

JESA INVESTMENT & MANAGEMENT CO., LTD.

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Potential Solutions for the Need of Available Liquidity in China

By Kyle J. Vershay & Pedro Wang – Jesa



The need for liquidity in business has many clear uses, and benefits a company in a countless number of ways. Below we piled together a few creative solutions to solve a business’s liquidity problems in China.

The first way to improve liquidity is through increasing your registered capital. While you need to get approval from the relevant bureaus through a specific procedure, this method of transferring funds does not require foreign-invested enterprises to pay taxes.

However, one negative aspect to note is that the amount of the petty cash that can be transferred from their capital account to their RMB Basic account is limited. Corporations are only allowed two transac-

tions a month of no more than USD 50,000 each, which totals USD 100,000 a month in transfers.

Below are the main steps needed for the proper approval:

Modify the Article of Association and make shareholder’s decision.

Send application documents to Ministry of Commerce for recording.

Apply to the Administrative of Industrial and Commercial Bureau and the Tax Bureau for a permit and get a new business license.

Update the registered information at the bank.

Update all the relevant certificates and licenses.

The estimated timing for the whole procedure is around **2.5-3 months.**

The second option is that you can apply for a loan through a local, Chinese bank. Much of this option varies based on the terms of different banks loan periods, interest rate etc. There are also a couple relevant laws and regulations regarding domestic loans listed below:

- Foreign-invested enterprises are permitted to accept guarantees from foreign shareholders when financing their businesses in China. They are also permitted to apply for RMB loans from des-

ignated domestic-funded foreign exchange banks by way of foreign exchange pledges.

- Foreign-invested enterprises in China are permitted to provide overseas assets from foreign investors as a mortgage to overseas branches of Chinese bank. The loan would be issued by overseas branches or domestic branches.

This information means that the main steps of the related procedure should be checked case by case. However, it is important to note that, generally, it's not very easy for a new foreign-invested enterprise.

Thirdly, loans from your foreign based parent company, or international banks can also provide sufficient capital. With this option it is important to differentiate from domestic loans, so your parent company must be based in another country, and that the International banks cannot have a local branch in China.

The benefits of this option are largely dependent on the limitations of the amount allowed for the international loan. The amount that the enterprise brings in as a foreign loan is also required to be transferred into China through the State Administration of Foreign Exchange. Also note that if an increase of registered capital is carried out, then the quota will increase consequently.

Tips regarding the relationship between Registered Capital and Investment Capital are:

- If the total amount of investment capital for the enterprise is below USD 3 million, the registered capital is 70% of the total investment;
- The total amount of investment for the enterprise is between USD

3 - 10 million, the registered capital is 50% of the total investment;

- The total amount of investment for the enterprise is between USD 10 - 30 million, the registered capital is 40% of the total investment;
- The total amount of investment for the enterprise is above USD 30 million, the registered capital is 34% of the total investment.

Lastly, a service agreement with the Head Office could solve liquidation issues. With a proper commission sales contract and a related invoice, foreign-invested enterprises could collect money as service fees from its Head Office. It is important to note that a 6% VAT and other additional taxes (0.72% on VAT amount due) are levied on the related service fees.

These four solutions can be very helpful when trying to increase a company's liquidity. However, it is important to consider the pros and cons of each option to make the best decision for your company.

