

Questions Summary

- 1) What is the US tax treatment on a Cyprus Limited Company that is invested in a Delaware LP Hedge Fund?
- 2) Are there any legal restrictions that apply to European entities set up purely as employee bonus/incentive schemes regarding investments in US Hedge Funds?

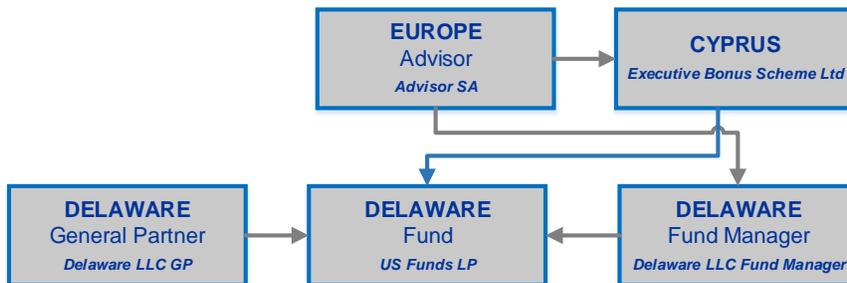
Relevant Legislative Framework

Cyprus/US dual tax treaty and US Securities law where relevant in treatment of foreign investors in US hedge funds that invest in publicly traded equities.

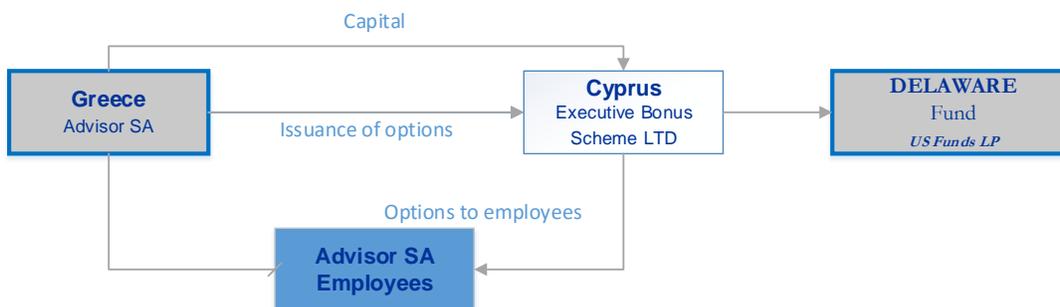
Overview & Background

The group of companies represents an emerging/start up hedge fund management business. The group of companies consists of a standard US Delaware LP structure, with a Delaware LLC GP, and an associated Delaware LLC Fund Manager.

In addition to the US vehicles, there is an associated company ('Advisor SA') in Europe which provides advisory service to the Delaware LLC Fund Manager. Advisor SA in turn has recently formed a wholly owned subsidiary in Cyprus ('Executive Bonus Scheme Ltd.') with Class A voting shares with no economic interest, and Class B non-voting shares with economic interests.



Executive Bonus Scheme Ltd. has been formed as part of an overall employee loyalty and bonus scheme, whereby options or shares are issued in the Executive Bonus Scheme Ltd (simultaneously with share capital increases) to employees of the Advisor SA. Advisor SA owns all voting shares and no economic interests and issues class B shares to employees as bonuses. Share Capital is increased in Subsidiary equaling option amounts at option granting period. Executive Bonus Scheme Ltd. invests its capital in (US Funds LP). The envisioned functioning of the scheme is portrayed below.



The US Delaware Fund LP is a hedge fund which invests in approximately 4000 liquid publicly traded equities in global capital markets at any given time. It does not conduct high frequency trading but buys and holds stocks (long/short equities) which it reevaluates on a monthly basis and rebalances/weights and adjusts portfolio accordingly. Dividends and interest are not paid out by the fund. Payouts occur upon redemption by the Executive Fund Ltd of its member interests or portion of member interests in the US Fund LP.