

Standard Chartered Hong Kong SME Leading Business Index Report

Third Quarter 2012

Release Date: 24th July 2012

The Launch of the Index on Hong Kong SME Business Outlook

Comparing to large corporations, small and medium sized enterprises (SMEs) are more vulnerable to changes in the macro-economic environment. Many countries have established SME sentiment index to gain a better understanding on SMEs' business environment and development trends, such as the NFIB Small Business Optimism Index of the U.S. and the Sage SME Business Sentiment Index of Australia. These indices are followed extensively not only by organizations in both the commercial and the public sectors, but also by the investment community as an important source of reference for forecasting and planning.

In line with the global business community, Hong Kong Productivity Council (HKPC) and Standard Chartered Bank (Hong Kong) Limited jointly launch the “Standard Chartered Hong Kong SME Leading Business Index” (Standard Chartered SME Index). Conducted independently by HKPC and sponsored by Standard Chartered Bank (Hong Kong) Limited, the Standard Chartered SME Index is a quarterly survey to be released in January, April, July and October each year with an aim to enable the public and SMEs to gain insights into the forthcoming business climate for better forward planning. The two unique characteristics of the index are: 1) it is a forward-looking index measuring SMEs' sentiments in the next quarter, and 2) all target respondents are local SMEs. The Overall Index comprises five areas, including local SMEs' outlook on their 'sales amount', 'profit margin', 'investments', 'staff number', and 'global economic growth' for the next quarter. An Index reading above the 50.0 no-change mark indicates an optimistic sentiment about the business environment in the next quarter, while a reading below 50.0 indicates pessimistic sentiment.

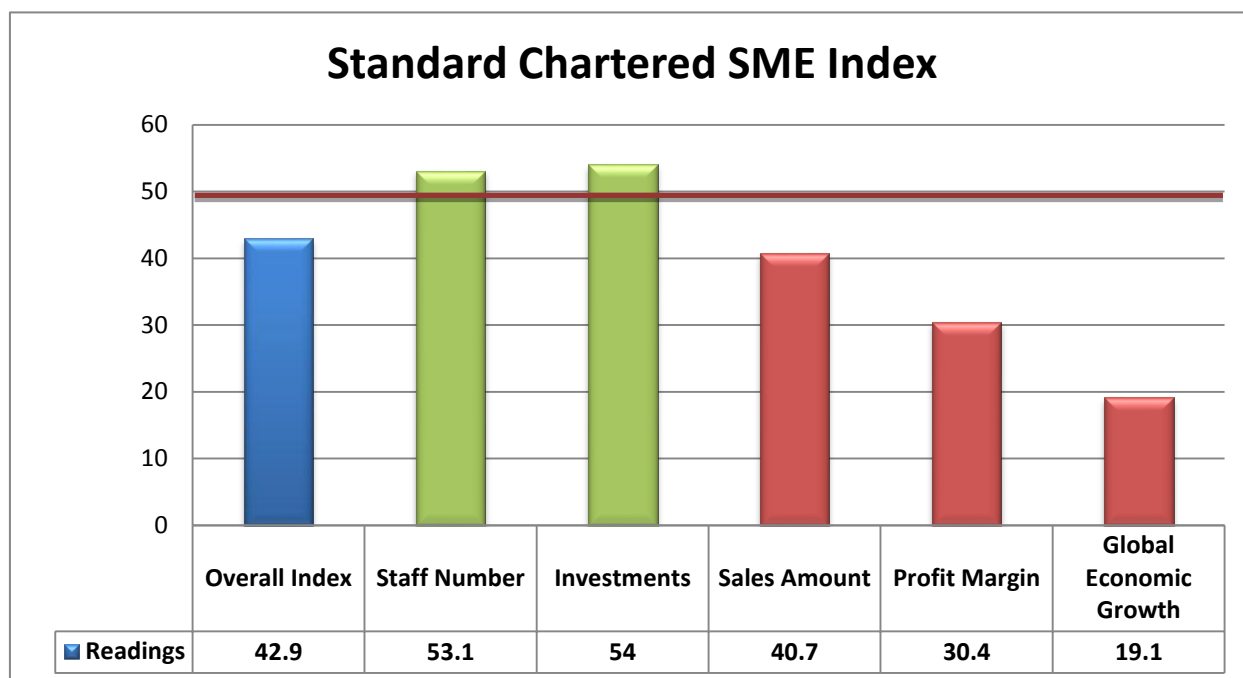
The first survey of the Standard Chartered SME Index was conducted between May and June 2012. Top management of 844 SMEs, covering eight industries including manufacturing, import/export trade and wholesale, retail, accommodation and catering services, information and communications, finance and insurance, professional and business services, and real estate, were surveyed to gauge their views on the outlook of the overall business environment and regional economic changes in the 3rd quarter of 2012.



