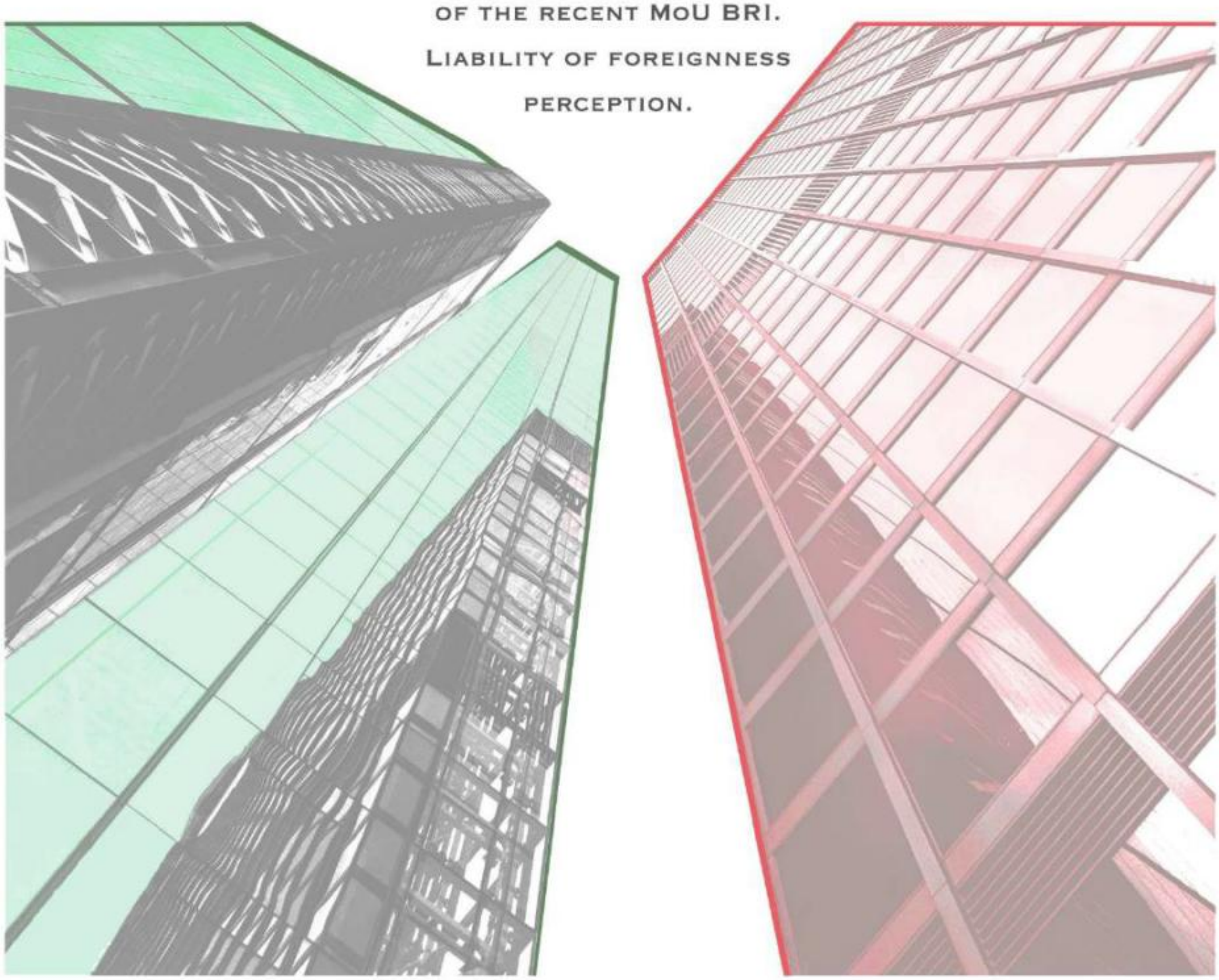
Camera di Commercio Italiana in Cina
中国意大利商会
China-Italy Chamber of Commerce

CICC BUSINESS SURVEY

2019 EDITION

A ROBUST BUSINESS COMMUNITY IN TRANSFORMATION. ESTABLISHED UPON MEDIUM-SIZED MANUFACTURING COMPANIES, WILLING TO KEEP THEIR INDUSTRIAL PRESENCE IN CHINA. SUFFERING IN REVENUE GROWTH AND DUE TO THE US-CHINA TENSION. INCREASING AWARENESS OF THE CHINESE STRATEGIC PROGRAMS MIC2025 AND BRI AND WITH POSITIVE EXPECTATION OF THE RECENT MOU BRI. LIABILITY OF FOREIGNNESS PERCEPTION.



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A. Foreword

A robust business community in transformation. Established upon medium-sized manufacturing companies, willing to keep their industrial presence in China. Suffering in revenue growth and due to the US-China tensions. Increasing gross profit margins. Increasing awareness of the Chinese strategic programs MIC2025 and BRI and with positive expectation of the recent MoU BRI. Liability of foreignness perception.

This second edition of the CICC Business Survey is your chance to follow the changing dynamics within the Italian business community in China, with the new opportunity to compare these Survey findings with the results published in the previous edition (September-December 2018).

As CICC Chairman, I am particularly pleased to highlight the large participation of our Members to this 2019 edition of the CICC Business Survey. This significant responsiveness to the activity of the Chamber rewards our commitment and spurs us to further advance our dedication.

The results of the document you are about to read in the following pages are shared with the most relevant institutional and business in China to draft an eco-systemic strategy which aims at a more balanced and structured action in the Chinese market. It is a mandatory reading for whoever wishes to be up-to-date with the latest developments on the state of the art of the Italian business community in China.

This 2019 CICC Business Survey proves two characteristics inherent to the Italian business community that are eventually mirrored in the China-Italy Chamber of Commerce: bravery and ambition. The bravery to challenge ourselves asking our own Members an open feedback on our activities, which are met with increasing satisfaction. It is remarkable that our current and former Members stress the importance of our seminars and training activities as well as the networking events.

CICC had the ambition to craft this fostered second edition, which offers in-depth insights on the Italian business presence in China. Despite time constraints and limited resources, this edition presents an enhanced, more detailed, and more structured picture of its challenges and achievements in the country.

Davide Cucino
China-Italy Chamber of Commerce Chairman

B. Disclaimer and methodology

- *CICC 2019 Survey, strictly anonymous across all the phases, was carried out in May/June 2019. In that period CICC accounted 384 affiliated, 359 Members (259 ordinary, 88 supporting, 12 young professionals – vs. 482 during the 2018 Survey), and 25 Friends of CICC (vs. 30 during 2018 Survey).*
- *Questionnaire has been sent to 929 contacts (CICC Members and past Members) vs. about 3.000 in 2018 and got 206 total answers (vs. 265 in 2018 Survey) whose 94% completed (vs. 64% in 2018).*
- *Total redemption of total answers and completed answers in 2019 have been higher than in 2018: total answers worth 53,6% on total affiliated (Members + Friends of CICC) vs. 51,8% in 2018, while completed answers worth 50,3% on total affiliated vs. 33,2% in 2018.*
- *The number of contacts has been lowered vs. the Survey's 2018 to increase the quality and reliability of the results.*
- *Main Survey's objectives were to:*
    - *Profile the Italian Business Community and CICC Members/non-Members and better understand business and industrial base, business performance, and preliminary sentiment;*
    - *Get the relevant position from Italian community (Members and non-Members) about CICC services quality, performance, requests and overall feedback to get overall CICC improvement and services enhancements.*
- *Survey structure and number of questions (59) have been kept within sustainable limits focusing on the most relevant information and data to get a first and preliminary profiling and sentiment. Hence, we have been forced to quit several questions (in some cases very meaningful for a deep understanding of the sentiment and outlook) about business and overall sentiments in China.*
- *We have structured the Survey to keep track of sentiment evolution vs. 2018 and start monitoring the evolution along the years. We also took into consideration other relevant Business Surveys sentiment (e.g. EUCCC one), to be able to possibly compare results and make considerations about the Italian business community peculiarities.*
- *It has been confirmed to keep using English language to allow also non-Italian respondents to participate and to facilitate tabulation and results elaboration. Bilingual adoption has not been pursued for costs and significant work overload reasons.*

C. Executive Summary

Cross-section business entities are substantially aligned with 2018, while in sectors there is a slight decrease of Manufacturing and significant increase of Services. In 2019, over 60% of respondents WFOEs, similar with 2018, 83% respondents are residents in China, excluding Chinese nationals.

Majority of companies represented in the Survey are in Manufacturing and Service sectors, which accounted for 50% and 40% of all respondents respectively, although Manufacturing slightly decreased while Services significantly increased. Also, Trade/Retail decreased in representativeness: less than 9% respondents operate in the Trade/Retail sector from over 12% in 2018. Less than half respondents report having plants in China, with about 38% having 1-2, about 3% having 3-5, and about 4% having more than 5.

2019 cross-section China seniority is comparable with 2018 edition, although slightly increased: 60,8% with >10 years in 2019 vs. 56% in 2018. Respondents' seniority in China is very significant and comparable with 2018 edition, although increased. Cross section respondents with more than 10 years in China increased to 60,8% vs. 56% in 2018.

Respondents' geographical concentration is similar to 2018 edition (89% concentrated in Shanghai, Guangdong, Jiangsu and Beijing): Shanghai (43%), Guangdong (17%), Jiangsu (17%) and Beijing (11%), representing 89% of total vs. 68% in 2018 edition.

Average size (employees) of respondent companies has increased vs. 2018, both in China and worldwide, with significant increase of medium/large companies (> 100 employees in China), while % of companies with less than 100 employees in China dropped to about 64% from 72% last year. About 41% of companies have over 1000 employees worldwide, increased from 31% last year: among those about 40% have less than 100 employees in China, decreased from 46% last year. In 2019 percentage of micro-size companies (companies with less than 15 total employees) decreased to about 18% from 26% from last year.

Cross-section dynamics in sizing is also confirmed by considering turnover in China and globally. About 58% companies' revenues in China in 2018 are less than 10 million EUR, decreased from about 62% last year (referred to as 2017's revenue). About 42% companies' global revenues of 2018 are more than 200 million EUR, increased from about 35% last year (referred to as 2017's revenue). The only segment decreased in 2018 revenues representativeness vs. 2017 is the 50-200 Mio EUR, suggesting existence of business performance issues for medium/large companies in China. Italian large MNCs seem to be still underrepresented in China in terms of turnover generation vs. global business. Italian MNCs with over 1 bn EUR/year turnover worldwide still have turnover in China underrepresented: only about 50% of them generate a turnover in China > of 50 Mio EUR/year. Also, medium/large MNCs (200-1000 Mio EUR/year) seem to have a limited turnover generated in China; only about 23% of them generate a turnover higher than 50 Mio EUR in China.

Business Performance

- ***General growth slowing down in 2018 vs. 2017, with manufacturing hit the most. Despite that, overall gross margins (EBITDA and EBIT) rose in 2018 vs. 2017. China companies' profitability has been higher than mother companies.***
- ***Export dynamics from China confirm a significant segment of companies still approaching China with a "delocalization aim".***
- ***E-commerce is still a marginal channel for the majority of companies.***

Majority of companies considers China a strategic market for covering internal demand and growth, although at least 10% continue to consider China for achieving cost leadership.

Although the majority of companies (85%) considers China a strategic market, still about 10% of respondents claim cost reduction a priority for being in China. In spite of this direct declaration, a deeper analysis on exports from China to Italy suggests that the percentage of companies still considering China a market for delocalizing is higher and close to 30%.

Although the number of companies with very positive revenue performances in China still accounts for more than 50% (56%), it dropped from last year (65%), while number of companies with same or decreased performance rises. Companies declaring an increase in revenues dropped from 68% in 2017 to about 59% in 2018, while companies claiming a revenue decrease increased from 14,1% in 2017 to 19,5% in 2018. In 2018 Services is the sector with the best business performance (75,9% with increase), while in Manufacturing more than 30% of companies claim a turnover decrease, Trade/Retail performance is healthy, with 71,5% of companies declaring a turnover increase.

Growth slowdown in China mainly for Manufacturing reflects mother companies' trends, although with different dynamics: mother companies with exceptional revenue increase rose, while the ones with fair increase declined.

Companies' EBITDA and EBIT in China in 2018 have significantly improved vs. 2017, although overall positive performance remained unchanged. Overall cross section positive EBITDA in China remained unchanged in 2018 vs. 2017, although the average EBITDA in China increase vs. previous year significantly improved: 17,6% claim EBITDA in China >20% vs. 7% last year. Services is the sector with lower EBITDA in China increase in 2018 vs. 2017, despite the revenues increased significantly. Same dynamic is claimed for EBIT in China, where cross section claims for an EBIT increase in 2018 vs. 2017 has been 11,2% vs. 5,6% in 2017. EBITDA and EBIT performance improvement in 2018 vs. 2017 in China is confirmed also for mother companies although the improvement is weaker than in China. Compared to mother companies' business performance worldwide, China seems to have performed better in 2018 vs. 2017, both for EBITDA and EBIT. Trade/Retail mother companies seem to have a weaker increase performance than Chinese companies, while Manufacturing and Services are aligned.

The number of companies exporting from China is slightly increased vs. last year (43,7% vs. 38,2%), while about 32% of total respondents with facilities in China seem to adopt a "relocation" business model, exporting more than 25% of their production to Italy (about more than 50% of them exporting more than 50% to Italy).

E-commerce is still a marginal component for the high majority of respondents (78,5%). Also, Trade/Retail sector still seems not to cover the channel with conviction. Not surprisingly, Trade/Retail sector is the one using e-commerce more intensively, although only 40% of respondents claim e-commerce generates >50% of revenues, 80% of Trade/Retail use e-commerce generating at least 10% of revenues.

R&D, Innovation and IPR

- ***Majority of companies do not have a R&D Center in China. Large companies have higher share but still less than 50% of them have a R&D Center in China, hence the number of registered patents and utility models in China is negligible.***
- ***IPR is perceived as an issue for half the respondents, although less than 1/4 suffered infringements. Vast majority of disputes have been successful.***

At least 3/4 of respondents claim not to have an R&D center in China. Manufacturing has the highest share although only 1/3 of companies have an R&D center in China, while about 9% declare to have planned to open at least one shortly. Large companies have the highest share of R&D centers, although only about 40% of them have an R&D center in China.

Only about 1/4 of respondents declare to have registered a patent/utility model over the past three years in China with large companies only slightly more innovative than SMEs. Still 2/3 of large companies and 3/4 of SMEs have not registered any patent/utility model in China over the past three years. Out of companies that registered patents/utility models over the past three years, more than 40% claim 1-3.

IPR is perceived as an issue in China by 50% of companies, although less than half of these have experienced infringements. 82,6% of companies that entered and finalized disputes have been successful. 22,4% of respondents have suffered IPR infringements (45% of whom consider IPR an issue for its business). [2019 EUCCC Survey reports 33% of EU companies have suffered IPR infringement in China (either frequently or rarely) under the question “Has your company suffered an infringement of IPR in China?”]. 82,6% of companies that entered a closed litigation have been successful.

Business Environment Sentiment (1/3)

- ***About 30% of respondents feel discriminated as a foreign company in China, mainly for admin issues and market access barriers (vs. 45% in 2019 EUCCC Survey). A very preliminary estimation outlines the lost revenues due to barriers for companies worth 12% of total revenues (estimated to 21 bn EUR for cross section), i.e. about 2,5 bn EUR have been claimed to be lost due to barriers.***
- ***Past years barriers and market access perception with no significant change, while outlook for the next five years is more optimistic than the past five years dynamics perception.***
- ***Forced technology transfer is not a hot issue for the vast majority (80%).***

- ***Labor costs increase and vague regulation environment are the highest concerns with actual impact on business performance.***
- ***MiC2025 still perceived positive in growth vs. 2018, although feeling of discrimination as foreign companies also increasing.***
- ***BRI very positively perceived with declared new business opportunities mainly for Services sector, with Manufacturing also declaring a negative impact, although limited.***
- ***US-China dispute affects the business of 46% of respondents, mostly in a negative way.***
- ***Recent China-Italy MOU on BRI is considered very positive by the majority of respondents.***
- ***No stringent financial issues.***

About 29% of respondents feel discriminated as a foreign company in China (less than the 45% of EUCCC 2019 Survey that feel unfavorably treated). About 70% of claimed discriminations come from admin issues and market access barriers. More than 1/3 of companies have missed opportunities due to market access and/or regulatory barriers. Services sectors is suffering the most with about 50% of respondents claiming missed business opportunities, followed by Trade/Retail with about 40% [2019 EUCCC Business Survey outlines 45% of companies claiming to have missed business opportunities (pg. 14 and 58)].

Claimed barriers have a negative impact on companies worth about 12% of total turnover, about 2,5 bn EUR lost in 2018. About 8-10% of companies claim to have missed more than 50% of potential revenues due to still existing barriers, with SMEs affected the most (14%), 2/3 of companies claim having lost significant revenues (>10%). Manufacturing sector is the most hit by the barriers: 75% of respondents claim to have lost >10% revenues due to the barriers. A very preliminary estimation outlines the lost revenues due to the barriers for companies worth 12% of total revenues (estimated to 21 bn EUR for cross section), i.e. about 2,5 bn EUR have been claimed to be lost due to the barriers.

