

spotlight on...

Grant Thornton 

...Hong Kong



The International Business Owners Survey (IBOS) 2006 examines the attitudes, plans and trends of over 7,000 medium-sized businesses in 30 countries across six continents during Q4 2005. IBOS is now in its fourth year and builds on the European Business Survey* (EBS) which Grant Thornton International conducted between 1993 and 2002.

This year's survey reveals that businesses in most countries remain optimistic about their economic prospects for the year ahead. India has topped the table for the third year as the most optimistic country with an optimism/pessimism balance** of +93%, whilst Taiwan is at the bottom this year with a balance of -19%. Businesses in Hong Kong remain among the most optimistic with a balance of +61%, marginally above that reported in 2005 (+60%).

Businesses in East Asia*** as a whole are fairly optimistic (+42%) although levels of optimism vary extensively throughout the East Asian countries/territories. Mainland China records the highest balance with +79% saying they are optimistic, while Taiwan is the most pessimistic. Indeed, if we exclude Mainland China**** from the results, optimism levels in East Asia remain similar to last year. This year a balance of -7% of businesses are positive about their country's economy compared to a balance of -10% in 2005.

Hong Kong became the Hong Kong Special Administrative Region (SAR) of China in 1997. Under agreement with China, it retains its free market economy, heavily dependent on international trade, and will enjoy a high degree of autonomy in all matters except foreign and defence affairs until 2047. Hong Kong has, nevertheless, been integrating its economy with China because China's growing openness to international trade has increased competitive pressure on Hong Kong's service industries and on its important re-export business from China. After three years of relatively weak performance during the global slowdown of the early years of this decade, the economy has regained momentum. Boosted by robust consumer spending and strong exports, growth reached 8.6% in 2004 and 7.3% last year. This is likely to be followed by more modest, but still strong, expansion at over 5% in 2006 as consumer spending and export growth ease back a little.

* the European Business Survey charted the views and trends of small and medium-sized enterprises in Europe between 1993 and 2002.

** the balance is the proportion of companies reporting they are optimistic less those reporting they are pessimistic.

*** for the purposes of IBOS, the term 'East Asia' refers to those East Asia countries/territories covered by our survey – Mainland China, Hong Kong, Japan, Malaysia, the Philippines, Singapore, Taiwan and Thailand.

**** this is the first year that businesses in Mainland China have participated in IBOS.

Business expectations/turnover

- Hong Kong businesses are more optimistic about turnover (revenue) prospects (+59%) than they were last year (+53%).
- Their result is in line with East Asia as a whole (+58%) and the global average (+61%).
- However, businesses in Hong Kong are more optimistic regarding exports for the coming year (+29%) than businesses in East Asia (+18%).

Employment

- Hong Kong businesses expect employment growth to be at a higher level than expected in 2005.
- In 2005 actual Hong Kong employment growth was higher than expected – a balance of +27% expected employment to increase, whereas a balance of +41% actually increased employment in this period.

Turnover expectations (% balance *)



* the balance is the difference between the proportion of businesses indicating an increase and those indicating a decrease
 ** the 2006 figure includes data for Mainland China who are not included in the data for IBOS 2005

Employment history (% balance *)

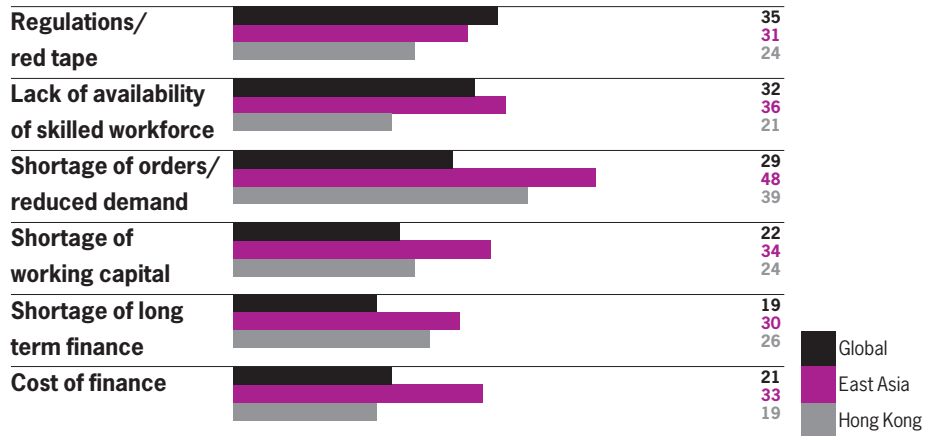


* the balance is the difference between the proportion of businesses indicating an increase and those indicating a decrease
 ** no data available
 *** 2006 data will be documented in IBOS 2007

Constraints

- Shortage of orders/reduced demand is a major constraint on expansion for Hong Kong businesses (39%).
- Shortage of orders/reduced demand is above that reported by their global counterparts (29%).
- Hong Kong businesses report markedly lower levels for regulation/red tape (24%) than their global counterparts (35%).

