

# Executive Statutes

## Of The Law On Financial Lease

### Chapter : 1

### General Provisions

### Article : 1

The following expressions shall indicate the meaning mentioned next to each of them :

**The Law** : Law No. 95 of the year 1995 concerning financial lease.

**Administrative Authority** : the sector concerned with financial lease at the Ministry of Economy and Foreign Trade (Companies Administration).

**Lessor**<sup>22</sup> : Associations of Capital which are authorized to exercise the financial lease activity according to the provisions of the Law once they fulfil the ability to perform their targeted activity in the light of the volume of their capital providing the capital shall not be less than half a million pounds, according to the rules and procedures prescribed in the present Statutes.

The lessor may be a bank, if it is so licensed by the Board of the Central Bank of Egypt, with the conditions and terms to be determined in the licensing decree.

**Register of Lessors** : register in which the lessors are recorded in accordance with the provisions of article No. (3) of the Law.

**Register of Contracts** : the register wherein, pursuant to article "3" of the Law, the financial lease contracts which are concluded or executed in Egypt, or those in which one of the contracting parties is a resident of Egypt, as well as the sale contracts which are concluded based thereon, and also any modifications introduced to these contracts, are recorded.

**Supplier** : the party from which the lessor receives a property that is subject a financial lease contract.

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<sup>22</sup> Substituted as per D. No. 1799/2002.

**Contractor** : the party who constructs installations which are subject of a financial lease contract.

**Property/Properties**<sup>23</sup> : All realty, or physical or moral movable which is a subject of financial lease contract once it is necessary for the exercise of a commodity productive activity or a service activity of the lessee, according to the rules to be issued by decree of the concerned minister.

**Lessee** : a party holding a property based on a financial lease contract.

**Article : 2**<sup>24</sup>

The following shall be considered a financial lease, in applying the provisions of the Law :

- A) All contract by virtue of which the lessor is committed to lease to a lessee movable property which is owned by the lessor at the time of concluding the contract or which are received by the lessor from the supplier, on the basis of a certain contract authorizing the lessor to lease out such property, to dispose of it by selling to the lessee at the expiry of the lease period. Leasing the property shall take place in return for a rental value to be agreed upon between the lessor and the lessee.
- B)<sup>25</sup> All contract by virtue of which the lessor is committed to lease to the lessee realties or establishments owned or established at his expense upon the request of the lessee with the aim of leasing them to him according to the terms, conditions, specifications, and rental value as determined in the contract.
- C) All contract by virtue of which the lessor is committed to lease to the lessee a property under a financial lease, if such property's ownership has devolved to the lessor from the lessee by virtue of a contract to be implemented between the two parties on the basis of concluding the financial lease contract.

<sup>23</sup> Substituted as per D. No. 1799/2002.

<sup>24</sup> The final clause was cancelled as per D. No. 1799/2002.

<sup>25</sup> Substituted as per D. No. 1799/2002.

### **Article : 3<sup>26</sup>**

The lessor may stipulate insuring the leased property to ensure for him obtaining the rental value for the remaining period of the contract and the price determined therein.

### **Article : 4**

Before concluding the financial lease contract, the owner of the project may negotiate with the supplier or the contractor on the basis of a prior written approval by the party who shall be in charge of the leasing, providing the negotiation will deal with :

- 1- Specifications of the property necessary for the project, or the method of its manufacture or installation.
- 2<sup>27</sup>- Other questions the two parties of the financial lease contract agree on negotiating the supplier or the contractor thereon.

In all cases, the party in charge of the leasing shall not be committed to any subsequent agreements to be carried out by the owner of the project with the supplier or the contractor.

### **Article : 5**

The property shall be delivered to the lessee, whether by the lessor, the supplier, or the contractor, by virtue of a receipt report in which all the data concerning the leased property, its condition at the time of its receipt, and the defects in it, if any, shall be determined.

The lessee shall be accountable vis-a-vis the lessor for any data to be mentioned concerning the property, in the receipt report.

