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**PRADA** spa

## **Italian Tax Booklet 2018**

*(Version updated as at August 30<sup>th</sup> 2018)*

Guidance Note on the treatment of withholding tax on  
dividends, capital gains tax and financial transaction tax

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## 1. SUMMARY

### ***(A) General remarks***

This Booklet contains:

1. a description of the Italian tax law concerning:
  - i) withholding tax on dividend distributions from, and
  - ii) capital gain tax on the sale of shares issued by PRADA S.p.A. (hereinafter, “PRADA” or the “Company”), a company incorporated in Italy which has its ordinary shares (“Shares”) listed on the Hong Kong Stock Exchange; and
2. a general description of:
  - i) the law on financial transaction tax in Italy, as may be applicable to Shareholders; and
  - ii) other tax and duties imposed under Italian law, as may be applicable to Shareholders.

As the Company is an Italian resident entity subject to Italian tax law, dividends distributed by the Company and capital gains realized through the sale of Shares may be subject to tax in Italy, as well as in the tax jurisdiction in which the recipient/seller is resident for tax purposes.

The description of the relevant Italian tax law contained in this Booklet is based upon Italian law and regulations currently in force and official interpretations published by the Italian tax authorities as at the date of this Booklet.

Law and regulations and their interpretation are subject to change and these amendments may have retroactive effect.

PRADA is not required to produce an updated version of this Booklet. It will be necessary, therefore, for investors to seek advice on the tax consequences of investing in the Shares. Further, this Booklet is provided for information purposes only and is not intended to be, nor should it be construed as, legal or tax advice.

The Italian tax regime applicable to dividends and capital gains may vary depending upon whether the Hong Kong Stock Exchange is a “regulated stock market” in accordance with Italian regulatory and tax law. Currently, the interpretations issued by the Italian Revenue Agency on the definition of “regulated stock market” appear to exclude from its scope the Hong Kong Stock Exchange. If the Italian Revenue Agency issues a ruling on this topic, the Company will make an announcement to inform investors of this development and the consequences thereof.

In the paragraphs that follow, the treatment of (i) withholding tax on the Company’s dividend distributions, (ii) capital gains tax on the sale of Shares by Shareholders (whether individual or corporate, resident or not resident in Italy), and (iii) financial transaction tax on transfer of shares is described.

Unless otherwise specified, references in this Booklet to the “Shareholder” or to the “taxpayer” shall include beneficial owners of Shares even if legal title is held through another entity e.g. a nominee Company such as HKSCC Nominees Limited.

**The Company recommends that all Shareholders should consult their professional advisors in order to understand the taxation consequences of purchasing, holding, disposing of or dealing in Shares or exercising any rights attaching to them and to take all measures necessary in order to comply with Italian law and regulations.**

***(B) Withholding tax on dividend distributions***

Under Italian law, a withholding agent - such as the Company - must apply the correct withholding tax rate at the time of the payment of the dividend and is subject to penalties if it fails to do so.

Different withholding tax rates apply depending on whether (i) the Shareholder is resident in Italy, (ii) the investment is held privately or as part of the Shareholder’s business activities and (iii) the investment is substantial<sup>1</sup>.

Due to the inherent characteristics of the Hong Kong Central Clearing and Settlement System (“CCASS”), the Company is not able, at the time of the payment of dividends, to ascertain the identity and the tax residency of the beneficial owners of Shares who hold their investments through CCASS. The Company is therefore not able to apply a rate of withholding tax on an individual basis to such beneficial owners of Shares.

In addition, CCASS does not have the capacity to attribute to each CCASS participant (and, accordingly, to each beneficial owner of the Shares) its respective share of distributed profits with the purpose of enabling the Company to apply the proper withholding tax rate (if any).

As a consequence, the Company will, upon distribution, apply a withholding tax on the whole amount of dividends payable to such beneficial owners at a rate equal to 26%, which is the current ordinary rate for dividends paid to non-Italian residents on or after July 1<sup>st</sup>, 2014.

Subject to the provisions of any applicable double taxation convention, the rate of withholding tax may be reduced. Shareholders who have paid tax on the dividend in another jurisdiction may also claim a credit refund equal to the lower of 11/26<sup>th</sup> of the Italian withholding tax levied and the foreign tax actually paid on the dividend.

