

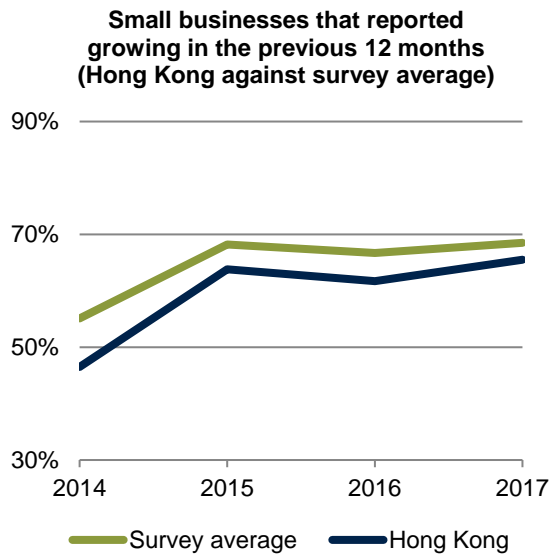
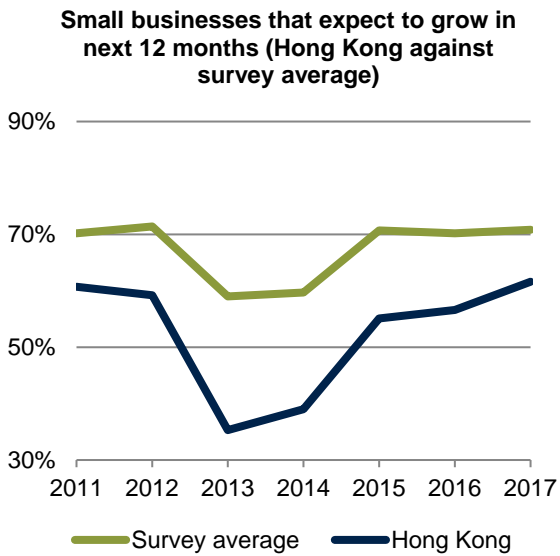
MARKET SUMMARY

HONG KONG⁵



Data snapshot

Business and economic growth



	2017	2017 survey average	Rank 2017	2016	Rank 2016	2015	Rank 2015	2014	Rank 2014
Businesses that grew in last 12 months	65.5%	68.5%	5/8	61.7%	5/8	63.8%	5/8	46.5%	7/8
Businesses that expect to grow in next 12 months	61.6%	70.8%	6/8	56.6%	6/8	55.1%	8/8	39.0%	8/8
Businesses that expect the local economy to grow in next 12 months	57.7%	61.9%	4/8	50.2%	6/8	52.1%	5/8	39.4%	8/8

⁵ For the purpose of this survey, data collected from small businesses in the Hong Kong Special Administrative Region of the People’s Republic of China is shown separately from the data collected for the rest of China

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Business activity over the past 12 months

	2017	2017 survey average	Rank 2017	2016	Rank 2016	2015	Rank 2015	2014	Rank 2014
Increased employee numbers	30.0%	34.3%	4/8	19.6%	7/8	32.5%	4/8	18.1%	6/8
Improved business management had a major positive impact on their business	19.4%	23.4%	5/8	20.9%	5/8	20.4%	5/8	N/A	N/A
Increasing costs had a major negative impact on their business	37.7%	35.8%	3/8	37.3%	4/8	41.9%	3/8	N/A	N/A
Required funds from an external source	66.5%	61.3%	4/8	72.7%	4/8	78.1%	4/8	69.9%	5/8
Sought external funds for business growth	55.3%	59.4%	4/8	51.8%	5/8	50.2%	6/8	51.8%	6/8
Found it easy or very easy to access external finance	23.8%	32.5%	6/8	19.9%	7/8	43.5%	5/8	29.9%	8/8
A bank was the business's main source of external finance	43.2%	41.0%	5/8	31.4%	8/8	47.3%	8/8	N/A	N/A
Rent was the most detrimental factor impacting their business	51.0%	32.1%	1/8	52.4%	1/8	54.3%	1/8	61.7%	1/8

Planned business activity over the next 12 months

	2017	2017 survey average	Rank 2017	2016	Rank 2016	2015	Rank 2015	2014	Rank 2014
Expect to increase employee numbers	33.9%	40.8%	5/8	30.2%	5/8	32.8%	5/8	22.7%	6/8
Expect to introduce a new product, service or process unique to their market or the world	13.5%	23.3%	5/8	14.8%	5/8	17.7%	5/8	N/A	N/A
Expect revenue from overseas markets to grow strongly	15.5%	19.8%	5/8	13.5%	5/8	22.3%	2/8	N/A	N/A
Will seek external funds	21.9%	28.8%	5/8	24.4%	5/8	31.3%	4/8	18.1%	5/8
Expect easy to very easy access to finance	21.5%	28.4%	6/8	19.3%	6/8	41.7%	3/8	27.3%	7/8