The lessee, his heirs, the rest of partners, the bankruptcy trustee, or the liquidator, according to each case, shall deliver the leased property to the lessor according to the conditions and specifications agreed upon, at the termination of the contract because of its rescinding or any other reason, without its renewal and without the purchase of the property by the lessee.

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<sup>26</sup> Substituted as per D. No. 1799/2002.

<sup>27</sup> Substituted as per D. No. 1799/2002.

If he refrains from delivering the leased property, the lessor may submit a petition to the summary matters judge at the competent court to issue a writ of delivery. The procedures and provisions prescribed in article (194) of the Civil and Trade Procedures Law shall be followed in connection with this petition.

The writ of delivery shall be issued if the petition is coupled with the contract and evidence of its registration and termination, as well as the name and place of the person committed to deliver, without prejudice to the lessor's right to claim from the lessee charges for the latter's benefiting from the leased property from the date of contract termination up to the date of delivering the property<sup>28</sup>.

**Article : 5 Bis<sup>29</sup>**

**Granting the license for exercising the financial lease activity shall be conditional upon fulfilling the following:**

- (A) The license applicant shall be an association of capital including within its purposes the financial lease activity, or (one of the banks that are licensed by the Board of the Central Bank of Egypt to exercise that activity).
- (B) The company's issued capital and the amount paid of it shall not be less than half a million pounds.
- (C) No criminal penalty, misdemeanor penalty for moral turpitude or dishonesty, or penalty for any of the crimes prescribed in the Companies or Trade Laws shall have been sentenced previously on any of the company's founders, directors, or members of its board of directors, unless he has been rehabilitated.
- (D) Those in charge of the company's administration shall fulfil the requirement of administrative experience and efficiency necessary for exercising this activity.

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<sup>28</sup> Substituted as per D. No. 1799/2002.

<sup>29</sup> Added as per D. No. 1799/2002.

**Chapter : 2**  
**Provisions, Conditions And Procedures Of Licensing And**  
**Recording The Lessors And The Financial Lease Contracts**<sup>30</sup>

**Article : 6**

A special register for recording lessors "lessors register" shall be provided at the administrative authority, in which the associations of capital that are licensed to exercise the financial lease activity shall be recorded<sup>31</sup>.

A special register called "the register of contracts" shall be provided, wherein the financial lease contracts to be concluded or carried out in Egypt, or in which one of the contracting parties is a resident in Egypt shall be recorded. All assignments made over by the lessors or lessees from these contracts, as well as all modification thereto, and also the sale contracts carried out based thereon shall also be recorded in that register.

The administrative authority shall revise the requests for recording in these two registers, the contracts required to be recorded, as well as all documents related thereto and the modifications introduced into them according to the provisions of the Law and the present Statutes. The administrative authority may seek the assistance of the people of experience whom it deems suitable, in this respect<sup>32</sup>.

**Article : 7**<sup>33</sup>

The associations of capital that are licensed to exercise the financial lease activity and which desire to exercise the financial lease operations, besides fulfilling the registering conditions as indicated in article (9) of the present statutes shall be recorded in the lessors register. Banks shall not be recorded in the register except after obtaining a license from the Board of the Central Bank of Egypt, and according to the terms and conditions determined in that license.

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<sup>30</sup> Substituted as per D. No. 1799/2002.

<sup>31</sup> Substituted as per D. No. 1799/2002.

<sup>32</sup> Substituted as per D. No. 1799/2002.

<sup>33</sup> Substituted as per D. No. 1799/2002.

**Article : 8<sup>34</sup>**

No association of capital that is not recorded in the lessors register shall exercise the financial lease activity or use the 'financial lease' phrase or a synonym thereof in its title.

**Article : 9<sup>35</sup>**

*The following shall be fulfilled for recording in the 'lessors register':*

- A) The company's deed of association or its constitutive instrument duly notarized according to the Law.
- B) The financial lease activity shall be among its purposes, with the exception of banks.
- C) The company shall be licensed to exercise the financial lease activity according to the Law.

