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The Road to Sustainable Development of Hong Kong SMEs - The Present and Future

Research Report

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The Road to Sustainable Development of Hong Kong SMEs – The Present and Future

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Chapter 1

Introduction

SMEs play a very significant role in any economy. In Hong Kong, for at least the past ten years, more than 98% of enterprises in Hong Kong are SMEs. They may be small individually but together they employ 48% of the total working population over 1.3M employees and their combined business values was nearly 57% that of total business values in Hong Kong in 2009¹.

One of the main strengths of SMEs is their adaptability, but at the same time they are also more vulnerable to upheavals in the economic environment, which have not been lacking in the past two decades - the Asian financial crisis of 1997, SARS outbreak and economic downturn of 2003, the global financial melt-down of 2008.

In recent years, governments worldwide have begun to realise the important role they play in creating a business environment conducive to SME's sustainable development. Government support should be distinguished from government intervention. In a significant event in 2000, about fifty OECD members and non-members signed the Bologna Small Business Charter². Since then, governments as far apart as Japan, Mozambique, and the European Community have taken concrete actions to support SMEs in their respective countries.

The current research project is a joint effort of a tertiary institution and the SMEs in Hong Kong, more specifically, a collaboration between The Hong Kong Chinese Importers' and Exporters' Association (HKCIEA) and the Institute for Enterprise Development, School of Business, Hong Kong Baptist University, to explore the issues facing SMEs. It is a year-long project which started in May 2010 and is funded by the SME Development Fund, Trade and Industry Department of the HKSAR government³. The main objectives of this project are to assess how Hong Kong SMEs are coping in the turbulent economic environment, what are the challenges they face, what do they see of their future and most importantly, what can be done to provide the necessary support for their sustainable development.

The research project includes a self-administered questionnaire survey of 272 SMEs in Hong Kong to generate some quantitative data, case studies of three successful SMEs to gain in-depth insights, and six public seminars/forums for SME representatives to exchange ideas and express their views.

The project is documented in this main report which includes the overall findings of the survey of SMEs in Chapter 2; the breakdown findings by sector for four sectors - the Import and Export Trade Sector, Import and Export cum Manufacturing Sector, Manufacturing Sector and Services Sector in Chapter 3-6; three case studies in Chapter 7 and in the last chapter, recommendations are put forward which incorporate views and suggestions of Hong Kong SMEs expressed in the public seminars and forums.

1 See Table in Appendix 1 SMEs' Contribution to Hong Kong's Economy from 1998 – 2010, Census and Statistics Department, HKSAR Government

2 http://www.oecd.org/document/29/0,3343,en_2649_34197_1809105_1_1_1_1,00.html

3 <http://www.smefund.tid.gov.hk/eng/sdf.html>



Chapter 2

Survey of Hong Kong SMEs: Overall Findings

A survey of SMEs in Hong Kong was conducted as part of the project to obtain SME's view of their current status and future prospects. The surveyed SMEs were asked about factors influencing their current business, difficulties in doing business in Hong Kong and difficulties in doing business in mainland China, strategies being adopted and their perceived effectiveness. They were also asked their views on HKSAR government and mainland policies for SMEs.

The survey targeted SMEs in Hong Kong in four selected sectors, namely, Import and Export Trade Sector, Manufacturing Sector, Import and Export Trade cum Manufacturing Sector, and Services Sector.

2.1 Survey Method

The survey was conducted by means of a self-administered questionnaire in Chinese (Appendix 2) sent by post and email through the Hong Kong Chinese Importers' and Exporters' Association and the Institute for Enterprise Development of Hong Kong Baptist University to SME and business associations in Hong Kong. A total of 1,812 questionnaires were distributed between July and August of 2010. Follow-up reminders by post, email and phone calls were made, and 272 usable questionnaires were collected by the end of August 2010, making an overall response rate of 15 %.

2.2 Profile of Responding SMEs

The responding SMEs are distributed among the different sectors as follows:

Table 2.1 Responding SMEs by Sector

Sector	No. of SMEs	Percentage
Import and Export Trade	81	29.8%
Import/Export Trade cum Manufacturing	69	25.4%
Manufacturing	64	23.5%
Services	48	17.6%
Others	10	3.7%
Total	272	100.0%

A wide spectrum of industries is represented in the sample. Responding SMEs of the **Import and Export Trade sector, Import and Export Trade cum Manufacturing sector, and Manufacturing sector** are engaged in the following industries: biochemical technology, food, electronic & electrical appliances, machinery & equipment, jewellery, fabricated metal products, plastic, printing & publishing, textile & garments, toys, watches & clocks, automobiles, building materials, furniture and home furnishings, decoration and gift items, stationery, shoes & handbags, medical, health and eco-protection products, etc.

Respondents of the **Services sector** are engaged in information technology, transport and logistics, financial service, medical service, accounting service, legal service, social service, education, architecture and interior design, hotel and tourism, food and catering, real estate and property management services, etc.

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Majority of the surveyed SMEs employ fewer than 50 employees. Distribution of SMEs by number of employees is shown in Table 2.2.

Table 2.2 Number of Employees

Employee Size	Number of SMEs	Percentage
<10	130	47.8%
10 – 50	106	39.0%
51 – 100	18	6.6%
>100	18	6.6%
Total	272	100.0%

About 85% of the respondent SMEs have been in operation for more than 5 years. Distribution of the SMEs by years of establishment is as follows:

Table 2.3 Years of Establishment

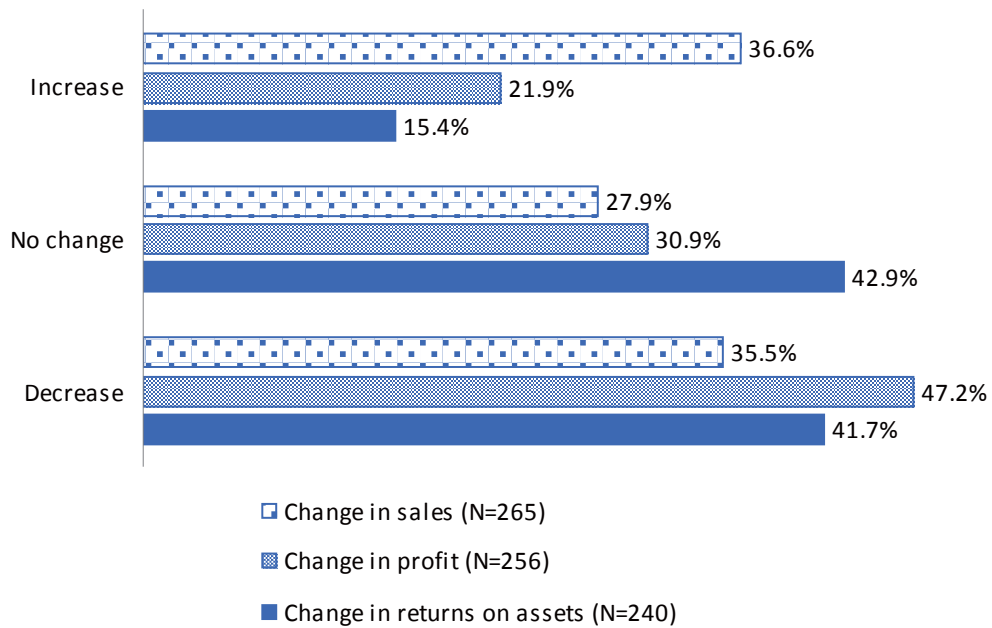
Years of Establishment	Number of SMEs	Percentage
<3	25	9.2%
3 – 5	13	4.7%
6 – 10	46	16.9%
11 – 15	29	10.7%
>15	158	58.1%
Unknown	1	0.4%
Total	272	100.0%



2.3 Business Performance

The survey was conducted in 2010, not long after the global financial crisis of 2008, and the SMEs were asked to compare their current business performance to that before the financial crisis, that is, before and after 2008. Figure 2.1 shows that 36.6% of the responding SMEs actually saw an increase in sales over the period although profitability did not match the sales increase – only 21.9% saw their profit increased, and the corresponding figure for return on assets was only 15.4%. Given the fact that the 2008 financial crisis hit hardest on the US and European economies, this shows that these enterprises are no longer solely dependent on the traditional US and European markets. Another reason is that most of the SMEs in Hong Kong have established and expanded a major part of their businesses in mainland China which achieved a GDP increase over the 2008 financial crisis period. At the same time, the strong growth momentum in Asia and the gradual recovery of the global economy also offer better business opportunities for SMEs in Hong Kong.

Figure 2.1 Change in Business Performance Compared to Pre-financial Crisis



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Table 2.4 shows that for those SMEs that **recorded better business performance**, the average percentage increase in sales, profit and return on assets were 24.3%, 29.2% and 20.3% respectively. Table 2.5 gives the corresponding figures for those that **recorded a decline** in sales, profit and return on assets.

Table 2.4 Increase in Sales, Profit and Returns on Assets Compared to Pre-financial Crisis

	Percentage increase in		
	Sales (N=84)	Profit (N=50)	Return on assets (N=30)
Minimum	2.0%	1.0%	1.0%
Maximum	100.0%	500.0%	100.0%
Mean	24.3%	29.2%	20.3%

Table 2.5 Decrease in Sales, Profit and Returns on Assets Compared to Pre-financial Crisis

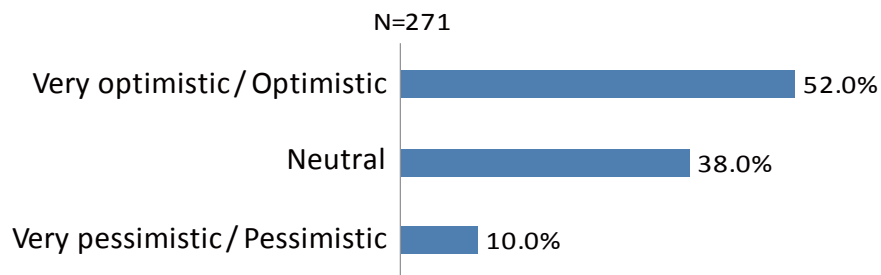
	Percentage decrease in		
	Sales (N=82)	Profit (N=99)	Return on assets (N=82)
Minimum	5.0%	2.0%	1.0%
Maximum	100.0%	100.0%	102.0%
Mean	28.0%	26.0%	26.0%



2.4 Three-year Business Projection

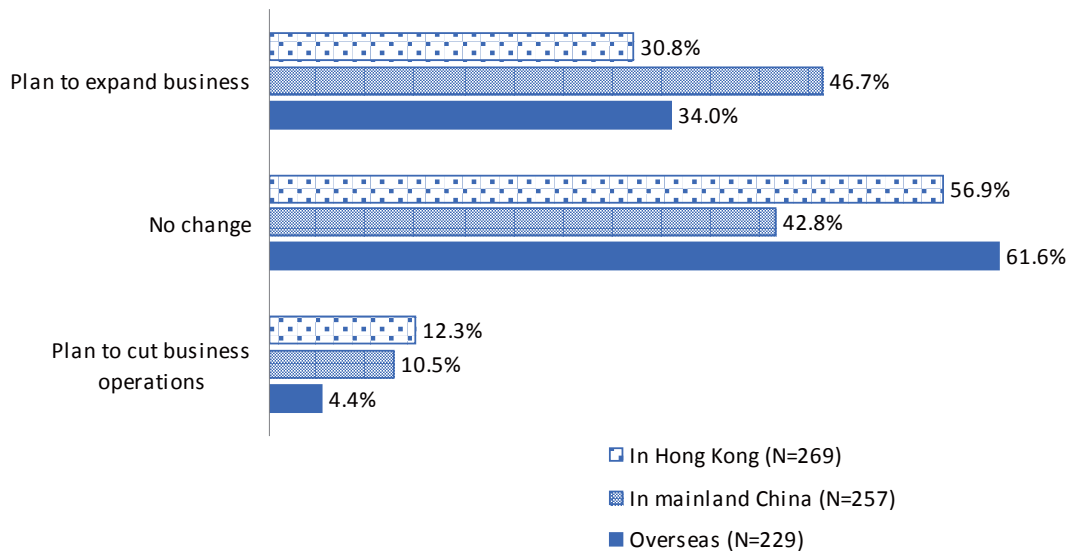
The SMEs surveyed were asked to make forecasts for the next 3 years. Figure 2.2 shows that 52.0% of them held optimistic or very optimistic outlook of their business and only 10.0% were pessimistic or very pessimistic.

Figure 2.2 Projection of Next Three Years' Business



Respondents were asked to project future expansions in Hong Kong, mainland China and overseas respectively (Figure 2.3) and the findings show that 46.7% have plans to expand in mainland China and 34.0% indicated plans to expand overseas in the coming three years.

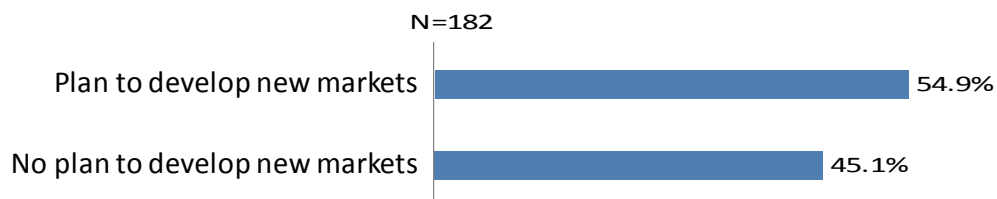
Figure 2.3 Projection of Next Three Years' Business in Hong Kong, mainland China and Overseas



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Results reveal that 54.9% of the responding SMEs would develop new markets to expand their businesses, as shown in Figure 2.4. They plan to develop new markets in mainland China and foreign countries, such as the Philippines, Vietnam, Thailand, Indonesia, ASEAN regions, USA and Europe.

Figure 2.4 Plan to Develop New Markets in the Next Three Years





2.5 Factors Influencing the Current Business

The responding SMEs were presented with eight external factors deemed to have impact on business. Overwhelmingly, 'policies of the mainland government' is considered of greatest impact with 74.0% rating this factor of significance or of great significance. This is followed by 55.6% for the factor 'fluctuations of exchange rates', as shown in Table 2.6a. This finding is consistent with the fact that many SMEs are engaged in mainland-related businesses and these would be their main concern. The comparison of the external factors deemed to impact on respondents' business by the four sectors is illustrated in Figure 2.6b on page 10.

Table 2.6a Perceived Impact of External Factors on Business (Overall)

External Factor Deemed to Impact Business	SMEs rating the specific factor to be of great significance or of significance	
	Number of SMEs	Percentage
Policies of mainland government (N=250)	185	74.0%
Fluctuations of exchange rates (N=250)	139	55.6%
Debt crisis in Europe (N=245)	103	42.0%
RMB clearing and settlement procedure (N=241)	100	41.5%
Expansion of mainland domestic market (N=239)	69	28.9%
The establishment of free trade zone between China and ASEAN (N=204)	28	13.7%
Pan-Pearl River Delta development (N=196) (泛珠三角框架下的先行先試)	18	9.2%
CEPA Policies (N=208)	15	7.2%

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Table 2.6b Perceived Impact of External Factors on Business (By Sector)

External Factor Deemed to Impact Business	Import and Export Trade (N=81)	Import and Export Trade cum Manufacturing (N=69)	Manufacturing (N=64)	Services (N=48)
Policies of mainland government	68.1%	80.6%	83.3%	65.9%
Fluctuations of exchange rates	56.2%	67.2%	56.7%	40.0%
Debt crisis in Europe	43.7%	54.5%	29.8%	41.5%
RMB clearing and settlement procedure	37.5%	46.0%	40.4%	41.0%
Expansion of mainland domestic market	31.0%	25.4%	28.8%	27.0%
The establishment of free trade zone between China and ASEAN	14.5%	9.3%	13.7%	20.6%
Pan-Pearl River Delta Development (泛珠三角框架下的先行先試)	10.3%	3.6%	13.6%	6.7%
CEPA Policies	8.3%	1.8%	8.2%	11.4%



Table 2.7a below shows factors that were unclear to the responding SMEs. Top of the list is 27.1% who were not clear about the 'Pan-Pearl River Delta development (泛珠三角框架下的先行先試)', followed by 23.0% who were unclear about 'the establishment of the free trade zone between China and ASEAN', and 22.7% who were not clear about 'CEPA policies'. This shows the need for SMEs to be kept well informed and educated about new development in the macro economic and business environment and policies. Table 2.7b presents the factors which are unclear to the respondents by the four sectors.

Table 2.7a External Factors which are Unclear to SMEs (Overall)

External Factor unclear to SMEs	Number of SMEs	Percentage
Pan-Pearl River Delta development (N=269) (泛珠三角框架下的先行先試)	73	27.1%
Establishment of free trade zone between China and ASEAN (N=265)	61	23.0%
CEPA policies (N=269)	61	22.7%
Expansion of mainland domestic market (N=270)	31	11.5%

Table 2.7b External Factors which are Unclear to SMEs (By Sector)

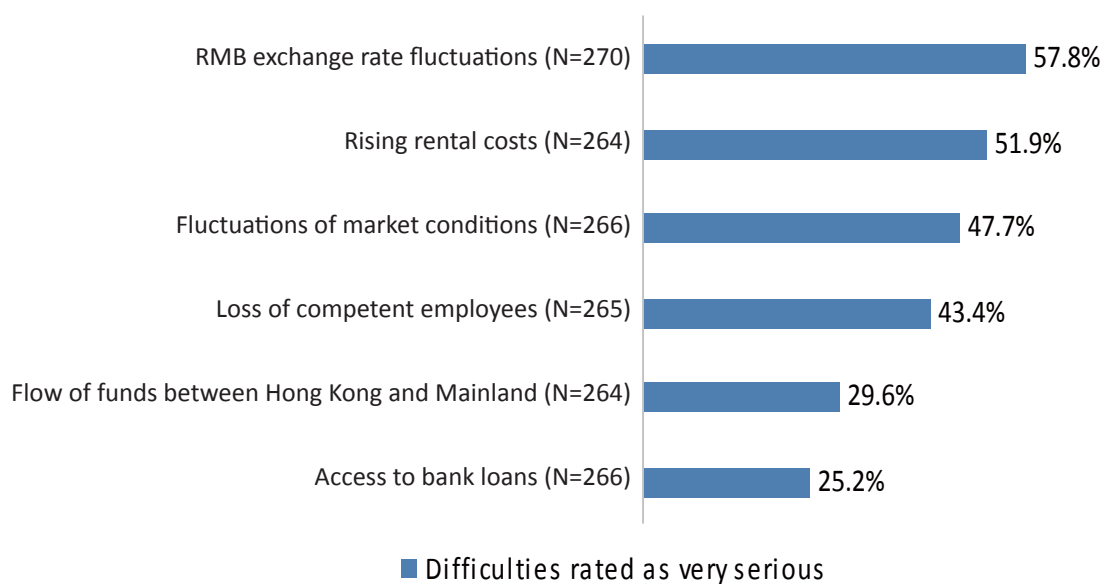
External Factor Deemed to Impact Business	Import and Export Trade (N=81)	Import and Export Trade cum Manufacturing (N=69)	Manufacturing (N=64)	Services (N=48)
Pan-Pearl River Delta development (泛珠三角框架下的先行先試)	28.4%	20.3%	29.0%	36.2%
Establishment of free trade zone between China and ASEAN	29.5%	19.4%	19.0%	27.7%
CEPA policies	25.0%	20.3%	22.2%	25.5%
Expansion of mainland domestic market	12.3%	7.4%	7.8%	21.3%

2.6 Difficulties in Doing Business in Hong Kong

Respondents were asked to assess a list of six factors that present difficulties in doing business in Hong Kong. Top of the list is 'RMB exchange rate fluctuations' – 57.8% of the responding SMEs considered this a serious or extremely serious problem, followed by 'rising rental costs' – 51.9%, as indicated in Figure 2.5a.

Over 40% of the respondents considered 'fluctuations of market conditions' and 'loss of competent employees' a serious or extremely serious problem. Though last on the list, 'flow of funds between Hong Kong and Mainland' and 'access to bank loans' are difficulties faced by over 25.0% of SMEs. These concerns are to be addressed if SMEs are to thrive.

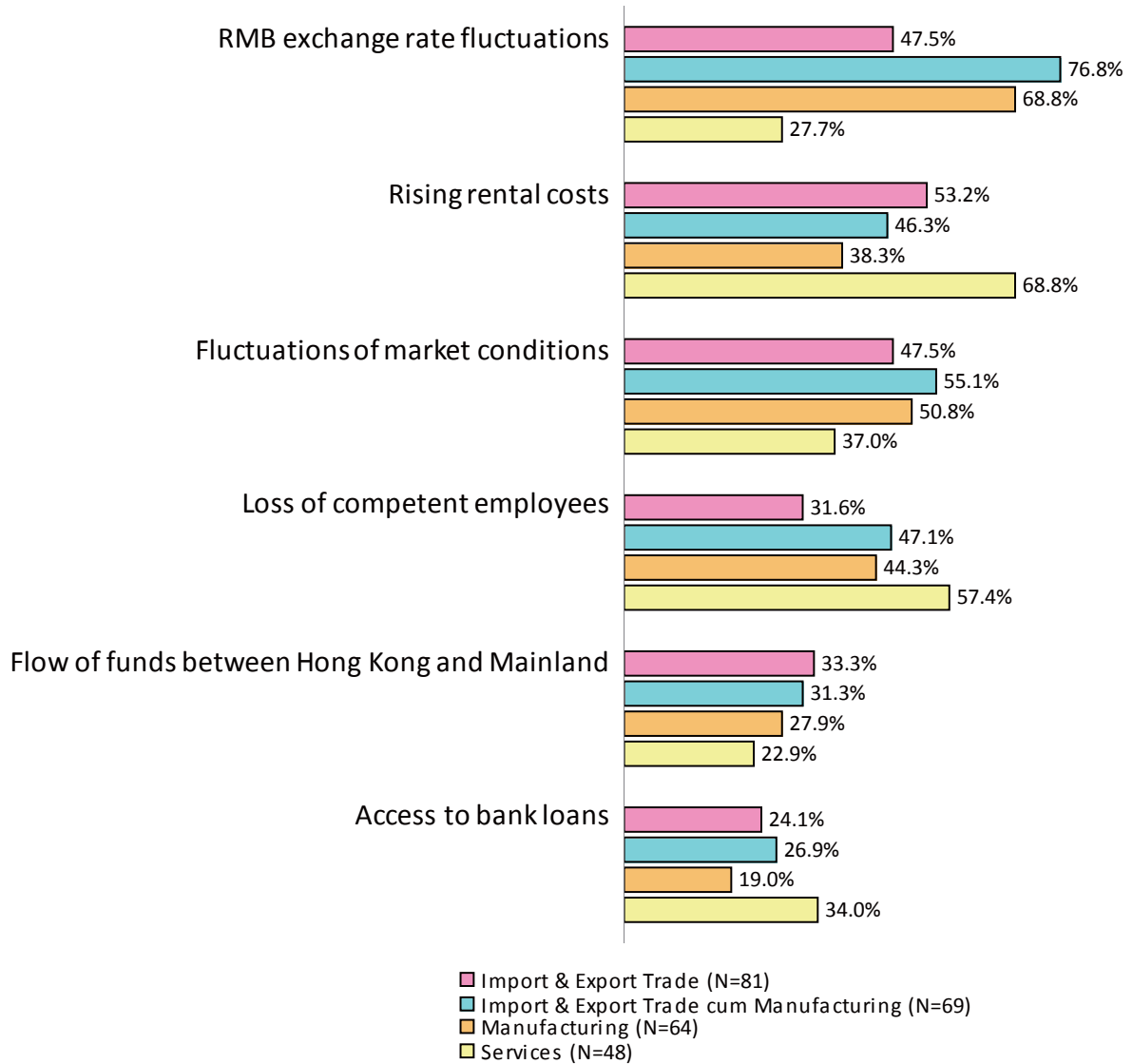
Figure 2.5a Difficulties Experienced by SMEs in Doing Business in Hong Kong (Overall)





The comparison of the difficulties experienced by respondents of the four sectors in doing business in Hong Kong is illustrated in Figure 2.5b below:

Figure 2.5b Difficulties Experienced by SMEs in Doing Business in Hong Kong (By Sector)



2.7 Difficulties in Doing Business in Mainland China

Similarly, respondents were asked to assess factors that present difficulties in doing business in the mainland. As shown in Figure 2.6a, the first two on the list are costs related, including rising raw material costs, rising wages. But many are also concerned about the government policies and regulations and their implementation, such as the labour contract law, the effectiveness in implementing laws and regulations, introduction of environmental protection laws and regulations protection of intellectual property rights, and a fair and equitable business environment, as well as shortage of factory workers. All these indicate that the mainland business environment is not yet fully developed and mature. Hong Kong SMEs are exposed to higher risks when doing business in China.

The last two factors on the list, though of concern to fewer enterprises, are still considered by one quarter of the responding SMEs as presenting challenges. One is the competency of Chinese professionals, e.g. in the legal and accountancy profession, and the other is the access to bank loans in the mainland. The former concern should represent good news to Hong Kong professionals who may still have an advantage over their Chinese counterparts. The analysis of the difficulties experienced by respondents of the four sectors in doing business in the Mainland is shown in Figure 2.6b on page 15.

