

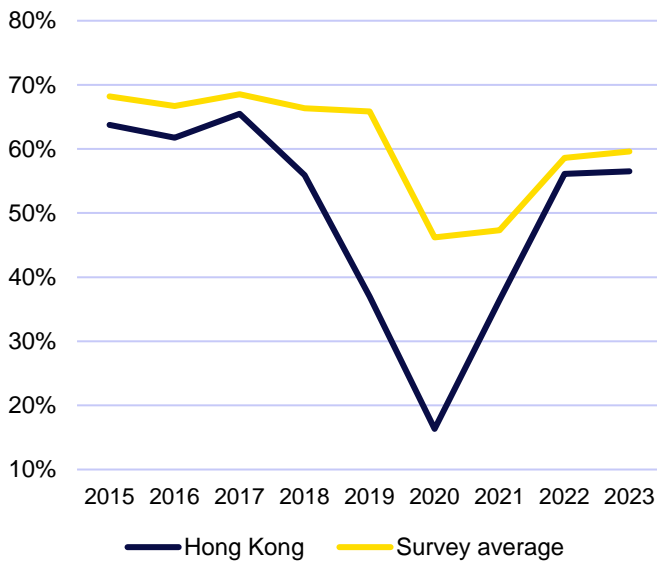
CPA AUSTRALIA ASIA-PACIFIC SMALL BUSINESS SURVEY 2023-2024

Hong Kong market summary

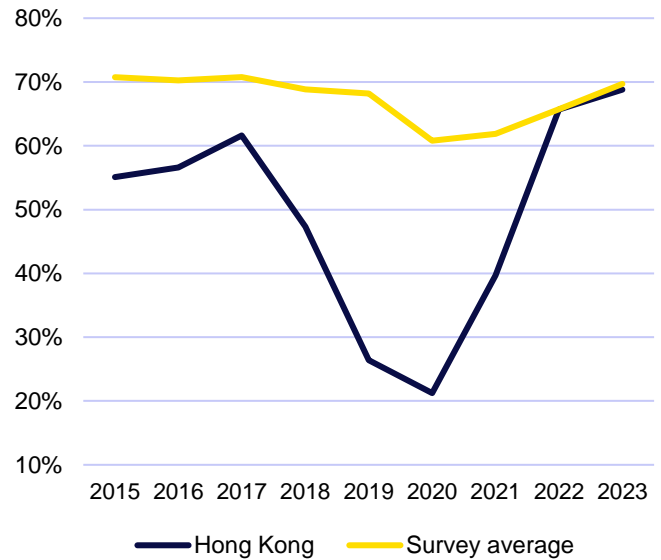
Hong Kong¹

Business and economic conditions

Small businesses that reported growing in the previous 12 months



Small businesses that expect to grow in the next 12 months



	Hong Kong 2023	Survey average 2023	Rank 2023	Hong Kong 2022	Rank 2022	Hong Kong 2021	Hong Kong 2020	Hong Kong 2019
Businesses that grew in the last 12 months	56.5%	59.6%	6/11	56.1%	6/11	36.5%	16.3%	37.0%
Businesses that expect to grow in the next 12 months	68.8%	69.7%	6/11	65.7%	6/11	39.7%	21.2%	26.4%
Businesses that expect the local economy to grow in the next 12 months	72.8%	65.0%	5/11	65.4%	6/11	42.6%	13.4%	17.5%
Satisfied or very satisfied with the financial return of the business²	58.0%	65.3%	8/11	76.5%	4/11	N/A	N/A	N/A

¹ For the purpose of this survey, data collected from small businesses in Hong Kong and Taiwan are shown separately from the data collected for the rest of China.

² Limited to owner, director, CEO/managing director or principal.

2023 was a stronger year for Hong Kong's small businesses than 2022, although it was weaker than expected. More than half (57 per cent) of Hong Kong small businesses grew last year. That reading was nine percentage points lower than expected.