Possibili Soluzioni per le Necessità di Liquidità Disponibile in Cina

By Kyle J. Vershay & Pedro Wang – Jesa

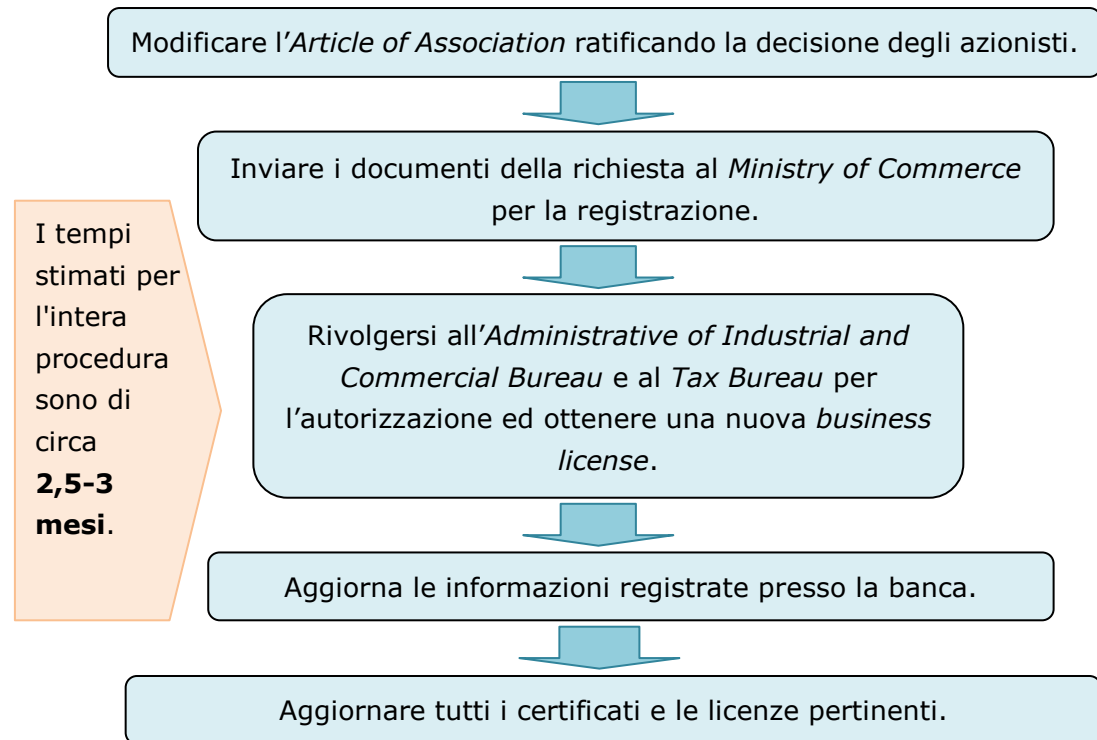


Il bisogno di liquidità negli affari ha funzioni precise e avvantaggia l'azienda in innumerevoli modi. Di seguito abbiamo raggruppato alcune soluzioni creative per risolvere i problemi di liquidità di un'azienda in Cina.

Il primo modo per migliorare la liquidità è aumentare il capitale sociale. Anche se è necessario ottenere l'approvazione dagli uffici competenti attraverso una procedura specifica, questo metodo di trasferimento dei fondi non richiede alle imprese a capitale straniero di pagare le tasse. Tuttavia, un aspetto negativo da notare è che l'importo del fondo cassa trasferibile dal conto capitale a quello in RMB è limitato. Alle società

sono consentite solo due transazioni al mese non superiori a USD 50.000 ciascuna, che ammontano a USD 100.000 al mese in trasferimenti.

Di seguito sono riportati i principali passaggi necessari per la corretta approvazione:



La seconda opzione è richiedere un prestito ad una banca locale cinese. Questa opzione è fortemente influenzata da variabili come i termini dei diversi periodi di prestito delle banche, i tassi di interesse, etc.. A tal

proposito da leggi e regolamenti emergono due principali linee guida elencate di seguito:

- Le imprese a capitale straniero sono autorizzate ad accettare garanzie dagli azionisti stranieri quando finanziano le proprie attività in Cina. Sono inoltre autorizzate a richiedere prestiti in RMB da specifiche banche valutarie finanziate con fondi nazionali a titolo di garanzia di cambio.
- Le imprese a capitale straniero in Cina sono autorizzate a fornire beni esteri di proprietà degli investitori stranieri come garanzia alle filiali estere della banca cinese. Il prestito sarà pertanto emesso da filiali estere o filiali nazionali.

Ciò significa che i passaggi principali di tale procedura dovrebbero essere verificati caso per caso. Tuttavia, è importante notare che, in generale, non è un'eventualità di semplice applicazione per una nuova impresa a capitale estero.

In terzo luogo, i prestiti dalla vostra società madre estera o dalle banche internazionali possono anche fornire capitale sufficiente. Per l'applicazione di questa opzione è importante distinguersi dai prestiti a carattere nazionale, quindi la vostra società madre deve essere localizzata in un altro paese e le banche internazionali non possono avere una filiale locale in Cina.

I vantaggi di questa opzione dipendono in gran parte dalle limitazioni dell'importo concesso per il prestito internazionale. L'ammontare che l'impresa intende introdurre come prestito estero è anche necessario che sia trasferito in Cina attraverso *lo State Administration of Foreign Exchange*. Si noti inoltre che se viene effettuato un aumento del capitale sociale, la quota aumenterà di conseguenza.

Consigli riguardanti la relazione tra Registered Capital e Investment Capital:

- Se l'importo totale del capitale investito per l'impresa è inferiore a 3 milioni di USD, il capitale registrato è il 70% dell'investimento totale;
- Se l'importo totale del capitale investito per l'impresa è compreso tra i 3 e i 10 milioni di USD, il capitale registrato è il 50% dell'investimento totale;
- Se l'importo totale del capitale investito per l'impresa è compreso tra i 10 e i 30 milioni di USD, il capitale registrato è il 40% dell'investimento totale;
- Se l'importo totale del capitale investito per l'impresa è superiore ai 30 milioni di USD, il capitale registrato è il 34% dell'investimento totale.

Da ultimo un contratto di servizio con la sede centrale potrebbe risolvere i problemi di liquidità. Con un adeguato contratto in termini di commissioni e una relativa fattura, le imprese a capitale straniero potrebbero raccogliere denaro come commissioni di servizio dalla propria sede centrale. È importante notare che un'aliquota IVA del 6% e altre imposte aggiuntive (0,72% sull'importo dell'IVA dovuta) insistono sulle relative tariffe di servizio.

