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Cyprus: Effective Investment Vehicles*

*with particular emphasis on EU's Capital Markets

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BUSINESS AND FIDUCIARY
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Foreword


AMSTERDAM
284 m.
BRUSSELS (MELSBROEK)
288 m.
ZURICH
508 m.
ROME
1025 m.
LONDON
86 m.
PARIS
305 M.

European capital markets are becoming integrated. This development is paving the way to unprecedented cross border opportunities for investors within the EU. Investors can now register their investment vehicle in Cyprus – a well-established, tax efficient EU member state – and make use of the EU opportunities to raise capital or list their shares in the most efficient manner.

Harmonisation and integration within the EU is now a fact: the EU Directives especially Markets in Financial Instruments Directive (MiFID) and the Prospectus Directive have facilitated the process. The EU Commission has also launched an EU cross border exercise of shareholders' rights and the removal of legal obstacles for non-resident shareholders. The "Single EU Passport" facilitates trading in the EU and protects investors from the excesses of secondary markets. Further, corporate boards can now take decisions on tax optimisation and cheap capital independently thus optimising the results of their 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 Cyprus to host their investment holding and use it as a springboard to raise funds or list their shares in EU capital markets of their choice. Consequently, companies registered in Cyprus can conduct public offers in other EU member states or have their shares admitted to trading on an EU Exchange Regulated Market. The only condition imposed is that the prospectus must normally be approved by the Cyprus Securities Exchange Commission, the EU's designated body for approving prospectuses in Cyprus.

This publication proposes a number of tax efficient Cypriot investment vehicles which can be used for such purposes: A Cyprus public company can be listed in any Exchange Regulated Market in the EU. It may also conduct a public offer anywhere in the EU. Similarly, Cypriot funds in the form of UCITS and Collective Investment Schemes can be used efficiently to achieve the same objectives. These opportunities are discussed at some length in chapters 7 and 8.

Cyprus is accepted by many as the top corporate tax regime in the EU, offering the lowest tax rate while fully complying with the EU directives and procedures as well as OECD requirements against harmful tax practices at the same time. It is an ideal holding company investment choice for investors from other EU member states as well as the rest of the world.

At Oneworld ltd, we are constantly developing new services for clients to address new challenges and opportunities. We endeavour to provide them with quality services so as to satisfy their requirements. At the same time, we present them with those prospects which can lead to new opportunities to enhance their growth and corporate values.

GA Philippides.

George Philippides
Chief Executive

July 2008

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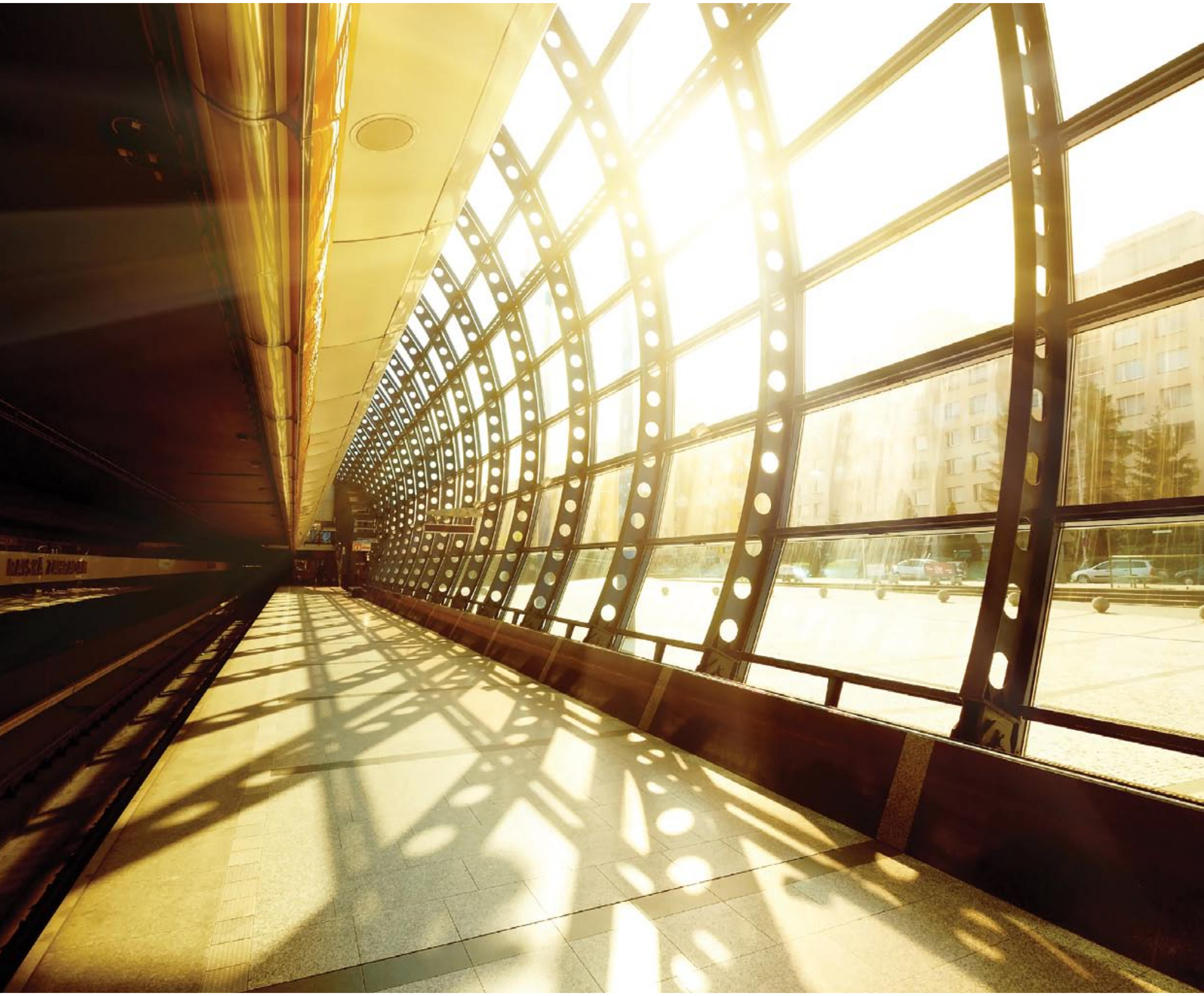