Hong Kong small businesses expect 2024 to be an even better year. 69 per cent predicted their business will grow this year, the highest result for Hong Kong since the city came out of the global financial crisis in 2010.

Small businesses are also more optimistic about Hong Kong's economy. 73 per cent anticipate Hong Kong's economy to grow in 2024, up 8 percentage points from 2023.

Major contributors to the positive result for the city is confidence in the local economy, and the high percentage that invest in or undertake activities that characterise growing businesses, being:

- innovation
- e-commerce
- social media use
- export.

Another likely contributing factor is the younger age profile of Hong Kong small business owners. According to our survey, 21 per cent were aged 50 or over, compared with the survey average of 28 per cent, and well below the Australian result of 55 per cent. Our survey data shows younger owners are much more likely to run businesses that are growing, and use technology such as e-commerce and social media in their business. They are also much more likely to innovate or export and are less risk averse than older owners.

Despite a relatively promising year, small business owners in Hong Kong appear to have lower satisfaction with the financial returns they receive, indicating that there may be obstacles hindering their net returns.

Technology uptake

	Hong Kong 2023	Survey average 2023	Rank 2023	Hong Kong 2022	Rank 2022	Hong Kong 2021	Hong Kong 2020	Hong Kong 2019
More than 10 per cent of revenue came from online sales	80.9%	62.2%	1/11	78.2%	3/11	52.9%	44.4%	43.2%
Did <u>not</u> use social media for business purposes	9.0%	15.4%	9/11	13.1%	7/11	19.4%	19.6%	16.8%
Investment in technology by the business over the past 12 months has improved profitability	62.3%	52.8%	4/11	64.1%	4/11	39.7%	25.2%	29.7%
Technology the business invested in most heavily over the past 12 months	Computer equipment	Computer equipment	N/A	Artificial intelligence, machine learning and chatbots	N/A	Website	Computer equipment	Computer equipment
Consider the business likely to be cyberattacked in next 12 months	70.1%	44.2%	1/11	73.1%	2/11	34.8%	30.1%	31.7%

Reviewed the business' cybersecurity protections in past six months	65.4%	49.5%	1/11	60.6%	1/11	37.7%	39.5%	39.3%
Lost time and/or money due to a cybersecurity incident in the past 12 months	63.9%	40.7%	1/11	N/A	N/A	N/A	N/A	N/A
More than 10 per cent of sales is received through digital payment options such as Octopus, Alipay, WeChat Pay, PayMe, Tap & Go	86.0%	70.8%	2/11	83.7%	3/11	58.9%	57.2%	54.2%
Sought advice from IT consultants/specialists	35.2%	25.8%	1/11	42.0%	2/11	21.6%	15.7%	N/A

There have been noticeable improvements in technology use among Hong Kong small businesses from pre-pandemic levels. This includes:

- Hong Kong's small businesses are strong users of new payment technologies, such as Alipay, WeChat Pay and PayMe. 86 per cent generated more than 10 per cent of their sales through these payment options, up from 52 per cent in 2018.
- Most Hong Kong small businesses generate revenue through online sales. 81 per cent received more than 10 per cent of their revenue online, compared to 44 per cent in 2018.
- Most Hong Kong small businesses use social media for business. Only 9 per cent do not use social media, compared with 30 per cent in Australia and 33 per cent in New Zealand.
- High growth businesses in Hong Kong are more likely to focus their technology investment on artificial intelligence rather than established technologies like computer equipment. This signals their desire to move up the value chain and achieve higher growth.
- A substantial number (35 per cent) of Hong Kong small businesses sought advice from IT consultants or specialists, the highest of the surveyed markets, and up from 16 per cent in 2020.

The strong returns generated by such investments are helping to drive this focus on technology. Almost two-thirds (62 per cent) reported their investment in technology last year improved their profitability, up from 33 per cent in 2018.

