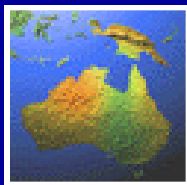
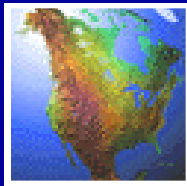


Doing Business in...

MGI International Tax and Business Guide



EGYPT

Prepared by
Magdy Hashish & Partners
Member of MGI

A Worldwide Association of Independent, Auditing, Accounting and Consulting Firms
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PREFACE

This booklet was prepared by
Magdy Hashish & Partners
Chartered Accountants - Management & Financial Consultants

Member firm of

MGI

To help clients of member firms wishing to invest
or to establish any kind of business in Egypt,
information in this booklet is brief,
so we recommend any one intending to conduct business in Egypt,
to seek local professional advice.

Every care and concern has been taken in the preparation of this booklet,
thus no responsibility can be accepted for inaccuracy.

It is to be noted also that law, practice
or both are subject to change from time to time.

DISCLAIMER

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INTRODUCTION

OFFICIAL NAME

The Arab Republic of Egypt.

GEOGRAPHY

Egypt lies in the center of the Middle East, in North Eastern Africa. It is located among three major continents: Africa, Asia and Europe. It covers an area of about one million square kilometers (0.39 million square miles), and it consists of 26 governorates. Egypt is bordered by 2 seas and 4 countries. The Mediterranean in the north, the Red Sea and Palestine in the east, Sudan in the south and Libya in the west.

Egypt is overwhelmingly a desert country bisected by the Nile River. Cairo is the capital and it is considered as one of the biggest and most crowded cities in the world.

CLIMATE

The climate in Egypt varies by region. On the Mediterranean coast (Alexandria), it is temperate with some humidity. The average summer temperature is 32° C (86.6 F), and the humidity can be quite high. In the Middle (Cairo) the average day temperature during July and August 36° C (97 F), although occasionally it may rise to 43° C (107 F). The Upper Egypt is very hot, the average summer temperature ranges from 38° C (100.4 F) to 43° C (109.4 F).

In winter average day temperatures in Cairo are 18°C (46.4 F), in Alexandria (Mediterranean coast) 13° C (55 f) and in Upper Egypt 27° C (109.4 F).

The winter season lasts about four months from late November through early March. Spring and Autumn are brief with variable cool warm days. During March and April a hot wind, known as El-Khamasin blows from the desert.

MAIN CITIES

Cairo	: The Capital, Political & Economical Center.
Alexandria	: Major Mediterranean Port City.
Luxor & Aswan	: Cultural & Historical Tourist Cities.
South Sinai & Hurghada	: Recreational Tourist Cities.
Port Said	: Free Zone, Entrance of Suez Canal.
Suez	: Southern Terminus of Suez Canal.
Burg El Arab, El-Sadat, 10th of Ramadan	: New Urban & Industrial Cities.
El-Obour & 6th of October Cities	

POPULATION

Egyptian population stands around 65 million citizens. Egypt has the biggest population among the middle Eastern and the African countries. Most of this population is concentrated in the Delta and the Nile valley (4% of the total area), making this part one of the most densely populated in the world.

AGE PROFILE

From 0	to	14 years old	: 35%
From 15	to	24 years old	: 30%
From 25	to	59 years old	: 30%
From 60	to	over	: 5%

LABOR FORCE

Government, armed forces & public sector	: 36%
Agriculture	: 34%
Private sector	: 30%

LANGUAGES

The main language is Arabic, then comes English as the second most popular language, and finally French, German and Spanish.

GOVERNMENT

Egypt is a multi-party democracy with a 454 member People's Assembly and 210 member Advisory Council. The true power of government is held by the president who serves for 6 years and exercises wide-ranging powers.

The People's Assembly approves the budget, levies taxes, approves government programs and can censure cabinet members.

LEGAL SYSTEM

The Egyptian legal system is a mixture of Islamic, French and English law with a hierarchy of courts descending from the Supreme Constitutional Court, down to primary and summary tribunals in each of the country's 26 governorates.

ECONOMY

Since the early years of this decade, Egypt is witnessing major changes in many areas, where economic is the most important. The Egyptian economy turned to a free market one, where the private sector is given a more dominating role.