1 EU Capital Markets

There are many reasons why accessing the European securities markets is becoming increasingly attractive. European exchanges in recent years outperformed 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.

Capital markets in Europe are becoming now more open and liquid. The cost of raising finance is significantly decreased. Companies registered in Cyprus, for example, can conduct public offers in other EU member states or have their shares admitted to trading on an EU Exchange Regulated Market. Companies can now take decisions on tax optimisation and cheap capital independently, thus optimising their results.

The two main types of EU capital markets are Exchange Regulated Markets and Multilateral Trading Facilities.

Exchange Regulated Market means a multilateral system operated and managed by a market operator which brings together or facilitates multiple third party buying and selling interests in financial instruments. This results in a contract, in respect of the financial instruments admitted to trading under its rules and which is authorised and functions regularly and in accordance with EU Regulated Market rules.

Regulated markets in EU comply with the European Commission and its Financial Services Action Plan and in particular the Prospectus Directive and MiFID. Its **"Single EU Passport"** approach facilitates trading in the EU and protects investors from the excesses of secondary markets in the EU.

Multilateral Trading Facility (MTF) means a multilateral system, operated by an investment firm or a market operator which brings together multiple third party buying and selling interests in financial investments in accordance with non-discretionary rules.

Recent surveys show overwhelming support of the move to Exchange Regulated Markets, with many experts believing the move will make the EU capital markets even more attractive.

A notable exception is Alternative Investment Market (AIM) in UK which has opted to continue as an MTF. It has decided to follow its present path which is no doubt a successful one, combining the relative lightness of regulatory controls and the rules of other financial centres and the nominated adviser ("nomad") system which has helped to preserve the quality of applicants and provides ongoing supervision. This appeals to investors and also offers benefits for smaller companies such as the ability to make further issue of shares and significant acquisitions without the need for costly documentation and procedures.

EU Exchange Regulated Markets

- Vienna Stock Exchange, Austria
- EASDAQ, Belgium
- Zagreb Stock Exchange, Croatia
- Cyprus Stock Exchange, Cyprus
- Prague Stock Exchange, Czech Republic
- Copenhagen Stock Exchange, Denmark
- Helsinki Stock Exchange, Finland
- Paris Stock Exchange, France
- Les Echos, France
- NouveauMarche, France
- MATIF, France
- Frankfurt Stock Exchange, Germany
- Athens Stock Exchange, Greece
- Budapest Stock Exchange, Hungary
- Italian Stock Exchange, Italy
- National Stock Exchange of Lithuania, Lithuania
- Macedonian Stock Exchange, FYROM
- Amsterdam Stock Exchange, The Netherlands
- Oslo Stock Exchange, Norway
- Warsaw Stock Exchange, Poland
- Lisbon Stock Exchange, Portugal
- Bucharest Stock Exchange, Romania
- Russian Securities Market News, Russia
- Ljubljana Stock Exchange, Slovenia
- Barcelona Stock Exchange, Spain
- Madrid Stock Exchange, Spain
- MEFF (Spanish Financial Futures and Options), Spain
- Stockholm Stock Exchange, Sweden
- Swiss Exchange, Switzerland
- FTSE International (London Stock Exchange), UK
- London Stock Exchange: Daily Price Summary, UK
- Electronic Share Information, UK
- London Metal Exchange, UK
- London International Financial Futures and Options Exchange, UK