**Article : 10<sup>36</sup>**

*Cancelled*

**Article : 11<sup>37</sup>**

With regard to limited liability companies, the request for registration shall be submitted by the person who has the right of administration and the power to sign for the company, after settlement of the prescribed fee. The following documents shall be attached to the request for registration:

- A) Copy of the ID or family cards of the Egyptian partners and directors of the company, and a copy of the passport with regard to non-Egyptians.
- B) Copy of the company's deed of association and an official extract of its entry sheet in the commercial register, indicating that the exercise of financial lease activity is among the company's purposes.

<sup>34</sup> Substituted as per D. No. 1799/2002.

<sup>35</sup> Substituted as per D. No. 1799/2002.

<sup>36</sup> Cancelled as per D. No. 1799/2002.

<sup>37</sup> Amended as per D. No. 962/1996 then substituted as per D. No. 1799/2002.

- C) A declaration from the partners and directors of the company that no court ruling was passed inflicting a criminal penalty on any of them or sentencing any of them in a misdemeanor of moral turpitude or dishonesty. Non-Egyptians may submit an official document standing for the declaration duly approved by the competent authority in their countries. Such document shall be ratified by the Egyptian Ministry of Foreign Affairs or one of the ARE consulates in those countries.
- D)<sup>38</sup> A declaration from each of the partners in limited liability companies that he had not been declared bankrupt previously. If a ruling of bankruptcy had previously been passed against any of them, an evidence of his rehabilitation shall be submitted.

**Article : 12<sup>39</sup>**

With regard to joint stock companies and partnerships limited by shares, the request for registration shall be submitted by the chairman of Board or managing director, according to each case, after settlement of the prescribed fee, coupled with the following documents:

- A) Copy of the company's deed of association and an official extract of its entry sheet in the commercial register, indicating that the exercise of financial lease activity is among the company's purposes, as well as all modification made to the company's deed.
- B) Copy of the ID or family card of each of the chairman and members of board, and the directors who have the power to sign for the company. With regard to non-Egyptians, a copy of the passport shall suffice.
- C) A declaration from each of the chairman and members of board who have the right of administration and signing for the company that no criminal penalty or misdemeanor penalty for moral turpitude or dishonesty was previously sentenced on him. Non-Egyptians may submit an official document standing for the declaration duly approved by the competent authority in their countries. Such document shall be ratified by the Egyptian Ministry of Foreign Affairs or one of the ARE consulates in those countries.

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<sup>38</sup> Amended as per a rectification issued in Egyptian Wakayeh / Government Bulletin – Issue No. 69 – Dated 29 March, 2003

<sup>39</sup> Amended as per D. No. 962/1996 then substituted as per D. No. 1799/2002.

- D) A declaration from the chairman of board that no ruling of bankruptcy had previously been passed against any one of the directors or those who have the right of administration and signing for the company and all joint partners in partnerships limited by shares. If a ruling of bankruptcy had been passed against any of them, an evidence that a court ruling was passed rehabilitating shall be submitted.

### **Article : 13**

With regard to public juridical persons, the request for recording in the register shall be submitted by the legal representative of the juridical person, or the person deputizing therefor, after settling the prescribed fee. The deed of the establishment of the juridical person, indicating that its purposes comprise the exercise of the financial lease activity shall be attached to the request.

### **Article : 14**

Banks, when applying for recording in the register of lessors shall submit the licence issued by the Central Bank of Egypt of their exercise of such activity.

### **Article : 15 <sup>40</sup>**

Whoever is recorded in the 'lessors register' shall be handed a card affirming his registration and indicating his name, nationality, and home country, the name and quality of his legal representative, and the entry number.

Whoever is recorded according to the previous clause shall put down his registration number in all his papers and correspondence.

### **Article : 16**

A lessor, after being recorded in the register of lessors, shall have the right of being recorded in the register of importers concerning the property imported thereby for the purpose of leasing it under a financial lease. He shall also have the right of being recorded in the commercial register concerning the financial lease activity exercised thereby.

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<sup>40</sup> Substituted as per D. No. 1799/2002.



## Article : 17 <sup>41</sup>

The lessors shall be recorded in the commercial register and the register of importers, with regard to the financial lease activity exercised by them, by virtue of the card issued according to article (15) of this statutes, without need for any other procedure and without being restricted, in this respect by the provisions of the executive statutes of the Commercial Register Law, and the executive statutes of the Importers Register Law.

