



“DOING BUSINESS IN MEXICO”

ERNESTO VELARDE DANACHE, INC
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INVESTING IN MEXICO

MEXICO: MORE FREE TRADE AGREEMENTS THAN ANY OTHER COUNTRY IN THE WORLD.

FOREIGN INVESTMENT LAW.

EXCEPT FOR SOME LIMITED ACTIVITIES UP TO 100% FOREIGN OWNED.

TRUE IN COMMERCIAL AND SERVICE SECTORS.

LAND OWNERSHIP BY FOREIGN NATIONALS.

OPTIONS TO START A MANUFACTURING OPERATION

A) MAQUILADORA

COMES FROM THE SPANISH WORD MAQUILAR MEANING “ TO PERFORM A TASK FOR ANOTHER”.

TEMPORARY IMPORTATION OF EQUIPMENT , MACHINERY, AND RAW MATERIALS.

PREDOMINANTLY OWNED BY FOREIGNERS.

ASSEMBLES OR MANUFACTURES PRODUCTS FOR EXPORT TO THE U.S., OTHER COUNTRIES OR MEXICO MARKET.

APPROXIMATELY 4000 MAQUILADORAS IN MEXICO (ELECTRONIC, AUTOMOTIVE, TEXTILE, ETC.)



B) SHELTER OPERATION

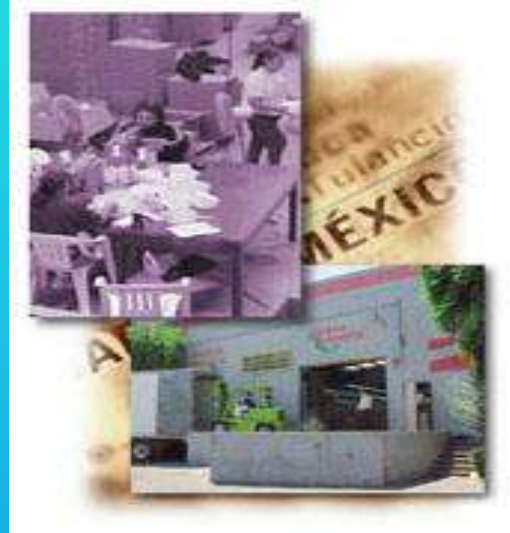
USE ESTABLISHED MANUFACTURERS

SHELTER HAS :

- * LICENSES
- * EMPLOYER
- * BUILDING
- * ADMINISTRATION

YOUR COMPANY WILL PROVIDE:

- * MACHINERY AND EQUIPMENT
- * TRAINING
- * QUALITY CONTROL (IF REQUIRED)
- * AFTER 2 YEARS MANY COMPANIES GO ON THEIR OWN.



REQUIREMENTS IN ORDER TO ESTABLISH A MEXICAN MAQUILADORA

1) INCORPORATION OF A MEXICAN COMPANY

1.1 OBTAIN A PERMIT TO INCORPORATE FROM THE MINISTRY OF FOREIGN AFFAIRS (SRE).

AFFAIRS (SRE).

NAME MAY BE TAKEN THREE (3) OPTIONS FOR THE CORPORATE NAME OF THE COMPANY.

1.2 DRAFT THE BY-LAWS (ESTATUTOS) OF THE COMPANY.

CORPORATION (S.A. DE C.V.)

**MINIMUM CAPITAL :
\$50,000.00**

PESOS.BOARD OF DIRECTORS SOLE ADMINISTRATOR

LIMITED LIABILITY (S. DE R.L. DE C.V.)

**MINIMUM CAPITAL: \$3,000.00
PESOS.BOARD OF**

**MANAGERS
SOLE MANAGER**

1.3 FORMALIZATION BEFORE A MEXICAN NOTARY. RECORDED BEFORE THE LOCAL PUBLIC REGISTRY OF COMMERCE.

1.4 PREPARATION AND ISSUANCE OF STOCK CERTIFICATES OR SOCIAL PARTS CERTIFICATES.

1.5 PREPARE THE CORPORATE LEDGERS OF THE COMPANY.



***NOTE: ONCE THE ABOVE IS ACCOMPLISHED, THE COMPANY MUST BE REGISTERED WITH SOME MUNICIPAL, STATE AND FEDERAL AGENCIES.**

2) TAX MATTERS (MINISTRY OF FINANCE AND PUBLIC CREDIT)

2.1 OBTAIN THE FEDERAL TAXPAYER REGISTRY NUMBER. TAX REGISTRY (“RFC”).



3) ENVIRONMENTAL ISSUES

3.1 IT IS NECESSARY TO OBTAIN APPROVAL FROM THE ENVIRONMENTAL AUTHORITIES.

3.2 TO SUBMIT AN ENVIRONMENTAL PREVENTIVE REPORT (DETAILED REPORT ABOUT THE OPERATION).

3.3 THE AUTHORITIES WILL VERIFY THAT THERE IS NO NEGATIVE IMPACT TO THE ENVIRONMENT AS A RESULT OF SUCH ACTIVITIES.



4) INTER-COMPANY AGREEMENTS

4.1 BAILMENT AGREEMENT OR COMMODATUM AGREEMENT FOR THE MACHINERY AND EQUIPMENT BROUGHT INTO MEXICO.

4.2 THIS AGREEMENT WILL PROVIDE PROTECTION TO THE EQUIPMENT OWNED BY THE PARENT COMPANY THAT IS SHIPPED TO BE USED IN THE MEXICAN OPERATIONS.