Majority of the respondents (55,5%) claim the barriers have not significantly changed over the past years, although 1/4 declare the barriers have increased. Trade/Retail and Services are the sectors where the barriers are perceived to have increased over the past five years, SMEs have a worse perception than large companies.

Business Environment Sentiment (2/3)

Barriers and marketing opening future outlook for the next five years seems slightly more optimistic than the experienced past five years, with no major difference between large and SMEs, with "decrease" expectations at 22,2% higher than the 18,3% perceived over the past five years. Slight optimism is shared across sectors while large companies' outlook is less optimistic than SMEs.

Less than 20% respondents have faced technology transfer issues, consistent with that from EUCCC 2019 Survey (20% respondents chose “Yes” to the question of “Has your company felt compelled to transfer technology and/or trade secrets in order to maintain market access?”, where N=585). Out of the 20% companies claiming tech transfer issues, about 30% have been finalized while the remaining 70% haven’t.

New Environmental Protection Law (NEPL) have brought positive impacts to the majority of respondents although about 40% of Manufacturing and Trade/Retail companies claim a negative impact. Trade/Retail and Manufacturing claim about 40% of negative impact while NEPL have brought positive impact for 90% of Services companies.

Rising labor costs, vague or unclear regulations, and recent economic slowdown are the top 3 challenges in doing business in China. Challenges/obstacles have implied missed business opportunities for about 1/3 of companies, Manufacturing and Services the most. Among respondents that missed opportunities, more than 50% claim missed revenues > 10%, with about 16-17% of Manufacturing and Services claiming missed revenues higher than 20%.

Labor cost increase is significant for all sectors, with an average increase worth 5-10% a year over the past three years. About 70% of respondents declare an average yearly labor cost increase > 5% over the past three years, about 20% > 10%, more than 50% of Manufacturing and Trade/Retail companies claim an average increase of 5-10%, Services sector is the one where the increase is more even.

MiC2025 program is still perceived positively, in increase vs. 2018, although feeling of discrimination as foreign companies is also increasing. MiC2025 is still perceived as an opportunity for the majority of companies, number of "Very positive" or "Positive" increase vs. 2018. Despite the even better positive perception, the number of companies that feel discriminated as foreign companies has increased since 2018. Major reasons of the claimed discrimination are the difficulty to get incentives and barriers for launching pilot projects.

Positive perception vs. Belt & Road Initiative (BRI) is also increasing vs. 2018 ("Very positive/Positive" 55,3% in 2019 vs. 39,6% in 2018) with majority of companies claiming positive impact on their business. Services sector is the one with highest positive impact (74,2%), while Manufacturing is positive only for 39,2% and the only one where a negative impact is claimed. Among "Very Positive/Positive", >30% claim BRI opened new opportunities in Italy, about 20% new business in BRI countries.

46% respondents feel the ongoing US-China trade dispute is affecting their business, and mainly negatively – about 40% of total claiming impact on supply chain and export. The major impacts are negative due to disrupted supply chain and export decrease (87%, equal to 40% of total respondents). Only 9% report positive impact from the US-China trade dispute (similar to EUCCC Survey where about 4-5% respondents report positive impact to the question "What kind of impact is your company experiencing as a result of tariffs on goods produced in China/in the US?").

Business Environment Sentiment (3/3)

The recent MOU on BRI signed between China and Italy is considered to have positive impact to companies' businesses for more than 50% of respondents. Services and Trading/Retail sectors are the ones where the large majority of companies (70,5% and 66,7% respectively) show optimism.

Vast majority of respondents (94%) did not attend CIIE in 2018, 2% declare to exhibit in 2019. Among whom attended in 2018, 2/3 found business opportunities.

Financing the business in China seems not to be a stringent issue: 2/3 of companies' self-finance its business in China through generated cash flow, 24% from mother company and only 14% from bank loans. About 2/3 of companies requiring a better financial support (about 22%) seek bank system loans.

Business Outlook

- ***Outlook for future business in China is still optimistic for 63% of respondents although slightly less than in 2018 (64%).***
- ***More than ¾ of Companies will further invest in China over the next years, only 1% has decided to divest in China with no further investment plan. Delocalization from China to other low-cost countries involves only 3% of respondents.***

Outlook on China and global turnover in 2019 are moving consistently, with 63% optimistic, a slightly drop compared with last year's figures (64%). About 69% (vs. 71% in 2018) respondents are optimistic about their companies' global turnover outlook in 2019, expecting at least 5% increase. Over half respondents remain optimistic about China's overall business scenario in the next 5 years.

77% companies are planning to invest further in 2019 or in the next 5 years in China while only 2,1% decide to exit China, only 14% not investing in China will invest in other geographies. Almost the whole cross section (97,9%) doesn't intend to divest/exit China over the next years. Top reasons for halt further invest in China in short-term are to invest elsewhere in non-Asian countries, developed Asian countries or halt international investment overall, with 9%, 3%, and 3% reported respectively. About 14% of whom not having plans to invest in China will make investments in other geographies, about 5% in Asian countries. Less than 1% respondents report their companies decide to exit China.

CICC Services and Activities

- ***Majority of respondents are CICC Members.***
- ***Networking with other CICC Members and relationship with Institutions is the main reason for renewing Membership in 2019.***
- ***Working Groups are the pillars of CICC activities participated by about half Members, although still not all the Members are aware of the WGs (15%).***
- ***Seminars/webinars and Networking (including big events) activities are the most appreciated activities from CICC.***
- ***Expand service range/scope, enhance interaction among Chinese stakeholders, and enhance marketing/promotion facilitation are the top 3 aspects CICC could do better.***
- ***Overall satisfaction of CICC services slightly increased on average in 2019 (weighted avg. 6,53 in 2019 vs. 6,38 in 2019), while highest ranking (9-10) increased.***

About 95% of cross-section represent Members of CICC in 2018, among whom 73% are ordinary Members; 53% respondents are "recent" Members, registered after 2013, same as in 2018 Survey.

Networking with other CICC Members and relationship with institutions is the main reason for renewing Membership in 2019 for 23% of respondents as a single reason. Overall services, participation to Working Groups and Events/Seminars are reference choices for about 30% of respondents.

Working Groups are significantly participated by CICC Members (MEWG, EEPWG, HCWG at 40% of WG active Members), while about 15% of Members do not even know the existence of WGs. About 85% of CICC Members are aware of the existence of the WGs, while only half of Members actively participate. 15% of the Members do not know anything about the existence and activities of the WGs, while 9% used to participate but abandoned. More than 40% of Members participating to WGs (about 20% of CICC Members) participate to MEWG, EEPWG and HCWG. Majority (44,9%) of Members not participating to WGs claim lack of available time, about 20% do not know about WGs while about 25% do not find any advantages or their business not represented by any WG.

Seminars/webinars and Networking (including big events) activities are the most appreciated activities from CICC (65,5%).

Providing/facilitating business contacts and publications are considered the most valuable CICC services (38,4%), followed by promotion and communication management and HR related services (21,5%). Lack of interest for logistics assistance and admin services, and lack of knowledge of possible value brought by EUSME.

Expand service range/scope, enhance interaction among Chinese stakeholders, and enhance marketing/promotion facilitation are the top 3 aspects CICC could do better. Expanding services is the most shared request to CICC (30% of respondents). Significant call for major exposure toward Chinese stakeholders (19%) as well as enhancing marketing/promotion facilities (19%) are the second shared requests to CICC from Members.

Overall satisfaction of CICC services slightly increased on average in 2019 (weighted avg. 6,53 in 2019 vs. 6,38 in 2019), while highest ranking (9-10) increased. Respondents giving a score >= 8, increased vs. 2018 edition (34% vs. 30%), while respondents giving a score <= 3 remained substantially the same as in 2018.

D. Key Findings

Very successful participation to 2019 CICC Survey edition…

REDEMPTION

22,2% answers/contacts redemption (vs. 8,8% in 2019)

93,7% complete answers vs. total answers redemption (vs. 64,2% in 2018)

50,3% answers vs. CCIC members at survey date (vs. 33,2% in 2018)

COMPANIES AND SENIORITIES

61,4% WOFEs

50% manufacturing companies

60,8% respondents since more than 10 years (vs. 56,4% in 2018)

LOCATION

89% respondents headquartered in...

43,4% Shanghai

17% Guangdong

17% Jiangsu

11,5% Beijing

…with average responding companies size increased although large companies still underrepresented in China

SIZE (EMPLOYEES)

63,5% respondents with less than 100 employees in China (vs. 71,8% in 2018)

40,7% respondents belonging to global companies with more than 1.000 employees worldwide (vs. 30,9% in 2018)

SIZE (TURNOVER)

57,6% respondents with less than 10 Mio euros turnover (vs. 62,3% in 2018)

41,5% respondents belonging to global companies with turnover higher than 200 Mio euros worldwide (vs. 34,8% in 2018)

LARGE COMPANIES UNDERREPRESENTED

47,3% of companies with turnover higher than 1bn euros in China generate less than 50 Mio euro

"Very positive" revenue growth in 2018 vs 2017 in China decreased while number of companies with "same" or "decreased" growth rises, while EBITDA growth increased - R&D in China still marginal as well as e-commerce

REVENUE GROWTH IN CHINA

58,9% companies with very positive/ positive revenues growth in 2018 vs. 2017 (vs. 68,1% in 217), while..

19,5% companies with negative/very negative revenue growth in 2018 vs. 2017 (vs. 14,1% in 2017)

EBTDA GROWTH IN CHINA

79,2% respondents with positive EBITDA growth (same as 2017)

39,6% respondents with very positive EBITDA growth (vs. 35,5% in 2017)

EXPORTS FROM CHINA

43,7% companies exporting from China (vs. 38,2% in 2017)

32,0% companies exporting more than 25% of their production in China to Italy

E-COMMERCE

21,5% respondents use E-commerce for business in China(vs. 20% in 2017)

R&D

76,2% companies do not have R&D centers in China (8,8% planning to open one) as well as ...

66,6% of Manufacturing companies (14,4% planning to open)

Increased consciousness about MiC2025 and BRI, very positive expectations and business impact from recent signed Gov MOU on BRI

MiC2025

44,3% respondents perceive MiC2025 positively(vs. 32% in 2018)

29,2% companies feel discriminated regarding Mic2025 access(vs. 22,5% in 2018)

BRI

55,3% companies perceive BRI impact positively (vs. 39,6% in 2018),

54,8% respondents expect positive impact from the recent signed recently signed Italy-China Memorandum of Understanding on BRI

IPR perceived as an issue for business, although higher than reality – discrimination is perceived by 30% of companies – market access barriers and bureaucracy imply missed opportunities worth 2,5 bn EUR

IPR

49,7% companies consider IPR an issue doing business in China,

However, only

22,5% have experienced IPR infringement

DISCRIMINATED

29,3% companies feel discriminated as a foreign company doing business in China

67,9% claimed discriminations come from admin issues and market access barriers

MISSED OPPORTUNITIES

35,2% companies claim having missed business opportunities due to market access restrictions and/or regulatory barriers(vs. 45% in EUCCC survey 2019 edition)

2,5 bn Euros worth of revenue has been lost due to the missed opportunities

USA-CHINA TRADE DISPUTE IMPACT

42,0% companies are negatively impacted by the ongoing US China trade dispute

Rising Labor Costs is the major concern – Future outlook optimism remains high, although slightly lower than 2018

CHALLENGES/OBSTACLES

"Rising labor cost"

"Vague or unclear regulation"

"Recent economic slowdown"

are the top 3 rated challenges for companies doing business in China

BUSINESS OUTLOOK

63,3% respondents are optimistic about 2019's company turnover in China (vs. 64,2% in 2018)

50,7% respondents are optimistic about the overall business scenario in China over the next 5 years

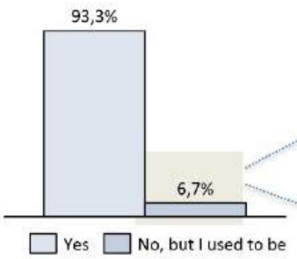
52,9% companies will further invest in China for the next 5 years

2,1% companies decide to exit China

E. Panel Overview

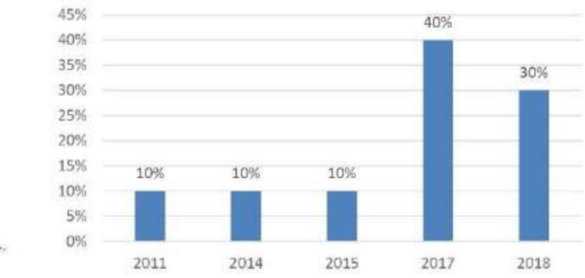
About 93% of cross-section represent Members of CICC in 2018, among whom 75% are ordinary Members; 53% respondents are "recent" Members, registered after 2013, same as in 2018 Survey

Were you a member of CICC in 2018?

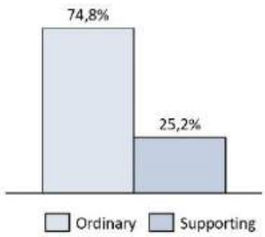


Note: included 18 answers form Friends of CICC

Which was the last year of your subscription?

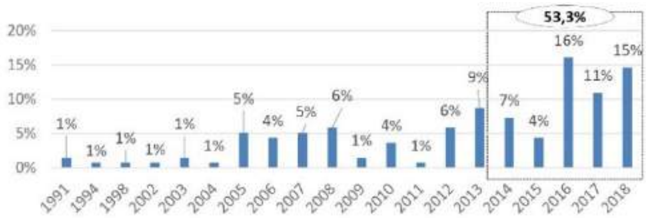


Which kind of CICC Membership do you have?



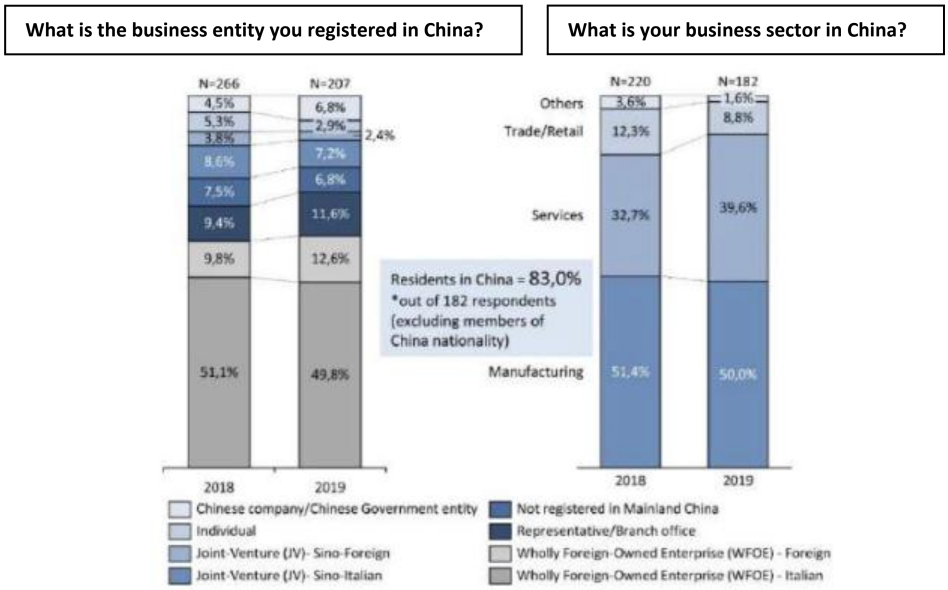
Note: included 14 answers form Friends of CICC

When did you register with CICC?



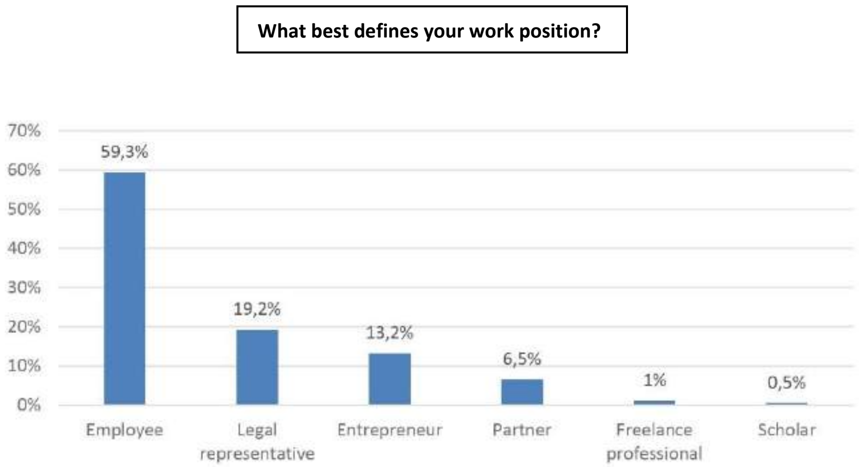
- About 93% respondents are Members of CICC in 2018, among whom 75% are ordinary Members,
- About 53% respondents are "recent" Members, registered after 2013, same weight as last year.

