



Hong Kong **BUSINESS MOMENTUM** **2014**

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EXPRESS**

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AN UNCOMMON SENSE
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COMPANIES ASPIRE TO GROWTH; TAKING CAUTION OF THE UNCERTAIN BUSINESS ENVIRONMENT

The global environment might be looking at a moderate recovery; however various unstable elements continue to pose challenge.

The United States has shown improving economy with GDP growth increased from 1.9% in Q1 to 2.6% in Q2 2014. Also, Mainland China is holding strong at 7.5% year-on-year. However, Euro Zone continues to deliver mixed messages, stable improvement in the UK while stagnant for France and Germany – leading to a drop from 1% in Q1 to 0.7% in Q2 for the Euro Area. The Hong Kong economy itself has slowed down to a mere 1.8% and the full year forecast is revised down to 2-3%. Together with the political unrest, sentiment of companies in Hong Kong is found to be less optimistic than we saw in 2013.

That said, close to half of the companies interviewed are anticipating their revenue to go up supported by key growth drivers, i.e. US, Mainland China and companies' business planning (i.e. their determination to drive demand via developing good products, expanding presence in growing markets, increasing demand from market recovery)... One-third of the companies are planning to roll out expansion plan in the next twelve months together with significant increase of headcount budgeting and business travel.

Companies are in need of market information to help plan for business growth and to gain clarity about the market.

GLOBAL
CORPORATE PAYMENTS

ABOUT THE HONG KONG BUSINESS MOMENTUM SURVEY METHODOLOGY

2014 is the second year that AMEX conducted the Hong Kong Business Momentum Survey amongst senior financial executives from medium-sized enterprises, i.e. with annual sales turnover of US\$20 million to US\$151 million.

Survey responses are based on claimed behavior, rather than actual metered data.

Labour cost continues to be the top challenge for company growth while labour market condition remains tight with low unemployment rate and further increasing wages and earnings.

Companies find it crucial to strengthen cost efficiency by leveraging operational efficiencies, following compliance in company costing control and improving finance reporting.



ECONOMIC OUTLOOK: EXPECTED TO BE LARGELY STABLE WHILE DOTTED WITH UNCERTAINTIES

Compared to 2013, fewer companies expect Hong Kong's general economy to perform expansion; while most are expecting "stable" environment.

58% of companies interviewed (vs. 59% in 2013) expect the general business environment of Hong Kong to remain largely stable. Companies have digested various market information, e.g. the lowered economic growth forecast of Mainland China (from 8% to 7.5%). However, uncertainties remain with the recovery of US (e.g. the pace of US monetary normalisation which could shift market expectations about capital flows and interest rates) and Euro Zone. The unfavourable political environment in Hong Kong adds to the uncertainties.

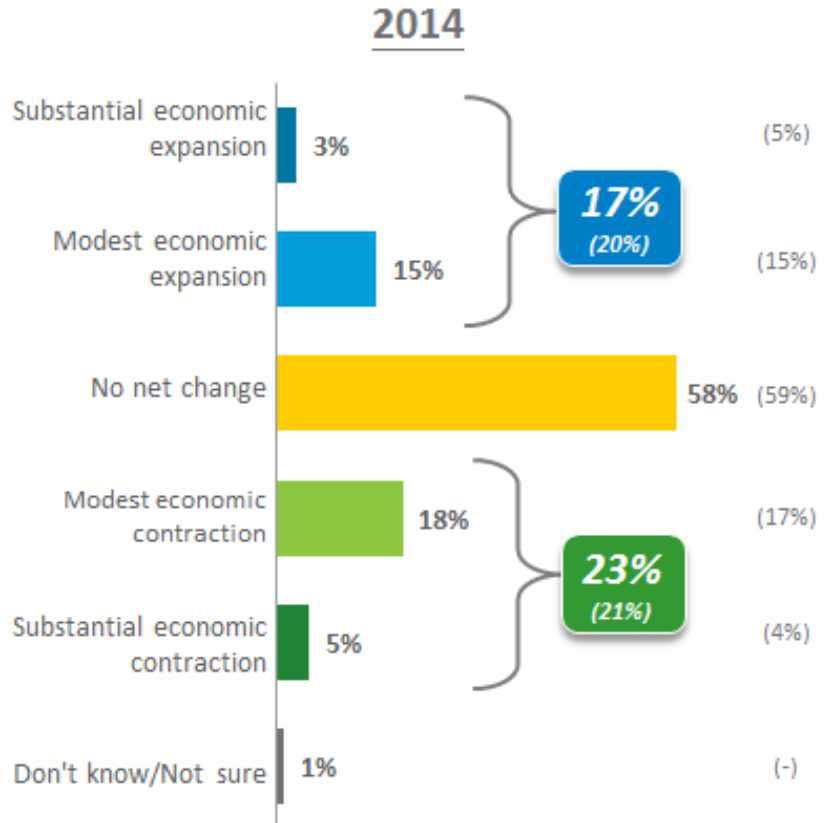
The remaining 40% hold varied views: 17% (vs. 20% in 2013) expect substantial or modest economic expansion while 23% (vs. 21% in 2013) expect substantial or modest economic contraction. All in all, sentiment is less optimistic compared to 2013.

"There will be fewer Chinese tourists coming to Hong Kong which will be an impact to the Hong Kong economy. There will also be slight adjustment in the property market. The polarized opinion among the public and politicians in Hong Kong dampens the Hong Kong economy / image. The overseas investors may hesitate to invest in Hong Kong because of the political situation here."

Import and Export Trade, Sales revenue HKD\$200 million to <HKD\$300 million



How would you expect the general business environment of Hong Kong to change in the next 12 months?



