwath Philippides) George was chairman. IFRS audit, consulting, corporate boutique services to businesses in Russia and the CIS.

2005 Oneworld Ltd

BDO Philippides

Member of BDO International. George acted as chairman and CEO. Provided audit and tax (BDO Philippides), corporate and trust, business, financial advisory, tax and legal services (Oneworld Ltd).

2011 Group One comprising:

Oneworld Ltd

One Plus Capital Ltd

One Plus Family MFO Ltd

and affiliated to **Priamus Audit Ltd**

Provision of niche services to corporate and private international clients.

2013 Oneworld MidEast Ltd

Based in Dubai, UAE and rendering professional and advisory services to international clients.

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