Figure 2.6a Difficulties Experienced by SMEs Doing Business in the Mainland (Overall)

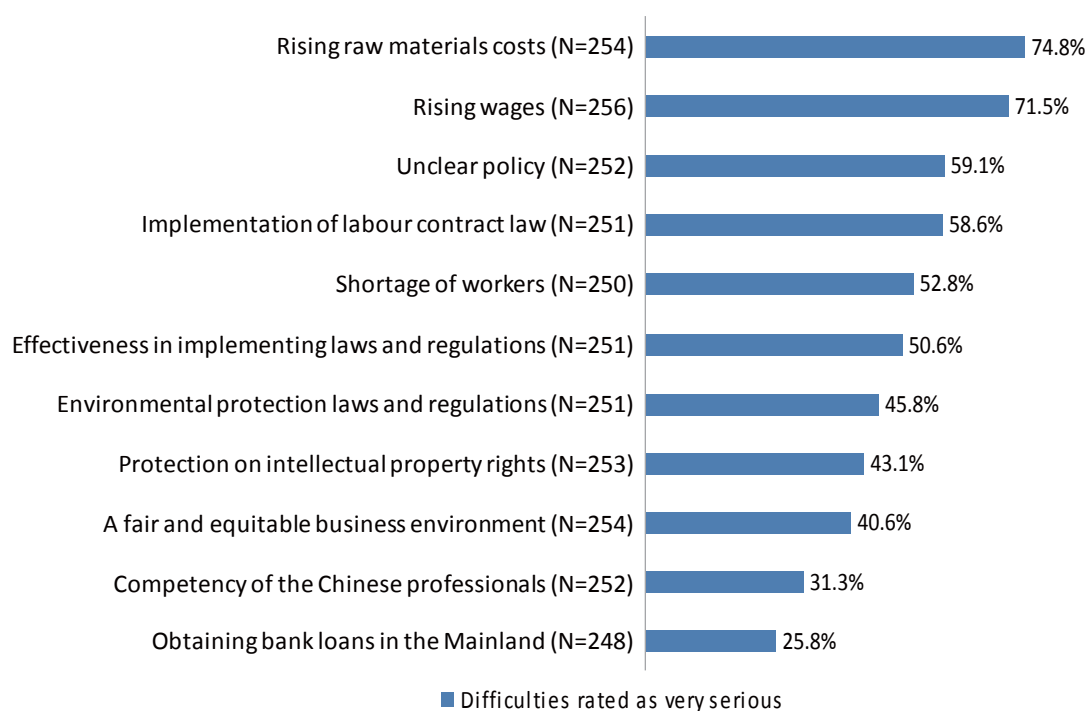
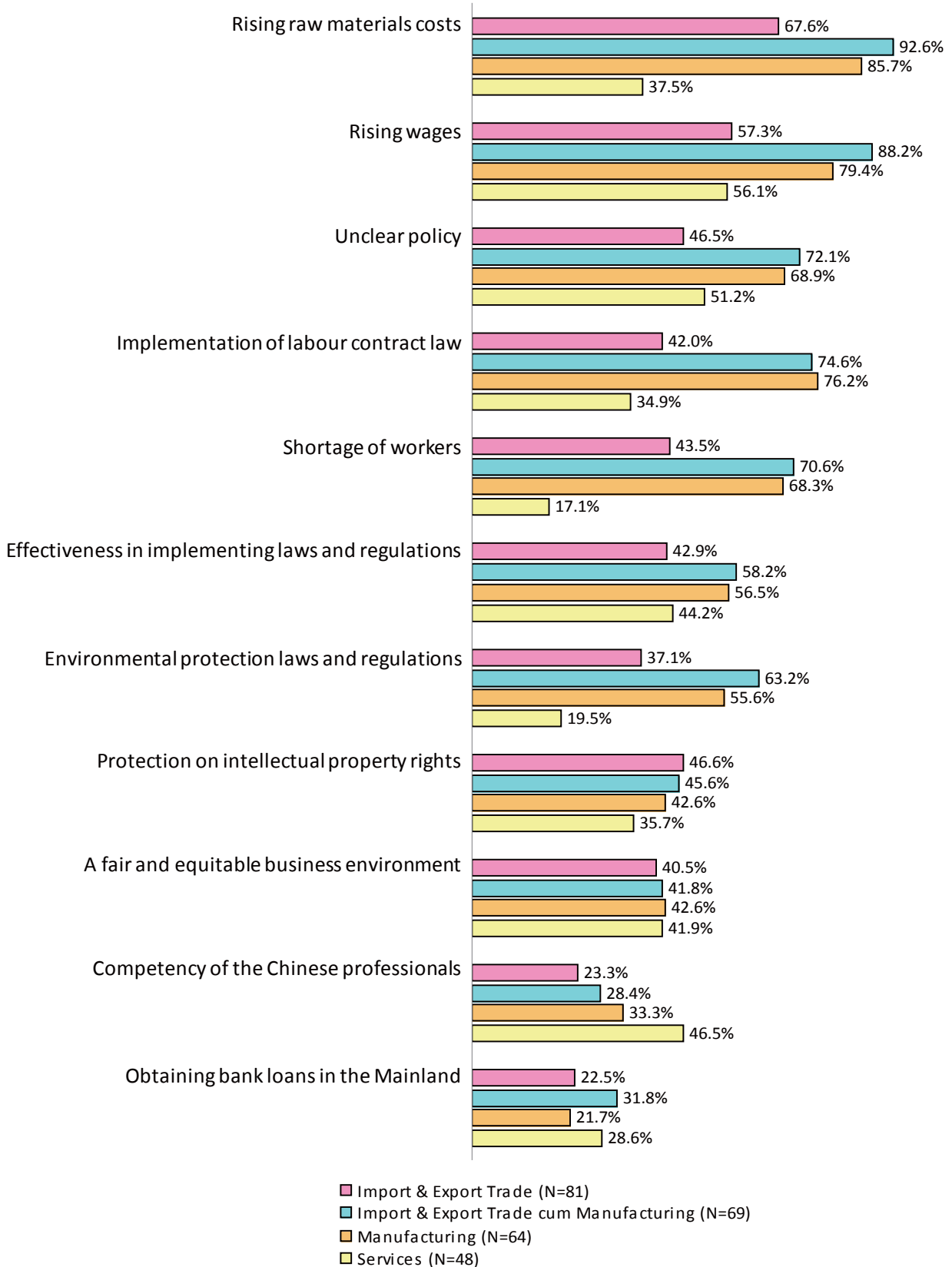




Figure 2.6b Difficulties Experienced by SMEs Doing Business in the Mainland (By Sector)



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2.8 Coping Strategies Adopted by Hong Kong SMEs in Import and Export Trade Sector

The study examined the strategies adopted by SMEs to cope with the challenges and the effectiveness of these strategies. Overwhelmingly, the responding SMEs have adopted market and new product development strategies. These include developing new markets, brand development, product development through R&D, providing more employee benefits and training to retain their staff, and restructuring, as shown in Table 2.8a. The analysis of the strategies adopted by responding SMEs to cope with challenges by the four sectors is presented in Table 2.8b on page 17.

Table 2.8a Strategies Adopted by SMEs to Cope with Challenges (Overall)

Adopted Strategy (N = 270)	Number of SMEs which adopted strategy	Percentage
New markets development	245	90.7%
Increase employee benefits and offer more employee training	220	81.5%
Brand development	212	78.5%
R&D (Develop new product or services)	200	74.1%
R&D (Improve production process)	183	67.8%
Restructuring	166	61.5%
Cost reduction through outsourcing	152	56.3%
Cost reduction through localisation	149	55.2%
Cost reduction through downsizing	127	47.0%
Horizontal Integration	118	43.7%
Vertical Integration	117	43.3%
Relocation (基地轉移)	75	27.8%



Table 2.8b Strategies Adopted by SMEs to Cope with Challenges (By Sector)

Adopted Strategy	Import and Export Trade (N=81)	Import and Export Trade cum Manufacturing (N=69)	Manufacturing (N=64)	Services (N=48)
New markets development	90.1%	91.3%	96.9%	81.3%
Increase employee benefits and offer more employee training	77.8%	81.2%	89.1%	79.2%
Brand development	76.5%	85.5%	73.4%	81.3%
R&D (Develop new product or services)	63.0%	91.3%	82.8%	56.3%
R&D (Improve production process)	49.4%	87.0%	85.9%	45.8%
Restructuring	51.9%	65.2%	70.3%	58.3%
Cost reduction through outsourcing	39.5%	76.8%	68.8%	41.7%
Cost reduction through localisation	42.0%	68.1%	64.1%	50.0%
Cost reduction through downsizing	46.9%	47.8%	57.8%	33.3%
Horizontal Integration	42.0%	49.3%	34.4%	54.2%
Vertical Integration	40.7%	49.3%	39.1%	47.9%
Relocation (基地轉移)	24.7%	31.9%	31.3%	29.5%

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Results show that 48.6%-56.3% of those SMEs who adopted the strategy found them effective or very effective, see Table 2.9a. This is an encouraging finding as it shows that Hong Kong SMEs are making effort for continuous improvement to build competitive advantage. The breakdowns of analysis by sector are shown in Table 2.9b on page 19.

Table 2.9a Effectiveness of the Strategy Adopted by SMEs (Overall)

Adopted Strategy	Number of SMEs which find the strategy effective	Percentage
R&D (Improve production process) (N=183)	103	56.3%
R&D (Develop new product or services) (N=200)	112	56.0%
New markets development (N=245)	130	53.1%
Restructuring (N=166)	85	51.2%
Brand development (N=212)	103	48.6%
Cost reduction through outsourcing (N=152)	63	41.4%
Vertical Integration (N=117)	44	37.6%
Increase employee benefits and offer more employee training (N=220)	82	37.3%
Relocation (基地轉移) (N=75)	27	36.0%
Horizontal Integration (N=118)	42	35.6%
Cost reduction through downsizing (N=127)	45	35.4%
Cost reduction through localisation (N=149)	48	32.2%



Table 2.9b Effectiveness of the Strategy Adopted by SMEs (By Sector)

Adopted Strategy	Import and Export Trade (N=81)	Import and Export Trade cum Manufacturing (N=69)	Manufacturing (N=64)	Services (N=48)
R&D (Improve production process)	57.5%	48.3%	63.6%	63.6%
R&D (Develop new product or services)	58.8%	52.4%	58.5%	59.3%
New markets development	61.6%	42.9%	48.4%	64.1%
Restructuring	59.5%	42.2%	55.6%	53.6%
Brand development	51.6%	32.2%	51.1%	71.8%
Cost reduction through outsourcing	28.1%	35.8%	59.1%	40.0%
Vertical Integration	45.5%	26.5%	32.0%	47.8%
Increase employee benefits and offer more employee training	36.5%	30.4%	29.8%	60.5%
Relocation(基地轉移)	55.0%	31.8%	35.0%	15.4%
Horizontal Integration	35.3%	29.4%	36.4%	42.3%
Cost reduction through downsizing	36.8%	36.4%	32.4%	37.5%
Cost reduction through localisation	32.4%	27.7%	26.8%	50.0%

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2.9 Awareness and Effectiveness of HKSAR Government Schemes for SMEs

Table 2.10a shows that many of the responding SMEs are not aware of HKSAR government schemes designed to assist SMEs. For example, 57.2% are not aware of the 'R&D Cash Rebate Scheme' and 55.7% do not know about the 'SME business Installations and Equipment Guarantee Scheme'. Table 2.10b presents the findings by the four sectors.

Table 2.11a shows that only up to 50.9% of them who are aware of the schemes found them effective. The government could do more to ensure the dissemination of such information to SMEs. The schemes also need reworking periodically so that they could better address the needs of SMEs. The analysis by the four sectors is illustrated in Table 2.11b.

Table 2.10a Lack of Awareness of HKSAR Government Schemes for SMEs (Overall)

HKSAR Government Scheme for SMEs (N = 271)	Number of SMEs not aware of scheme	Percentage
R&D Cash Rebate Scheme	155	57.2%
SME Business Installations and Equipment Loan Guarantee Scheme	151	55.7%
Special Loan Guarantee Scheme	118	43.5%
Manpower Training and Development	113	41.7%
SME Development Fund	113	41.7%
SME Export Marketing Fund	87	32.1%
SME Loan Guarantee Scheme	79	29.2%



Table 2.10b Lack of Awareness of HKSAR Government Schemes for SMEs (By Sector)

HKSAR Government Scheme for SMEs	Import and Export Trade (N=81)	Import and Export Trade cum Manufacturing (N=69)	Manufacturing (N=64)	Services (N=48)
R&D Cash Rebate Scheme	63.0%	42.0%	64.1%	61.7%
SME Business Installations and Equipment Loan Guarantee Scheme	58.0%	52.2%	51.6%	61.7%
Special Loan Guarantee Scheme	49.4%	31.9%	42.2%	48.9%
Manpower Training and Development	43.2%	42.0%	42.2%	38.3%
SME Development Fund	46.9%	26.1%	46.9%	44.7%
SME Export Marketing Fund	38.3%	17.4%	34.4%	36.2%
SME Loan Guarantee Scheme	32.1%	17.4%	28.1%	38.3%

Table 2.11a Effectiveness of HKSAR Government Schemes for SMEs (Overall)

HKSAR Government Scheme for SMEs (N = 271)	Number of SMEs which found the scheme effective	Percentage
SME Loan Guarantee Scheme	138	50.9%
SME Export Marketing Fund	137	50.6%
SME Development Fund	110	40.6%
Special Loan Guarantee Scheme	102	37.6%
Manpower Training and Development	89	32.8%
SME Business Installations and Equipment Loan Guarantee Scheme	75	27.7%
R&D Cash Rebate Scheme	63	23.2%

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Table 2.11b Effectiveness of HKSAR Government Schemes for SMEs (By Sector)

HKSAR Government Scheme for SMEs	Import and Export Trade (N=81)	Import and Export Trade cum Manufacturing (N=69)	Manufacturing (N=64)	Services (N=48)
SME Loan Guarantee Scheme	51.9%	60.9%	50.0%	42.6%
SME Export Marketing Fund	49.4%	63.8%	46.9%	44.7%
SME Development Fund	38.3%	56.5%	34.4%	34.0%
Special Loan Guarantee Scheme	37.0%	46.4%	35.9%	31.9%
Manpower Training and Development	30.9%	30.4%	32.8%	38.3%
SME Business Installations and Equipment Loan Guarantee Scheme	30.9%	29.0%	28.1%	21.3%
R&D Cash Rebate Scheme	19.8%	37.7%	17.2%	19.1%

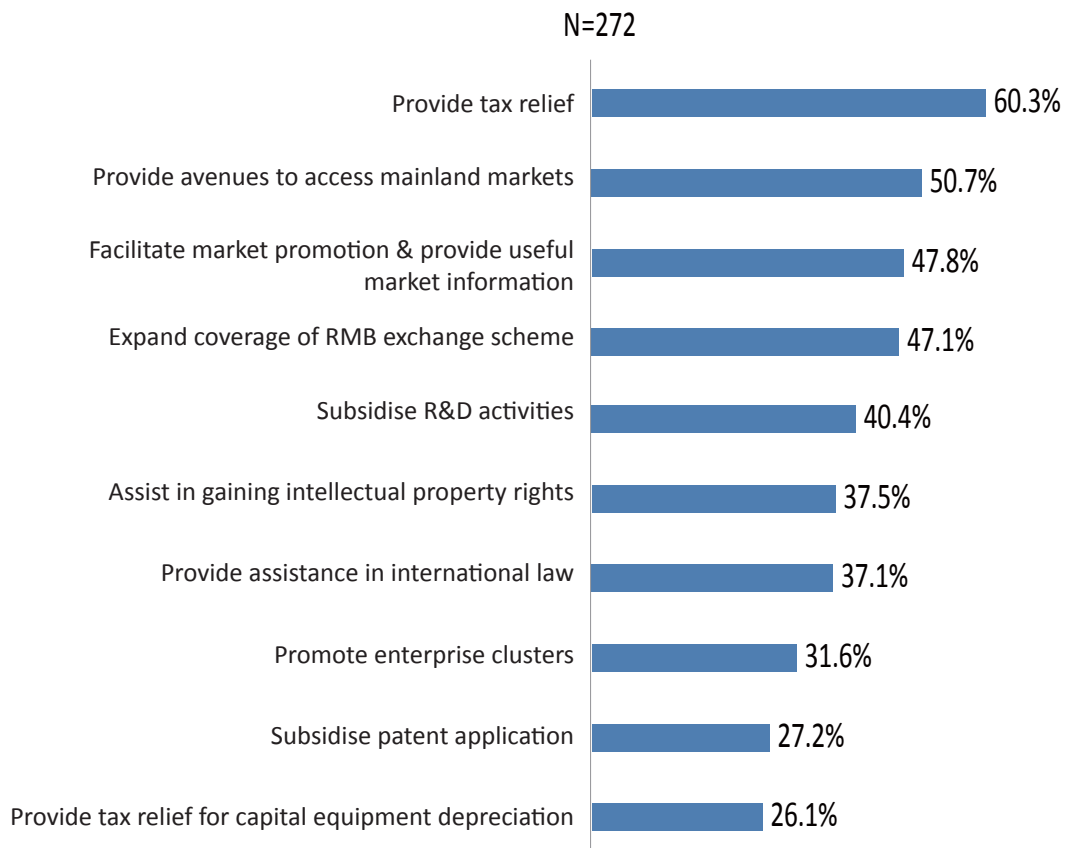


2.10 Government Support for the Sustainable Development of SMEs

Figure 2.7a lists, in order of priority, areas where SMEs think HKSAR government can assist them. These include providing tax relief and avenues to access mainland markets, facilitating market promotion and providing useful market information, expanding the RMB exchange scheme and subsidise R&D activities.

About 37% of the responding SMEs expressed the need for government assistance in the areas of intellectual property rights and international law. These involve specialised knowledge that is outside the capability of SMEs and is best provided by a centralised body through the government.

Figure 2.7a Areas of Support by HKSAR Government to Assist SMEs' Sustainable Development (Overall)



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Figure 2.7b shows the areas of support by HKSAR Government to assist the sustainable development of SMEs by sector.

Figure 2.7b Areas of Support by HKSAR Government to Assist SMEs' Sustainable Development (By Sector)

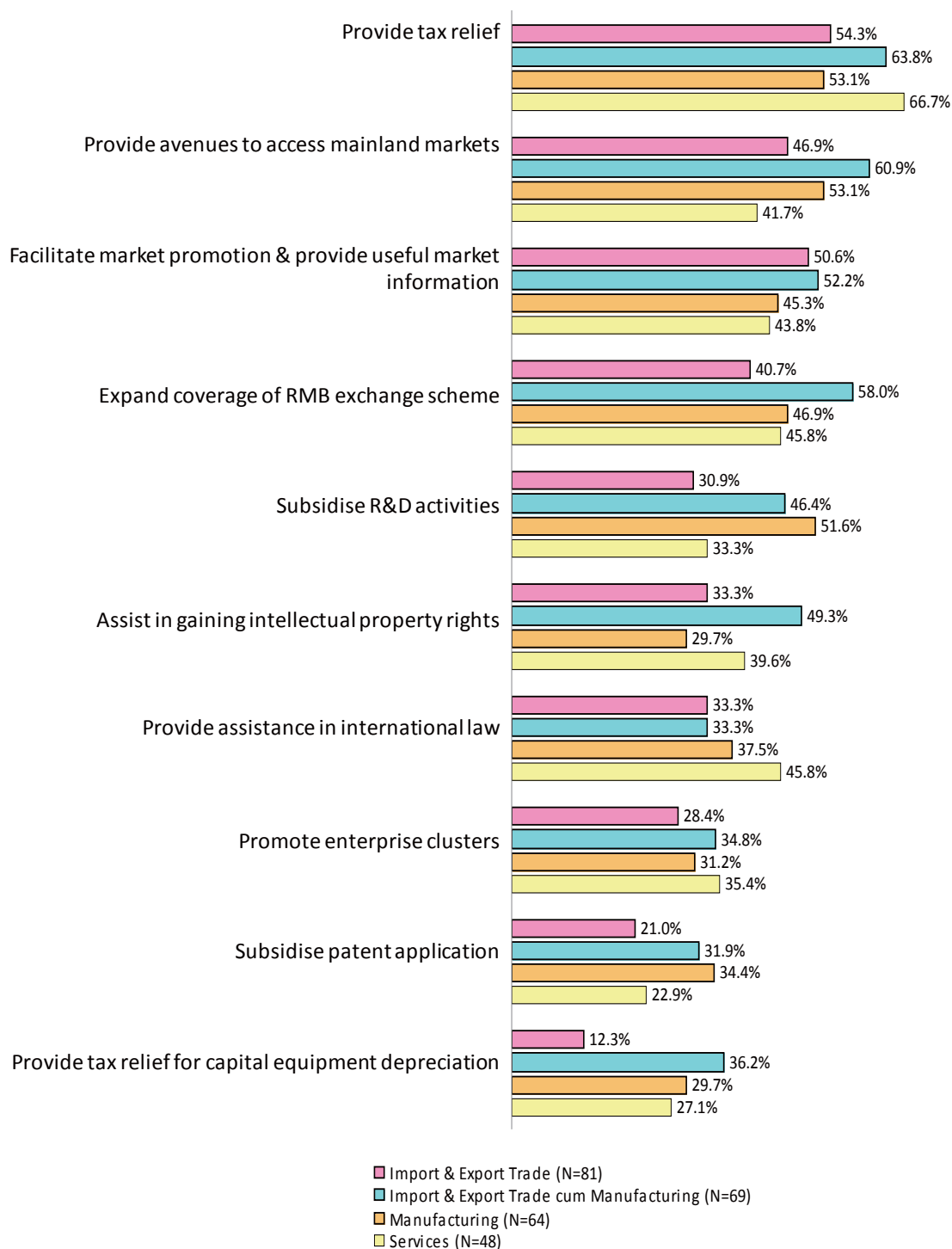
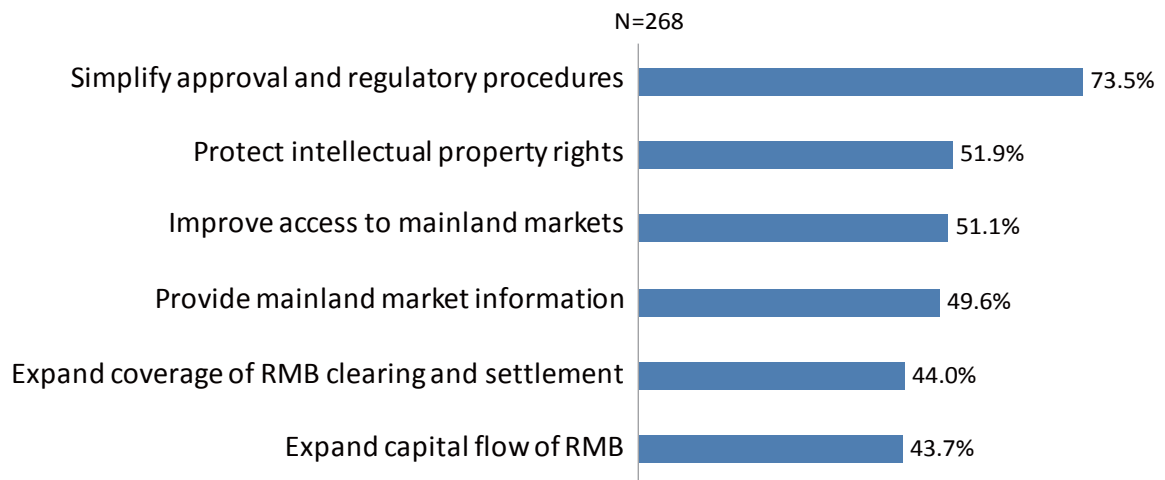




Figure 2.8a shows areas of major concerns regarding Hong Kong SMEs' development in the Mainland. SMEs ranked 'assistance in simplifying approval and regulatory procedures' as the most crucial for them to do business in China.

In expanding their mainland market, SMEs would appreciate protection of intellectual property rights and gaining more access to Mainland markets and market information. Expanding the coverage of RMB clearing and settlement and RMB capital flow will also need to be addressed.

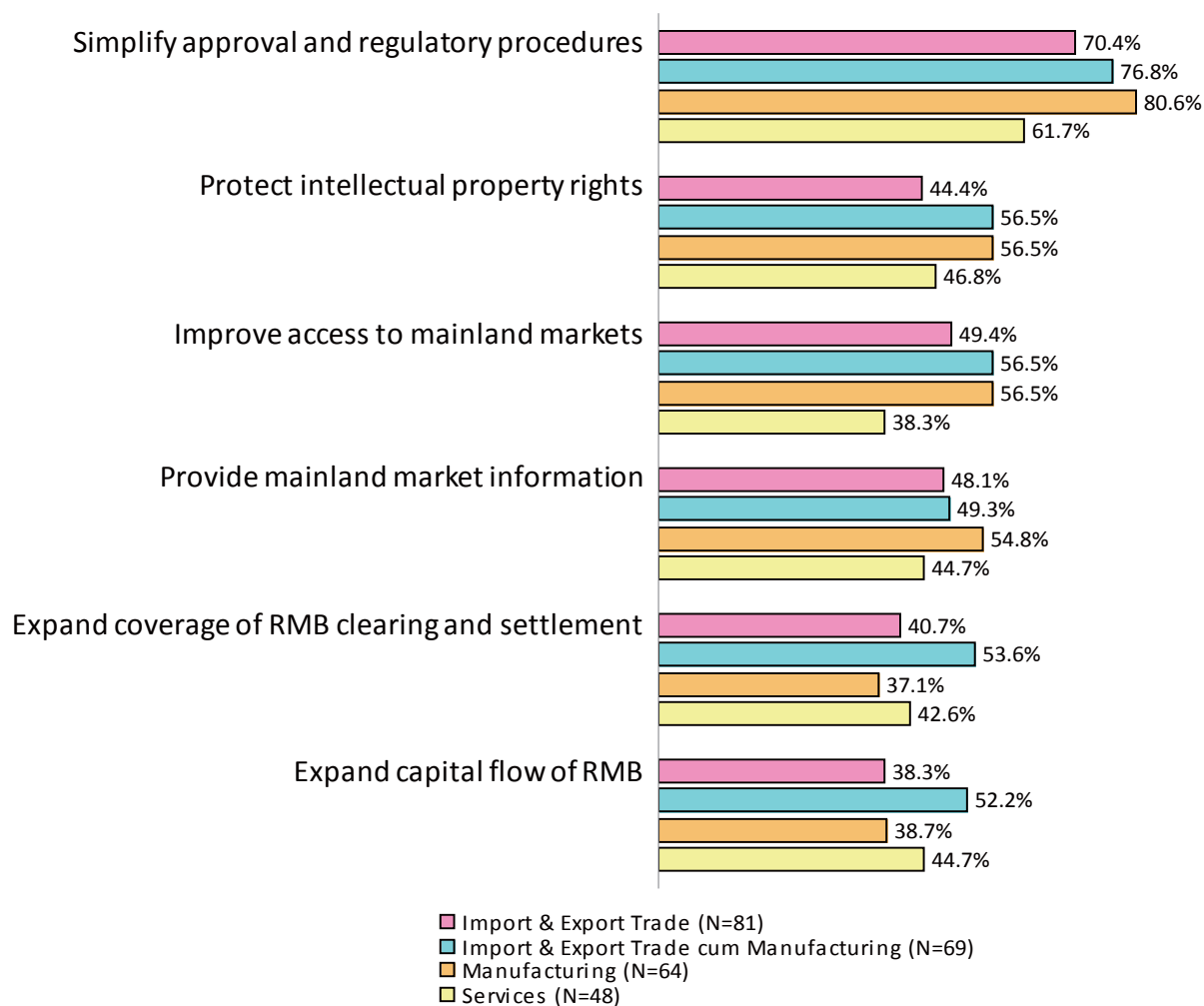
Figure 2.8a Areas of Concern to be Addressed by Mainland Government (Overall)



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Figure 2.8b lists areas of concern to be addressed by Mainland Government proposed by responding SMEs by sector.