() Figures in bracket represent 2013





COMPANIES ASPIRE TO GROWTH, RIDING THROUGH MARKET UNCERTAINTIES

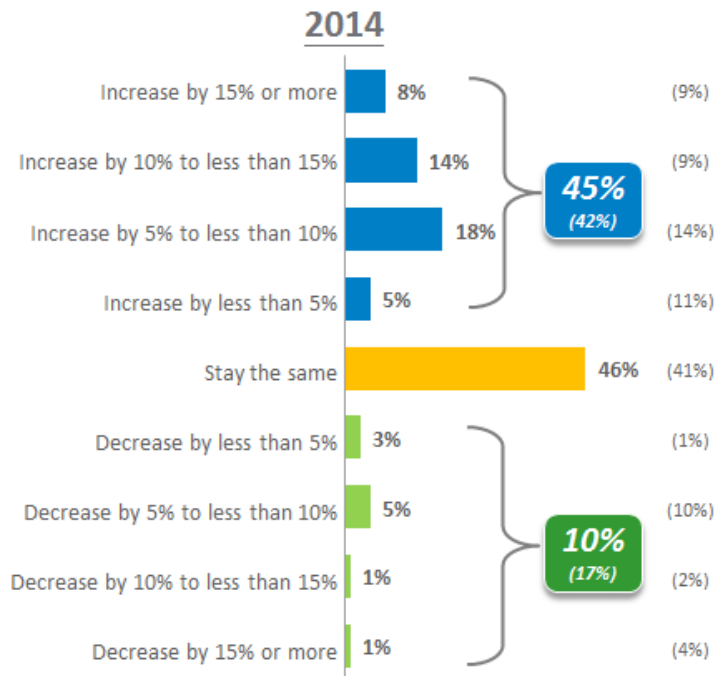
Almost half of the companies interviewed are anticipating their revenue to go up supported by their determination to drive demand via developing good products, expanding presence in growing markets and increasing demand from market recovery.

45% of the companies interviewed are expecting company business growth in the coming year vs. 10% perceiving the opposite; the drive to growth is even more determined than in 2013 (42% positive vs. 17% negative).

“Our products have a pretty big demand. We still have competition in the industry but we have good confidence. We are getting additional business via expanding to China.”

Food Services, HKD\$300 million to <HKD\$400 million

How would you expect the business performance of your company in terms of revenue change in the next 12 months?



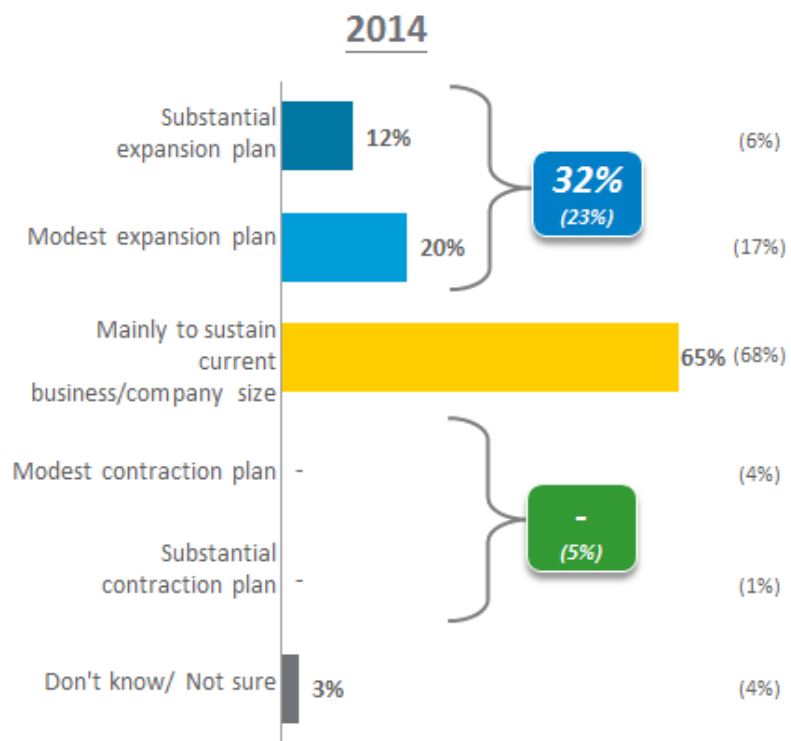
() Figures in bracket represent 2013





One-third (32%) of the companies interviewed are gearing up their expansion plan to fuel the positive anticipation on company business growth (vs. 23% in 2013).

Will your company be in the position to execute any expansion plan in the next 12 months?



() Figures in bracket represent 2013

Much of the effort goes to increasing headcounts.

Larger scale companies, being more optimistic about their revenue expansion are more willing to adjust up headcounts planning.



ECONOMIC GROWTH IN MAINLAND CHINA AND THE US DRIVE UP COMPANY REVENUE EXPECTATION

Half of the companies interviewed claimed that economic growth in Mainland China and the economic growth/recovery in the US are the top growth drivers (49% and 48% respectively). In addition to Mainland China and the US, companies interviewed also expect revenue growth from Germany, Indonesia, UK and Vietnam.

Other than market growth, company sales strategy is also perceived to be key growth driver (33%).

“We will develop new products via discussing with customers what products are relevant and good in the market. We also improve the quality.”