Shareholders entitled to a reduced (or to zero) withholding tax may seek to recover the excess amount of tax paid through a refund procedure initiated with the Italian Revenue Agency.

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<sup>1</sup> Under provision set by Law dated December 27<sup>th</sup>, 2017 No. 205 article 1, from paragraph 999 to 1006, starting from January 1<sup>st</sup> 2018, the taxation of dividends – depending on applicable circumstances - has been changed (please see paragraph 3 below for more details).

***(C) Capital gains tax on sale of shares (CGT)***

Capital gains realized by non-Italian resident shareholders from the sale of Shares are subject to taxation in Italy if the participation is in an Italian company.

Capital gains realized from the sale of Shares are subject to a substitute tax of 26% for sales completed on or after July, 1<sup>st</sup>, 2014<sup>2</sup>.

There is no threshold before a taxpayer is liable to pay capital gains tax on a sale of Shares. Further, capital gains tax is payable on the entire amount of the gain realized.

The amount of tax due in Italy may be reduced or exempted pursuant to any applicable double taxation convention. A full exemption applies to Shareholders resident in jurisdictions which allow the exchange of information with Italy. Hong Kong is now included among these jurisdictions as a Double Taxation Agreement (the "DTA") has been signed between the Government of the Hong Kong Special Administrative Region of the People's Republic of China and the Government of the Italian Republic and has entered into force (for further details please refer to paragraph 2(B)).

***(D) Financial Transaction Tax on transfer of shares (FTT)***

The transfer of the ownership of financial instruments (mainly shares and other participating financial instruments) issued by companies resident in Italy, wherever executed and regardless the residence of the parties involved in the deal, are subject to Financial Transaction tax.

The tax rates are equal to 0.10% for transfers of shares, other participating financial instruments issued by Italian resident companies and of securities representing equity investment, executed in regulated stock markets or through multilateral trading facilities and 0.20% for all other taxable transfers. Based on the specific FTT regulations, on the assumption that the Hong Kong Stock Exchange is considered a regulated stock market for FTT purposes, the transfer of Prada's Shares should be subject to 0.10% FTT tax rate. The Company recommends that all Shareholders should consult their professional advisors in order to confirm that the Hong Kong Stock Exchange can be considered (for regulatory perspective) in regular operation and authorized by a National Public Authority with State supervision.

***(E) Taxpayer liable to payment of CGT and FTT***

Even if an investor holds Shares through an intermediary, it is nonetheless the investor, as beneficial owner, who has the obligation to pay capital gains tax and to submit the tax return.

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<sup>2</sup> Depending on applicable circumstances, capital gains realized from the sale of Shares are subject to taxation at progressive rates levied on 58.14% of the capital gains realized starting from January 1<sup>st</sup>, 2018 under provision set by Ministerial Decree dated May 26<sup>th</sup>, 2017. Under provision set by Law dated December 27<sup>th</sup>, 2017 article 1, paragraph from 999 to 1006, starting from January 1<sup>st</sup> 2019, the taxation of capital gains will change (please see paragraph 4 below for more details).

The FTT is due by the persons to which the ownership of shares (including the beneficial ownership) is transferred. Generally, the payment of FTT is executed by financial intermediary involved in the transaction.

## 2. DOUBLE TAXATION CONVENTIONS

### ***(A) Jurisdictions with which Italy has entered into double taxation conventions***

The following is a list of all jurisdictions with which Italy has entered into a double taxation convention (each, a "State") (list published on the Ministry of Finance's official website – <http://www.finanze.gov.it/opencms/it/fiscalita-comunitaria-e-internazionale/convenzioni-e-accordi/convenzioni-per-evitare-le-doppie-imposizioni/>):

