

2022
**SINO BENELUX BUSINESS
SURVEY**

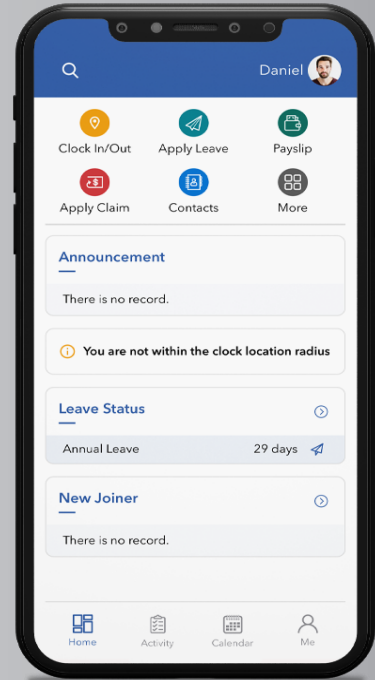
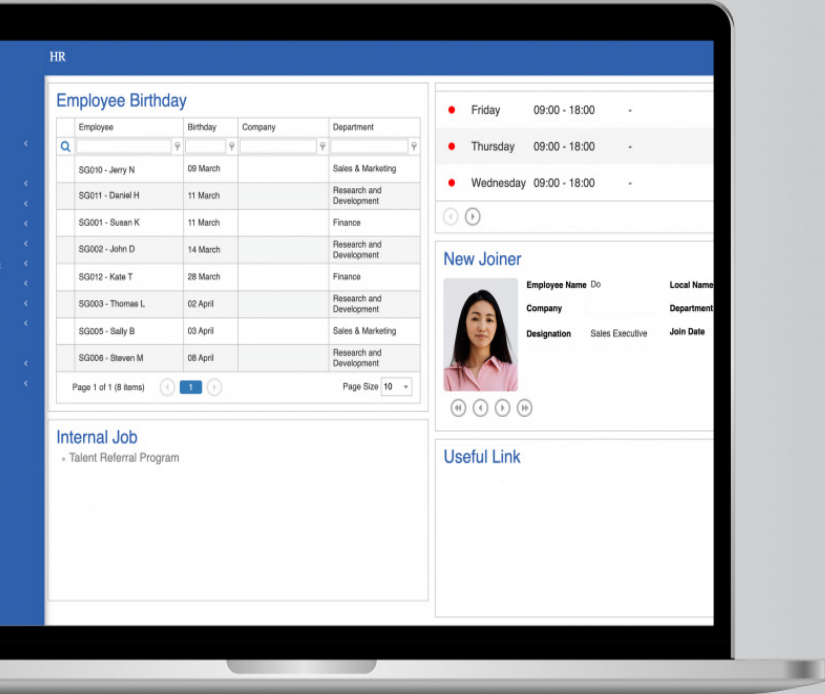
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65%
of HR managers do
not have the ability
to view the payroll

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| Foreword

Coming out of the tumultuous year that was felt across the globe, primarily due to the outbreak of COVID – 19, 2021 was set to be the year of the comeback. The 2022 edition of the Sino Benelux Business Survey served as a depiction of the foreign business sentiment in China over the course of the previous year and start of 2022.

In the past year, while other parts of the world experienced stunted growth due to the outbreak and the aftereffects of it, China made a quick and strong recovery with huge growth in the 1st quarter, which in turn created a positive outlook for the remainder of the year. Although such growth could not be sustained over the entirety of the year, it did create an air of optimism, felt throughout the business community.

Towards the last quarter of 2021, however, growth had slowed and with open travel still not allowed foreign companies had started to feel less optimistic about the opportunities for growth promised earlier in the year.



Raoul Schweicher
Managing Partner
Moore - MS Advisory

The travel restrictions and affected supply chains, combined with increasing challenges in specific sectors, such as technology, had started to turn the sentiment of many foreign individuals and businesses leading into 2022. The Zero-COVID approach that China had adopted, did not help change this sentiment, with many cities going on city-wide lockdowns in the first half of 2022.

While many companies may possess a slightly negative sentiment towards the Chinese business environment heading into the latter part of 2022, the opportunity for growth still exists here. As the leading manufacturer, largest exporter and biggest consumer market in the world, China still remains a pivotal place for global business.

However, it has never been more important to carefully watch your business or operation in China and the market around it. Even though some businesses are considering decoupling from China, many are still willing to weather the storm for the potential that is still there. Whether you choose to unwind your business, decouple or keep both feet in the water, it is important to ensure that this is not only done compliantly but also in line with your internal practices, which will require a more active approach.



Introduction

For the seventh consecutive year, the Sino Benelux Business Survey is an initiative conducted by the Benelux Chamber of Commerce and its 3 chapters across China - North China, East China, South China, and is supported by the official trade and diplomatic representation of Belgium, the Netherlands, and Luxembourg in China. The survey is published in partnership with Moore – MS Advisory and is seen as a fundamental report for the Benelux business community.

The objective of the Sino Benelux Business Survey is to provide Benelux companies – from entrepreneurs, start-ups, SMEs to multinationals – active in the Chinese market, newcomers, and stakeholders such as trade & investment associations and governmental institutions with comparative information about the business climate sentiment and emerging trends.

Throughout the report, a comprehensive analysis is provided about the common experiences, growth opportunities and challenges Benelux companies are facing throughout China. Extensive cross-comparison is made throughout the different sections for over five years which enables us to derive meaningful conclusions.

In the previous editions of the Sino Benelux Business Survey, the results were impacted by the effects of the Covid-19 pandemic on China's domestic economy and the operations of foreign companies in China. Whereas we wrote in the 2021 edition that “*a unique perspective would be given on how Benelux companies are performing in the post-covid 19 pandemic era*”, the reality the companies faced in both 2021 and especially 2022 is that Covid-19 has been more dominant on the society and economy than before.

We trust that this survey and corresponding report will equip the readers with detailed insights about the Chinese business climate Benelux companies are navigating in, and will contribute to improving the market position and overall success of Benelux companies operating in China.

Methodology

The Sino Benelux Business Survey 2022 is published in September 2022 for the seventh consecutive year and remains a fundamental source of information about the Benelux business community in China. The survey captures the perspectives and business sentiment of Benelux companies operating in the Chinese market.

The survey was sent to the Benelux companies between March 2022 and April 2022. During this six-week period, 185 companies responded which is a 15% increase compared to previous year.

The online questionnaire is fully anonymous and was distributed in a joint effort by the Benelux Chamber of Commerce, the official trade and diplomatic representation of Belgium, the Netherlands, and Luxembourg in China, and the Moore - MS Advisory network.

To achieve a high response rate, respondents were asked 32 qualitative and quantitative questions, while maintaining the relevant questions to ensure comparability over time and are grouped over 4 key themes.

- Business Demographics
- Business Performance
- Business Sentiment
- Onward Expectations

Similar to last year, we have one additional category analyzing the impact of COVID-19 on the business confidence and economic impact on the Benelux Companies.

The information presented in this publication was assembled by Moore - MS Advisory.

Shanghai, September 2022

Executive Summary

The 2022 Sino Benelux Business Survey was conducted between March and April 2022. The majority of respondents have their origin in the Netherlands (44.3%), Belgium (36.8%) and Luxembourg (5.4%). A minority of respondents have either strong relations with- or management from the Benelux (13.5%). Of all the respondents, most companies have their offices and facilities in economically strong regions such as Beijing, Shanghai and the Greater Bay Area.

The participants of this survey include a wide range of Benelux companies from different industries and size. The majority of companies can be classified as SMEs, with almost 60% of the companies generating revenues of up to 100mio RMB and employing up to 49 people.

As Business Performance expectations for 2021 were already optimistic, the actual numbers even exceeded said expectations. Profit margins of over 5% were expected by 59% and actually achieved by 68%. Similarly, we observe a strong decrease in respondents with shrinking revenues, as well as a significant increase in companies reporting much higher revenues (>20%) compared to last year.

The main positive drivers for the respondents positively driving their results include Innovation/R&D, Use of Technology and Increased Turnover/Economies of Scale. On the other hand, main negative drivers include Logistic Costs, Salary Costs and Material Costs, where most interestingly, Salary costs isn't the most significant driver for the first time since we started the Sino Benelux Business Survey.

In 2020 we saw an improvement in perception of the market first the first time in several years, but this year, despite the stronger performance in 2021, companies do have a worsening perception of the Chinese market. Perhaps as a result, 30% of the respondents indicated that they would consider moving of their Chinese activities out of China, a significant increase from the 13% reported last year.

After companies in China performed relatively well during the year 2020, considering the impact of Covid-19 globally, most Benelux companies expected no or even a positive impact caused by the pandemic over 2021. However, the results for 2021 indicate that the reality was different, as international and domestic travel, as well as supply chains were still restricted by various Covid measures.

The expectations for the impact of Covid in 2022 are even worse for Benelux companies in China. This is mainly due to the fact that the survey took place during spring 2022 when various cities across China were in Covid related lockdowns. This resulted in 86.9% of Benelux businesses expecting Covid-19 to negatively impact their performance in 2022.

Looking ahead to 2022, expectations are very pessimistic, with 25% of respondents expecting a revenue decrease (compared to 13% this year), and 47% of respondents expecting profit margins of under 5% (compared to 33% this year). Within the group strategy, China is still important to Benelux companies, but we recognized a shift away from considering China with increasing importance to declining importance. This year, 17% of respondents evaluate China with declining importance in their group strategy for the following two years which is almost double compared to 2020. On the other hand, looking at the longer term, respondents were still relatively optimistic, with 51% of respondents indicating to be at least somewhat optimistic for their company's prospect in China for the next five years. However, on the other hand 29% of respondents is at least somewhat pessimistic.

Overall, we conclude Benelux companies reached their business goals in terms of revenue growth and profit margins in 2021. Looking to the future, the prospects of Benelux companies are rather pessimistic. These expectations are assumably mainly impacted by the unpredictable pandemic situation and the corresponding measures implemented by the authorities in China.

Key Facts

Survey Demographics



Benelux businesses in China can be mainly located in the regions of Beijing, Shanghai and Greater Bay Area.



China is one of the most important markets within the group strategy of Benelux companies and they consider the size of the Chinese market as a main reason for operating in the country.

Business Performance



Turnover increase displayed as Revenue Growth is even more profound compared to last year's evaluation.



Benelux companies generated higher Profit Margins than previously expected.



Benelux companies are continuously improving their Innovation & R&D departments as most of the companies have mentioned this positive driver.



Increased Turnover/ Economies of Scale are assessed as most significant performance driver by Benelux companies.



The main negative performance driver is Logistic Costs replacing Salary Costs for the first time.

Business Sentiment



Business Sentiment during 2021 developed worse compared to the previous year.



Benelux businesses faced various HR challenges during 2021, finding qualified personnel and increased labor costs are the most outstanding ones.

COVID-19 Impact



Even though expectations for 2021 were rather optimistic, Covid-related policies and other factors negatively influenced Benelux businesses.



During 2021, the pandemic's impact shifted from abroad to China's domestic.

Onward Expectations



Similar to the first pandemic period, companies are expecting their revenue growth and profit margins to decline.



Benelux companies consider China with declining importance for the following two years and their current investment strategy.



In a five-year outlook the overall perception is rather optimistic compared to the short-term view.

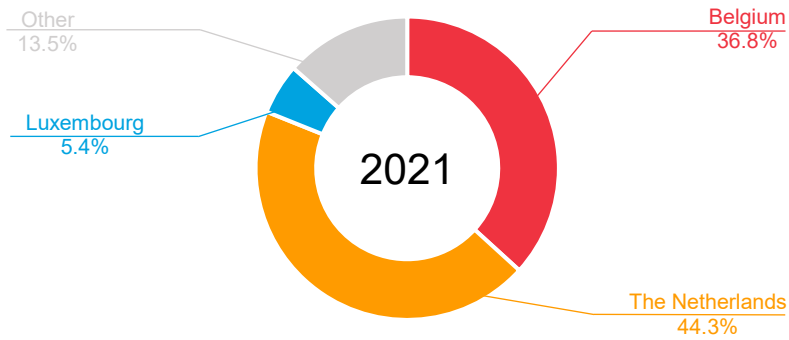


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Demographics

Parent Company Nationality

What is the nationality of the Parent Company or the Beneficial Owners?

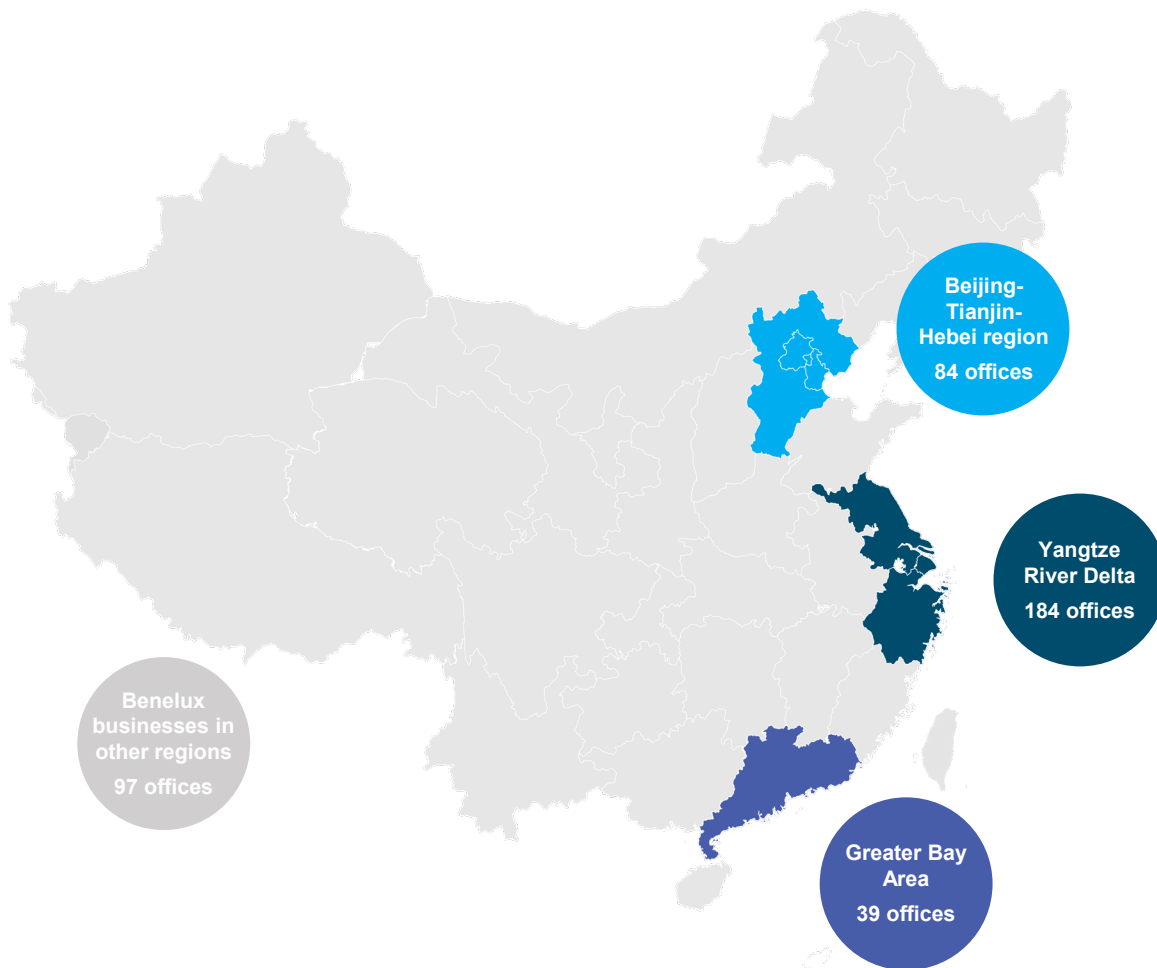


2022 Sino Benelux Business Survey reached the second highest participation since implementing this instrument seven years ago with a number of more than 180 completed questionnaires. Between mid of March and end of April 2022 companies from the Benelux region were asked to participate in this survey. The majority

is represented by Dutch (44.3%), Belgian (36.8%) and Luxembourgish (5.4%) participating with an overall rate of 86.5%. A minority of Others (13.5%) are companies with close contact points to the region either in doing business or by Benelux local executives.

Location of Benelux Companies in China

In which provinces of Mainland China do you have an office/entity?