Cross-section business entities are substantially aligned with 2018, while in sectors there is a slight decrease of Manufacturing and significant increase of Services

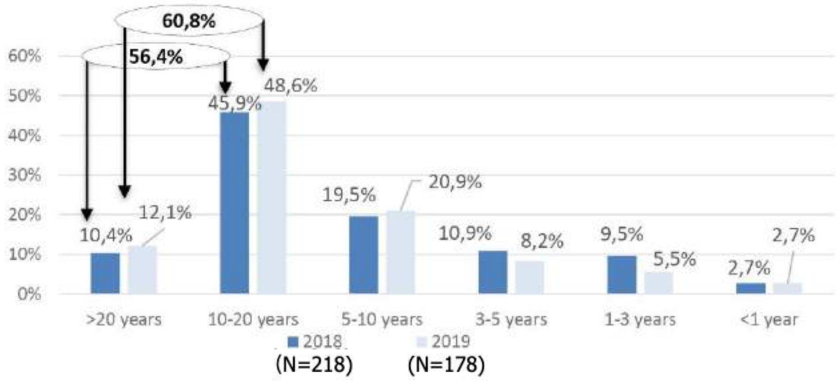


- In 2019, over 60% business entities registered in China are WFOEs, similar with last year, 83% respondents are resident in China, excluding Chinese nationals,
- In 2019, majority of companies represented in the Survey are in manufacturing and service sectors, which accounted for 50% and 40% of all respondents respectively, although Manufacturing slightly decreased while Services significantly increase,
- Also Trade/Retail decreased in representativeness: less than 9% respondents operate in the trade/retail sector from over 12% in 2018.

2019 cross-section's China seniority is comparable with 2018 edition, although slightly increased: 60,8% with >10 years in 2019 vs. 56,4% in 2018



How long has your company been operating in China?

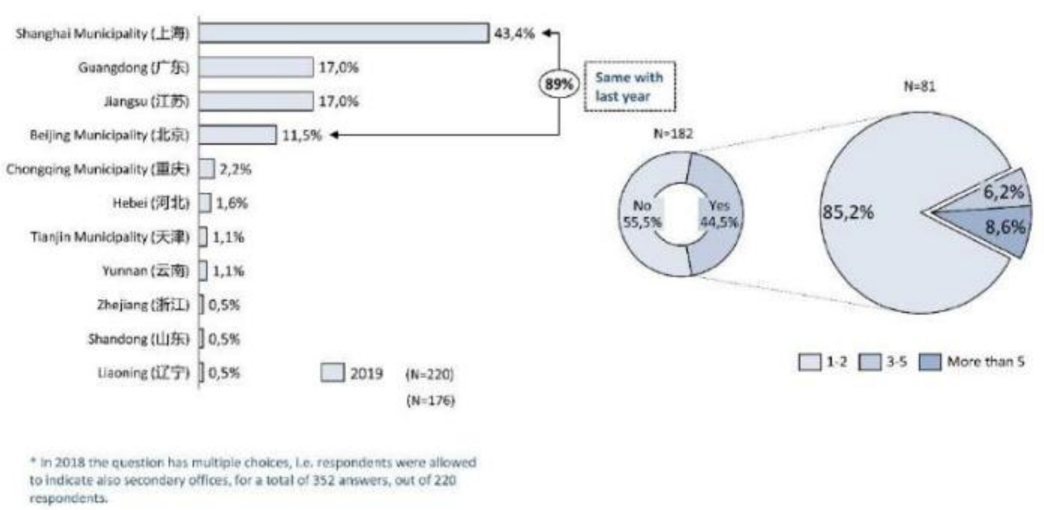


- About 60% of respondents are company's employees, while a significant and qualified 39% are legal reps/entrepreneurs/partners,
- Seniority in China is very significant and comparable with 2018 edition, although increased. Cross section respondents with more than 10 years in China increased to 60,8% vs. 56,4% in 2018.

In 2019 Survey edition, higher geographical concentration: cross-section more concentrated in Shanghai (43%), Guangdong (17%), Jiangsu (17%) and Beijing (11%), representing 89% of total vs 68% in 2018 edition

In which municipality/province is your company's headquarter based in China?

Does your company have any plant in China? If yes, how many?

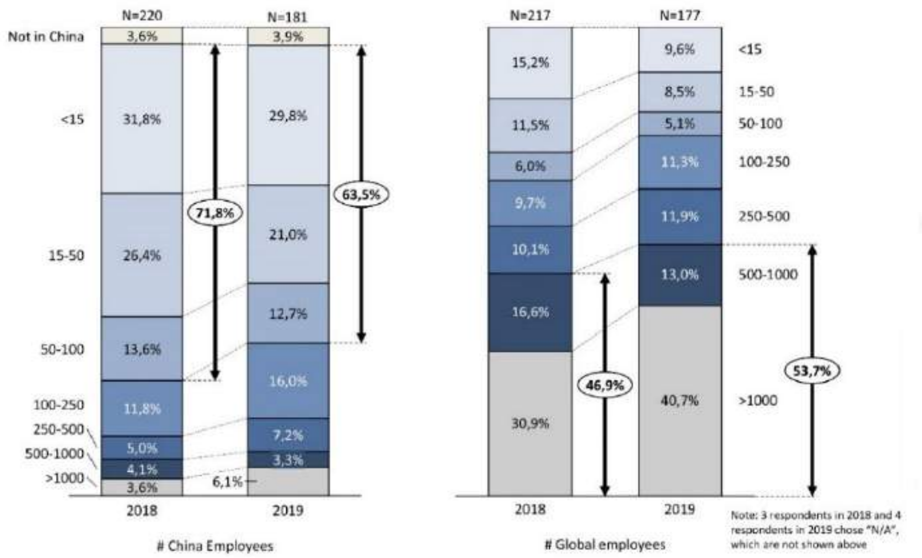


- In 2019, the location of headquarters converges more densely to Shanghai, Guangdong, Jiangsu and Beijing, accounting for 89% of all locations compared with last year' 68%, while Shanghai continues to head the representativeness,
- Less than half respondents report having plants in China, with about 38% having 1-2, about 3% having 3-5, and about 4% having more than 5.

Average size (employees) of respondent companies has increased vs 2018, both in China and worldwide, with significant increase of large companies (> empl 100 in China), while % of companies with less than 100 employees in China decreased to about 64% from 72% last year

Size of employees in China

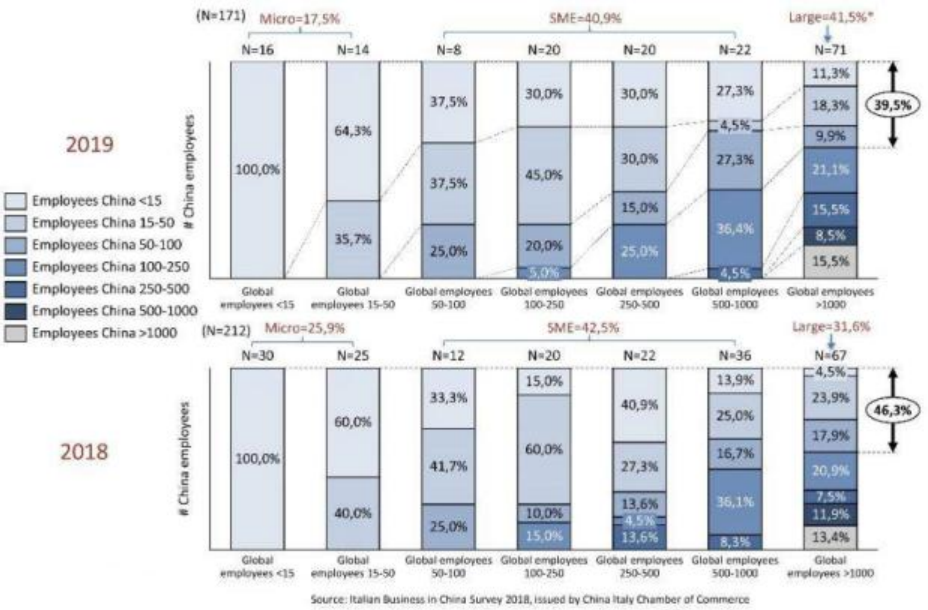
Size of employees worldwide



- Italian companies' presence in China seems to be still under represented for big MNCs/Groups while still over represented for SMEs (0-50 employees),
- Cross section average size has increased in 2019 vs 2018, both in China and for the mother groups worldwide,
- Large companies (>100 employees in China) has increased vs 2018, with significant increase in all segments,
- Big MNCs (>500 worldwide) representativeness has significantly increased from about 47% in 2018 to nearly 54% in 2019,
- About 64% of companies have less than 100 employees in China, decreased from about 72% of last year.

More significant presence of large companies: about 42% of respondents are companies with over 1000 employees worldwide, increased from 32% last year; among those about 40% have less than 100 employees in China, dropped from 46% last year…

Employees in China as % of employees worldwide in 2019 vs 2018



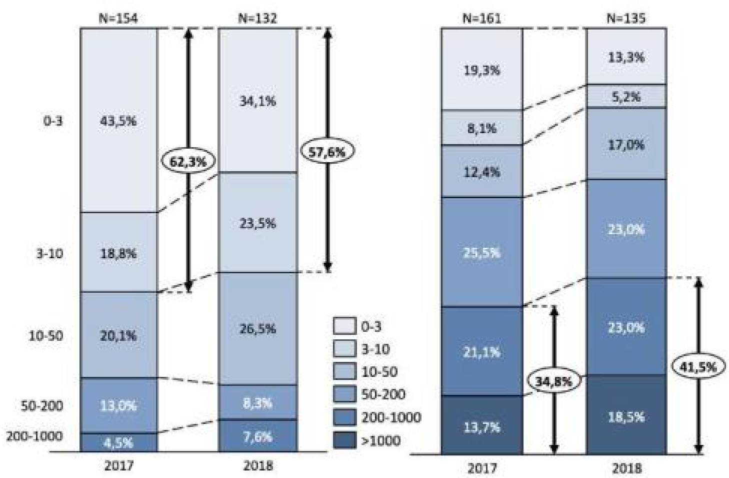
Source: Italian Business in China Survey 2018, issued by China Italy Chamber of Commerce

- In 2019 percentage of micro-size companies (companies of less than 15 total employees) dropped to about 18% from 26% from 2018, while percentage of large companies (over 1000 total employees) increases to about 42% from 32% from last year,
- In 2019, among companies with >1000 employees globally, about 40% have less than 100 employees based in China, decreased from 46% last year.

…confirmed also by considering turnover in China and globally – the segment 50-200 Mio EUR turnover in China significantly shrank

Turnover in China (in million EUR)

Global turnover (in million EUR)



Note: 19 respondents in 2018 and 42 respondents in 2019 chose "N/A", which are not shown above

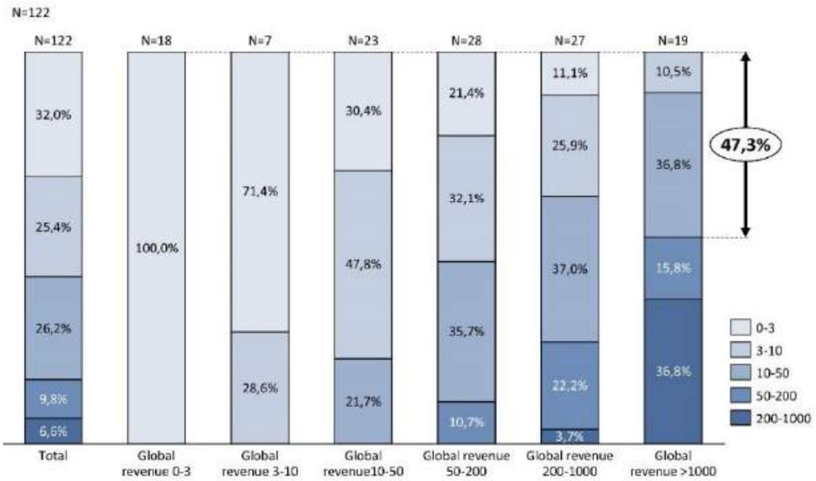
Note: 12 respondents in 2018 and 39 respondents in 2019 chose "N/A", or "Cannot disclose", which are not shown above

- About 58% companies' revenues in China of 2018 are less than 10 million EUR, decreased from about 62% last year (referred to as 2017's revenues),
- About 42% companies' global revenues of 2018 are more than 200 million EUR, increased from about 35% last year (referred to as 2017's revenue),
- The only segment decreased in 2018 revenues representativeness vs. 2017 is the 50-200 Mio EUR, suggesting existence of business performance issues for medium/large companies in China.

*The difference in % with prev. charts is due to the diff. in N. Here excluded "N/A" answers for either question of employee in China or question of employee worldwide in order to make meaning comparison. Note: In Chart 2, 9 respondents chose "N/A" for either question of employee in China or question of employee worldwide, which are not shown above.

Italian large companies seem to be still significantly underrepresented in China in terms of turnover generation vs. their global business

China revenue as % Global revenue in 2018 (in million EUR)



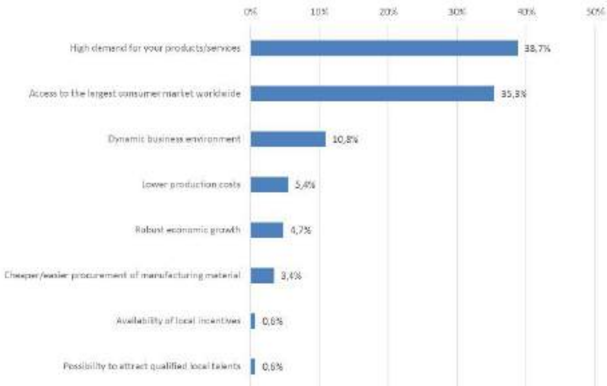
Note: 52 respondents chose "N/A" or "Cannot disclose" to either Q11 or Q12, which are not shown above
*Source: Italian Business in China Survey 2018, issued by China Italy Chamber of Commerce

- Italian MNCs with > 1 bn EUR/year turnover globally still have turnover in China under represented: only about 47% generate a turnover in China less than 50 Mio EUR/year,
- Also, medium/large companies (200-1000 Mio EUR/year) seem to have a limited turnover generated in China; only about 26% of them generate a turnover higher than 50 Mio EUR in China.

F. Cross Section Business Performance

Majority of respondents consider China a strategic market to be for covering internal demand and growth, although at least 10% continue to consider China for achieving cost leadership

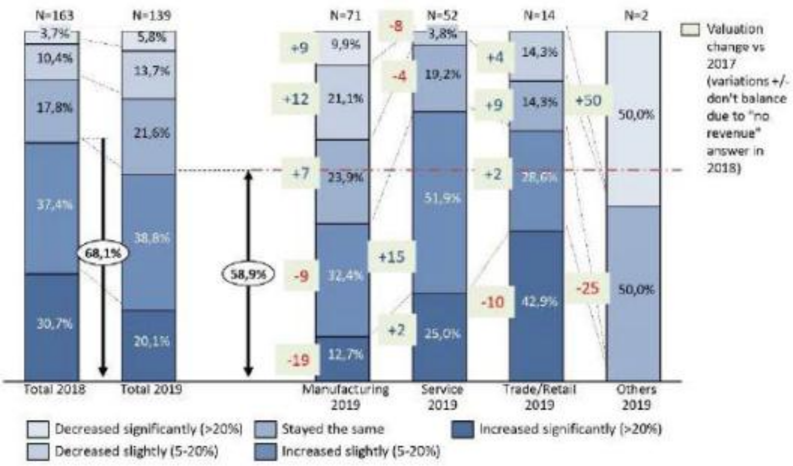
What is the main strategic reason for your company to operate in China?



- Although majority of companies (85%) considers China a strategic market to be for covering internal demand, still about 10% of respondents declares lowering costs through production and procurement is the main reason to be localized in China.