## Article : 18

The request for recording the financial lease contract request shall be submitted duly signed by the company's legal representative, in duplicate (original and copy), comprising the following data <sup>42</sup>:

- (a) Name of the request applicant, the trade name, and the trade feature if any.
- (b)<sup>43</sup> The data indicating the identity of each of the contract parties, particularly the legal form of the company, the deed of its establishment, the name of its representative, and the kind of activity undertaken thereby.
- (c) A statement on the leased property, and if it is a realty, its location, and limits shall be indicated. For the agricultural lands, the name of the precinct, the basin, and the plot number shall be mentioned. Also, the name of the section, the street, the lane, and the number in case of vacant lands and built realties, if any, shall be indicated. The property shall be described and the system of delivering it shall be mentioned if it is a movable property.
- (d) The system of insurance on the leased property, if any.
- (e) Special data on the activity wherein the property is being used in terms of its nature and the type of production.
- (f) The provisions regulating the possession of the property by the lessee.
- (g) The date in which the contract begins to come into force and the duration of the contract.

<sup>41</sup> Substituted as per D. No. 1799/2002.

<sup>42</sup> Substituted as per D. No. 1799/2002 then amended as per a rectification issued in Egyptian Wakayah / Government Bulletin – Issue No. 69 – Dated 29 March, 2003 .

<sup>43</sup> Substituted as per D. No. 1799/2002.

### **Article : 19**

The following documents shall be attached to the request for recording in the register of lease contracts :

- (a)<sup>44</sup> Copy of the financial lease contract, according to the forms to be provided by the concerned administrative authority.
- (b) The documents determining the owner of the leased property.
- (c) The original receipt proving the settlement of registration fees.
- (d) Copy of the tax card.

### **Article : 20**

The lessee shall have the right to choose buying the whole or part of the leased property, for the price determined in the lease contract, providing that the amounts paid thereby to the lessor shall be taken into consideration.

### **Article : 21**

The possession of the leased property by foreigners shall be subject to the provisions reorganizing the possession of built realties, vacant lands, and agricultural lands by foreigners.

### **Article : 22**

In case the lessee does not choose to buy the leased property or renewing the lease contract, he shall return the property to the lessor, according to the conditions and specifications agreed upon. A delivery report shall in this case be drawn up, wherein the descriptions and the conditions of the property shall be mentioned.

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<sup>44</sup> Substituted as per D. No. 1799/2002.

### **Article : 23**

The sale contract which takes place based on the financial lease contract shall be recorded in the register of lease contracts, providing the request for recording the sale contract shall comprise, in particular the following data :

- (a) Name of the applicant of the request.
- (b) Statement about the seller, based on his entry in the register of lessors.
- (c) Data concerning the buyer's name, age, nationality and domicile if he is a juridical person, its legal form, the deed of its establishment, and the name of its legal representative shall be mentioned.
- (d) The seller's title deed concerning the property subject of the sale contract, or the deed giving him the right to sell.
- (e) Description of the property whether it is a realty or a movable properties as indicated in the entry of the financial lease contract.
- (f) Statement of the price and the system of possessing the Property.

### **Article : 24**

The following documents shall be attached to the request for recording the sale contract referred to in the previous article :

- (a) Copy of the Sale Contract.
- (b) Copy of the Seller's title deed of the property or the deed giving him the right to sell it.
- (c) Original receipt concerning the settlement of the fee for recording the Sale Contract.

**Chapter : 3**  
**Recording In The Register Of Lessors**  
**And The Register Of Lease Contracts**

**Article : 25**

The Office of recording in the Register of Lessors and the Register of Lease contracts, shall record the data of the lessors and the lease contracts, in each of the two registers provided for the purpose.

**Article : 26**

The data in the request shall be in Arabic, And in legible writing, without abbreviation, changes, interlineation, erasure, or deletion. The applicant shall sign on every addition or correction, in its margin. The number of added or cancelled words or sentences shall be counted, and the recording office shall annotate thereon to indicate checking and verifying the foregoing.