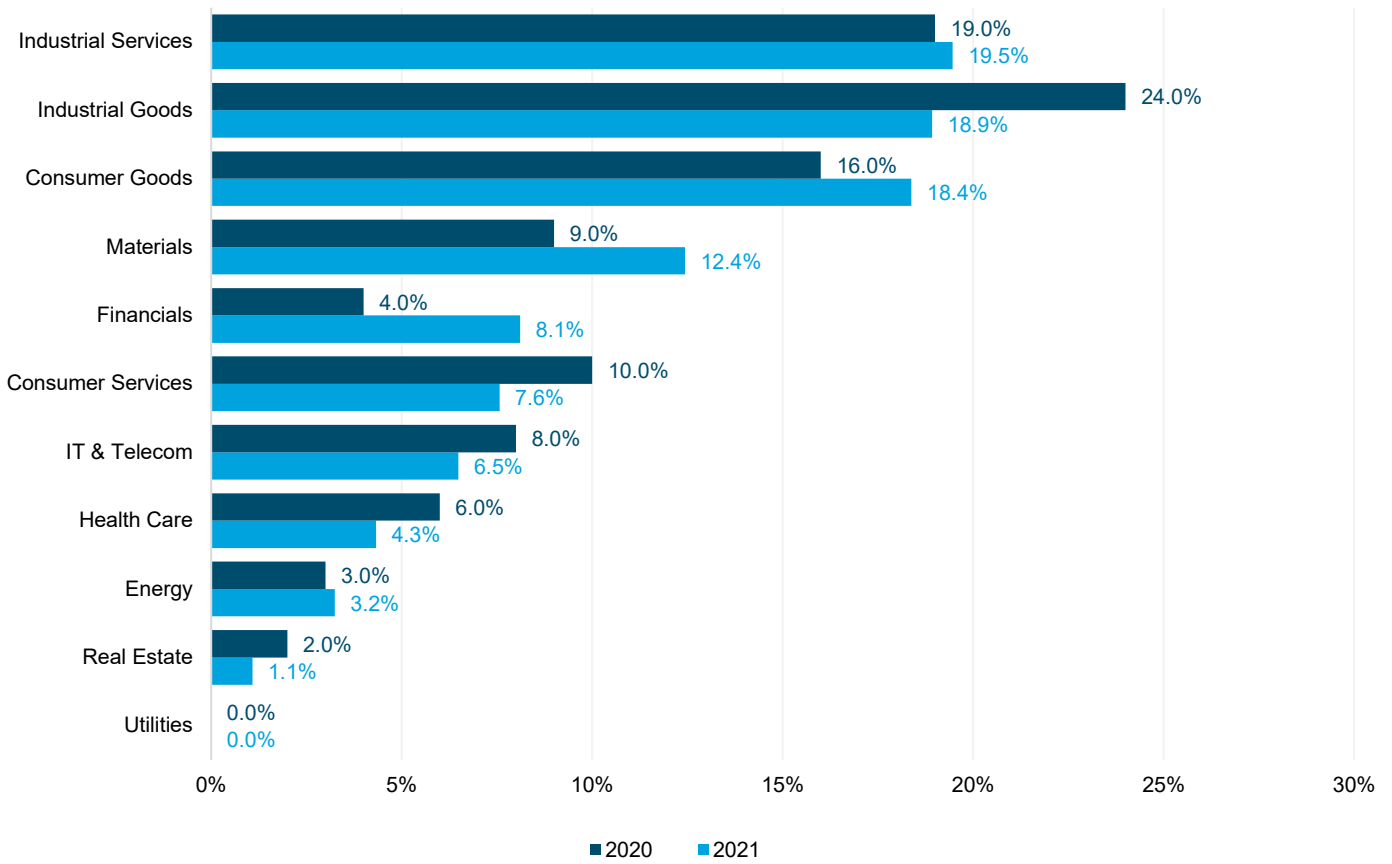
In total, a number of 404 offices of Benelux offices or entities are represented in this analysis whereby more than 75% are located at the three main economical active regions. Starting with 39 Benelux business offices in the Greater Bay Area which covers the Guangdong province at China's south coast resulting in 21.1% of Benelux companies being represented there. This is followed by the northern Beijing-Tianjin-Hebei region covered with 84 Benelux office locations. 45% of respondents are located in that region dividing into 31.9% in Beijing, 9.2% in Tianjin and 4.3% in Hebei province. Almost half of the questioned businesses have an office or entity in the region of the Yangtze River Delta (Shanghai, Zhejiang, Jiangsu) that counts in total 184 and thereby

shows the largest concentration of Benelux businesses in China resulting into a representation of 98.9% of them having an office in this region. Shanghai is with 69.7% by far the city where most Benelux companies are located. 20% of Benelux companies have an office or entity in the Jiangsu province and 9.2% in Zhejiang province. Outside these three main economic clusters, there are 97 offices in total spread across the rest of the country. The inner Chinese provinces are represented evenly within a range between 1% to 4.3% but with a higher concentration of 8.1% of businesses with offices in the Sichuan province.

Note: Respondents were asked in which provinces of Mainland China they have an office. As a result, multiple provinces per respondent could be selected.

Industry sectors in which Benelux companies are active

Business Classification/Sector

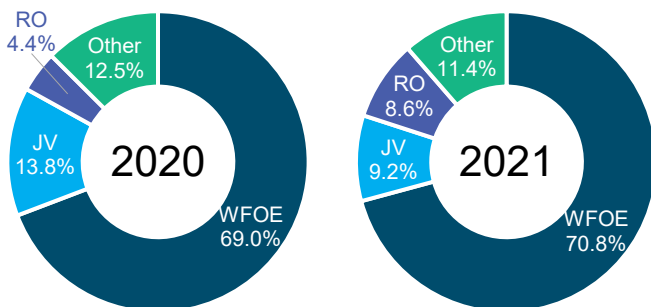


The upper graph shows a wide range of industries that Benelux companies are operating in. The three main industries, Industrial Services, Industrial Goods and Consumer Goods, are covering almost 60% of the businesses and are evenly spread whereby Industrial Goods declined by six percent from the last period. Those are followed by Materials (12.4%) as well as Financials (8.1%) which both show an increased representation of

up to four percent compared to the previous survey. This could have been caused by the positive outlook for the year 2021 and led Financials and Materials industries to increase their business activities in China during this period. Fewer companies active in the Consumer Services sector (7.6%) participated in the survey and the remaining industries took part in a similar incidence as in past editions.

Entry modes in China

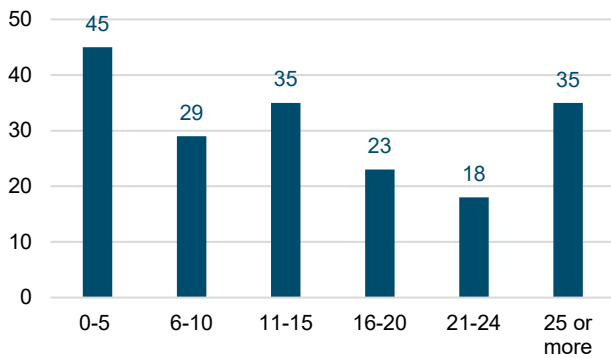
Company Structure in China



Consistent with previous years the most common entry mode to China chosen by Benelux businesses (70.8%) is a Wholly Foreign Owned Entity (WFOE). As companies remain full control of their business in China this result underlines the decision for setting up a WFOE as the most secure one for foreign investors. This is followed by Joint Ventures (9.2%), Representative Offices (8.6%) and other business forms (11.4%). This year, the number of participants operating in a Joint Venture slightly decreased and businesses without commercial activities increased by four percent each.

Company years active in China

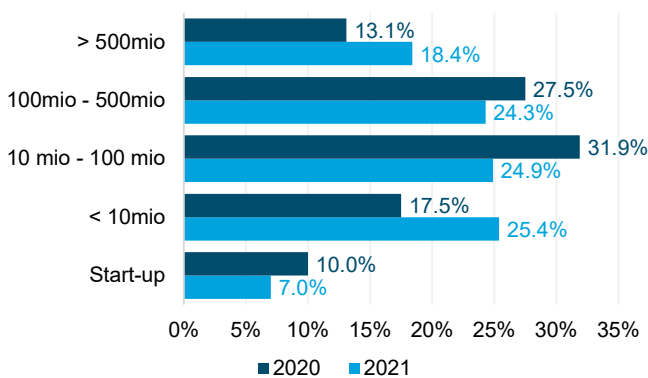
How many years has your company been active in China?



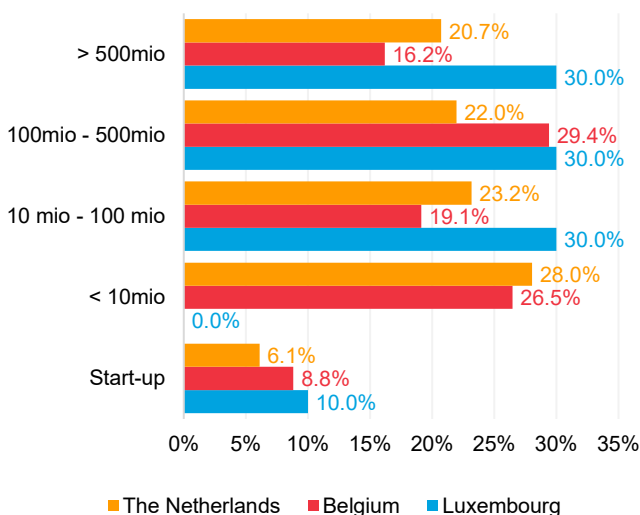
In contrast to the 2021 survey, this year we recognize a huge increase of companies operating in China for more than 25 years. While last year there were 16 participants (10%) active in China for this long, the number has now almost doubled to 35 (19%). On the other hand, there are also more participants operating in the country between 0 and 10 years. This shows Benelux companies are still entering and remaining in the Chinese market also during their early years. Despite, overall this results in an average duration of operation of 14.47 years, which Benelux companies are active within China, an increase of 1.27 years.

Company size in China (in RMB)

What is your company's revenue size in China?



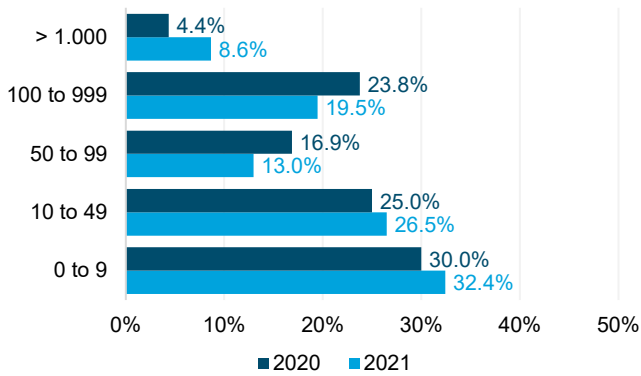
Companies with revenues exceeding 500mio RMB and those with less than 10mio RMB are more strongly represented in this year's survey. Businesses in the middle categories generating revenues from 10mio RMB up to 500mio RMB both declined. Nevertheless, those still make up almost 50% of the companies participating in this report. In addition, Start-ups from the Benelux decreased by three percent resulting in a representation of 7%.



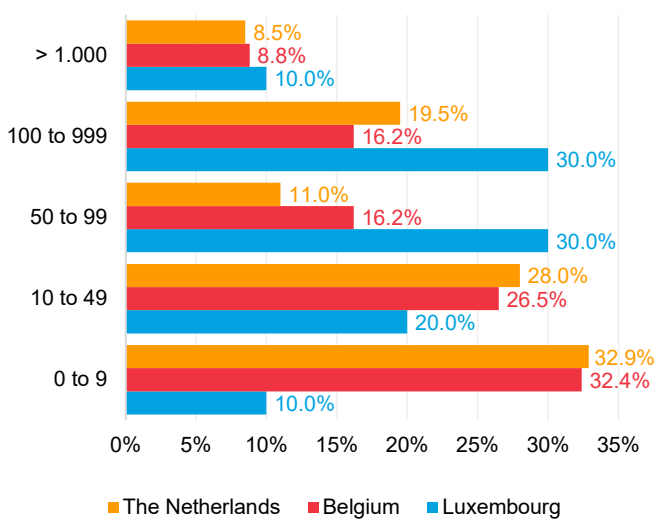
Companies with a revenue of maximum 10mio RMB and not specified as Start-up are represented by the Netherlands (28%) and Belgium (26.5%). Dutch and Belgian companies are mostly (per country ca. 75%) represented by companies with an annual revenue of less than 10mio to 500mio RMB. For Dutch companies, the category with an annual revenue from 100mio to 500mio RMB (29.4%) is represented majoritarian, for Belgian companies this is the case in the revenue category of up to 10mio. RMB (28%).

Size by Employees in China

What is your company's employee count in China?



This year we observe a decrease in company size for companies employing 50 to 999 staff members. On the one hand, it leads to more large enterprises (8.6%) and, on the other hand, to an increase of SME's with a number of employees up to 49 (58.9%) took part in the questionnaire. This indicates that during the previous period Benelux SMEs recovered from the economic downturn in 2020 and had a positive forecast for 2021 in the Chinese market.



Companies employing maximum nine employees is the category represented highest by Dutch (32.9%) and Belgian (32.4%) companies, followed by up to 49 employees with 28% and 26.5%. Enterprises with more than 1000 employees are evenly distributed between Benelux countries.

Expat count per company in China

What is the expat(s) count in your company?

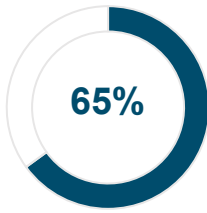


In line with past years, we observe a continued slight decrease in the number of expats working for Benelux businesses. However, even though the decrease was slightly larger than last year, the decrease was still not as profound compared to the drop between 2018 and 2019, and not in line with expectations. From the experience on the ground in China, expectations were that the number of expats per company would be significantly lower. However, considering the impact of lockdowns in various cities in the country in 2022, coupled with the strict border policy limiting new expats entering the country, it is expected the number will drop further in 2022.

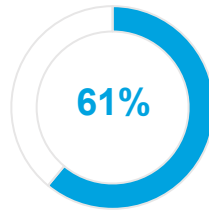
Major Competitors

What are your main competitors in the Chinese market?

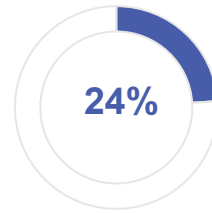
Chinese Private Enterprises



Other Foreign-Invested Enterprises



State-Owned Enterprises

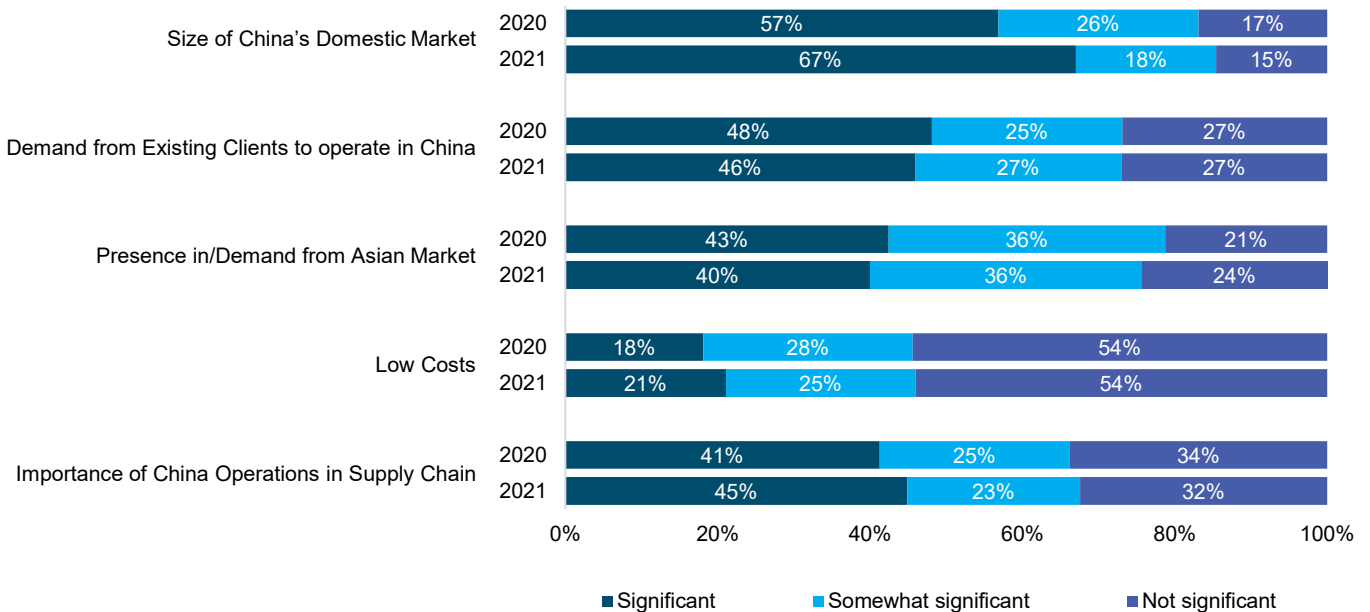


More than 60% of the respondents mention Chinese Private and Foreign Invested Enterprises as their main competitors in the local market. These numbers slightly increased compared to the previous evaluation by two percent showing a stable development in recognizing competitors of Benelux businesses. State-Owned Enterprises are main competitors to only 24% of the analyzed companies possibly due

to highly regulated industries that make it difficult to operate in the Chinese market. Other Foreign-Invested Enterprises are main competitors of Benelux businesses in Financials (87%), Industrial Services (75%) and Health Care (63%). Real Estate (100%), Consumer Goods (74%) and Industrial Goods (66%) are mainly competing with Chinese Private Enterprises.