The inflation rate dropped to 2.8% in 2000 from 25% in 1990, and is still decreasing.

Cairo, Alexandria, Helwan and the new industrial cities outside Cairo are modern Egypt's main industrial areas, producing iron and steel, textiles, refined petroleum, plastics, building materials, electronic products, paper, automobiles and chemicals.

Egypt's main exports are petroleum products, cotton and cotton textiles, farm products, cloth and aluminum products. Its main trading partners are the USA, Italy, France, Germany, Great Britain and Japan.

NATURAL RESOURCES

Egypt's most valuable mineral resources are oil, natural gas, gold, iron ore, manganese, limestone, phosphate and uranium.

CURRENCY

The Egyptian pound "L.E." is the country's currency. It is divided into 100 piasters.

Current Exchange Rates

1	US Dollar	3.85 L.E.
100	Italian Liras	0.18 L.E.
1	French Franc	0.53 L.E.
1	Deutsch Mark	1.82 L.E.
1	Pound Sterling	5.52 L.E.
100	Japanese Yens	3.22 L.E.

The Egyptian pound is freely convertible through bank or money exchange companies, both of which are licensed and regulated by the Central Bank of Egypt.

BANKING HOURS

Five days per week, Sunday through Thursday from 08:00 to 15:30 hr, customer hours are from 08:30 to 14:00 hr.

During the month of Ramadan customers hours are from 09:00 to 13:00 hr.

TIME

In Winter : GMT + 2

In Summer : GMT + 3

OFFICIAL HOLIDAYS

The official Holiday in Egypt is Friday. Banks, capital market and most private companies' off days are Fridays and Saturdays.

BUSINESS

FORMS OF ORGANIZATIONS

According to law, no official approvals are required for establishing new companies, only a direct registration at the Commercial Registry following which the company may proceed.

A. SOLE PROPRIETORSHIP

It is completely owned by one individual. Egyptians can practice business as sole proprietors in any scope permitted by law except for banks, insurance and capital market activities. Foreigners can also carry out projects as sole proprietors only through “free zones”.

B. PARTNERSHIPS

Partnerships may be general or limited. All partnerships are required by law to be audited when capital exceeds L.E. 5.000. Accordingly, the taxation office requires that appropriate accounting records be maintained.

1. General Partnership

A general partnership is formed by two or more partners, one of them at least with unlimited responsibility for the liabilities of the partnership. All kinds of economic activities can be practiced by these partnerships except for banking, insurance and security market activities.

Foreigners can participate at these companies by a maximum of 49% of capital share. They can practice management with Egyptian partners. There is no minimum amount of capital, and if the company's activity is according to the rules of the investment law, foreigners can own 100% of the capital.

2. Limited Partnership

It consists of at least one general partner with unlimited liabilities for debts, and other partners with limited liabilities according to their initial capital contribution. All kinds of economic activities can be performed through this kind of legal entity except for banking, insurance and capital market activities.

Foreigners can participate at these companies by a share not exceeding 49% of capital share. Foreign partners can practice management in participation with Egyptian partners. No specific minimum capital, and if the activity is according to investment law rules, foreigners can own 100% of the capital.

C. COMPANIES

1. Joint Stock Companies (JSC)

Its capital is divided into shares of equal value, where shareholders liabilities are limited to the value of shares subscribed for. JSCs must have at least three shareholders and a minimum issued capital of L.E. 250.000. In case of public subscription capital must not be less than L.E. 500.000. Not less than 10% of the issued capital must be paid up by the time of incorporation. 25% of the issued capital must be paid up within three months of the incorporation date, or 100% if it is capital in

kind (the balance of the share price (75%) may be paid later), cash capital must be placed in a blocked bank account until after the company is recorded in the Commercial Registry.

There must be a board of directors to be appointed by general assembly. This board must have an odd number not less than three members where each member must own shares with a par value not less than L.E. 5000, unless the member is representing another shareholder, in which case he does not have to own any shares.

All kinds of economic activities can be practiced by these companies. Foreigners can own the whole company by possessing 100% of its shares. These shares can be traded through the stock market.

TAX SYSTEM

The main taxes in Egypt are personal income tax (unified tax), corporation tax, real estate tax, custom duties tax, sales tax, stamp tax and entertainment tax.