Albania	Ethiopia	Mauritius	Former Soviet Union: (1)
Algeria	France	Mexico	Spain
Argentina	Finland	Moldova	Sri Lanka
Armenia	Georgia	Morocco	Sweden
Australia	Germany	Mozambique	Switzerland
Austria	Ghana	Netherlands	Syria
Azerbaijan	Greece	New Zealand	Tanzania
Bangladesh	Hong Kong	Norway	Thailand
Barbados	Hungary	Oman	Trinidad and Tobago
Belarus	Iceland	Panama	Tunisia
Belgium	India	Pakistan	Turkey
Brazil	Indonesia	Philippines	Uganda
Bulgaria	Ireland	Poland	Ukraine
Canada	Israel	Portugal	United Arab Emirates
Chile	Japan	Qatar	Congo
China	Malta	South Korea	Cote d'Ivoire
Croatia	Kuwait	San Marino	Uzbekistan
Cyprus	Latvia	Saudi Arabia	Venezuela
Czech Republic	Lebanon	Senegal	Vietnam
Denmark	Lithuania	Singapore	Former Yugoslavia: (1)
Ecuador	Luxembourg	Slovakia	Zambia
Egypt	Macedonia	Slovenia	
Estonia	Malaysia	South Africa	
Jordan	Romania	United Kingdom	
Kazakhstan	Russian Federation	United States of America	

- (1) *Countries which are the former members of dissolved Federations apply the double taxation convention unless they have subscribed to their own particular tax convention. The double taxation convention subscribed to by the Soviet Union currently applies to Kyrgyzstan, and Tajikistan. The double taxation convention entered into with the former Yugoslavia currently applies to Bosnia and Herzegovina, Serbia and Montenegro.*

Starting from 2016 the DTA between Italy and Hong Kong has entered into force and has become effective (for further details please refer to paragraph (B)).

The Company recommends that all Shareholders should consult their professional advisors in order to check whether new double taxation conventions have been signed and have entered into force between Italy and other countries.

Double taxation conventions may limit the ability of Italy to tax income sourced in Italy, such as dividends and capital gains, arising out of an investment in shares in an Italian company, paid to or realized by non-Italian resident beneficial owners of such shares.

In general, the conventions do not settle procedural questions and each State is free to use the procedure provided in its domestic law in order to apply the limits provided by the convention unless a specific procedure is agreed between the two States. A State can therefore levy tax at a lower rate in accordance with the relevant provisions of the convention, subject to possible prior verification that the taxpayer is entitled to benefit from the convention, or it can impose the tax provided for under its domestic law and subsequently refund the part of that tax that exceeds the amount it is entitled to levy under the provisions of the convention.

#### ***(B) Double taxation convention between Italy and Hong Kong***

The DTA between the Government of the Italian Republic and the Government of the Hong Kong Special Administrative Region of the People's Republic of China has entered into force on August 10<sup>th</sup>, 2015.

Under DTA provisions:

- the withholding tax rate applicable on dividends paid by the Company to an individual and corporate Shareholder resident in Hong Kong (who do not carry on business in Italy through a permanent establishment situated therein) cannot exceed 10% of the gross amount of the dividend; and
- capital gains realized by individual and corporate Shareholders resident in Hong Kong from the sale of the Shares are taxable only in Hong Kong.

Please note that, due to the inherent characteristic of the "CCASS", the Company is not able to ascertain the identity and the tax residency of the beneficial owners of Shares who hold their investments through CCASS, so the Company applies a withholding tax rate of 26% on dividend paid to the individual Shareholders irrespective of their tax residency (included individual Shareholders resident in Hong Kong who can claim a tax refund to the Italian Revenue Agency for withholding tax paid over conventional 10%).

### 3. WITHHOLDING TAX ON DIVIDEND DISTRIBUTIONS

#### ***(A) General remarks***

As stated in paragraph 1(B), due to the inherent characteristics of CCASS, the Company is not able to ascertain the identity, and consequently the tax residence, of the beneficial owners of Shares who hold their investments in CCASS.

The Company is therefore not able to apply a rate of withholding tax on an individual basis to beneficial owners of the Shares who hold through CCASS.

In addition, CCASS does not have the capacity to attribute to each CCASS participant (and, accordingly, to each beneficial owner of the Shares) its respective share of distributed profits with the purpose of enabling the Company to apply the correct withholding tax rate (if any).

As a consequence, the Company will, upon distribution, apply a withholding tax on the whole amount of the dividend payable to such beneficial owners at a rate of 26%, which is the ordinary rate of withholding tax applicable to dividends paid to non-Italian residents.

Shareholders entitled to be charged with a reduced (or no) withholding tax rate may seek to recover the excess amount of tax paid through a refund procedure initiated with the Italian Revenue Agency.