Figure 2.8b Areas of Concern to be Addressed by Mainland Government (By Sector)



2.11 Summary

The findings reveal that 64.5% of the responding SMEs experienced an increase or no change in sales by mid 2010 when the survey was conducted, which means many were not as adversely affected by the 2008 financial tsunami as expected. Moreover, 52% SMEs were optimistic or very optimistic about business in the next three years and only 10% are pessimistic or very pessimistic. Over 46% indicated plans to expand operations in mainland China while 34% planned to expand their business overseas and 30.8% would expand in Hong Kong. Although majority were positive about the outlook, nevertheless, they all faced many challenges, including rising costs, shortage of factory workers in their Chinese factories, unclear Mainland government policies and fluctuation of exchange rates, etc.

The following four chapters give detailed analysis of the four selected sectors of this survey, namely, **Import and Export Trade Sector, Manufacturing Sector, Import and Export Trade cum Manufacturing Sector and Services Sector.**



Chapter 3

Hong Kong SMEs in the Import and Export Trade Sector

This chapter presents the findings of 81 responding SMEs surveyed in the **Import and Export Trade sector**.

3.1 Profile of the Surveyed SMEs in the Import and Export Trade Sector

A total of 81 SMEs in the Import and Export Trade sector responded to the survey. They are engaged in the following industries: biochemical technology, food, electronic & electrical appliances, machinery & equipment, jewellery, plastic, printing & publishing, textile & garments, toys, watches & clocks, automobiles, shoes, handbags, gift items, building materials, stationery, products for health, eco-protection, beauty and skin care, etc.

Table 3.1 shows that over 90% of the responding SMEs employ 50 or fewer employees while 53.1% employ 10 or fewer staff in Hong Kong.

Table 3.1 Number of Employees

Employee Size	Number of SMEs	Percentage
<10	43	53.1%
10 – 50	32	39.5%
51 – 100	4	4.9%
>100	2	2.5%
Total	81	100.0%

About 81.5% of the SMEs surveyed have been in operation for more than 5 years and 55.6% for more than 15 years (Table 3.2).

Table 3.2 Years of Establishment

Years of Establishment	Number of SMEs	Percentage
<3	9	11.1%
3 – 5	5	6.2%
6 – 10	13	16.0%
11 – 15	8	9.9%
>15	45	55.6%
Unknown	1	1.2%
Total	81	100.0%

3.2 Business Performance

The survey was conducted in 2010, not long after the global financial crisis of 2008, and the SMEs were asked to compare their current business performance to that before the financial crisis. Figure 3.1 shows that 39.0% of the responding SMEs actually saw an increase in sales over the period although profitability did not match the sales increase – only 23.0% saw their profit increased and the corresponding figure for return on assets was only 13.1%.

It would appear the 2008 financial crisis did not adversely affect the sales of the majority of these SMEs in the Import and Export Trade sector – those which experienced an increase or no change in sales make up 72.7% of all enterprises (corresponding figures for profit is 58.1% and for return on assets 63.8%). Given the fact that the 2008 financial crisis hit hardest on the US and European economies, this shows that these enterprises are no longer solely dependent on the traditional US and European markets.

Figure 3.1 Change in Business Performance Compared to Pre-financial Crisis

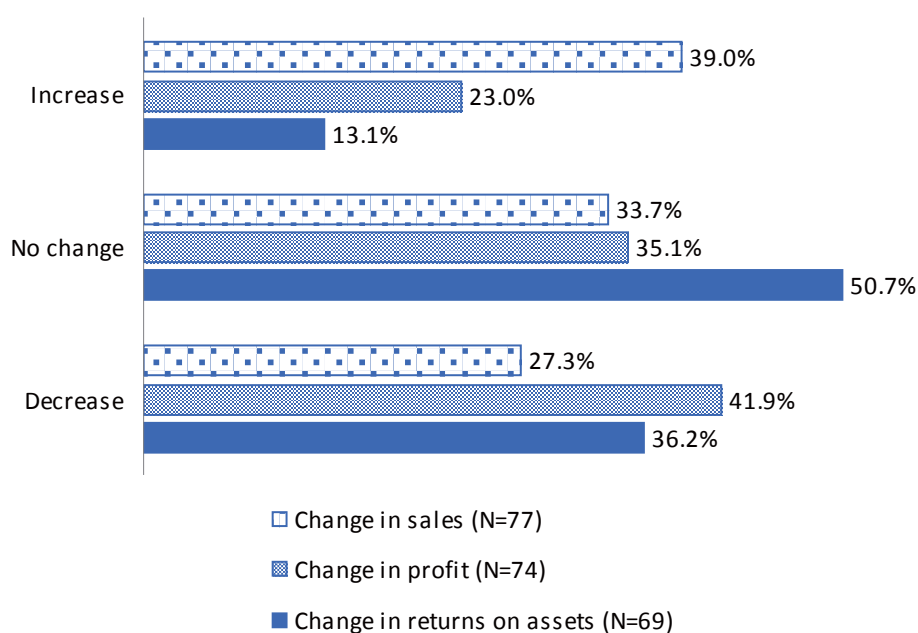




Table 3.3 shows that for those SMEs that **recorded better business performance**, the average percentage increase in sales, profit and return on assets were 22.0%, 16.2% and 21.3% respectively. Table 3.4 gives the corresponding figures for those that **recorded a decline** in sales, profit and return on assets.

Table 3.3 Increase in Sales, Profit and Returns on Assets Compared to Pre-financial Crisis

	Percentage increase in		
	Sales (N=28)	Profit (N=17)	Return on assets (N=8)
Minimum	2.0%	2.0%	5.0%
Maximum	70.0%	50.0%	75.0%
Mean	22.0%	16.2%	21.3%

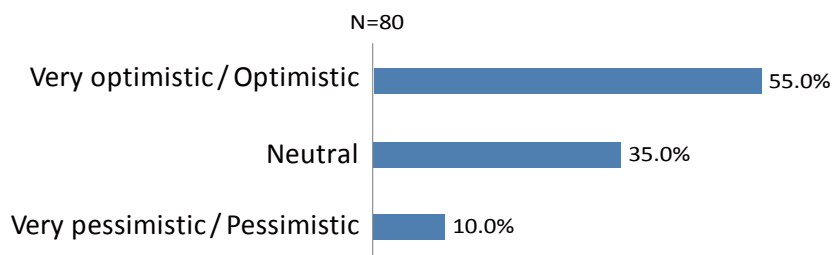
Table 3.4 Decrease in Sales, Profit and Returns on Assets Compared to Pre-financial Crisis

	Percentage decrease in		
	Sales (N=19)	Profit (N=23)	Return on assets (N=18)
Minimum	10.0%	2.0%	2.0%
Maximum	100.0%	100.0%	100.0%
Mean	36.1%	31.8%	30.2%

3.3 Three-year Business Projection

The SMEs surveyed were asked to make forecasts for the next 3 years. Figure 3.2 shows that majority of the SMEs sampled held optimistic or very optimistic outlook of their business and only 10.0% were pessimistic or very pessimistic.

Figure 3.2 Projection of Next Three Years' Business



The respondents were asked to project future expansions in Hong Kong, mainland China and overseas. Figure 3.3 shows that majority of them would expand their business in mainland China and overseas.

Figure 3.3 Projection of Next Three Years' Business in Hong Kong, mainland China and Overseas

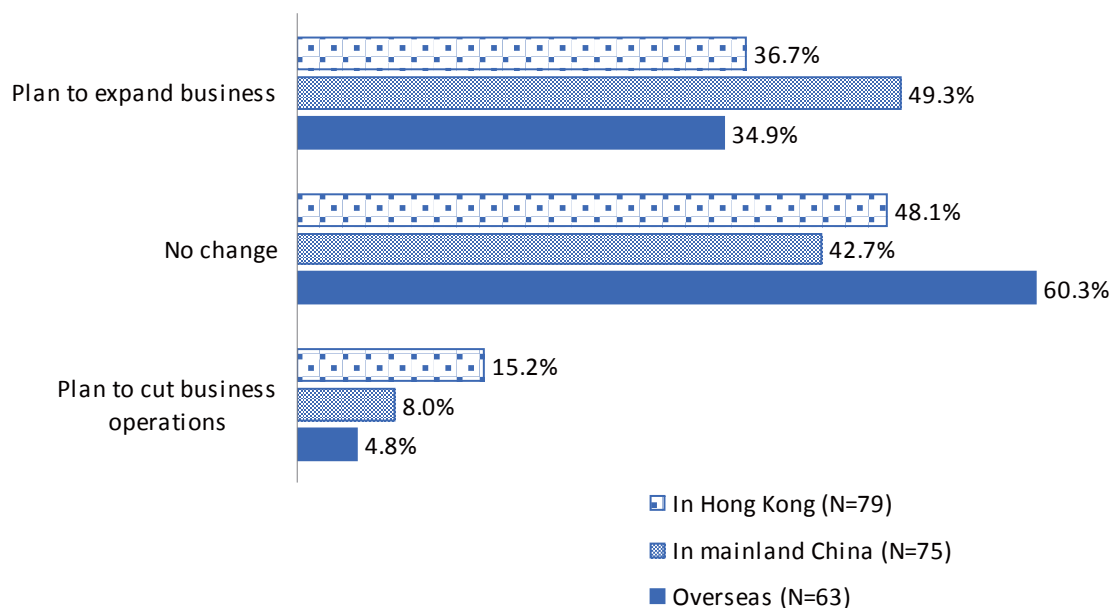
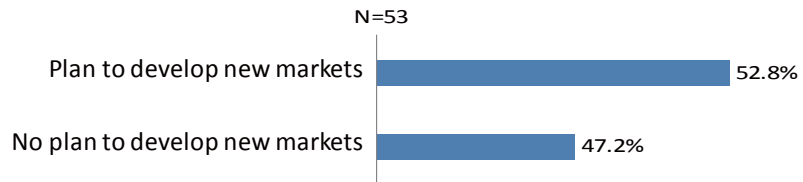




Figure 3.4 Plan to Develop New Markets in the Next Three Years



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3.4 Factors Influencing the Current Business

The responding SMEs were presented with eight external factors deemed to have impact on business. Overwhelmingly, 'policies of the mainland government' is considered of greatest impact with 68.1% rating this factor of significance or of great significance. This is followed by 56.2% for the factor 'fluctuations of exchange rates' as shown in Table 3.5. This finding is consistent with the fact that many SMEs are engaged in mainland-related businesses and these would be their main concern.

Table 3.5 Perceived Impact of External Factors on Business

External Factor Deemed to Impact Business	SMEs rating the specific factor to be of great significance or of significance	
	Number of SMEs	Percentage
Policies of mainland government (N=72)	49	68.1%
Fluctuations of exchange rates (N=73)	41	56.2%
Debt crisis in Europe (N=71)	31	43.7%
RMB clearing and settlement procedure (N=72)	27	37.5%
Expansion of mainland domestic market (N=71)	22	31.0%
The establishment of free trade zone between China and ASEAN (N=55)	8	14.5%
Pan-Pearl River Delta development (N=58) (泛珠三角框架下的先行先試)	6	10.3%
CEPA Policies (N=60)	5	8.3%

Table 3.6 shows factors that were unclear to the responding SMEs. Top of the list are 29.5% who were unclear about 'the establishment of the free trade zone between China and ASEAN', followed by 28.4% not clear about the 'Pan-Pearl River Delta development (泛珠三角框架下的先行先試)' and 25% who were not clear about 'CEPA policies'. This shows the need for SMEs to be kept well informed and educated about new development in the macro economic and business environment and policies.

Table 3.6 External Factors which are Unclear to SMEs

External Factor unclear to SMEs	Number of SMEs	Percentage
Establishment of free trade zone between China and ASEAN (N=78)	23	29.5%
Pan-Pearl River Delta development (N=81) (泛珠三角框架下的先行先試)	23	28.4%
CEPA policies (N=80)	20	25.0%

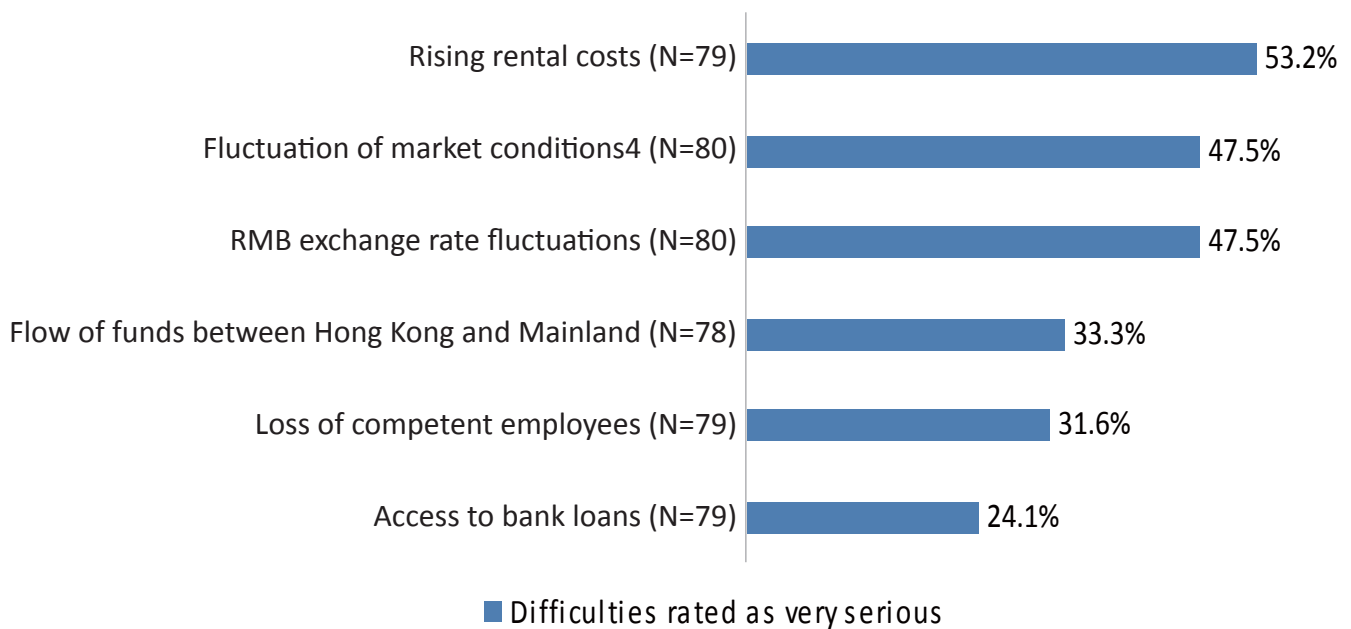


3.5 Difficulties in Doing Business in Hong Kong

Respondents were asked to assess a list of six factors that present difficulties in doing business in Hong Kong. Top of the list is 'rising rental cost' – 53.2% of the responding SMEs considered this a serious or extremely serious problem as indicated in Figure 3.5. Rental is a reflection of property prices. Businesses will be hard squeezed if the rise in property prices is not curbed.

Although down in the list, nearly one third, namely 31.6% of the enterprises considered 'loss of competent employees' a serious or extremely serious problem as indicated in Figure 3.5. Similarly, though last on the list, 'access to bank loans' is a difficulty faced by a significant 24.1% of SMEs. These concerns are to be addressed if SMEs are to thrive.

Figure 3.5 Difficulties Experienced by SMEs in Doing Business in Hong Kong



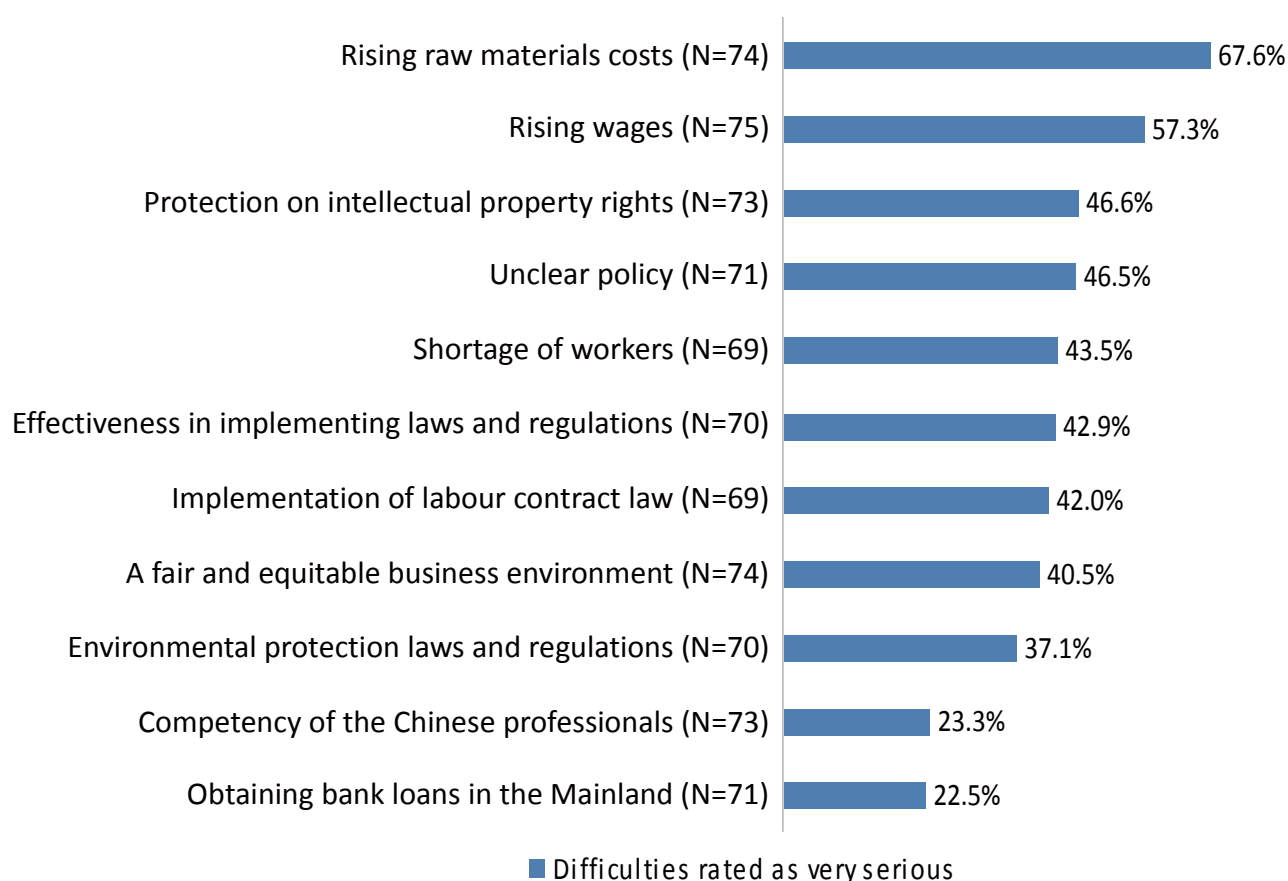
⁴ Subject to external economic conditions

3.6 Difficulties in Doing Business in Mainland China

Similarly, respondents were asked to assess factors that present difficulties in doing business in the mainland. As shown in Figure 3.6, the first two on the list are costs-related, including rising raw material costs and rising wages and the related issue of shortage of factory workers. But many are also concerned about the business environment in terms of protection of intellectual property rights, clarity of policies and regulations and their implementation. Businesses are exposed to higher risks and costs when doing business in China.

The last two factors on the list, though of concern to fewer enterprises, are still considered by one fifth of the responding SMEs as presenting challenges. One is the competency of Chinese professionals, e.g. in the legal and accountancy profession, and the other is the access to bank loans in the mainland. The former concern should represent good news to Hong Kong professionals who may still have an advantage over their Chinese counterparts.

Figure 3.6 Difficulties Experienced by SMEs Doing Business in the Mainland





3.7 Coping Strategies Adopted by Hong Kong SMEs in Import and Export Trade Sector

The study made an attempt to look at the strategies adopted by SMEs to cope with the challenges and the effectiveness of these strategies.

Overwhelmingly, SMEs in the Import and Export Trade sector have adopted market development strategies rather than cost-cutting strategies. These include developing new markets, brand development, product development through R&D, as shown in Table 3.7. In each of these, 50-60% of those who adopted the strategy found them effective or very effective, see Table 3.8. This is an encouraging finding as it shows that Hong Kong SMEs are trying to build competitive advantage.

Cost reduction strategies such as reducing the number of employees, localisation and outsourcing, are adopted by over 40% of the responding SMEs but those who found them effective are only in the region of 30%.

Table 3.7 Strategies Adopted by SMEs to Cope with Challenges

Adopted Strategy (N = 81)	Number of SMEs which adopted strategy	Percentage
New markets development	73	90.1%
Increase employee benefits and offer more employee training	63	77.8%
Brand development	62	76.5%
R&D (Develop new product or services)	51	63.0%
Restructuring	42	51.9%
R&D (Improve production process)	40	49.4%
Cost reduction through downsizing	38	46.9%
Cost reduction through localisation	34	42.0%
Horizontal Integration	34	42.0%
Vertical Integration	33	40.7%
Cost reduction through outsourcing	32	39.5%
Relocation (基地轉移)	20	24.7%

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Table 3.8 Effectiveness of the Strategy Adopted by SMEs

Adopted Strategy	Number of SMEs which find the strategy effective	Percentage
New markets development (N=73)	45	61.6%
Restructuring (N=42)	25	59.5%
R&D (Develop new product or services) (N=51)	30	58.8%
R&D (Improve production process) (N=40)	23	57.5%
Relocation (基地轉移) (N=20)	11	55.0%
Brand development (N=62)	32	51.6%
Vertical Integration (N=33)	15	45.5%
Cost reduction through downsizing (N=38)	14	36.8%
Increase employee benefits and offer more employee training (N=63)	23	36.5%
Horizontal Integration (N=34)	12	35.3%
Cost reduction through localisation (N=34)	11	32.4%
Cost reduction through outsourcing (N=32)	9	28.1%



3.8 Awareness and Effectiveness of HKSAR Government Schemes for SMEs

Table 3.9 shows that many of the responding SMEs are not aware of HKSAR government schemes designed to assist SMEs. For example, 38.3% are not aware of the 'SME Export Marketing Fund' which would be of direct relevance to the enterprises in the Import/Export Trade sector. Table 3.10 shows that not all who are aware of the schemes found them effective. There is much room for improvement to first of all make these government schemes known to SMEs, and secondly make the schemes more effective in design.

Table 3.9 Lack of Awareness of HKSAR Government Schemes for SMEs

HKSAR Government Scheme for SMEs (N = 81)	Number of SMEs not aware of scheme	Percentage
R&D Cash Rebate Scheme	51	63.0%
SME Business Installations and Equipment Loan Guarantee Scheme	47	58.0%
Special Loan Guarantee Scheme	40	49.4%
SME Development Fund	38	46.9%
Manpower Training and Development	35	43.2%
SME Export Marketing Fund	31	38.3%
SME Loan Guarantee Scheme	26	32.1%

Table 3.10 Effectiveness of HKSAR Government Schemes for SMEs

HKSAR Government Scheme for SMEs (N = 81)	Number of SMEs which found the scheme effective	Percentage
SME Loan Guarantee Scheme	42	51.9%
SME Export Marketing Fund	40	49.4%
SME Development Fund	31	38.3%
Special Loan Guarantee Scheme	30	37.0%
SME Business Installations and Equipment Loan Guarantee Scheme	25	30.9%
Manpower Training and Development	25	30.9%
R&D Cash Rebate Scheme	16	19.8%

3.9 Government Support for the Sustainable Development of SMEs

Figure 3.7 lists, in order of priority, areas where SMEs think HKSAR government can assist them. Surprisingly, not everyone is asking for an outright tax relief or expanding the RMB exchange scheme as one would expect. Rather, SMEs are concerned about providing useful and accessible market information, market promotion and networking platform, especially of Mainland markets.

About 30% of the responding SMEs expressed the need for government assistance in the areas of intellectual property rights and international law. These involve specialised knowledge that is outside the capability of SMEs and is best provided by a centralised body through the government.