Third Quarter 2012 Index at 42.9

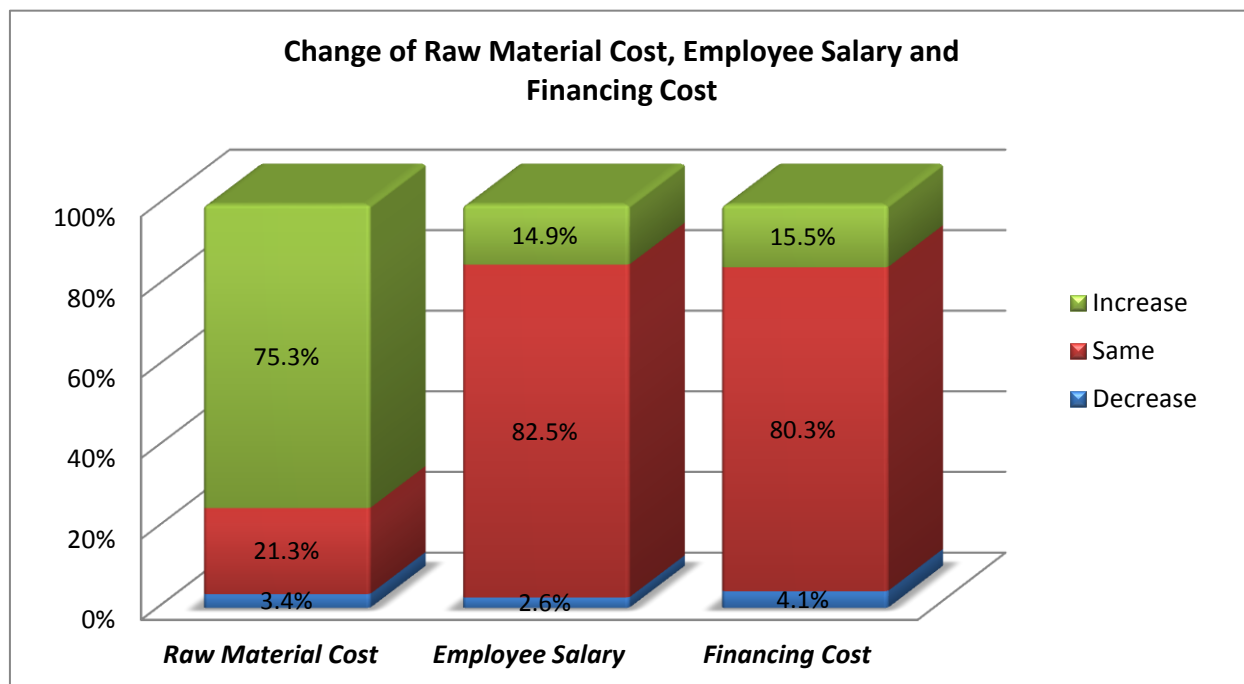
The Standard Chartered SME Index for the 3rd Quarter of 2012 is 42.9, which is below the 50.0 no-change mark, indicating a pessimistic sentiment in overall business environment. In terms of industry sectors, the Retail Industry Sub-Index is 37.4, which is significantly lower than the Overall Index of 42.9. The Import/Export Trade and Wholesale Industry Sub-Index and Manufacturing Industry Sub-Index are 45.6 and 41.5 respectively.

Among the five surveyed areas, the Staff Number Sub-Index and Investments Sub-Index are 53.1 and 54.0 respectively, indicating an optimistic sentiment in employment and investments for the 3rd quarter of 2012. The other three sub-indices, namely the Sales Amount Sub-Index, the Profit Margin Sub-Index, and the Global Economic Growth Sub-Index, fall significantly below the 50.0 no-change mark, indicating pessimistic sentiments in overall business performance of SMEs and the global economic trend in the 3rd quarter of 2012.