Although the number of companies with very positive revenue growth performance still accounts for more than 50% (59%), it dropped from last year (68%), while number of companies with same or decreased performance rises

China growth turnover change in 2018 compared to 2017 VS in 2017 compared to 2016



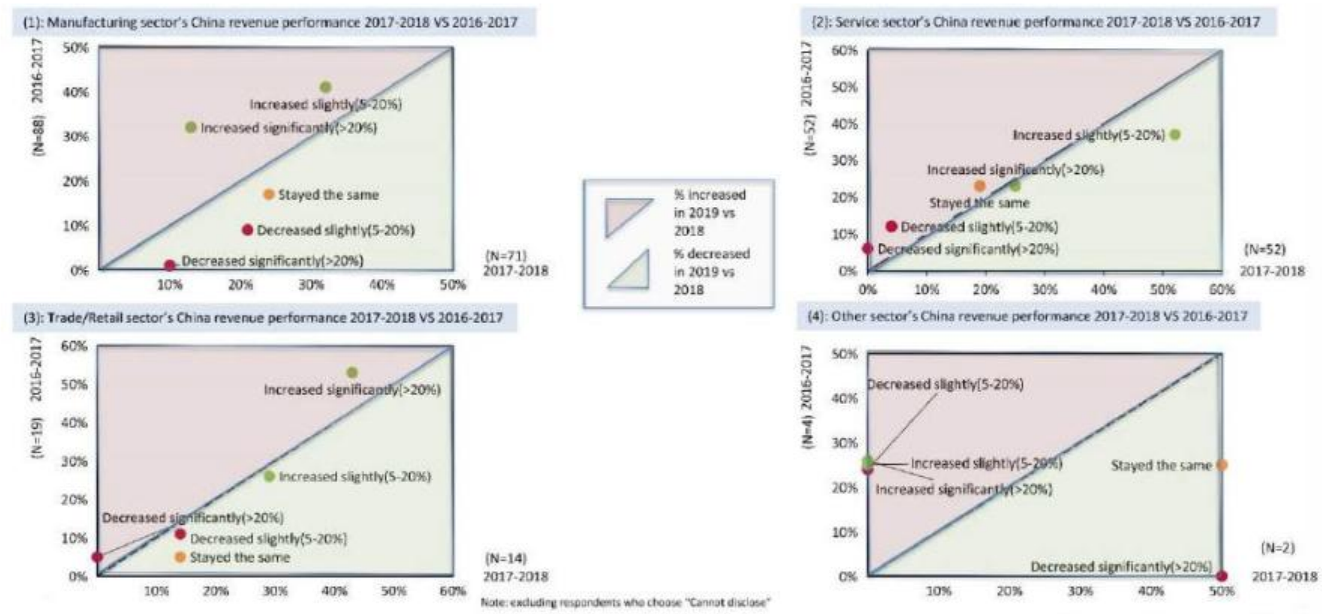
Note: 10 respondents chose "No revenue" in 2018, 35 respondents in 2019 chose "Cannot disclose" or "No revenue", which are not shown above.

- Cross section reported a general worsening of revenues growth trend in 2018 vs 2017,
- Companies declaring an increase in revenues dropped from 68% in 2017 to about 59% in 2018, while company claiming a revenue decrease increased from 14,1% in 2017 to 19,5% in 2018,

- In 2018 services is the sector with the best business performance (76,9% with increase), while in Manufacturing more than 30% of companies claim a turnover decrease,
- Trade/Retail performance is healthy, with 71,5% of companies declaring a turnover increase.

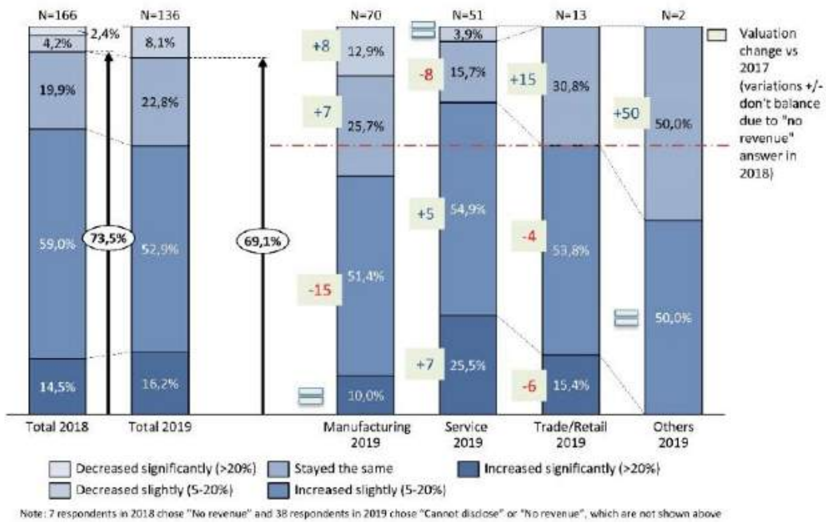
Manufacturing sector revenues performance in China has been worse than other sectors in 2018 compared to 2017, while services performance improved

China turnover change by sector in 2018 compared to 2017 VS in 2017



Respondents' mother companies' slowdown in 2018 is comparable with China's ones with a reduction of revenue increases, although the respondents claiming strong increase grew in 2018 vs. 2017

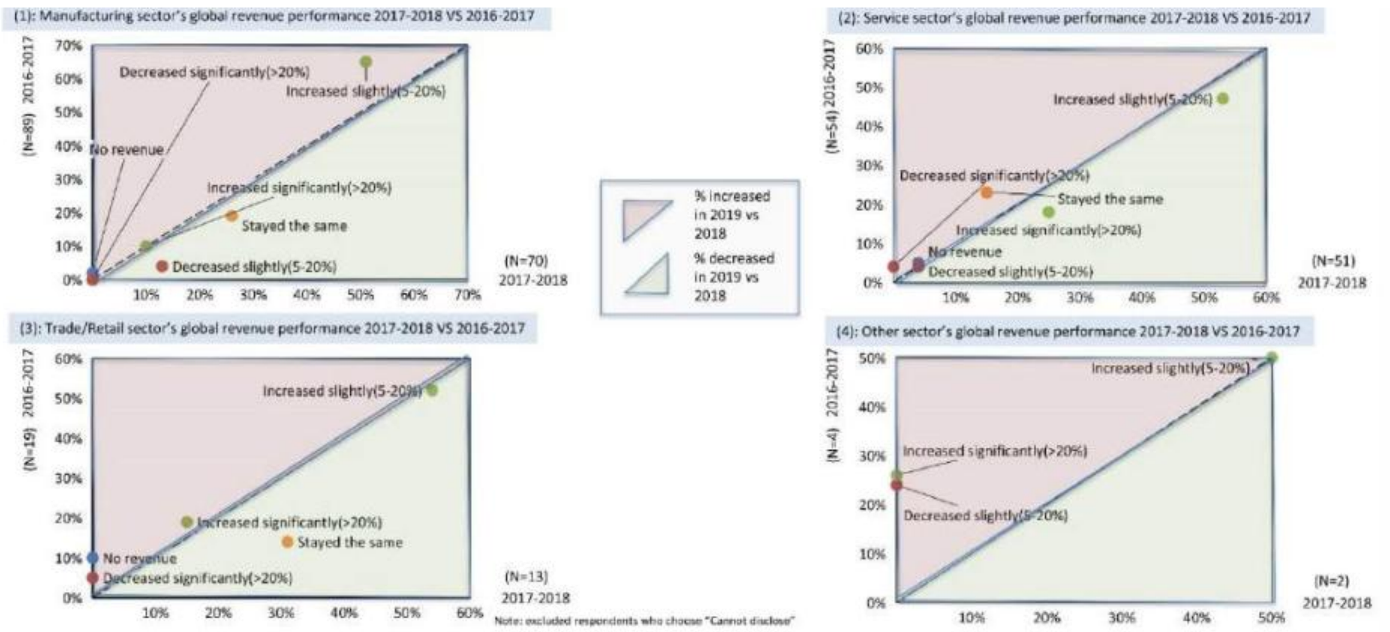
How did your company group's global revenue change in 2018 compared to 2017?



- About 69% of companies report their 2018 global revenues increase by at least 5%, decreased from last year (74%),
- The respective percentages of companies from Service, Trade/Retail business sectors whose 2018 annual revenues increase by at least 5%, are larger than that of the total companies, with 80% in service sector, and 69% in Trade/Retail sector,
- The percentages of companies from Manufacturing and the other sectors that have 2018 annual revenue increase by at least 5%, are lower than that of the total companies.

Manufacturing & other sectors' global revenues growths have also been worse than other sectors' in 2018 compared to 2017, while service sector has been better overall

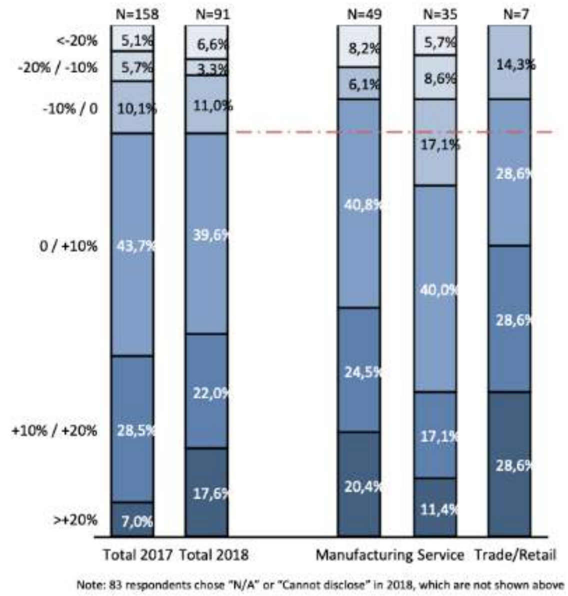
How did your company group's global revenue change in 2018 compared to 2017?



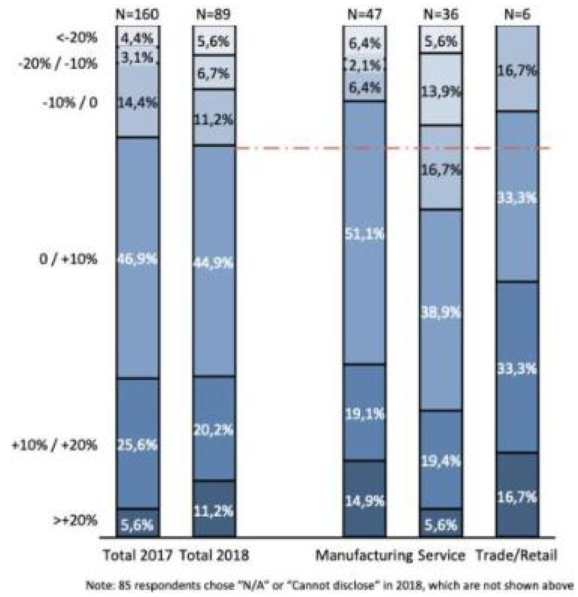
Companies EBITDA and EBIT in China in 2018 have significantly improved vs. 2017, although overall positive performance remained unchanged

- Overall cross section positive EBITDA in China remained unchanged in 2018 vs. 2017, although the average EBITDA in China increase vs. previous year significantly improved: 17,6% claim EBITDA in China >20% vs. 7% last year,
- Services is the sector with lower EBITDA in China increase in 2018 vs. 2017, despite the revenues increased significantly,
- Same dynamic is claimed for EBIT in China, where cross section claim for an EBIT increase >20% in 2018 vs. 2017 has been 11,2% vs. 5,6% in 2017.

EBITDA in China (as % of total revenue) by sector

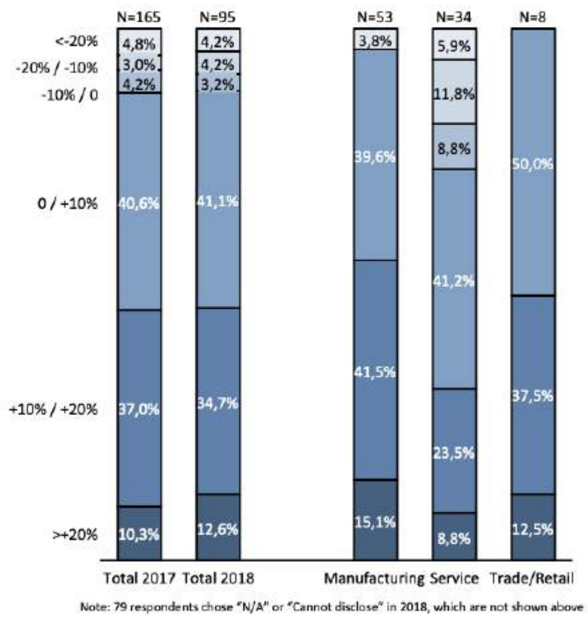


EBIT in China (as % of total revenue) by sector

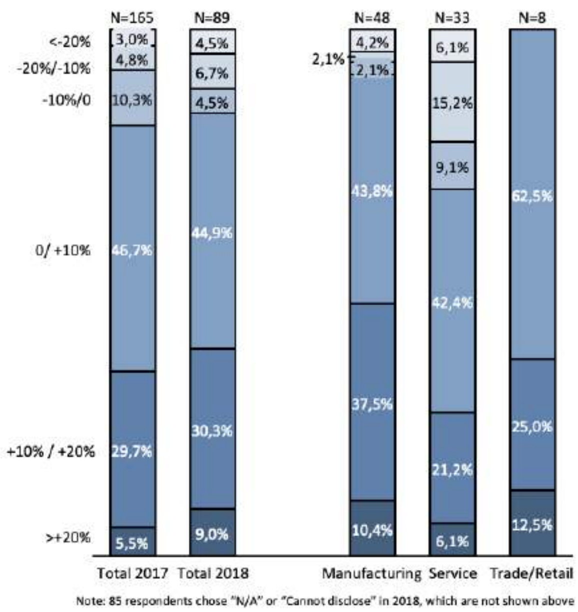


Cross section's mother companies EBITDA and EBIT performance improved in 2018 vs. 2017 although improvement is weaker than that in China

EBITDA Global (as % total revenue) by sector



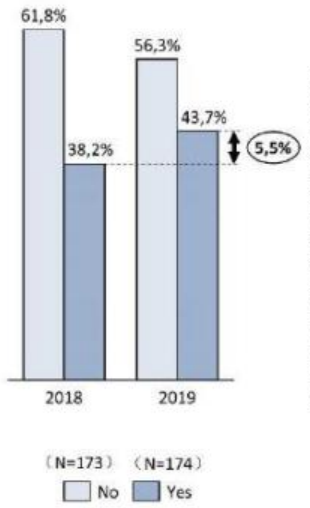
EBIT Global (as % of total revenue) by sector



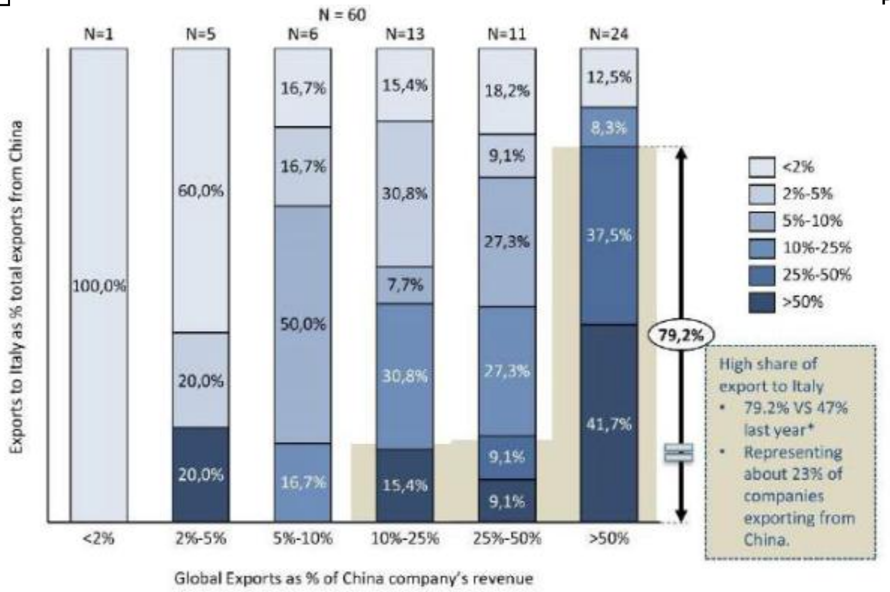
- Compared to mother companies' business performance worldwide, China seems to have performed better in 2018 vs. 2017, both for EBITDA and EBIT,
- Trade/retail mother companies seem to have a weaker increase performance than Chinese companies, while Manufacturing and Services are aligned.

The number of companies exporting from China is slightly increased vs last year (43,7% vs. 38,2%), while about 1/3 of respondents seems still to adopt a business "relocation" model, claiming high export to Italy

Does your company, registered in China, export products to other countries?



Percent of exports to Italy/Global exports as % of China company's revenue



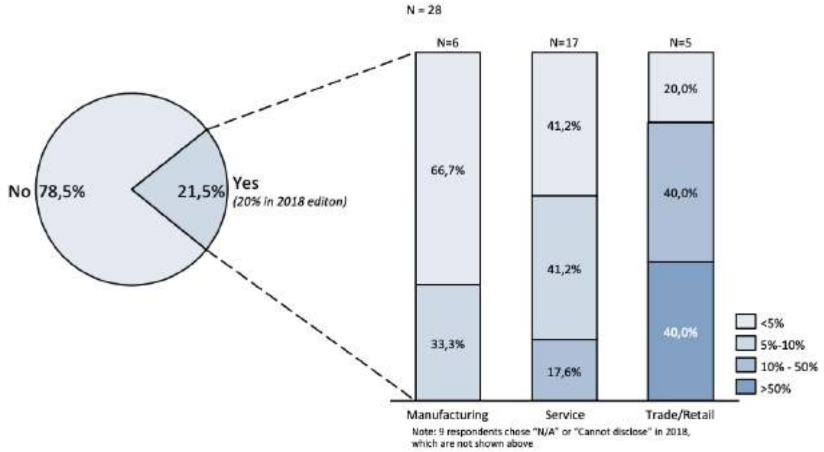
Note: 3 respondents chose "N/A", which are not shown above
*Source: Italian Business in China Survey 2018, issued by China Italy Chamber of Commerce

- About 44% companies registered in China export products to other countries in 2019, slightly up from 38% last year,
- About 80% of companies with global exports taking up over 50% of revenue, have more than 1/4 of the export coming from their China entities, which is significantly higher from 47% last year,
- About 32% of total respondents with facilities in China seem to adopt a "relocation" business model, exporting more than 25% of their production to Italy (about more than 50% of them exporting more than 50% to Italy).