Reasons for being active in China

What are the strategic reasons to operate in China?

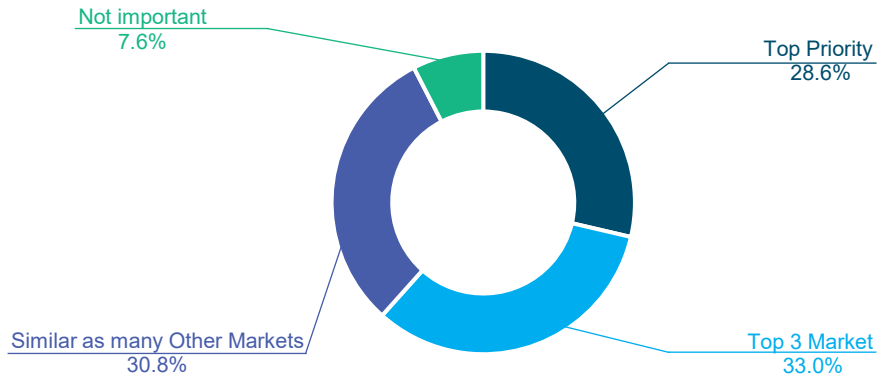


The most mentioned strategic reason for Benelux companies operating in China is the market size (67%) meaning a huge opportunity in doing business and sales in the country. This represents an increase of 10% compared to last year of respondents indicating that this is a significant reason to operate in China for their company. Drivers of this increase are the Materials (78%), IT & Technology (75%) and Health Care (75%) industries ranking the market size as significant. Clients who want their business partners to operate within China (46%) and the importance of its Operations and Supply Chain (45%) are following. Being present in

the Asian market or receiving demand from there are estimated significant by 40% of the participants whereby this strategic reason overall (76%) is more important than the latter two (73% & 68%) for Benelux companies combining significant and somewhat significant answers. Low Costs might have been a reason for companies starting operations in China in the past, nowadays this is mentioned by 54% as not significant. Less than a quarter consider this to be significant. Estimating low costs as significant is mainly driven by Real Estate (50%), Energy (50%) and Industrial Goods (48%).

Importance in Group Strategy

How important is your Chinese entity for your global strategy?

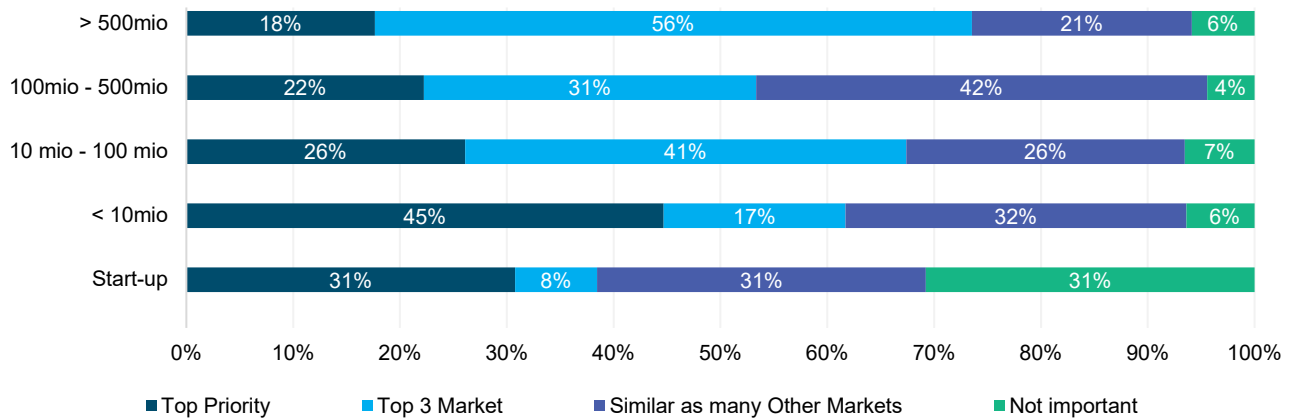


When it comes to the importance of their Chinese entity, the majority of Benelux companies (61.6%) states China as Top Priority (28.6%) or within their top three markets (33%) regarding their global strategy. Even two years after the epidemic outbreak this shows the great importance that the Chinese market still has in the world. Belgian companies consider China as top priority highest

with 34% whereby Luxembourgish companies mention China's importance balanced whether it is considered as similar to other markets or belonging to the top three markets. Divided by industry, the Energy sector fully considers China as within their top three markets and Consumer Goods by 71% which shows a decrease of importance for them by nine percent this year.

Importance in Group Strategy - by Revenue Size

How important is your Chinese entity for your global strategy?



Breaking this down into revenue size, we recognize that especially for large companies exceeding an annual revenue of 500mio RMB (74%) but also for smaller businesses not classified as Start-up, the majority considers China as belongs to within their top three markets. The country represents the top priority market for 45% of Benelux companies with a revenue of up to 10mio

RMB. This year, Start-ups participating in the survey mention China as within their top three (39%), similar to other markets (31%) or no importance (31%) equally. In each category there are companies represented which do not include China into their corporate strategy indicating that these companies have relatively small operations or just started operating in the country.

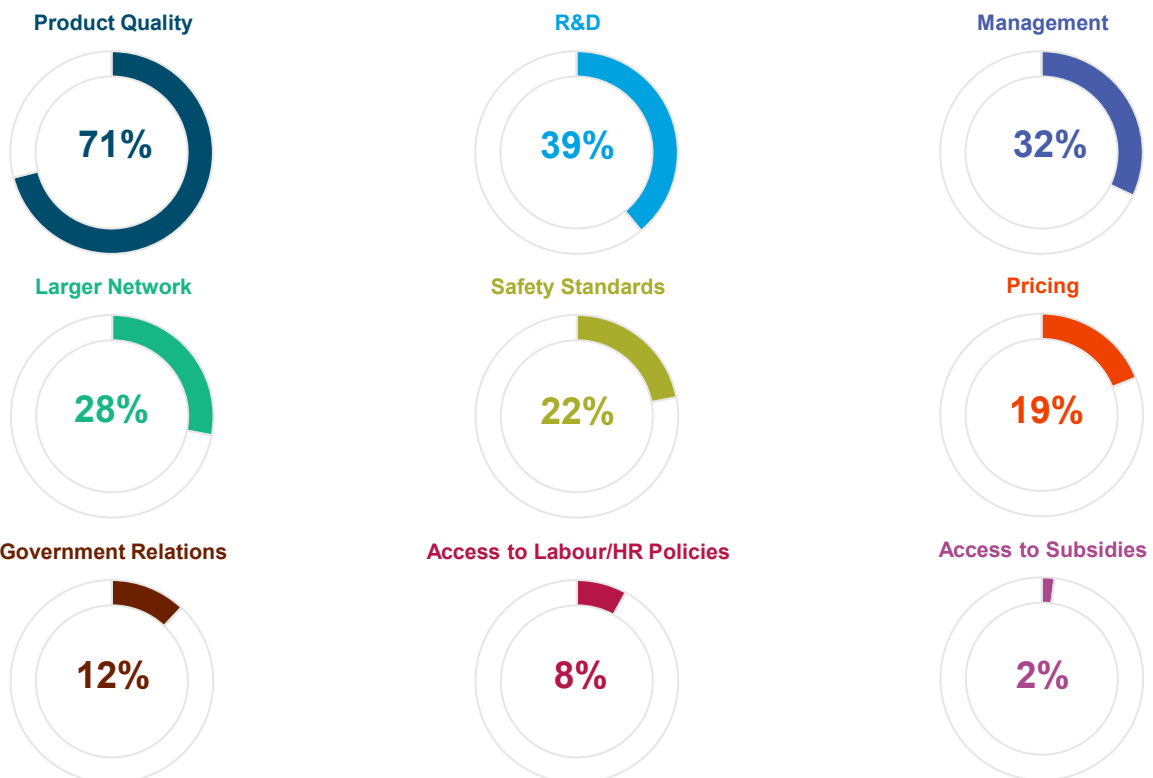


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Business Performance

Competitive Advantage

What makes you competitive in the Chinese market?

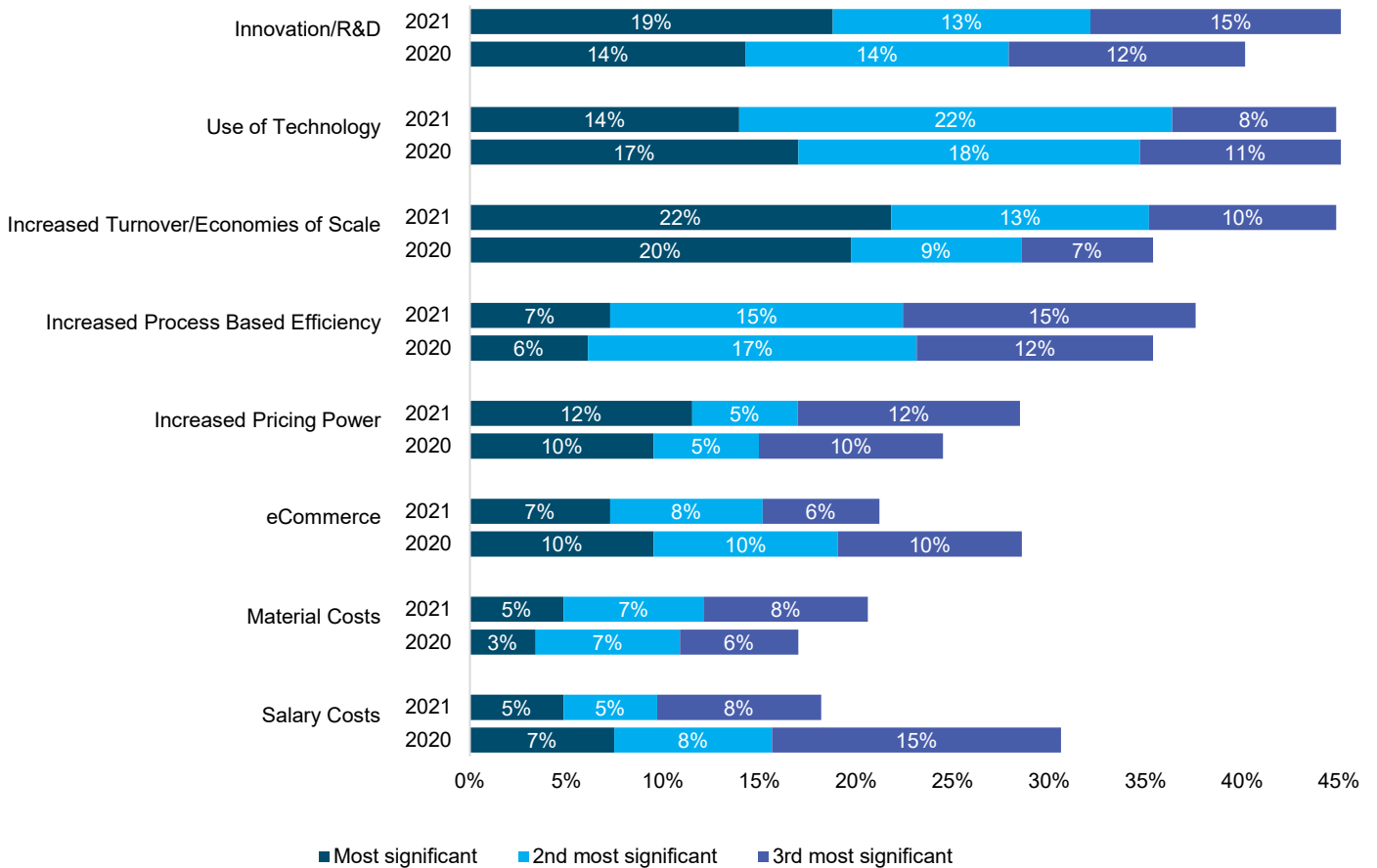


This year Product Quality (71%), Research and Development (39%) as well as Management (32%) are ranked as top three in terms of competitive advantages in the Chinese market followed by a Larger Network (28%) and Safety Standards (22%). Overall, the distribution of the different competitive advantages is almost similar to last year's survey. Turning the focus on to country distribution for Benelux companies we

observe Product Quality and R&D represented as most important advantages to all represented nationalities. Additionally, a Larger Network and Management advantages for each nationality is ranked within their top five. When it comes to Safety Standards Luxembourgish (60%) businesses ranked it third, Belgian (27%) ranked Safety Standards fifth and Dutch (14%) sixth depending assumably on the represented industries.

Positive Drivers

Most significant positive drivers for your company in the past year

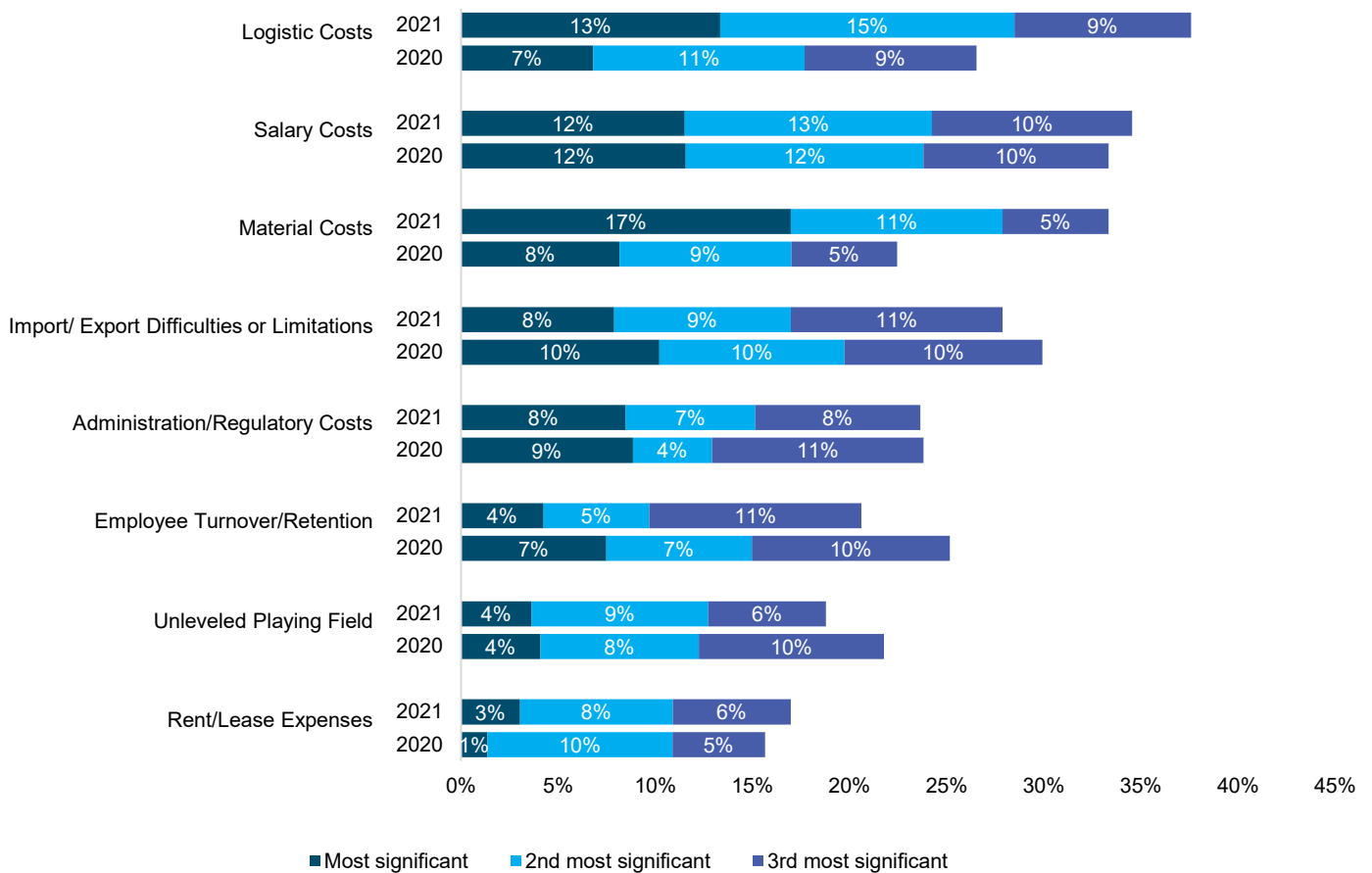


During this year's Sino Benelux business survey, 47% of the companies mention Innovation/R&D as the most impacting positive performance driver spread over all three significance levels. As this performance driver again increased compared to previous periods, this indicates that companies continue to increasingly rely on their Innovation and R&D departments with respect to the Chinese market. Use of Technology was considered significant by 44% and ranks second. Although it ranks third in overall significance at 43%, Increased Turnover/Economies of Scale was cited most frequently as the most significant positive driver of business performance at 22%, even an increase

compared to last year. Increased Process Based Efficiency was the fourth most significant business driver of Benelux companies in 2021 with a similar distribution on the three significance levels as last year. Even though Increased Pricing Power seems to be less important with 29%, twelve percent named it as the most significant factor of their business performance. ECommerce decreased its importance as positive driver by nine percent and Salary Costs, commonly known as the main negative performance driver in the past, but having had a positive effect for a substantial part of the respondents last year, even declined by twelve percent.