2 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 harmonises requirements for the drawing up, approval and distribution of the prospectus to be published:

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

In 2005 Cyprus harmonised the local legislative framework in line with the 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 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 financial services. It reinforces the unified concept of **"Single EU Passport"** - initiated by the Investment Services Directive – which allows investment firms to offer products and services across the EU, without restrictions of borders or protection national regulatory regimes. It liberalises Europe's capital markets by exposing them to pan European competition, while seeking to introduce common standards of regulation and investor protection.

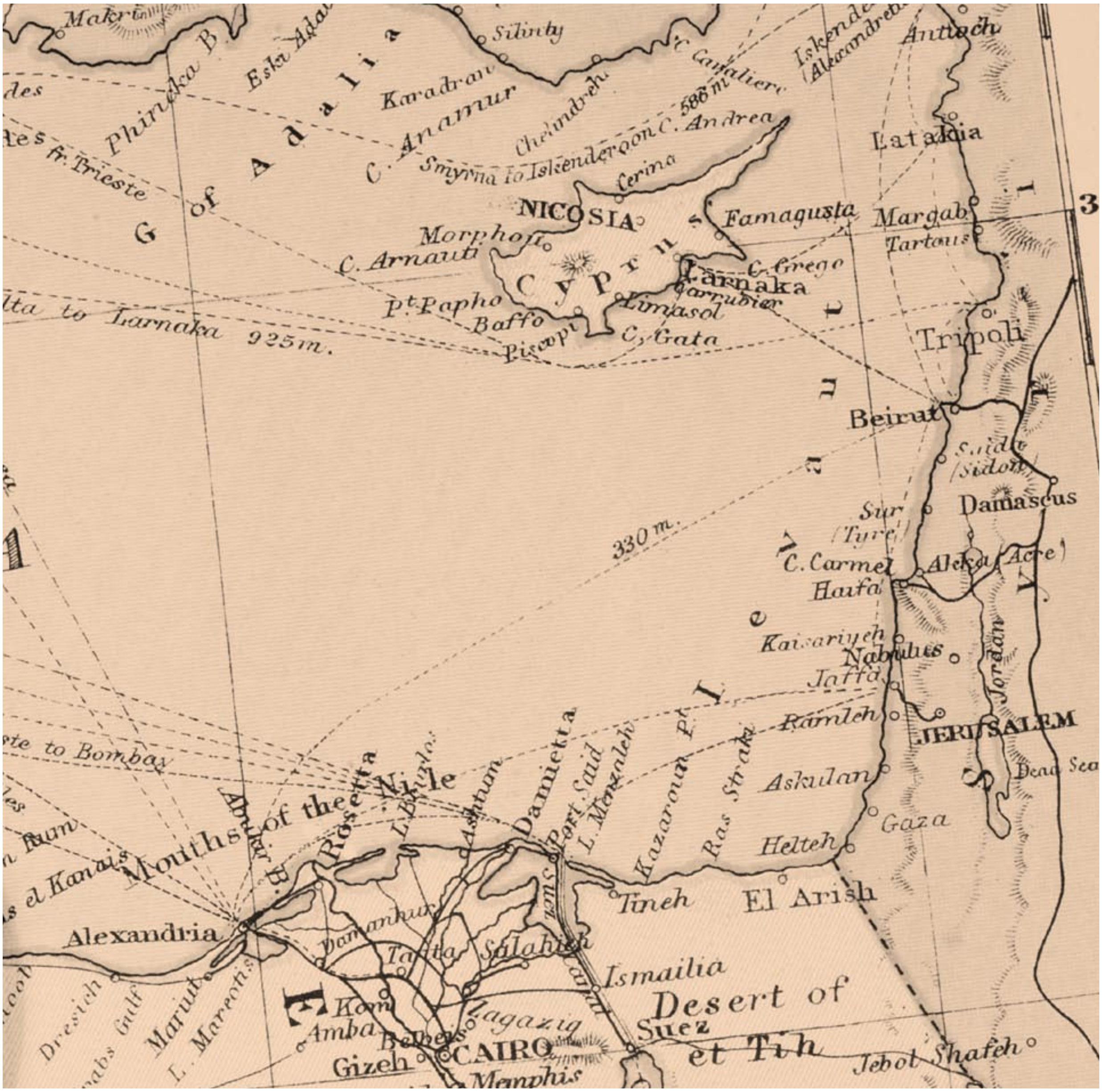
Each member state designates a central competent administrative authority responsible for carrying out the obligations provided for in the Prospectus Directive and for ensuring that the provisions adopted are applied.

