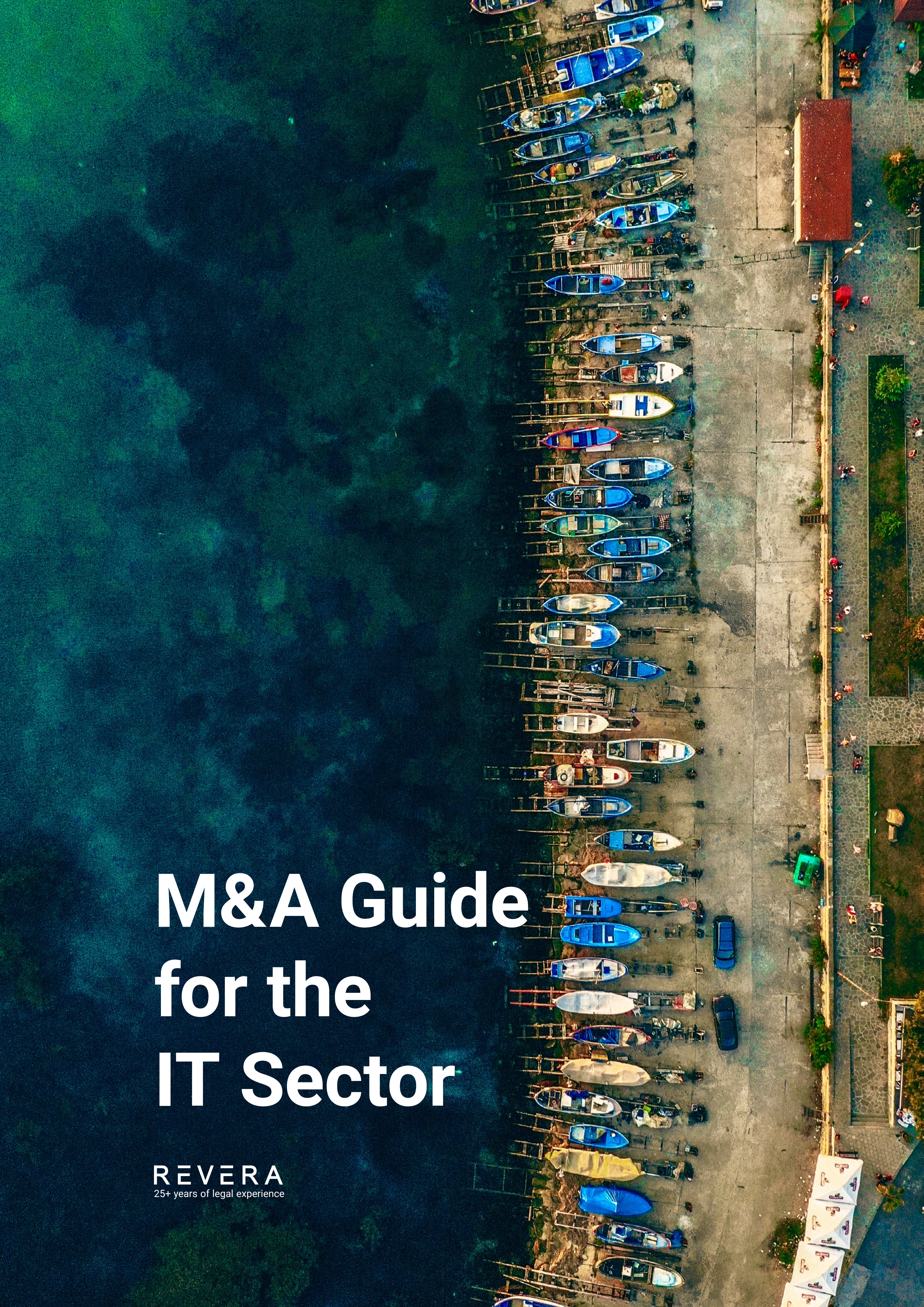

M&A Guide for the IT Sector

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1. Introduction

This guide is dedicated to the process of mergers and acquisitions (M&A) in Cyprus and provides a comprehensive overview of the key aspects that investors shall take into consideration when planning an M&A deal.