Figure 3.7 Areas of Support by HKSAR Government to Assist SMEs' Sustainable Development

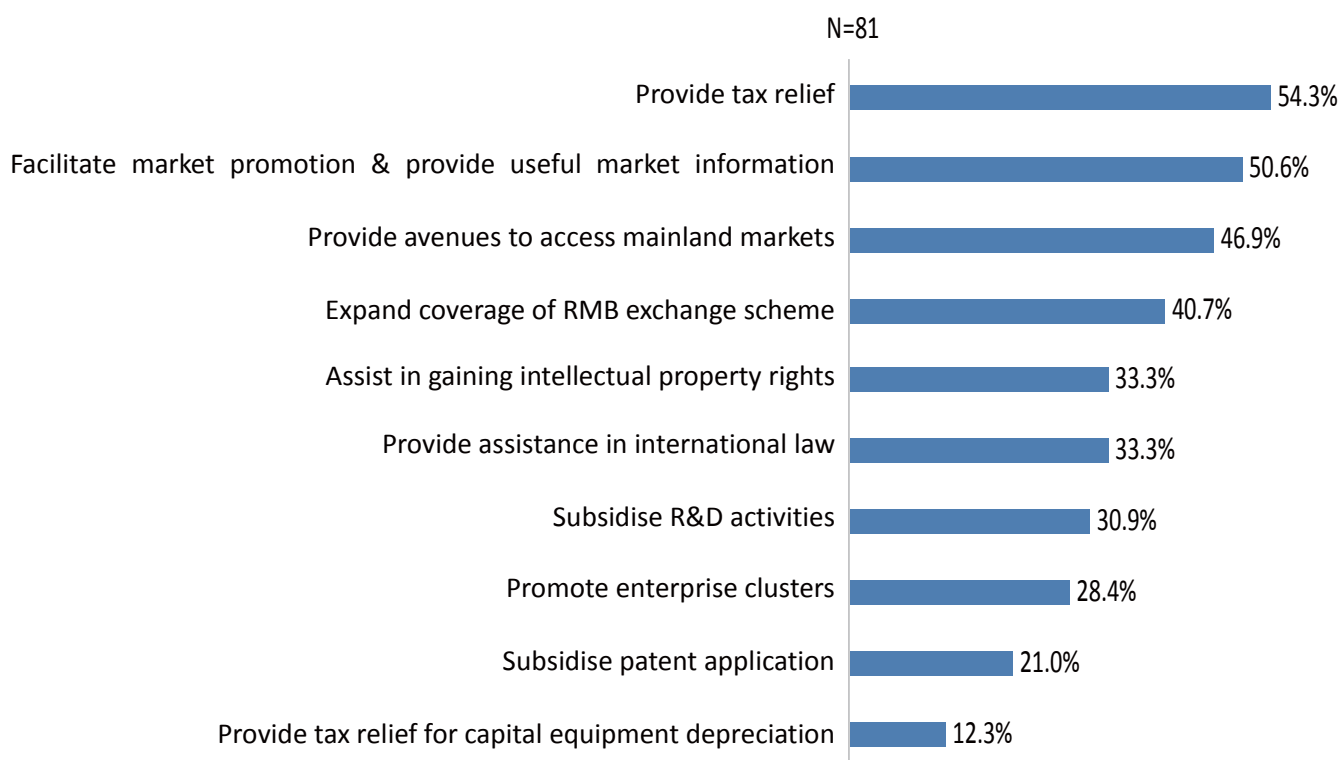
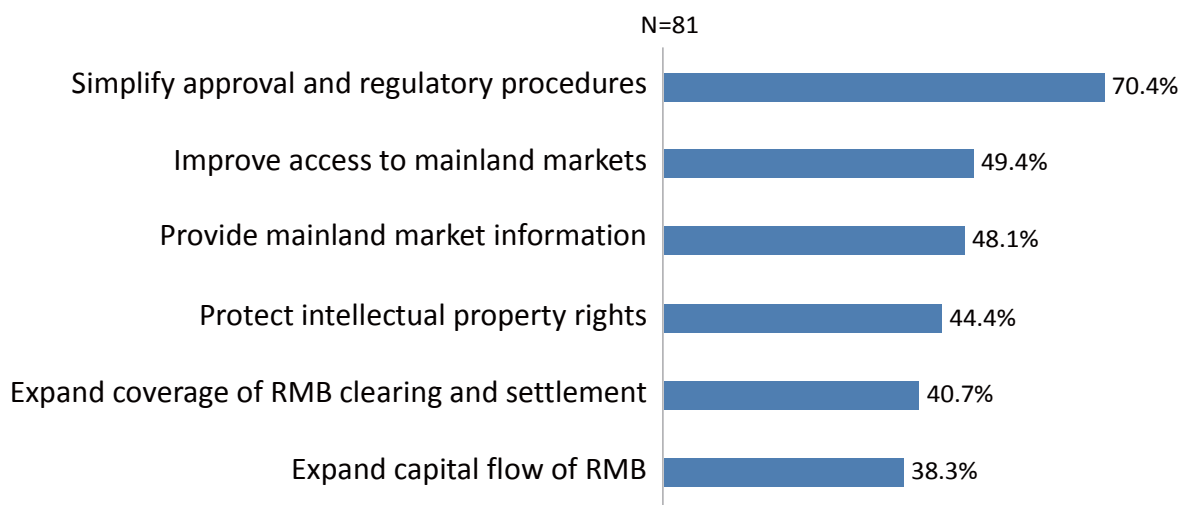




Figure 3.8 shows areas of major concerns regarding Hong Kong SMEs' development in the Mainland. SMEs would appreciate assistance in simplifying approval and regulatory procedures which is crucial to doing business in China.

In light of the expanding mainland market, SMEs are anxious to gain access to the mainland market e.g. through the setting up a platform of market information and networking. Related problems such as protection of the intellectual property rights, expanding the coverage and volume of RMB settlement and RMB capital flow will need to be addressed.

Figure 3.8 Areas of Concern to be Addressed by Mainland Government



3.10 Summary

Findings of the survey show that about 55% of the 81 SMEs in the Import and Export Trade sector were optimistic or very optimistic about their business prospect in the next three years, and only 10% were pessimistic or very pessimistic with the rest being neutral. Although many of them felt that the outlook is positive, nevertheless, they all faced many challenges, including rising rental costs, exchange rate fluctuations, fluctuation of market conditions, unclear government policies, access to bank loans, etc.



Chapter 4

Hong Kong SMEs in the Import and Export Trade cum Manufacturing Sector

This chapter presents the findings of 69 responding SMEs surveyed in the Import and Export Trade cum Manufacturing sector.

4.1 Profile of the Surveyed SMEs in the Import and Export Trade cum Manufacturing Sector

The 69 SMEs in the Import and Export Trade cum Manufacturing sector are engaged in the following industries: biochemical technology, food, electronic & electrical appliances, jewellery, fabricated metal products, plastic, printing & publishing, textile & garments, toys, watches & clocks, furniture and home furnishing, shoes, stationery, decoration and gift items, medical and eco-protection products.

Table 4.1 shows that almost 90% of the responding SMEs employ 50 or fewer employees while only about 10% employ more than 50 staff in Hong Kong.

Table 4.1 Number of Employees

Employee Size	Number of SMEs	Percentage
<10	32	46.4%
10 – 50	30	43.5%
51 – 100	4	5.8%
>100	3	4.3%
Total	69	100.0%

About 74% of the SMEs surveyed have been in operation for more than 15 years, 17.4% from 6 to 15 years, and 8.7% for 5 to less than 5 years (Table 4.2).

Table 4.2 Years of Establishment

Years of Establishment	Number of SMEs	Percentage
<3	5	7.2%
3 – 5	1	1.5%
6 – 10	8	11.6%
11 – 15	4	5.8%
>15	51	73.9%
Total	69	100.0%

4.2 Business Performance

The survey was conducted in 2010, after the global financial crisis of 2008, and the SMEs were asked to compare their current business performance to that before the financial crisis. Figure 4.1 shows that 50% of the surveyed SMEs in the Import and Export Trade cum Manufacturing sector saw a decrease in sales make up 50.0% of all enterprises (corresponding figures for profit is 62.5% and for return on asset 57.2%). This shows that many of these enterprises were hard hit by the global financial crisis.

Figure 4.1 Change in Business Performance Compared to Pre-financial Crisis

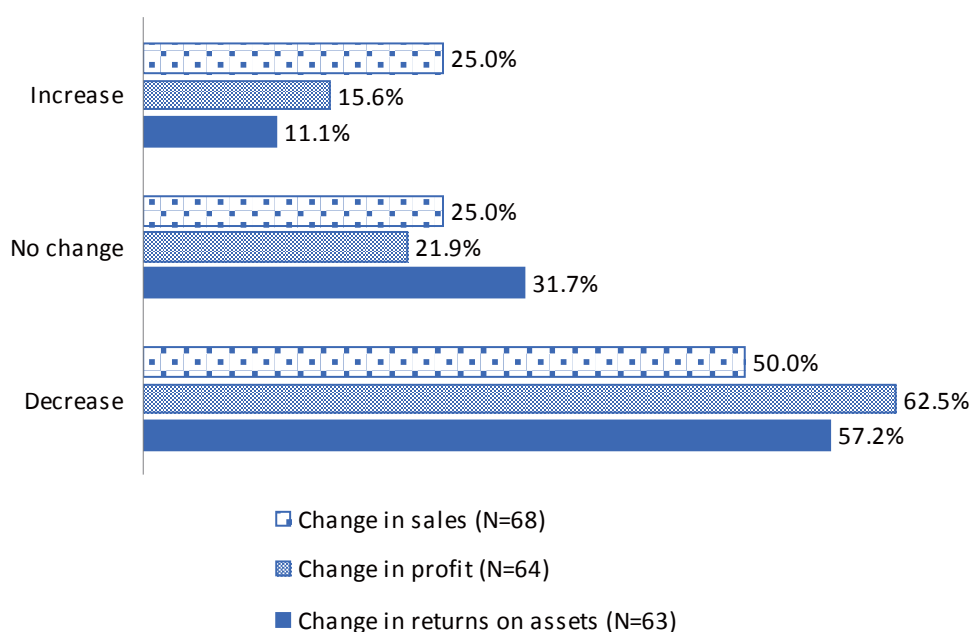




Table 4.3 shows that for **those that recorded better business performance**, the average percentage increase in sales, profit and return on assets were 23.5%, 15.2% and 7.2% respectively. Table 4.4 gives the corresponding figures for **those which recorded a decline** in sales, profit and return on assets.

Table 4.3 Increase in Sales, Profit and Returns on Assets Compared to Pre-financial Crisis

	Percentage increase in		
	Sales (N=15)	Profit (N=9)	Return on assets (N=6)
Minimum	2.0%	2.0%	1.0%
Maximum	100.0%	50.0%	20.0%
Mean	23.5%	15.2%	7.2%

Table 4.4 Decrease in Sales, Profit and Returns on Assets Compared to Pre-financial Crisis

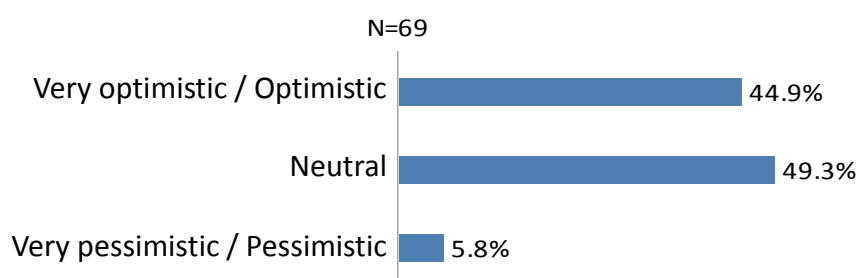
	Percentage decrease in		
	Sales (N=30)	Profit (N=34)	Return on assets (N=30)
Minimum	5.0%	3.0%	1.0%
Maximum	50.0%	80.0%	100.0%
Mean	24.1%	20.6%	20.4%

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4.3 Three-year Business Projection

The SMEs surveyed were asked to make forecasts for the next 3 years. Figure 4.2 shows that 44.9% of the SMEs sampled held optimistic or very optimistic outlook of their business and only 5.8% were pessimistic or very pessimistic while almost half of them (49.3%) remain neutral.

Figure 4.2 Projection of Next Three Years' Business



The SMEs were also asked to project future expansions in Hong Kong, mainland China and overseas respectively (Figure 4.3). Findings reveal that 41.2% of the surveyed SMEs would plan to expand their operations in mainland China, while only 27.5% plan to expand in Hong Kong in the coming three years. Figure 4.4 shows that more than half of them (52.9%) plan to develop new markets.

Figure 4.3 Projection of Next Three Years' Business in Hong Kong, mainland China and Overseas

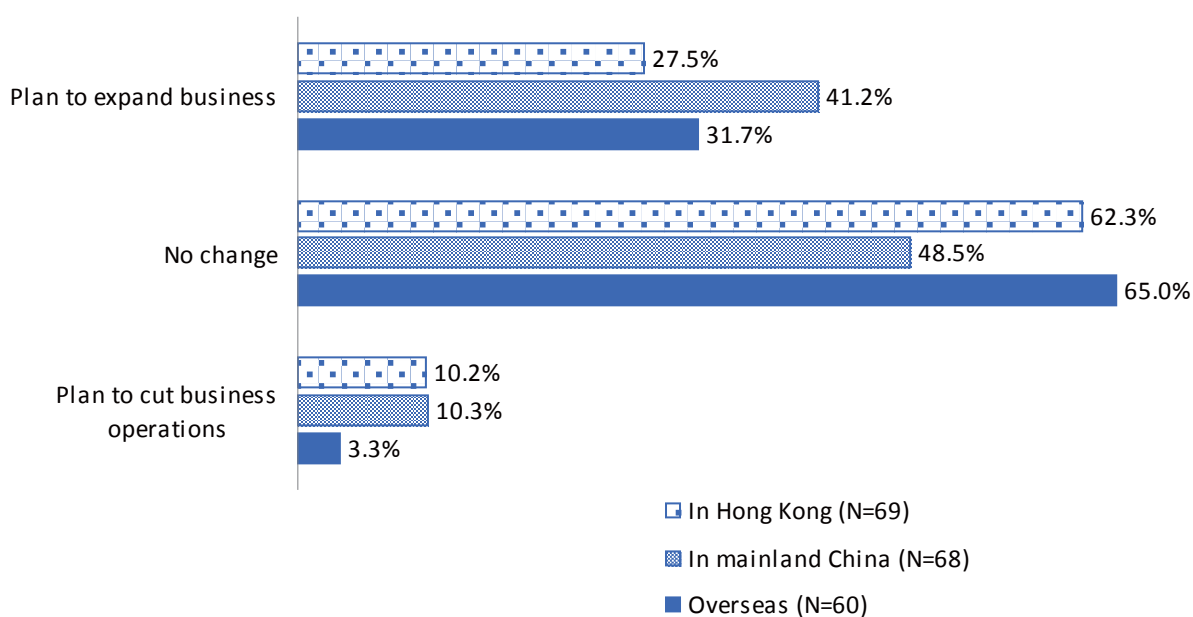
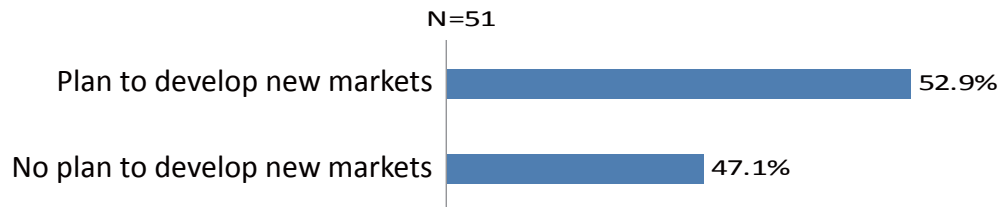




Figure 4.4 Plan to Develop New Markets in the Next Three Years



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4.4 Factors Influencing the Current Business

The responding SMEs were presented with eight external factors deemed to have impact on business. Overwhelmingly, 'policies of the mainland government' is considered of greatest impact with 80.6% rating this factor of significance or of great significance. This is followed by 67.2% for the factor 'fluctuations of exchange rates' and 54.5% for 'debt crisis in Europe', as shown in Table 4.5.

Table 4.5 Perceived Impact of External Factors on Business

External Factor Deemed to Impact Business	SMEs rating the specific factor to be of great significance or of significance	
	Number of SMEs	Percentage
Policies of mainland government (N=67)	54	80.6%
Fluctuations of exchange rates (N=67)	45	67.2%
Debt crisis in Europe (N=66)	36	54.5%
RMB clearing and settlement procedure (N=63)	29	46.0%
Expansion of mainland domestic market (N=63)	16	25.4%
The establishment of free trade zone between China and ASEAN (N=54)	5	9.3%
Pan-Pearl River Delta development (N=55) (泛珠三角框架下的先行先試)	2	3.6%
CEPA Policies (N=55)	1	1.8%



Table 4.6 below shows factors that were unclear to the responding SMEs. Top of the list are 'CEPA policies', 'Pan-Pearl River Delta development (泛珠三角框架下的先行先試)' and 'the establishment of the free trade zone between China and ASEAN'. This shows the need for SMEs to be kept well informed and educated about new development in the macro economic and business environment and policies.

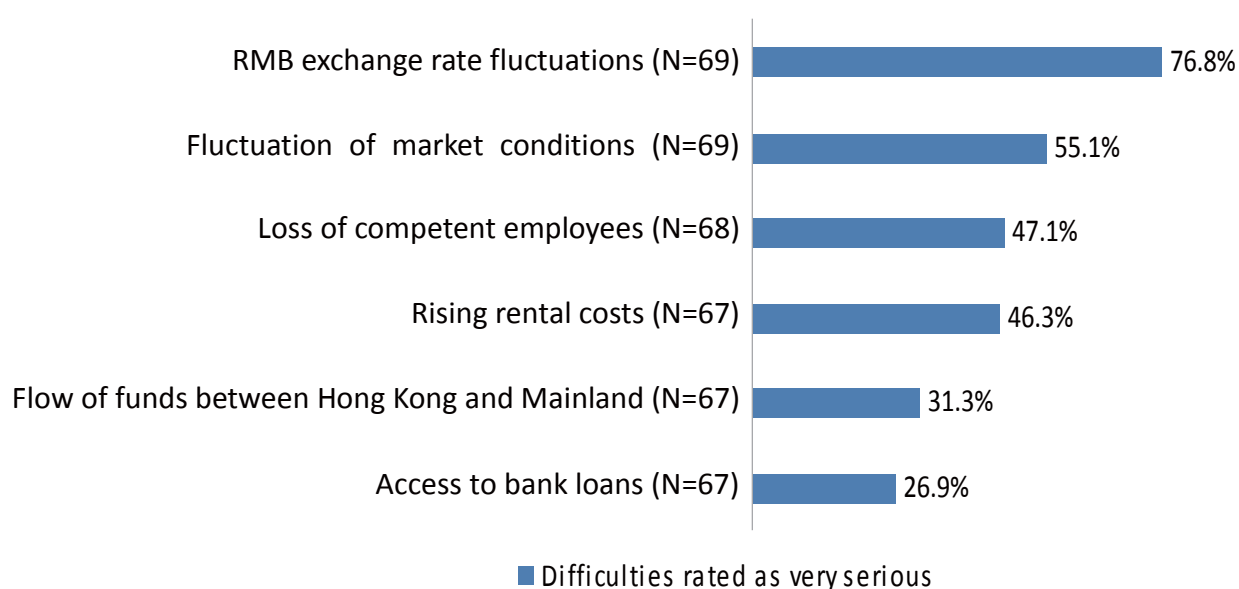
Table 4.6 External Factors which are Unclear to SMEs

External Factor unclear to SMEs	Number of SMEs	Percentage
CEPA policies (N=69)	14	20.3%
Pan-Pearl River Delta development (N=69) (泛珠三角框架下的先行先試)	14	20.3%
Establishment of free trade zone between China and ASEAN (N=67)	13	19.4%

4.5 Difficulties in Doing Business in Hong Kong

Respondents were asked to assess a list of six factors that present difficulties in doing business in Hong Kong. Top of the list is 'RMB exchange rate fluctuations' – 76.8% of the SMEs in the Import and Export Trade cum Manufacturing sector considered this a serious or extremely serious problem as indicated in Figure 4.5. Down on the list are 'fluctuation of market conditions'⁵, 'loss of competent employees' and 'rising rental costs'. They were also considered as the major problems for these SMEs. These concerns are to be addressed if SMEs are to thrive.

Figure 4.5 Difficulties Experienced by SMEs in Doing Business in Hong Kong



⁵ Subject to external economic conditions



4.6 Difficulties in Doing Business in Mainland China

Similarly, respondents were asked to assess factors that present difficulties in doing business in the mainland. As shown in Figure 4.6, the first two on the list are costs-related, including rising raw material costs and rising wages. But many SMEs are also concerned about the implementation of labour contract law, unclear policy, shortage of factory workers, the introduction of environmental protection laws and regulations, and the effectiveness in implementing laws and regulations. All these show that businesses are exposed to higher costs when doing business in China.

Figure 4.6 Difficulties Experienced by SMEs Doing Business in the Mainland



4.7 Coping Strategies Adopted by Hong Kong SMEs in Import and Export Trade cum Manufacturing Sector

The study made an attempt to look at the strategies adopted by SMEs to cope with the challenges and the effectiveness of these strategies.

Overwhelmingly, SMEs in the Import and Export Trade cum Manufacturing sector have adopted market development strategies rather than cost-cutting strategies. These include developing new markets, product development and production process improvement through R&D, brand development, and increase in employee benefits and training programs, with high percentages of 81.2% to 91.3%. However, less than half of the SMEs that adopted these strategies found them effective or very effective, except 52.4% for 'develop new product or services through R&D'.

Table 4.7 Strategies Adopted by SMEs to Cope with Challenges

Adopted Strategy (N = 69)	Number of SMEs which adopted strategy	Percentage
New markets development	63	91.3%
R&D (Develop new product or services)	63	91.3%
R&D (Improve production process)	60	87.0%
Brand development	59	85.5%
Increase employee benefits and offer more employee training	56	81.2%
Cost reduction through outsourcing	53	76.8%
Cost reduction through localisation	47	68.1%
Restructuring	45	65.2%
Horizontal Integration	34	49.3%
Vertical Integration	34	49.3%
Cost reduction through downsizing	33	47.8%
Relocation (基地轉移)	22	31.9%



Table 4.8 Effectiveness of the Strategy Adopted by SMEs

Adopted Strategy	Number of SMEs which find the strategy effective	Percentage
R&D (Develop new product or services) (N=63)	33	52.4%
R&D (Improve production process) (N=60)	29	48.3%
New markets development (N=63)	27	42.9%
Restructuring (N=45)	19	42.2%
Cost reduction through downsizing (N=33)	12	36.4%
Cost reduction through outsourcing (N=53)	19	35.8%
Brand development (N=59)	19	32.2%
Relocation (基地轉移) (N=22)	7	31.8%
Increase employee benefits and offer more employee training (N=56)	17	30.4%
Horizontal Integration (N=34)	10	29.4%
Cost reduction through localisation (N=47)	13	27.7%
Vertical Integration (N=34)	9	26.5%

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4.8 Awareness and Effectiveness of HKSAR Government Schemes for SMEs

Table 4.9 shows that many of the responding SMEs are not aware of HKSAR government schemes designed to assist SMEs. For example, 52.2% of them are not aware of the 'SME Business Installations and Equipment Loan Guarantee Scheme', 42.0% of them are not aware of the 'Manpower training and development' and 'R&D Cash Rebate Scheme'. Table 4.10 shows the that for those who are aware of the schemes, they found some of them effective, such as the 'SME Export Marketing Fund', 'SME Loan Guarantee Scheme' and 'SME Development Fund'. There is room for improvement to publicise and make these government schemes known to SMEs and to design more effective schemes to meet the needs of SMEs in Hong Kong.

Table 4.9 Lack of Awareness of HKSAR Government Schemes for SMEs

HKSAR Government Scheme for SMEs (N = 69)	Number of SMEs not aware of scheme	Percentage
SME Business Installations and Equipment Loan Guarantee Scheme	36	52.2%
Manpower Training and Development	29	42.0%
R&D Cash Rebate Scheme	29	42.0%
Special Loan Guarantee Scheme	22	31.9%
SME Development Fund	18	26.1%
SME Export Marketing Fund	12	17.4%
SME Loan Guarantee Scheme	12	17.4%

Table 4.10 Effectiveness of HKSAR Government Schemes for SMEs

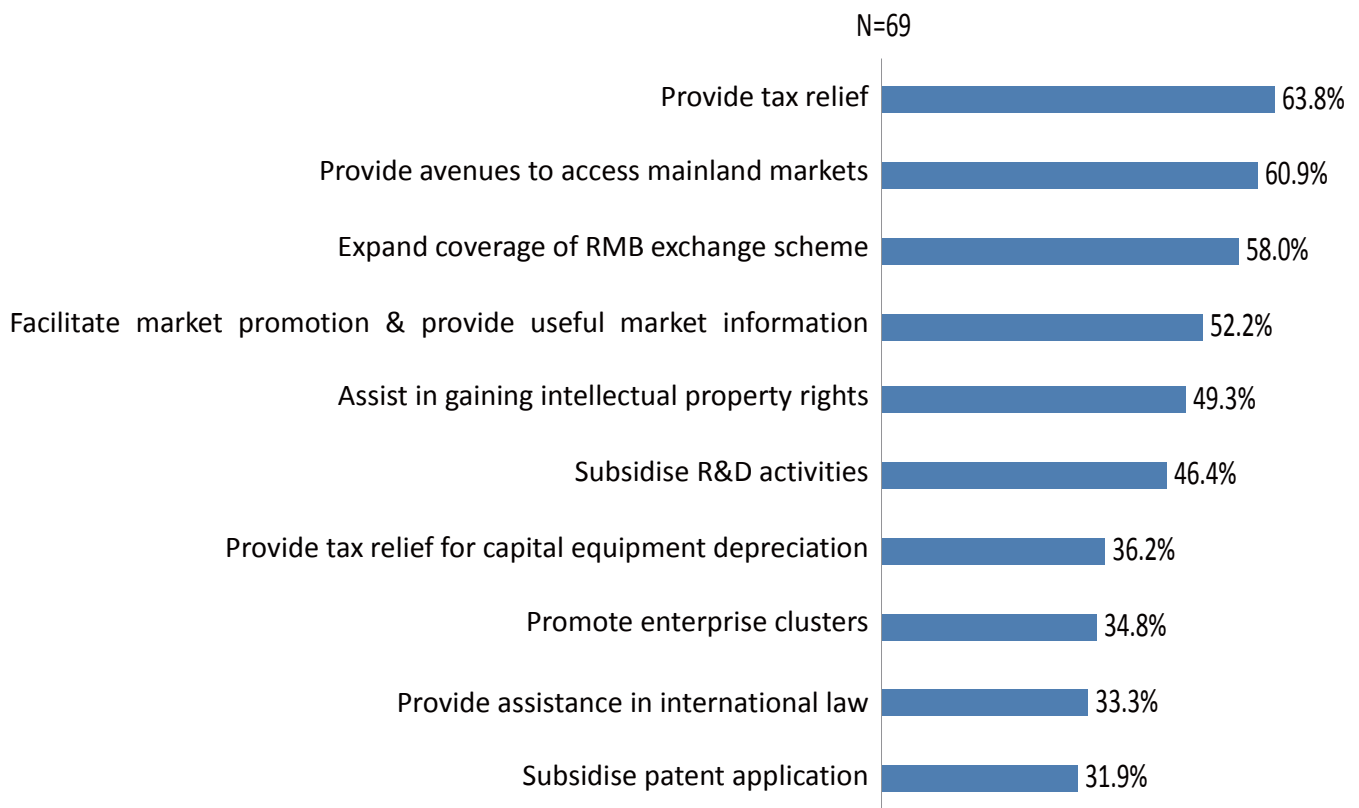
HKSAR Government Scheme for SMEs (N = 69)	Number of SMEs which found the scheme effective	Percentage
SME Export Marketing Fund	44	63.8%
SME Loan Guarantee Scheme	42	60.9%
SME Development Fund	39	56.5%
Special Loan Guarantee Scheme	32	46.4%
R&D Cash Rebate Scheme	26	37.7%
Manpower Training and Development	21	30.4%
SME Business Installations and Equipment Loan Guarantee Scheme	20	29.0%



4.9 Government Support for the Sustainable Development of SMEs

Figure 4.7 lists, in order of priority, areas where the surveyed SMEs think HKSAR government can assist them. Top of the list are providing tax relief, gaining access to mainland markets and expanding coverage of RMB exchange scheme, followed by facilitating market promotion and providing useful market information, assistance in gaining intellectual property rights and subsidy for R&D activities. All these show that SMEs in Hong Kong are in need of acquiring specialised knowledge that is outside the capability of SMEs, and this is best provided by a centralised body through the government.

