

15th June, 1990

To: Dr Safa

From: R.K. Khoshaba

Re: Third and Final Report on SMI1. Visit

- 1.1. On 7th June I travelled to Lugano and on 8th June at 9 o'clock in the morning I had a meeting with Mr Nessi, the lawyer, and Mr Romano of SMI as arranged.
- 1.2. In the afternoon on 8th June we visited Banca Dell Sampione to complete the transfer of shares and signing of the loan agreement.
- 1.3. All the original documents which were legalised at the Swiss Council in Zuzreb, Yugoslavia were handed over to the lawyer.

2. Fartrade Holding S.A.

- 2.1. The shareholding in SMI is in the name of Fartrade Holding S.A., a Swiss Company incorporated in the District of Fribourg. This company was incorporated on 14-12-89 with share capital of S.F. 200,000.-.
- 2.2. The lawyer has obtained from the previous owners declarations to the effect that the company has not traded and that it is free from any liabilities except the capital.
- 2.3. Formation expenses and stamp duty are S.F. 10,000.-.
- 2.4. The company has only one director who is now the lawyer Mr Nessi.
- 2.5. The Company's shares are divided into units of S.F. 100 each. Issued shares are 2000 divided into two certificates:-  
 No. 1 for 1 share  
 No. 2 for 1999 shares  
 both certificates are held with the lawyer.

2.6. The company has applied to increase the shares by 800,000 and change the unit from S.F. 200 to S.F. 1000.

The company is incorporated in Fribourg and this apparently should give no capital gains when the shares are sold. I was informed that each district has different rules regarding the gains.

\*tax

I have obtained a declaration from the lawyer that he holds the shares in trust for Dr. Sava and I have prepared a similar declaration from you that you hold the shares in trust for Durand Properties Ltd.

3. Bearer Shares

3.1. As explained above, the shares in Fartrade Holding S.A. are to the bearer.

3.2. Due to recent restrictions in Switzerland and in order to ensure that lawyers are dealing with genuine people, Mr. Nessi insisted that the original certificates stay in his possession. In theory, he argued, bearer shares if given to us could be passed on to other people for whom he may not wish to act. Being the sole director, he would be fully responsible for all the results of the company. This point was checked by myself with Mr. Zurmuller of the bank and with Mr. Romano. For the same reasons, lawyers are now insisting on dealing on behalf of individuals and not offshore companies.

3.3. The declaration of trust signed by Mr. Nessi acquires the importance of the shares. In a way, the declaration is a better document in the sense that it has the names of the beneficial owner shown in writing but if it were lost, it would not be critical as a bearer share certificate. As the

*same time this document is not filed anywhere and ~~remains~~ retains all confidentiality of ownership.*

4. QMD Shares

4.1. As phase 1, we have acquired 1000 shares out of <sup>issued</sup> capital ~~issued~~ shares of 5500, i.e. 18.18% at a price of S.F. 3000 each.

4.2. The share are financed by:

Ourselves	2,409,000
Bank	1,000,000
	-----
	3,409,000
	-----

3,409,000

4.3. Within 6 months we will acquire another 650 shares at the same price, to be financed again by:-

Ourselves	1,565,850
Bank	650,000
	-----
	2,215,850
	=====

This would give us a total holding of 1650 shares i.e 30%.

10% interest payable at S.F. 500,000 first repayment starting 30-6-1991.

The Bank will hold the shares as security but it has given Mr Nessi confirmation that the shares have been transferred to the name of Fartrade Holding S.A.

Duty and commission on transfer of shares for the bank totalling about S.F. 23,000 has been avoided by making an "Agreement to sell and purchases" back dated to December, 1989. This was recommended by a tax adviser. However, I checked independently with the bank that it was in order. This was confirmed and proved by issuing a document to say that the shares are now registered in Fartrade Holding's name.