Social media, e-commerce and technology

	2017	2017 survey average	Rank 2017	2016	Rank 2016	2015	Rank 2015	2014	Rank 2014
Did NOT earn any revenue from online sales	17.4%	24.8%	5/8	21.9%	5/8	18.5%	5/8	21.3%	4/8
Did NOT use social media for business purposes	11.3%	18.5%	5/8	11.6%	5/8	5.3%	5/8	9.9%	4/8
Investment in technology by the business over the past 12 months has improved profitability	48.1%	53.1%	5/8	N/A	N/A	N/A	N/A	N/A	N/A
Think their business is likely to be cyberattacked in next 12 months	44.2%	45.6%	5/8	N/A	N/A	N/A	N/A	N/A	N/A
Allow payments through digital payment options, such as PayPal, Alipay, WeChat Pay	52.9%	42.7%	3/8	N/A	N/A	N/A	N/A	N/A	N/A
Allow payments through digital currencies, such as bitcoin	10.3%	11.4%	3/8	N/A	N/A	N/A	N/A	N/A	N/A

Factors that had positive and negative influences on business in 2017

Top four factors that had a positive influence on small business in 2017	Top four factors that had a detrimental impact on small business in 2017
Cost control	Increasing costs
Introduced a new product or service	Increasing competition
Customer loyalty	Increasing rent
Good staff	Staff costs

Other

	2017	2017 survey average	Rank 2017	2016	Rank 2016	2015	Rank 2015	2014	Rank 2014
Satisfied with being a small business owner or working for a small business	70.3%	76.1%	5/8	N/A	N/A	N/A	N/A	N/A	N/A
Do NOT have an exit plan/succession plan for the business	53.4%	36.2%	1/8	N/A	N/A	N/A	N/A	N/A	N/A

Demographics

	2017	2017 survey average	Rank 2017	2016	Rank 2016	2015	Rank 2015	2014	Rank 2014
Business has been established for 10 years or less	64.8%	63.3%	4/8	68.8%	4/8	58.9%	6/8	60.6%	5/8
Respondent is aged under 40	51.3%	48.0%	4/8	55.3%	5/8	63.4%	4/8	55.7%	6/8
Respondent is the business owner	7.4%	30.4%	6/8	8.4%	8/8	9.8%	8/8	31.9%	4/8
Business has 10 to 19 employees	58.4%	45.7%	3/8	60.5%	3/8	60.8%	4/8	52.1%	4/8

Summary

2017 was a relatively good year for small businesses from Hong Kong, with a record number stating that they grew. This positive result is set to continue into 2018, with the highest number of Hong Kong businesses expecting to grow since 2010, and small business confidence in Hong Kong's economy is at its highest level since the survey began in 2009.

While the number of Hong Kong businesses that reported growing in the previous 12 months (65.5 per cent) is at its highest level, the result is still some way behind the developing markets included in this survey, especially Indonesia, where 93.4 per cent of businesses reported growing. However, a more relevant comparison for Hong Kong is to the other developed markets⁶ included in this survey. On that comparison, Hong Kong's small business sector came out on top, with the number of businesses experiencing growth ahead of each of those markets, especially Singapore (47.5 per cent).

This positive result is likely to continue in 2018, with 61.6 per cent of Hong Kong's small businesses expecting to grow over the coming 12 months. The Hong Kong result is better than the result for Australia, where 55.6 per cent of businesses expect to grow, and Singapore, where 57.0 per cent of businesses expect to grow. It is the second consecutive year that Hong Kong's small business confidence has been greater than Australia and Singapore.

Small business confidence in the growth prospects for Hong Kong's economy in 2018 is growing and is at its highest level since this survey began in 2009. Fifty-eight per cent of small businesses expect the local economy to grow, bettering the results from the developed markets included in this survey, especially New Zealand, where only 39.9 per cent of small businesses expect their economy to grow in 2018. Further, given the interlinkages between the economies of Hong Kong and Mainland China, the strong and growing small business confidence in Mainland China's economy is also likely to have benefits for many of Hong Kong's small businesses.

There was a strong increase in the number of Hong Kong businesses adding to their staff numbers in 2017, with 30.0 per cent stating that they increased employee numbers, up from 19.6 per cent in 2016. Hong Kong's small business sector looks set to continue to be an important generator of jobs in 2018, with over a third expecting to increase their headcount.