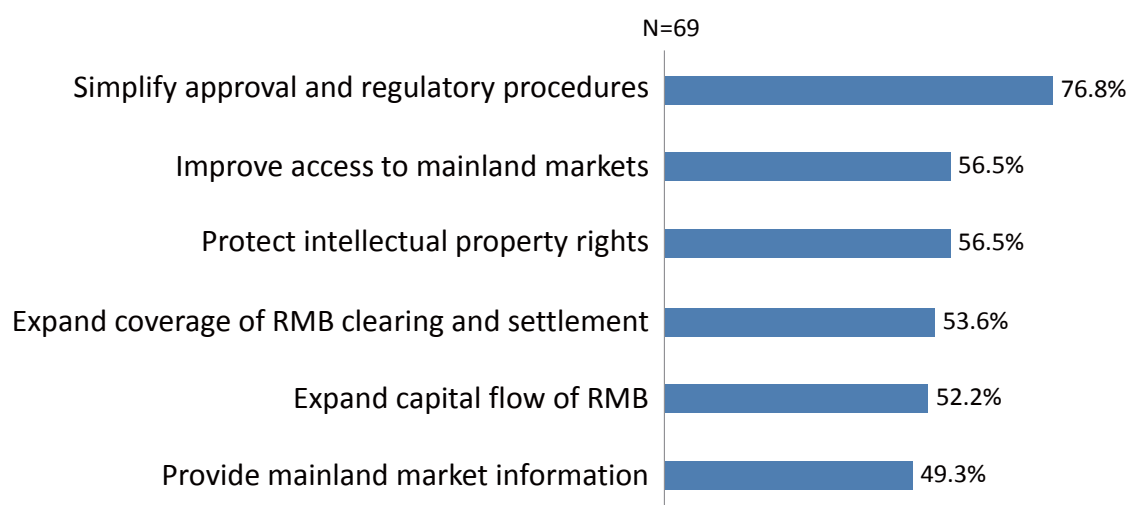
Figure 4.7 Areas of Support by HKSAR Government to Assist SMEs' Sustainable Development



The Road to Sustainable of Development of Hong Kong SMEs – The Present and Future

Figure 4.8 shows areas of major concerns regarding Hong Kong SMEs' development in the Mainland. SMEs would highly appreciate assistance in simplifying approval and regulatory procedures which is crucial to doing business in China. Related problems such as gaining more access to mainland markets, protection of the intellectual property rights and expanding the coverage and volume of RMB settlement and RMB capital flow will also need to be addressed.

Figure 4.8 Areas of Concern to be Addressed by Mainland Government



4.10 Summary

Findings of the survey show that about 45% of the 69 SMEs in the Import and Export Trade cum Manufacturing sector were optimistic or very optimistic about their business prospect in the next three years, and only 5.8% were pessimistic or very pessimistic with the rest being neutral. Although a significant number of them felt that the outlook is positive, nevertheless, they all faced many challenges, including rising rental, raw material and labour costs, exchange rate fluctuations, fluctuation of market conditions, staff turnover, unclear government policies, access to bank loans, etc.



Chapter 5

Hong Kong SMEs in the Manufacturing Sector

This chapter presents the findings of 64 SMEs surveyed in the **Manufacturing sector**.

5.1 Profile of the Surveyed SMEs in the Manufacturing Sector

The 64 SMEs in the Manufacturing sector which responded to the survey are engaged in the following industries: biochemical technology, food, electronic & electrical appliances, machinery & equipment, jewellery, fabricated metal products, plastic, printing & publishing, textile & garments, toys, watches & clocks, automobiles, furniture, bedding and baby products, shoes, etc.

Table 5.1 shows that 84.4% of the responding SMEs employ 50 or fewer employees while only 15.6% employ more than 50 staff in Hong Kong.

Table 5.1 Number of Employees

Employee Size	Number of SMEs	Percentage
<10	34	53.1%
10 – 50	20	31.3%
51 – 100	5	7.8%
>100	5	7.8%
Total	64	100.0%

About 67% of the SMEs surveyed have been in operation for more than 15 years, 25% for 6-15 years, and only 7.8% for less than 5 years (Table 5.2).

Table 5.2 Years of Establishment

Years of Establishment	Number of SMEs	Percentage
<3	2	3.1%
3 – 5	3	4.7%
6 – 10	10	15.6%
11 – 15	6	9.4%
>15	43	67.2%
Total	64	100.0%

5.2 Business Performance

The survey was conducted in 2010, not long after the global financial crisis of 2008, and the SMEs were asked to compare their current business performance to that before the financial crisis. Figure 5.1 shows that 46% of the responding SMEs had a decrease in sales over the period and 62.3% of them found their profitability dropped. The corresponding figure for return on assets was 50.9%. It would appear the 2008 financial crisis adversely affected many of these SMEs in the Manufacturing sector.

Figure 5.1 Change in Business Performance Compared to Pre-financial Crisis

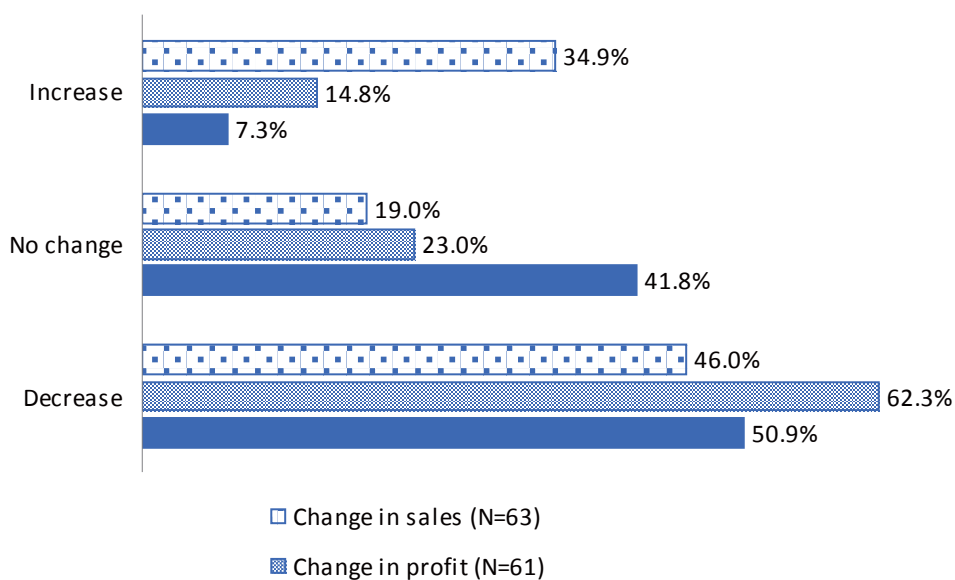




Table 5.3 shows that for **those SMEs that recorded better business performance**, the average percentage increase in sales, profit and return on assets were 20.7%, 81.1% and 15% respectively. Table 5.4 gives the corresponding figures for those that **recorded a decline** in sales, profit and return on assets.

Table 5.3 Increase in Sales, Profit and Returns on Assets Compared to Pre-financial Crisis

	Percentage increase in		
	Sales (N=18)	Profit (N=8)	Return on assets (N=3)
Minimum	5.0%	1.0%	5.0%
Maximum	70.0%	500.0%	20.0%
Mean	20.7%	81.1%	15.0%

Table 5.4 Decrease in Sales, Profit and Returns on Assets Compared to Pre-financial Crisis

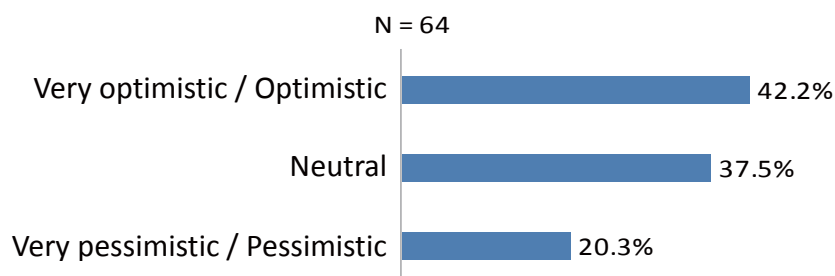
	Percentage decrease in		
	Sales (N=27)	Profit (N=34)	Return on assets (N=27)
Minimum	5.0%	5.0%	2.0%
Maximum	80.0%	100.0%	102.0%
Mean	28.3%	29.3%	31.0%

The Road to Sustainable of Development of Hong Kong SMEs – The Present and Future

5.3 Three-year Business Projection

The SMEs surveyed were asked to make forecasts for the next 3 years. Figure 5.2 shows that 42.2% of the SMEs sampled held optimistic or very optimistic outlook of their business, 37.5% remained neutral, and 20.3% were pessimistic or very pessimistic about their business performance.

Figure 5.2 Projection of Next Three Years' Business



These SMEs were asked to project future expansions in Hong Kong, mainland China and overseas respectively (Figure 5.3). The findings show that the tendency is for enterprises in the Manufacturing sector to plan to expand in mainland China (41.9%) and overseas (34.5%) in the coming three years.

Figure 5.3 Projection of Next Three Years' Business in Hong Kong, mainland China and Overseas

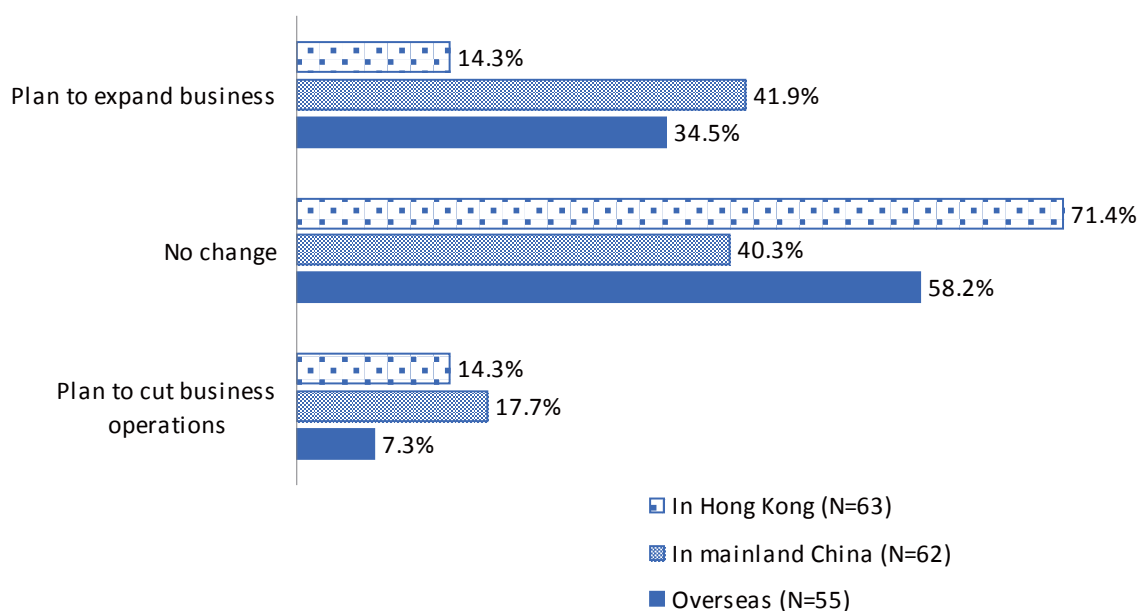
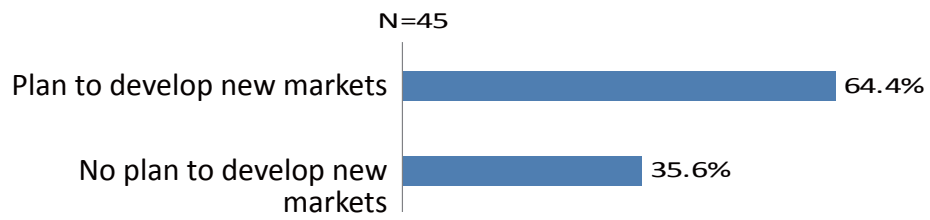




Figure 5.4 shows the SMEs that plan to expand their operation in the next three years. About two-thirds of them plan to develop new markets, and they identified overseas locations such as Southeast Asia, ASEAN regions, Philippines, Vietnam, Thailand, Indonesia, etc.

Figure 5.4 Plan to Develop New Markets in the Next Three Years



The Road to Sustainable of Development of Hong Kong SMEs – The Present and Future

5.4 Factors Influencing the Current Business

The responding SMEs were presented with eight external factors deemed to have impact on business. Overwhelmingly, 'policies of the mainland government' is considered of greatest impact with 83.3% rating this factor of significance or of great significance. This is followed by 56.7% for the factor 'fluctuations of exchange rates' and 40.4% for RMB clearing and settlement procedure, as shown in Table 5.5. This finding is consistent with the fact that many SMEs are engaged in mainland-related businesses and these would be their main concern.

Table 5.5 Perceived Impact of External Factors on Business

External Factor Deemed to Impact Business	SMEs rating the specific factor to be of great significance or of significance	
	Number of SMEs	Percentage
Policies of mainland government (N=60)	50	83.3%
Fluctuations of exchange rates (N=60)	34	56.7%
RMB clearing and settlement procedure (N=57)	23	40.4%
Debt crisis in Europe (N=57)	17	29.8%
Expansion of mainland domestic market (N=59)	17	28.8%
The establishment of free trade zone between China and ASEAN (N=51)	7	13.7%
Pan-Pearl River Delta development (N=44) (泛珠三角框架下的先行先試)	6	13.6%
CEPA Policies (N=49)	4	8.2%



Table 5.6 below shows factors that were unclear to the responding SMEs. Top of the list are 29.0% who were unclear about 'Pan-Pearl River Delta development (泛珠三角框架下的先行先試)', followed by 'CEPA policies' and 'the establishment of the free trade zone between China and ASEAN'. This shows the need for SMEs to be kept well informed and educated about new development in the macro economic and business environment and policies in mainland China.

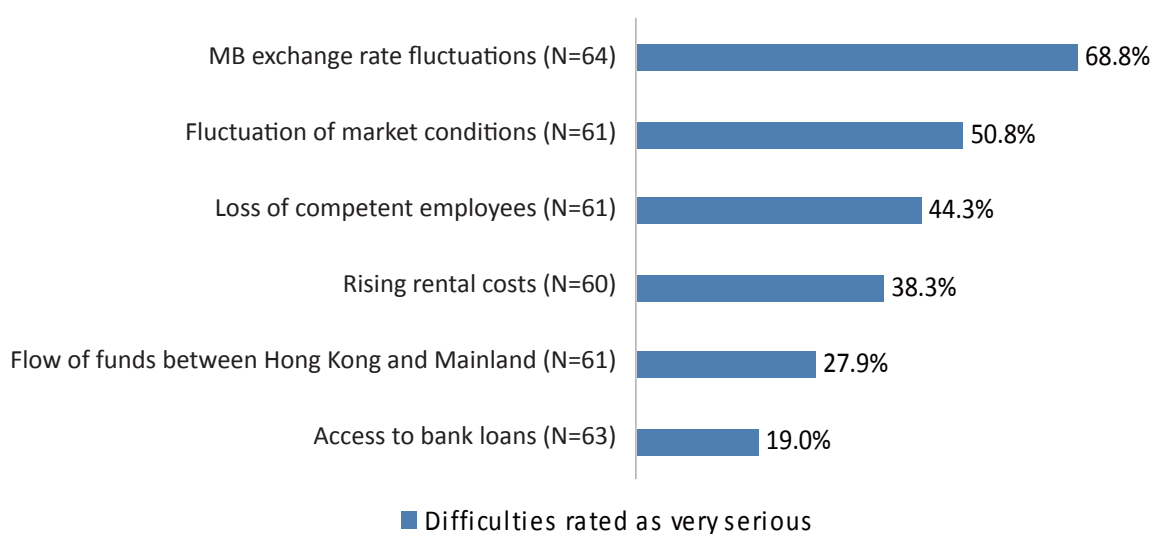
Table 5.6 External Factors which are Unclear to SMEs

External Factor unclear to SMEs	Number of SMEs	Percentage
Pan-Pearl River Delta development (N=62) (泛珠三角框架下的先行先試)	18	29.0%
CEPA policies (N=63)	14	22.2%
Establishment of free trade zone between China and ASEAN (N=63)	12	19.0%

5.5 Difficulties in Doing Business in Hong Kong

Respondents were asked to assess a list of six factors that present difficulties in doing business in Hong Kong. Top of the list is 'RMB exchange rate fluctuations' – 68.8% of the responding SMEs considered this a serious or extremely serious problem as indicated in Figure 5.5. 'Fluctuation of market conditions', 'loss of competent employees' and 'rising rental costs' were also considered by many SMEs as serious or extremely serious problems. These concerns are to be addressed if SMEs are to thrive.

Figure 5.5 Difficulties Experienced by SMEs in Doing Business in Hong Kong

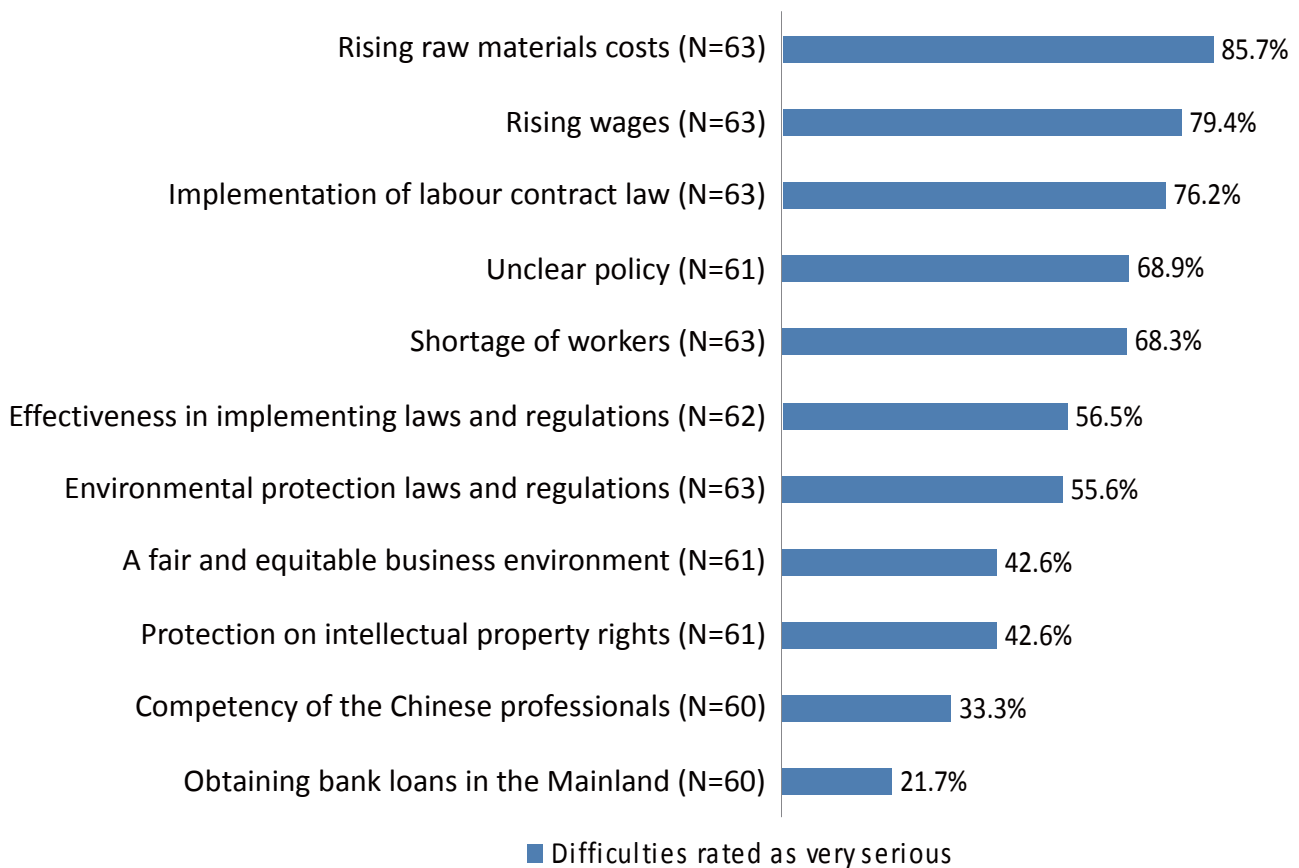




5.6 Difficulties in Doing Business in Mainland China

Similarly, respondents were asked to assess factors that present difficulties in doing business in the mainland. As shown in Figure 5.6, the first two on the list are costs-related, including rising raw material costs and rising wages. But more than half of them are also concerned about the implementation of the labour contract law, clarify of policy, shortage of factory workers, effectiveness in implementing laws and regulations, and the implications of environmental protection laws and regulations. All these go to show that it is becoming more challenging for SMEs in Hong Kong to run their businesses in mainland China.

Figure 5.6 Difficulties Experienced by SMEs Doing Business in the Mainland



5.7 Coping Strategies Adopted by Hong Kong SMEs in Manufacturing Sector

The study tried to look at the strategies adopted by SMEs to cope with the challenges and the effectiveness of these strategies. Overwhelmingly, SMEs in the Manufacturing sector have adopted market development strategies rather than cost-cutting strategies. These include developing new markets, brand development, production process improvement and product development through R&D. Over 90% of them would develop new markets, and over 80% of them would increase employee benefits and spend more on R&D (Table 5.7).

Table 5.7 Strategies Adopted by SMEs to Cope with Challenges

Adopted Strategy (N = 64)	Number of SMEs which adopted strategy	Percentage
New markets development	62	96.9%
Increase employee benefits and offer more employee training	57	89.1%
R&D (Improve production process)	55	85.9%
R&D (Develop new product or services)	53	82.8%
Brand development	47	73.4%
Restructuring	45	70.3%
Cost reduction through outsourcing	44	68.8%
Cost reduction through localisation	41	64.1%
Cost reduction through downsizing	37	57.8%
Vertical Integration	25	39.1%
Horizontal Integration	22	34.4%
Relocation (基地轉移)	20	31.3%



As shown in Table 5.8, over 50% of those who adopted the strategies on R&D, outsourcing, restructuring, and brand development found them effective or very effective. This is an encouraging finding as it shows that Hong Kong SMEs are making good efforts to build competitive advantage.

To cope with challenges, SMEs that adopted strategies such as reducing the number of employees, relocation, localisation, horizontal and vertical integration and found them effective are only in the region of 30%.

Table 5.8 Effectiveness of the Strategy Adopted by SMEs

Adopted Strategy	Number of SMEs which find the strategy effective	Percentage
R&D (Improve production process) (N=55)	35	63.6%
Cost reduction through outsourcing (N=44)	26	59.1%
R&D (Develop new product or services) (N=53)	31	58.5%
Restructuring (N=45)	25	55.6%
Brand development (N=47)	24	51.1%
New markets development (N=62)	30	48.4%
Horizontal Integration (N=22)	8	36.4%
Relocation (基地轉移) (N=20)	7	35.0%
Cost reduction through downsizing (N=37)	12	32.4%
Vertical Integration (N=25)	8	32.0%
Increase employee benefits and offer more employee training (N=57)	17	29.8%
Cost reduction through localisation (N=41)	11	26.8%

The Road to Sustainable of Development of Hong Kong SMEs – The Present and Future

5.8 Awareness and Effectiveness of HKSAR Government Schemes for SMEs

Table 5.9 shows that a significant percentage of responding SMEs are not aware of HKSAR government schemes designed to assist SMEs. For example, 64.1% are not aware of the 'R&D Cash Rebate Scheme', 51.6% are not aware of the 'SME Business Installations and Equipment Loan Guarantee Scheme' and 46.9% do not know about the 'SME Development Fund'. These schemes would be of direct relevance to the enterprises in the Manufacturing sector. Table 5.10 shows that most of the SMEs that are aware of the schemes did not consider them effective. There is much room for improvement to make these government schemes known to SMEs and to design more effective schemes tailored for the needs of SMEs.

