

JESA INVESTMENT & MANAGEMENT CO., LTD.

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Italy is not only Food and Fashion

Speaking about Italy, people immediately think of fashion and good food. Although, Italy is much more than that, and this is the message that we want to communicate and to get across in China and worldwide.

The fashion industry counts on average 82.000 active enterprises (Cribis Industry Monitor), generating in 2017 €78 billion in revenues, of which 51 come from export activities, employing 500 thousand workers.

For the food industry, according to Istituto di Servizi per il Mercato Agricolo Alimentare ("ISMEA"), the total value of the food industry in 2017 was 61 billion euro, food companies are overall (agriculture, food and catering) 1.3 million and the employed in the sector are 1.4 million, equal to 13% of the total of people who have a job in Italy.

However, there are under-valuated sectors which have relevance on Italian GDP. The most valuable "Made in Italy" includes the Automotive, Aerospace, Medical, Manufacturing and Defence System sectors; but there is no awareness on foreign countries and sometimes even in Italy.

The Automotive and Mechatronics Industries

On average, in 2017 metalworking production increased by 2.9% compared to 2016 thanks to the good results achieved by metal product manufacturers (+ 4.2%), machinery and mechanical material (+ 3.2%) and motor vehicle production (+ 6.6%). The mechatronic sector includes the fields of robotics, electronics, computer science, telecommunications, product engineering and all the sectors related to *mechanics* and *electronics*.

The Italian automotive sector continues to record a solid trend supported by domestic demand and a good dynamism of exports.

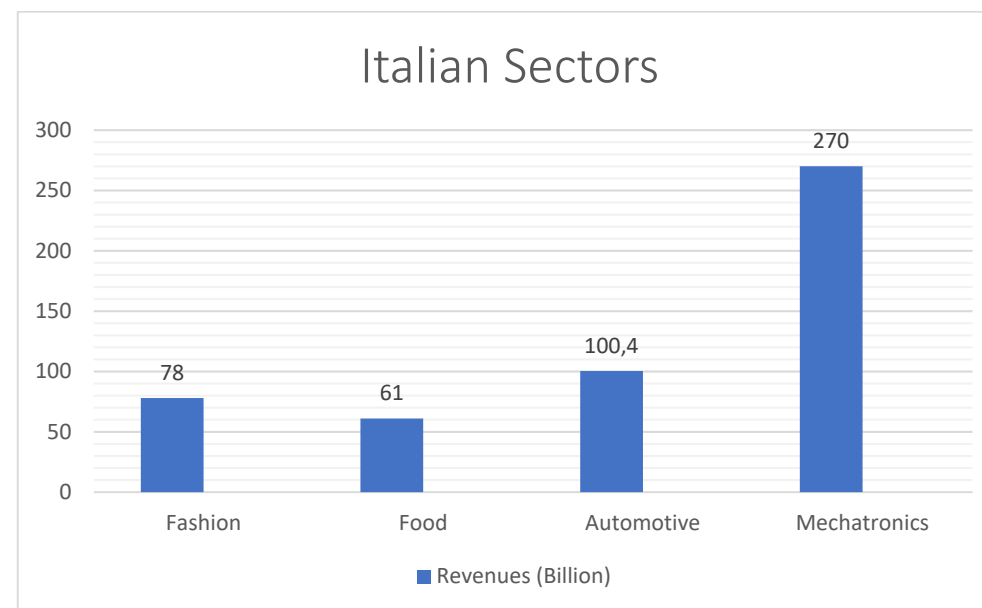


Figure 1 – Profitability of Italian biggest sectors. Data retrieved from ISMEA, Cribis, ANFIA, IFR. (2017-18)