Negative Drivers

Most significant negative drivers for your company in the past year

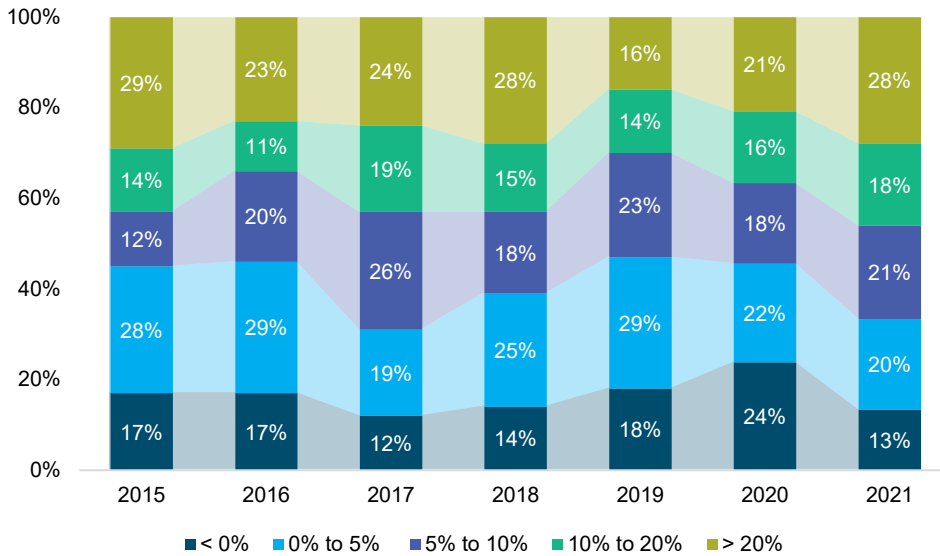


This year, 37% of respondents indicated Logistic Costs as a main negative driver, exceeding the impact of Salary Costs (35%), which has been the most significant negative driver influencing business performance in recent years, although it has also declined in importance over time. Presumably, the increased importance of logistics costs is due to the Covid-19 pandemic and breakdowns on major sea routes. Material Costs are seen as the most significant negative performance driver by 17% of

Benelux companies, even though the driver ranks third overall. Import/ Export difficulties or limitations declined slightly as the Covid situation was relatively stable during 2021. 23% of the respondents recognized their business performance decreased because of Administration/Regulatory Costs. Compared to the previous year, the negative impact of Employee Turnover/Retention and an Uneveled Playing Field decreased by ca. three percent.

Revenue Growth

What was your company's revenue growth rate in the past year?

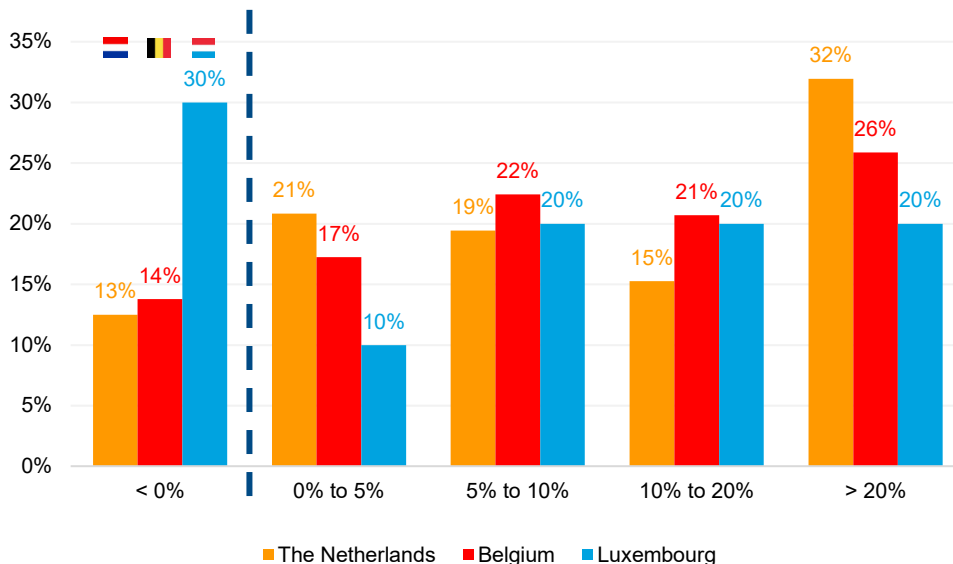


In 2021, Benelux businesses overall developed positively. Eleven percent of companies with a decline in sales performed better compared to 2020, the second lowest ranking of decline since 2017 stopping the negative trend of steadily increasing non-growing businesses. Continuing last year's

trend, fewer companies are experiencing only modest revenue growth. Furthermore, all three categories of businesses with a revenue growth from 5% or more improved their turnover, especially companies with a revenue growth rate exceeding 20% increased by seven percent to 28% similar to the 2018 distribution.

Revenue Growth – by Country

Revenue growth rate in 2021 in percentages

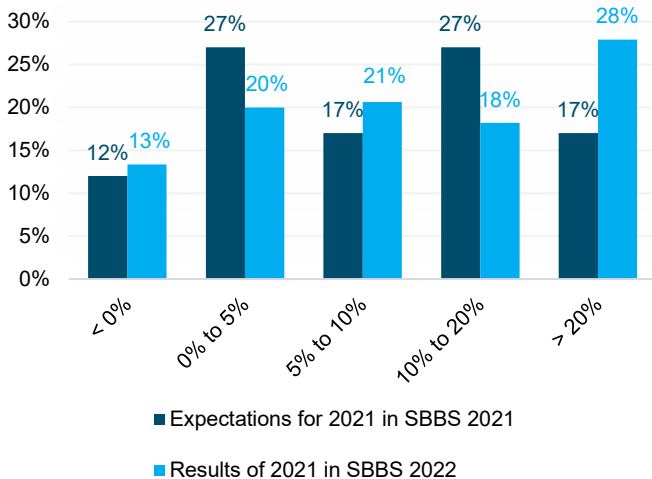


Categories of revenue growth from 5% to 20% are almost evenly distributed between the Benelux countries. Dutch companies reached revenue growth by 87%, Belgian by 86% and Luxembourgish by

70%. When looking at companies generating revenue growth of over 20%, we note that 32% of Dutch businesses achieved this, compared to 26% of Belgian companies and 20% of Luxembourgish companies.

Revenue Growth compared to expectations

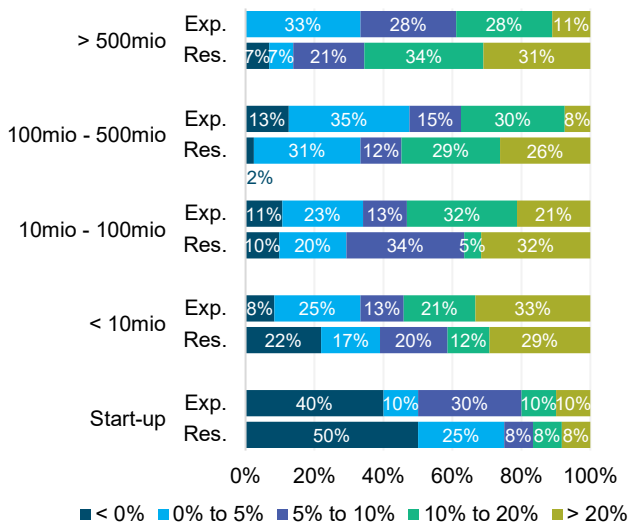
Revenue growth rate in 2021 in percentages



When comparing the expected revenue growth rate with the generated results, it seems that Benelux businesses participating in the 2021 Business Survey previously underestimated their achievable growth rates. We saw 17% of the respondents expecting their revenue growth of above 20%, whereas actually 28% of this year's respondents achieved this. Although revenue growth rates of 0% to 5% and 10% to 20% were expected higher than actually occurred, these were offset by categories of larger actual revenue growth. This shows Benelux companies have enlarged their sales activities during the last year. Besides, the category of shrinking revenues is represented similar to expectations by 13%.

Revenue Growth – by Size

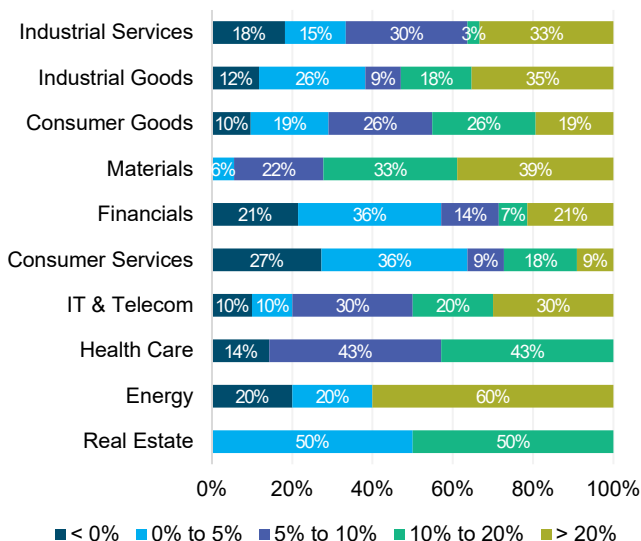
Revenue growth rate in 2021 in percentages



When focussing on companies with annual revenues exceeding 10mio RMB we recognize many performed much better than expected in 2021 resulting in strong increases in companies reporting growth rates exceeding 20%. Companies classified as Start-ups and those generating revenue of up to 10mio RMB performed less well than they expected last year, as these two categories saw an increase in companies reporting negative revenue growth by ten and fourteen percent. For Start-ups, revenue growth concentrates in the category of a maximum five percent growth rate. In general, the positive effect of the large companies compensates the expectations of the small ones that have not been fully achieved.

Revenue Growth – per Sector

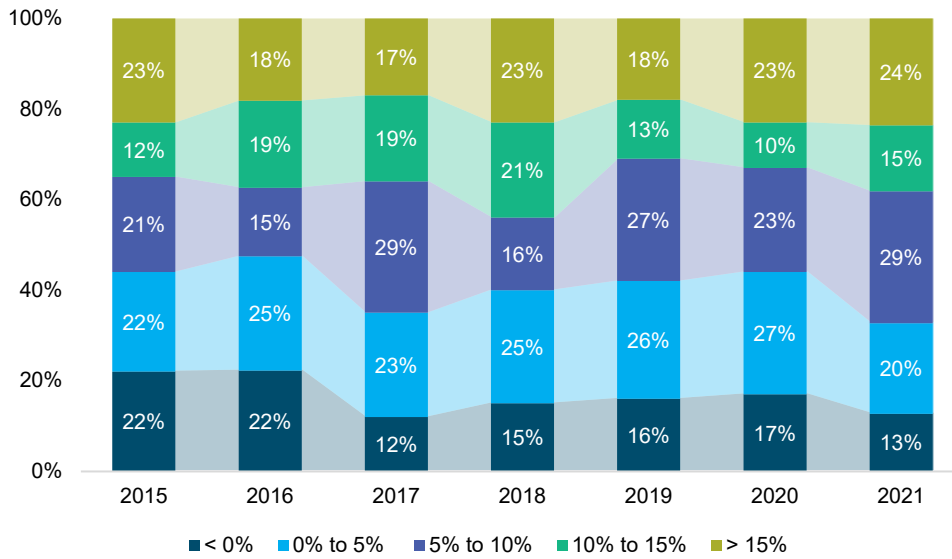
Revenue growth rate in 2021 in percentages



The most noticeable revenue growth was recognized in the Energy sector, with 60% of participants reporting revenue growth of over 20% in the past year. Besides that, Materials (39%), Industrial Goods (35%) and Industrial Services (33%) follow in terms of the highest measured revenue growth. For the Materials industry it can be highlighted that none of the represented businesses experienced revenue declines compared to last year. Apart from that, Consumer Goods and IT & Telecom had the strongest revenue growth, with each sector generating increased revenue growth by 90%.

Profit Margin

Profit as a percentage (%) of revenue in the past year

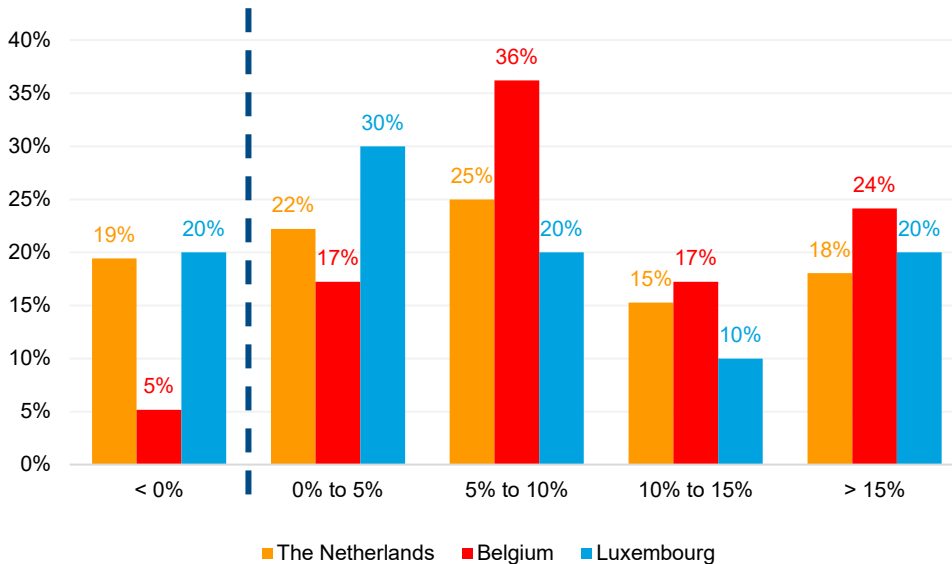


This year we recognize increased profit margins stopping the negative trend that developed during the previous four periods. Companies experiencing losses decreased to a representation of 13% meaning that 87% of the respondents generated profits. Furthermore, 67% of companies reported profit margins of over 5%,

an increase of 11% compared to last year's survey. This leads to the conclusion that Benelux companies improved their profitability during the last year. Compared to previous periods margins exceeding 15% reached their peak this year with almost a quarter of the respondents reporting profits in that range.