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

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 the **Cyprus Securities and Exchange Commission (CySEC).** The Cypriot legislation on prospectuses is harmonised 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 officials 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 access to national retail markets, improved transparency across EU capital markets and ease of cross border product distribution. A more coherent regulatory regime is now created in Europe.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C. Cavaliere
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Smyrna to Iskenderoon
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fr. Trieste
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NICOSIA
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Tartous
Morphou
C. Arnauti
Cyprus
Larnaka
C. Grego
Limasol
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Baffo
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Tripoli
Beirut
Saida
(Sidon)
Damascus
Sur
(Tyre)
330 m.
C. Carmel
Haifa
Akka (Acre)
Kaisariyeh
Nablus
Jaffa
Ramleh
JERUSALEM
Dead Sea
Jordan
Askulan
Gaza
Helteh
te to Bombay
Mouths of the Nile
Rosetta
Damietta
Port Said
L. Menzaleh
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Tineh
El Arish
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Ismailia
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et Tih
Suez
Zagazig
Kom
Amba
Gizeh
CAIRO
Memphis
Jebel Shafeh
Maruit
L. Mareotis
el Kanais
Suez Canal
L. Burlos
Phineka B.
Eska Adalia

Name of Company	Stock Exchange	Date of joining	Funds raised	Main countries of operation	Industry
Marfin Popular Bank Public Company Ltd	Athens Stock Exchange	5/01/2007	Combined prospectus and exchange offer	Greece, Cyprus	Banking
Deep Sea Supply Plc	Olso Bors	8/12/2006	Combined prospectus and exchange offer	North Sea, North Africa, West Indies	Oil, gas equipment and services
Mirland Development Corporation Plc	AIM	8/12/2006	GBP£143.3m	Russia	Real estate holding
IFR Capital Plc	AIM	15/11/2006	£134.8m	Germany, Austria, Switzerland, Slovenia, Chech Republic	Restaurants and bars
Helesi Plc	AIM	23/11/2006	GBP£11.6m	Greece, UK	Industrial suppliers
ASBISc Enterprises Plc	AIM	25/10/2006	Introduction	Former Soviet Union, Central and Eastern Europe, Middle East, North Africa	Computer hardware
Teleset Networks Plc	AIM	12/10/2006	Introduction	Russia	Fixed line telecommunications
XXI Century Investments Public Limited	AIM	16/12/2005	USD$138m	Ukraine	Real estate holding and development
Urals Energy Public Company Ltd	AIM	09/8/2005	GBP£64m	Russia	Oil and gas
EMED Mining Public Ltd	AIM	09/5/2005	GBP£2m	Eastern Europe, Caucasus, Cyprus	Gold and Copper exploration
Bank of Cyprus Public Company Ltd	Athens Stock Exchange	08/11/2000	CYP£200m	Greece, Cyprus	Banking

3 Cyprus as a Location

The Cyprus economy

The Cyprus economy is based on the free enterprise system. The private sector is the backbone of economic activity, with the government's role being limited to monitoring the economy and the provision of public utilities, although with Cyprus' accession to the EU, privatisation of public utilities is inevitable.

In recent years the economy has been growing at an annual rate of nearly 4 percent.

Inflation in recent years remained at a relatively low level average of 3.5 percent. The per capita income of the Greek Cypriots at around €20.000 is today one of the highest in the Mediterranean. This is a notable performance, when considering key socio-economic factors such as the excellent housing conditions, low crime rate, pollution free environment which are not reflected in the per capita income.

Cyprus and the 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 communittaire have given rise to 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 agrotourism sectors as well as human resource upgrading and the development of the rural areas of the island.

Cyprus introduced euro (€) as its official currency as of 1 January 2008.

Transit trade

The development of the container transhipment 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 transhipment dramatically increased in volume and expanded in scope.

The island is located at the crossroads of major international trade route between Europe, Asia and Africa. This makes it the natural transhipment 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 Gulf and north Africa.