Table 5.9 Lack of Awareness of HKSAR Government Schemes for SMEs

HKSAR Government Scheme for SMEs (N = 64)	Number of SMEs not aware of scheme	Percentage
R&D Cash Rebate Scheme	41	64.1%
SME Business Installations and Equipment Loan Guarantee Scheme	33	51.6%
SME Development Fund	30	46.9%
Special Loan Guarantee Scheme	27	42.2%
Manpower Training and Development	27	42.2%
SME Export Marketing Fund	22	34.4%
SME Loan Guarantee Scheme	18	28.1%

Table 5.10 Effectiveness of HKSAR Government Schemes for SMEs

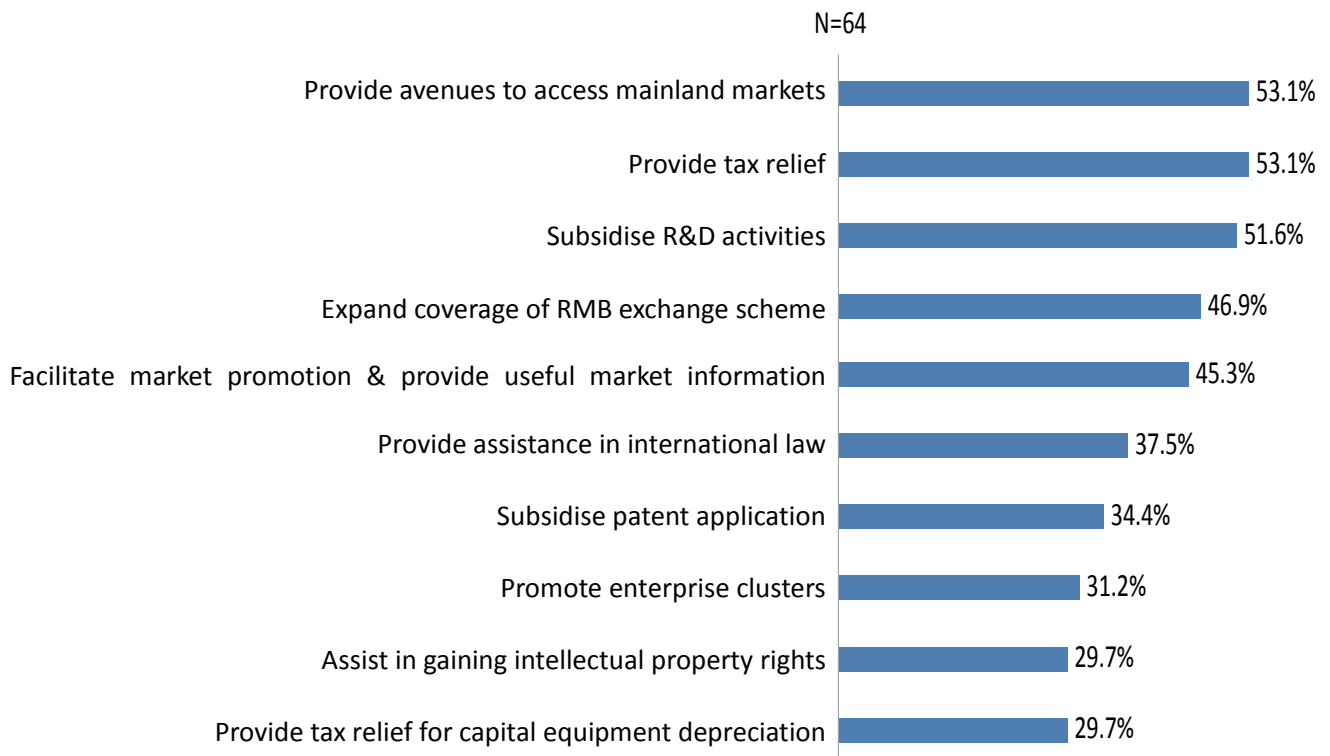
HKSAR Government Scheme for SMEs (N = 64)	Number of SMEs which found the scheme effective	Percentage
SME Loan Guarantee Scheme	32	50.0%
SME Export Marketing Fund	30	46.9%
Special Loan Guarantee Scheme	23	35.9%
SME Development Fund	22	34.4%
Manpower Training and Development	21	32.8%
SME Business Installations and Equipment Loan Guarantee Scheme	18	28.1%
R&D Cash Rebate Scheme	11	17.2%



5.9 Government Support for the Sustainable Development of SMEs

Figure 5.7 lists, in order of priority, areas where SMEs in the Manufacturing sector think HKSAR government can assist them. More than half of them would consider access to mainland markets, tax relief and subsidy for R&D activities useful and important for sustainable development of their enterprises.

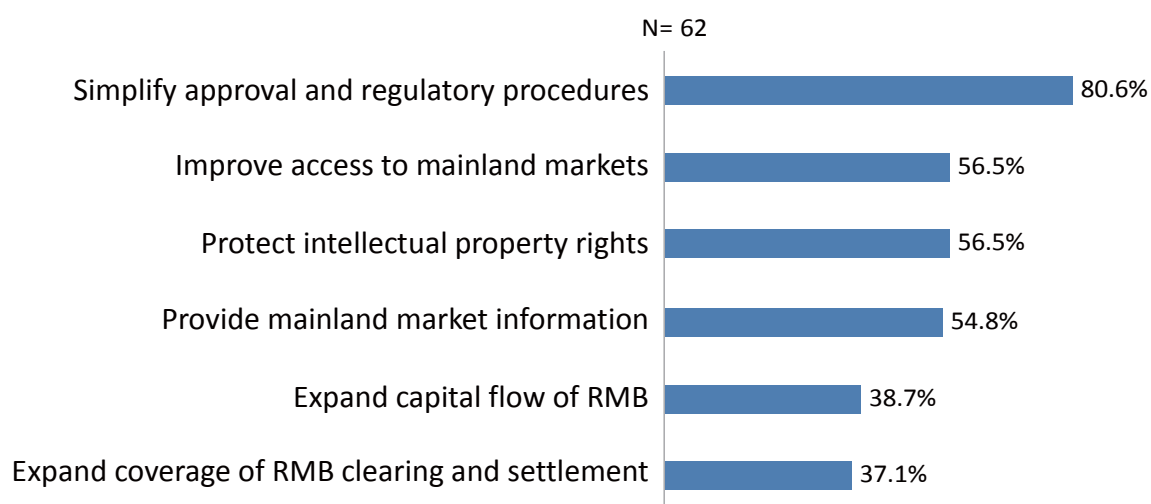
Figure 5.7 Areas of Support by HKSAR Government to Assist SMEs' Sustainable Development



The Road to Sustainable of Development of Hong Kong SMEs – The Present and Future

Figure 5.8 shows areas of major concerns regarding Hong Kong SMEs' development in the Mainland. SMEs would appreciate assistance in simplifying approval and regulatory procedures and improving access to mainland markets as many of them plan to expand their business in mainland China. Related problems such as protection of the intellectual property rights, gaining mainland market information, expanding capital flow of RMB and the coverage of RMB clearing and settlement will need to be addressed.

Figure 5.8 Areas of Concern to be Addressed by Mainland Government



5.10 Summary

Results of the survey show that 42.2% of the 64 SMEs in the Manufacturing sector were optimistic or very optimistic about their business prospect in the next three years and only 20% were pessimistic or very pessimistic with the rest being neutral. Although many felt that the outlook is positive, nevertheless, they all faced many challenges, including rising raw material and labour costs, shortage of labour, unclear government policies and their implementation, access to bank loans, etc.



Chapter 6

Hong Kong SMEs in the Services Sector

This chapter presents the findings of 48 responding SMEs surveyed in the **Services sector**.

6.1 Profile of the Surveyed SMEs in the Services Sector

The 48 SMEs in the Services sector are engaged in information technology, transport and logistics, financial service, medical service, accounting service, legal service, social service, education, architecture and interior design, hotel and tourism, food and catering, real estate and property management services, etc.

Table 6.1 shows that the majority of the responding SMEs in Services sector are small, as 77.1% of them employ fewer than 50 employees and 22.9% employ over 50 staff in Hong Kong.

Table 6.1 Number of Employees

Employee Size	Number of SMEs	Percentage
<10	16	33.3%
10 – 50	21	43.8%
51 – 100	4	8.3%
>100	7	14.6%
Total	48	100.0%

About 78% of the SMEs surveyed have been in operation for more than 5 years and 23% less than 5 years, see Table 6.2.

Table 6.2 Years of Establishment

Years of Establishment	Number of SMEs	Percentage
<3	8	16.7%
3 – 5	3	6.2%
6 – 10	13	27.1%
11 – 15	9	18.8%
>15	15	31.2%
Total	48	100.0%

6.2 Business Performance

The questionnaire survey was conducted in 2010, not long after the global financial crisis of 2008, and the SMEs were asked to compare their current business performance to that before the financial crisis. Figure 6.1 shows that 48.9% of the responding SMEs actually saw an increase in sales over the period. However, only 33.3% of them saw an increase over the same period. The corresponding figure for return on assets was 32.6%.

Figure 6.1 Change in Business Performance Compared to Pre-financial Crisis

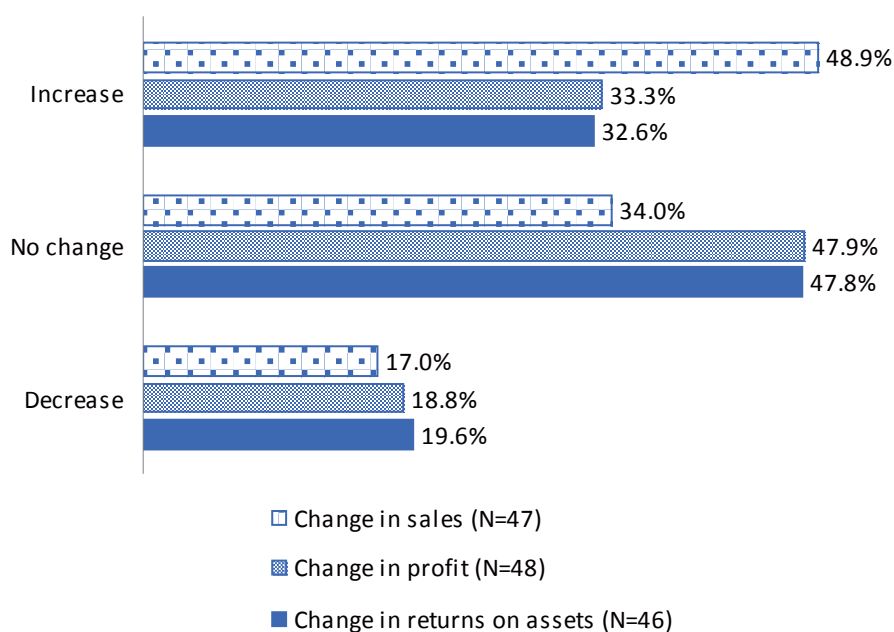




Table 6.3 shows that for those **SMEs that recorded better business performance**, the average percentage increase in sales, profit and return on assets were 34.6%, 30.4% and 30.0% respectively. Table 6.4 gives the corresponding figures for **those which recorded a decline** in sales, profit and return on assets.

Table 6.3 Increase in Sales, Profit and Returns on Assets Compared to Pre-financial Crisis

	Percentage increase in		
	Sales (N=18)	Profit (N=12)	Return on assets (N=11)
Minimum	5.0%	5.0%	5.0%
Maximum	100.0%	100.0%	100.0%
Mean	34.6%	30.4%	30.0%

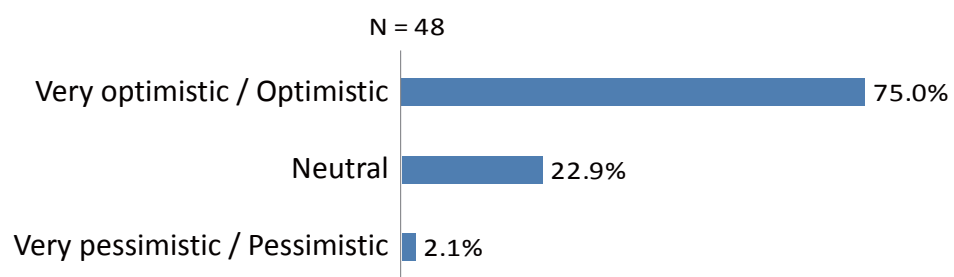
Table 6.4 Decrease in Sales, Profit and Returns on Assets Compared to Pre-financial Crisis

	Percentage decrease in		
	Sales (N=4)	Profit (N=5)	Return on assets (N=5)
Minimum	10.0%	10.0%	10.0%
Maximum	40.0%	40.0%	60.0%
Mean	22.5%	24.0%	25.0%

6.3 Three-year Business Projection

The sampled SMEs in the Services sector were asked to make forecasts for the next 3 years. Figure 6.2 shows that majority (75%) of the SMEs surveyed held optimistic or very optimistic outlook of their business and only 2.1% were pessimistic or very pessimistic.

Figure 6.2 Projection of Next Three Years' Business





The surveyed SMEs were also asked to project future expansions in Hong Kong, mainland China and overseas in the next three years. As shown in Figure 6.3, about 58% of them plan to expand business in mainland China, 45.8% in Hong Kong, and 31.7% in overseas countries. For the SMEs that plan to cut business operations, 4.7% would cut down operations in mainland China, 10.4% in Hong Kong and 2.4% overseas; while 50% of them would plan to develop new markets (Figure 6.4).

Figure 6.3 Projection of Next Three Years' Business in Hong Kong, mainland China and Overseas

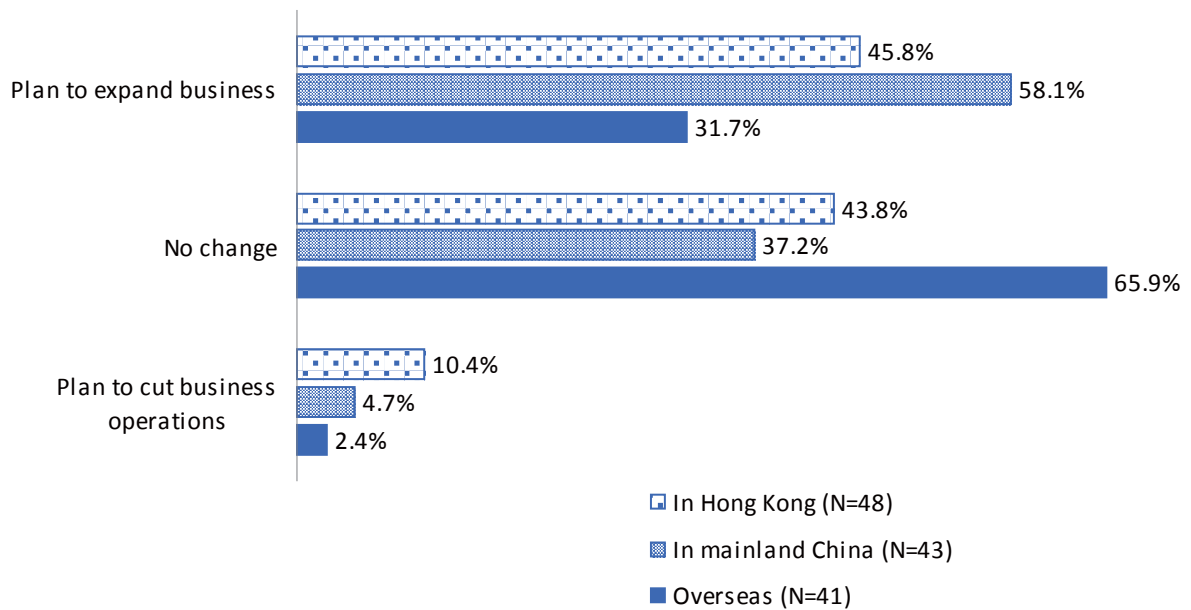
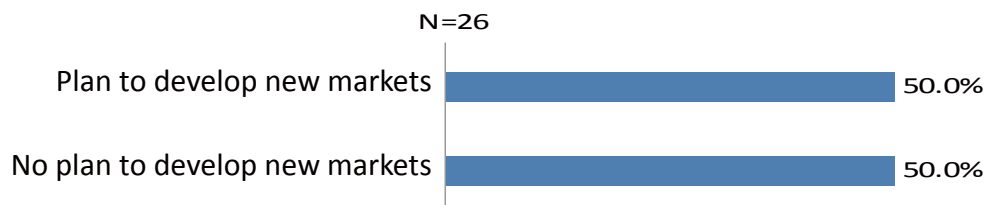


Figure 6.4 Plan to Develop New Markets in the Next Three Years



6.4 Factors Influencing the Current Business

The responding SMEs were presented with eight external factors deemed to have impact on business. Overwhelmingly, 'policies of the mainland government' is considered of greatest impact with 65.9% rating this factor of significance or of great significance, followed by 41.5% for the factor 'debt crisis in Europe', 41.0% for 'RMB clearing and settlement procedure' and 40.0% for 'fluctuations of exchange rates', as shown in Table 6.5.

Table 6.5 Perceived Impact of External Factors on Business

External Factor Deemed to Impact Business	SMEs rating the specific factor to be of great significance or of significance	
	Number of SMEs	Percentage
Policies of mainland government (N=41)	27	65.9%
Debt crisis in Europe (N=41)	17	41.5%
RMB clearing and settlement procedure (N=39)	16	41.0%
Fluctuations of exchange rates (N=40)	16	40.0%
Expansion of mainland domestic market (N=37)	10	27.0%
The establishment of free trade zone between China and ASEAN (N=34)	7	20.6%
CEPA Policies (N=35)	4	11.4%
Pan-Pearl River Delta development (N=30) (泛珠三角框架下的先行先試)	2	6.7%



Table 6.6 below shows external factors that were unclear to the responding SMEs. Top of the list are 36.2% who were unclear about the 'Pan-Pearl River Delta development', followed by 27.7% not clear about 'establishment of free trade zone' and 25.5% who were not clear about 'CEPA policies'. This shows the need for SMEs to be kept well informed and educated about new development in the macro economic and business environment and policies related to doing business in mainland China.

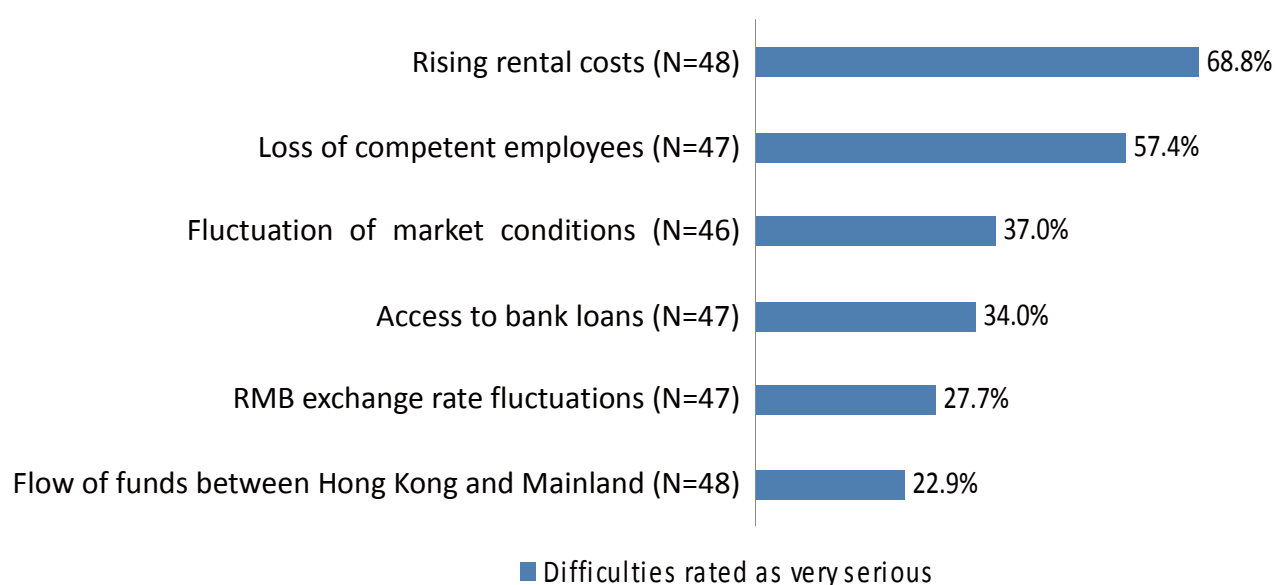
Table 6.6 External Factors which are Unclear to SMEs

External Factor unclear to SMEs	Number of SMEs	Percentage
Pan-Pearl River Delta development (N=47) (泛珠三角框架下的先行先試)	17	36.2%
Establishment of free trade zone between China and ASEAN (N=47)	13	27.7%
CEPA policies (N=47)	12	25.5%
Expansion of mainland domestic market (N=47)	10	21.3%

6.5 Difficulties in Doing Business in Hong Kong

Respondents were asked to assess a list of six factors that present difficulties in doing business in Hong Kong. Top of the list is 'rising rental cost' – 68.8% of the responding SMEs considered this an extremely serious problem, as indicated in Figure 6.5. Rental is a reflection of property prices. Businesses will be hard hit if the rise in property prices is not curbed. The second highest is 'loss of competent employees', 57.4%. This shows that SMEs in the Services sector had serious problem retaining capable staff. About one-third of them identified 'Fluctuation of market conditions'⁷ and 'access to bank loans' as difficulties in doing business in Hong Kong. These concerns must be addressed for the Hong Kong SMEs in the Services sector.

Figure 6.5 Difficulties Experienced by SMEs in Doing Business in Hong Kong



⁷ Subject to external economic conditions



6.6 Difficulties in Doing Business in Mainland China

Similarly, respondents were asked to assess factors that present difficulties in doing business in mainland China. As shown in Figure 6.6, the first two on the list are 'rising wages' and 'unclear policy', 56.1% and 51.2% respectively. Many SMEs are also faced with the difficulties of the 'competency of the Chinese professionals', 'effectiveness in implementing laws and regulations' and the existence of 'a fair and equitable business environment'. This means labour cost in the mainland has been increased over the years, but the mainland policy, enforcement of laws and regulations as well as the capability and performance of the Chinese professionals are questionable. This shows that Hong Kong professionals may still have an advantage over their Chinese counterparts and the mainland business environment and practices are not yet fully developed.

Figure 6.6 Difficulties Experienced by SMEs Doing Business in the Mainland



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6.7 Coping Strategies Adopted by Hong Kong SMEs in Services Sector

The study made an attempt to look at the strategies adopted by SMEs to cope with the challenges and the effectiveness of these strategies.

Overwhelmingly, SMEs in the Services sector have adopted market development strategies rather than cost-cutting strategies. These include developing new markets (81.3%), brand development (81.3%), and increase employee benefits and offer more employee training (79.2%), as shown in Table 6.7.

With regard to the effectiveness of these coping strategies, over 70% of the SMEs considered 'brand development' very effective, followed by 64.1% for new market development, 63.6% for R&D (improve production process), 60.5% for increase employee benefits and offer more employee training and 59.3% for R&D (develop new product or service). Results reveal that Hong Kong SMEs are willing to invest in building brand and in R&D as well as exploring new markets, training and developing human resources and the well being of employees in an attempt to build competitive advantage. Horizontal and vertical integration and cost reduction through localisation are also considered as effective coping strategies by these SMEs, as shown in Table 6.8.

Table 6.7 Strategies Adopted by SMEs to Cope with Challenges

Adopted Strategy (N = 48)	Number of SMEs which adopted strategy	Percentage
New markets development	39	81.3%
Brand development	39	81.3%
Increase employee benefits and offer more employee training	38	79.2%
Restructuring	28	58.3%
R&D (Develop new product or services)	27	56.3%
Horizontal Integration	26	54.2%
Cost reduction through localisation	24	50.0%
Vertical Integration	23	47.9%
R&D (Improve production process)	22	45.8%
Cost reduction through outsourcing	20	41.7%
Cost reduction through downsizing	16	33.3%
Relocation (基地轉移)	13	27.1%



Table 6.8 Effectiveness of the Strategy Adopted by SMEs

Adopted Strategy	Number of SMEs which find the strategy effective	Percentage
Brand development (N=39)	28	71.8%
New markets development (N=39)	25	64.1%
R&D (Improve production process) (N=22)	14	63.6%
Increase employee benefits and offer more employee training (N=38)	23	60.5%
R&D (Develop new product or services) (N=27)	16	59.3%
Restructuring (N=28)	15	53.6%
Cost reduction through localisation (N=24)	12	50.0%
Vertical Integration (N=23)	11	47.8%
Horizontal Integration (N=26)	11	42.3%
Cost reduction through outsourcing (N=20)	8	40.0%
Cost reduction through downsizing (N=16)	6	37.5%
Relocation (基地轉移) (N=13)	2	15.4%

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6.8 Awareness and Effectiveness of HKSAR Government Schemes for SMEs

Table 6.9 shows that a significant percentage of responding SMEs are not aware of HKSAR government schemes designed to assist SMEs. For example, 61.7% are not aware of the 'SME Business Installations and Equipment Loan Guarantee Scheme' and the 'R&D Cash Rebate Scheme', and almost half of them, 48.9% are not aware of the 'Special Loan Guarantee Scheme'. Table 6.10 shows that less of half of them who are aware of the schemes found them effective. More effort on communication and promotion should be made to publicise these government schemes to SMEs. Furthermore, there is room for improvement to design more effective government schemes for SMEs in Hong Kong.

Table 6.9 Lack of Awareness of HKSAR Government Schemes for SMEs

HKSAR Government Scheme for SMEs (N = 47)	Number of SMEs not aware of scheme	Percentage
SME Business Installations and Equipment Loan Guarantee Scheme	29	61.7%
R&D Cash Rebate Scheme	29	61.7%
Special Loan Guarantee Scheme	23	48.9%
SME Development Fund	21	44.7%
Manpower Training and Development	18	38.3%
SME Loan Guarantee Scheme	18	38.3%
SME Export Marketing Fund	17	36.2%

Table 6.10 Effectiveness of HKSAR Government Schemes for SMEs

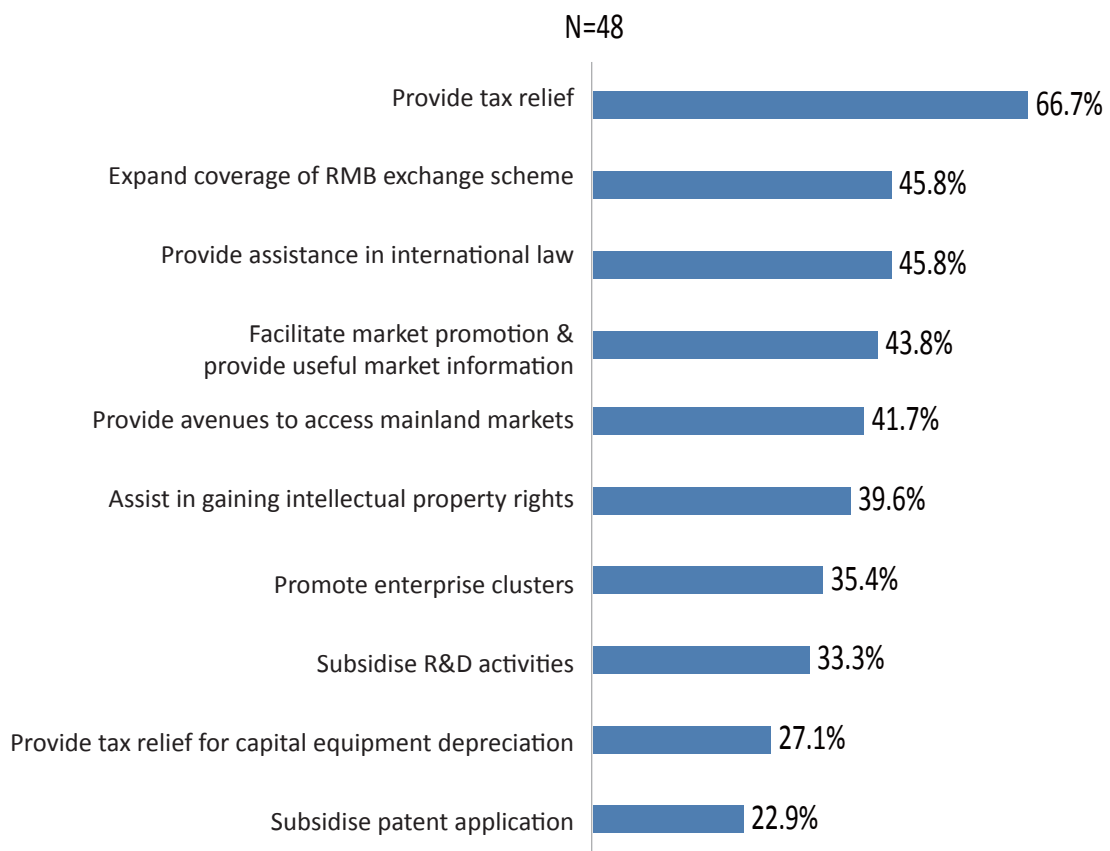
HKSAR Government Scheme for SMEs (N = 47)	Number of SMEs which found the scheme effective	Percentage
SME Export Marketing Fund	21	44.7%
SME Loan Guarantee Scheme	20	42.6%
Manpower Training and Development	18	38.3%
SME Development Fund	16	34.0%
Special Loan Guarantee Scheme	15	31.9%
SME Business Installations and Equipment Loan Guarantee Scheme	10	21.3%
R&D Cash Rebate Scheme	9	19.1%



6.9 Government Support for the Sustainable Development of SMEs

Figure 6.7 lists, in order of priority, areas where SMEs think HKSAR government can assist them. Top of the list was ‘provide tax relief’ (66.7%), followed by ‘expand coverage of RMB exchange scheme’ (45.8%), ‘provide assistance in international law’ (45.8%), ‘facilitate market promotion and provide useful market information’ (43.8%), and ‘provide avenues to access mainland markets’ (41.7%).

