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NEW RESEARCH FINDS HONG KONG SMEs RESILIENT IN FACE OF US SLOWDOWN

Over two thirds of Hong Kong SMEs remain unaffected by the continued slowdown in the US, according to a new survey released today by HSBC Commercial Banking. The research also confirms that Hong Kong SMEs are increasingly diversified into cross-border markets, with mainland China and the rest of Asia of significant importance alongside domestic Hong Kong.

Around 30 per cent of survey respondents stated that they had been affected by the US slowdown, mostly in terms of fewer or smaller volume orders from US buyers.

Five hundred SMEs in Hong Kong representing a cross-section of industries were polled in April 2008 by the University of Hong Kong Public Opinion Programme for the HSBC Commercial Banking Hong Kong Small Business Hot Issues Survey.

The survey finds that over 67 per cent of Hong Kong SMEs regard Hong Kong as a key market. In terms of cross-border destinations, 59 per cent believe mainland China to be of strategic importance, followed by the rest of Asia at 36 per cent. The US is a key overseas market for under 30 per cent of those polled, closely followed by Europe and the Middle East.

Of those businesses with interests in the Mainland, demand is robust with 73 per cent of respondents experiencing either the same or greater demand compared with 12 months ago. Similarly, demand shows no sign of abating for those which are active in the rest of Asia with three quarters stating that business is either the same or increased from this time last year. There has however been a marked downturn for those SMEs which focus on trade with the United States with nearly two thirds indicating a drop-off in demand. Trade with Europe and the Middle East remains relatively stable, while nearly a fifth of respondents indicate an up-swing in demand from the Hong Kong domestic market.

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Although the majority of Hong Kong SMEs (55 per cent) are not concerned about credit quality in the current environment there is a significant shift towards managing risk of non-payment, with less willingness to trade on open account the most popular method, closely followed by an increased use of trade services offered by banks, such as factoring.

“Today’s research shows Hong Kong’s small business sector is increasingly diversified into mainland China as well as other Asian markets whose economies remain robust and is therefore well equipped to deal with the US downturn,” said Nixon Chan, Senior Executive Commercial Banking, The Hongkong and Shanghai Banking Corporation Limited.

He continued: “While the survey illustrates that if you are doing business with the States you are almost certainly doing less of it than you were three months ago, there are ways of managing cross-border trade risk and it is heartening to see so many Hong Kong SMEs turning to trade services provided by banks to help them manage the risks involved with doing business abroad.”

The HSBC-sponsored research also touches on the issue of cost efficiency with surprising results. Nearly half of those polled (45 per cent) indicate that they are doing nothing to increase cost efficiency, while of those that are, the majority are either changing suppliers, reducing staff or contracting work to cheaper locations.

The survey concludes on an optimistic note with the news that some 65 per cent of Hong Kong SMEs generally expect to be doing the same or an increased level of business in 12 months time.

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Notes to editors:

1. More details of the survey

Please see the attached slides for further information.

2. The Hongkong and Shanghai Banking Corporation Limited

The Hongkong and Shanghai Banking Corporation Limited is the founding and a principal member of the HSBC Group. With around 10,000 offices in 83 countries and territories and assets of US\$2,354 billion as at 31 December 2007, the HSBC Group is one of the world’s largest banking and financial services organisations.

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