Profit Margin – per Country

Profit as a percentage (%) of revenue in 2021

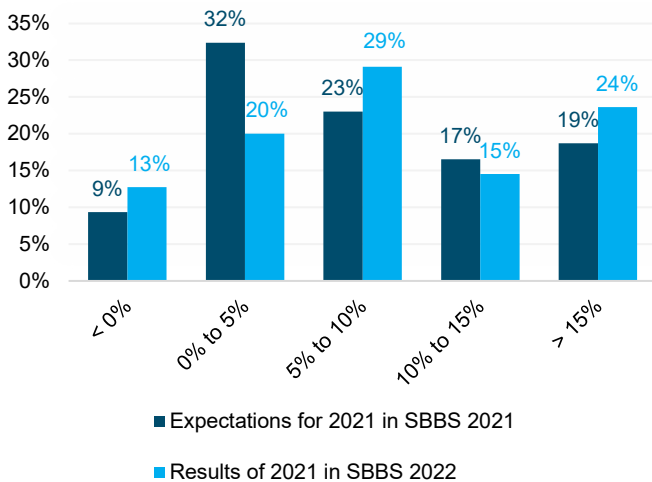


In contrast to revenue growth, where Dutch businesses represented the highest growth rates, profit margins of Belgian companies represent the majority for all margin categories exceeding 5%. The highest incidence is in the category of margins from 5% to 10%, where 36%

of Belgian companies report such margins. At the same time, Belgian businesses reported the fewest losses, resulting in profitability of 95%. Dutch and Luxembourgish companies were profitable by almost 80% each, meaning 20% of these nationalities did not achieve profits in 2021.

Profit Margin compared to expectations

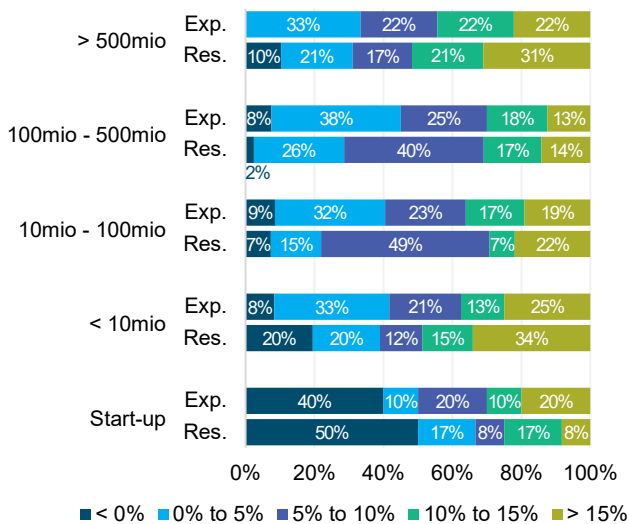
Profit as a percentage (%) of revenue in 2021



Similar to the results for revenue growth, profit margins in 2021 for Benelux companies in China were better than expected last year, only expectations of a not profitable year were slightly underestimated by four percent. While profit margins of 0% to 5% were expected by 32% of last year's respondents only 20% experienced this. The difference resulting from that assumably is covered by the higher profit margin categories. An additional six percent of Benelux businesses reported profitability of 5% to 10%, whereas an additional five percent of businesses reported profit margins of over 15%.

Profit Margin – by Size

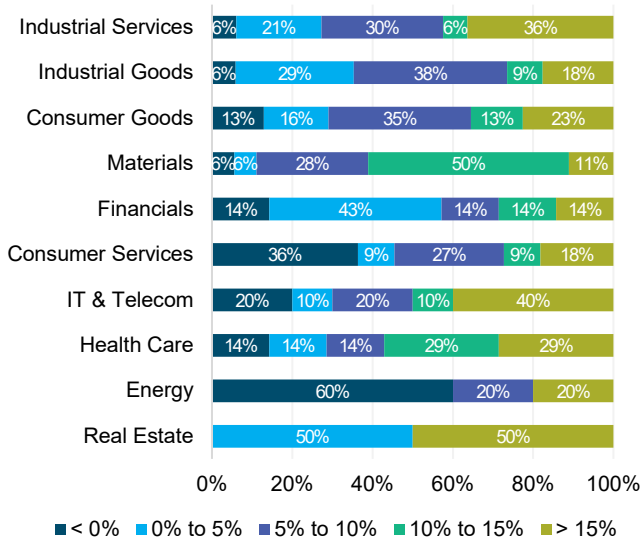
Profit as a percentage (%) of revenue in 2021



While comparing the profit margin of Benelux companies by revenue size, we recognize especially medium sized companies (10mio to 500mio RMB) performed better than expected. Whereas large companies with a revenue exceeding 500mio RMB did not expect generating losses, 10% actually did. Similarly, those having revenues of maximum 10mio RMB forecasted losses by 8% but in the end 20% of respondents experienced losses. At the same time for those two categories we also observe most reserved expectations for profit margins >15% resulting in a representation of more than 30% for each group. The majority of Benelux companies with revenues from 10mio to 500mio RMB reached profit margins from 5% to 10%. These generally improved profitability compared to 2020 results by stepping out of the “break-even category” (0% to 5% profit margin). Except for Start-ups which expected to be more profitable in general this year, the expectations of profit margins over 15% all undercut the actual generated results in 2021.

Profit Margin – per Sector

Profit as a percentage (%) of revenue in 2021



Besides Real Estate, all industries generated losses to a greater or lesser extent. Thereof the most profitable ones are Industrial Services, Industrial Goods and Materials each profitable by 94% of the respondents, followed by Consumer Goods (87%), Financials (86%) and Health Care (86%). We observe that 36% of companies active in the Consumer Services sector generated losses in 2021, whereas 40% of companies in the IT & Telecom sector reached profit margins exceeding 15%. The Energy sector reported losses by 60%, contrary to the fact that this is as high as the sector's revenue growth exceeding 20%.

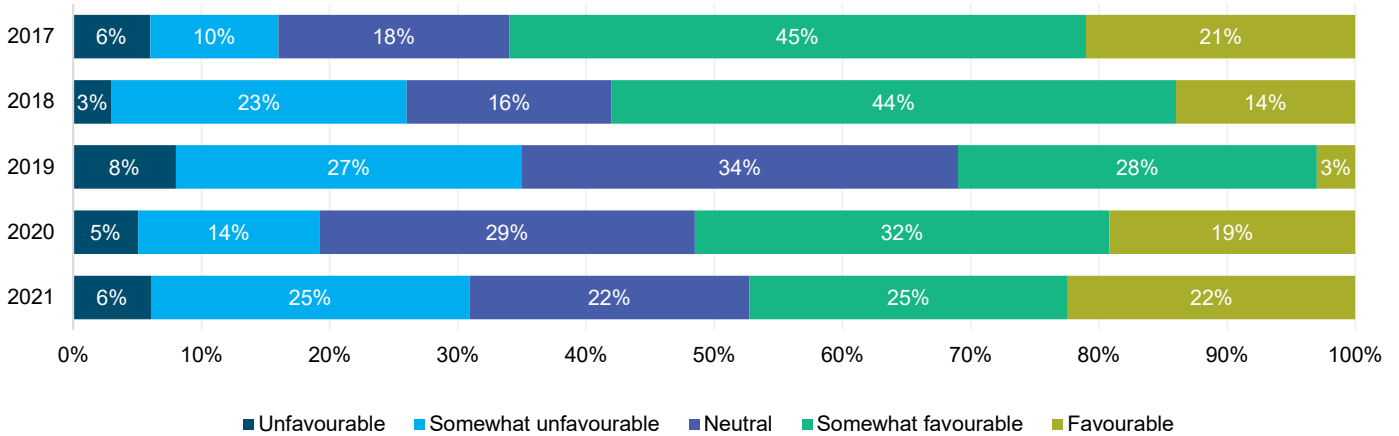


3

Business Sentiment

Perception of the Chinese market

How did you perceive the Chinese market in the past year?

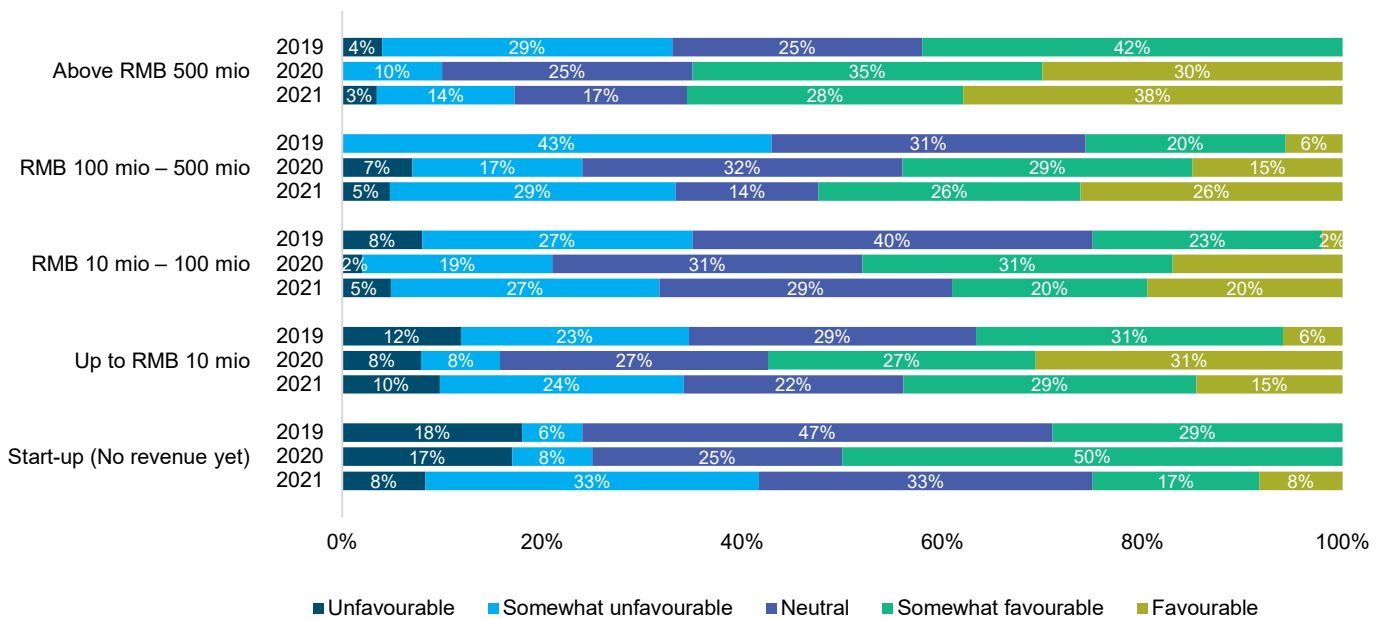


In 2021, Benelux companies in China had a changed perception of the Chinese market compared to previous year's evaluation. Whereas in 2020 19% viewed the market as unfavourable or somewhat unfavourable, this year we observe an increase of twelve percent resulting in almost one-third of Benelux businesses perceiving the Chinese market as rather unfavourable. The neutral (22%) and somewhat favourable (25%) views decreased compared to the previous two surveys but also with a

minor shift of three percent to favourable perceptions. 22% of businesses perceive the Chinese market still as favourable. Although major regulatory changes resulting from the Covid-19 pandemic remained, the pandemic situation did not improve significantly since last year. In addition, this survey was conducted when Shanghai went into a city-wide lockdown during spring 2022. These influences may have led to the restrained evaluation of the Chinese market in 2021.

Perception of the Chinese market – by Size

How did you perceive the Chinese market in the past year?

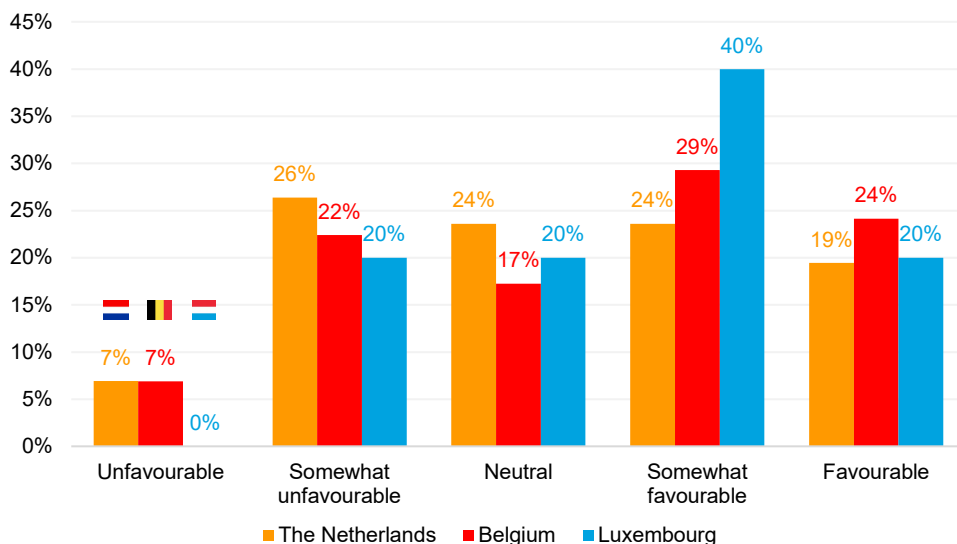


Dividing the business sentiment by company size we recognize that Benelux Start-ups are mainly driving the increase of the two unfavourable categories with 41% in total, although we do observe a decrease in respondents reporting they perceive the market as unfavourable. The large enterprises (>500mio RMB) are the least negative, as the only category with less than 20% of respondents perceiving the market as at least somewhat unfavourable. Last year's positive shift was not continued this year. In

the revenue generating categories up to 500mio RMB, the perception as at least somewhat unfavorable has almost risen again to the level of 2019. 38% of large companies with a revenue exceeding 500mio RMB and 26% of those generating revenues from 100mio to 500mio RMB perceived the business environment as favourable. We observe an increasingly polarized perception by respondents, with both increases in unfavourable as well as favourable sentiments.

Perception of the Chinese Market – by Country

How did you perceive the Chinese market in the past year?

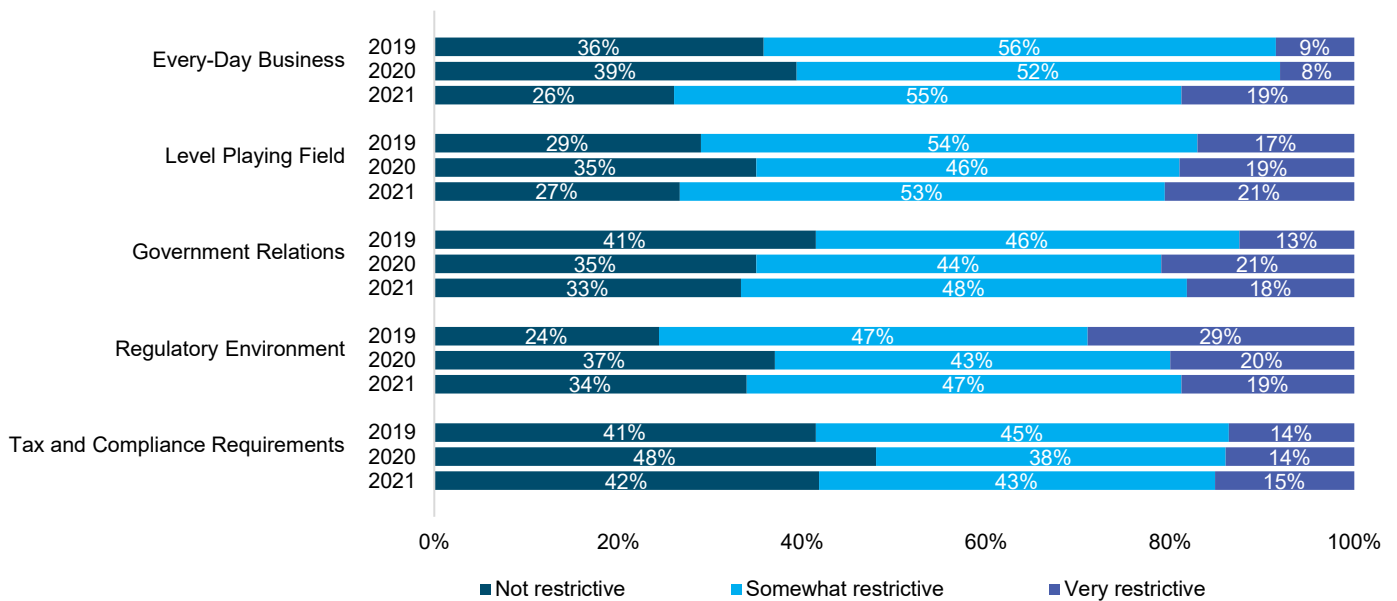


24% of Belgian businesses perceive the Chinese market as most favorable compared to Dutch and Luxembourgish companies. Luxembourgish peak in the perception as somewhat favourable with 40% and also most Belgian companies (29%) share business sentiment. 50% of Dutch companies perceived the

Chinese market as neutral or somewhat unfavourable, signaling a shift to be more unfavourable. 7% of Belgian and Dutch companies each have an unfavourable business sentiment, whereas none of the Luxembourgish companies shared this perception.