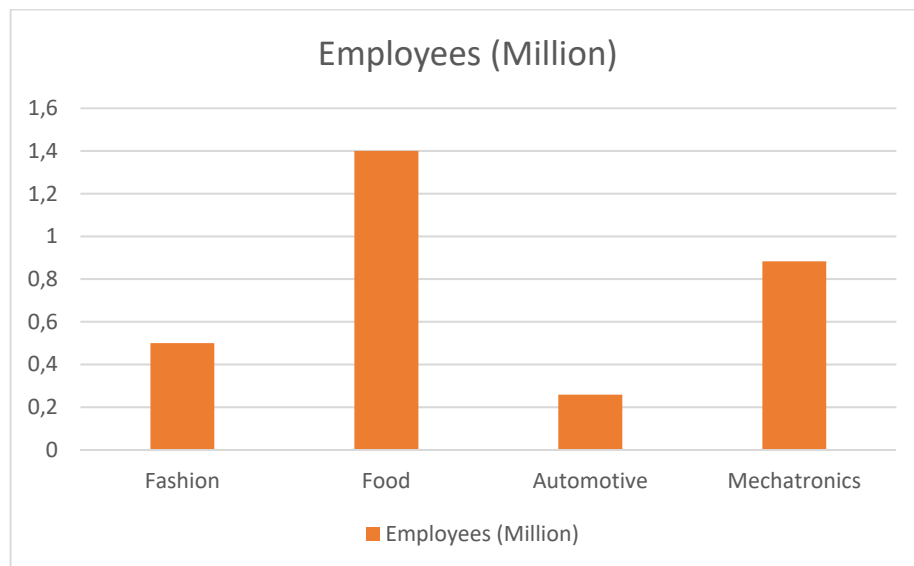


Figure 2 – Employed people in the most relevant Italian sectors. Data retrieved from ISMEA, Cribis, ANFIA, IFR. (2017-18)

Furthermore, Italian companies are now more than ever investing on on-board technology and electric vehicles.

If we look at the numbers, according to the 2018 Associazione Nazionale Filiera Industria ("ANFIA") report, the Italian automotive supply chain employed 258 thousand workers, making up a total of approximately 7% of the manufacturing industry employees. Taking into account both direct and indirect production activities, the turnover of the motor vehicle sector accounts to 10.5% of the total turnover of the manufacturing industry and 5.6% of GDP. Overall, in 2018 the automotive sector generated a turnover of over 100,4 billion euros. This economic sector has been a positive reality in the Italian trade balance for more than 20 years.

Trend trimestrale 2018

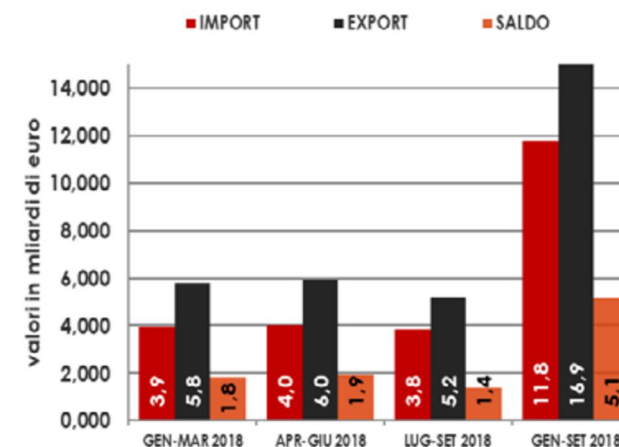


Figure 3 – Quarterly trend of automotive sector. Source: AFIA and ISTAT, 2019.

This means that only the Italian automotive sector makes up higher profits than the worldwide-known food one.

Indeed, to date, Italy ranks as the 14th largest exporter of motor vehicles in the world, reaching 22.4 billion euros in exports (up 5% compared to 2017). International markets are a fundamental point of reference for Italian industry, given that 65% of production is destined to export. The trade balance recorded a positive trend of around 6.8 billion euros, an increase of 17% compared to 2017. The Italian automotive sector clearly has a high potential and can be considered as an excellence, but with large room for improvement on foreign markets, especially in China.

Overall, Italian automotive exports maintained a positive trend during 2018, despite a significant decrease due to the negative influences

that global markets are experiencing: at the end of 2018 there was a drop in production of 2.3%. (Anfia 2018)

As a matter of fact, in 2017, according to the China Association of Automobile Manufacturers (CAAM), over a total of car sales of 28.8 million vehicles, the most popular automotive brand in China was the German Volkswagen with \$3.14 million sales and a market share of 13%, selling in China 3.139.120 cars. Volkswagen operates on the Chinese ground since 1980, progressively building its brand identity. The second place is held by Honda, with \$1.42 million sales, with an increase of 18.5% in comparison with the previous year.