A. THE UNIFIED TAX

The unified tax is applied on commercial and industrial profits, income from professional activities and income from real estate. The tax is enforceable in graded rates beginning at 20% and reaching 40% if the net profit of the individual exceeds 68.000 L.E.

Industrial, commercial and non-commercial profits and income from immovable property are subject to tax on annual income at rates ranging from 20% to 40%.

In addition, a 2% development duty is imposed on the annual taxable income of individuals and companies that exceeds L.E. 18.000.

Income derived from immovable property is subject to land tax and buildings tax in addition to unified income tax on annual net income. Capital gains realized by companies are treated as normal business income and taxed accordingly.

Stamp taxes are levied in Egypt on most types of documents and bills, and on some types of shares, debentures and bonds.

A succession tax is levied on gifts and inheritances. Zakat, a religious wealth tax, is not statutorily levied in Egypt.

B. ACTIVITY OF COMPANIES

The tax on the total annual net profit is 40% while on profit resulting from industrial activity is 32%. The tax is enforceable on the following companies:

1. Joint stock companies, limited liability companies, and limited by shares companies.
2. Banks companies and units of public sector.
3. Foreign companies and banks working in Egypt, even if their registered offices are abroad or they are branches.
4. The activities of the public authorities and other bodies corporate which are subject to taxes.

C. SALARIES

Tax is enforceable on salaries paid by government and governmental bodies to any individual residing in Egypt. It is also enforceable on salaries paid by companies and individual to any person residing in Egypt for services performed in Egypt. Also on any sum paid for foreign experts services provided that their period of employment does not exceed 183 days without any family burdens reduction. Annual income up to 50,000 L.E. is taxed at 20%, salaries in excess of 50.000 L.E. per year are subject to a 32% tax.

D. TAX EXEMPTIONS

A 5 to 10 year tax exemption can be obtained from the beginning of production or operation, for industrial, agricultural, hotel and fattening projects.

E. TAX TREATMENT OF SPECIFIC ITEMS

ITEM	TREATMENT
Rented or Owned Properties.	Tax deductible to be computed based on a market norm for similar properties.
Amortization.	Amortized over 5 years and tax deductible.
Interest Income of Time Deposits.	Only 10% is taxable.
Interest Income of Treasury Bills.	Not taxable.
Interest Expense.	Tax deductible.
Fixed Assets Allowance.	Up to 25% of new capital goods purchased during a year are tax deductible and only for 1 fiscal year.
Donations.	Up to 7% of companies net profits are tax deductible.
Provisions.	Up to 5% of net profit are tax deductible, but only if actual losses have materialized.
Previous Years' Losses.	Tax deductible; however, historical losses can only be carried forward for 5 fiscal years.
Paid up Capital Allowance.	Capital allowance equivalent to the treasury yield multiplied by paid up capital is tax exempted only for the public sector and all listed companies.
Capital Increase Allowance.	A percentage of profits equivalent to the percentage of the increase in capital is not taxable for 5 years only for Law 230 companies.

F. BRANCHES AND REPRESENTATIVE OFFICES OF FOREIGN COMPANIES

1. Branches of Foreign Companies

Foreign companies which have a registered office or main activity outside can have branches in Egypt, only if they are awarded a contract by a ministry, Government Authority or Government Affiliated Company. Although oil activity is governed in Egypt by special laws, foreign companies are permitted to make contracts with government, governmental authorities or investment companies. These foreign companies can have branches to execute contracting agreements governed by the law that provide its establishment and registration procedures. It's also permitted for foreigners to practice management in representing their own companies.

2. Representative Offices

Foreign companies can be represented in Egypt by liaison offices, services office, technical offices, scientific offices or other. Their main objective is market study and the possibilities of production, without practicing any commercial activities including the activity of commercial agents. Foreigners can practice management representing foreign companies.

A representative office is treated as nonresident for income tax purposes and is not subject to Egyptian income tax. Salaries paid by the representative office are however subject to tax.

3. Limited Liability Companies (LLC)

A LLC can have a minimum of 2 and a maximum of 50 shareholders or partners. It must have a minimum issued capital of L.E. 50,000. Capital must be fully paid upon application for incorporation and is freely negotiable. It can be established with a 100% foreign capital without Egyptian participation.