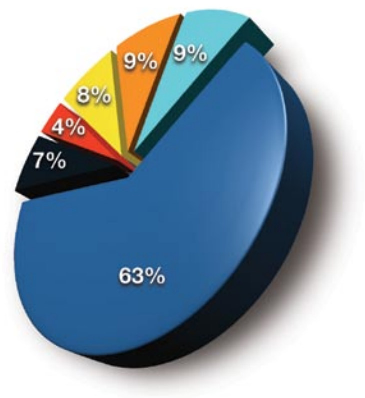
Services sector

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%



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 liberalised the Foreign Direct Investment (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 authorisations 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		2002	2003	2004	2005	2006	2007
International Reserves	€million	2.975	2.765	2.992	3.671	4.456	3.970
Current Account Balance	% of GDP	-3.7	-2.2	-5.0	-5.6	-5.9	-6.0
Inflation Rate	%	2.80	4.14	2.29	2.56	2.49	2.40
Registered Unemployed	%	3.1	3.5	3.6	3.7	3.6	3.1
Gross Domestic Product (at current prices)	€million	10.970	11.740	12.635	13.442	14.297	15.503
Gross Domestic Product (real growth)	% change	2.0	1.8	4.2	3.9	3.8	4.4
Gross Domestic Product Per Capita	€	15.460	16.292	17.144	17.736	18.568	19.092
Gross Domestic Product Per Capita	EU 25=100	82.6	85.2	87.6	88.9	88.4	90.2

4 Cyprus as an IFC

Cyprus is an attractive location for international holding companies. The strategic position of the island, its excellent climate, the well developed infrastructure and the plentiful supply of high quality, well trained labour are some of the advantages Cyprus has to offer. In addition, the favourable tax regime makes Cypriot investment companies an ideal location for manufacturers, especially those with Middle East and north African export activities.

This investment vehicle is suitable both for EU inbound or outbound investments. There are no investment activities that are inappropriate for the Cypriot tax environment. However, there are investment activities which are ideally suited to the Cypriot tax environment such as:

- holding companies
- finance companies
- royalty companies
- investment funds
- south Europe, Middle East, central and eastern Europe head office operations

The tax climate offers many advantages to investors setting up in Cyprus, which include:

- low taxation, the lowest rate in the EU
- extensive double tax treaties network
- exemption from tax on dividends received, in most cases
- exemption of capital gains on shares and securities
- exemption from withholding tax on the repatriation of income as dividends, interest and royalties
- access to EU directives

Cyprus as an IFC

European enlargement and the accession of Cyprus opened up a new gate to investors. Cyprus is no longer just the traditionally strong link of investments in and out of Central and Eastern Europe, Europe and Russia, but it is also a strong connecting link of investments in or out of the EU.

Foreign investment has long been considered as one of the most important elements of the country's economic prosperity. Considerable efforts have been implemented to facilitate and enhance the attraction of foreign investments, and create a friendly environment for foreigners to establish their business on the island.

In this context, the government has liberalised the Foreign Direct Investment (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.

Incentives for locating a business in Cyprus include:

- favourable taxation which includes, inter alia, 10 percent corporation tax, low personal income tax and no capital gains tax on the sale of shares
- a prosperous and resilient economy enjoying long term stability and growth
- privileged location at the crossroads of three continents
- member of the EU and a gateway for the movement of goods inside and outside the EU
- liberal FDI policy
- skilled workforce, highly qualified and multilingual
- double tax treaties with nearly 40 countries
- bilateral investment agreements with 20 countries
- excellent infrastructure providing easy access by air and sea
- low set up and operating costs
- simplified procedures for acquiring requisite permits
- efficient legal, accounting and banking services
- a fine place to live and work with pleasant climate and high standard of living

Cyprus is pursuing the goal of establishing itself as a regional research and technology centre. Through incentives, the country is rapidly being transformed into a hub for technological development within the eastern Mediterranean region. Foreign capital plays a fundamental role in these efforts, as it contributes substantially to the introduction of high technology, know how and expertise.

Industrial development has been amongst the primary objectives of the government, as it constitutes a vital component of economic policy. The accession of Cyprus in the EU provides Cypriot enterprises with the opportunity to participate in the various community programmes concerning industrial technology: namely product development, marketing, professional training etc thus further enhancing the process of restructuring.