The Italian presence can be seen with Fiat and Jeep. The Fiat Chrysler Automobiles Group has drastically reduced the vehicle production and sales in China of the Fiat brand, for the benefit of Jeep. Fiat decreased in 2017 by 82.6% to only 2,276 cars registrations, while Jeep has soon reached the 202,901 units sold in the country. Even if sales of Jeep Cherokee, Renegade and Compass witnessed a positive trend, the gap with the German Volkswagen is still huge. (Figure 4)

In addition to the industries above, the Made in Italy in the world is represented by a new field of excellence: robotics. The European Commission indirectly admitted it, by launching Horizon 2020 and financing 17 projects related to technological innovation, 5 of which will be led by researchers from Italy.

Italian robotics in 2017 approached the production of 8000 units, presenting a 19% growth rate, higher than Japan, twice as much as compared to Germany, triple compared to the United States. The preliminary data of the International Robotic Federation (IFR) highlighted a decisive step for industrial automation in 2017, with our country playing a leading role.

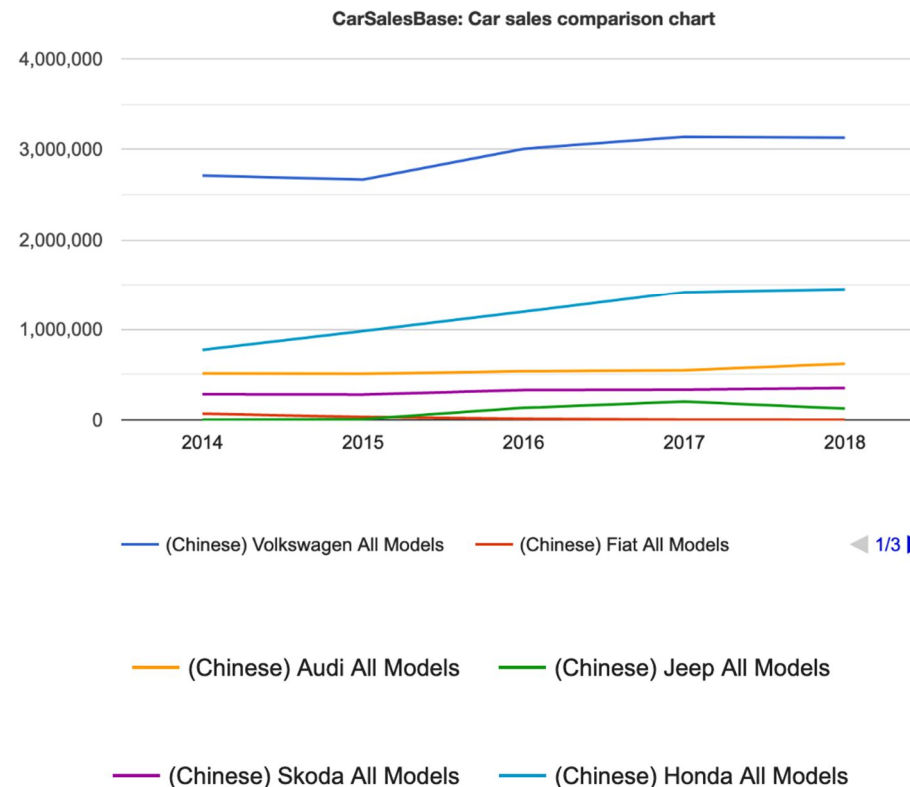


Figure 4 - Sales of cars in China. Source: carsalesbase, CAAM, chooseauto (2017)

The overall turnover of Italian mechatronics from 2015 to 2017 increased by 42% and has exceeded 270 billion euros. In the same period, employees have grown to 883 thousand (+ 24% compared to 2015). Despite these data, there is no awareness on foreign countries on this potential in our country. The cross-border image and perception of Italy is still mainly linked only to Fashion and Food.

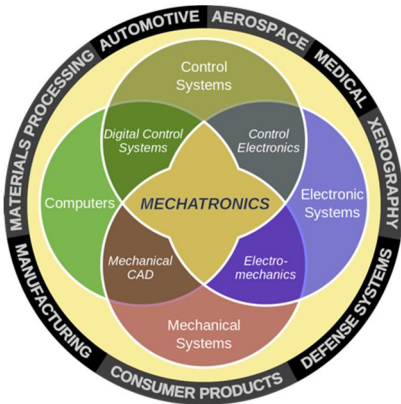
When talking about automotive, for instance, Chinese consumers only think about Germany as the real holder of expertise.

So why mechatronics expertise does not reflect the Italian's image among the international community?

This happens because, when Italian entrepreneurs expand international, they tend to continue pushing on overseas markets, well-established sectors which are already benefiting from a high consumer awareness.