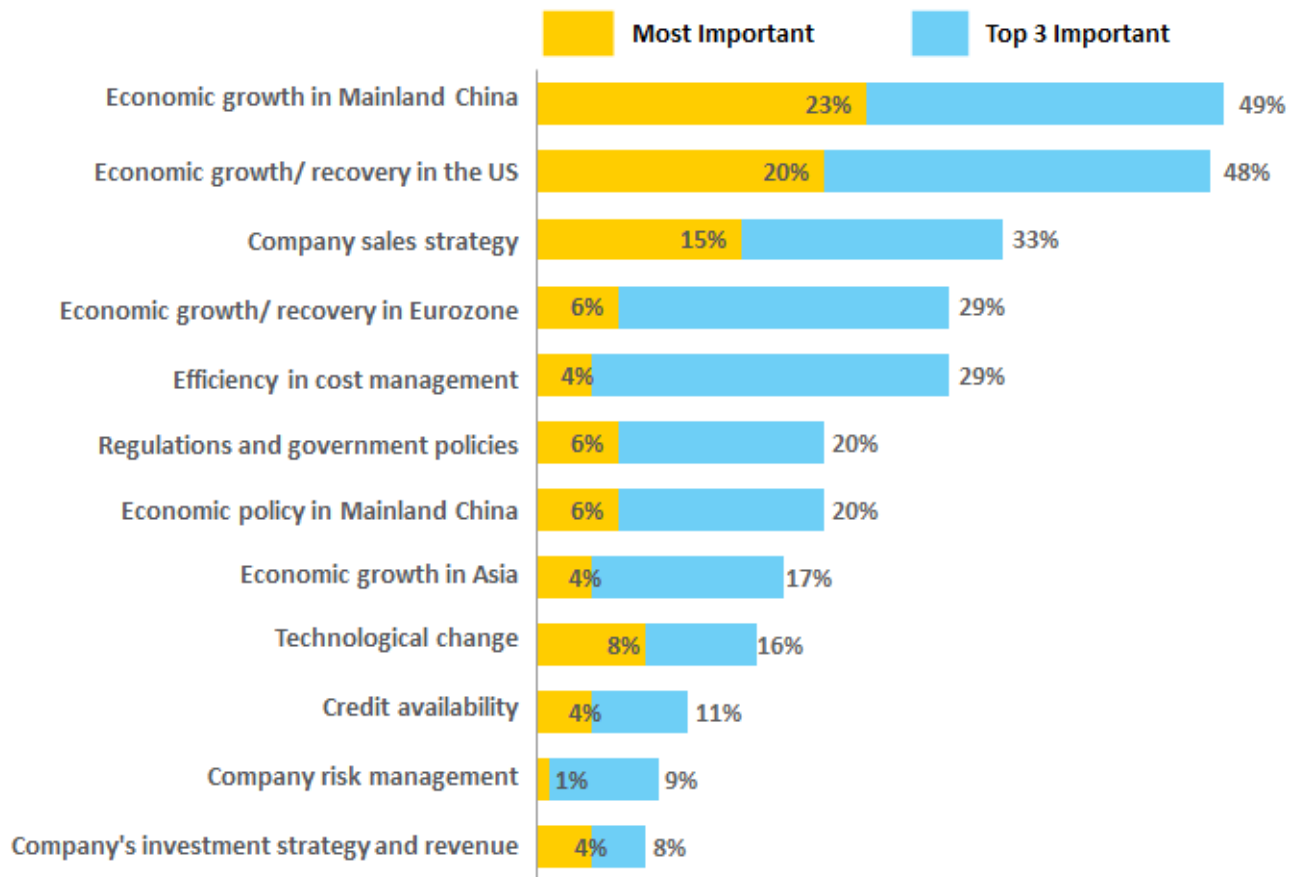
Import and Export Trade, HKD\$150 million to < HKD\$200 million

“Flexible strategies can drive growth. Since our business focuses on local market, flexible strategies are needed to face the ever-changing environment.”

Wholesale & Retail, HKD\$150 million to <HKD\$200 million



Amongst the key growth drivers that you mentioned, which is the most important key growth driver towards your company's business? Second? Third?