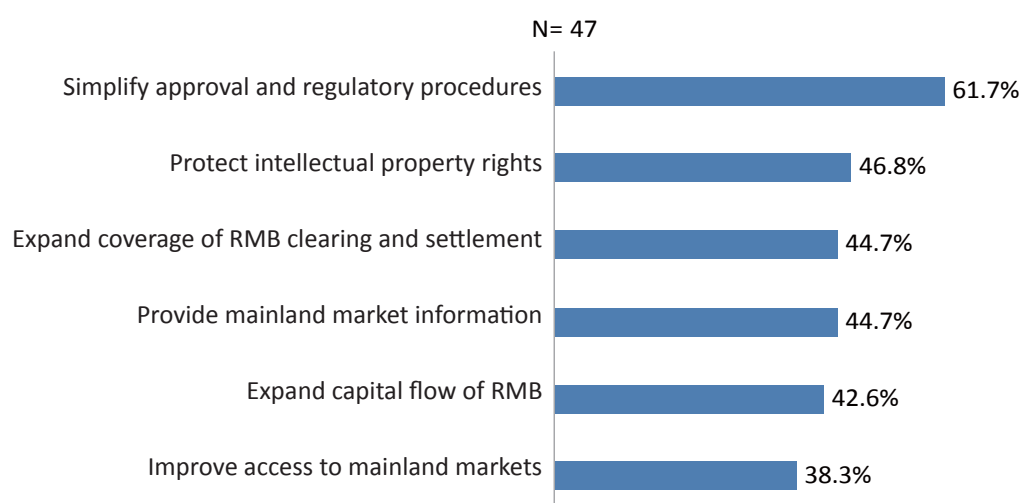
Figure 6.7 Areas of Support by HKSAR Government to Assist SMEs’ Sustainable Development



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Figure 6.8 shows areas of major concerns regarding Hong Kong SMEs' development in the Mainland. Over 60% of the SMEs would appreciate assistance from mainland government in simplifying approval and regulatory procedures which is crucial to doing business in China. They are also concerned about protection of intellectual property rights, the possibility of expanding coverage of RMB clearing and settlement, and providing mainland market information. Related problems such as expanding RMB capital flow and accessibility to mainland markets will need to be addressed.

Figure 6.8 Areas of Concern to be Addressed by Mainland Government



6.10 Summary

Results of the survey show that 75% of the 48 SMEs in the Service sector were optimistic or very optimistic about their business prospect in the next three years and only 2.1% were pessimistic or very pessimistic with the rest being neutral. Although majority were positive about the outlook, nevertheless, they all faced many challenges, including rising rental and other costs, loss of talents, unclear government policies, access to funds, etc.



Chapter 7

Case Studies

7.1 An Overview

In order to gain some in-depth understanding of the challenges facing SMEs, three enterprises nominated by the Hong Kong Chinese Importers' and Exporters' Association. Were interviewed and their cases are presented in this Chapter. They are Lung Cheong International Holdings Limited (龍昌國際控股有限公司), Acctron Company Limited (雅進有限公司), and Long Far Herbal Medicine Mfg. (HK) Ltd. (龍發製藥(香港)有限公司). All three companies have plants in mainland China.

Acctron and Lung Cheong are successful examples of having transformed from an original equipment manufacturer (OEM) to either an original design manufacturer (ODM) or an own brand manufacturer (OBM). Both Lung Cheong and Long Far have successfully built and developed their own brands. All three companies highlighted the importance of quality and innovative products. Acctron pointed out that their product line is so highly specialised that there is little direct competition in the market.

Another key success factor is R&D. All three companies are dedicated to R&D, including setting up in-company R&D team or collaborating with universities in Hong Kong. R&D is crucial to the long-term development of Hong Kong SMEs and the government should do more to encourage and promote R&D among SMEs.

Although the three companies are examples of success, the interviewees were well aware of the highly volatile and competitive environment they are in. Typical of Hong Kong SMEs, they are facing increasing competition from Mainland enterprises and Taiwanese enterprises.

Furthermore, the violation of intellectual property rights is something Hong Kong SMEs have to grapple with. The Hong Kong government is urged to communicate this concern continuously to their Mainland counterparts.

Another concern is the increasing cost and higher risk of operating in Mainland China. An area of immediate concern is the Mainland labour contract law – the implementation of minimum wages, employee compensation regulations, requirement to provide permanent employment after two contracts, restrictions on overtime work, etc. All these pose huge technical and financial burden on SMEs, and these are issues at governmental level beyond the control of SMEs. However, HKSAR government could consult with SMEs to understand their difficulties, in order to represent them to their Mainland counterpart and to offer assistance to Hong Kong SMEs.

The companies interviewed are cautiously optimistic about the prospect of domestic market. The potential is enormous but there are hurdles to overcome. For example Long Far pointed out that Hong Kong certified pharmaceutical products could not be sold in Mainland and vice versa. One interviewee pointed out that while those in professional services could benefit from CEPA, manufacturing enterprises could not. This is something the HKSAR government can look into to help SMEs manufacturers also benefit from CEPA.

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Financing is always an issue the SMEs have to tackle. The companies are appreciative of the government's special schemes to help SMEs but an actual experience by Acctron shows that red-tape and stringent requirements such as providing financial reports of its customers ultimately led to a failed application. The government should communicate with SMEs to periodically review the details of the schemes to ensure that the deserving SMEs are able to benefit from the schemes.

Given the volatile market situation, companies are well aware that market development is a necessary strategy. The HKSAR government is urged to provide more opportunities for trade fairs (increase and upgrade exhibition facilities), organise more business delegations overseas, create a better platform to promote SMEs' own-brand products, etc.

Detailed descriptions of the interviews with the three companies are given below:

7.2 Case 1: Lung Cheong International Holdings Limited (龍昌國際控股有限公司)

a) Background

Lung Cheong International Holdings Limited has been established for more than 40 years. It started with original equipment manufacturing (OEM) and later extended its business to original design manufacturing (ODM) and own brand manufacturing (OBM). Like many manufacturing SMEs, the enterprise established a joint venture in Dongguan, Guangdong Province, China, in the late 1980s. It also expanded its production to Indonesia in 1993. With a stable and continuous growth in business, the enterprise became a listed company on the main board of the Hong Kong Stock Exchange in 1997.



Lung Cheong provides one-stop toy-making services that include in-house design, R&D and production. Through horizontal and vertical integration, the enterprise is now involved in the manufacturing of non-toy products such as educational and consumer robotic devices, lifestyle products such as Bluetooth products and digital cameras, and home appliances such as baby monitors. After the acquisition of a US-based company in 2002, the enterprise developed a number of successful brands, strengthening its market share in international markets. Recognizing the importance of innovation, the enterprise obtained the exclusive licence for using a patent technology developed by a local university in 2003, enhancing its capability to develop radio control/wireless products. With expected continuous development and growth in the business, the enterprise established a new 90,000 square metres plant in Changping, Guangdong Province, in 2004.

For the past 2 years, the US and HK markets have contributed nearly 60% to the total sales of the enterprise while the European and Japanese market contribute 16-18% and 10-13%, respectively. In terms of products, radio control/wireless products and electronic and plastic toys account for 80-90% of production. More than 60% of the products were radio control/wireless products in 2008 and 2009. By 2010, electronic and plastic toys constituted up to 52% of the production.



b) Business Experience and Enterprise's Responses

Reviewing the economic turbulence since the late 1990s, the Chairman of the enterprise, Mr. Leung Lun, remarked that the Asian financial crisis of 1997 and the SARS outbreak in 2003 had relatively little impact on the imports and exports trade. But the global financial crisis of 2008 hit export-oriented enterprises hard, especially those with large scale operations with more than 3,000 workers. The stagnation of US imports and the shrinking of economic activity in Europe are the underlying reasons. Together with the appreciation of the RMB, many enterprises failed to get a letter of credit, resulting in the closing of many businesses in 2009. Unless enterprises had their own plants, had capable managers and were willing to downsize, it was really tough for businesses to survive.

Given that the trough of the business cycle had not yet been reached, Mr. Leung indicated that only low-priced products, and not high-priced ones, could make it into US markets. He particularly warned against aiming at high sales volume at the expense of profitability, that is, only orders with good profitability should be accepted. He thought it is important to operate the business within the capacity of the enterprise, and streamline the production scale and downsize the workforce whenever necessary. Also important is to own the factory or office buildings which has important implications in cutting production costs and obtaining bank loans.

With specific reference to his business, Mr. Leung said that exploring markets in the Mainland is the top priority, even though the enterprise had been successful in US and European markets. However, the experience gained in the US and European markets is not applicable to the Mainland. For example, the price of the product rather than quality matters to Mainland customers, while European and US customers look for high-quality products. With its highly specialised product line, the enterprise enjoys a good market share for its new product line.

While quite a few SMEs have moved out of the Pearl River Delta, Lung Cheong has recently established a sizeable plant in Changping. This establishment was planned for 5 years and the global financial crisis hit right at the time it was set up. Fortunately, the enterprise has a factory in Indonesia and the low wage costs there cushion the enterprise from ever-rising wages in the Mainland. The company plans to expand production in Indonesia to counteract the difficulties in the Mainland. This shows that risk diversification is important for a company's long-term development.

Mr. Leung added that his enterprise's key competitors are private enterprises in the Mainland that have very low production costs. Another big concern is violation of intellectual property rights in the Mainland. To cope with these issues, Mr. Leung keeps in continuous communication with Chinese officials to voice their concerns.

c) Comments on Policy-related Issues

Although the SME funds or schemes provided by the HKSAR government have no impact on a listed company like his, Mr. Leung thinks the schemes do offer help to small SMEs. For a more practical way to assist SMEs, Mr. Leung suggested that the HKSAR government should put more effort into promoting SMEs' business, for example by organizing more trade fairs as well as facilitating the organization of trade fairs by constructing more exhibition halls to attract more overseas buyers.

For policies applicable to operating in the Mainland, Mr. Leung highlighted a couple of issues. The days of low wages in the Mainland are over. The implementation of a minimum wage to protect the workers and as an alternative way to lessen the pressure for the RMB to appreciate is understandable and accepted by most SMEs. The annual adjustment in the minimum wage acts as a legitimate reason for an upward adjustment of product prices in drafting business contracts. The problem is that the announcement of the adjustment in the minimum wage is unpredictable and often comes right after a business contract has been completed. An obvious outcome of this mismatch in timing is the unexpected reduction in profit resulting from the rise in labour costs.

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The other issue is the employee compensation for voluntary unemployment. Under the current practice, SMEs find it unreasonable to have to pay workers compensation for the years of services they have worked for a previous owner or former company even though the change in the ownership of the company has been settled. Mr. Leung hopes that the Mainland authorities can fine tune these policies.

d) Final Remarks

With his decades of experience in doing business, and having experienced many ups and downs, Mr. Leung gave the following advice. Firstly, in developing new products, a major pitfall is underestimating the production cost, resulting in a final price of the product that is unaffordable to customers.

Secondly, the return on real estate investment in markets other than Hong Kong may not be as lucrative as expected. For example, the value of the land bought for the establishment of the company's Indonesian plant has not appreciated much. This becomes an obstacle in obtaining capital funds for expansion. Only low-priced products can make it into Southeast Asian markets. The expansion of production in Indonesia has thus been very limited over the years.

In sum, to be sustainable companies should avoid (1) extremely rapid development and being too aggressive, (2) making excessive loans, (3) overemphasising sales volume at the expense of profitability, and (4) specializing in a limited number of products. One has to be ready for change and be sensitive to market conditions. Finally, stay calm when stormy weather arrives.



7.3

Case 2: Acctron Company Limited (雅進有限公司)

a) Background

Acctron Company Limited started manufacturing electronic products in 1993. It began with original equipment manufacturing (OEM) and changed to original design manufacturing (ODM) by 2003. The enterprise is now a one-stop electronic toy maker, providing conceptual design, feasibility studies, pre-production procedures, manufacturing, post-production processes as well as customer services. The strengths of the enterprise are in functional design, prototyping and manufacturing highly complicated radio frequency controllable toys and multiple triggered infra-red alarm systems.



Acctron operates manufacturing plant in Panyu, Guangdong Province, with 1,500 workers. It has a 60-strong R&D team capable of developing turnkey solutions for various electronics-based products. The production line accommodates processes such as surface mount technology, bonding, assembling, plastic injection, tempo and spray colour. The enterprise was granted more than 30 different types of patents and copyrights worldwide by the end of 2006. The Panyu plant has had ISO9001:2000 (CQC) accreditation since 2007.

b) Business Experience and Enterprise's Responses

In the 1990s, Acctron was a typical OEM enterprise. Based on models provided by customers, the enterprise was required to produce products fulfilling the functions required within a set price. In order to maintain a certain level of profit margin, Mr. Desmond Cheung, a director of the enterprise, said that it had to rely on economy of scale and automation to keep production costs down. A good relationship with suppliers of parts was also crucial. To be sustainable, Mr. Cheung said that controlling the fault rate of the production processes was essential. The production cost and fault rate were positively related and thus the enterprise had to keep the fault rate as low as possible. Maintaining workers with a good working attitude and who are highly motivated was another key reason why the enterprise was able to operate through the late 1990s and early 2000s.

The change in the mode of business since 2003 has been a challenging experience. Unlike in the past, the enterprise was asked to design and develop the toys itself with only a preliminary concept about the product provided by customers. In response to this challenge, Mr. Cheung took the opportunity to form his R&D team in the early 2000s. Now about 60 staff are in the R&D unit. The immediate consequence of the involvement in R&D is that the enterprise has taken one step ahead, transforming itself from an OEM to an ODM.

Becoming an ODM is not achieved without paying a price. Mr. Cheung emphasised that the enterprise had to face a higher risk in accepting orders. In general, the cost of materials constitutes 70% of the finished product. If the finished product is not marketable, the enterprise has to incur losses once production is put in place. The size of the losses, if any, depends on the lead time between the design of the product and its production as well as that between when the order is placed and shipment of the product. To cope with the increase in risk, Mr. Cheung seeks every possible opportunity to share the risk with customers. To do this, Mr. Cheung requires customers to pay the suppliers directly as much as possible. Fortunately, the enterprise's product line is so highly specialised that competition among similar enterprises is minimal. This specialization also allows the enterprise to establish a long-term relationship with its parts suppliers. Accordingly, the enterprise is able to maintain a reasonable market share in the electronic toy industry.

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Regarding the latest business environment, Mr. Cheung highlighted that the global financial tsunami did not have the impact that had been expected. Although orders shrank during the 2008 crisis, with other enterprises, especially those in Taiwan and Korea, exiting the industry, Acctron's business had actually increased in 2010. Mr. Cheung expected that the business volume of the enterprise would further rise by about 40-50% in 2011.

At present, the enterprise's main problem is manpower shortage. For the toy industry, orders have to be completed within a set timeframe. In general, the enterprise requires large numbers of workers in the production line for only half the year. Overtime work is the only way to meet the deadlines set by customers. Unfortunately, the new generation of migrant workers are not as hardworking as those in the early days. It has been difficult for the enterprise to hire enough workers during the peak season of the production cycle. To retain workers, Mr. Cheung said the enterprise relied on offering on-schedule payments to workers and imposing no cash penalties for misconduct. To motivate workers, the enterprise penalises unproductive workers with no overtime work or asks them to resign.

Mr. Cheung concluded that the enterprise had been able to maintain business through: (1) a close and good relationship with customers, (2) mastering the technologies for a line of specialised products through R&D, and (3) a successful transformation from an OEM to an ODM. He added that establishing a relationship with new customers is not easy. It requires a long period of co-operation and continuous communication. Nevertheless, by producing high-tech toys, Mr. Cheung is confident that the enterprise can keep a relatively high market share. The low-end toy market is not on the enterprise's development agenda. Mr. Cheung explained that such a product line had a short life cycle and there was very keen competition in the low-end segment.

c) Comments on Policy-related Issues

Mr. Cheung acknowledged that his enterprise had benefited from the Special Loan Guarantee Scheme (特別信貸保證計劃). Regarding a scheme provided by the Hong Kong Export Credit Insurance Corporation (香港出口信用保險局), Mr. Cheung has the following experience: firstly, in the application procedure, an enterprise is asked to provide financial reports about its customers as a supporting document, which is not feasible, resulting in the application's failure. Even if the enterprise can supply all required documents, the approved amount may fall short of that requested. In his own experience, only \$600,000 out of the \$3,000,000 requested was approved. Mr. Cheung had no choice but to turn down the offer. By the end of 2010, this scheme was not available any more. What can be offered is loan services, which do not benefit SMEs, commented Mr. Cheung.

Mr. Cheung further addressed the role of CEPA in assisting the business of SMEs. From his viewpoint, CEPA provides the channel or platform for SMEs to promote their brand name and penetrate the Mainland services sector, and benefits SMEs in helping them to grasp a share of the Mainland domestic market. Accordingly, SMEs involved in the services sector or professional services benefit most from CEPA. But manufacturing enterprises like his, involving a certain level of technology in their production, cannot take any advantage from CEPA. If privileges on Mainland tax or credit issues were provided under CEPA, most SMEs would find the accord helpful.



Consistent with the surveyed results presented in this report, Mr. Cheung revealed that the labour contract law in the Mainland creates many hurdles for enterprises. In this regard, Mr. Cheung has identified 3 issues of particular concern. First of all, the continuous rise in the minimum wage is not the key component of the law that enterprises find unacceptable. The main concern is the way that compensation is calculated for workers who leave or do not have their contracts renewed. With the law, a large sum of money has to be placed in reserve for dealing with worker compensation. This is a huge burden for enterprises with a sizeable workforce. Secondly, workers have to provide a permanent contract if they have already completed 2 contracts. These issues weaken workers' morale and their incentive to work. Productivity of the workforce thus is adversely affected and the pool of workers becomes a liability for the enterprise. The last issue is the overtime regulation. The maximum number of overtime hours allowed is highly restrictive. Facing this constraint, Mr. Cheung said it was impossible for his enterprise to meet the shipment deadlines during the peak production season. With a more promising year to come, Mr. Cheung indicated that the limit on overtime hours exerted a great impact on his business. He has no immediate solutions to deal with this problem.

d) Final Remarks

Although Mr. Cheung was optimistic about his business in the coming years, with ever rising production costs and low profit margins of 4-8%, he said it will be tough for manufacturers to sustain their business. With new rules and regulations enforced by the Mainland government and their customers, and the keen competition in the manufacturing sector, survival is not easy. Together with the development direction of the Hong Kong economy towards the financial sector, manufacturers' enthusiasm for doing business has weakened.

7.4 Case 3: Long Far Herbal Medicine Mfg. (HK) Ltd. (龍發製藥(香港)有限公司)

a) Background

Long Far Herbal Medicine Mfg. (HK) Ltd. (Long Far hereafter) was established in 1998. Based on the idea of detoxification, the enterprise established its own brand under the name “Beauty and Healthy” (排毒美顏寶). Through the enterprise’s successful marketing strategies and promotion campaigns, consumers have learnt to appreciate the concept and benefits of detoxification. “Beauty & Healthy” brand products became one of Hong Kong’s top ten products by the end of 1999. The enterprise has received many Best Sales awards granted by various pharmacy chain stores in the 2000s and has been presented with the coveted Superbrands seal every year since 2002. With its successful brand-building and experience in the health supplement industry, Long Far became a listed company on the main board of the Hong Kong Stock Exchange in 2002.



Long Far places great emphasis on the safety and quality of its product, which has a significant impact on the image of its products. To do so, the company has been cooperating with several Mainland Chinese medicine institutes and a local university to undertake research and development programmes to control the quality of its products and expand its product line. At present, the enterprise and the Yunnan Provincial Chinese Medicine Research Institute have an agreement to undertake R&D in Chinese medicine. Taking advantage of the regulatory systems for import of Western countries and the application of Chinese medicine implemented by the WHO, FDA, and EU, the enterprise would expand its business towards overseas markets and foresees a rapid growth in the international market for its products. Efforts have been made to penetrate overseas markets such as Japan, Malaysia, Singapore, Indonesia, Thailand, Germany, Canada, New Zealand and the Caribbean.

b) Business Experience and Enterprise’s Responses

The enterprise was established right after the Asian financial crisis in 1998. The company’s Vice President, Mr. Han Ping, admitted that the unfavourable business environment in that period was of great concern to the management team. At the same time, a market survey conducted at that time indicated an opportunity for their “Beauty & Healthy” products. The findings showed that during hard times, people still cared about their health. With this insight, the enterprise devoted every effort to promoting its product by emphasizing the concept of detoxification. It conducted a series of product promotions via various media channels including newspapers, magazines, television and radio. To increase publicity for the “Beauty & Healthy” product line, the enterprise also sponsored concerts and film productions, and participated in food fairs and exhibitions. To strengthen the public’s confidence in health products, the “Beauty & Healthy” line was sold in retail chain stores and supermarkets, and the enterprise invited public figures and celebrities to try the product. These marketing strategies worked and the enterprise quickly captured market share and enjoyed tremendous sales growth. Further expansion of its business in the Japanese and Southeast Asian markets facilitated the listing of the company in Hong Kong after three years.



The next set of challenges came with the SARS episode in 2003. Mr. Han recalled that this came six months after the enterprise has become a listed company and the Hong Kong economy suffered greatly, so did the enterprise's business. To sustain its business, the enterprise launched a new marketing campaign. The campaign highlighted the products' ability to eliminate toxic materials left in the human body, thus improving health and enhancing immunity. Furthermore the investment in R&D and the research collaboration with a local university allowed the enterprise to develop a series of new products such as "Protect U" and "Flu Reliever" which met customers' demands to fight the flu. Products like "Superior Lingzhi" and "Superior Cordyceps" were marketed for enhancing immunity. Another new product, "SBL", was developed through the collaboration between Long Far and the CUCMed Co., Ltd. (a subsidiary of the Chinese University of Hong Kong Foundation Ltd.). The product was an outcome of an allergic rhinitis-relieving formula based on a combination of German and Chinese herbs. "SBL" proved to be effective for allergic rhinitis sufferers. By then, Long Far was able to provide a comprehensive list of products so as to meet the public's demand for health-related products.

During the recent global financial crisis, Mr. Han noted that the enterprise suffered a drop in sales. Fortunately, the adverse effect was not too serious because the company's overseas business constituted only a small portion of the overall business. However, the 2008 downturn still drove customers away from non-necessities such as health supplements. To cope with this unexpected decrease in business, the enterprise provided discounts on its products to encourage customers with a tight budget to purchase Long Far products.

Parallel to its product promotion efforts, Long Far recognises the ageing issue and the public's increased attention to health. The enterprise started the development of high quality health supplement products. Mr. Han remarked that with this new product line he is optimistic about his business in the next few years.

Lowering profit margins and developing new products are the two measures employed by the enterprise to deal with business conditions after the onset of the global financial crisis. To be sustainable, Mr. Han added that the enterprise had undergone restructuring and diversified its business. Mr. Han explained that tea-drinking is a culture of the Chinese community and saw the great potential in the tea business. The enterprise has started to get into the tea business since 2009. By 2010, the enterprise's tea business sales reached HK\$190 million.

Mr. Han acknowledged that his working team gained a great deal by its collaboration with Mainland Chinese medicine institutions. Due to differences in regulations and conservation practices, it has been quite difficult for the enterprise to penetrate the Mainland market. While the Mainland market is huge, the risk associated with investment or running business in the Mainland is very high. If they could identify product welcomed by Mainland customers, the enterprise would expand its business in the Mainland.

c) Comments on Policy-related Issues

As a listed company, Long Far is not eligible to apply for any SME schemes or funds provided by the HKSAR government. However, Mr. Han appreciated the availability of these schemes or funds. He said the availability of capital funds is crucial to the operations of SMEs. He said the schemes provided by the Trade and Industrial Department are helpful to SMEs for starting their business and meeting their cash flow needs.

In addition to the provision of loans, Mr. Han suggested that the Trade and Development Council can organise more business tours for SMEs to visit overseas enterprises in order to upgrade their technological and managerial skills. This would enhance the competitiveness of SMEs. The HKSAR government should also organise more exhibitions and fairs to attract overseas buyers. As well as providing a platform for promoting SMEs' own-brand products, he suggested that the HKSAR government should put more resources into training workers such as off-the-job training that is tailor-made for different occupations or industries. These measures would enhance the competitiveness of both the individual worker and the firm.

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Mr. Han remarked that the HKSAR government had not provided much support for R&D. For enterprises that allocate substantial resources to R&D like Long Far, they have to rely on collaboration with higher education or research institutes. Mr. Han would like to see the government providing more matching funds for enterprises to conduct R&D. He further added that opportunities for exchanging experience between industrial firms and experts in the Chinese medicine field would also be meaningful. This can be done through organizing conferences and forums. Specific to the health supplement industry, Mr. Han would like to see the HKSAR government provide more support for the development of Chinese medicine and establish a fair and comprehensive structure in this field.

