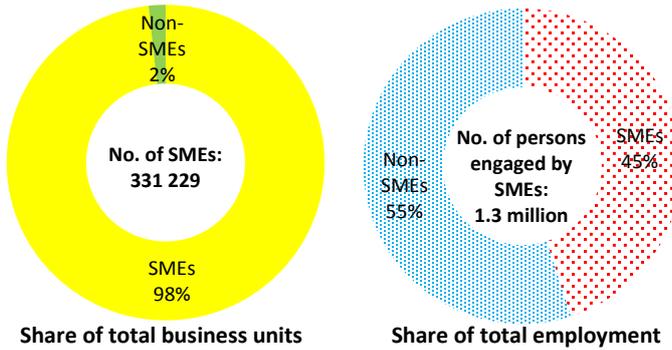




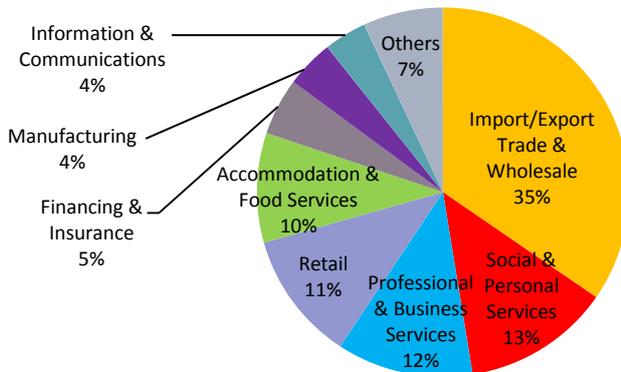
Small and medium enterprises

Figure 1 – Number and employment of SMEs* as at December 2017



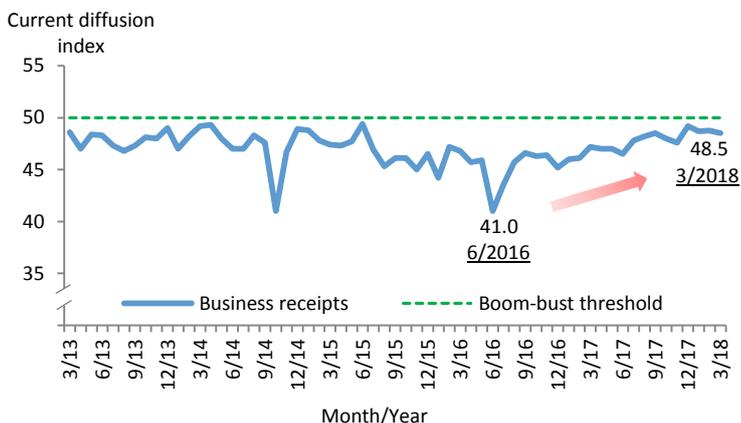
Note: (*) Manufacturing enterprises with fewer than 100 employees and non-manufacturing enterprises with fewer than 50 employees are regarded as SMEs in Hong Kong.

Figure 2 – SME employment by industry as at December 2017



Note: Percentage may not add up to 100% due to rounding.

Figure 3 – SMEs' current diffusion index, March 2013 – March 2018



Highlights

- As at December 2017, there were over 330 000 small and medium enterprises ("SMEs") in Hong Kong (Figure 1). They constituted 98.3% of the total business units and provided job opportunities for 1.3 million people or 45% of total workforce in Hong Kong (excluding civil service).

- Being the backbone of Hong Kong's economy, SMEs engage in various trades and industries. Many of them engaged in the import/export trade and wholesale industry in 2017, accounting for some 35% of total SME employment (Figure 2). This was followed by social and personal services, professional and business services, retail, and accommodation and food services.

- Against the above, the vitality and business performance of SMEs are of crucial importance to the development of Hong Kong's economy. The Census and Statistics Department has compiled the current diffusion index on a monthly basis for assessing the business situation faced by SMEs as compared with the preceding month. A diffusion index reading above 50 indicates that the business is generally favourable, whereas an index below 50 indicates otherwise.