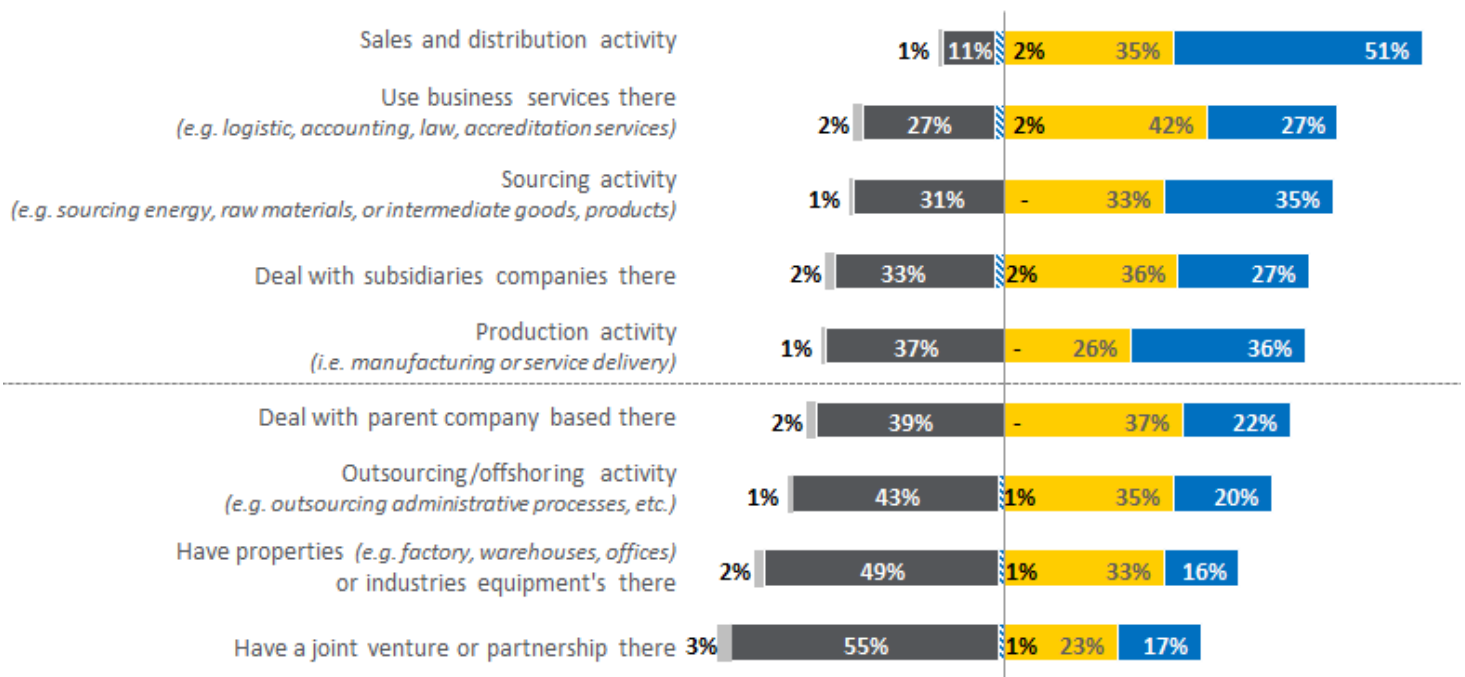




Sales and distribution activities are the key operating activities which are likely to be increased in order to support the business growth.

Half of the companies (51%) intend to engage in more sales and distribution activities in the next 12 months in the growth markets, e.g. Mainland China and US. Other key activities include sourcing (35% will engage in more activities) and production (36% will engage in more activities).

How will the scope of your company's activity in the growth markets change over the next 12 months, if at all?



■ Not sure/Refused

■ Your company is not engaged in this area

▨ You expect to engage in less activity

■ You expect about the same amount of activity

■ You expect to engage in more activity

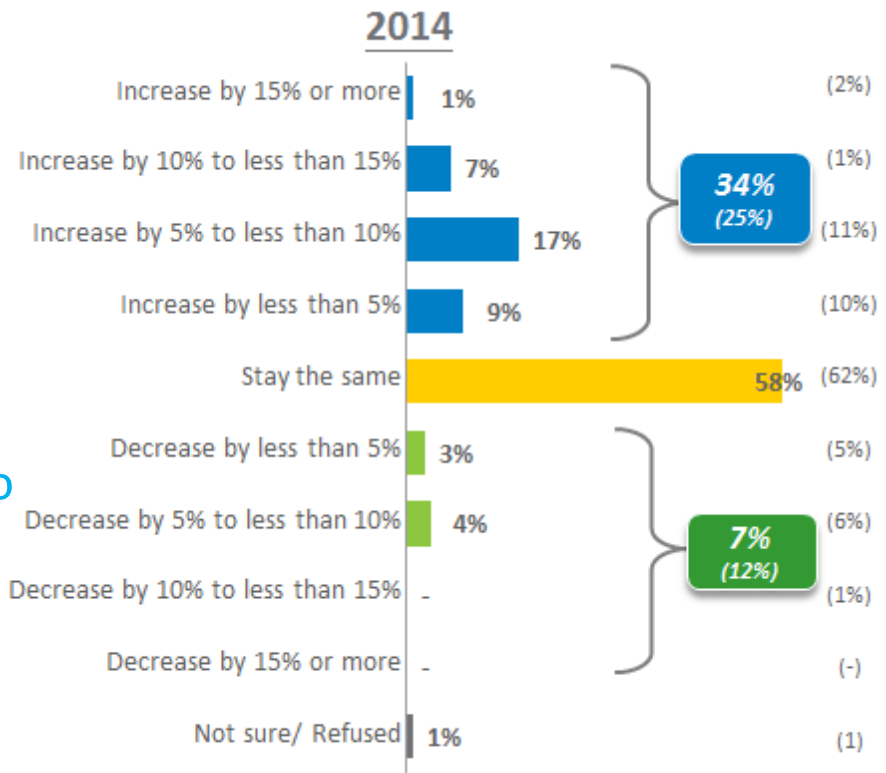




ACTIVE BUSINESS TRAVEL TO SUPPORT BUSINESS GROWTH

Companies are expecting to spend more in business travel in the next 12 months. One-third of the companies interviewed (34%) claimed that they would be increasing business travel (vs. 25% in 2013).

For the next 12 months, how is your company's spending on business travel likely to change compared to the current level?