Recognizing that there are differences in the business practices and environment between Hong Kong and the Mainland, Mr. Han said that it is important to keep the communication channels between Hong Kong SMEs and the Mainland government open. Forums for Hong Kong and Mainland businessmen to exchange business experiences would enhance the ability of Hong Kong SMEs to understand business practices in the Mainland. To assist Hong Kong SMEs in penetrating into the Mainland markets, the Mainland government should provide more policies such as CEPA and tax privileges, simplify registration procedures and lower registration fees.

Mr. Han further added that the enterprise had acquired a pharmaceutical factory in Yunnan Province in 2003. After upgrading the factory, more than 150 products were manufactured at GMP (Good Manufacturing Practices) standard-compliant and certificated by SDA (State Drug Administration). However, these products could not be sold in Hong Kong while those products certified in Hong Kong could not be sold in the Mainland. In light of this, Mr. Han said that it would be helpful if both HKSAR and Mainland governments co-ordinate and allow certified products to be sold in both places.

d) Final Remarks

In addition to building its brand, Long Far has achieved success through dedication to its business. Mr. Han said his enterprise cares about how its products impact the health of consumers. The enterprise established the International Health Association in 2002 to provide excellent after-sale services to customers and acts as a bilateral communication vehicle, providing a valuable channel to educate customers and collect market information through member gatherings and health seminars.

Being established right after the Asian financial crisis, Long Far had faced further challenges from the SARS episode and the recent global financial crisis. Mr. Han said that as long as an enterprise is well prepared, and produces good quality and safe products, it can handle any unexpected challenges or crisis. In fact, crisis and opportunity go hand-in-hand as the Chinese idiom goes. The question is how one is able to grasp the opportunities. For the case of Long Far, Mr. Han believed that the key success of the enterprise is attributed to two factors: (1) doing business with passion, and (2) manufacturing high quality and safe health products.



Chapter 8

Conclusion

Findings from the survey of 272 SMEs in **Import/Export Trade** sector, **Import/Export Trade cum Manufacturing** sector, **Manufacturing** sector, and **Services** sector show that majority of the surveyed SMEs did not suffer a decline in business in terms of sales, profitability and return on assets over the 2008 financial crisis.

In terms of their outlook for the next three years, 52% were optimistic or very optimistic and only 10% were pessimistic or very pessimistic. About 46% of them intended to expand their mainland business while around 30.8% intended to expand in Hong Kong and 34.0% intended to expand overseas, such as in Southeast Asia, ASEAN countries, Europe and USA.

As many of the SMEs look towards mainland China for growth, the top external factor of concern to them is 'policies of mainland government'. Other external factors of concern include 'fluctuations of exchange rates', 'debt crisis in Europe', 'RMB clearing and settlement'.

With respect to difficulties in doing business in Hong Kong, 'RMB exchange rate fluctuations', 'rising rental costs', 'fluctuation of market conditions' and 'loss of competent employees' are of concern to more SMEs. This list is much longer for difficulties doing business in the Mainland, including, 'rising raw material costs', 'rising wages', 'unclear policy', 'implementation of labour contract law', 'shortage of workers', 'effectiveness in implementing laws and regulations', 'environmental protection laws and regulations', 'protection on intellectual property rights'. The risks of doing business in mainland China are indeed higher.

In terms of strategies, many have adopted 'new market development' (90.7%), 'brand development' (78.5%). SMEs too have begun to realise the importance of 'R&D (new product or services)' (74.1%). To cope with employee turnover, many have tried to 'increase employee benefits and offer more employee training' (81.5%) to retain staff.

Findings on the awareness and effectiveness of HKSAR government schemes to help SMEs show that up to 57% are not aware of the various schemes available and for those who are aware, up to 50% found the various schemes effective. This shows the need for the government to improve the dissemination of information to reach SMEs and the need to communicate with SMEs to update the schemes so that they could better address the needs of SMEs.

When asked how the government could best support SMEs, many respondents thought tax reliefs and subsidies of various sort e.g. for capital investment, R&D, etc would be helpful. About 50% of them would appreciate the government's assistance to provide useful market information and avenues for easier access to mainland markets. One of the major problems facing SMEs is the protection of intellectual property rights in the Mainland. This is an area that is best dealt with at the government level. SMEs would also appreciate government assistance in international law and implementation of these laws and policies, including and perhaps especially those in the Mainland.

The above findings have slight variation sector by sector, but the overall picture remains quite consistent.



Chapter 9

Recommendations

This project offers an opportunity through the questionnaire survey, case studies, open forums and public seminars to understand the challenges and issues faced by SMEs in Hong Kong. While many SMEs are optimistic about their future prospect, they are also keenly aware of the challenges of business operations and of the business environment they face, including rising raw material and labour costs, shortage of labour, access to bank loans, unclear government policies and their implementation, etc.

Undoubtedly, the survival and success of a particular SME is a matter of its own competitiveness. However, in view of the significant contribution of SMEs to the national economies, governments worldwide now realise the importance of creating a business environment conducive to SME's sustainable development.

A watershed event for SMEs worldwide was the signing of the Bologna Small Business Charter in 2000 by about fifty OECD members and non-members. Based on this, the European Commission came up with the European Charter for Small Enterprises which culminated in the Small Business Act of 2008⁸. At the heart of this act is the 'Think Small First' principle which requires legislation to take SMEs' interests into account at the very early stages of policy making in order to make legislation more SME friendly.

On a practical level, governments have actively taken concrete steps to assist SMEs. For example, many countries have lower tax rates for SMEs to foster their competitiveness. UK in the 2008 Budget set an aspirational target for SMEs to win 30% of public sector business within the next 5 years. The Japanese government set up technical training centres that provide consultation as well as make available a wide range of expensive testing tools to SMEs.

The following recommendations are suggested after due consideration of the examples from other countries, findings of current survey, in-depth interviews with SME owner-managers and input from Hong Kong SMEs participants in open forums conducted during the course of this project:

⁸ http://ec.europa.eu/enterprise/policies/sme/documents/sba/index_en.htm

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9.1 Government Policies to Support SMEs

- a. Establish a central SME policy bureau to overlook the sustainable development of SMEs and to provide one-stop services to SMEs instead of SMEs having to go to different government departments.⁹ The bureau will take the role of representing the interest of SMEs in liaising with Mainland departments.
- b. Relevant government agencies to communicate regularly with SME representatives to understand their needs and to find ways to address these needs.
- c. Allocate more resources for the training of SME personnel and for the development of new markets, currently provided by the Trade and Industry Department. (Appendix 4)
- d. Make information and assistance more readily accessible to SMEs. For example, Hong Kong Trade and Development Council provides an impressive range of resources and services to SMEs but there is a need to actively seek ways to promote the services and educate SMEs to take advantage of these resources and services.¹⁰
- e. Actively seek strategic alliances with regions in mainland China to broaden as well as strengthen links.
- f. Promote and nurture entrepreneurship through education, training, special awards, experience sharing, etc.

9.2 Financing

- a. Financial institutions to adjust the 'bricks-and-mortar' credit principle when dealing with SMEs and offer innovative credit and financial tools and schemes such as micro-credit, venture capital, business angels.
- b. Government to continue to make loans available and accessible to SMEs through direct funding or through providing loan guarantee. These schemes should be updated periodically to ensure that they meet the needs of SMEs, for example, replacing the Market Oriented Loan Guarantee Scheme by the SME Financing Guarantee Scheme under the Hong Kong Mortgage Corporation. There is also a need to disseminate of such information more effectively to SMEs. The application process of these government fundings should be made less tedious.
- c. Strengthen the communication channel between lending institutions and SMEs, for instance, through a banking-SME round-table discussion. This round-table could include third parties such as academicians, government representatives, and independent professionals such as risk management experts.

9.3 China Market

- a. Penetrate mainland China domestic market through development of own-brand products.
- b. Promote sharing of experiences, best practice, successful business models, etc. among SMEs.
- c. HKSAR government to follow the 'Twelve Five-Year Plan' closely and initiate necessary follow-up action that will help Hong Kong SMEs penetrate the domestic market, e.g. initiate areas of collaboration with Mainland counterparts, exchange business ideas, establish networks.

⁹ Appendix 3 gives a list of the support and assistance provided by the various HKSAR government departments

¹⁰ For example, many SMEs expressed the need for assistance in matters of intellectual property rights which unknown to them, HK TDC is in a position to advise and assist.



9.4 Creation of a 'Hong Kong City'¹¹

- a. Develop Hong Kong as a centre for trade and trade fairs through the creation of a 'Hong Kong City' located near the Hong Kong – Shenzhen border. The concept is to make Hong Kong the international window to China and a China window to the world.
- b. Another important dimension of the 'Hong Kong City' concept is to encourage the development of high value, high-end 'Made in Hong Kong' products. This could serve to draw some manufacturers to relocate their production to Hong Kong and the output could then enter the Mainland market through the incentives of CEPA.
- c. The 'Hong Kong City' can be divided into three zones: (i) a global trade fair zone to introduce overseas products to the Mainland buyers; (ii) a Mainland product trade fair zone to introduce Mainland products to overseas buyers; and (iii) a Hong Kong product zone to promote Hong Kong's brand-name products.
- d. Where necessary, the 'Hong Kong City' can spill over to Hong Kong e.g. making Tsuen Wan a food product wholesale centre, making Aberdeen – Wong Chuk Hang a furniture wholesale centre, making Sham Shui Po a fashion wholesale centre, making Hung Hom a jewelry wholesale centre, etc.
- e. The 'Hong Kong City' will make it possible to hold large trade fairs in the scale of China Import and Export Fair (Canton Fair). It will also allow for permanent displays rather than one-time displays. The scale of the 'Hong Kong City' should be large enough to allow not only the high-end products but products of all price range.

9.5 International Markets

- a. Make every effort to diversify markets, e.g. take advantage of the establishments of the Free Trade Zone between China and ASEAN, and the Economic Cooperation Framework Agreement between mainland China and Taiwan launched in 2008.
- b. The Hong Kong Trade and Development Council to strengthen the dissemination of information including market information, legislation and regulations, incentives, government policies, investment opportunities and procedures, etc.
- c. The Hong Kong Trade and Development Council to organise more trade related activities such as business tours, trade fairs and exhibitions, promotion of SME products and services.

9.6 Brand Development

- a. Promote Hong Kong as the regional headquarters for overseas brands to penetrate the mainland China market.
- b. Encourage product innovation and take advantage of Hong Kong's niche in product design to develop own-brand products.
- c. Identify some second or third tier European brands and enter into joint ventures with them, in order to penetrate the mainland market.

¹¹ A similar concept is Yiwu (a medium sized city in Zhejiang province) being 'the first city of small commodities trade' in China. The city government strategically developed Yiwu as a trade exhibition centre for small commodities.

9.7 Human Capital Training and Development

- a. HKSAR government can follow the example of the Japanese government to make available a pool of professionals and experts to offer consultation to SMEs.
- b. The government to encourage the training and development of SME entrepreneurs and managers by offering subsidies, designing and offering suitable training courses to improve management capabilities.
- c. SME and professional associations to collaborate with universities and professional institutes to develop and offer customised training programmes to upgrade the d) knowledge and skills of various levels of SME workers.¹²
- d. Financial support and study leave to be provided by the SME employers and the HKSAR government to encourage continuous education and life-long learning to build a competent work force.

¹² Appendix 4 gives the list of training, consultancy, etc provided by universities, government department and other professional bodies.



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5. Creative Hong Kong, HKSAR Government: <http://www.createhk.gov.hk>
6. Federation of Hong Kong Industries: <http://www.industryhk.org>
7. Innovation and Technology Commission, HKSAR Government: <http://www.itc.gov.hk>
8. Intellectual Property Department, HKSAR Government: <http://www.ipd.gov.hk>
9. Hong Kong Brand Development Council: <http://www.hkbrand.org>
10. Hong Kong Export Credit Insurance Corporation: <http://hkecic.com>
11. Hong Kong Management Association: <http://www.hkma.org.hk>
12. Hong Kong Productivity Council: <http://www.hkpc.org>
13. Hong Kong Science and Technology Parks: <http://www.hkstp.org>
14. Hong Kong SME Blog: <http://www.hksmeblog.com>
15. Hong Kong Trade Development Council: <http://www.hktdc.com>
16. Hong Kong Wireless Technology Industry Association: <http://www.hkwtia.org>
17. School of Professional and Continuing Education, The University of Hong Kong: <http://hkuspace.hku.hk>
18. Support and Consultation Centre for SMEs (SUCCESS), Trade and Industry Department, HKSAR Government: <http://www.success.tid.gov.hk>
19. The Chinese Manufacturers' Association of Hong Kong: <http://www.cma.org.hk>
20. The Open University of Hong Kong: <http://www.ouhk.edu.hk>
21. Vocational Training Council: <http://www.hkvtia.org>

Appendix 1

Statistics of SMEs' Contribution to Hong Kong's Economy from 1998 to 2010

Table 1.1 *The Number of SME Enterprises, Employees, and Business Values as Compared to the Total in Hong Kong*

Year	No. of SMEs	Total No. of Enterprises in Hong Kong	No. of Employees of SMEs	Total No. of Employees	Business Values of SMEs (million HK\$)	Total Business Values (million HK\$)
1998	n.a.*	n.a.*	n.a.*	n.a.*	2,247,276	3,835,195
1999	268,891	273,620	1,206,081	2,233,584	2,144,479	3,725,473
2000	272,129	276,887	1,234,496	2,308,489	2,213,996	3,898,154
2001	271,078	275,919	1,213,996	2,312,555	2,065,380	3,716,196
2002	271,688	276,408	1,194,358	2,275,924	2,024,833	3,678,118
2003	271,738	276,305	1,145,116	2,218,514	2,187,032	3,833,406
2004	269,027	273,736	1,152,774	2,271,359	2,403,534	4,286,933
2005	267,526	272,316	1,177,601	2,328,720	2,550,505	4,790,262
2006	276,553	281,409	1,188,574	2,378,661	2,854,992	5,266,861
2007	273,460	278,403	1,207,895	2,432,275	2,930,203	5,659,114
2008	267,801	272,854	1,219,141	2,476,425	3,208,333	5,858,479
2009	275,668	280,692	1,177,640	2,463,590	3,157,614	5,564,931
2010	289,268	294,378	1,216,840	2,528,803	n.a.*	n.a.*

* n.a. indicates that the figure is not available.

Source: From data published by the Census and Statistics Department, HKSAR.



Table 1.2 The Percentages of SME Contribution to Hong Kong's Total Number of Enterprises, Employment, and Business Values

Year	SMS's share of the Total No. of Enterprises in Hong Kong (%)	SME's share of the Total Employment in Hong Kong (%)	SME's share of Total Business Values in Hong Kong (%)
1998	n.a.*	n.a.*	58.60
1999	98.27	54.00	57.56
2000	98.28	53.48	56.80
2001	98.25	52.50	55.58
2002	98.29	52.48	55.05
2003	98.35	51.62	57.05
2004	98.28	50.75	56.07
2005	98.24	50.57	53.24
2006	98.27	49.97	54.21
2007	98.22	49.66	51.78
2008	98.15	49.23	54.76
2009	98.21	47.80	56.74
2010	98.26	48.12	n.a.*

* n.a. indicates that the figure is not available. The percentages are computed from the figures of Table 1.1.

Appendix 2 Survey Questionnaire

『探索中小企發展之路 — 現狀及未來』問卷調查

誠邀閣下填寫此問卷，並於 7 月 23 日或之前傳真至 2581-4979 或電郵至 info@hkciea.org.hk。
如有查詢，請致電 2544-8474 與麥先生聯絡。

I. 公司資料

A. 貴公司的主要業務是：

進出口貿易 / 製造業 (可選兩項)

- | | | | |
|---|-------------------------------|----------------------------------|--------------------------------|
| <input type="checkbox"/> 化學及生物科技 | <input type="checkbox"/> 食品 | <input type="checkbox"/> 電子及電器產品 | <input type="checkbox"/> 工業機器 |
| <input type="checkbox"/> 珠寶首飾 | <input type="checkbox"/> 金屬製品 | <input type="checkbox"/> 塑膠 | <input type="checkbox"/> 印刷及出版 |
| <input type="checkbox"/> 紡織及製衣 | <input type="checkbox"/> 玩具 | <input type="checkbox"/> 鐘錶 | <input type="checkbox"/> 汽車 |
| <input type="checkbox"/> 其他 (請註明：_____) | | | |

服務行業

- | | | | |
|-------------------------------|--------------------------------|---|-----------------------------|
| <input type="checkbox"/> 資訊科技 | <input type="checkbox"/> 物流及運輸 | <input type="checkbox"/> 會計 | <input type="checkbox"/> 金融 |
| <input type="checkbox"/> 醫療 | <input type="checkbox"/> 法律 | <input type="checkbox"/> 其他 (請註明：_____) | |

B. 貴公司香港的僱員總人數：

- 少於 10 人 10-50 人 51-100 人 多於 100 人

C. 貴公司的成立年數：

- 3 年以下 3-5 年 6-10 年
 11-15 年 15 年以上

D. 貴公司內地子公司 / 附屬公司的僱員人數：

- 少於 300 人 301-1000 人 1001-3000 人 多於 3000 人

E. 貴公司現時的業務表現相比金融風暴前的情況：

- 銷售方面的改變 增加 _____% 不變 減少 _____%
- 經營利潤的改變 增加 _____% 不變 減少 _____%
- 投資回報率的改變 增加 _____% 不變 減少 _____%



II. 公司的營運現況

A. 請評估以下的外來環境因素對貴公司現時經營的影響：

	不清楚	極大程度	頗大程度	一般	輕微程度	極小程度
1. CEPA 的政策	<input type="checkbox"/>	1	2	3	4	5
2. 泛珠三角框架下的先行先試	<input type="checkbox"/>	1	2	3	4	5
3. 國內提倡擴張內銷	<input type="checkbox"/>	1	2	3	4	5
4. 中國—東盟自由貿易區的成立	<input type="checkbox"/>	1	2	3	4	5
5. 人民幣貿易結算	<input type="checkbox"/>	1	2	3	4	5
6. 國內政府政策	<input type="checkbox"/>	1	2	3	4	5
7. 歐洲債務危機	<input type="checkbox"/>	1	2	3	4	5
8. 外匯市場波動	<input type="checkbox"/>	1	2	3	4	5
9. 其他 (請註明)_____	<input type="checkbox"/>	1	2	3	4	5

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II. 公司的營運現況 (續)

B. 請評估貴公司在營運及發展時遇到的困難 / 阻礙：

	非常 嚴重	嚴重	一般	不太 嚴重	不嚴重	請按次序排列非常 嚴重的首 5 項 (“1” 為非常嚴重， “2” 為次嚴重，…)
香港						
1. 銀行貸款	1	2	3	4	5	_____
2. 人民幣滙率變動	1	2	3	4	5	_____
3. 與內地資金流動不暢順	1	2	3	4	5	_____
4. 租金不斷上漲	1	2	3	4	5	_____
5. 人才流失	1	2	3	4	5	_____
6. 市場波動	1	2	3	4	5	_____
7. 其他 (請註明)_____	1	2	3	4	5	_____
內地						
8. 工資不斷上漲	1	2	3	4	5	_____
9. 原材料不斷上漲	1	2	3	4	5	_____
10. 知識產權的保護	1	2	3	4	5	_____
11. 公平營商環境	1	2	3	4	5	_____
12. 內地專業人員 (法律、會計)的質素	1	2	3	4	5	_____
13. 獲得內地銀行融資	1	2	3	4	5	_____
14. 內地勞動合同的實施	1	2	3	4	5	_____
15. 內地環保的要求 / 排污的管制	1	2	3	4	5	_____
16. 內地地方政府執行法規的質素	1	2	3	4	5	_____
17. 內地「民工荒」	1	2	3	4	5	_____
18. 政策不明朗	1	2	3	4	5	_____
19. 其他 (請註明)_____	1	2	3	4	5	_____



C. 在營運及發展遇到困難時，貴公司有否運用以下營商策略？其成效如何？

	無採用	成效 極大	成效 頗大	成效 一般	成效 輕微	成效 極小
1. 減低成本						
a. 裁員	<input type="checkbox"/>	1	2	3	4	5
b. 本地化	<input type="checkbox"/>	1	2	3	4	5
c. 外判部份生產工序	<input type="checkbox"/>	1	2	3	4	5
2. 開拓市場	<input type="checkbox"/>	1	2	3	4	5
3. 建立品牌	<input type="checkbox"/>	1	2	3	4	5
4. 增加員工培訓及福利	<input type="checkbox"/>	1	2	3	4	5
5. 縱向合併或結盟	<input type="checkbox"/>	1	2	3	4	5
6. 橫向合併或結盟	<input type="checkbox"/>	1	2	3	4	5
7. 內部重組	<input type="checkbox"/>	1	2	3	4	5
8. 基地轉移(目的地:_____)	<input type="checkbox"/>	1	2	3	4	5
9. 科研與開發						
a. 改善生產流程	<input type="checkbox"/>	1	2	3	4	5
b. 產品或服務開發	<input type="checkbox"/>	1	2	3	4	5
10. 其他(請註明)_____	<input type="checkbox"/>	1	2	3	4	5

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III. 未來的展望及政府政策

A. 貴公司預計未來三年的情況：

- 營業額的表現： 非常樂觀 審慎樂觀 中性
 悲觀 非常悲觀
- 有意將香港業務： 擴充 _____% 不變 收縮 _____%
- 有意將內地業務： 擴充 _____% 不變 收縮 _____%
- 有意將國外業務： 擴充 _____% 不變 收縮 _____%
- 會否打算開拓新市場： 會（地點：_____） 否

B. 貴公司對以下香港特區政府政策的看法：

	不清楚	有效	無效
1. 營運設備及器材信貸保證計劃	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. 人力培訓（如資歷架構等）	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. 中小企業市場推廣基金	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. 中小企業發展支援基金	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. 中小企業信貸保證計劃	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. 特別信貸保證計劃	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. 投資研發現金回贈計劃	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. 其他：_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

C. 貴公司希望香港特區政府如何加強幫助中小企業持續發展？（可選擇多於一項）

- 給予利得稅的稅務優惠
- 加強市場推廣及提供有效的市場訊息
- 推動企業之間的凝聚力
- 協助港商保護知識產權
- 協助推動建立內銷平台及網絡
- 提供機器設備折舊的免稅額
- 資助港商研發
- 資助專利申請費
- 爭取擴大人民幣兌換機制
- 提供國際法律諮詢或援助

其他意見：_____



D. 貴公司希望**內地政府**如何加強幫助港資企業持續發展？(可選擇多於一項)

- 爭取擴大人民幣流通量
- 擴大人民幣貿易結算的範圍
- 保護知識產權
- 協助推動建立內銷平台及網絡
- 提供市場信息
- 簡化審批和規管的手續

其他意見：_____

多謝你的寶貴時間和意見！

閣下提供的資料均**絕對保密**，調查結果將以整體匯報；保證絕不外洩個別公司資料。為答謝貴公司參與調查，本會將調查結果的報告送交貴公司，並邀請貴公司出席日後的發佈會。以便日後聯絡，請提供以下資料。

公司名稱： _____
聯絡人： _____
電郵： _____
地址： _____

Appendix 3

Support to SMEs by HKSAR Government Departments and Others

	Area	Programme	Department
A.	General	Support and Consultation Centre for SMEs	Trade and Industry Department
		Industrial Support Publications	
		SME Resources Online Marketplace	Hong Kong Trade Development Council
		升轉一站通服務平台 (TURN) (Chinese Version Only) Industry Support Services	Hong Kong Productivity Council
B.	Innovative Products / Design	Design-Business Collaboration Scheme Design Smart Initiative	Create Hong Kong
		Intellectual Capital Management Consultancy Programme	Intellectual Property Department, HKSAR Government
		Innovation & Technology Fund	Innovation and Technology Commission
C.	Capital	Special Loan Guarantee Scheme SME Loan Guarantee Scheme SME Development Fund SME Export Marketing Fund	Trade and Industry Department
D.	New Market Development	Insurance Protection	Hong Kong Export Credit Insurance Corporation
		粵港珠寶產業內銷聯盟 (Chinese Version Only)	Hong Kong Productivity Council
		Powering SMEs Development Programme Marketing Information Guidelines for Doing Business	Hong Kong Trade Development Council
E.	Consultancy and Advisory	Domestic Sales Driven Support Services Pilot Programme to Assist SMEs in Achieving Sustainability Free Consultancy Services to SMEs	Hong Kong Productivity Council
		Business Advisory Services and China Business Advisory Services Business Matching	Hong Kong Trade Development Council
		SME Mentorship Programme	Trade and Industry Department
		HKTDC SME Advisory Service	Hong Kong Trade and Development Council SME Centre



Appendix 4

Training Programmes for SMEs

	Programme	Department
1.	SME Mentorship Programme	Support and Consultation for SMEs (SUCCESS) Trade and Industry Department
2.	Seminars for SME on: Web marketing, starting a business, etc.	
3.	SME Training Programme	Hong Kong Science and Technology Parks
4.	Diploma in “SME Company Operations & Management” *	Hong Kong Productivity Council
5.	‘Wise Business’ SME Summit	
6.	中小企管理工作坊： 「九型人格商業管理技巧」	Hong Kong Trade and Development Council SME Centre
7.	中小企創業工作坊： 「連鎖及特許經營策略」	
8.	Executive Certificate in Entrepreneurship & SME Management	Hong Kong University School of Professional and Continuing Education
9.	Diploma in Management Studies for SME Executives	The Open University of Hong Kong
10.	Diploma in Business Management *	The Hong Kong Management Association and Lingnan University
11.	中小型企業東主及管理人士課程 *	Hong Kong Institute for Vocational Training Education (IVE)
12.	中小企業資訊科技培訓計劃 (Free)	Manufacturing Enterprise Integration and Innovation Association (MEIIA)
13.	製造業中小型企業資訊科技培訓計劃 (Free)	Hong Kong Wireless Technology Industry Association
14.	Pilot Workshop on ‘SMEs’ Brand Strategic Management (Free)	Hong Kong Brand Development Council The Chinese Manufacturers’ Association of Hong Kong The Hong Kong Polytechnic University
15.	Introductory Workshop on “Trio Survival Kit for SME”	The Chinese Manufacturers’ Association of Hong Kong
16.	“Building Brand Equity Seminar for SMEs: Real-life Branding in China”	

Remarks:

* supported by Continuing Education Fund (CEF)

refer to website of individual department for more information