Shareholders should note that delays may be encountered in the process of obtaining a credit refund.

Italian tax law contains anti-avoidance provisions which may disregard the tax effects of the sale and purchase transactions of Shares put in place before a dividend distribution; the purpose of these provisions is to avoid Shareholders receiving a refund of taxes to which they would not otherwise be entitled.

#### ***(B) Rates applicable to individual Shareholders***

##### ***1. Individual Shareholders resident in Italy***

Dividends paid by the Company to individual Shareholders resident in Italy are subject to different tax treatment depending on the following circumstances:

- dividends paid on a substantial and a non-substantial participation not held in a business capacity are subject to a final withholding tax at a rate of 26%<sup>3</sup>.

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<sup>3</sup> Starting from January 1<sup>st</sup> 2018 - under provision set by Law dated December 27th, 2017 No. 205 article 1, from paragraph 999 to 1006 - also dividends paid on a substantial participation not held in a business capacity are subject to a final withholding tax at a rate of 26%.

Please consider the transitional period of the new provision according to which, dividends paid on a substantial participation not held in a business capacity and deliberated from January 1st 2018 to December 31<sup>st</sup> 2022 (but referred to profits earned before January 1st 2018), are subjected to previous tax treatment [i.e. 41.86% of dividends paid on a participation held in a business capacity,



A participation is considered to be “substantial” when it entitles the holder to (i) more than 2% of the voting rights or more than 5% of the capital in companies listed on regulated stock markets (according to Italian law), or (ii) more than 20% of the voting rights or more than 25% of the capital in other companies, including companies listed on non-regulated stock markets (according to Italian law).

On the assumption, based on the interpretations issued by the Italian Revenue Agency, that the Hong Kong Stock Exchange is not regarded as a regulated stock market for this purpose, the thresholds of 20% and 25% would apply before a participation is considered to be “substantial”.

Since the Company has currently issued only ordinary shares, the relevant threshold for determining if a participation is “substantial” or “non-substantial” is whether the participation is of more than 20% of voting rights in the Company.

## 2. Individual Shareholders not resident in Italy

Dividends paid by the Company to non-Italian resident individual Shareholders (who do not carry on business in Italy through a permanent establishment situated therein) are subject to a 26%<sup>4</sup> final withholding tax as a general rule.

Subject to the provisions of any applicable double taxation convention, the rate of withholding tax may be reduced.

Provided that conditions set by article 10 of the DTA are applicable, for dividends paid by the Company on or after January 1<sup>st</sup>, 2016, Hong Kong resident individual Shareholders may claim a credit refund equal to the difference between the tax withheld and 10% of the gross amount of the dividends.

Alternatively, non-Italian resident Shareholders may claim a credit refund equal to the lower of 11/26<sup>th</sup> of the Italian withholding tax levied and the foreign tax actually paid on the dividend in their country of residence. However, this credit refund cannot be enjoyed where a Shareholder seeks relief from double taxation based on an applicable tax convention, i.e. the two forms of juridical double taxation relief are alternatives.

## ***(C) Rates applicable to corporate Shareholders***

### 1. Corporate Shareholders resident in Italy

In general, 95% of dividends paid by the Company to corporate Shareholders resident in Italy should be exempted from tax (the same rules apply to companies adopting IAS/IFRS,

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or on a substantial participation not held in a business capacity, are exempt from tax (60% in the case of dividends paid out of profits of 2007 or previous years, and 50.28% in case of dividends paid out of profits from 2008 to 2016). The remaining 58.14% of the dividends (40% in the case of dividends paid out of profits of 2007 or previous years and 49.72% (in case of dividends paid out of profits from 2008 to 2016) is taxable at progressive rates which range from 23% (for income up to €15,000) to 43% (for income exceeding €75,000)].

<sup>4</sup> See note 1.

except for dividends paid on shareholdings classified as “held for trading” that are fully taxable).

No withholding tax is levied upon distribution.

## *2. Corporate Shareholders not resident in Italy*

Dividends paid by the Company to non-Italian resident corporate Shareholders (who do not carry on business in Italy through a permanent establishment situated therein) are subject to a 26%<sup>5</sup> final withholding tax as a general rule.