Due to the high levels of technology integration amongst Hong Kong's small businesses, they face a significant threat from cyberattacks, with 64 per cent reporting loss of time or money due to cybersecurity incidents in the past year, the highest among surveyed economies. Their concern about cybersecurity is evident, as 65 per cent have reviewed their cybersecurity measures in the last six months, also the highest among surveyed markets. Furthermore, 70 per cent of small businesses expect to be cyberattacked in 2024. The high frequency of reviews and likelihood of lost time or money due to a cyber incident suggests there is room for improvement in how Hong Kong small businesses review their cybersecurity and most likely a need for more comprehensive cybersecurity policies.

Business activity over the past 12 months

	Hong Kong 2023	Survey average 2023	Rank 2023	Hong Kong 2022	Rank 2022	Hong Kong 2021	Hong Kong 2020	Hong Kong 2019
Increased employee numbers	45.7%	32.0%	2/11	54.2%	2/11	18.1%	9.2%	14.5%
Improved customer satisfaction had a major positive impact on the business	23.1%	28.6%	9/11	30.1%	5/11	18.7%	13.1%	18.5%
Improved business management had a major positive impact on the business	22.5%	23.5%	7/11	26.9%	3/11	15.2%	8.8%	16.8%
Increasing costs had a major negative impact on the business	27.2%	39.7%	11/11	25.0%	10/11	31.0%	19.0%	26.4%
Required funds from an external source	83.0%	62.7%	1/11	74.0%	3/11	58.4%	55.2%	60.7%
Sought external funds for business growth	44.6%	52.6%	7/11	53.7%	5/11	48.6%	31.4%	46.2%
Sought external funds for business survival	32.3%	39.7%	7/11	58.0%	2/11	49.2%	44.4%	44.0%
Found it easy or very easy to access external finance	75.8%	43.3%	1/11	70.1%	1/11	35.4%	17.2%	20.1%
A bank was the business' main source of external finance	34.6%	40.2%	9/11	28.1%	9/11	39.8%	30.2%	31.0%
Did <u>not</u> spend any time and resources on ESG practices	8.6%	19.9%	9/11	11.2%	9/11	N/A	N/A	N/A

Planned business activity over the next 12 months

	Hong Kong 2024	Survey average 2024	Rank 2024	Hong Kong 2023	Rank 2023	Hong Kong 2022	Hong Kong 2021	Hong Kong 2020
Expect to increase employee numbers	51.5%	43.1%	4/11	58.3%	2/11	25.8%	11.8%	14.2%
Will introduce a new product, service or process unique to their market or the world	34.6%	28.7%	4/11	45.8%	2/11	19.7%	8.5%	8.6%
Expect revenue from overseas markets to grow strongly	32.7%	18.9%	2/11	45.2%	2/11	11.3%	3.9%	5.3%
Will seek external funds	37.3%	28.7%	2/11	51.3%	2/11	24.2%	17.6%	14.9%
Expect easy to very easy access to finance	74.4%	40.3%	1/11	62.5%	2/11	28.1%	16.2%	14.1%

Employment

Reflecting a positive 2023, 46 per cent of Hong Kong small businesses added to their employee numbers last year. Meanwhile, 52 per cent expect to create new jobs this year, potentially putting further pressure on a tight labour market.

Innovation

Hong Kong small businesses remain very likely to innovate. 35 per cent state they will introduce a new product, process or service that is unique to their market or the world in 2024, compared with the survey average of 29 per cent. This reading is well up from the 13 per cent that said they will innovate in 2018, but down from last year, when 46 per cent said they will innovate.

The continued emphasis on innovation is anticipated to yield positive outcomes for Hong Kong small businesses, as survey results indicate a correlation between innovation and business growth.