E-commerce is still marginal – also Trade/Retail sector seem still not covering the channel with conviction

Does your company use e-commerce to carry out its business in China?

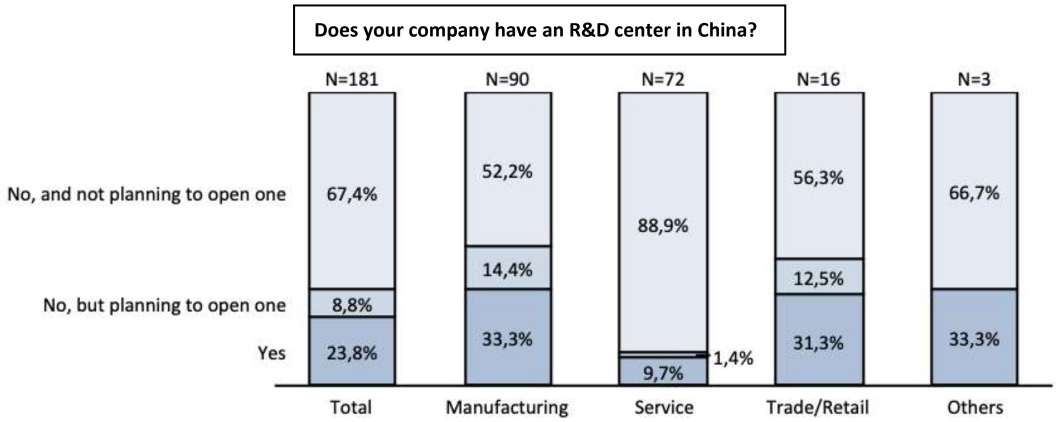
What percentage of your company's revenue in China was generated by e-commerce in 2018?

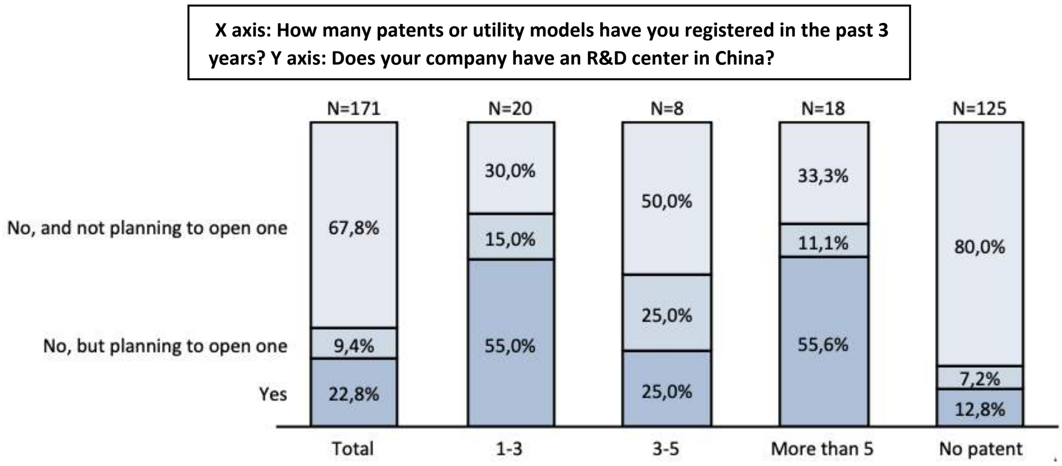


- E-commerce is still a marginal component for the high majority of respondents (78,5%),
- Not surprisingly, Trade/Retail sector is the one using e-commerce more intensively, although only 40% of respondents claim e-commerce generates >50% of revenues, 80% of Trade Retail use e-commerce generating at least 10% of revenues.

G. Cross Section R&D, Innovation, and IPR

At least 3/4 of respondents claim not to have an R&D center in China – Manufacturing has the highest share although only 1/3 of companies have R&D centers in China



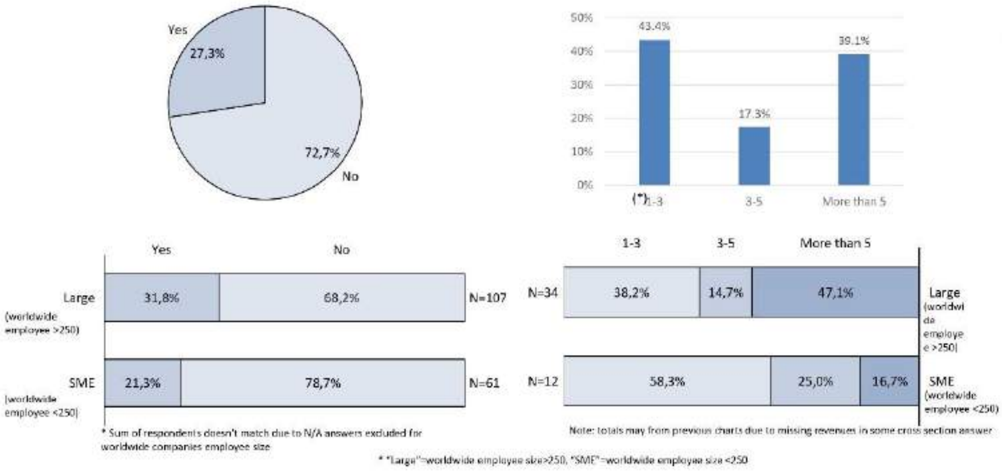


- Less than 1/4 of companies declare to have an R&D center in China rising to less than 1/3 including those planning to open one shortly,
- 1/3 of Manufacturing companies have an R&D center in China, rising to almost 50% including those planning to open one shortly,
- About 60% of companies with R&D centers in China have been able to registers at least one patent/utility models over the past years.

Companies with registered patents/utility models over the past three years in China are about 1/4 of total, with large companies only slightly more innovative than SMEs

Have you registered any patent or utility model in the past 3 years?

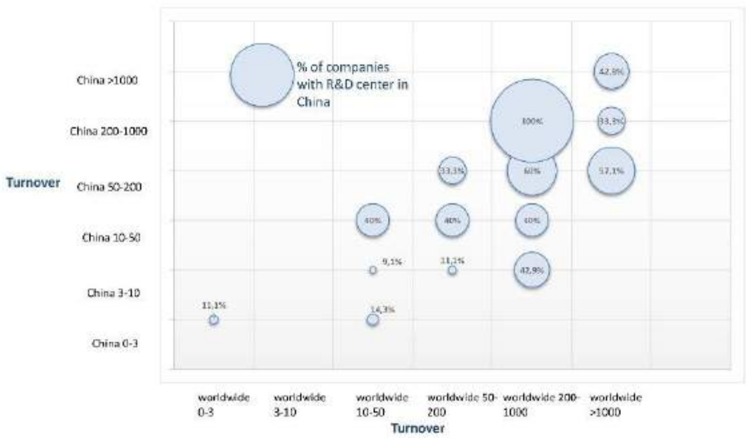
How many patents or utility models have you registered in the past 3 years?



- Only about 1/4 of respondents declare to have registered a patent/utility model over the past three years in China,
- Still 2/3 of large companies and 3/4 of SMEs have not registered any patent/utility model in China over the past three years,
- Out of companies who registered patents/utility models over the past three years, more than 40% claim 1-3, about 40% claim more than 5,
- More than 50% of large companies having registered patents/utility models over the past three years did >5 registrations.

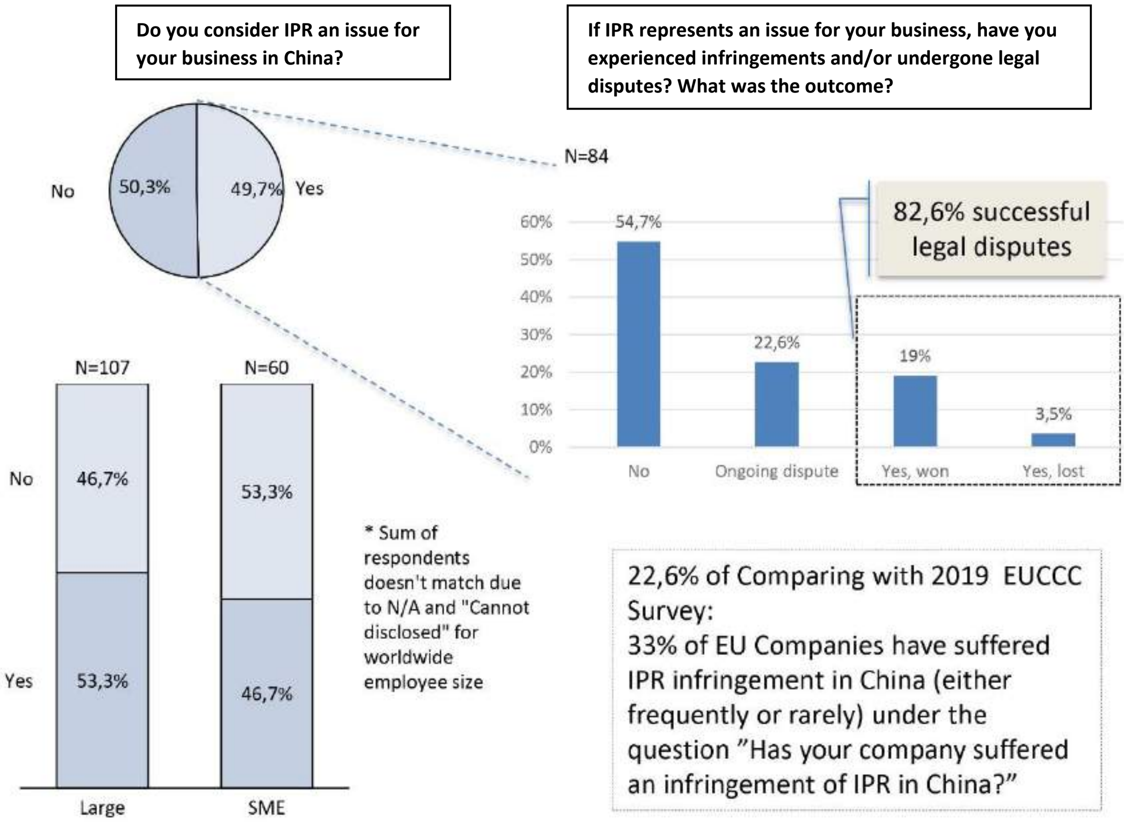
Presence of R&D center in China is slightly correlated to company size, except for the medium/large companies (200-1.000 EUR turnover globally) where the presence of R&D in China is strictly correlated to company size

Bubble size: % of companies with R&D center in China
Y axis: What was your company's revenue in China in 2018? (in million EUR)
X axis: What was your company group's global revenue in 2018 (in million EUR)



- Company size is slightly correlated to presence of a R&D center in China, also moving consistently in general with significance of China revenue as a % of global revenue,
- Medium/large companies (200-1.000 EUR worldwide) R&D centers in China are strictly correlated to the company size in China,
- Not all large companies (>1.000 EUR turnover) have an R&D center in China, while 100% medium/large companies (200-1.000 EUR turnover in China and worldwide) have an R&D center localized.

IPR is perceived as an issue in China by 50% of companies, although less than half of these have experienced infringements - 82,6% of companies that entered and finalized disputes have been successful

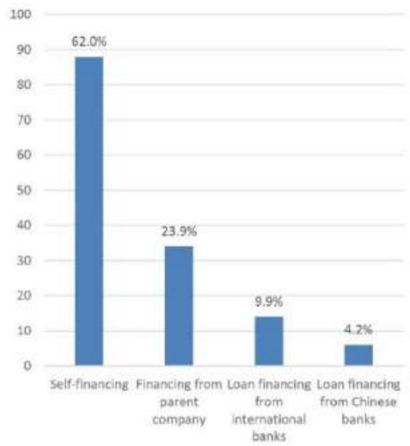


- Almost 50% of respondents consider IPR an issue in China, although 55% of these segments have never experienced any IPR infringement,
- 22,6% of respondents have suffered IPR infringements (45% of whom consider IPR and issue for its business),
- 2019 EUCCC Survey reports 33% of EU companies have suffered IPR infringement in China (either frequently or rarely) under the question "Has your company suffered an infringement of IPR in China?",
- 82,6% of companies that entered a closed litigation have been successful.

H. Business Environment Sentiment

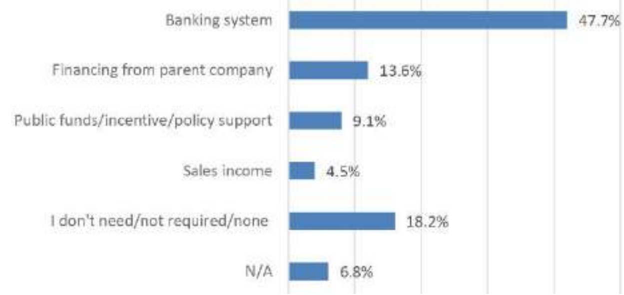
No strong need for further finance: 2/3 of companies self-finance their business in China through generated cash flow, 24% from mother company and only 14% from bank loans

How do you finance your business in China?

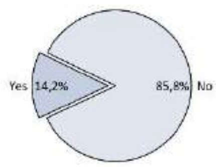


Note: 27 respondents chose "N/A" or "Cannot disclose" in 2018, which are not shown above

What source of financing would you ideally require in support of your China business operations?



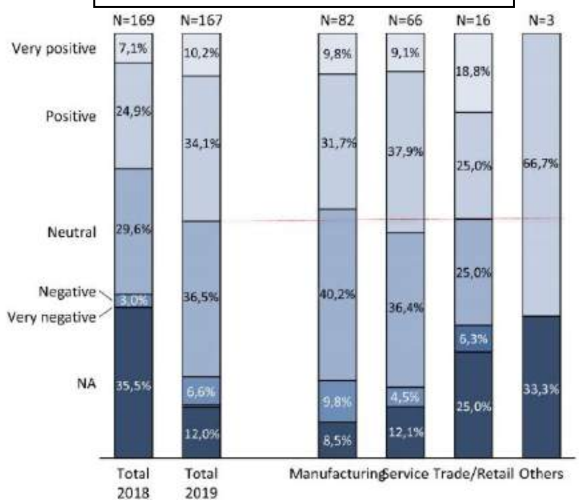
Has your company been granted any Chinese public fund/incentive in China to finance your project?



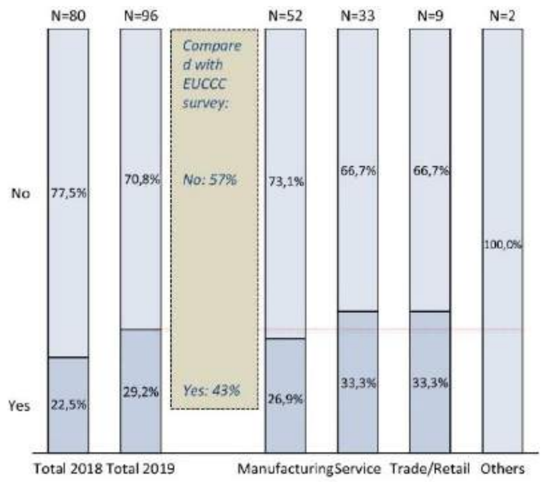
- 62% of companies in China self-finance their business with generated cash flow, 24% are financed by mother company and only 14% resort to bank loans,
- 2/3 of companies requiring a better financial support (about 22%) seek bank system loans,
- Only about 14% companies have been granted Chinese public fund/incentive.

MiC2025 perceived still positively, in increase vs 2018, although also feeling of discrimination as foreign companies has increased

Do you feel discriminated as a foreign company regarding the access to Made in China 2025's incentives/opportunities?