Target Audience

The guide will be useful for companies from various sectors, including IT, trade, finance, and other areas, considering:

- Entering Cyprus and European market through the acquisition of existing companies or creating joint ventures;
- Selling assets or attracting investments from diverse sources.

The document is also aimed at internal company specialists such as:

- Legal departments – to navigate legislative requirements and procedures related to M&A in Cyprus;
- Company executives and business owners – for making strategic decisions regarding mergers, acquisitions in Cyprus and attracting investments into Cyprus companies.

Key Questions Addressed by the Guide

1. What types of companies can be established in Cyprus, and what types of companies are used for acquisitions, investments and joint ventures?
2. What are the procedures for selling shares in Cyprus companies?
3. What alternative transaction structures are available in relation to Cyprus companies, other than direct acquisition of shares?
4. What are the permits required for M&A transactions in Cyprus?

The guide is designed to help companies and investors correctly and efficiently organize M&A transactions in accordance with Cyprus legislation.

2. General Comments On The Country Profile

The Republic of Cyprus is a European Union member since 2004 and has been part of the Eurozone since 2008. Its legal system is based on common law, inherited from the United Kingdom, and offers a predictable and investor-friendly legal environment. Cyprus serves as a regional hub for international business, with a favorable tax regime and extensive double tax treaty network.

The economy is services-driven, with legal, financial and corporate advisory services, shipping, tourism, and a rapidly growing information technology sector forming the key industries. The local currency is the Euro (EUR). Cyprus has no foreign exchange restrictions and permits 100% foreign ownership in most sectors, with minimal regulatory barriers to entry.

In recent years, Cyprus has witnessed dynamic growth in its technology sector, driven by significant inflows of foreign capital and skilled international talent. The government has implemented a range of initiatives to attract tech companies and startups, including fast-track business relocation programs, competitive tax incentives for intellectual property, and simplified immigration procedures for non-EU professionals. As a result, Cyprus is rapidly establishing itself as a vibrant tech hub in the Mediterranean region.

The country offers political stability, a strategic geographic location between Europe, Asia, and Africa, and a highly educated, multilingual workforce.

3. Main Types Of Companies

Cypriot legislation allows for the incorporation of various types of legal entities, including private limited liability companies, public limited liability companies, unlimited companies, companies limited by guarantee, partnerships (both general and limited). However, Private Company Limited by Shares (Ltd) is the most common corporate vehicle for international investment. The remaining types of legal entities are rarely, if ever, used for M&A transactions or investment structuring.

Main characteristics of Private Company Limited by Shares (Ltd)	
Number of shareholders	Minimum 1, maximum 50 shareholders.
Amount of the share capital	No minimum capital requirement.
Profit distribution procedure	Dividends are distributed according to the rights attached to shares, with a flexibility to set non-proportional or special distribution rights in the Articles of Association.
Possibility to establish votes disproportional to the number of shares	Possible through different classes of shares; typically, each ordinary share carries one vote, but the Articles may provide for preferential shares with limited or no voting rights.
Possibility of listing on a stock exchange	Not permitted. Private companies cannot apply for listing their shares on a stock exchange.

4. Sale Of Shares In LTDs
(Form Of Transaction, Registration Issues, Preemptive Rights)

Sale of Shares in a Private Limited Company (Ltd)

The sale of shares in a private limited company is governed by the Companies Law, Cap. 113, the company's Articles of Association and relevant shareholder agreements (if any). Often, sale of share is subject to directors' approval and/or right of first refusal. An Instrument of Transfer (IoT) must be signed and filed with the company, and the company must update its internal register of members. Below is a chronological overview of the key legal and corporate steps involved in a typical share sale transaction.

Step 1:
Preliminary Legal and Corporate Review

A review of the Articles of Association should be conducted to determine whether the consent of the Board of Directors is required for any sale of share. In this context, it is important to consider Regulation 24 of Table A, as adopted under the Cyprus Companies Law, Cap. 113, which provides that the directors may, at their absolute discretion and without assigning any reason, decline to register the sale of any share. It is also necessary to confirm whether the Articles contain pre-emption rights in favour of existing shareholders. Such rights are included by default in the standard form of Articles of Association (Regulation 3 of Table A).