Restrictiveness of the Business Environment

How restrictive did you perceive the following aspects in China in the past year:

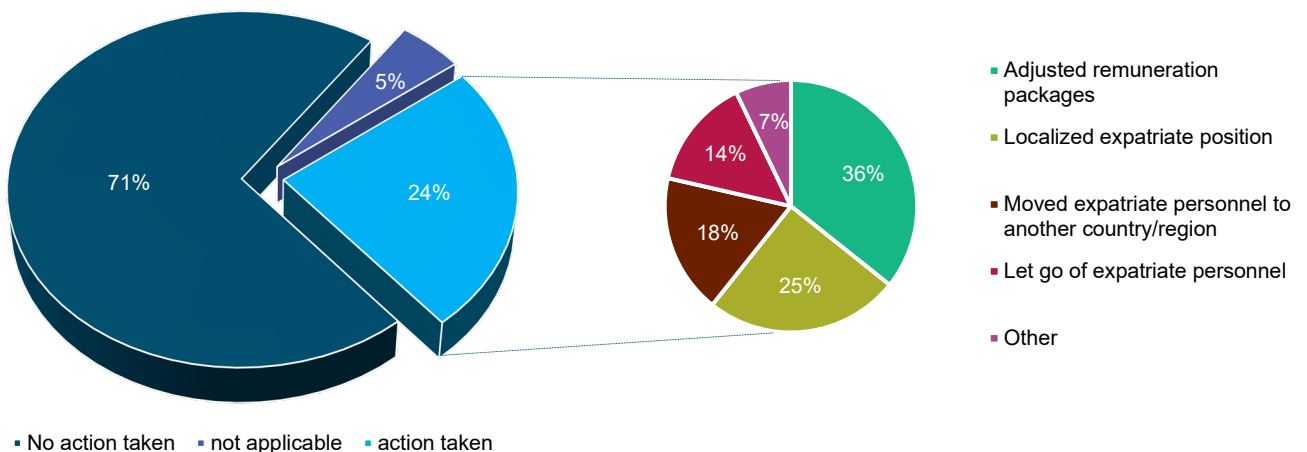


This year, the share of respondents perceiving factors at least somewhat restrictive has increased for each category compared to the previous year. 42% of Benelux companies consider Tax and Compliance Requirements to be not restrictive, yet 15% describe them as very restrictive. Every-Day Business and Level Playing Field, however, are perceived as more restrictive

overall and have increased accordingly. Compared with last year's evaluation, Benelux companies' perceptions of Government Relations and the Regulatory Environment as very restrictive have decreased slightly by up to three percent, while perceptions of those as not restrictive have also decreased by a similar extent.

Actions taken as expatriate allowances were set to expire

Had your company already taken actions before the policy was extended on 31.12.2021?



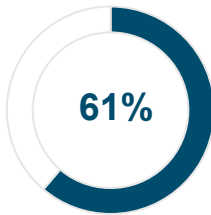
According to the applicable regulation, the expatriate allowances such as deductibility of housing rent, relocation costs, home flight expenses etc. were set to expire at the end of 2021. Employees and employers, both would have been seriously impacted by that. However, 71% of Benelux businesses decided to not take any action and see how the regulation would progress after the end of the year. For 5% the regulation would have

had no impact. 24% had already actions taken, thereof 36% adjusted their remuneration packages and 25% switched expatriate positions to be staffed by Chinese locals. Another 18% motivated their expatriate employees to move to another country or region by leaving China and 14% even let go foreign personnel because of the announced changes of the expatriate allowances in China.

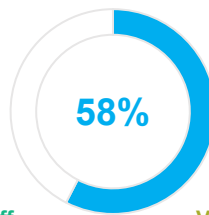
Perception of HR challenges in China

Did you experience any of the following challenges in the field of HR in 2021?

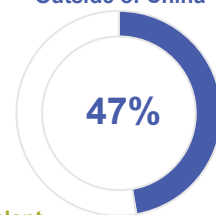
Finding Qualified Personnel



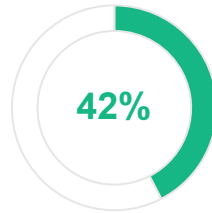
Increase Labor Costs



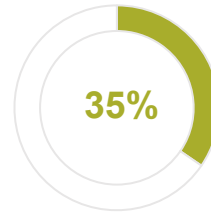
Entry Restrictions for Employees Outside of China



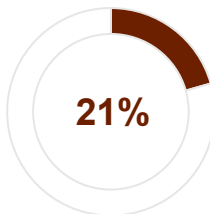
Retaining Qualified Staff



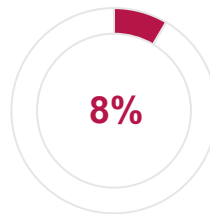
Visa Issues for Foreign Talent



Attracting Foreign Talent



None



In terms of HR more than half of Benelux businesses experienced challenges in finding qualified personnel (61%) and an increase of labor costs (58%) in 2021. On the one hand it is difficult to find qualified personnel and companies might not be willing to pay higher remuneration for consistent quality. On the other hand, 42% faced the challenge of retaining qualified staff within the company.

Likely largely due to the pandemic, 21% of Benelux companies were faced with the challenge of attracting foreign employees who are willing to move to China, while at the same time, 47% experienced problems in terms of entry restrictions and 35% with regards to visa issues for foreign personnel. 8% experienced none of the aforementioned HR challenges during the last year.

Companies considering leaving China

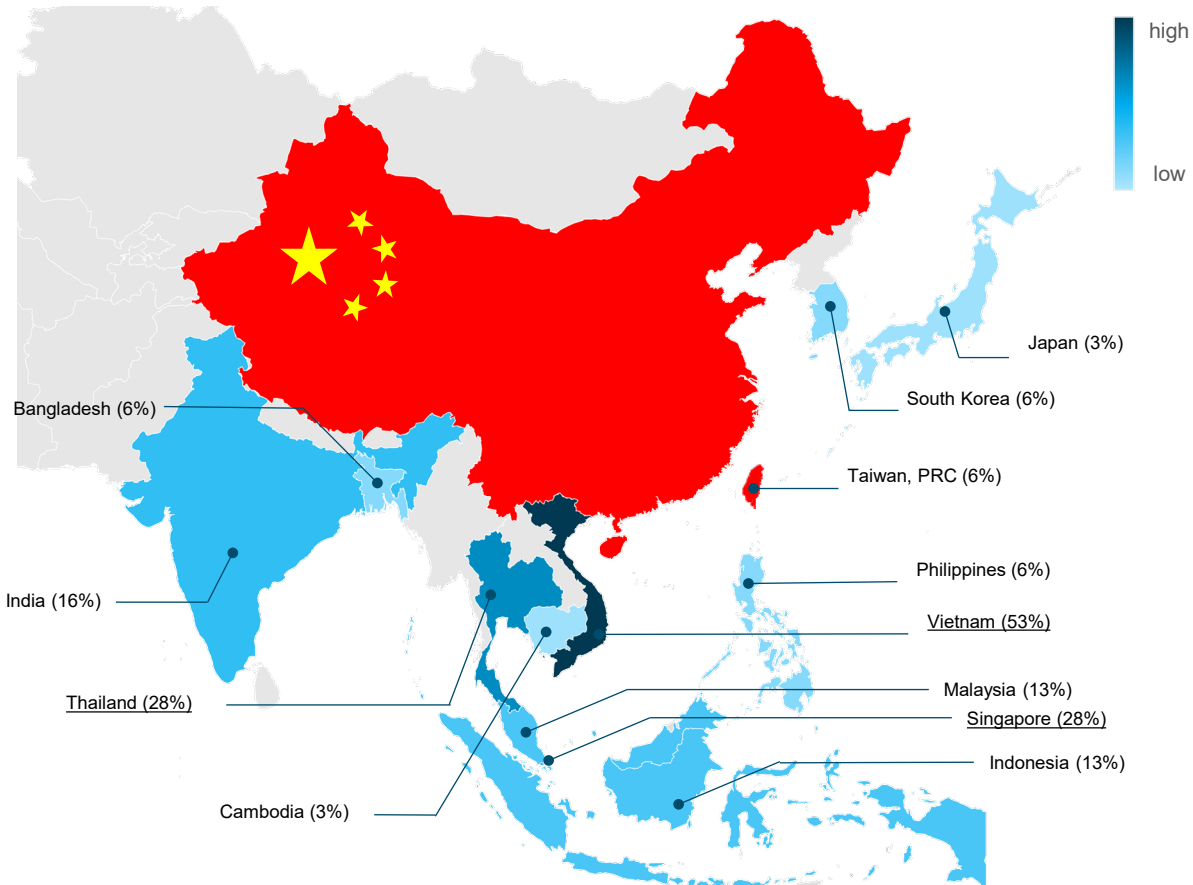
Would you consider / are you moving some of your Chinese activities to other Asian countries/regions?



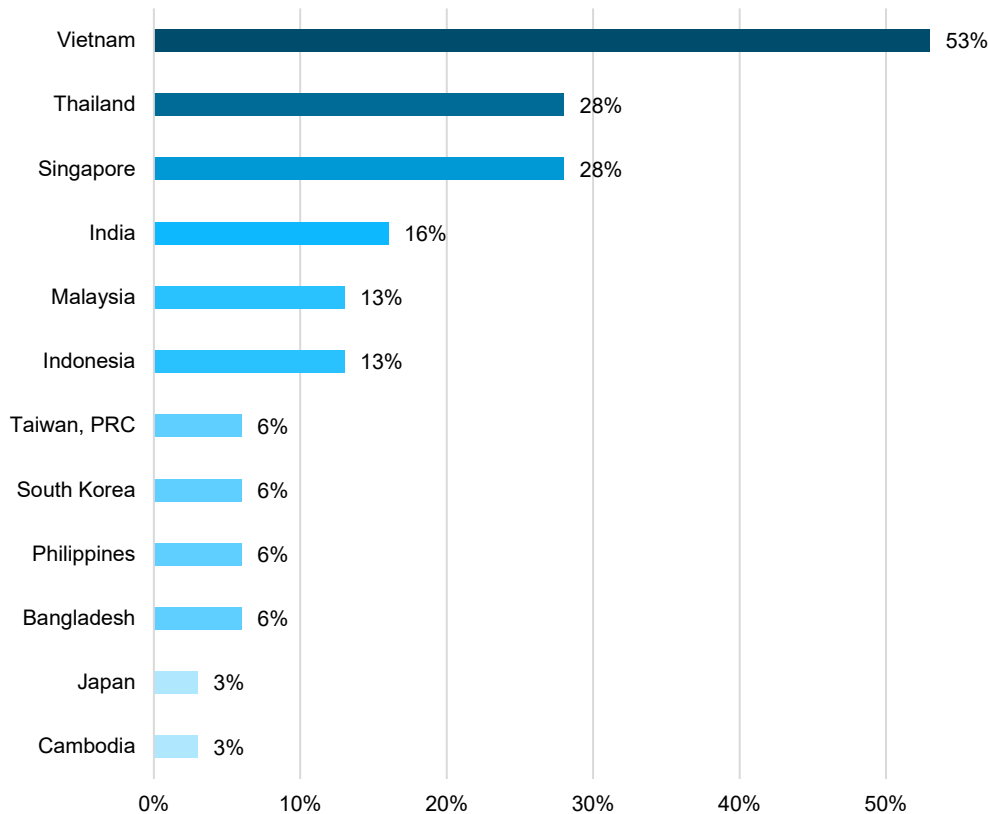
After a continuous decline over the previous three years in the number of companies considering or actually moving their Chinese activities, 30% of Benelux businesses are now contemplating relocating again, an increase of 17%. This is mainly driven by 47% of the Consumer Goods industry as well as 45% of the IT & Telecom sector that are considering leaving the Chinese market.

Destinations of companies leaving Mainland China

To what regions do you consider / are you moving some Chinese activities?



Note: Respondents were asked to what regions they consider/ plan to move. As a result, multiple regions per respondent could be selected.



Of the Benelux businesses that consider leaving the Chinese market or move their local activities to other Asian regions, again we observe that Vietnam is the most popular destination, with 53% of respondents who consider to leave noting the country as the preferred location. Other popular destinations include Thailand (28%), Singapore (28%) and India (16%). The main industries considering to leave China for other Asian regions, including the IT & Telecom sector (36%), the Industrial Goods sector (30%) and the Consumer

Goods sector (28%). The main destination for IT companies is Vietnam, whereas the respondents from Industrial and Consumer Goods industries also consider Thailand as a suitable destination next to Vietnam. The respondents active in the Health Care, Financials, Real Estate and Utilities industries are not considering moving to other Asian countries at all whereas only a few companies within the Financials & Real Estate industries consider to leave the Asian region.



1 – Europe



2 – North America



3 – South America



4 – Africa

As in previous years we often had respondents indicating that they would also consider moving their operations outside of China. For the first time this year, we have also asked to respondents whether they would consider to move their operations to other regions, and if yes to where. The vast majority of respondents

consider moving to Europe, followed by North America, with a majority mentioning USA. Lastly, a small minority of respondents also consider South America or Africa. The main industries considering to move their operations outside of Asia, are respondents active in the Consumer Goods and Industrial Services industries.

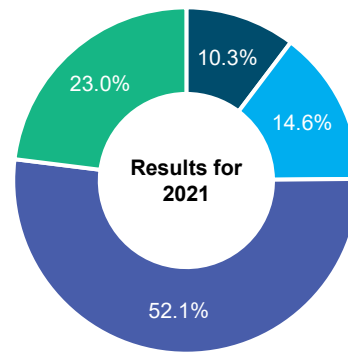
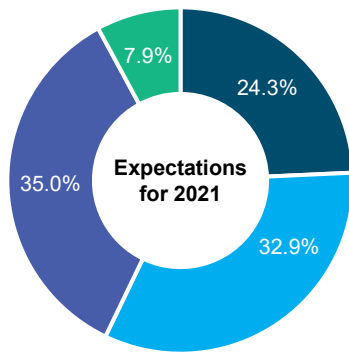


4

COVID-19 Impact

Impact of COVID-19 on 2021 performance

How did the outbreak of COVID-19 impact your business' performance throughout the year 2021?



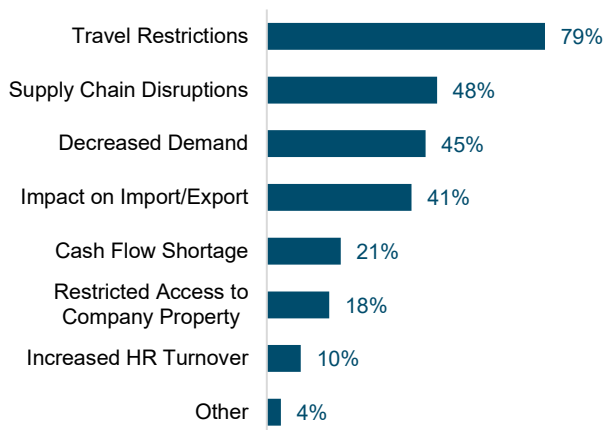
■ Positive ■ No Impact ■ Somewhat Negative ■ Strongly Negative

Since the Covid-19 pandemic is still impacting the economy in various industries, we asked Benelux companies again how they perceived the pandemic affecting their business during the previous year. When the previous survey took place during March and April 2021, a negative impact was expected by 42.9%, during 2021 the expectations exposed to be very optimistic as even 32.2% more Benelux businesses experienced a

negative impact resulting in 75.1%. Strongly negative impacts were underestimated by 15.1% and somewhat negative influences by 17.1%. While 32.9% expected the virus not to impact their business for the following year, only 14.6% experienced this. 10.3% were affected positively by the pandemic, 14% less than expected. Industries that experienced a positive effect are the IT & Telecom, Industrial Services and Materials sectors.

COVID-19 Impact – Main Negative Factors

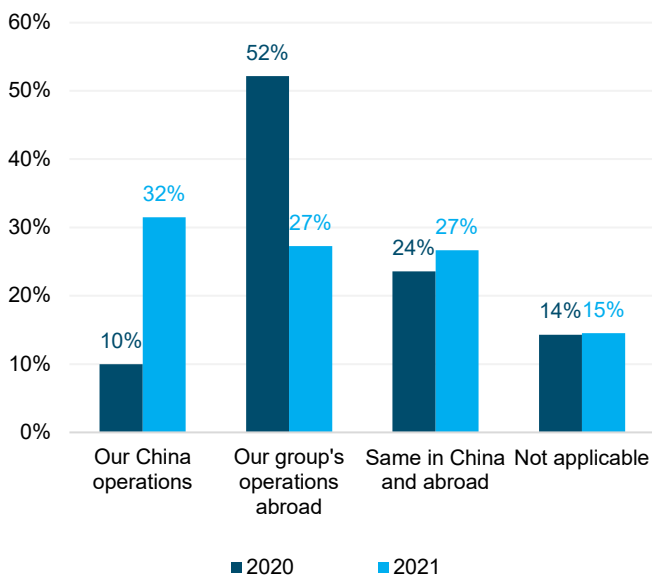
What factors related to COVID-19 negatively impacted your business?