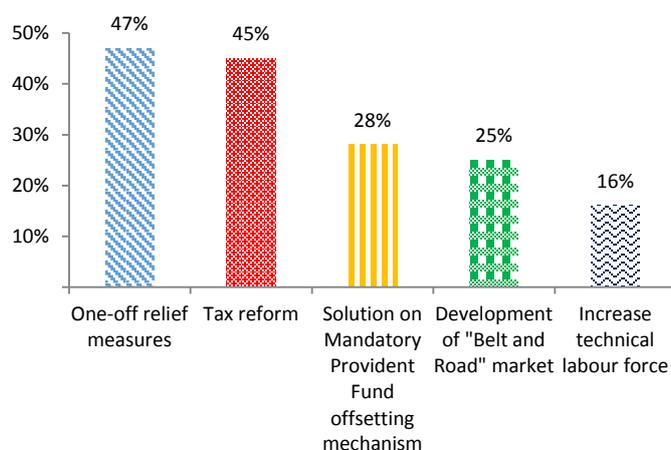
- While the current diffusion index has hovered below the boom-bust threshold of 50 in recent years (Figure 3), it has rebounded from a low of 41.0 in June 2016 to 48.5 in March 2018. This reflects, among other things, sustained improvement in the external trading environment and accommodative credit situation during the period.

Small and medium enterprises (cont'd)

Figure 4 – Profit ratios of all enterprises and SMEs, 2011-2016

Year	All enterprises (a)	SMEs (b)	Profitability gap (= a-b)
2011	15.0%	12.3%	2.7
2012	15.2%	9.8%	5.4
2013	16.6%	10.9%	5.7
2014	18.3%	12.6%	5.7
2015	19.1%	13.1%	6.0
2016	19.0%	12.3%	6.7

Figure 5 – Top five SMEs' expectations from the Government on business support, 2017



Note: The percentage refers to the proportion of surveyed SMEs choosing the expectation.

Figure 6 – Implementation of selected Government's SME funding schemes, 2013-2017

		2013	2015	2017
SME Loan Guarantee Scheme	Applications received	1 200	978	770
	No. of SME beneficiaries	1 061	861	709
SME Export Marketing Fund	Applications received	18 682	14 425	10 895
	No. of SME beneficiaries	9 518	7 734	5 444

Highlights

- Notwithstanding the improving business situation, SMEs have been facing with higher labour costs after the implementation of statutory minimum wage in May 2011. The share of labour cost to SMEs' total operating expenses increased from 35.1% in 2011 to 36.9% in 2016, which has impacted particularly their profitability. Compared with large enterprises, many SMEs might not be resourceful in adopting mitigation measures (such as introducing automated production process) to cope with higher labour costs. Reflecting the above, the profit ratio of SMEs has been lagging behind that of all enterprises taken together, and the gap between the two has widened visibly since 2011 (**Figure 4**).
- Against the above, SMEs prefer the Government to provide business support on a number of fronts, according to a survey conducted by the Hong Kong Productivity Council in 2017. Among the top expectations were one-off relief measures and tax reform (**Figure 5**). On tax reform, the Government implemented a two-tiered profits tax regime in April 2018 which charges a lower tax rate for the first HK\$2 million of profits of corporation.
- In addition to tax reform, the Government has over the years launched a number of funding schemes to help SMEs secure loans, expand markets, and enhance competitiveness. For SME Loan Guarantee Scheme and SME Export Marketing Fund, the number of applications and SME beneficiaries has been on the decline over the past few years (**Figure 6**). Recently, the Government has proposed in the 2018-2019 Budget to inject HK\$1 billion into several SME funding schemes and raise the maximum funding amount, in an effort to incentivize SMEs to make use of the funding schemes.

Data sources: Latest figures from Census and Statistics Department, Trade and Industry Department and Hong Kong Productivity Council.

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