**Article : 27 <sup>45</sup>**

A special page shall be appropriated for each lessor in the register of lessors, and a special page shall be appropriated in the register of contracts for each financial lease contract. The pages of the two registers shall be paginated with serial numbers and stamped with the seal of the administrative authority. The data in the pages shall be written in blue ink, and all modification thereof as well as the annotations in the margins shall be made in red ink.

**Article : 28**

The requests shall be recorded according to the date and hour of receiving them fulfilling all the data and documents. This shall take place by writing the data set forth therein, in their relative registers. Recording the data shall be done with successive numbers and continuously.

**Article : 29**

The requests concerning marginal annotation for modification of the entry shall be submitted by the concerned parties.

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<sup>45</sup> Substituted as per D. No. 1799/2002.

### **Article : 30**

The request for marginal annotation shall comprise the data of the request and the document permitting the applicant to submit the annotation request, along with indicating its date, type, and contents, and the request shall be accompanied with the documents supporting it.

### **Article : 31**

In case of requesting an annotation with new data that are likely to introduce a change or modification in the entry such data shall be annotated on the entry sheet itself, along with referring in the margin of the register to the date and No. of depositing the request for annotation of the modification and the document supporting it. The new datum shall be recorded after collecting a New Entry fee according to the rates determined in these statutes.

No request for considering the lease contract as renewed in contradiction of the data recorded in the register, unless the request is submitted and approved by the parties to the original lease contract, or their signatures therein are ratified.

In the cases where the lessor or the lessee may legally assign the financial lease contract, this assignment shall not be invoked vis-a-vis third parties except from the date it is annotated in the register of lease contracts.

### **Article : 32**

The entry register office shall annotate in the margin of the register to indicate the renewal of the recorded entry, along with referring to the No. and date of depositing the renewal request.

### **Article : 33**

After recording the data indicated in the request, one of the two copies of the request shall be returned to the applicant duly stamped with the seal of the administrative authority, and marked with an annotation that the entry has been recorded or renewed or the annotation has been made, according to each case.

**Chapter : 4**  
**Cancelling The Entry**

**Article : 34<sup>46</sup>**

The entry in the lessors register shall be cancelled upon the request of the concerned party, or in case of terminating the association of capital. The cancellation of the entry shall be proved in the entry sheet and shall be stamped with the seal of the administrative authority. The date and cause of canceling the entry shall be indicated in the margin of the entry sheet.

**Article : 35**

The recorded entry in the register of lease contracts shall be cancelled in the following cases :

- (a) expiry of the contract period without renewal.
- (b) upon the request of the parties to the contract.
- (c) issue of a final ruling for cancellation.

If the recorded entry is cancelled, its cancellation shall have no effect with regard to the recorded entries and registrations made during the period between recording and cancelling the entry.

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<sup>46</sup> Substituted as per D. No. 1799/2002.

**Chapter - 5**  
**Entry Recording And Extracts Fees**

**Article : 36<sup>47</sup>**

**The following fees shall be paid according to the amount determined next to each procedure:**

- L.E. 1500 on each request for recording the associations of capital in the lessors register;
- L.E. 50 on each request for recording the financial lease contract in the register of contracts.
- L.E. 50 on the request for recording the deed of sale resulting from the financial lease contract.
- L.E. 250 on the request for modification in the lessors register.
- L.E. 50 on the request for modification in the financial lease contract.
- L.E. 50 on the request for modification in the deed of sale resulting from the financial lease contract.
- L.E. 10 fee for requesting a copy of the entry in the two registers.
- L.E. 10 fee for a marginal annotation in the two registers.

**Article : 37<sup>48</sup>**

Whoever is concerned may request obtaining an extract, a data certificate, or a negative certificate from the register for recording lessors, and the register for recording the contracts. The request shall be coupled with the receipt indicating the settlement of the fee. With regard to copies of the contracts, the request for obtaining them shall be submitted by those who are qualified therefor.

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<sup>47</sup> Substituted as per D. No. 1799/2002.

<sup>48</sup> Substituted as per D. No. 962/1996.