4.3 A MAQUILADORA AGREEMENT IS TO BE DRAFTED AND EXECUTED BETWEEN THE U.S. OR FOREIGN PARENT COMPANY AND THE MEXICAN MAQUILADORA.



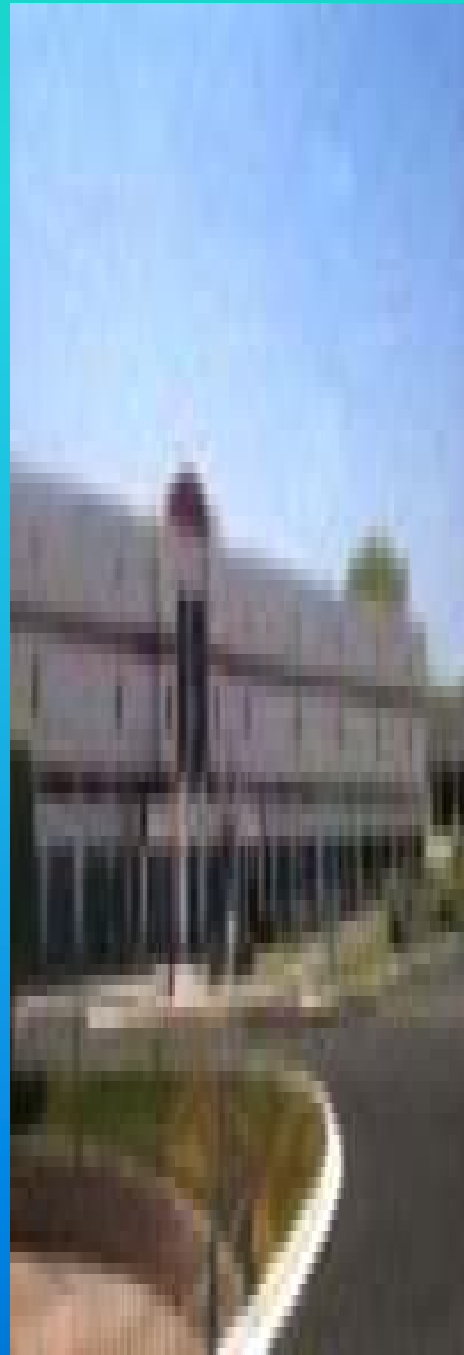
5) REAL ESTATE

5.1 NECESSARY TO DEMONSTRATE TO THE MEXICAN AUTHORITIES THAT THE COMPANY IS COMMITTED TO A PIECE OF REAL ESTATE THROUGH A PURCHASE AGREEMENT OR A LEASE AGREEMENT WHICH MUST BE EXECUTED IN SPANISH.

5.2 DUE DILIGENCE RECOMMENDED. CHECK TITLE.

- LIENS
- ENCUMBRANCES
- LITIGATIONS
- EASEMENTS
- ENSURE THAT THE PROPERTY IS IN GOOD STANDING.
- ALL REAL ESTATE TAXES PAID.

5.3 CORRESPONDING AGREEMENTS (LAND PURCHASE AND SALE, CONSTRUCTION AND SO ON) WILL HAVE TO BE PREPARED, NEGOTIATED AND EXECUTED.



6) LABOR MATTERS.

6.1 A COLLECTIVE LABOR AGREEMENT IS TO BE EXECUTED WITH ANY ONE OF THE LOCAL UNIONS WHEN EMPLOYING MORE THAN 20 WORKERS.

6.2 INTERNAL SHOP RULES.

6.3 INDIVIDUAL LABOR AGREEMENTS
(CONFIDENTIALS)

6.4 MEXICAN LAW DISTINGUISHES
TWO DIFFERENT CATEGORIES OF
WORKERS :

A) CONFIDENTIAL WORKERS

*ADMINISTRATIVE AND MANAGERIAL
TASKS*

B) UNIONIZED WORKERS

PERFORMING MANUAL WORK

6.5 THIS AGREEMENT IS REVIEWABLE
EVERY TWO YEARS.

6.6 THE PAYROLL, BY LAW, IS REVISED (INCREASED) EVERY YEAR.

- **MINIMUM SALARY:
APPROXIMATELY \$ 6.55 USD PER DAY
PLUS BENEFITS.**

6.7 WORK HOURS.

- * **48 HOURS PER WEEK.**
- * **OBLIGATION TO WORK OVERTIME (9 HOURS).**

6.8 VACATION PREMIUM.

6. 9 SUNDAY PREMIUM.