	Austria	Belgium	Denmark	Ireland
Treaty network	Good	Good	Good	Good
Treatment of foreign dividends	Exempt if 25% holding for two years	95% exempt subject to 5% holding and CFC provisions	Exempt if 20% holding subject to CFC provisions and underlying trading activity	Taxable but foreign tax credits normally a complete relief from Irish taxation
Treatment of capital gains	Exempt if 25% holding for two years	Exempt	Exempt but three year holding requirement	Exempt subject to underlying trading activity
Withholding taxes on dividends paid to non-resident shareholders	Yes, up to 25%	Yes, up to 25%	Yes, up to 28% but treaty-protected entities exempt if they hold 20% for one year	Yes, up to 22%
Capital duty	1%	0,5%	Nil	Nil
Minimum paid up share capital	€17.500	€18.600	€16.800	0
Cost of Incorporated annual statutory administration (Low/Medium/High)	High	High	High	Medium

	Luxembourg	Netherlands	UK	Cyprus
Treaty network	Good	Excellent	Excellent (more treaties than any other country)	Very Good
Treatment of foreign dividends	Exempt subject to 10% holding for one year and CFC provisions	Exempts if a holding for one year and other conditions	Taxable but foreign tax credits normally a complete relief from UK taxation provided foreign tax at subsidiary level greater than 30%	Exempt
Treatment of capital gains	Exempt subject to 25% holding and one year holding	Exempt subject to conditions	Exempt subject to 10% holding and trading subsidiary (or holding company or trading group)	Exempt except on property situated in Cyprus
Withholding taxes on dividends paid to non-resident shareholders	Yes, up to 25%	Yes, up to 25%	Nil	Nil
Capital duty	1%	0,55%	Nil	Nil
Minimum paid up share capital	€12.500	€18.000	No	No
Cost of Incorporated annual statutory administration (Low/Medium/High)	High	High	Low	Low

5 Taxation in Cyprus

Tax reform that became effective in 2003 provides for:

- uniform tax rate - no discrimination
- lifting on exchange controls
- freedom for all enterprises to do business in Cyprus

Tax treatment of incoming dividends

Cypriot law provides full international participation exemption from local taxation of dividends received by a holding company from a foreign subsidiary if the Cypriot company's holding in the foreign company exceeds 1 percent. A domestic participation is also available, which does not involve any particular holding period or amount.

Tax treatment of capital gains on the sale of shares

The exemption from tax of trading gains and capital gains made by a Cypriot holding company from the sale of shares in a foreign subsidiary puts Cyprus on a par with the traditional European holding company regimes. No minimum participation threshold is required. Gains from local subsidiaries are also exempt, only gains from shares in companies owning immovable property in Cyprus are not.

Withholding tax on outgoing dividends

Outgoing dividends remitted by a Cypriot holding company to its ultimate parent company are not subject to withholding tax in Cyprus.

Withholding tax on interest

The EU Interest and Royalty Directive has been incorporated into Cyprus' domestic law. The result is exemption at source of interest whose beneficial owner is a non- resident of Cyprus and resident in an EU member state.

Interest deduction for borrowing costs

Generally, interest expenses payable by a Cypriot company are fully deductible.

Thin capitalisation

Cypriot tax legislation does not contain specific provisions relating to thin capitalisation of companies ie debt to equity ratio restrictions. A Cypriot holding company may, therefore, be capitalised 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, Cypriot CFC legislation is rather 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.

Double taxation treaties

Cyprus' double taxation treaty network ensures that dividends received by a Cypriot holding company from its foreign subsidiary are either exempt from or subject to low withholding tax in the subsidiary's place of residence.

Other benefits of a Cyprus holding company

Cypriot corporate tax on business profits is at the relatively low rate of 10 percent. Cyprus does not have any rules stating that holding companies cannot perform operating activities. Companies are allowed to carry forward losses and treat foreign taxes as expenses.

Interest income

Any interest received by a Cypriot holding company that is deemed not to be from or closely related to its ordinary business activities is subject to 10 percent tax on half the interest received. It is also subject to a defence tax of 10 percent on the whole of the interest received, thus giving a total tax liability of 15 percent.

The absence of thin capitalisation rules, combined with the tax treatment of interest make it more favourable to finance Cypriot holding companies through debt and capitalise foreign companies by way of loans rather than through equity. The advantages are that borrowings will not be challenged under thin capitalisation rules. Cypriot double taxation treaties usually protect interest receipts from withholding taxes applicable in the source country and there is no withholding tax on interest payable to non-Cypriot residents.

Liquidation

If a Cypriot holding company is liquidated, all the profits of the last five years which have not been distributed, are then deemed to have been distributed and are therefore subject to defence tax, if applicable. This does not apply to liquidation in the context of a reorganisation.

The 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 when a Cyprus resident company holds at least 1 percent, where there may be a foreign tax credit available under a double taxation treaty or, if there is no treaty, unilateral relief at the discretion of the Inland Revenue Authority.

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.

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 result in the imposition of capital gains tax under certain circumstances.

Company reorganisations

The new tax rules for reorganisations 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 reorganisations, cross border reorganisations involving member and non member states and reorganisations abroad with tax implications in Cyprus. Such reorganisations do not lead to recognition of income at company and shareholder levels and any gains made are exempt from Cypriot tax. Losses incurred before a reorganisation 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 reorganisation.