Travel restrictions negatively impacted 79% of the companies. During the Covid-19 pandemic, China not only severely restricted foreign travel, but domestic travel frequently had to comply with quarantine regulations as well. In line with the previously described Business sentiment, Supply Chain Disruptions, Decreased Demand and an Impact on Import/ Export affected the negative impact of the virus by more than 40%. Supply Chain Disruptions and an Impact on Import/ Export was experienced especially for companies active in the Energy, Industrial Goods and Consumer Goods sector whereas the Real Estate, Consumer Services and Industrial Services industries most frequently reported a Decreased Demand due to the crisis.

COVID-19 impact from the global company perspective

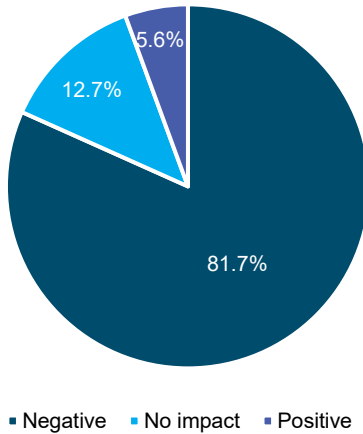
Where was the impact of COVID-19 most significant for your company?



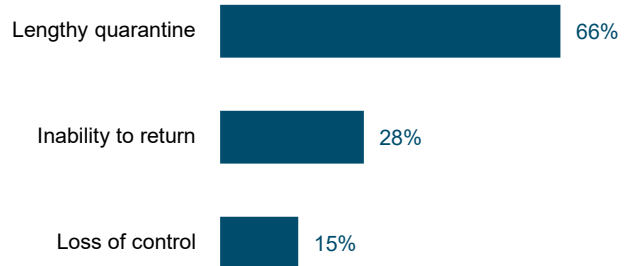
During the year 2020, 52% of Benelux companies noted that the impact of the Covid-19 pandemic was more profound for their business operations abroad and only 10% mentioned their Chinese operations were mainly impacted. During 2021, the pandemic's impact changed shifted from abroad to impacting China's domestic operations. 32% of Benelux businesses are now mainly affected by the crisis in their Chinese operations, while the effect abroad strongly decreased by 25%. This results in 27% of companies indicating the Covid-19 pandemic mainly affected their group's operations abroad. In 2021, 27% of Benelux companies were impacted by the pandemic same in China and abroad, an increase of three percent.

Border restrictions' impact on businesses

How did China's border policy affect your company in 2021?



Negative impacts



We asked Benelux companies how the Chinese border policy affected their business in 2021. 12.7% did not experience any impact and 5.6% mention a positive effect because the policy created new opportunities for their company. However, 81.7% mention that the Chinese border restrictions impacted their company negative. In line with the main negative impact of Travel Restrictions, 66% mentioned a negative impact because of lengthy quarantine periods after international travel. This regulation assumably led to less international business travel to China. The

number of available international flights to China has been significantly reduced during the pandemic which also supports the fact that 28% of Benelux companies were facing the problem that employees who had left the country were unable to return to China. Another challenge 15% of the respondents are facing is that companies are losing control over their entity due to the inability of placing foreign employees in China. This may be caused by the Chinese border policies but also impacted by the fact that during this pandemic less foreign employees decided to expatriate to China.



Our leadership cannot visit local markets, China is becoming distant and disconnected to the rest of world.



Due to Covid we could not fly in foreign leaders, so we found a hybrid solution which is from a cost point of view much better. Overall, the pandemic impacted us both negative and positive.



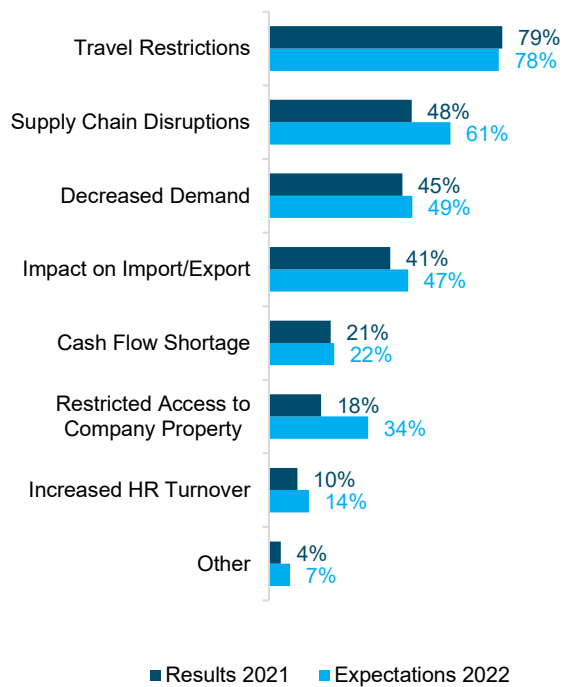
China's visibility decreased on the global level. However, we currently employ sufficient staff and employee safety is ensured.



On the one hand, our clients are barred from traveling to China to do business here. On the other hand, we are not able to visit our overseas clients. For us, the pandemic created a negative situation.

COVID-19 - Negative Factors Expectations

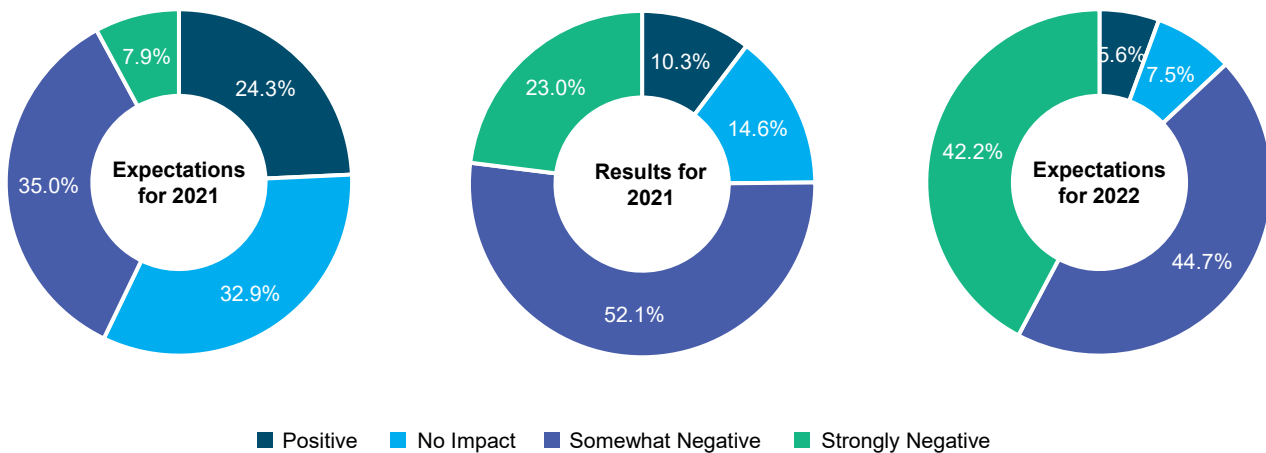
Where do you expect COVID-19 most significantly impacting your company in 2022?



The Covid-19 outlook of Benelux companies in China displays increased negative impacts in almost each category. Travel Restrictions are expected to impact businesses on a stable level of 78% and Cash Flow Shortage is anticipated by 21%. Supply Chain Disruptions are expected to increase by 13%, Decrease in Demand and Impact on Import/Export might increase slightly and will probably affect almost half of Benelux businesses in China. A Restricted Access to the Company's Property is expected by 34%, that would be an increase of 16% if it actually occurs. These results should be judged cautiously as these expectations were made during the spring of 2022 when many lockdowns were implemented across China.

COVID-19 - Expected Impact in 2022

How do you expect COVID-19 will impact your performance in 2022?



This survey started just before the first partial lockdowns in Shanghai happened and was continued during the city-wide lockdown 2022. During that time, not only Shanghai was affected by a Lockdown, many other regions in China also had to deal with the Omicron outbreak. Assumably, as a result from that and the already worse perception of the Chinese business environment due to the virus, 86.9% of Benelux companies expect a negative

impact by the Covid-19 pandemic for 2022. While the pandemic situation during spring 2021 was relatively stable, Benelux companies expected the situation not to become as volatile as it appeared during the China lockdown period in spring 2022. Even though, the results for 2021 were more negatively affected by the crisis than expected, the future outlook of Benelux businesses operating in China has now turned even more negative.



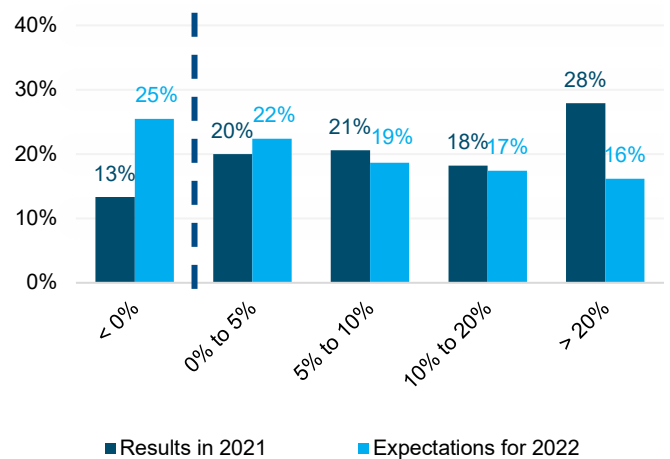
5

Onward Expectations

Revenue Growth Expectations

What is your company's expected revenue growth for 2022?

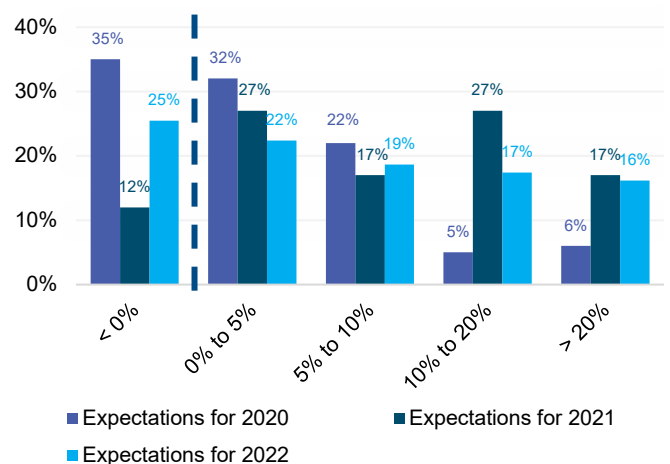
In 2021, Benelux businesses reached higher revenue growth than previously expected. Future expectations are not as optimistic. We observe one-quarter of companies anticipating negative revenue growth for this year. Revenue growths from 0% to 20% are expected to be relatively stable. Even though in 2021 there were 28% of businesses experiencing revenue growth of more than 20%, for 2022 only 16% of companies is expecting such growth.



Revenue Growth Expectations over time

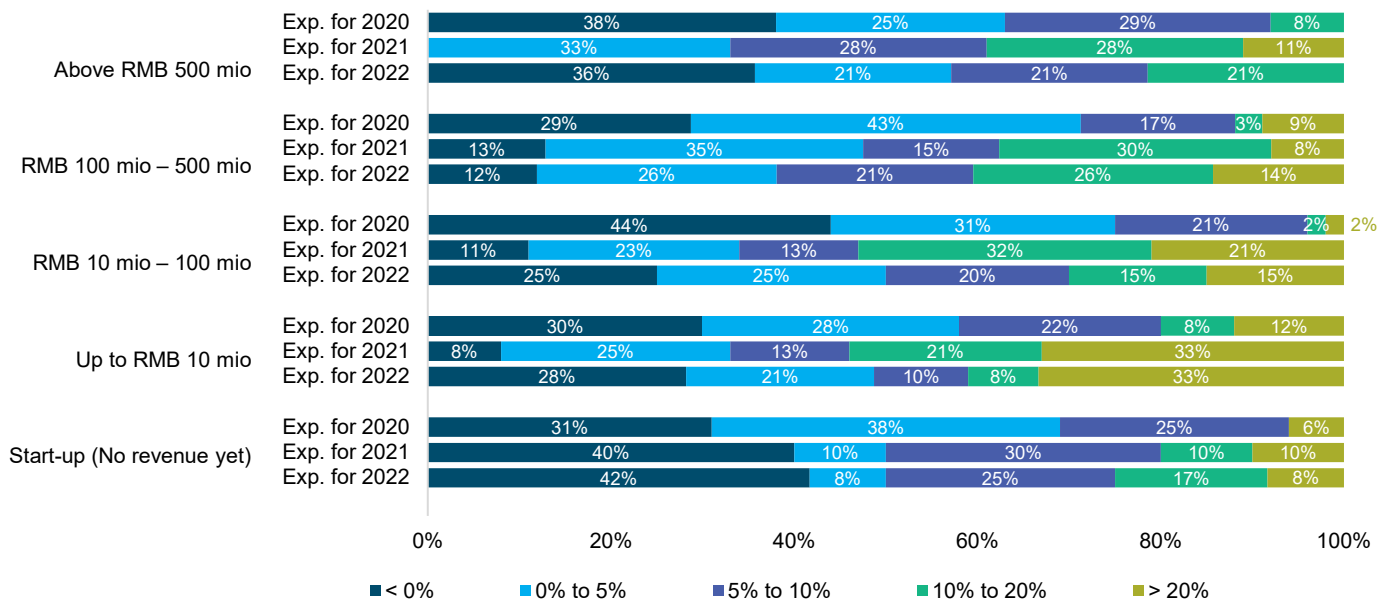
What is your company's expected revenue growth for this year?

After Benelux businesses returned to expect pre-Covid levels last year, this year's expectations are more moderate again. Although the number of companies expecting their business to decline is increasing, this year's expectations of sales growth of more than 10%, at 17% and 16%, are still at a high level compared to expectations for 2020 (5% and 6%) when the pandemic occurred.



Revenue Growth Expectations – by Size

What is your company's expected revenue growth for this year?

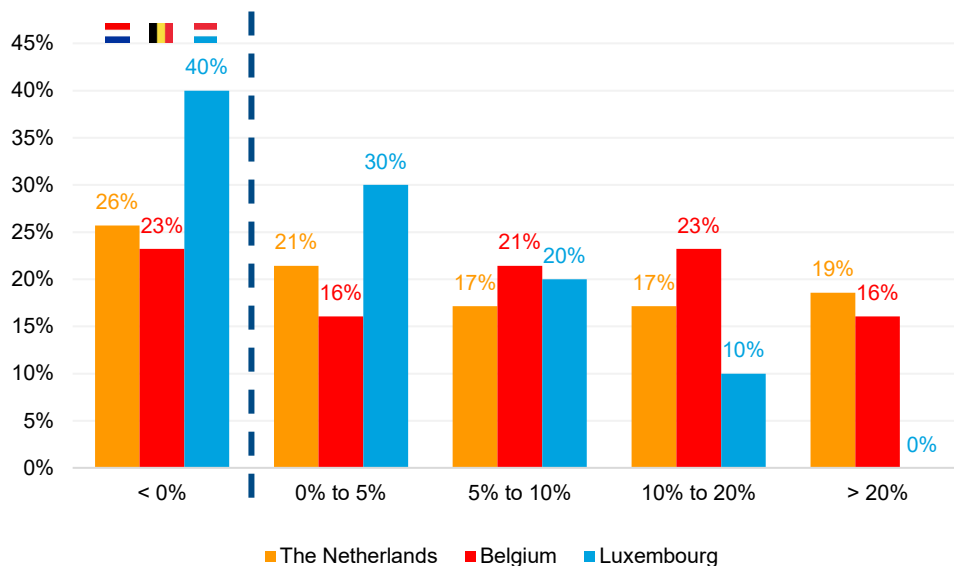


Large companies with revenues above 500mio RMB did not expect to decline last year but 36% expect negative revenue growth in 2022, almost in line with their expectations for the first Covid period. For Start-ups we observe that since the pandemic emerged in early 2020, 50% of these businesses are struggling to recover as their expectations developed worse for both years, 2021

and 2022. In line with last year's future outlook, 33% of Benelux companies with revenues up to 10mio RMB are optimistic by expecting a revenue growth of more than 20%. Businesses generating revenues between 100mio to 500mio RMB are the only ones with expectations similar to last year. Even 14% of them are expecting revenue growth of more than 20%, an increase of six percent.