If a Shareholders' Agreement exists, it should be reviewed for contractual provisions governing sale of shares, in particular:

- **Right of First Refusal (ROFR) -** a right granted to existing shareholders to purchase shares being sold by another shareholder on the same terms before the shares are offered to external third parties;
- **Right of First Offer (ROFO) -** a right under which the selling shareholder must first offer the shares to existing shareholders, and only if no agreement is reached, may the shares be offered to third parties;
- **Tag-along right -** a protection mechanism for minority shareholders allowing them to join (or "tag along") a sale initiated by majority shareholders, ensuring they can sell their shares on the same terms as the majority;
- **Drag-along right -** a mechanism enabling majority shareholders to compel minority shareholders to sell their shares alongside them in the event of a sale, usually on the same terms, thereby facilitating a full exit;
- Any other sale share restrictions or conditions precedent to a valid sale (lock-up period, change of control provisions, financial conditions, etc.).

Step 2:
Notifications and Approvals

If pre-emption rights apply, the selling shareholder must offer the shares to the other shareholders in accordance with the Articles of Association or the Shareholders' Agreement. Either formal waivers must be obtained from the non-selling shareholders, or the pre-emption period must be allowed to lapse unexercised. In addition, if the Articles require Board approval for a share sale, it is necessary to convene a Board meeting or circulate a written resolution to approve the proposed sale.

Step 3:
Transaction Documentation

An IoT and the Share Purchase Agreement should be signed by both the seller and the buyer to document the commercial terms of the transaction. Form HE57 must also be prepared for submission to the Registrar of Companies to record the sale of shares. In business practice, the use of electronic signatures—such as those generated through platforms like DocuSign—is widely accepted and legally permissible. It is recommended that the transaction documents include a clause recognizing the validity and enforceability of electronic signatures, including those generated via DocuSign.

Step 4:
Corporate Updates

The company secretary is responsible for updating the internal register of members to reflect the new shareholder. A new share certificate must be issued in favor of the buyer in accordance with Section 112 of the Companies Law, Cap. 113.

Step 5:
Regulatory Filing and Compliance

The company must submit Form HE57 to the Registrar of Companies within 14 days of updating its register of members to reflect the sale of share. The updated shareholding structure must also be reflected in the next annual return (Form HE32). If the sale results in a change in ultimate beneficial ownership—whether due to replacement, addition, or a change in an existing UBO's holding—the company must also update the UBO Register within 14 days from the date the change becomes known. Failure to comply with the deadlines will result in administrative penalties.

5. Issuance Of Shares For Investors In LTDs
(Form Of Transaction, Registration Issues, Preemptive Rights)

The issuance of new shares in a Private Company Limited by Shares (Ltd)

As an alternative to the direct purchase of shares from existing shareholders, an investor can join a company through the subscription for newly issued shares. This method involves the subscription for shares directly from the company, resulting in the injection of new capital into the company's structure. The issuance of new shares in Ltd requires strict compliance with both corporate governance procedures and statutory filing obligations. Below is a step-by-step overview of the key actions necessary to lawfully issue and allot new shares, ensuring full regulatory compliance and protection of shareholders' rights.

Step 1:
Review of Corporate Documents

Review the Articles of Association and Shareholders' Agreements, if any, to confirm that there is sufficient authorized share capital available for the intended issuance, determine whether any contractual pre-emptive rights apply, and verify whether shareholder consent is required for the allotment of new shares.

Step 2:
Shareholders' Resolution

If there are not enough shares available for issuance or if shareholder approval is required under the company's Articles of Association or due to the existence of pre-emption rights, a general meeting must be convened (or a special written resolution passed) where at least 75% of the voting shareholders approve an increase in the company's authorized share capital and/or the waiver of any existing shareholder pre-emption rights, if applicable.

Step 3:
Board Approval to Issue Shares

The Board of Directors convenes a meeting—or adopts a unanimous written resolution—in order to approve the issuance and allotment of new shares to investors. The resolution authorizes the Company to enter into a Subscription Agreement with each investor. The

Board further approves the issuance and allotment of the subscribed shares, specifying the number and class of shares to be allotted, the identity of each allottee, and any rights attached to the new shares.