Nowadays, Italy needs to value more its leading industries such as Automotive, Aerospace and Robotics. Facing more than ever the competition and establishing a real image of the country, able to properly reflect all its excellences.

Too often, Italian companies come to China attending exhibitions and events but without having the proper follow-up and structuring strategy, salient condition for gaining attention in China. When going international, enterprises need to be present on the foreign market by providing a complete assistance and guidance in the establishment of a direct worthy business relations. In order to penetrate a market like the Chinese one, an internationalization strategy is fundamental: China is bigger than the entire Europe both in terms of geographical surface and of economic relationships with the hundreds of thousands of active enterprises.



If we analyse our competitors, German, French and Dutch, their companies are present in China since more than 40 years and with more than one establishment. (Bosch for instance, has more than 60 establishments all over China).

What still needs to be done in China?

Italian companies trying to penetrate the Chinese market should adopt a long-run-business-idea which involves a high adaptability to its ever-changing environment. This involves the tailoring of a strategy which takes into account consumers' behaviour and preferences, in order to subsequently plan a long term investment scheme, thus showing to the Chinese audience that the company is willing to be present in the country. Indeed, one of the most important steps is to establish a direct on-place structure, providing assistance, training, customer service, marketing activities, and digital penetration.

In our opinion, Italy should diversify its resource allocation rather than focusing mainly on fashion food and wine, which have made Italy's image so far.

Let's address the limited resources in letting China be aware and perceive the Italian expertise and Know-How in technological sectors. Attending to some events and exhibitions is no longer enough.

Therefore, it is very positive to have broken through in China thanks to fashion (unfortunately, regarding the food sector we are still far behind France and Germany with a ridiculous export share compared to our potential), but we cannot waste time, so we should put China on top of our agendas and opportunities to be seized.

EU – China Aviation Agreements signed on May, 20th



On May 20th 2019, China and the European Commission signed two milestone agreements on civil aviation, marking an important step to implement the consensus reached by leaders from both sides during the China-EU Summit held in April in Brussels.

The two agreements are <Agreement on Civil Aviation Safety between China and the European Union (EU)> and <Agreement between China and the EU on Certain Aspects of Air Services>.

The main objective of the bilateral civil aviation safety agreements is to support worldwide trade in aircraft and related products. These agreements will remove the unnecessary duplication of evaluation and certification activities for aeronautical products by the civil aviation authorities, and therefore reduce costs for the aviation sector. They

will also promote cooperation between the EU and China towards a high level of civil aviation safety and environmental compatibility.

Currently, the two biggest Airworthiness Certification Institutes in the world are the Federal Aviation Administration (FAA) and the European Union Aviation Safety Agency (EASA). Aircraft shall be approved by these two institutes if approaching the European and the American Market.

China keeps promoting the signature of the airworthiness agreements between China and EU for further cooperation.

Background:

The traffic between the EU and China has doubled to 10 million passengers in 10 years (2008-2017) with an annual growth rate of 6.7% (source: Eurostat). This puts China at 10th position (between Israel and Egypt) in the list of biggest extra-EU partners. In air freight, China is the second most important extra-EU partner (US being the 1st) with 1.5 million tons, growing annually over 9% in the past 5 years (source: Eurostat).

In 2019 over 30 airlines are connecting EU to China offering a choice of 84 city pairs, 475 weekly return flights and over 270,000 weekly seats. Also over 110 weekly return freight flights ensure the flow of goods.

Both, Chinese and foreign resident taxpayers are required to submit information for itemized deduction claims to their tax bureau or withholding agent – and taxpayers will also be held responsible by the authorities for the accuracy of their provided documentation.

Referring to the 'Five-year Rule' for non-resident taxpayers, the current implementation still allows to only pay IIT on the income derived from enterprises inside China, granted that they receive the

approval of the competent tax authority, but it is not confirmed yet till when.

China Changes Pre-packaged Food Label Regulation

On April 23, the General Administration of Customs of the People's Republic of China released a *Notice on Matters of Import and Export Pre-packaged Food Label Inspection, Supervision and Management* which will change national custom requirements for imported pre-packaged food starting October 1st, 2019. Overall, stricter responsibility is placed on importers.