Queste quattro soluzioni possono essere molto utili quando si cerca di aumentare la liquidità di un'azienda. Tuttavia, è importante considerare sia i pro sia i contro di ciascuna opzione per prendere la decisione migliore per la vostra azienda.

Part-Time: An Alternative to Full-Time Employment in China

By Alessandra Mischiati – Jesa

As an employer in the always changing Chinese market, it is extremely important to figure out the alternative ways to frame the labor relation with your staff, the most important asset of your company.

In some situations, full time employees are not always viable or necessary. If this is the case, part-time or temporary employees could be very useful resources.



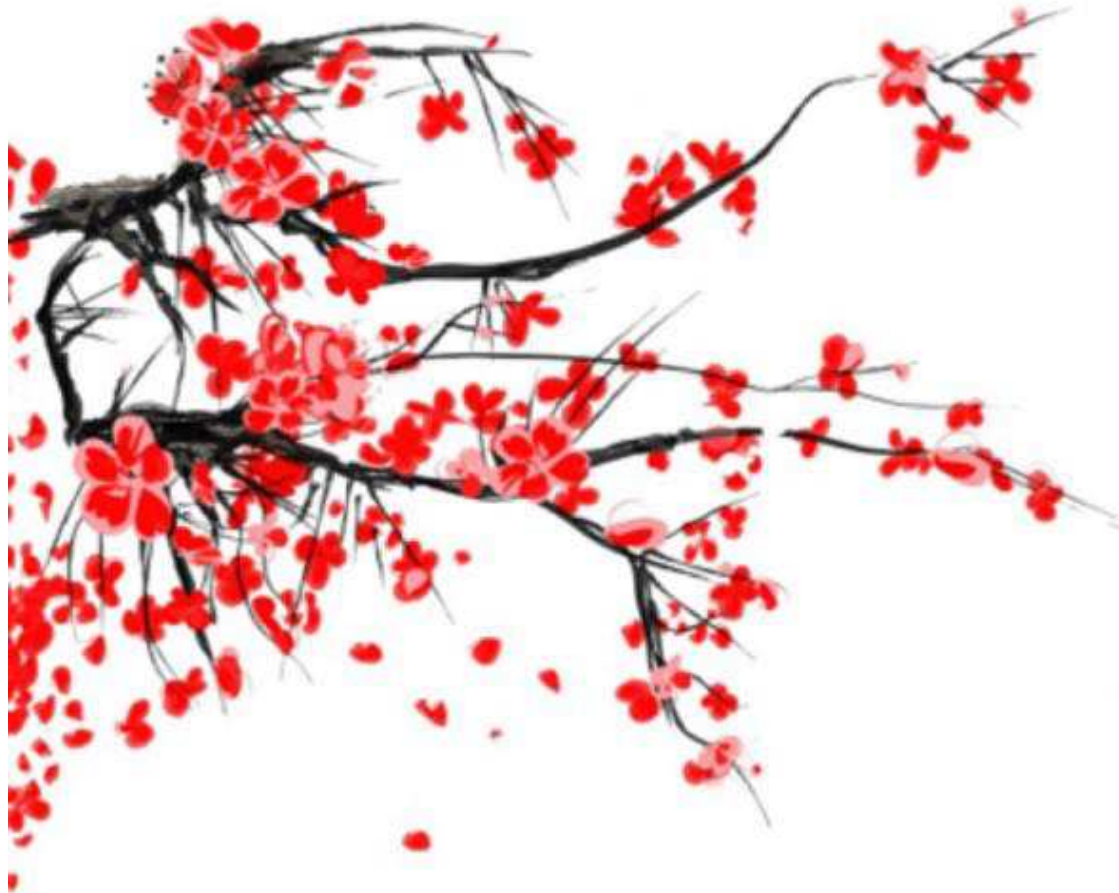
While there are some advantages of hiring *part-time employees* instead of full-time, there are a couple of reasons that stand out above the rest. First, there is no obligation for a written contract; second, the termination does not require any severance

payment. Additionally, the employer will not be required to pay related housing fund and annual leaves. This means that the employees get paid purely for their hours at work and only for the work they have done.

While this may be the best option for your business there are a few things to consider before deciding to commit to part-time employees. For example, part-time employees cannot work more than 4 hours per day and up to 24 hours per week. This means that their work time is extremely limited, and may be too much work for just one part-time employee. While hiring multiple part-time employees is an option, something to consider is that this could end up being more of a hassle and cost more money than hiring one full-time employee. The related IIT rates applied to part-time employees are not the standard ones applied for full-time employment.

Comparatively, among full-time employments, there are temporary and standard contracts. A *temporary employee* is someone you sign to work for you for less than one year. Contracts with duration less than 3 months do not require a trial period. Contracts with duration over 3 months foresee "1 month trial" minimum; while, the maximum trial period is defined according to the contract term (maximum equal to 6 months). Furthermore, the third time one contract is signed between employee and the same employer, the employee has the right ask for an open-ended labor contract.

In conclusion, the use of part-time employees should be done on a case-by-case basis.



Happy Chinese New Year

新年快乐

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