Step 4:
Subscription by Investor

A Subscription Agreement should be entered into with each investor, confirming the number of shares subscribed for, the subscription price, and the applicable payment terms and conditions. Following the execution of the agreement, the subscription funds are collected from investors in accordance with the agreed terms. These funds may be provided either in cash, which is the most common method, or through non-cash (in-kind) contributions. In-kind contributions may consist of tangible assets such as real estate or machinery, intangible assets such as intellectual property rights, shares or interests in other companies, or receivables and other claims, provided that they are subject to proper valuation.

Step 5:
Update of Statutory Registers

The company secretary is responsible for updating the Register of Members to reflect the new shareholders and, if maintained separately, the Register of Allotments. New share certificates must be issued to the investors.

Step 6:
Filings with the Registrar of Companies

Following the allotment of shares, the company must file Form HE12 ***(Return of Allotments)*** with the Registrar of Companies within one (1) month of the date of allotment. If the allotment was preceded by an increase in the authorized share capital, Form HE14 ***(Notification of Alteration of Share Capital)*** must also be submitted. Additionally, the updated shareholder structure must be accurately reflected in the company's next Annual Return (Form HE32).

If the issuance of new shares results in a change in the ultimate beneficial ownership—such as the addition of a new UBO or a change in the percentage holding of an existing UBO that affects their status—the company is required to update the UBO Register maintained by the Registrar of Companies within 14 days from the date the change becomes known to the company.

Failure to file within the prescribed time may result in administrative penalties.

6. Convertible Loan Agreements

Under Cypriot law, a convertible loan agreement (CLA) is a legally permissible and commonly used mechanism, particularly for startups, growth companies, and venture capital transactions. Under a typical CLA, one party (the lender/investor) loans money to the borrower (usually a target company) with the intention that, upon the occurrence of specific agreed events, the loan amount will be converted into newly issued shares of the borrower.

Unlike a standard loan, a convertible loan is typically structured to give the lender the option to acquire a share in the company through conversion into shares in the company's share capital, rather than receiving repayment in cash. However, whether the loan is converted or repaid in cash ultimately depends on the terms of the agreement and the circumstances at the time of maturity. In some cases, particularly if the company has not performed as expected or market conditions have changed, the lender may prefer repayment in cash rather than conversion.

A convertible loan is not merely a financing tool — it offers significant strategic flexibility for companies seeking capital while providing risk mitigation to investors. It is primarily used when the company itself, rather than its shareholders, requires funding (i.e., a "cash-in" transaction). The CLA structure allows both parties to defer a final valuation decision until a future trigger event.

Convertible loans are particularly useful in the following contexts:

a. Startups and early-stage investments

Early-stage companies often face challenges with valuation due to the lack of substantial financial history. A convertible loan enables investors to provide capital without immediately fixing the company's value. Based on the company's later performance and valuation, the investor can decide whether to convert into equity or request repayment.

b. Risk mitigation for investors

Convertible loans offer investors a safer position compared to immediate equity investments. Initially, the investor acts as a creditor. If the business succeeds, the investor can convert the loan into equity at favorable terms. If not, they retain the contractual right to demand repayment (subject to the terms of the agreement).

c. Additional growth financing for established companies

Beyond startups, convertible loans can be used by more mature companies seeking additional funding to launch new projects, enter new markets, or scale operations. The absence of immediate shareholder dilution makes this model attractive for founders and management.

Key Features of a CLA in Cyprus

While convertible loans are highly customizable, typical features include:

a. Loan Structure

Initially, the CLA functions as a standard loan, possibly accruing interest. The defining feature is the lender's right (and sometimes obligation) to convert the loan amount into shares upon the occurrence of certain events.

b. Conversion Triggers

The loan may convert under specific circumstances, typically including:

- **Qualified Financing Round**: If the company raises a new round of financing meeting a minimum threshold, the loan may automatically or optionally convert into shares at the new round valuation (often at a discount).
- **Maturity Date**: If the loan remains outstanding at a specified maturity date, the investor may choose (or be required) to convert into shares or, alternatively, request repayment.
- **Exit Event (Sale of Company):** If the company is sold before conversion, the investor may receive shares immediately prior to the sale or a repayment based on a pre-agreed valuation.