5. Other Matters

Finance for our share of S.F. 2,409,000 and the anticipated expenses were provided for as follows:-

Al-Arabi from UBAF	: Sterling £472,403	= S.F. 1,135,029
" "	: Swiss Francs	120,655
		-----
		1,255,684
from Rafidian	: Sterling £400,000	965,016
via TDG	" £130,000	310,500
		-----
		1,255,684
	ing £400,000	965,016
	£130,000	310,500
		-----
		2,522,200
		=====

5.2. Expenses were expected to be:-

Lawyers fees	10,000
Stamp duty on increased capital 3%	24,000
Acquisition of company expenses including stamp duty	10,000
Notary charges Re-Increase in capital	4,000
Various other taxes	5,000
	<hr/>
	53,000
	<hr/>

5.3. After payment of 5.1 and 5.2 above, there should be about S.F. 60,000 left in the account which is the figure required to be made available to pay the loan interest and annual administrative fees.

5.4. Documents to be signed co Durand

5.4.1. Declaration of <sup>trust</sup> increase capital by S.F Properties Ltd

5.4.2. Fiduciary <sup>trust</sup> to buy and sell dated December 1989.

5.5. Offshore Company

I discussed with Mr Nessi the possibility of his acting for us to form companies in Luxembourg and Liechtenstein. He confirmed that he would be able to do so. I have asked him to form one in each of these two countries with the minimum capital possible.

5.6. Bank Del Sampione.

I discussed with Mr Zurmuller the possibility of opening accounts with the bank in Locarno. The bank is reluctant to do so for offshore companies unless they have all the bank ground of such companies. However, they now know you and would be pleased to open accounts in your name. I have obtained a number of forms for this purpose.

6. Documents Attached (all copies)

6.1. Certificate of Incorporation of Fartrade Holding S.A.

6.2. Balance Sheet and declarations.

6.3. Share Certificates 200 with the lawyer.

ATTENTION: PAUL LANG

- 6.4 Declaration of Trust by the lawyer to Dr. Safa.
- 6.5. Declaration of Trust from Dr. Safa to Durand Properties.
- 6.6. Confirmation by the lawyer that SMB shares of 1000 are held by him for Fartrade Holding.
- 6.7. Confirmation by the Bank that they are holding the shares of SMB in Fartrade's name as security for their loan.
- 6.8. Bank facility letter.
- 6.9. Fiduciary Contracts.
- 6.10. Mandate Agreement.
- 6.11. Loan Agreement for S.F. 2,300,000 to Fartrade Holding from Durand.
- 6.12. Bank opening forms for Fartrade Holding.
- 6.13. Letter for Romano of SMB given by Mr. Nessi. reference on the lawyer

7. Summary

I visited Switzerland on 9th June and completed the acquisition of phase I 18.18% of the equity in SMB.

7.2. The holding is via a Swiss Company, named Fartrade Holding S.A. incorporated in Fribourg.

7.3. Costing is as follows:-

	<u>Phase I</u> <u>(18.18%)</u>	<u>Phase II</u> <u>(11.82%)</u>	<u>Total</u> <u>30%</u>
Our funds	2,409,000	1,565,850	3,974,850
Bank Lending	1,000,000	500,000	1,500,000
	<u>3,409,000</u>	<u>2,215,850</u>	<u>5,624,850</u>

7.4. Shares in Fartrade Holding S.A. are via bearer shares kept by the lawyer, Mr Nessi who is the sole director. However, a declaration of trust is held by us stating that the shares are for our benefit.

7.5. Recent changes in Switzerland means that the lawyer should only act for Dr. Safa and insists that he holds the shares in his office.

Fartrade has at present share capital of S.F. 200,000  
which is being increased to S.F. 1,000,000.

7.7. Arrangements are made through the lawyer to establish for  
us a company in Luxembourg and another in Liechtenstein.

There are 3 documents to be signed by you:-

- Declaration of trust from you to Durand Properties.  
- increase the capital.  
- purchase with Dr. Martine's  
duty.