Subject to the provisions of any applicable double taxation convention, the rate of withholding tax may be reduced.

Provided that conditions set by article 10 of the DTA are applicable, for dividends paid by the Company on or after January 1<sup>st</sup>, 2016, Hong Kong resident corporate Shareholders may claim a credit refund equal to the difference between the tax withheld and 10% of the gross amount of the dividends.

Alternatively, non-Italian resident corporate Shareholders may claim a credit refund equal to the lower of 11/26<sup>th</sup> of the Italian withholding tax levied and the foreign tax actually paid on the dividend in their country of residence. However, this credit refund cannot be enjoyed where a Shareholder seeks relief from double taxation based on an applicable tax convention, i.e. the two forms of juridical double taxation relief are alternatives.

Special rules apply, among others, for dividends paid to European Union (“EU”) or European Economic Area (“EEA”) “white listed” companies<sup>6</sup>, which are subject to a 1.2% withholding tax; in this case the 11/26<sup>th</sup> credit refund would not be applicable<sup>7</sup>.

### ***(D) Tax withheld at source by the Company***

As stated above, dividends paid by the Company to non-Italian resident Shareholders (who do not carry on business in Italy through a permanent establishment situated therein) are generally subject to a 26% final withholding tax, which is withheld by the Company upon payment of a dividend.

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<sup>5</sup> See note 1.

<sup>6</sup> “White listed” companies are those companies resident in jurisdictions which allow an adequate exchange of information with Italy.

<sup>7</sup> Furthermore, following the implementation of the 2011/96/EU European Union Parent-Subsidiary Directive (the “Directive”) of November 30<sup>th</sup>, 2011 (as amended by 2015/121/EU Directive), a withholding exemption applies if the corporate shareholder meets the following requirements:

- it is resident for tax purposes in an EU Member State;
- it is incorporated in one of the forms listed in the Annex to the Directive;
- it is subject to one of the taxes listed in the Annex to the Directive, without benefiting from an exemption, unless temporarily or territorially limited; and
- it holds at least 10% of the capital of the subsidiary for at least one uninterrupted year.

The parent-subsidiary regime is not available in the case of transactions falling within the scope of the so called “abuse of law” rule, which is aimed at disowning non-economic transactions that carry undue tax advantages.

As explained in sub-paragraph (A) of this section, due to the inherent characteristics of CCASS, the Company is not able to ascertain the identity, and consequently the tax residence, of the beneficial owners of the Shares who hold their investments in CCASS. As a consequence, the Company will, upon distribution, apply a withholding tax on the whole amount of the dividend payable to such beneficial owners at a rate equal to 26%, which is the ordinary rate applicable to dividends paid to non-Italian residents.

***(E) Credit refund procedure***

Where no double taxation convention is applicable, non-Italian resident Shareholders may claim a partial refund equal to the lower of 11/26<sup>th</sup> of the Italian withholding tax levied and the foreign tax actually paid on the dividend in their country of residence. However, if the dividend is not subject to final taxation in Shareholder's country of residence, the non-Italian resident Shareholder will not be entitled to receive any credit refund.

In order to be entitled to the credit refund, the non-Italian resident Shareholder must (i) provide evidence of being resident for tax purposes in its home jurisdiction, by way of a certificate issued by the relevant tax authority in that jurisdiction and (ii) demonstrate that a final tax on the same dividend has been paid, by means of proper documentation issued by the above mentioned tax authority.

Where double taxation convention is applicable, non Italian resident Shareholder may claim a partial or full refund of the Italian withholding tax levied. For the request of the credit refund official forms have been issued by the Italian Revenue Agency<sup>8</sup>.

A credit refund request, if any, must be filed with the Italian Revenue Agency by the Shareholder not later than 48 months following the date on which the tax on the dividend is finally paid by the Shareholder in its home jurisdiction.

Shareholders should note that delays may be encountered in the process of obtaining a credit refund.