Partners are only liable for the amount of their share capital. The company must have at least one manager. Wherever there is more than ten partners, a board of control must be set up. These companies are not allowed to carry out insurance, banking, savings, deposit taking or investment of funds on account of third parties.

4. Limited by Shares Companies (LSC)

The capital is divided into shares. One or more partners have unlimited liabilities as they are responsible in their private possessions for the company's obligations. The law sets the procedures for establishing and registering these companies, their management and general assembly are managed by one or more, active or non-active, partners. All economic activities are allowed except for banking, insurance and capital market activities. Foreigners are permitted to possess 100% of the company's share.

G. MERGER, AMALGAMATION & REORGANIZATION

There are few specific rules in Egypt relating to merger and reorganization. The Company Law requires that a merger or reorganization must be approved by a shareholder's resolution from each constituent company.

INVESTMENT

Egypt is now entering a new era in its economic development that is resulting in higher growth rates and in bringing the equity market to the attention of foreign investors. This will provide transparent market information and thus eliminates one of the key obstacles to investing in the Egyptian market.

The privatization process has added liquidity to the Egyptian stock market, and even more interesting investment opportunities will be provided as private sector companies begin to realize the potential of the market as a vehicle for raising capital.

Indeed, a rejuvenation of private enterprise is at the core of the government's structural reform program, and as the private sector takes a leading role in capital formation, tremendous new investment opportunities will arise. To facilitate the flourishing of the private sector, the government has eliminated bureaucratic convention which formerly obstructed entrepreneurs from gaining access to the market.

Investment licensing is now automatic, and legal requisites for the establishment of companies as well as stipulations concerning exit and change of local plant have been simplified. Provisions issued by individual provinces regarding investment approvals have been streamlined. The private sector is now allowed to participate in the distribution of most products, and government approval for changes in product mix, new products, and business expansion have been removed. The government is currently debating a new, less restrictive labor law as well as updated antitrust legislation and measures to expedite commercial dispute resolution.

Several pieces of legislation have been passed with the specific aim of providing incentives for greater domestic and foreign direct investment. These laws grant tax holidays to enterprises working in strategic industries and firms established in specific locations targeted for expanding industrial activity.

Companies founded under these laws enjoy preferential tariffs for imported intermediate goods and are assured freedom from price controls. Under the provisions of the law, all profits may be repatriated, and firms are guaranteed that they will be free from expropriation. Laws apply equally to domestically owned and foreign owned businesses and contain provisions for small enterprises as well as medium and large scale projects.

Through providing a stable economic environment, encouraging firm privatization plans (as the government has recently done), and allowing 100% foreign ownership of ventures, Egypt has become an attractive recipient for emerging market funds.

INVESTMENT LAW

This law grants to Egyptians and foreign investors to establish projects according to its rules, whether by internal investment in the scopes of land reclamation and cultivation, industry, tourism, housing, construction or by other scopes approved by the Cabinet. Other projects can also be established according to the country's needs and to the economical activities which require modern techniques. The government purpose is to increase exports, employment, and projects established by investment system in free zones.

FREE ZONES SYSTEM

Goods exported by businesses located in free zones to outside the country, or imported from abroad for their own purpose are not subject to rules of import, export or customs procedures concerning imports and exports. They are neither subject to customs taxes, consumption taxes nor to other taxes and dues. All instruments, supplies, machines, means of transport necessary for practicing activity inside free zones except for passenger cars, are exempted from all customs taxes and other taxes and dues.

Projects established in free zones and their distributable profits are not subject to rules of tax laws and dues applicable in Egypt.

Invested money in these projects is not subject to devolution dues. Transactions made between free zones and other countries are not subject to rules of money control.

LAW OF NEW URBAN COMMUNITIES

This law grants tax advantage for projects established in new urban communities specified by the law. The most important is exemption from tax on industrial and commercial profits on companies for ten years starting from the first fiscal year following the beginning of production.

Many new regions, covering the whole country, have been prepared with infrastructure needed for investors to establish their projects.

PRIVILEGES, GUARANTEES AND EXEMPTIONS

The government has issued some legislation providing privileges for projects established according to its rules, whether owned by Egyptians or foreigners.