6 Audit Regulations

- International Standards on Auditing are the applicable auditing standards

- ISA have been the applicable auditing standards in Cyprus for over three decades and there is substantial local expertise in the area

- IFRS are the Generally Accepted Accounting Standards in Cyprus

Since 2005 all EU listed companies must apply **International Financial Reporting Standards (IFRS)** in their financial statements. Therefore, it is vital that they have a structured action plan now to help ensure an effective and efficient conversion.

All Cypriot registered entities are required to prepare consolidated financial statements taking into consideration all subsidiaries in accordance with International Financial Reporting Standards (IFRS) as adopted in the EU and IFRS as issued by the International Accounting Standards Board (IASB). Cyprus has no special local accounting rules, only IFRS apply.

IFRS have been the Generally Accepted Accounting Standards in Cyprus for over three decades and there is substantial local expertise in the area.

In Cyprus, IFRS have been a practice for many years now. Initially, IFRS were required by the Institute of Certified Public Accountants in Cyprus and now they are also required by local legislation. It is therefore implied that there is a local expertise in integrating and in applying the IFRS.

The recent developments requiring all public listed European entities to prepare their financial statements in accordance with IFRS give significant competitive advantage to Cyprus registered entities since:

- Cypriot holding companies can list their shares in an Exchange Regulated Market in EU without any conversion work which can by costly and create delays

- Cypriot subsidiaries of listed entities are not required to keep two sets of records (one in local GAAP and one in IFRS).

Auditors apply **International Standards on Auditing (ISA)** in carrying audits of financial statements. They include the examination of financial statements and attesting to the truth and fairness for statutory audit purposes.

On capital markets assurance work, UK statements for investment reporting can be used.

7 Cyprus Investment Companies

A Cypriot 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 etc. 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 Cypriot 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 understood 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.

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

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 new law on redomiciliation opens new dimensions to the international investors and traders as non-Cyprus companies can now be redomiciled in Cyprus and can benefit from the various provisions of the Cyprus legislation. It also provides for Cyprus registered companies which wish to be redomiciled abroad.

At the same time the companies will not lose their previous records, investments, trading history and connections.

The main benefits of Cypriot companies used as investment vehicles include:

- conversion from private to public company in Cyprus is a simple filing procedure
- a public company in Cyprus can list easily list on any stock exchange within the EU and benefit from “Single EU Passport” access to European securities markets
- recognition as a mature financial services centre with developed infrastructure, a resilient economy, highly qualified professionals and minimum formalities
- income tax rate of 10 percent for all corporations - the lowest income tax rate in the EU
- no withholding taxes on payments of dividends, interest, and in most cases on royalties paid to non residents
- 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 thin capitalisation rules
- no exit costs
- no holding period requirements for the participation exemption on dividends or for the exemption of tax on the disposal of titles

- a Cypriot private company can be converted into a public company through a simple filing process
- a Cypriot public company can be listed in the Cyprus Stock Exchange or any Exchange Regulated Market in the EU
- "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 Markets
- the only requirement existing is that the prospectus must be approved by the CySEC the Cyprus member of the Committee of European Securities Regulators (CESR)

8 Funds in Cyprus - ICIS and UCITS

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 and unlimited duration.

Following the EU accession, on 1st May, 2004 and harmonisation to the acquis communautaire, and the EU directives regulating Funds, fund availability has grown, with the addition of Cypriot UCITS. The **Open-Ended Undertakings for Collective Investment in Transferable Securities (UCITS)** and related Issues Law 2004 (Law 200(I)/2004) was introduced on 30 April 2004.

An International Collective Investment Scheme (ICIS) must be approved by the Central Bank of Cyprus which is the regulatory and supervising authority for the schemes, for their Managers and their Trustees (if applicable). In this respect, the following must be lodged and met:

- a written application by the applicant company or its local professional advisers
- pre printed questionnaires need to be completed for the directors and founder members
- standard application must be completed along with the references
- an offering memorandum must be prepared to be approved by the Central Bank prior to its circulation to prospective investors
- the directors, the promoters, the managers and the trustee of the scheme are competent, experienced and honest
- the Manager meets the necessary legal requirements and the Central Bank regulations
- the trustee - where applicable - meets the minimum legal requirements and the Central Bank regulations

Furthermore, the Central Bank of Cyprus must be satisfied that the constitutional documentation and the offering memorandum of the scheme contain the information prescribed by the Central Bank and that they are in an acceptable form.

All private ICIS must have a Manager. If a company, it may either be incorporated in Cyprus and regulated by the CySEC as a financial services firm or in an overseas 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 Administrator in Cyprus.