**4. CAPITAL GAINS TAX**

***(A) Rates applicable to individual Shareholders***

***1. Individual Shareholders resident in Italy***

Capital gains realized by individual Shareholders upon a disposal of the Shares for consideration (i.e. not as a gift) are subject to the following tax treatment:

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<sup>8</sup> A copy of the forms, along with the related instructions, are available on the Italian Revenue Agency's website

- capital gains realized through the sale of a non-substantial participation not held in a business capacity are fully (i.e. 100%) subject to a substitute tax of 26% on capital gains realized;
- 41.86% of capital gains realized through the sale of a participation (qualifying for the “Participation exemption” regime described in paragraph (B) below) realized starting from January 1<sup>st</sup> 2018 held in a business capacity or of a substantial participation not held in a business capacity are exempt from tax. The remaining 58.14% of the capital gains are taxable at progressive rates which range from 23% (for income up to €15,000) to 43% (for income exceeding €75,000);
- capital gains realized through the sale of a participation (not qualifying for the “Participation exemption” regime described in paragraph (B) below) held in a business capacity are fully (i.e. 100%) taxable at progressive rates (which range from 23% - for income up to €15,000 - to 43% - for income exceeding €75,000).

Starting from January 1<sup>st</sup> 2019 capital gains realized through the sale both of a substantial and a non-substantial participation not held in a business capacity are fully (i.e. 100%) subject to a substitute tax of 26%.

## 2. Individual Shareholders not resident in Italy

Capital gains realized by non-Italian resident individual Shareholders (who do not carry on business in Italy through a permanent establishment situated therein) on the sale of Shares are subject to the following tax treatment:

- capital gains realized through the sale of a non-substantial participation in Italian companies listed on non-regulated stock markets (according to the interpretation issued by Italian Revenue Agency, the Hong Kong Stock Exchange is a non-regulated stock market) are fully (i.e. 100%) subject to a 26% substitute tax. In this case, the Shareholder is required to file a tax return in Italy. A full exemption applies to Shareholders resident in jurisdictions which allow the exchange of information with Italy; Hong Kong is among these jurisdictions starting from January 1<sup>st</sup>, 2016 for Italian perspective. **Individual Shareholders resident in Hong Kong will not therefore be subject to capital gains tax and will not be required to file a tax return in Italy for capital gains realized on or after January 1<sup>st</sup>, 2016 from the sale of the Shares;**
- 41.86% of capital gains realized through the sale of a substantial participation starting from January 1<sup>st</sup> 2018 in all Italian companies i.e. not listed, listed on a non-regulated stock market or listed on a regulated stock market (according to the interpretation issued by Italian Revenue Agency, the Hong Kong Stock Exchange is a non-regulated stock market) are exempt from tax. The remaining 58.14% of the capital gains are taxable at progressive rates (which range from 23% - for income up to €15,000 - to 43% - for income exceeding €75,000). In this case, the Shareholder is required to file a tax return in Italy (please note that under the DTA entered into force between Italy and Hong Kong, capital gains realized on or after

January 1<sup>st</sup>, 2016 by individual Shareholders resident in Hong Kong from the sale of the Shares are taxable only in Hong Kong);

- capital gains realized through the sale of a non-substantial participation in Italian companies listed on regulated stock markets (according to the interpretations issued by Italian Revenue Agency the Hong Kong Stock Exchange is a non-regulated stock market) are not regarded as Italian-sourced income (i.e. they are not subject to tax in Italy).

Starting from January 1<sup>st</sup> 2019 capital gains realized through the sale of a substantial participation not held in a business capacity are fully (i.e. 100%) subject to a substitute tax of 26%. In this case, the Shareholder is required to file a tax return in Italy. A full exemption applies to Shareholders resident in jurisdictions which allow the exchange of information with Italy; Hong Kong is among these jurisdictions starting from January 1<sup>st</sup>, 2016 for Italian perspective. **Individual Shareholders resident in Hong Kong will not therefore be subject to capital gains tax and will not be required to file a tax return in Italy for capital gains realized on or after January 1<sup>st</sup>, 2016 from the sale of the Shares.**

The amount of tax due in Italy may be reduced or eliminated pursuant to any applicable double taxation convention.