() Figures in bracket represent 2013

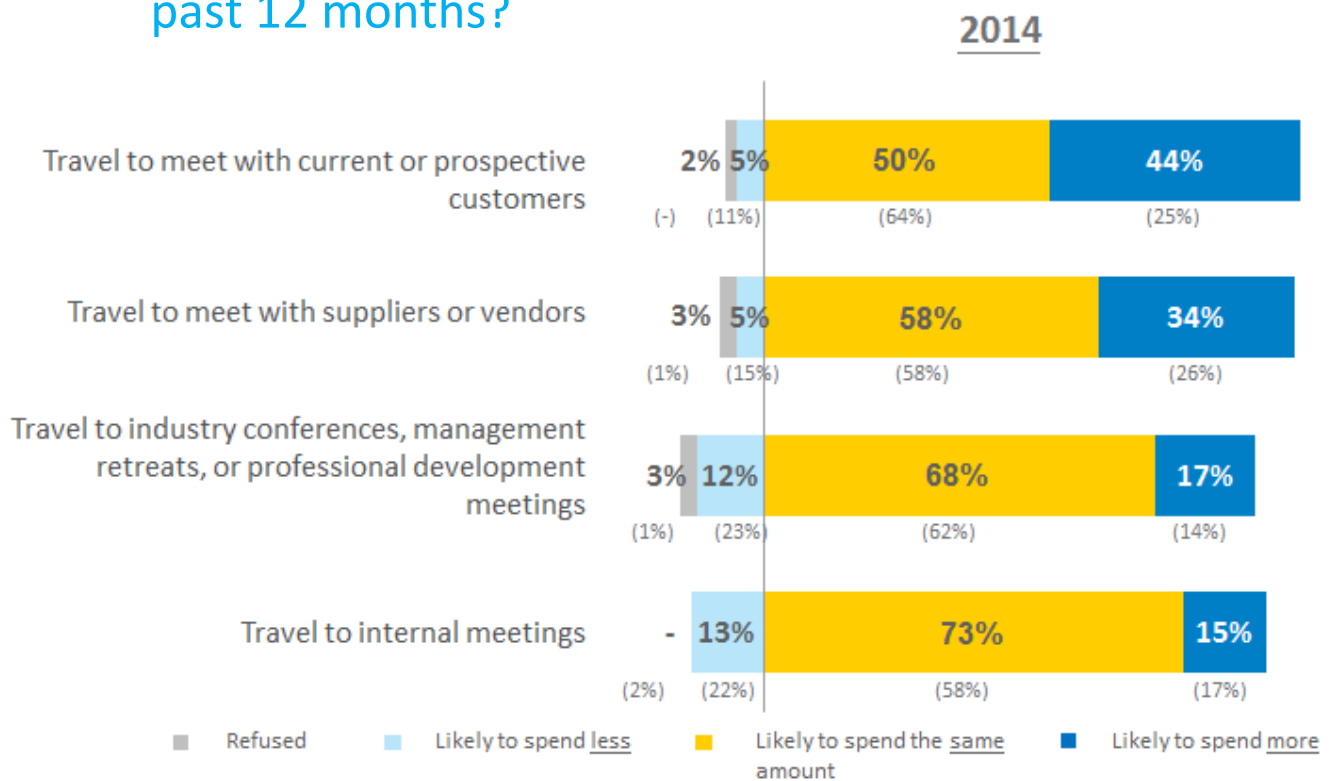




Travel to meet current/ potential clients is the key reason for increasing business travel spending in order to support company’s business expansion needs. Compared to last year, we are seeing more companies doing this (44% to increase travel spending for meeting customers vs. 25% in 2013). Similarly for traveling to meet vendors.

Compared to 2013, more companies are willing to maintain spending on travel for industry conferences and internal meetings.

For the next 12 months, how will your company’s level of spending in each of the following travel categories compare to its travel spending in the past 12 months?