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

The Bank, 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 “Regulations on Books, Records and Other Documents to be Kept by the Manager of the Schemes 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 the Central Bank 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 audit or under the Cyprus Companies Law Cap. 113 and approved by the Central Bank 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 and half-yearly reports within three months of the end of the financial year in the case of the annual report, and within two months of the end of the half year in the case of the half yearly report, respectively.

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 the Central Bank annually on whether the scheme has complied with its obligations under the Law.

The supervisory authority in Cyprus for ICIS is:

The Central Bank of Cyprus
80 Kennedy Avenue
PO Box 25529
Nicosia 1395
Cyprus

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

Mutual Funds which invest in transferable securities and 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 its 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.

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

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

The Management Company and the Custodians 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 exchange

- no more than 10 percent of the assets of a UCITS may be invested in a single issuer

- the above 10 percent limited 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 limit 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 authorise 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 authorisation from CySEC if it intends to invest in another UCITS or an equivalent scheme elsewhere

- CySEC may authorise a UCITS to employ techniques for the purposes of efficient portfolio management and providing protection against exchange risks

- a UCITS may not acquire either precious metals or certificates representing them

The 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 the CySEC for registration.

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

- duly certified power of attorney by the foreign UCITS for submission to the CySEC of the required documents
- attestation by the competent authorities in the state of domicile confirming that the foreign UCITS fulfils the conditions et out by EU Directive 85/611/EEC
- fund rules or instruments of incorporation
- latest prospectus
- latest annual and half yearly report
- detailed information on the arrangements made for the marketing, issue 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 a UCITS has the duration of a calendar year. The first financial year ends at 31 December of the calendar year in which the UCITS started their operations.

The annual reports are audited according to ISA.

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

The supervisory authority in Cyprus for UCITS and non UCITS is:

The Cyprus Securities and Exchange Commission
32 Stasicratous Street
PO Box 24996
Nicosia 1306
Cyprus

Tax advantages

ICIS and ICITS are subject to tax in an identical manner as any other Cyprus entity. In short, what is especially significant from a tax perspective are the following:

- exemption from tax on profits from sale of shares and other financial instruments
- exemption from tax on foreign dividends received
- absence of any withholding taxes of interest payments made abroad
- absence of withholding taxes on dividend payments from Cyprus
- no thin capitalisation rules
- relative simplicity and certainty of Cypriot tax regime
- favourable network of tax treaties with nearly 40 countries
- relative simplicity of legislation and Central Bank of Cyprus regulations
- Cyprus has the lowest corporate tax rate in the EU

Other advantages

- Cyprus is an EU member state and compliant with EU laws and regulations
- licensing in Cyprus and the existence of a regulatory framework improves transparency and legitimacy with regard to shareholders, authorities and others
- legislation has been put in place and is constantly under review to regulate and harmonise operations in the financial services sector
- facilitation of operations of brokerage firms and enhanced prestige on the international markets
- Cyprus can be used as a springboard for access and easy setting up in prestigious financial markets within the EU (Single EU Passport)
- the island enjoys sound reputation
- Cyprus has a pool of highly educated and qualified professionals who can advise clients and provide expert support

9 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 also set-up and administer their individualised 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 are 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 confidences.

Oneworld ltd is one of the leading corporate providers and brings a depth of experience to its work and its 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.

There are no typical Oneworld clients. From dynamic young enterprises to global corporations, from wealthy individuals to their families and advisors. We serve them all. We are not just looking after their affairs but also their futures. Wherever they are and whatever they want to achieve. We are not just their advisors, we are their partners.

Our core services cover:

- Financial Advisory
- Accounting and VAT
- Tax and Legal
- Corporate and Trust
- Corporate Finance
- Internal Audit and Compliance
- Estate Planning

Our broad range of services to companies in connection with capital market transactions includes:

- **Listings** - access to capital markets, preparation of accountants’ reports, assistance with the preparation and review of prospectuses and provision of expert advice on the regulatory requirements of EU Stock Exchanges

- **Tax Planning** - advisory services on the most tax efficient listing structure and on restructuring of groups of companies

- **Financial Due Diligence** - review and analysis of information relevant to a potential acquirer, identification of risks and synergies and generation of potential negotiating points

- **Capital Restructuring** - raising of finance and equity and restructuring of debt
- **Governance, Risk Management and Compliance** - introduction of Corporate Governance practices, assistance to entities regulated by the Cyprus Securities and Exchange Commission to comply with relevant legislation
- **Global Compliance Services** - accounting and administration services, interim staffing, payroll services, corporate statutory compliance.

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