c. Conversion Discount

Investors are typically granted a **conversion discount** (e.g., 5-20%) when converting their loan into equity compared to the price paid by new investors in a qualified financing. This incentivizes early-stage investment and rewards risk-taking.

d. Valuation Cap

The CLA often includes a **valuation cap**, setting the maximum valuation at which the loan will convert into equity. This protects early investors from excessive dilution if the company's value rises significantly before the financing event.

e. Interest

Unlike conventional loans, the interest on a convertible loan may be **capitalized** (added to the loan principal) and included in the conversion, rather than paid in cash.

f. Corporate and Regulatory Formalities for Convertible Loans

If a loan converts into shares, all standard corporate and regulatory requirements for share issuance apply. These include board approval of the share allotment, observance or waiver of statutory pre-emption rights, filing of the required forms with the Registrar of Companies, updating the Register of Members, and issuing new share certificates where applicable.

No mandatory public registration of the loan itself is required, and the loan terms remain private between the company and the investor.

7. Governmental Approvals Of Transactions
(Antitrust Issues, Sanctions and AML Compliance)

When undertaking transactions involving Cyprus companies, parties must assess whether any governmental approvals or regulatory compliance requirements apply. Below are the main categories:

Antitrust Approvals

Under Cyprus law (Law No. 83(I)/2014), certain mergers, acquisitions, and joint ventures must be notified to the Cyprus Commission for the Protection of Competition (CPC) before completion. Notification is required if the combined turnover of all parties in Cyprus exceeds EUR 3.5 million, at least two parties each have turnover above EUR 3.5 million, and one of them conducts business in Cyprus on a lasting basis.

Turnover is based on the latest audited accounts and includes revenue from goods and services provided in Cyprus.

The CPC conducts a Phase I review within one month of receiving a complete filing. If concerns arise, it may launch a Phase II investigation, which can last up to three months. The CPC may clear the transaction, approve it with conditions, or block it.

Sanctions and AML Compliance

EU Sanctions Regime

Cyprus, as a member of the European Union, fully implements all EU sanctions adopted under the Common Foreign and Security Policy (CFSP). These include asset freezes, restrictions on dealings with designated individuals and entities, and sector-specific measures. Particular attention should be paid to recent sanctions targeting Russian and Belarusian persons, which must be carefully reviewed for compliance.

Anti-Money Laundering (AML) Regulations

Transactions involving Cyprus companies are subject to anti-money laundering (AML) checks under the Prevention and Suppression of Money Laundering and Terrorist Financing Law (Law 188(I)/2007). Although the parties to the transaction, being private non-regulated companies, are not themselves obliged to carry out AML procedures, they should be prepared to undergo customer due diligence (CDD) conducted by corporate service providers, lawyers and banks involved in the transaction. This includes verification of the ultimate beneficial owners, sources of wealth, and, where applicable, enhanced due diligence in cases involving politically exposed persons (PEPs) or high-risk jurisdictions.

Ultimate Beneficial Ownership (UBO) Register Compliance

All private and non-listed public companies incorporated in Cyprus are required to maintain up-to-date information on their ultimate beneficial owners (UBOs) in the UBO Register kept by the Registrar of Companies. A UBO is any natural person who directly or indirectly holds more than 25% of the shares or voting rights in a company.

The obligation to update the register arises when a new UBO is added, an existing UBO's status changes (such as crossing the 25% threshold), a UBO ceases to qualify, or there is a change in a UBO's personal details. Any such changes must be reported within **14 days** from the date they become known to the company.

Failure to comply may result in administrative fines, including a fixed penalty of **EUR 100** and a daily penalty of **EUR 50** for ongoing non-compliance, up to a maximum of **EUR 5,000**.

As of now, only competent authorities (such as tax authorities, the police, and the Unit for Combating Money Laundering - MOKAS) and entities subject to AML obligations (such as banks and corporate service providers) may access the Register for due diligence purposes. Public access has been suspended.