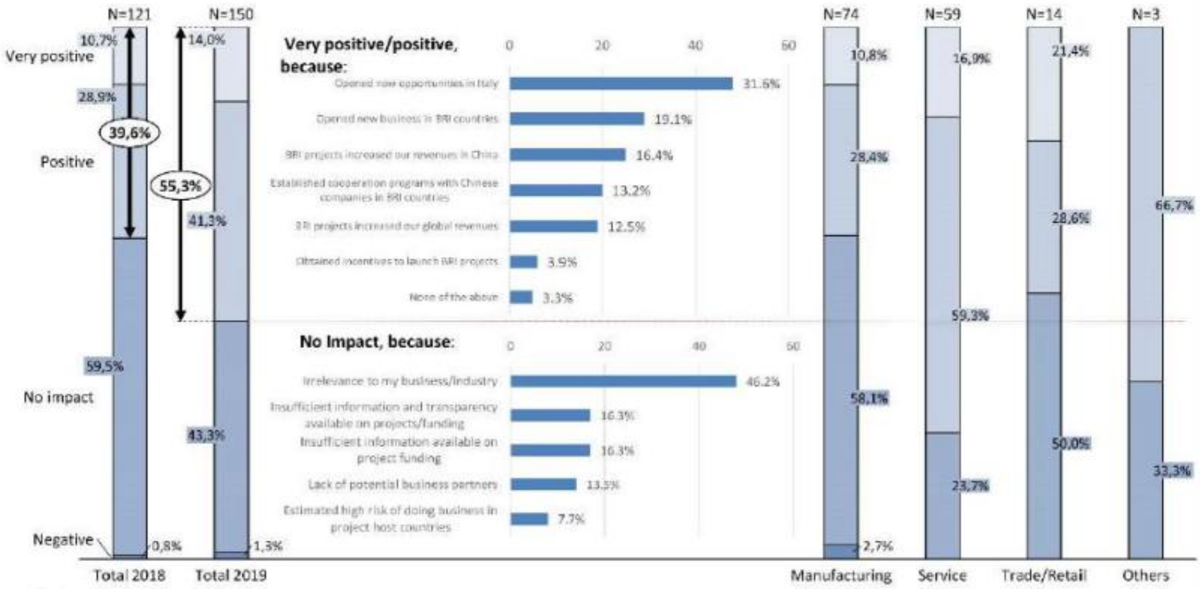
How do you perceive the overall impact of the Made in China 2025 industrial strategy on your business?



- MiC2025 is still perceived as an opportunity for the majority of companies,
- Number of "Very Positive" or "Positive" increased vs. 2018,
- Despite the even better positive perception, the percentage of companies that feel discriminated as foreign companies has increased from 22,5% in 2018 to 29,2% in 2019,
- Major reasons of claimed discrimination are the difficulty to get incentives and barriers for launching pilot projects,
- Comparison with EUCCC 2019 Survey under similar question "Are you seeing increased discrimination against foreign companies compared to Chinese companies under China Manufacturing 2015?" outlines a more positive attitude of Italian companies vs. EU ones.

BRI positive perception is increasing vs 2018 (Very positive/Positive 55,3% in 2019 vs. 39,6% in 2018) with majority of companies claiming positive impact on their business

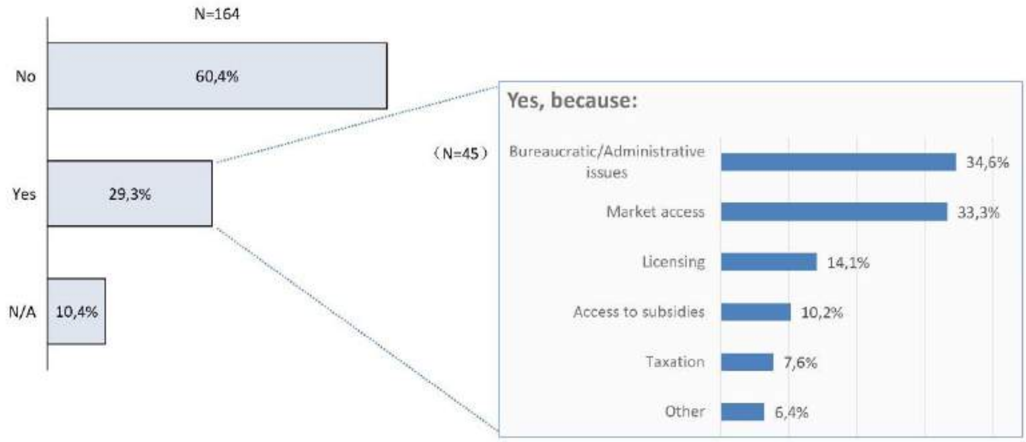
How do you perceive the overall impact of Belt and Road Initiative (BRI) on your business?
If BRI had a Very positive/Positive effect, please explain why. Tick maximum 3 answers
If BRI had no impact on your business, please explain why. Tick maximum 3 answers



- Number of respondents with Very Positive/Positive evaluation of BRI on their business has increase to 55% in 2019 vs. about 40% in 2018,
- Services sector is the one with the highest positive impact (74,2%), while Manufacturing is positive only for 39,2% and the only one where a negative impact is claimed,
- Among "Very Positive/Positive", >30% claim BRI opened new opportunities in Italy, about 20% new business in BRI countries.

About 29% respondents feel discriminated as a foreign company in China (less than the 45% of EUCCC 2019 Survey that feel unfavorable treated)

Q30. Overall do you feel discriminated as a foreign company in doing business in China?

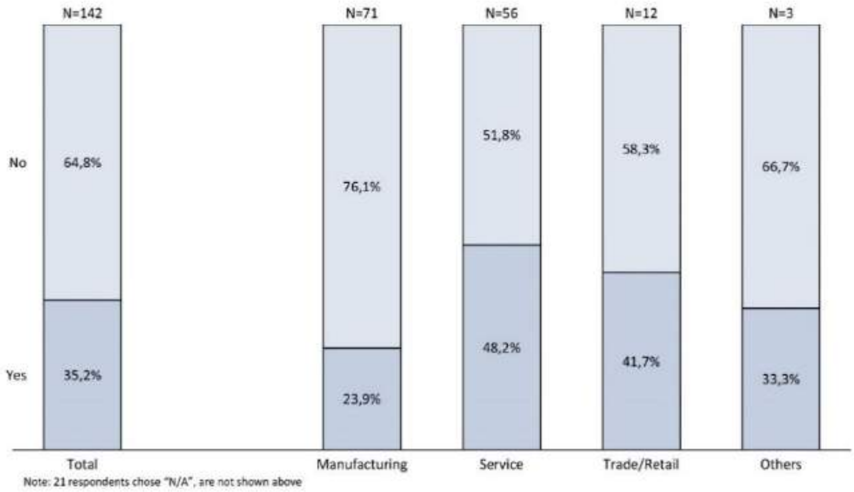


- Only about 29% of respondents feel discriminated (N=164), vs. 45% respondents who feel unfavorably treated from EUCCC 2019 Business Confidence Survey (Question: "How does your company perceive foreign-invested companies' treatment by the Chinese government in your industry?'', N=585)*,
- About 70% of claimed discriminations come from admin issues and market access barriers.

*Source: Page 41, Business Confidence Survey 2019, issued by EURpean Union Chamber of Commerce in China

More than 1/3 of companies have missed opportunities due to market access and /or regulatory barriers

Q31. Has your company been missing out on business opportunities in China due to market access restriction and/or regulatory barriers?

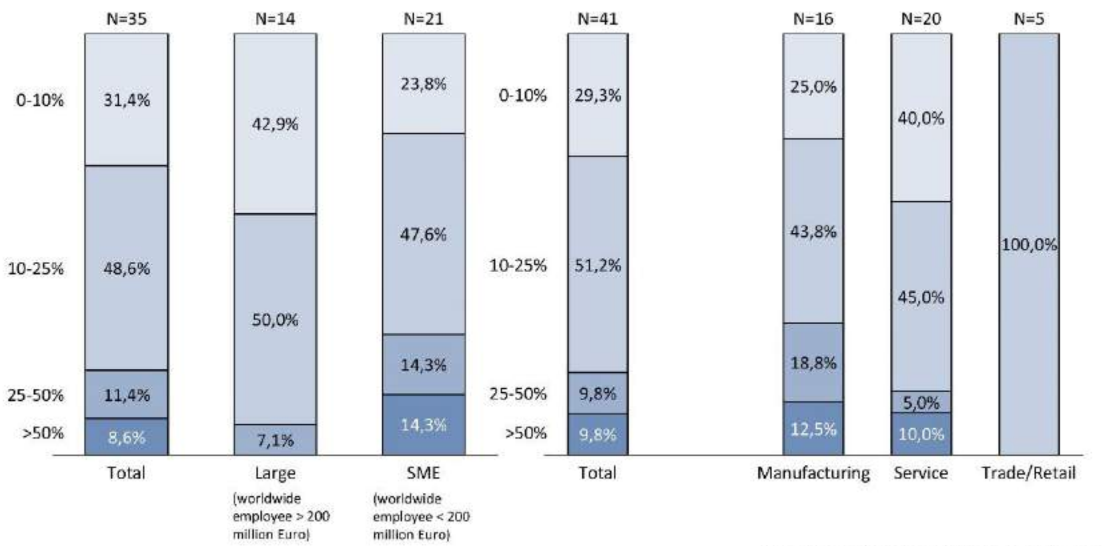


- More than 1/3 of companies have missed business opportunities due to market access and/or regulatory barriers,

- Services sector is suffering the most with about 50% of respondents claiming missed business opportunities, followed by Trade/Retail with about 40%,
- 2019 EUCCC Business Survey outlines 45% of companies claim to have missed business opportunities.

Claimed barriers have a negative impact on companies worth about 12% of total turnover, about 2,5 bn EUR estimated lost in 2018

What percentage of your company's annual revenue in China do these missed opportunities represent?



Note: 15 respondents chose "N/A" or "Cannot disclose", are not shown above

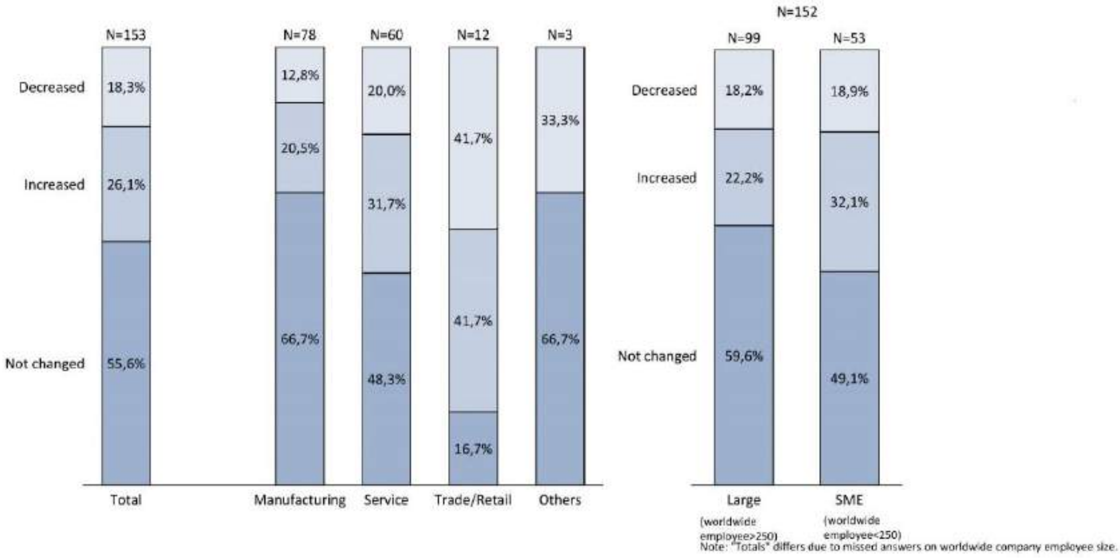
Note: 9 respondents chose "N/A", are not shown above

Note: "Totals" differs due to missed answers on company size
*Large=worldwide company group revenue >200 million Euro
SME=worldwide company group revenue < 200 million Euro

- About 8-10% of companies claim to have missed more than 50% of potential revenues due to still existing barriers, with SMEs affected the most (14%),
- 2/3 of companies claim having lost significant revenues (>10%),
- Manufacturing sectors is the most hit by barriers: 75% of respondents claim to have lost >10% revenues due to barriers,
- A very preliminary estimation outlines the lost revenues due to barriers for companies worth 12% of total revenues (estimated to 21 bn EUR for cross section), i.e. about 2,5 bn EUR have been claimed to be lost due to barriers.

Majority of companies have not perceived a change in market access barriers over the past five years, although 1/4 perceive an increase

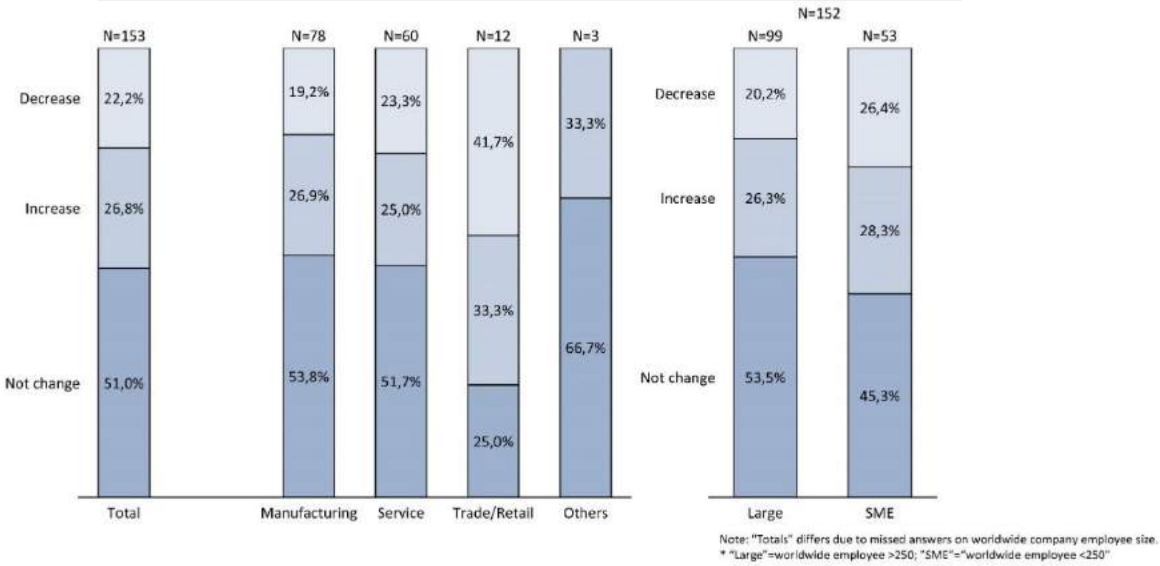
According to your business experience, China market access barriers for your company over the past 5 years have:



- Majority of respondents (55,6%) claim barriers have not significantly changed over the past years, although 1/4 declare barriers have increased,
- Trade/Retail and Services are the sectors where barriers have perceived to have increased over the past five years,
- SMEs have a worse perception than large companies.

Future outlook for the next five years seems slightly more optimistic than the experienced past five years, with no major difference between large and SMEs

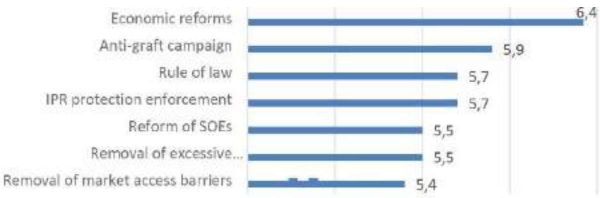
According to your business experience, China market access barriers for your company over the next 5 years have



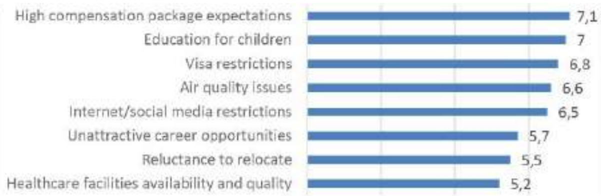
- Future outlook as far as market access barriers are concerned is a bit more optimistic than the past five years perception, with "decrease" expectations at 22,2% higher than the 18,3% perceived over the past five years,
- Slight optimism is shared across sectors,
- Large companies’ outlook is less optimistic than SMEs’.

Consumer market and high demand are still driving companies operating in China, while efforts made by Chinese government in economic reforms, anti-graft, rule of law are regarded highly, although challenges remain in attracting/retaining both international and domestic talents

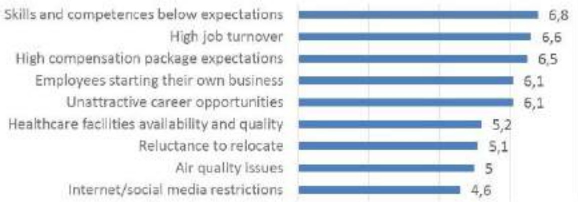
How does your company rate the efforts made by the Chinese government over the past 3 years in the following areas? (1 very unsatisfactory, 10 very satisfactory)



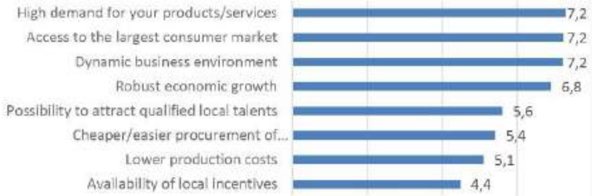
How does your company rate each of the following challenges in attracting/retaining international talents in China? (1 not very relevant, 10 very relevant)



How does your company rate each of the following challenges in attracting/retaining Chinese talents in China? (1 not very relevant, 10 very relevant)



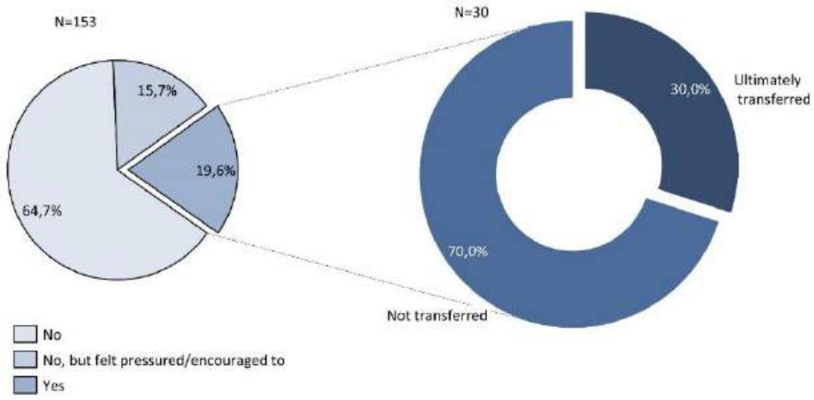
How does your company rate each of the following opportunities in doing business in China? (1 less significant, 10 very significant)



- Economic reforms, anti-graft campaign, and rule of law are 3 top rated cross section recognized efforts made by the Chinese government over the past 3 years,
- High compensation package, education for children, visa restrictions are 3 top rated challenges in attracting/retaining international talents in China,
- Skills and competences below expectation, high job turnover, high compensation package expectations are 3 top rated challenges in attracting/retaining Chinese talents in China,
- High demand for product/services, access to the largest consumer market, dynamic business development are 3 top rated opportunities in doing business in China.