Access to finance

Hong Kong small businesses remain likely to source funds from external sources. This will have been driven by growth, and investments in innovation and technology. Furthermore, 75 per cent of Hong Kong small businesses expect accessing external finance to be easy or very easy this year, the easiest among the 11 surveyed markets as well as the highest on record for Hong Kong.

Exports

Compared to their Asian counterparts, Hong Kong small businesses display a relatively positive outlook regarding their projected revenue from overseas sales in 2024. This can be attributed to Hong Kong's longstanding role as an international trading hub and externally facing business sector. Exporting is not just about growing revenue – it also exposes businesses to increased competition and ideas.

Environmental, social, and governance (ESG)

Hong Kong’s small businesses have strong ESG awareness. Only 9 per cent did not spend any time or resources on activities linked to ESG in 2023. Key ESG focuses among Hong Kong small businesses are staff health and safety policies, supply chain sustainability, adoption of green and sustainable finance options and investment in renewable energy.

Factors that had positive and negative influences on business

Top four factors that had a positive influence on Hong Kong small business in 2023	Top four factors that had a positive influence Hong Kong on small business in 2022	Top four factors that had a positive influence on Hong Kong small business in 2021
Entering new markets	Improved customer satisfaction	Cost control
Good staff	Cost control	Customer loyalty
Positive overall economic sentiment	Positive overall economic sentiment	Good staff
Cost control^	Good staff	Entering new markets
Improved customer satisfaction^	Improved business management ^	
	Political stability^	

Top four factors that had a negative impact on Hong Kong small business in 2023	Top four factors that had a negative impact on Hong Kong small business in 2022	Top four factors that had a negative impact on Hong Kong small business in 2021
Increasing costs	COVID-19	COVID-19
Increasing rent	Increasing competition	Increasing costs
Problem with staff skills	Poor overall economic sentiment Falling customer satisfaction^	Poor overall economic environment
Difficulty expanding into new markets	Increasing rent Difficulty expanding into new markets^ Staff costs^	Increasing competition

^ equal rank

Hong Kong’s small businesses placed a greater focus on “entering new markets” in 2023. This shift may have stemmed from a lower satisfaction with financial returns and a desire to expand their sources of income.

Increasing costs was the biggest challenge that Hong Kong businesses faced in 2023. The costs most detrimental to them were ‘staff costs’, ‘transportation and storage costs’ and “borrowing costs”.

Entrepreneurship



Biggest concern when first started a businessRaising finance[^]
Finding a good business partners or collaborators[^]**Most common attitude and approach to managing business risk of owner**

Solo risk taker

[^] equal rank

When starting their businesses, Hong Kong entrepreneurs are most likely to be motivated by the desire to be their own boss. The biggest concern they had was raising finance and finding a good business partner.

As solo risk-takers, Hong Kong entrepreneurs are more likely to rely on their intuition and instincts in making decisions. This may help explain why over the past five years, Hong Kong's small businesses have been more likely than entrepreneurs in other developed economies to embrace new technologies, focus on innovation and seek to expand into new markets. This is because solo risk-takers are often more comfortable with uncertainty and recognise that risk is an inherent aspect of entrepreneurship. Relying on intuition does however come with considerable risks.

Demographics

	Hong Kong 2023	Survey average 2023	Rank 2023	Hong Kong 2022	Rank 2022	Hong Kong 2021	Hong Kong 2020	Hong Kong 2019
Respondent aged under 40	51.5%	46.0%	6/11	62.8%	3/11	42.3%	46.4%	53.1%
Business established for less than 11 years	42.0%	61.1%	11/11	62.2%	5/11	52.6%	54.9%	52.8%
Respondent is the business owner	10.5%	37.4%	10/11	10.3%	11/11	10.0%	11.4%	8.9%
Business has 10 to 19 employees	69.8%	38.3%	1/11	41.3%	3/11	49.7%	41.8%	50.8%

Policy suggestions

Policymakers should explore opportunities to enhance the sector's cybersecurity capabilities and facilitate new business access to financial support.