***(B) Rates applicable to corporate Shareholders***

***1. Corporate Shareholders resident in Italy***

According to the “Participation exemption” regime, capital gains realized upon a disposal of shares in an Italian joint stock company by a corporate Shareholder resident in Italy are 95% exempted, provided that the following requirements are met:

- a) the participation has been held continuously from the first day of the 12<sup>th</sup> month prior to that of the disposal;
- b) the participation was classified as a fixed financial asset in the first balance sheet closed after the acquisition (in the case of companies adopting IAS/IFRS, shareholdings are deemed to be fixed financial assets if they are not held for trading);
- c) the subsidiary is resident in a “white list” country; and
- d) the subsidiary carries on a commercial activity.

The last two conditions must have been met since the beginning of the third year preceding the year of the disposal and, in the case of shares held in a holding company, they should be tested with reference to its subsidiaries.

Where one of these conditions above is not met, capital gains are fully taxable at the ordinary rate of 24%<sup>9</sup>.

The same tax regime applies to capital gains realized by a non-Italian resident corporate Shareholder upon a disposal of shares held through a permanent establishment in Italy (i.e. shares are effectively connected with the permanent establishment).

## 2. Corporate Shareholders not resident in Italy

Capital gains realized by non-Italian resident corporate Shareholders (who do not carry on business in Italy through a permanent establishment situated therein) on sales of shares are subject to the following tax treatment:

- capital gains realized through the sale of a non-substantial participation in Italian companies listed on non-regulated stock markets (according to the interpretations of Italian Revenue Agency, the Hong Kong Stock Exchange is a non-regulated stock market) are fully (i.e. 100%) subject to a 26% substitute tax. In this case, the Shareholder is required to file a tax return in Italy. A full exemption applies to corporate Shareholders resident in jurisdictions which allow the exchange of information with Italy; Hong Kong is among these jurisdictions starting from January 1<sup>st</sup>, 2016 for Italian perspective. **Corporate Shareholders resident in Hong Kong will not therefore be subject to capital gains tax and will not be required to file a tax return in Italy for capital gains realized on or after January 1<sup>st</sup>, 2016 from the sale of the Shares;**
- 41.86% of capital gains realized through the sale of a substantial participation starting from January 1<sup>st</sup> 2018 in all Italian companies i.e. not listed, listed on a non-regulated stock market or listed on a regulated stock market (according to the interpretations of Italian Revenue Agency, the Hong Kong Stock Exchange is a non-regulated stock market) are exempt from tax. The remaining 58.14% of the capital gains are taxable at the ordinary rate of 24%. In this case, the Shareholder is required to file a tax return in Italy (please note that under the DTA entered into force between Italy and Hong Kong, capital gains realized on or after January 1<sup>st</sup>, 2016 by corporate Shareholders resident in Hong Kong from the sale of the Shares are taxable only in Hong Kong);
- capital gains realized through the sale of a non-substantial participation in Italian companies listed on regulated stock markets (according to the interpretations of Italian Revenue Agency, the Hong Kong Stock Exchange is a non-regulated stock market) are not regarded as Italian-sourced income (i.e. they are not subject to tax in Italy).

The amount of tax due in Italy may be reduced or eliminated pursuant to any applicable double taxation convention.

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<sup>9</sup> Due to amendments in Italian tax law, the corporate income tax rate has been reduced from 27.5% to 24% starting from 2017 (in particular, starting from the fiscal year following the one ongoing on December 31<sup>st</sup>, 2016).

***(C) "Substantial participation"***

A participation is considered to be "substantial" if it entitles the holder to (i) more than 2% of the voting rights or more than 5% of the capital in companies listed on regulated stock markets (according to Italian law), or (ii) more than 20% of the voting rights or more than 25% of the capital in other companies, including companies listed on non-regulated stock markets (according to Italian law).

On the assumption, based on the interpretations issued by the Italian Revenue Agency, that the Hong Kong Stock Exchange is not regarded as a regulated stock market for this purpose, the thresholds of 20% and 25% would apply before a participation is considered to be "substantial".

Since the Company has currently issued only ordinary Shares, the relevant threshold for determining if a participation being sold is "substantial" or "non-substantial" is whether the sale is of more than 20% of voting rights in the Company.

For the purpose of this computation, all disposals of the Shares that occurred within a 12-month period should be aggregated.

***(D) Procedures for computation and payment of capital gains tax***

The following is a summary of the requirements for non-Italian resident Shareholders with regard to capital gains taxable in Italy that are realized through the sale of a non-substantial participation in the Company.