Hong Kong small businesses, like their counterparts in the rest of Asia, are highly likely to be making online sales and using social media for business purposes, with 53.5 per cent of respondents stating that online sales makes up

⁶ Australia, Hong Kong, New Zealand and Singapore.

more than ten per cent of their revenue. With Mainland China being the most important market for Hong Kong, it is no surprise that there is such a large investment in digital technologies to interact with customers. That is, if Hong Kong businesses want to interact with customers on the Mainland there is an expectation that they will do so digitally.

Other factors that are most likely driving this investment in technology by Hong Kong small businesses are the high rents they face and concerns over staff costs. Technology can reduce the need for businesses to be located in high rent locations and can reduce the size of the property they need to rent (for example, they can better control stock, reducing their need for extra space to house it). Further, technology, such as automation, can reduce the need for staff or free up staff to perform higher value-added tasks.

Hong Kong small businesses are one of the strongest users of new payment technologies, such as AliPay, ApplePay and WeChat Pay. While businesses from Mainland China are the clear leaders in the uptake of this new technology, with 65.5 per cent offering these payment options, Hong Kong's small business sector is not far behind (52.9 per cent) and well ahead of Australia (23.9 per cent).

These payment options are proving quite popular, with 54.5 per cent of businesses stating that over ten per cent of their sales are received through digital payment platforms. However, cash is the most popular payment option, with 41.3 per cent of respondents stating that more than half of their sales are cash transactions.

Just under half of respondents (44.2 per cent) from Hong Kong believe that a cyberattack on their business is likely in 2018, which is consistent with the survey average of 45.6 per cent. Regardless of this result, the vast majority are taking action to protect their IT infrastructure. The most popular actions are:

- making staff aware not to download programs or open attachments from non-trusted sources;
- backing up regularly and having that back-up stored offsite or in the cloud; and
- run frequent anti-virus, anti-spyware and malware scans.

More businesses should be improving security around access to their systems, including multi-factor authentication before users are allowed on to their system; having a stronger password policy, including changing passwords regularly; and immediately removing access for people who no longer work for the business or need access.

The investment Hong Kong small businesses are making in technology is producing benefits for many, with 48.1 per cent of respondents stating that their investment in technology over the past 12 months has already resulted in improvements in profitability, and only 6.4 per cent stating that it resulted in a decline in their profitability.

Of course, Hong Kong businesses face several challenges, with increasing costs, increasing competition, and increasing rent the issues Hong Kong businesses are most likely to nominate as barriers to growth. Hong Kong businesses were most likely to nominate rent, followed by staff costs, as the cost most detrimental to their business. In each of the past four years, Hong Kong businesses were the most likely to nominate rent as the cost most detrimental to their business.

Given these concerns around costs, it is not surprising that Hong Kong businesses were most likely to select cost control as having the most positive impact on their business for the second consecutive year.

While Hong Kong's small businesses have adopted new technologies, such as digital payment options, relatively quickly, they would benefit from a stronger focus on innovation. Small businesses should take advantage of Hong Kong's close proximity to leading innovation centres, such as Shenzhen, its status as a global finance centre, and the Government's significant investment into innovation.

Despite an increase in the number of Hong Kong businesses reporting that they grew in 2017, there was a decrease in the number of businesses that required external finance (66.5 per cent in 2017, compared with 72.7

per cent in 2016). This decrease suggests that several of Hong Kong's small businesses grew by making better use of existing resources and without resorting to external finance.

There was an increase in the percentage of Hong Kong small businesses that sourced finance from a bank in 2017 (43.2 per cent in 2017, compared with 31.4 per cent in 2016). Hong Kong's small businesses were the most likely to nominate an investor as their main source of finance, with 23.8 per cent of businesses nominating this as their main source of finance, compared with the survey average of 15.3 per cent. Small businesses can also benefit from the broad expertise an investor might bring, that can help a business grow.

Not surprisingly, the most common reasons for requiring external finance in 2017 was business growth and to cover increasing expenses. We would, however, suggest that businesses first consider other ways to cover increasing expenses before borrowing.

2017 has been a positive year for Hong Kong small businesses, and 2018 looks equally positive. Not only are increasing numbers of small businesses experiencing growth, a significant majority are utilising new digital technologies. However, more small businesses should be investing in innovation and taking further steps to control costs. These factors, and the strong growth in Mainland China, are no doubt contributing towards relatively high levels of satisfaction, with 70.3 per cent stating they are satisfied with owning or working for a small business.