The concerned administrative authority may, by a decision of its head, refuse the request for obtaining the foregoing data if such data is liable to prejudice the interests of the lessors or the public interest.

**Chapter – 6**<sup>49</sup>

**Accountancy Rules And Standards, And Tax  
Treatment With Regard To The Financial Lease**<sup>50</sup>

**Article : 38**<sup>51</sup>

In applying article (23) of Financial Lease Law No. 95 for the year 1995, the accountancy rules and standards prescribed in appendix No. (1) as attached to these statutes shall be applicable.

**Article : 39**<sup>52</sup>

In applying the third clause of article (26) of Financial Lease Law No. 95 for the year 1995, contracts of possessing the property that devolves to the lessor from the lessee on the occasion of and according to a contract the implementation of which depends on concluding a financial lease contract for the property shall be exempted from the fees of Notarization entry and registration in the Real Estate Notarization, providing evidence is submitted establishing that the said contract has been recorded in the register of contracts provided for the purpose at the concerned administrative authority.

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<sup>49</sup> Added as per D. No. 473/1997.

<sup>50</sup> Substituted as per D. No. 1799/2002.

<sup>51</sup> Added as per D. No. 473/1997.

<sup>52</sup> Added as per D. No. 1799/2002.



## Supplement No. (1)

# **The Egyptian Accountancy Standard No. 20**

## **Accountancy Rules And Standards Connected With Financial Lease Operations**

*According To The Provisions Of Law No. 95 Of The Year 1995*

### **Scope Of The Standard :**

1. This standard shall apply in accounting for Financial Lease Contracts to be concluded according to the provisions of the Financial Lease Law No. 95 of the Year 1995, and its Executive Statutes.
2. This standard shall be binding on each party to a Financial Lease Contract recorded in the Register provided therefor at the competent Administrative Authority (Companies Organization) when the terms of the Lease Contract give the Lessee the right to buy the leased property at the date and for the amount determined in the Contract, and the period of the Lease Contract represents at least 75% of the original productive life of the leased property or the current value of the total contractual amount at the time the Contract was concluded represents at least 90% of the value of the leased property.
3. This standard shall not cover the following types of lease Contracts :
  - a) Passenger cars and motor cycles lease contracts.
  - b) Lease Agreements concerning the prospection for or use of natural resources like Oil, Gas, forests, Metals and other mining rights.
  - c) Agreements in which the Lessee shall be committed to buy the leased property at the end of the Lease period (and which are considered a sale for the settlement on installments).
  - d) Lease Contracts which are not connected with property that is necessary for exercising a service or commodity productive activity of the Lessee.

#### **4 Definitions :**

**Rental Value :** It is the value as agreed upon in the lease Contract, and the lessee is bound to pay to the Lessor against the right of using the Asset rented thereto under the system of "Financial Lease".

**Purchase Price :** It is the price determined in the Lease Contract for transfer of the asset ownership to the Lessee at the end of the lease period.

**Total Contractual Value :** It is the total rental value plus the purchase price.

**Rate of the Return Accruing From The Lease Contract :** It is the rate of interest as used by the Lessor for calculating the Rental Value and the Purchase Price. It makes the current value of the total Contractual Amount equal to the value of the leased property at the time the validity of the contract begins.

#### **Accounting Treatment In The Financial Statements of The Lessor:**

5. The leased property shall be posted as leased fixed assets in the Lessor's books, at the book value of the property acquisition. Depreciations of such assets shall be made according to their hypothetical productive life and according to the usual practice and the nature of the property which is being depreciated.
6. Recording the revenues of the Financial Lease Contracts on the basis of the rate of the return accruing from the Lease Contract plus an amount equivalent to the periodical depreciation installment. The more/less difference, according to each case, between the revenue recorded in this way and the rental value due for the same accounting period shall be set aside in a separate debtor or creditor account of which the balance shall be adjusted to the net book value of the leased property at the expiry of the Lease Contract.
7. The Income Statement of the Lessor shall be charged with the cost of maintenance, insurance and all expenses necessary for maintaining the asset, unless they agreed upon charging the lessee with these costs and expenses.