Constraints (%*)



* % companies rating constraint 4 or 5 on a scale of 1 to 5, when 1 is not a constraint and 5 is a major constraint

Stress levels

- 69% of business owners in Hong Kong report that their stress levels have increased over the past year, higher than the global average (57%).
- Hong Kong businesses are also more likely to report an increase in stress levels this year than in 2005 (45%).
- In order to gain insight into how business owners manage stress, we also asked about holidays (excluding public holidays) taken. On average, business owners in Hong Kong take 11 days per year, below the global average of 15 days.

Rise in stress levels (%*)



* % of respondents indicating that stress levels had increased or increased significantly over the past year

** the 2006 figure includes data for Mainland China who are not included in the data for IBOS 2005

International trade

- This year the proportion of Hong Kong businesses exporting has risen to the highest level, equal to that reported in 2004.
- They are, also more likely to export than businesses in East Asia as a whole (32%).
- With regards to barriers towards international expansion, Hong Kong businesses are most restricted by political and social instability (43%) and bureaucracy, red tape (43%).

Impact of the 'Chinese economic boom'

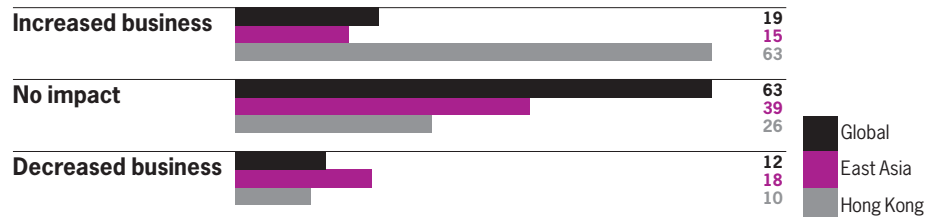
- The 'Chinese economic boom' has had a positive effect on Hong Kong businesses. 63% of companies report that it has increased business, well above the global average (19%).
- Businesses in Hong Kong are just as likely to import from (46%) as export to (45%) Mainland China.
- Furthermore, they are much more likely to import from Mainland China than companies globally (18%).

Export constraints (%)



* the 2006 figure includes data for Mainland China who are not included in the data for IBOS 2005

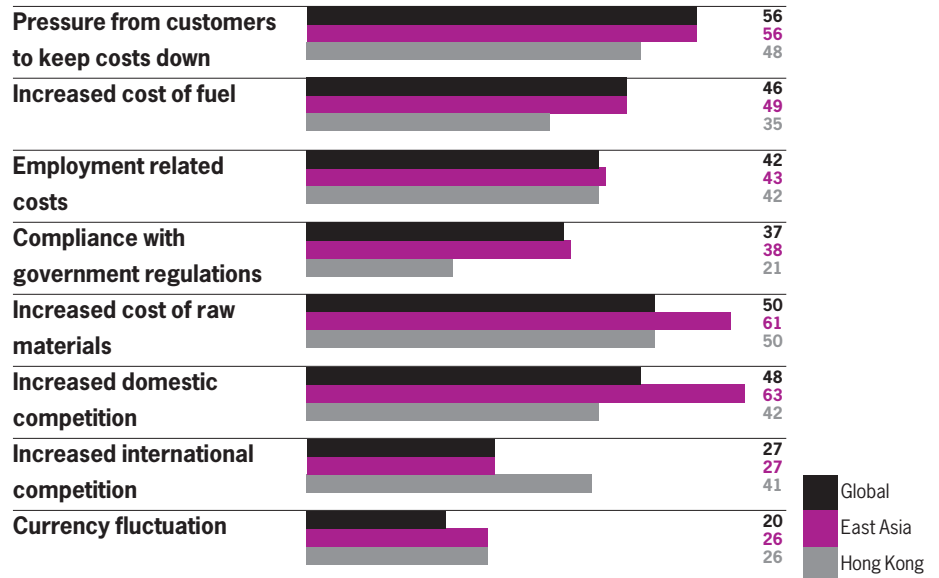
Impact on business of the 'Chinese economic boom' (%)



Profit margin pressure

- On balance, profit margin pressure has increased within Hong Kong businesses over the past year (+36%).
- However, this figure is below both the East Asian (+41%) and global average (+47%).
- Hong Kong businesses report that pressure from customers to keep costs down (48%) is a major driver on profit margin pressure; however this is less than that reported for companies globally (56%).
- Increased cost of raw materials is the highest driver of pressure for Hong Kong companies (50%); this figure is in line with the Global result (50%), but below the figure reported by East Asia (61%).

Drivers of profit margin pressure*



* % companies rating constraint 4 or 5 on a scale of 1 to 5, when 1 is not a constraint and 5 is a major constraint

To find out more about the Grant Thornton International Business Owners Survey (IBOS) and to obtain copies of topical supplements please visit www.grantthorntonibos.com. Summaries are also available for each of the 30 participating countries, as well as regional and global summaries. You can also complete the questionnaire online and benchmark your answers against those of businesses around the world.

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Participating countries

Argentina	Italy	Russia
Australia	Japan	Singapore
Botswana	Luxembourg	South Africa
Canada	Mainland China	Spain
France	Malaysia	Sweden
Germany	Mexico	Taiwan
Greece	The Netherlands	Thailand
Hong Kong	New Zealand	Turkey
India	Philippines	UK
Ireland	Poland	US

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