Revenue Growth Expectations - by Country

What is your company's expected revenue growth for 2022?

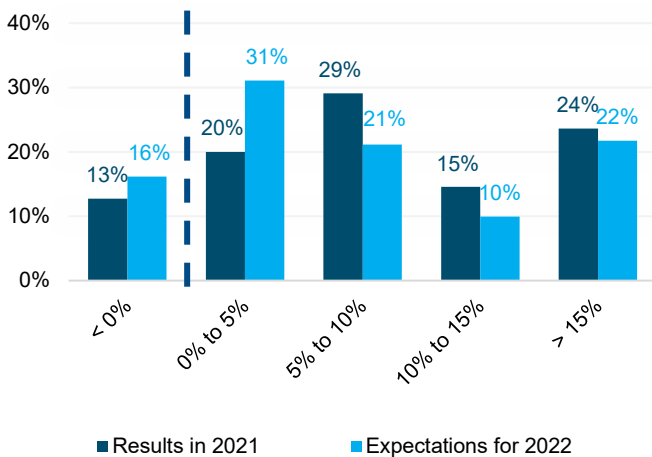


In 2021, the majority of Belgian and Luxembourgish companies expected to generate revenue growth between 0% and 5% and 32% of Dutch businesses expected revenue growth by 10% to 20%. This year the expectations for all nationalities are majoritarian in the negative revenue growth. 77% of Belgian and

74% of Dutch businesses are expecting revenue growth and only 60% of Luxembourgish expect the same. Belgian companies are slightly more optimistic, 21% of them are expecting revenue growth of 5% to 10% and 23% expect a growth rate of 10% to 20%.

Profit Expectations

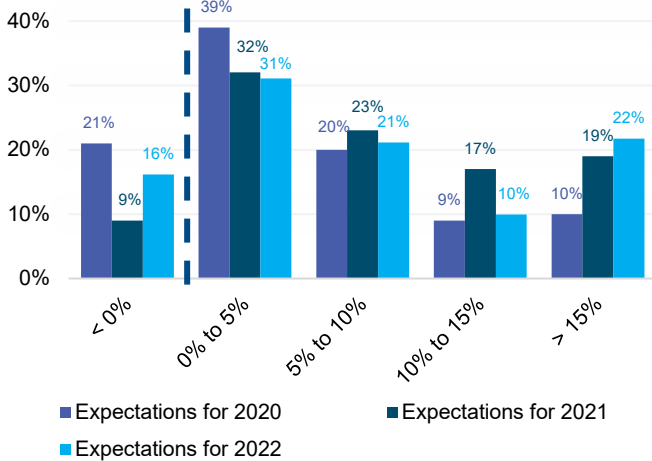
What is your company's expected profit margin for 2022?



Profit margin expectations for 2022 indicate a pessimistic outlook compared to the results in 2021. As negative margins are expected by 16% of Benelux companies, 31% of respondents expect to achieve profit margins in the break-even category from 0% to 5%, which would be an increase of eleven percent. The incidence of companies expecting profit margins in all categories exceeding 5% are anticipated to decrease in 2022 which indicates that Benelux companies are expecting to face higher costs and various uncertainties during this year.

Profit Expectations over time

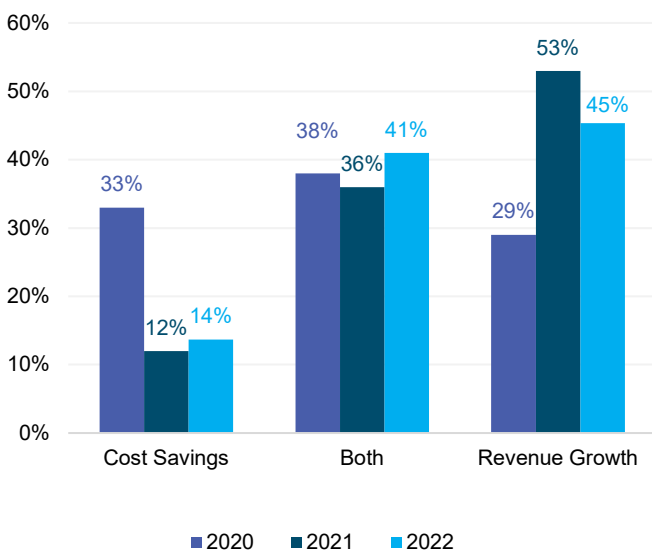
What is your company's expected profit margin for this year?



In line with the expectations on revenue growth rates, expectations of profit margins over the last four years indicate a similar forecast as during the first pandemic period. In contrast to the 2020 expectations, 22% of respondents are still expecting high profit margins of more than 15%, which is even more than last year. On the other side of the spectrum, we observe 16% of Benelux businesses expecting negative profit margins which is as high as the 2020 expectations. As last year only 9% expected not to be profitable, this year the situation is considered by seven percent more.

Driver of profitability

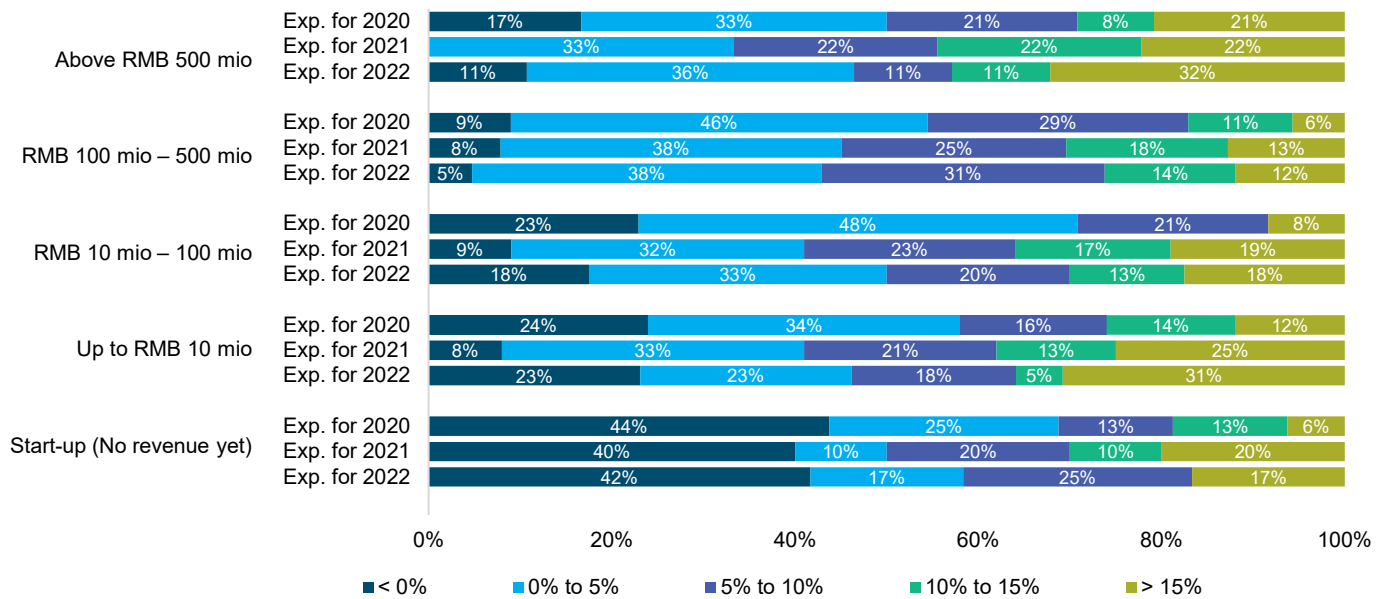
Profitability this year will be driven more by:



This year, 45% of respondents expect their profitability still to be driven by Revenue Growth whereas only 14% expecting Cost Savings being the driver of profitability. 41% of Benelux companies expect both factors influencing their profitability. These results are similar to last year's evaluation, but we also recognize a small decrease of Revenue Growth impacting profitability which is in line with the negative expectations of revenue and profit growth.

Profit Expectations by Size

What is your company's expected profit margin for this year?

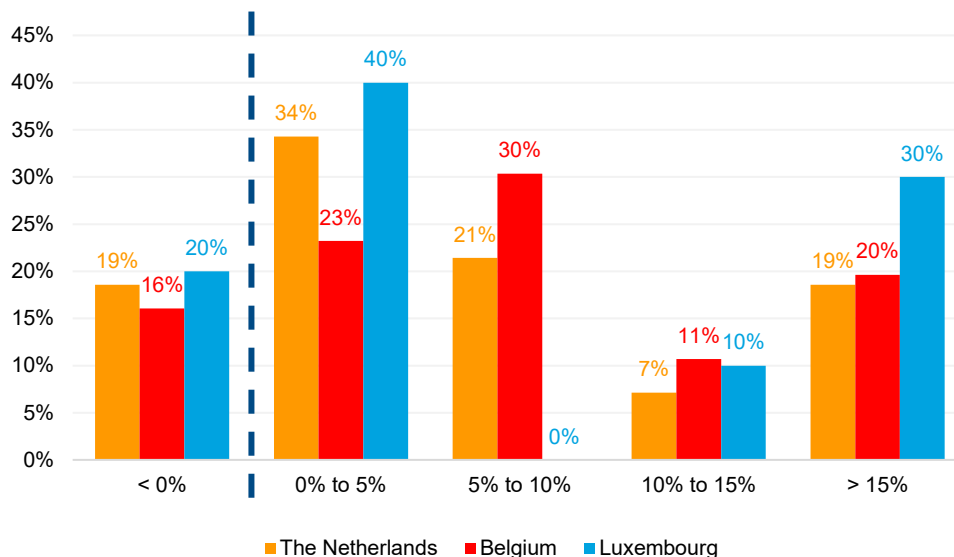


In general, we observe a similar development for expectations in profit margins and expectations of revenue growth. 11% of large companies with revenues above 500mio RMB are expecting a negative profit margin this year but at the same time 32% of them also expect profit margins that exceed 15%. Companies with revenues between 100mio and 500mio RMB

as well as Start-ups have similar expectations as last year, and almost 50% of companies generating revenues of up to 100mio RMB expect profit margins less than 0% and up to 5%. At the same time, they are still more optimistic than during the first epidemic period in 2020 as also profit margins between 10% and more than 15% are expected on a higher level.

Profit Margin Expectations – by Country

What is your company's expected profit margin for this year?



Compared to last year, Benelux businesses expect more negative results than last year. 19% of Dutch companies and 16% of Belgian companies, both considering an increase of nine percent, expect a negative profit margin.

Despite that, the majority of Dutch and Luxembourgish companies still expect to be within the break-even category and 30% of Belgian businesses anticipate reaching a profit margin between 5% and 10%.

Adjustments on current investment strategy in China

How does your firm plan to adjust its current China investment strategy?

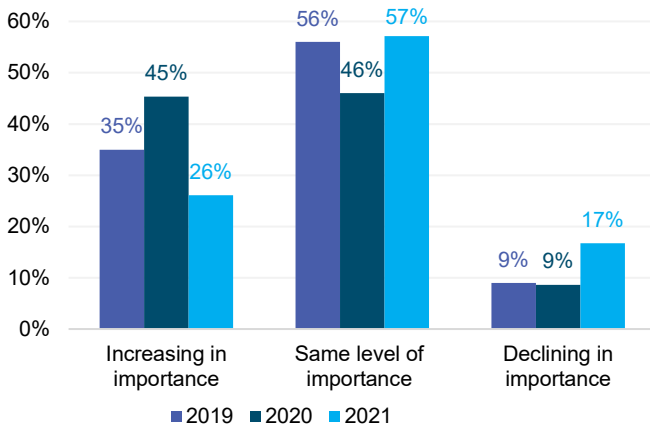


Almost half of Benelux companies do not think about changing their China investment strategy. 17.4% are planning to increase their investments in China in future, whereas 16.1% want to decrease them.

Due to the pandemic 30% of respondents already thought about leaving the Chinese market, 6.8% are actually planning to exit the Chinese market when thinking about their China investment strategy.

Corporate strategy in China for next two years

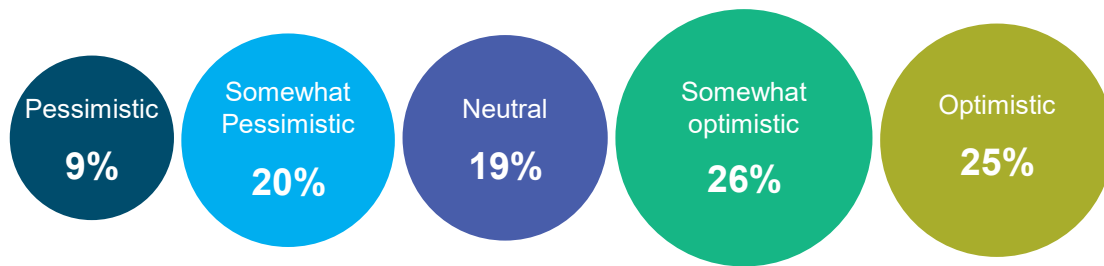
How important will China be in your group's strategy in the coming two years?



China has been an important market during the past years. Whereas in the previous two years, 35% and 45% of Benelux companies respectively attributed increasing importance to the Chinese market within their corporate strategy over the next two years, this year only 26% consider it as such. In addition, a shift towards decreasing importance of the Chinese market is expected. 17% of the companies state that China will lose importance for them in the foreseeable future, which is an eight percent increase compared to the past years. 57% of respondents consider China to be just as important in the next two years as during the past.

Company prospects in China for next five years

How do you feel about your company's prospects in China for the next 5 years?



Considering a more mid-term-oriented view, half of Benelux companies operating in China have at least somewhat optimistic or optimistic prospects on their businesses in the country. In line with the two-year outlook in which 26% consider China to be increasingly important in their strategy, 25% are optimistic about the next five years. 17% of respondents said China will be less important in their group strategy for the next two

years. The five-year outlook shows a more negative view of Benelux businesses' operations in China. Within this mid-term view, 9% have a pessimistic sentiment, and 20% feel somewhat pessimistic about their company's prospects in China. This leads to the assumption that some businesses attributing China with the same importance to their group strategy as in the past, did not perceive China as particularly important at that time.



At least for the coming 12 months we will decrease our China investments, while we see where this is going.



During the pandemic we have proven our capabilities in the market more and gaining new customers from it. We can expect China to be the biggest growing market for years to come.



As China is the largest IT market in the world, our firm is going to increase future investments into China.



All depends how long China will continue to adhere their approach to Covid. We were forced in a lockdown for a long time, which brings only costs and zero revenue. Additionally, we are losing customers because of it. It will be very difficult to recover any lost customer, combining that with super low-cost competitors and their increasing quality.

About - Benelux Chamber of Commerce

The Benelux Chamber of Commerce is the most active Benelux business platform in China. It is the only Chamber of Commerce that is officially recognized and supported by the Embassy of the Kingdom of Belgium, the Embassy of the Kingdom of the Netherlands, and the Embassy of the Grand Duchy of Luxembourg in China. The chamber has been growing at a steady pace since it was established in 2001.

It currently contains 3 chapters, North China, East China and South China. The Benelux Chamber of Commerce has a constantly expanding network of member companies, consisting of leading enterprises and individuals from Belgium, The Netherlands and Luxembourg with an active interest in developing their business in China, and collaborates closely with 10 Benelux chambers throughout Asia.

As an independent, non-profit organization, the chamber is managed by a full-time secretariat of both Benelux and Chinese staff and all practices are guided by its Board of Directors.

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benelux 荷比卢商会
chamber of commerce in china

About - Moore - MS Advisory

Moore - MS Advisory is a financial advisory firm based in Shanghai, which is part of Moore Belgium and a member of the Moore Global Network. For more than a decade, we have supported foreign enterprises across all provinces of Mainland China and in Hong Kong with Accounting, Tax and Corporate Services which include company set up and registration.

We have served foreign companies active in a wide range of industries. Among others, this includes enterprises from the agriculture, food & beverage, TMT, manufacturing, professional services and trading sectors.

Moore focuses on connecting foreign businesses with their business in China through our core values of Transparency, Compliance and Sustainability. Moore is committed to providing its clients with a thorough understanding of administrative and reporting requirements in China and we ensure they have full control over their administration.

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