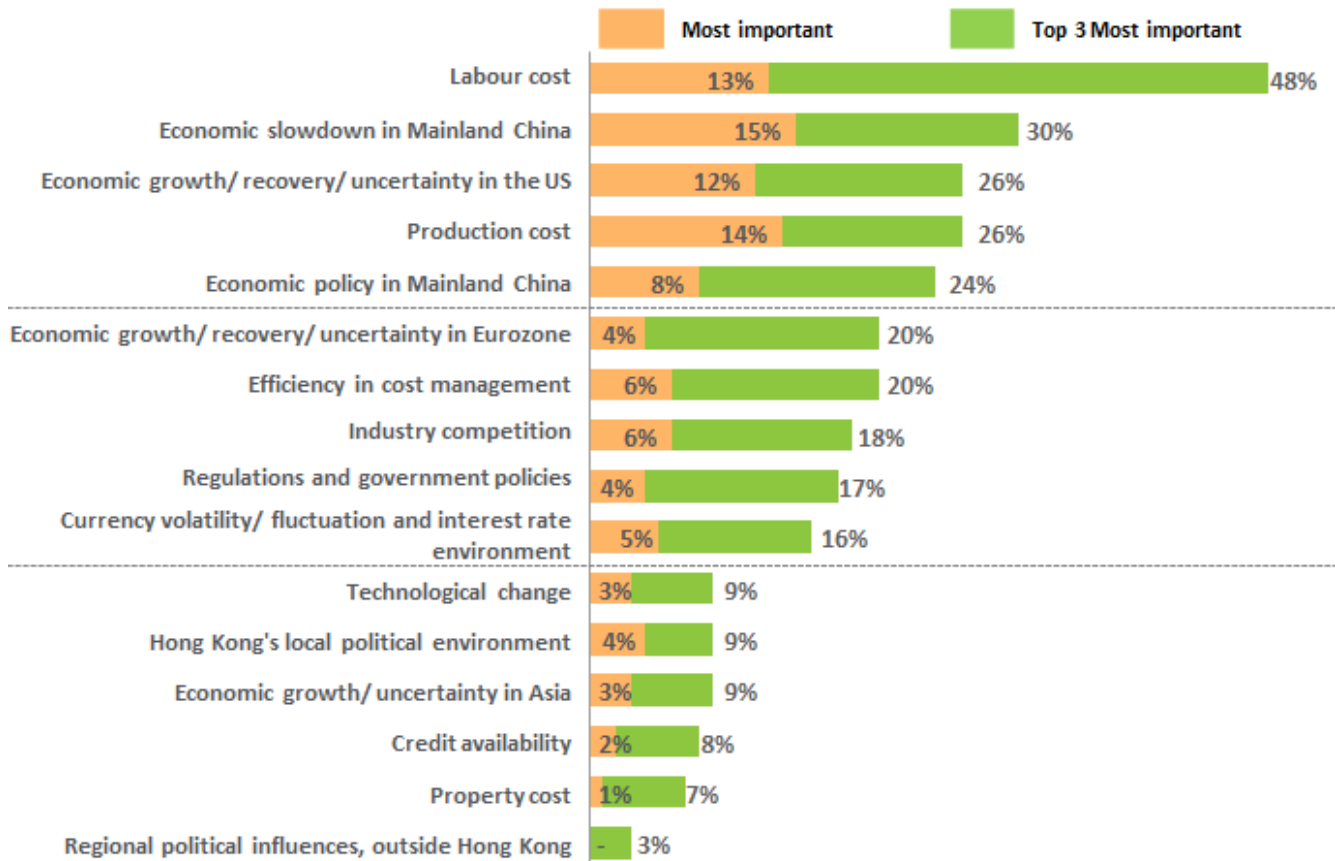




LABOUR COST CONTINUES TO BE ONE OF THE TOP GROWTH CHALLENGES

Labour cost is widely featured as one of the top three challenges to business growth; followed by uncertainties regarding economic performance of Mainland China/US, production cost and economic policy in Mainland China.

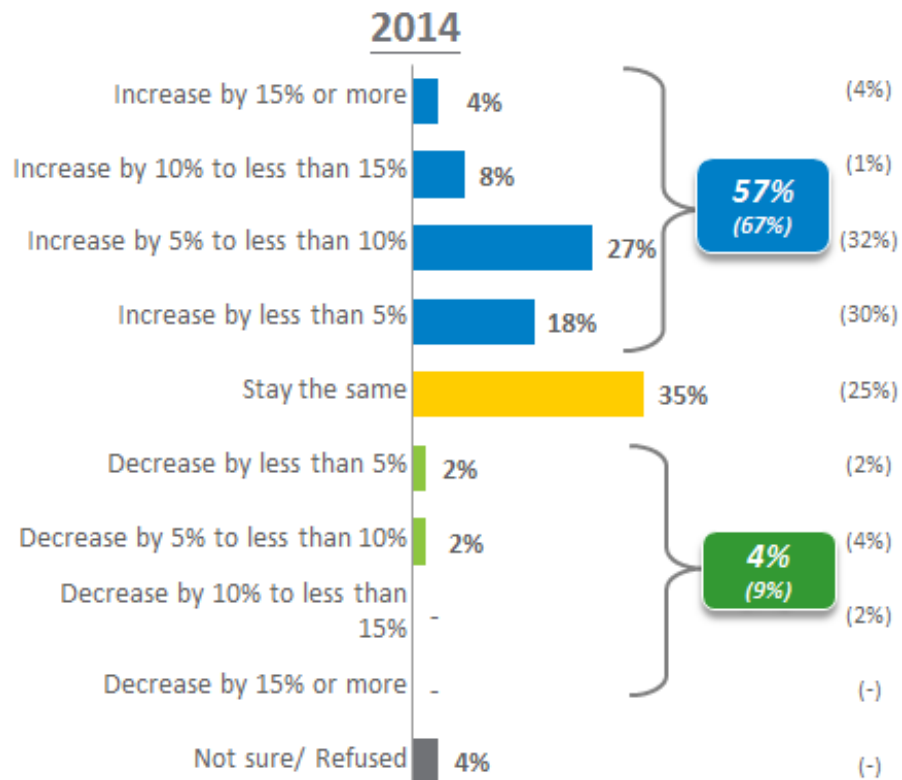
Amongst the challenges and concerns that you mentioned, which is the most important key challenge in terms of impacting your company's business growth? Second? Third?





More than half of the companies interviewed (57%) are expecting increased company spending on labour cost in the next 12 months; a slightly flattened number compared to 2013 (67%). The spending is mainly for the purpose of retaining talent. When it is for talent acquisition, the positions looking for are sales and marketing to support company growth.

How do you foresee your company's spending on labour cost to change over the next 12 months?



() Figures in bracket represent 2013

“Most of our production is in China. So far, labour cost has increased in last year by over 20 % and it is continuously growing. Also, the education level of people in China has improved, they will demand higher salary.”

Manufacturing, HKD\$300 million to <HKD\$400 million





Approaches to address the labour cost challenge mainly circle around automation enhancement to stream-line the process and lower reliance on intensive labour force. More aggressive approach also includes moving manufacturing locations to tier 2 cities of China (from tier 1 cities) or even to other countries.

“Move to automation, change manufacturing location from Guangdong to Fuzhou.”

Manufacturing, HKD\$700 million to <HKD\$800 million

“We moved our plant from China to Bangladesh, the labor cost there is only about 12% of the labor cost that we were paying in China.”

Import and Export Trade, HKD\$300 million to <HKD\$400 million

Product enhancement/diversification and market diversification tend to be approaches to address uncertainties in single markets.

“We would control costs to increase our competitiveness, and we would also increase the quality of our products, thereby allowing us to raise our price.”

Manufacturing, HKD\$800 million to <HKD\$900 million



“Try to develop business in the Euro Zone, Australia, South America, Mexico and other developing markets. We would have marketing resources directed to these markets.”

Import and Export Trade, HKD\$800 million to <HKD\$900 million

“We will ask our sales team to get more business from other areas like Eastern Europe, South Africa, Australia, etc.”

Wholesale & Retail, HKD\$200 million to <HKD\$300 million

“We have to adjust our sales volume and increase sales in other countries like the USA and Australia. We are considering to have local sales in China. Reduce costs in labour and increase production efficiency.”