6.10 CHRISTMAS BONUS.

6.11 NO DISCRIMINATION.

6.12 PROFIT SHARING (10%).

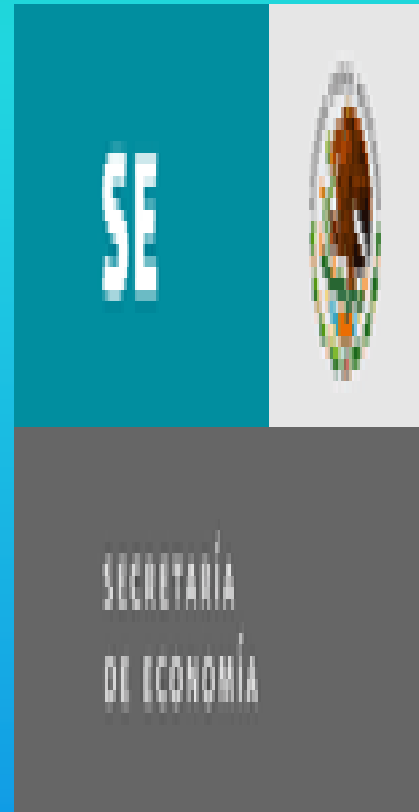
6.13 TRAINING (BY LAW).

7) WORKING VISAS

ALL FOREIGNERS WHO WISH TO CONDUCT BUSINESS ACTIVITIES WITHIN THE MEXICAN TERRITORY MUST HAVE A TEMPORARY BUSINESS VISA.

A) FMN OR FMVC (FOR 180 DAYS).

B) WORKING VISA FM3 (FOR ONE YEAR WITH A POSSIBILITY TO EXTEND SAID VISA FOR FOUR YEARS MORE).



8) FEDERAL AND STATE TAXES

8.1 FEDERAL TAXES THE INCOME TAX TO BE PAID IS BASED ON THE GREATER OF EITHER:

A) 6.9% ON THE TOTAL VALUE OF THE MAQUILADORA'S ASSETS USED IN ITS OPERATION.

B) 6.5% OF THE TOTAL AMOUNT OF ITS COSTS AND EXPENSES RELATED TO ITS OPERATIONS, WITHOUT THE RIGHT TO CHANGE FROM ONE TO THE OTHER.

C) APPLY FOR AND OBTAIN A DECISION FROM THE MINISTRY OF FINANCE AND PUBLIC CREDIT APPROVING A TRANSFER PRICING STUDY OR AN ADVANCED PRICE AGREEMENT (APA), TAKING INTO CONSIDERATION THE ASSETS USED IN THE MAQUILADORA OPERATION.

·NOTE: IMPORTANT TO REVIEW THE ALTERNATIVES SINCE ONCE CHOSEN, THE CHOICE CANNOT BE ALTERED.

8.2 STATE TAXES

A) IN THE STATE OF TAMAULIPAS, A STATE TAX KNOWN AS THE 2% TAX ON THE PAYROLL WHICH MUST BE PAID.

B) IT IS BASED ON THE COST OF THE TOTAL PAYROLL PER MONTH.

9) REGISTRATION BEFORE THE MEXICAN GOVERNMENTAL AGENCIES

9.1 THE MEXICAN INSTITUTE OF THE SOCIAL SECURITY (IMSS).

- * RISK CLASSIFICATIONS.**
- * DOCTOR'S ASSISTANCE, HOSPITALIZATION, PENSIONS.**

9.2 NATIONAL INSTITUTE FOR THE WORKERS HOUSING FUND (5%).

- *HUNDREDS OF THOUSANDS OF HOMES BUILT.**

9.3 IMPORTERS REGISTRATION.

9.4 THE SYSTEM FOR THE WORKERS SAVINGS FUND ON RETIREMENT.

9.5 NATIONAL REGISTRY OF THE FOREIGN INVESTMENT.

9.6 MUNICIPAL LAND USE LICENSE.

9.7 OBTAIN SANITARY LICENSE (IF APPLICABLE).



10) IMMEX (MAQUILADORA) APPLICATION.

10.1 THE APLICANT MUST PROVIDE THE FEDERAL GOVERNMENT WITH A LIST OF ALL THE RAW MATERIALS AND EQUIPMENT, SPARE PARTS, TOOLS AND COMPONENTS AS WELL AS THEIR CUSTOM TARIFF CLASSIFICATIONS.

10.2 THE CUSTOM TARIFF CLASSIFICATIONS SHOULD BE OBTAINED BY THE CUSTOM BROKER. NEED USA AND MEXICAN.

10.3 THE ESTIMATED NUMBER OF EMPLOYEES.

10.4 THE NAME OF THE PARENT COMPANY.

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