For what constitutes a "substantial" participation, please refer to paragraph (C) above.

For Italian tax purposes, capital gains on shares issued by Italian-resident companies (such as the Company) are, as a general rule, deemed to be sourced in Italy and, consequently, taxable in Italy.

For the purpose of computing the amount of capital gains which are taxable, all disposals of the Shares that occurred within a 12-month period should be aggregated.

The Italian Revenue Agency's website contains a special section in English for non-resident taxpayers which provides general information.

We recommend that Shareholders who are liable to tax in Italy for capital gains realized through the sale of a participation in the Company should consult an advisor who specializes in tax compliance issues for non-Italian resident taxpayers to double check – among others – the capital gain computation, the deadline and methods for the payment.

## 5. TAX RETURN

### ***(A) Tax return***

As stated in paragraphs 4(A)(2) and 4(B)(2), where capital gains have been realized by a non-Italian resident shareholder through the sale of a non-substantial participation in companies listed on non-regulated stock markets (according to the interpretations of Italian Revenue Agency, the Hong Kong Stock Exchange is a non-regulated stock market), or through the sale of a substantial participation in any kind of company<sup>10</sup>, the relevant shareholder is required to file a tax return in Italy.

We recommend that Shareholders who are liable to file a tax return in Italy for capital gains realized through the sale of a participation in the Company should consult an advisor who specializes in tax compliance issues for non-Italian resident taxpayers.

## 6. FINANCIAL TRANSACTION TAX ON TRANSFER OF SHARES

Within this chapter it is provided a general overview of the Italian Financial Transaction Tax (FTT). For further details please make also reference to “Prada – FTT Memorandum” and the related announcements published on Prada’s Corporate web site.

### ***(A) Taxable transactions***

The transfer of the ownership (including the bare ownership) of:

- shares and other participating financial instruments issued by companies resident in Italy and securities representing equity investments regardless of the place of residence of the issuer;
- financial derivatives and transferable securities, provided that the underlying or reference value consists for more than 50% of the market value of the instruments referred to the said shares (and other financial instruments);
- transactions executed on the Italian financial market deemed to be “High-frequency Trading” referred to the said shares (and other financial instruments), financial derivatives and transferable securities, are subject to Financial Transaction Tax.

In the following paragraphs is commented only the impact of the FTT on the transfer of the ownership of the Shares.

### ***(B) Tax rate***

The FTT ordinary tax rates are:

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<sup>10</sup> I.e. companies not listed, listed on a non-regulated stock market or listed on a regulated stock market.



- 0.10%, for transfers of shares, other participating financial instruments issued by Italian resident companies and securities representing equity investment, executed in regulated stock markets or through multilateral trading facilities;
- 0.20% for all other taxable transfers.

Based on the specific FTT regulations, on the assumption that the Hong Kong Stock Exchange is considered a regulated stock market for FTT purposes, the transfer of Prada's Shares should be subject to 0.10% FTT tax rate. The Company recommends that all Shareholders should consult their professional advisors in order to confirm that the Hong Kong Stock Exchange can be considered (for regulatory perspective) in regular operation and authorized by a National Public Authority with State supervision.

***(C) Taxable value***

The value of the transaction subject to FTT is determined on the basis of the net balance of the transactions regulated daily, calculated for each liable person with reference to the number of Shares traded on the same day and relating to the same financial instrument.

The FTT base is the number of Shares resulting from the algebraic positive sum of the final net balances multiplied by the weighted average price of the purchases made on a particular day.

We recommend that Shareholders who are liable to tax in Italy for FTT purpose should consult an advisor who specializes in tax compliance issues to double check – among others – the FTT computation, the deadline and methods for the payment.

**7. OTHER TAX/DUTIES**

***(A) Registration tax, stamp duty and wealth tax***

Transfers of Shares based on contracts executed in Italy before a Notary Public are subject to a lump-sum registration tax of €200.00. This tax is also payable in "case of use" in Italy (e.g. where a contract executed abroad or with different formalities is presented to an Italian registration office or an Italian court).

The sale of Shares is exempt from Italian stamp duty; there is no applicable wealth tax to non-tax residents in Italy.

We recommend that Shareholders who are liable to tax in Italy should consult an advisor who specializes in tax compliance issues.