20% respondents have faced technology transfer issues (consistent with EUCCC 2019 Survey outcomes), whose 30% have been finalized (6% out of total respondents)

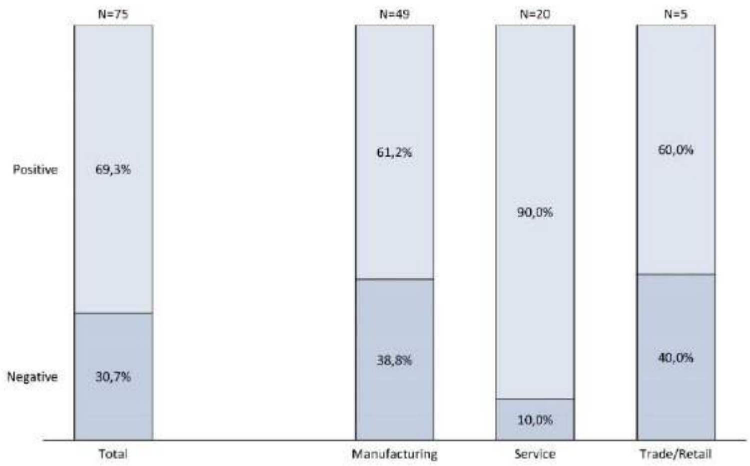
Have you ever faced technology transfer issues in doing business with Chinese partners?



- Less than 20% respondents have faced technology transfer issues, consistent with that from EUCCC 2019 Survey (20% respondents chose "Yes" to the question of "Has your company felt compelled to transfer technology and/or trade secrets in order to maintain market access?", where N=585),
- Out of the 20% companies claiming tech transfer issues, about 30% have been finalized while the remaining 70% did not.

New Environmental Protection Law in China have brought positive impacts to the majority of respondents although about 40% of Manufacturing and Trade/Retail Companies claim a negative impact

How was the impact of the new Chinese Environmental Protection Law on your business operations in China?

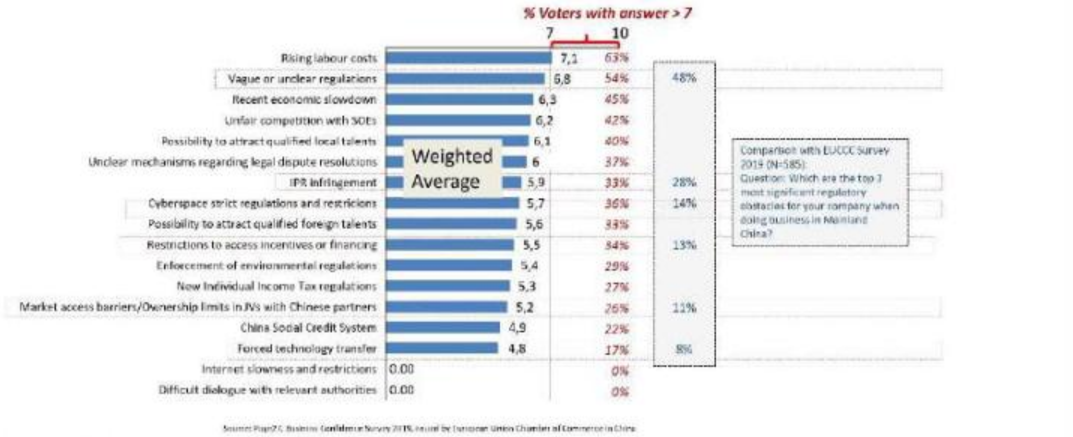


- New Environmental Protection Law (NEPL) in China have negatively impacted about 30% of companies,

- Trade/Retail and Manufacturing claim about 40% of negative impact while NEPL have brought positive impact for 90% of Services companies.

Rising labor costs, vague or unclear regulations, and recent economic slowdown are the top 3 challenges in doing business in China…

How does your company rate each of the following challenges/obstacles in doing business in China? (1 less significant, 10 very significant)

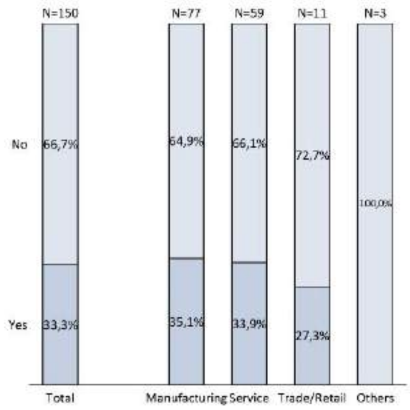


Source: Page27, Business Confidence Survey 2019, issued by EURpean Union Chamber of Commerce in China

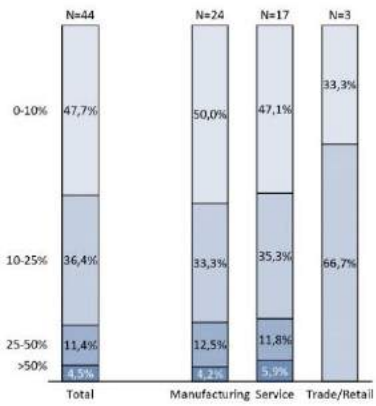
Comparison with EUCCC Survey 2019 (N=585). Question: Which are the top 3 most significant regulatory obstacles for your company when doing business in Mainland China?

…significantly affecting business in terms of missed opportunities and revenues for 1/3 of companies

Has your company missed out on business opportunities as a result of one or more of the above challenges/obstacles?



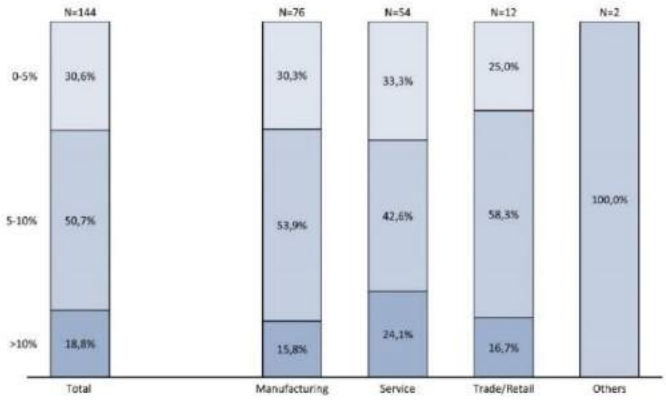
What percentage of your company's annual revenue do these missed opportunities represent?



- Challenges/obstacles have implied missed business opportunities for about 1/3 of companies, with Manufacturing and Services the most,
- Among respondents who missed opportunities, more than 50% claim missed revenues > 10%, with about 16-17% of Manufacturing and Services claiming missed revenues higher than 25%.

Labor cost increase is significant for all sectors, with an average increase worth 5-10% a year over the past three years

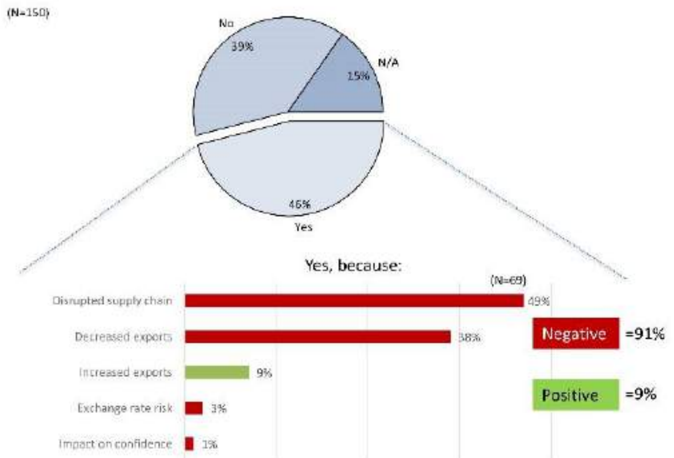
What was the average yearly increase of labor cost for your company over the past 3 years?



- About 70% of respondents declare an average year labor cost increase > 5% over the past three years, about 20% > 10%,
- More than 50% of Manufacturing and Trade/Retail Companies claim an average increase of 5-10%,
- Services sector is the one where the increase is more even.

46% respondents feel the ongoing US-China trade dispute is affecting their business, and mainly negatively – about 40% of total claiming impact on supply chain and export

Is the ongoing US-China trade dispute affecting your business?

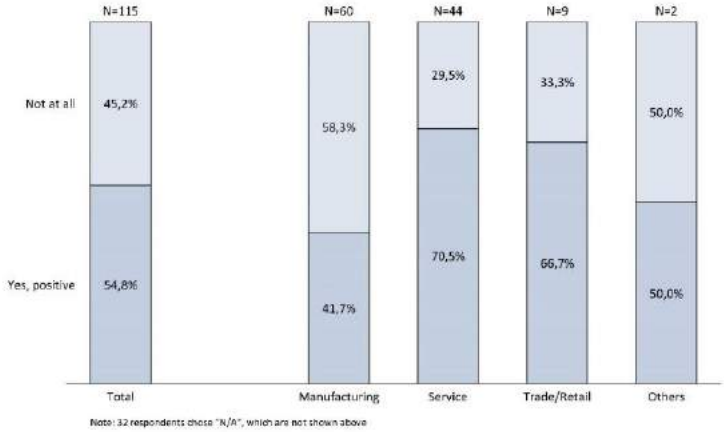


- 46% respondents feel the ongoing US-China trade dispute is affecting their business,
- The major impacts are negative due to disrupted supply chain and export decrease, which are being ranked top 2 (91%, worth 40% of total respondents),
- Only 9% report positive impact from the US-China trade dispute (similar to EUCCC Survey where about 4-5% respondents report positive impact to the question "What kind of impact is your company experiencing as a result of tariffs on goods produced in China/in the US?". *)

*Source: Page 60, Business Confidence Survey 2019, issued by EURpean Union Chamber of Commerce in China

The recent MoU on BRI signed between China and Italy is expected to have positive impact to companies business for more than 50% of respondents

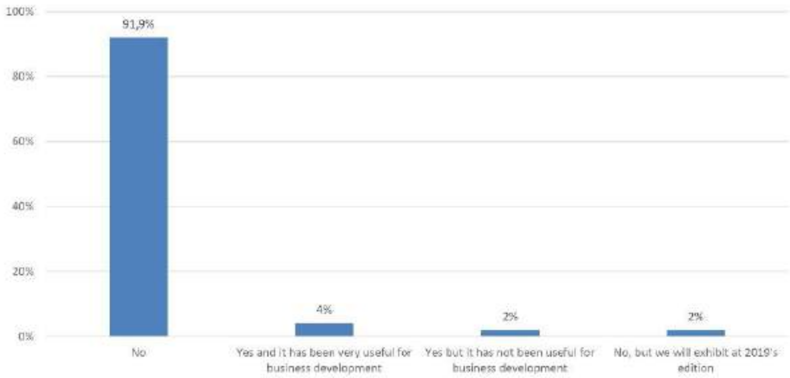
Do you think that the recently signed Italy-China Memorandum of Understanding on BRI will have any impact on your business?



- More than 50% of respondents consider the recent MoU Italy and China signed on BRI positive,
- Services and Trading/Retail sectors are the ones where the large majority of companies (70,5% and 66,7% respectively) expect positive impact on their business.

Vast majority of respondents (94%) did not attend CIIE in 2018, 2% declare to exhibit in 2019. Among whom attended in 2018, 2/3 found business opportunities

Was your company an exhibitor at the first edition of CIIE (China International Import Expo) in November 2018?

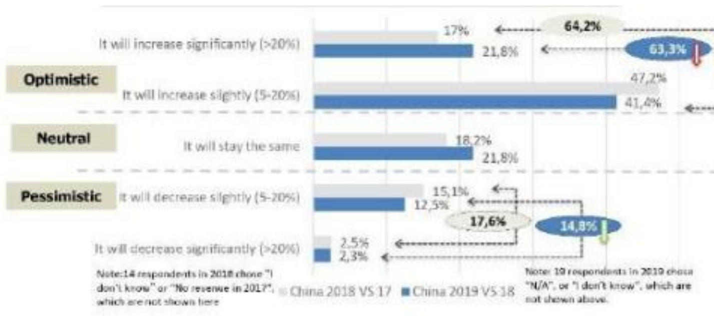


- The vast majority of respondents (94%) did not attend CIIE in 2018,
- 2/3 of whom attended declare CIIE has been very useful for business development, while 1/3 did not find any usefulness.

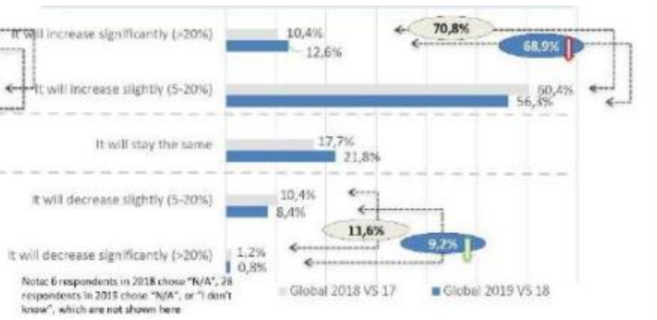
I. Business Outlook

Fundamental outlook on China and global turnover in 2019 are moving consistently, with over 60% optimistic, a slightly drop compared with last year's figures; Over half remain optimistic about China's overall business scenario in the next 5 years

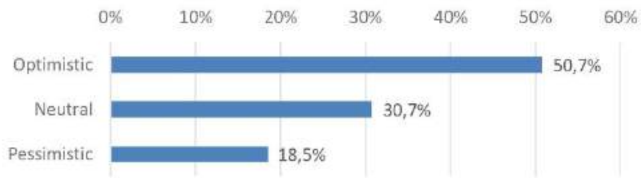
How do you expect your company's turnover in China to be in 2019 compared to 2018? (Compared with last



How do you expect your company's global turnover to be in 2019 compared to 2018? (Compared with last year's)



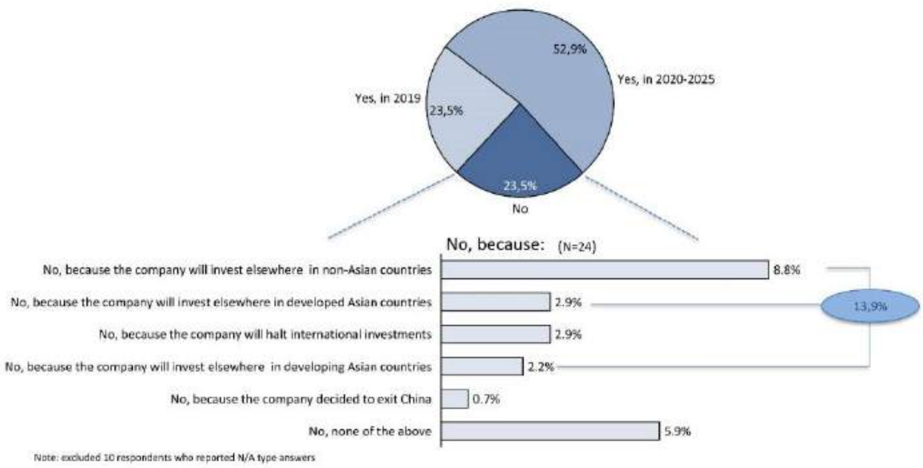
How do you perceive the overall business scenario in China over the next 5 years?



- About 63% respondents are optimistic about their China companies' turnover outlook in 2019, expecting at least 5% increase. The percentage is slightly down from last year (64%),
- About 69% respondents are optimistic about their companies' global turnover outlook in 2019, expecting at least 5% increase. The percentage is slightly less than about 71% last year,
- Over half respondents remain optimistic about China's overall business scenario in the next 5 years.

77% companies are planning to invest further in 2019 or in the next 5 years in China, only 2,1% decide to exit China, while only about 14% not investing in China will invest in other geographies

Is your company planning to further invest (e.g. open new plants, new offices, launch new products, et.) in China in the short-medium term?