The main information is as follows:

- (1) Starting from October 1, 2019, following the examples of Shanghai and Ningbo, filing requirements will be cancelled for labels of pre-packaged food that are imported for the first time. Label and sampling inspections will be carried out on all imports by customs.
- (2) Greater emphasis will be placed on the importer responsibility in examining whether the Chinese label of the imported pre-packaged food conforms to relevant laws, administrative regulations and national food safety standards. In case of non-conformity, the goods will be denied by customs.
- (3) Importers whose pre-packaged food is selected for on-site or laboratory inspection will have to submit the corresponding certification including the original and translated labels of the pre-packaged food, Chinese label samples, certification materials.

- (4) If the customs receives a report from the relevant department or a customer over an alleged violation of relevant regulation, further verifications will be pursued. In case of a violation, the importer will be punished in accordance with the law.



- (5) Pre-packaged foods destined to display, samples, embassies and consulates; subject to duty-free policy (except for offshore duty-free policy), or carried by passengers, mail, express, cross-border e-commerce, will still be subject to its relevant regulation.
- (6) The manufacturers to exported pre-packaged foods shall ensure the label of the goods is in compliance with the subsidiary regulation or contract requirement.

(7) From October 1, 2019, the following notices will be repealed: the Notice on Adjustment of Import and Export Food, Cosmetics Label Inspection System, the Notice on the Operation of the Label Management System for Imported Pre-packaged Food, the Notice Related to Implementation of Provisions on Inspection, Supervision and Management of Import and Export Pre-packaged Food Labels. Meanwhile, the previously filed label of imported pre-packaged food will become invalid at the same time.

These modifications translate the Chinese leadership's desire to place greater emphasis on importer responsibility, and to find a balance between extended, effective and customer-protecting controls and more business-friendly regulation.

Employee Non-competition agreement

In China, employers, going through the process of hiring, should pay attention while deciding to put in place non-competition agreements.

Under PRC Labor Contract Law, the non-competition agreement consists in the obligation of the employee "not to compete" with his/her previous employer after the termination of the labor contract. Concretely, this means that the employee who has signed this kind of agreements is not allowed to work for companies engaged in similar businesses, producing similar products or services.

Which are the most relevant information?

The non-competition agreement may apply to any employee of a company who has confidential obligations for instance according to responsibilities or duties; but, usually it concerns the top managers



and senior technical employees or workers who have been in contact with the company's sensitive information such as business secrets and trade secrets. The non-competition agreement enters into force upon the termination or dissolution of the labor contract and usually has a duration up of two years after the employment term.

It requires the employer to pay a related compensation to the employee. If the employer fails to pay it, the employee can stop abiding by the non-compete provisions. In case the compensation amount is not specified, it's the Court that determines the level of compensation. The company is recommended to include at least a term/word to set it as reasonable and to be greater than the local minimum salary level.

From employee's perspective, it shall be considered that a non-compete agreement is one of the cases based on which the employer is legally authorized to apply a penalty to an employee.

At last, still in terms of reasonableness, the geographic scope shall also not be underestimated as aspect to be covered in a non-compete.

How do normally employers act?

Many employers adopt an elective non-competition agreement in order to be able to decide, at the moment of termination, whether to enforce the provision or not. This happens because companies prefer to retain the option of deciding if the employee got hold any information that needs to be protected or not. The key aspect is to clarify to the leaving employee whether he/she will be required not to compete, by providing a written copy of confirmation/waiver in the original language and at the appropriate time, depending on the local China's employment laws.

Not to be misunderstood with Confidentiality agreement

The Confidentiality Agreement is focused on "disclose commercial secrets" therefore the duty of confidentiality remains valid a certain information is secret. While, Non-Competition is focused on "work for competitors" and can last 2 years maximum. Normally the confidentiality is a duty, no matter agreed in advance or not; while non-competition is a special agreement.

The Confidentiality Agreement does not require a compensation while, as it is mentioned above, non-competition agreement require it.

To conclude, clarity needs to be done regarding the non-competition agreement in order to avoid any claim or lawsuit by the leaving employee.

Comprehensive Plan of Reducing Social Insurance Premium Rates

The notice on the Issuance of the Comprehensive Plan of Reducing Social Insurance Premium Rates was published by the State Council on April 1st 2019, aimed at reducing the burden weighting on small and medium-sized enterprises.



It's confirmed that four following measures are to be implemented starting from May 1st 2019:

- 1) The employers' contribution rates to the basic employees' pension insurance premiums in urban areas (including the basic employees'

pension insurance premiums in enterprises, Party and government offices and public institutions, hereinafter referred to as “basic pension insurance”) are to be decreased from 20% to 16%.