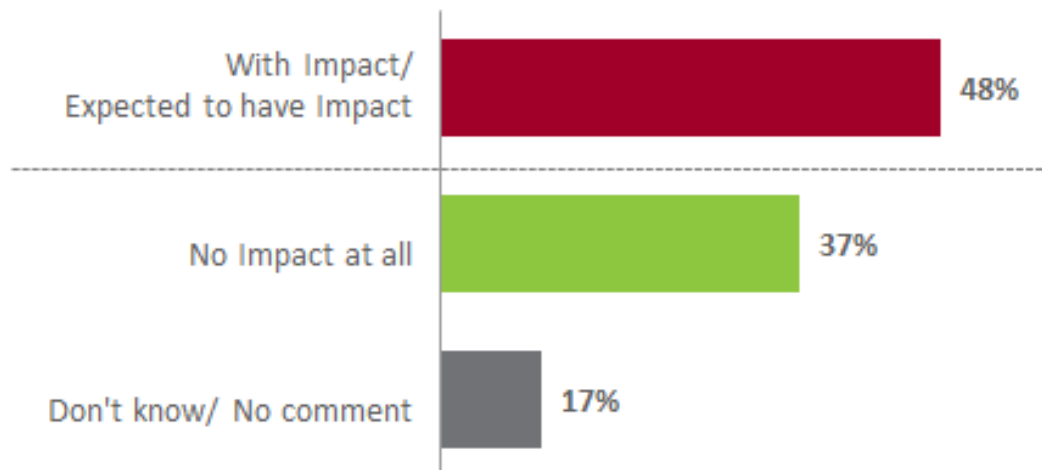
Manufacturing, HKD\$150 million to <HKD\$200 million

CHINA-HK ECONOMIC/POLITICAL RELATIONSHIPS

Hong Kong is the most important entrepot of Mainland China (source: HKSAR – in 2013, 62% of re-exports were of China origin and 55% were destined for Mainland China); and Mainland China is the leading investor in Hong Kong while Hong Kong is the premier offshore RMB centre.

The China-Hong Kong relationship, undoubtedly, is impactful to many companies in Hong Kong. 48% of them admitted that their company's business plan is/will be influenced, while only 37% perceived no impact.

Can you please share with us your view of the China-HK economic or political relations? How do you think it would impact your company's business plan?



The impact mainly circles around China's policies to Hong Kong and the political interaction between the two. It is generally believed that a harmonious relationship is beneficial to company growth. While on the other hand, political argument and unrest has caused concerns amongst companies.

"If there is more cooperation between Hong Kong and China, China government launches more lenient policies to Hong Kong, it will be easier for Hong Kong companies to go into the Chinese market."

Manufacturing, HKD\$300 million to <HKD\$400 million

"Political relations should be stable, and there should be no argument, otherwise Hong Kong economy will not be able to grow. It may pose a problem to our business that our headquarters in Japan might leave Hong Kong or reduce investment in Hong Kong."

Import and export trade, HKD\$800 million to <HKD\$900 million

"We will have to move our base from Hong Kong to another country."

Wholesale & Retail, HKD\$200 million to <HKD\$300 million

"It's very complicated. If there's any change in the political environment, it would impact our business. We have to diversify our investments into other Asian countries or European countries."

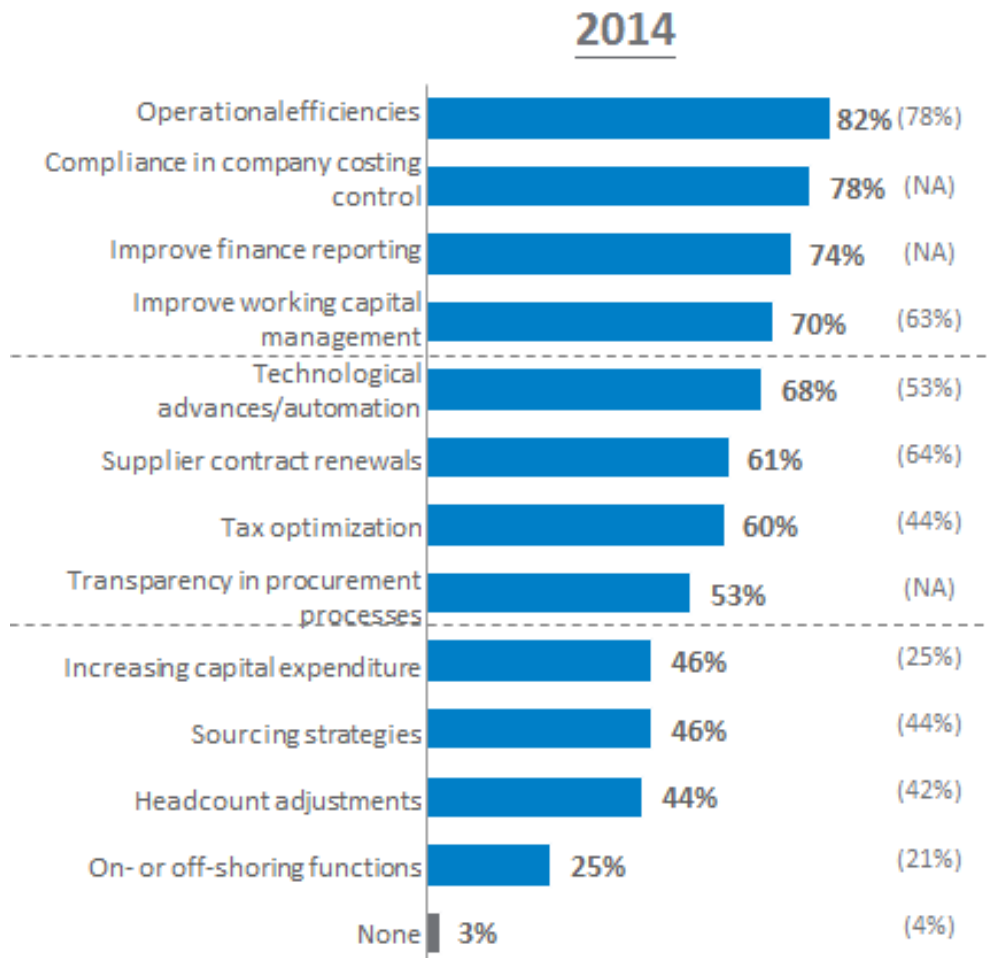
Wholesale & Retail, HKD\$900 million to <HKD\$1 billion