8. In case the Lessor has doubts about collecting the rental payments, he shall form the necessary appropriations to face the bad debts.

### **Leasing By The Manufacturers Or Distributors :**

9. If the Lessor is the Manufacturer or the Distributor of the Leased property, the sale profits or losses shall be posted in the result accounts of the manufacturers or distributors, for the period, according to the policy usually followed for selling to third parties.

### **Revelation In The Financial Statements of the Lessor :**

10. At the end of each financial period, the following shall be revealed in the financial statements of the Lessor :
  - a) Accounting policies followed in identifying the lease revenues.
  - b) The depreciation policies followed in respect of the leased assets, and the depreciation percentage applied.
  - c) Statement of the cost of leased assets, the movements involved therein, the accumulated depreciations and its involved movements, as well as the balances of assets accounts at the end of the period.
  - d) Profits and losses resulting from the operations of transferring the ownership of the leased assets to the Lessees during the financial period.
  - e) Any debtor or creditor amounts resulting from applying clause (6) of this standard.

### **Accounting Treatment In The Financial Statements Of The Lessee:**

11. The rental value due in respect of the financial lease Contracts shall be posted as expenses in the Income Statement of the Lessee during each financial period.

12. The expenses incurred by the Lessee for maintenance and repair of the leased properties, in conformity with the purposes for which they were provided, and according to the instructions handed thereto by the Lessor concerning the technical bases to be observed, whether they are prescribed by the Lessor, the supplier, or the Contractor, shall be posted in the Income Statement of the Lessee during each financial period.
13. If the Lessee uses at the expiry of the Lease Contract the right to buy the leased property, this property shall be registered as a fixed asset with the value paid for exercising the right of buying the property, as agreed upon according to the Lease Contract. The asset shall be depreciated over the remaining productive life estimated therefor according to the policies and the rates followed by the Lessee with regard to similar assets.

### **Revelation In The Financial Statements of The Lessee :**

14. The following shall be revealed in the financial statements of the Lessee :
  - a) Statement of the Leased Assets, providing it shall comprise the following :
    - Total contractual value of each asset analyzed into "Total Rental Value" and "Purchase Price".
    - Productive Life of the leased assets.
    - Annual rental value.
  - b) Break-down of the maintenance and repair expenses of the leased properties.
  - c) The Financial Lease obligations shall be analyzed according to their maturity dates, so that the dues to become payable over the next five financial years shall be expounded each separately, along with indicating the total amounts payable during the years following the fifth year.
  - d) Revealing any important financial conditions necessitated in the Lease Contracts, like potential obligations for renewing these lease Contracts, or using the right of choosing to buy the asset, and the potential lease payments.

## **Sale With Re-Lease :**

15. The Lessor may lease a property to a Lessee, while the ownership of such funds originally devolved to the Lessor from the Lessee by virtue of a contract the validity of which depends on concluding a Financial Lease Contract. In this case, the Lessee, in his quality as Seller, shall postpone any profits or losses resulting from the difference between the sale price and the net book value of the asset, in his books. This difference shall be depreciated over the period of the Lease Contract.
16. After the Sale Operation, and starting the validity of the Financial Lease Contract, the Lessor shall apply the provisions prescribed in clauses from 5 to 10, while the Lessee shall apply the provisions set forth in clauses from 11 to 14.

## **The Validity Date Of The Standard :**

17. This standard shall be applied to the financial statements which are prepared for the financial periods which end after 21/12/1995 (the date of promulgating the executive statutes of Law No. 95 of the year 1995 concerning the provisions of Financial Lease).

### **Explanatory Example**

This example shall not be considered part of the standard, but it has been attached to the standard to be like direction on the method of its application :

On 1 January, 1997, a lessor leased an asset having a value of 1 million Egyptian pounds, by virtue of a financial Lease Contract for a period of six years, against a rental value of 219 838 Egyptian pounds per annum. At the end of the contract period, the Lessee shall have the right to buy the asset for the amount of 100,000 pounds.