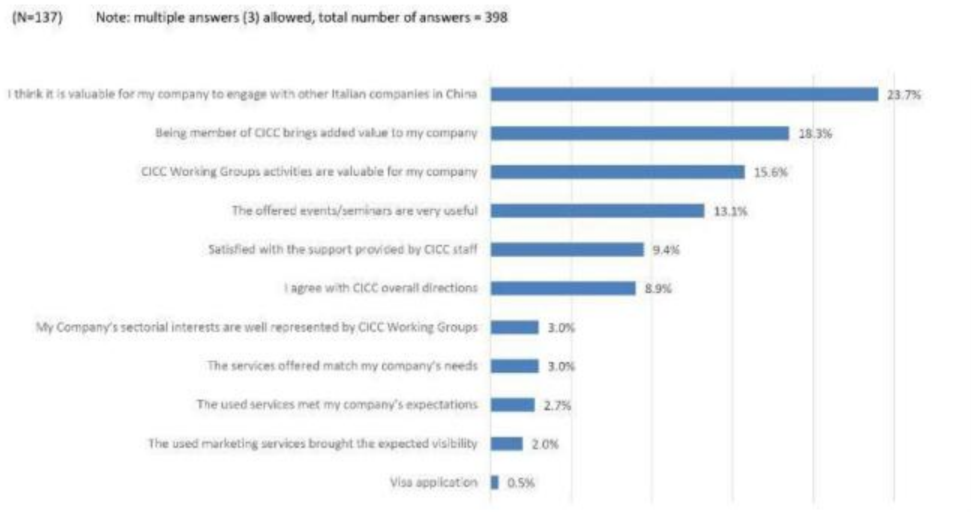


- Almost the whole cross section (97,9%) doesn't intend to divest/exit China over the next years,
- 77% respondents report their companies are planning to invest further in 2019, or in the next 5 years,
- Top reasons for halt further invest in China in short-term are to invest elsewhere in non-Asian countries, developed Asian countries or halt international investment overall, with 9%, 3% and 3% reported respectively,
- About 14% of whom not having plans to invest in China will make investments in other geographies, about 5% in Asian countries,
- 2% respondents report their companies decide to exit China.

J. CICC Services and Activities

Networking and relationship with Institutions is the most important single reason for becoming a CICC member in 2019

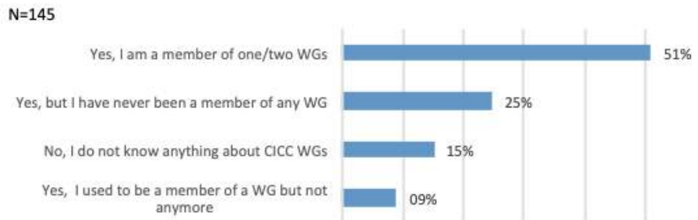
Which are the main reasons that made you renew your CICC Membership? Please tick the 3 most relevant reasons



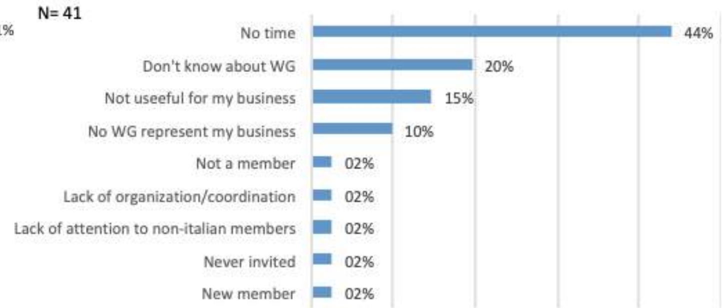
- Networking with other CICC Members and relationship with Institutions is the main reason for renewing Membership in 2019 for 23% of respondents as a single reason,
- Overall services, participation to Working Groups and Events/Seminars are reference choices for about 30% of respondents.

Working Groups are significantly participated by CICC Members (MEWG, EEPWG, HCWG at 40% of WG active Members), while about 15% of Members do not even know the existence of WGs

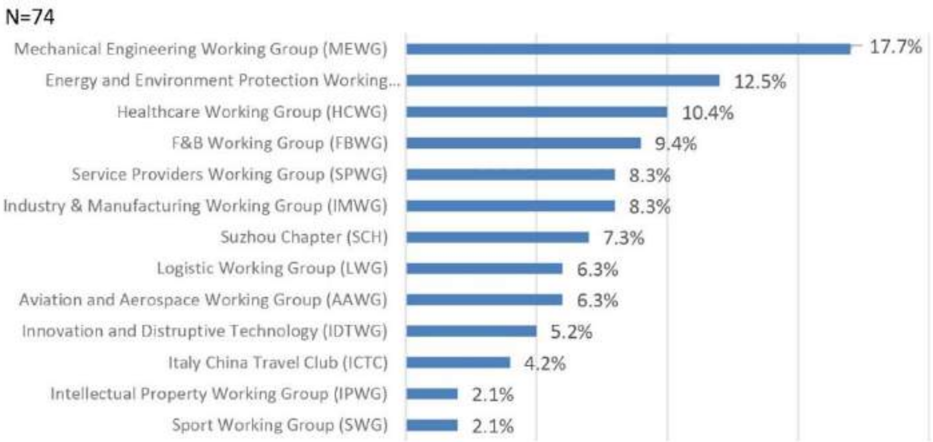
Are you aware of CICC Working Group (WGs) activities?



Why have you not participated as a Member of CICC Working Group (WGs) or stopped doing so?



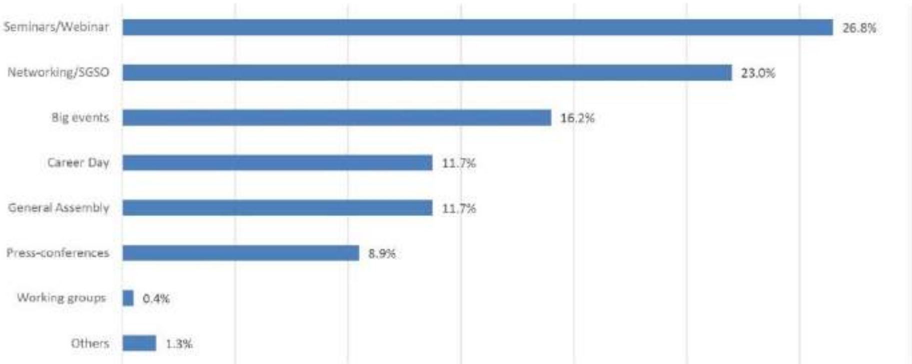
If you are a member of any CICC Working Group, please specify which WGs you belong to (max 2)



- About 85% of CICC Members are aware of the existence of the WGs, while only half of Members actively participate,
- 15% of the Members do not know anything about the existence and activities of the WGs, while 9% used to participate but abandoned,
- More than 40% of Members participating to WGs (about 20% of CICC Members) participate to MEWG, EEPWG and HCWG,
- Majority (44,9%) of Members not participating to WGs claim lack of available time, about 20% do not know about WGs while about 25% doesn't find any advantage or their business not represented by any WG.

Seminars/webinars and Networking (including big events) activities are the most appreciated activities from CICC (65,5%)

What CICC activities do you consider to be more valuable to your company? Tick the top 3 by usefulness to your business

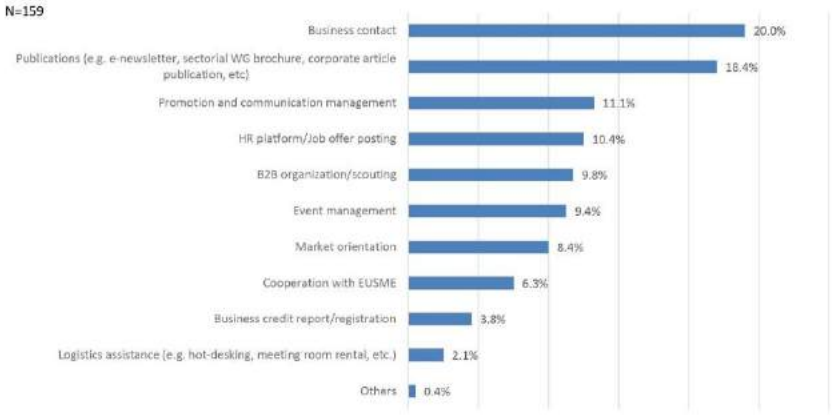


Note: 472 answer from 159 respondents since it's multi-choice question, including 15 respondents' 42 answers from Friends of the Chamber

- Seminars/webinars and Networking are appreciated by the vast majority of respondents (65,5%).

Providing/facilitating business contacts and publications are considered the most valuable CICC services by (38,4%)

Which CICC services do you consider to be more valuable to your company? Tick the top 3 by usefulness to your business

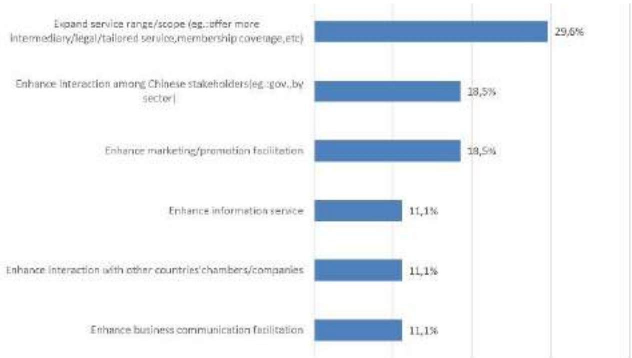


Note: included 15 answers from Friends of the Chamber

- Providing/facilitating business contacts and publications are considered the most valuable CICC services by (38,4%), followed by promotion and communication management and HR related services (21,5%),
- Lack of interest for logistics assistance and admin services,
- Lack of knowledge of possible value brought by EUSME.

Expand service range/scope, enhance interaction among Chinese stakeholders, and Enhance marketing/promotion facilitation are the top 3 aspects CICC could do better

What do you think CICC could/should do to better support your business in China?



- Expanding Services is the most shared request to CICC (30% of respondents),
- Significant call for major exposure toward Chinese stakeholders (19%) as well as enhancing marketing/promotion facilities (19%) are the second shared requests to CICC from Members.

Although limited in numbers (9) some respondents have provided valuable suggestions for extending CICC services …

What other CICC activities would you recommend in addition to the existing ones?

Trade events
Update regulations
Chinese lessons for businessmen (online services)
Executive training
Seminars
More seminars on disruptive issues
Knowledge sharing (real content, press releases, reports, something structured
More seminars, company visits, benchmarking activities
Yearly planning

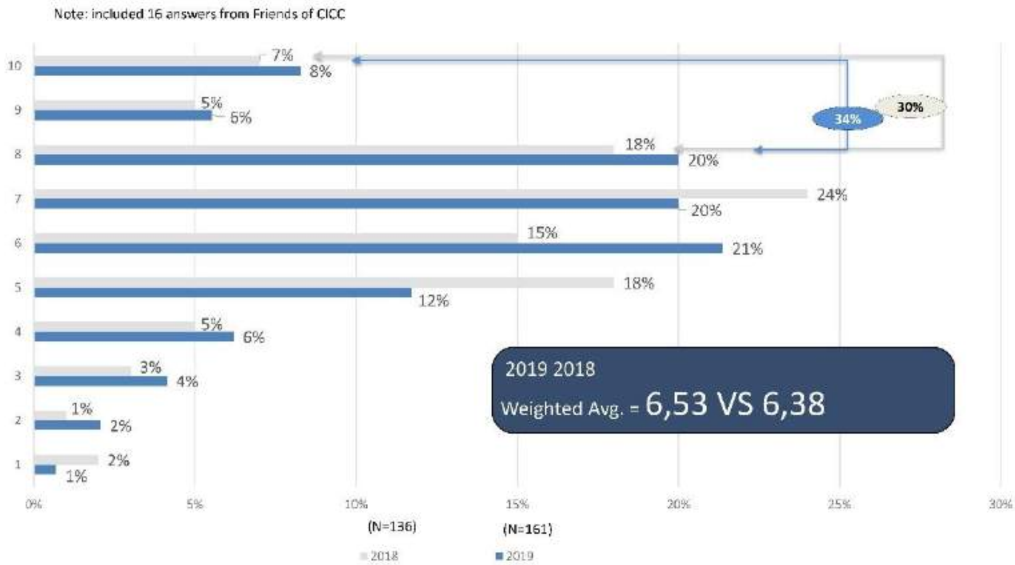
… as well as indications for topics to be addressed in future seminars/workshops

Which topics would you like CICC to cover in future seminars/workshops?

Chinese consumers
Visa, tax reform, and other regulation change
Environmental protection technologies. Approaching of Catholic Church to China
Comprehensive update on new laws issued by Government
Specific topics related to the business in China
Medium-long term business trends/opportunities by market (where to invest?)
AI, Geopolitical Topics
1) Opportunities for companies linked to the newly signed BRI MOU (practical/ with key players/ vademecum), 2) Focus on Cultural Forum Ita/China - hot topics, what can be done by a SME/ if anything can be done
IIT rules, IoT, how to get more business opportunities
IPR, F&B, HR laws

Overall satisfaction of CICC services slightly increased on average in 2019 (weighted avg 6,53 in 2019 vs. 6,38 in 2019), while highest ranking (9-10) increased

Overall, how satisfied are you with CICC? (1 very unsatisfied, 10 very satisfied)



- Overall satisfaction vs. CICC weighted average about slightly increased vs last year (6,53 vs. 6,38),
- Respondents giving a score >= 8, increased vs. 2018 edition (34% vs. 30%), while respondents giving a score <= 3 remained substantially the same as in 2018.

K. About Int3act

In3act is an independent Business Strategy and Investment Advisory firm mainly focused on solving challenging business issues and programs, originating creative business ideas for growth and supporting Clients in strategies deployment trough hands-on, although rigorous, approaches in all industrial and services sectors, including the set up of international strategic M&A deals.

We have been founded in 2004 by Guido D. Giacconi and Davide Roncaglioni – both with long experiences as Partners in primary Business Strategy leading firms (McKinsey, Bain, Booz Allen & Hamilton, Value Partners and Roland Berger). We are Italian by origin, European by nature and selectively global by ambition and business coverage focus. We have established our presence and practices in Europe, China, Russia and USA, able to cover all geographies through a qualified network of high rank partners.

In China we are operative since 2006 serving both foreign and Chinese Companies - including the Chinese Government for strategy projects - in key sectors such as Energy, Greentech, Automotive, Automation, Healthcare, Agriculture, Consumer and Luxury Goods, Real Estate, Fintech, etc.

Our clients are primarily large MNCs but also SMEs which are assisted through programs specifically tailored to the company requirements, culture, finance and organization peculiarities.

Our approach is always data and facts based relying only on rigorous quantitative analysis, interpreted through objective and integer approaches. The prominence of senior profiles in the organization guarantees the right and effective mix of pragmatism and rigor in carrying out analysis and raising business effective advices and recommendations.

L. About China-Italy Chamber of Commerce

The China-Italy Chamber of Commerce (CICC) is a business organization recognized by both the Italian Government (Ministry of Economic Development, MiSE) and People's Republic of China (Ministry of Civil Affairs, MoCA) since 1991. With offices in Beijing, Chongqing, Guangzhou, Shanghai and Suzhou, CICC aims at boosting the internationalization and localization of Italian business and to promote the "Made in Italy" in the PRC.

The CICC offers informative, training and business networking opportunities to companies settled in China and those with on-going business within the Chinese market and qualifies itself as a voicing platform for them to share topics of common interest. To companies interested in strengthening their business in China, the CICC offers consultancy, assistance and marketing services.

For more than 20 years, CICC has worked closely with its Members (more than 600 in 2018) and partners, who represent the Italian Business community in China, to promote the internalization of companies. With its Members, CICC has established 8 working groups covering those sectors considered as the most important and strategic for Italian companies in China. The aims are to share information, resources and ideas and to build sectorial expertise within the CICC in order to voice SMEs' needs to both Chinese and Italian institutions.

Beijing office

Address: 3-2-21 Sanlitun Diplomatic Residence Compound
Gongtibeilu No.1 Chaoyang Distric,
100800 Beijing, China
Tel: 0086-10-85910545
Fax: 0086-10-85910546
Email: info@cameraitacina.com

Guangzhou office

Address: Room 948, Garden Hotel 368 Huanshi Dong Road, Garden Tower
510064 Guangzhou, China
Tel: 0086-20-83652682
Email: infoguangdong@cameraitacina.com

Suzhou office

Address: 15F-1503, International Commerce Tower, No.28 Shishan Road, SND
215011 Suzhou, China
Tel: 0086-512-68759080
Email: sh.projects@cameraitacina.com

Chongqing office

Address: Floor 20th, Chongqing Lianjiang International Cooperation Centre,
No. 6 Huang Shan Avenue Liangjiang New Zone Chongqing
401121 Chongqing, China
Tel: 0086 23 81156589
Email: infochongqing@cameraitacina.com

Shanghai office

Address: Room 307, 3th floor U-Cube Center,Block 6, XinJian Building,No. 631
Jiangning Road, Jing'an District
200040 Shanghai, China
Tel: 0086-21-61351313
Email: infoshanghai@cameraitacina.com