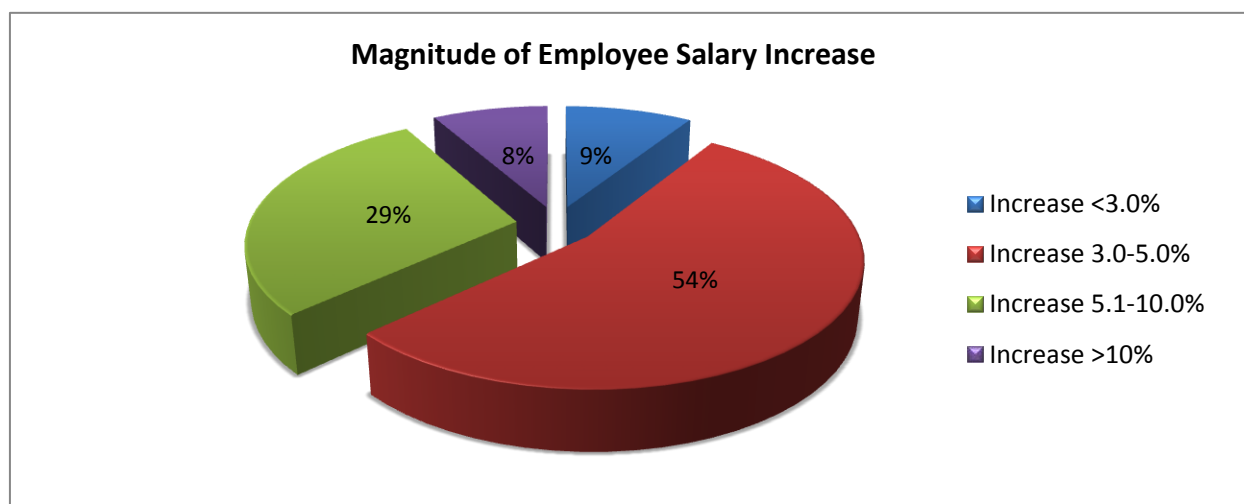


Raw Material Cost will rise; Employee Salary and Financing Cost are relatively stable

Raw material cost, employee salary and financing cost are three important factors affecting SMEs' profit margin. Over 75% of respondents reflected that material cost would rise in the 3rd quarter of 2012. Meanwhile, majority of the respondents expected that employee salary and financing cost would remain unchanged in the 3rd quarter of 2012.



Among those who expected employee salary to rise in the 3rd quarter of 2012, 54% forecasted an increase of 3% to 5%, while close to 30% expected an increase of 5.1% to 10%.



Supplementary Information

Sample Distribution

Data are collected from over 800 SMEs using publicly available SME directories and HKSAR Census database. The sample is stratified by the Hong Kong Standard Industrial Classification (HSIC) version 2.0, and based on the number of SME establishments in Hong Kong. The stratified sample covers nine categories namely: 1) Manufacturing, 2) Import/Export Trade and Wholesale, 3) Retail, 4) Accommodation and Catering Services, 5) Information and Communications, 6) Finance & Insurance, 7) Professional and Business Services (include Legal, Accounting, Consultancy, Advertising, Interior Design), 8) Real Estate (include Property Agent, Property Management and Maintenance), and 9) Miscellaneous category (include Construction, Transportation, Courier Services, Human Health Activities, Entertainment, and Domestic Personnel such as maids, cooks, gardeners, caretakers; exclude non-commercial activity such as primary school).

Index Calculation

Standard Chartered SME Index is a composite index based on the diffusion indices of the five surveyed areas with the following weights:

$$\text{Staff Number} \times 0.25 + \text{Investments} \times 0.25 + \text{Sales Amount} \times 0.2 + \\ \text{Profit Margin} \times 0.2 + \text{Global Economic Growth} \times 0.1$$

Respondents indicated the change of business sentiments in three ways: Increase, same or decline. Each diffusion index is calculated using the following formula:

$$\text{Increase \%} \times 100 + \text{No Change \%} \times 50 + \text{Decline \%} \times 0$$

Diffusion indices, which have been broadly used as leading indicators, are convenient summary measures indicating the prevailing direction of change in business sentiments. An index above the 50 no-change mark generally indicates optimistic business sentiment, while that below 50 indicates pessimistic business sentiment. A reading at 50 indicates neutral business sentiment.

Report Release

The Standard Chartered SME Index will be released in January, April, July and October every year. Full reports can be downloaded at www.smeone.org, and the next report will be published in early October.

For more details about the Index, please contact Mr. Gary Cheng at tel. (852) 2788 6178 or email: garyc@hkpc.org. For other media enquiries, please contact Ms. Justina Shum at tel. (852) 2788 5895 or email: justina@hkpc.org.

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