The estimated productive life of the asset was ten years, and the interest rate which the Lessor wished to use in this Lease Contract was 15% per annum. Applying this interest rate will result in an annual return during the contract period as follows :

	<b>In L.E.</b>
1997	117025
1998	101603
1999	38867
2000	63472
2001	40017
2002	13044

In applying clause (6) of the Standard, the revenue which the Lessor shall fix annually by using the above-mentioned rate, shall be as follows :

<b>Year</b>	<b>Amount Of Interest L.E.</b>	<b>Depreciation Installment L.E.</b>	<b>Earned Revenue L.E.</b>
1997	117025	100000	217025
1998	101603	100000	201603
1999	83867	100000	183867
2000	63472	100000	163472
2001	40017	100000	140017
2002	13044	100000	113044

The Account under settlement shall be the difference between the earned revenue and the rental value. It shall be demonstrated as follows :

<b>Year</b>	<b>Rental Value L.E.</b>	<b>Earned Revenue L.E.</b>	<b>Difference (Account under settlement) L.E.</b>
1997	219838	217025	2813
1998	219838	201603	18235
1999	219838	183867	35971
2000	219838	163472	56366
2001	219838	140017	79821
2002	219838	113044	106794
<b>TOTAL</b>			<b>300000</b>

Since the book value of the asset at the end of the contract period will become L.E. 400000, and assuming the Lessee, chooses to buy the Asset, he shall then settle the amount of L.E. 100000 as price for this asset, and the amount of L.E. 300000 representing the Account under settlement, shall be used in closing the Asset account, with the Lessor.

In reviewing the Journal entries which are necessary for applying this standard, we will find them to be as follows :

<b>Year 1997</b>		
From :	Leased Fixed Assets	100000
To :	Supplier	100000
From :	The Bank to the others	219838
	* Revenues	2170255
	* Adjustment of Lease Contracts	2813
From :	Profit / Loss Depreciation	100000
To :	Accumulated Depreciation Account	100000

<b>Year 1998</b>		
From :	The Bank to the others	219838
	* Revenues	201603
	* Settlement of Lease Contracts	18235
From :	Profit / Loss Depreciation	100000
To :	Accumulated Depreciation Account	100000
<b>And So Forth Until The Year 2002</b>		
From :	The Bank to the others	219838
	* Revenues	113044
	* Settlement of Lease Contracts	106794
From :	Profit / Loss Depreciation	100000
To :	Accumulated Depreciation Account	100000
From :	The others :	
	* The Bank	100000
	* Accumulated Depreciation	600000
	* Settlement of Lease Contracts	300000
To :	Leased Fixed Assets	100000

Assuming the Lessee does not choose to buy the asset at the expiry date of the Lease Contract, the Lessor shall proceed with studying the extent of possible benefit from that asset, and if it transpires that the asset cannot be of benefit, and that its junk value amounts to L.E. 40000 for instance, the entry shall be as follows in the book :



From the Others :	
- Accumulated Depreciation	600000
- Settlement of The Lease Contracts	300000
- Losses of Leased Fixed Assets	60000
- Junked Fixed Assets	40000
To :	
- Leased Fixed Assets account	1000000

**Decree Of The Prime Minister No. 3561/1996**  
**Concerning Financial Lease**

The Prime Minister;  
On thoroughly reviewing the Constitution;  
Investment Law as promulgated by Law No. 230/1989;  
Law No. 95/1995 concerning Financial Lease;  
The proposal of the Board of the General Authority for Investment;  
And following the approval of the Cabinet of Ministers;

***Decrees the Following :***

**Article : 1**

The financial lease activity as prescribed in article (2) of Law No. 95/1995 concerning financial lease shall be added to the fields and activities of domestic investment as prescribed in item (A) of article (1) in Investment Law as promulgated by Law No. 230/1989 in accordance with the rules and controls prescribed in Law No. 95/1995 referred to herein and its Executive Statutes.

**Article : 2**

The present decree shall be published in the Official Journal and shall come into force effective the day next to the date of its publication. .

Issued at the Cabinet Premiership on 18 Shaaban, 1417 (Hejira Year), corresponding to 29 December, 1996 (Calendar Year).

**Prime Minister**  
**Dr. Kamal Al Ganzouri**