COST MANAGEMENT AND CONTROL

Operational efficiencies (82%), compliance in company costing control (78%) and improve finance reporting (74%) are the most common approaches to improve cost efficiency; while utilizing advanced technology has become more prominent than 2013 (53% to 68%).

How will you improve cost efficiency of your company over the course of the next 12 months?



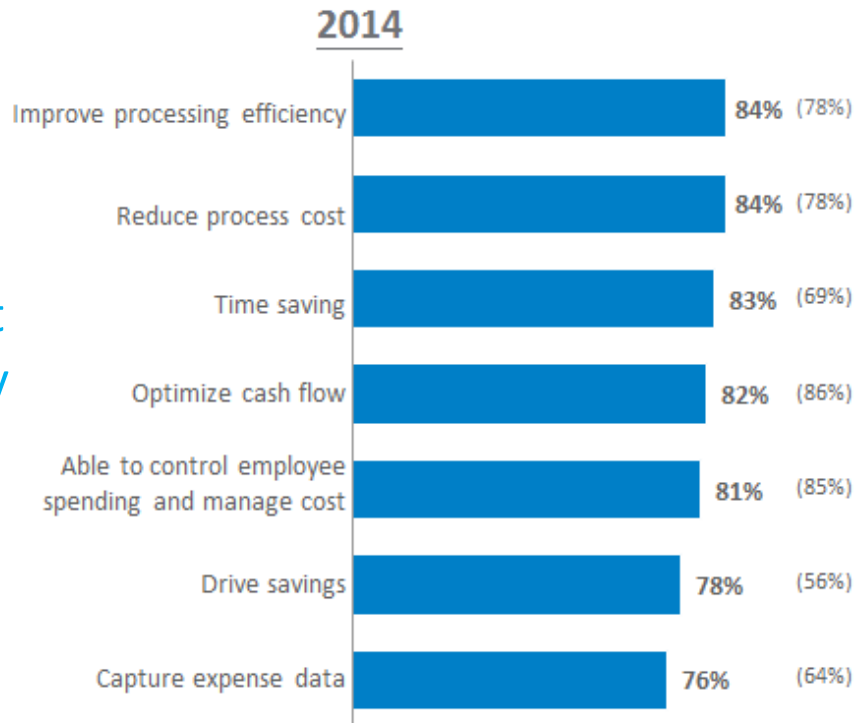
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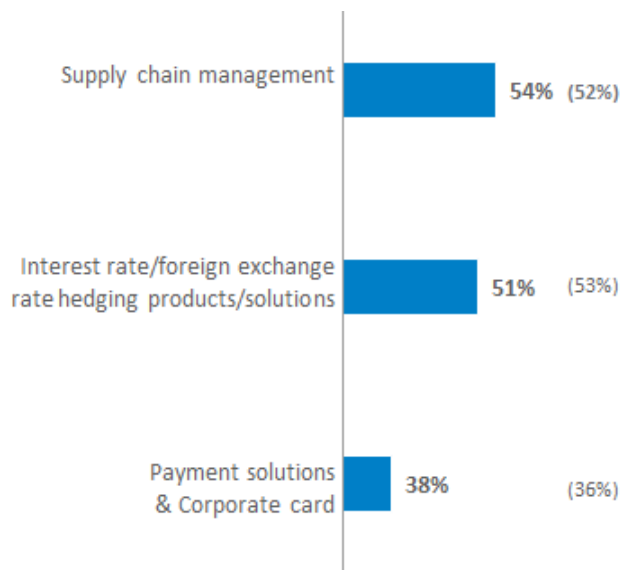


In order to improve cost efficiency, companies are keen on seeking ways to improve processing efficiency in addition to reducing process cost. Supply chain management and hedging continue to be the cost management solutions commonly used by companies. Benefits of payment solutions/corporate card yet to be fully communicated.

In terms of cost management, which are the key areas that your company is actively monitoring/managing?



What cost management solutions are your company currently using?



() Figures in bracket represent 2013





ABOUT AMEX HONG KONG BUSINESS MOMENTUM SURVEY 2014

The AMEX Hong Kong Business Momentum Survey 2014 was first established in 2013 with the purpose to gauge senior financial executives' views of the economic and business outlook and to understand their business plans, plan for spending, investment and cost control; as well as their key growth drivers and challenges in relation to business growth.

This is the second year AMEX sponsored the Hong Kong Business Momentum Survey.

The AMEX Hong Kong Business Momentum Survey 2014 was conducted between August 4 and September 5, 2014. The survey polled 103 senior financial executives from medium-sized enterprises, i.e. with annual sales turnover of US\$20million to US\$151million. The sample has quotas based on company industry and scale in terms of sales revenue so that a balanced view is gauged. The survey has a maximum margin of error of $\pm 9.7\%$.

All respondents were interviewed via telephone based on business directory.