- 2) The unemployment insurance premium maintains the staged decrease, meaning that the unemployment insurance contribution premium will be adjusted to 1% (0.5% for employer and 0.5% for employee), during the period from May 1st 2019 to April 30th 2020.
- 3) The work-related injury insurance premiums maintain the staged decrease, meaning that the employers' contribution premiums to the basic employees' work-related injury insurance premiums will be adjusted to 0.16% - 1.52%, during the period from May 1st 2019 to April 30th 2020.

In 2019, Enterprises' Back-pay Security Funds will continue to be suspended.

In the meantime, according to the requirements of the Central Government, the average salary of employees in urban areas will be weighed with the average salary of employees in private enterprises and the average salary of employees in non-private enterprises. The upper and lower limits of the social insurance individual payment base will be determined according to that amount.

After the implementation of the above-mentioned measures, the burden of employers' contributions of social insurance will be significantly reduced. Also it will ensure that the social insurance benefits of the insured employees are not affected and will be paid in full and on time. This is one more action taken by China in order to stimulate the economy.

Annual Reports and Disclosure System in China

Currently, there are two annual inspection systems for enterprises in China:

- Annual Reports and Disclosure System “企业年度报告公示制度” (known as Annual Inspection in the past) for all enterprises registered in China Mainland;
- Reporting of Annual Investment of Foreign-Funded Enterprises “外商投资信息报告制度” which will be implemented officially from January 1st 2020 in accordance with Foreign Investment Law of the People's Republic of China.

As June-end is approaching, we take the chance to briefly describe the current Annual Reports and Disclosure System to you, focusing on Foreign-Funded Enterprises.



What is the Annual Reports and Disclosure System?

In brief the objective is to supervise the enterprises through the Joint Reporting of Annual Investment and Operations of Foreign-Funded Enterprises “外商投资企业年度投资经营信息联合报告”.

Which foreign-funded Enterprises companies shall do it?

All foreign-invested enterprises, including wholly foreign-owned enterprises (WFOEs), joint ventures (JVs), foreign-invested commercial enterprises (FICEs) and Representative offices (ROs).

Which authorities are involved?

The related involved government authorities are:

- 1) Ministry of Commerce (MOFCOM);
- 2) Ministry of Finance (MOF);
- 3) State Tax Administration (STA);
- 4) State Administration of Foreign Exchange (SAFE);
- 5) National Bureau of Statistics (NBS).

What is the deadline to submit the documentation?

The enterprise shall proceed with the application as soon as it receives the Annual Audit Report released by a CPA-approved external accounting firm. The deadline to submit the required documentation for 2019 is June 30th.

If the company fails to submit it, are there any consequences?

If a foreign investor or a foreign-funded enterprise violates the provisions of the Law and related regulations, and fails to submit investment information in accordance with the requirements of the reporting system, the Commercial Departments shall order it to make

corrections within a time limit. Those who fail to make corrections within the time limit shall be fined between RMB 100,000 and RMB 500,000.

Notice on Corporate Income Tax Policy for Integrated Circuit Production and Software Enterprises

On May 22nd 2019, the Ministry of Finance and the State Administration of Tax published < Notice on Corporate Income Tax Policy for Integrated Circuit Production and Software Enterprises>.

Its purpose is to support the development of integrated circuit (IC) design and software industry with a favourable policy for the related enterprises upon meeting the relevant detailed requirements.



The preferential period of the eligible IC Production and Software Enterprises shall be calculated from the profit-making year before December 31st, 2018. These enterprises will be **exempted** from the CIT **from the first year to the second year** of the preferential period, and pay the CIT at the reduced rate of **half of the statutory rate of 25% from the third year to the fifth year** until the expiry of the preferential period.

According to two additional notices released in the past, the <Notice on Issues concerning Preferential Corporate Income Tax Policies for the Software and Integrated Circuit Industries> and the <Notice on Corporate Income Tax Policies for Further Encouraging the Development of Software and Integrated Circuit Industries>, the eligible IC Production and Software Enterprises are defined basically as follow:

I “IC production enterprise” means an enterprise that takes the manufacture of monolithic IC, multichip IC and hybrid IC as its main business; I “IC design enterprise” means an enterprise that takes IC design as its main business; I “Software enterprise” means an enterprise that takes development and sales of software as its main business.

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