We hereunder summarize some of the most important legislation:

1. Income tax exemption from 5 to 10 years (and can be extended) on projects such as bee breeding, cultivation companies, chattel sheds and fattening and developing fish farming and agriculture projects.
2. Duties tax exemption on machines, equipment and capital assets, are charged to 5% fixed custom duty and to 10% fixed sales tax (to be paid as instalments within 7 years).
3. Tax exemption for 10 years on Projects established in one of the new urban communities (except real estate and trade projects).
4. Cancellation of foreign currency restrictions.
5. Cancellation of import and export restrictions.
6. Cancellation of need to seek permission to establish projects, now merely notifying the authorized administration body.
7. Releasing the real estate renting system.
8. Providing investors with lands necessary for establishing projects.

9. Legal guarantees for projects against nationalization, confiscation, imposing receivership, attachment, professional seizure or blocking.
10. No expropriation except for public utility allowing for return of fair compensation based on market value of the real estate.
11. No cancellation of usufruct in real estate by any administrative body licensing usufruct except after consulting The General Authority of Investment.
12. Products are not subject to compulsory pricing and profit limitation.
13. No imposition of any monetary or other burdens on projects breaching the principle of equity between them and other projects.
14. Housing buildings established according to rules of the investment law are not subject to the system of rental value limitation.
15. Land reclamation gets 10 years of tax free operation, which can be extended to 15 years.
16. Egyptian income tax exemption for projects implemented in the free zones for the duration of the projects.
17. Designated profits can be transferred abroad.
18. Re-exportation of invested money abroad is allowed.
19. Foundation contracts of the projects and all relating contracts till completely executed are exempted from stamp duties, authentication and registration.
20. Projects established according to investment law, are neither subject to measures of import and export, nor to measures of money control. They are allowed to import and export directly without any need for license, or registration in importers and exporters records.

INVESTMENT INCENTIVES IN EGYPT

Egypt possesses a long list of competitive advantages with regards to a healthy and wealthy investment climate in the Middle East. It is not just the uniqueness of its geographic location in the center of three major continents, nor the fact that it has the largest population in Africa and the Middle East with over 65% of its inhabitants below the age of 25. It is also the fact that the Egyptian government and population have laid a solid foundation for attracting investment. All fiscal, monetary and legislative programs, plans and expenditures have been channeled to towards this goal.

The following facts should encourage smart foreign investors to initiate positive steps to enter the Egyptian market:

1. Inflation rate down from 25% in 1990 to 2.8% in 2000 and still declining.
2. Real GDP at market Price US \$ 79.2 billion in 1994 from US \$ 55.2 billion in 1991.
3. GDP growth rate up to 6.5% in 2000 from 3.9% in 1991.
4. GDP at factor cost US \$ 318 billion in 2000.

5. Read GDP Growth Rate (per capita) 4.2 in 2000 from 1.9 in 1993.
6. Unemployment rate 7.4% in 2000 from 9.8% in 1993.
7. Low debt service: 7.2% of exports.
8. Brief current account deficit (US \$ 1.7 billion in 98/99 from 2.1 billion a year earlier).
9. Interest rates are gradually falling; three months T-bill rates have dropped from 12.0% in 1993 to 9.09% in 2000.
10. Egypt has the second largest economy in the Arab world.
11. Egypt is one of the most stable Middle Eastern countries in recent history.
12. The government's increasing commitment to economic reform, including privatization, and reduction of government bureaucracy.
13. Well developed infrastructure, where Egypt had spent over US \$ 60 billion during the last 20 years, making the country ready for explosive economic growth.
14. A strong private sector and informal economy creating job opportunities at low cost labor.
15. The availability of a relatively large population of about 65 million, can trigger a growing demand in many industries, as well as producing both skilled and unskilled human resources capable of properly implementing investors' business missions.
16. Improving prospects for earning growth, named formerly state-owned companies with partial equities being listed on the Cairo Stock Market, with deregulation having a significant positive impact at profit growth.
17. Egypt is currently remodeling its old capital and stock markets, applying international standard. Therefore, more on-line interaction with other international financial markets is readily available today, thus facilitating the exchange of information to interested investors around the world.
18. No restriction on foreigners buying and selling on the stock exchange.