Box 1.2

A snapshot of micro enterprises in Hong Kong

The Hong Kong business sector is predominated by small and medium-sized enterprises (SMEs) which generally refer to enterprises engaging less than 50 persons. In 2017, there were around 331,000 SMEs, accounting for 98% of all enterprises\(^1\) in Hong Kong. Among the SMEs, the number of the so-called micro enterprises, which are defined as those engage less than 10 persons, amounted to some 302,000, representing 90% of all enterprises (Chart 1). This proportion has been largely stable over time. Given the sheer number of micro enterprises in the local economy, it is worthwhile to take a closer look at their broad characteristics.

Chart 1: The Hong Kong business sector is predominated by SMEs, especially micro enterprises (2017)

<table>
<thead>
<tr>
<th>Type</th>
<th>Number</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>SME</td>
<td>331,000</td>
<td>98%</td>
</tr>
<tr>
<td>Micro enterprise</td>
<td>302,000</td>
<td>90%</td>
</tr>
<tr>
<td>Medium-sized</td>
<td>29,000</td>
<td>9%</td>
</tr>
<tr>
<td>Large</td>
<td>6,000</td>
<td>2%</td>
</tr>
<tr>
<td>All enterprise</td>
<td>337,000</td>
<td></td>
</tr>
</tbody>
</table>

Source: Census and Statistics Department.

General characteristics of micro enterprise

Each micro enterprise, by definition, engages very few persons in its business operation. As such, all micro enterprises together only accounted for around 26% of total employment in the private sector in 2017. According to the Annual Survey of Economic Activities\(^2\) in 2016, micro enterprises’ share in business receipts was 33% and their share in gross surplus\(^3\) was even lower at 16% (Chart 2). The overall profit ratio (gross surplus to business receipts) among micro enterprises, at 10%, was also lower than those of medium-sized (engaging 10-49 persons; 19%) and large (engaging 50 or more persons; 27%) enterprises. As for the cost structure, the share of compensation of employees in total operating expenses among micro enterprises tended to be smaller at 28% vis-à-vis 36% among both medium-sized and large enterprises. Characteristics of micro enterprises, nonetheless, may vary across industries.

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\(^1\) Enterprise here refers to business unit. Establishments with the same main business registration number and engaged in activities of the same industry section are grouped into one business unit for analysis. Figures for the total number of enterprises and total employment exclude civil service and selected economic activities, such as agriculture, forestry and fishing; construction (other than manual workers at construction sites); taxis and public light buses; self-employed insurance agents, authors and artists without business registration; religious organisations; etc.

\(^2\) The figures pertaining to the Annual Survey of Economic Activities in this box article cover the (i) industrial, (ii) transportation, storage and courier services, (iii) import/export, wholesale and retail trades, and accommodation and food services, (iv) information and communications, financing and insurance, professional and business services and (v) building, construction and real estate sectors.

\(^3\) Depreciation and amortisation have been incorporated.
Box 1.2 (Cont’d)

Chart 2: Huge number of micro enterprises but their shares in employment, business receipts and gross surplus were small (2016)

<table>
<thead>
<tr>
<th>Number of enterprises</th>
<th>Number of persons engaged</th>
<th>Business receipts</th>
<th>Gross surplus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large enterprise (50+ persons)</td>
<td>2</td>
<td>89</td>
<td>2</td>
</tr>
<tr>
<td>Medium-sized enterprise (10 to &lt;50 persons)</td>
<td>9</td>
<td>54</td>
<td>19</td>
</tr>
<tr>
<td>Micro enterprise (&lt;10 persons)</td>
<td>26</td>
<td>44</td>
<td>23</td>
</tr>
</tbody>
</table>

Note: (#) Based on Annual Survey of Economic Activities. Source: Census and Statistics Department.

General characteristics of micro enterprise by selected industry

While micro enterprises generally dominated the business sector, they featured even more prominently in retail (accounting for 96% of all enterprises in the sector); and wholesale (93%) industries. On the contrary, their shares in financing and insurance (82%); and accommodation and food services (62%) industries were much smaller. The variation should be related to the operational characteristics of different industries. In terms of number, those in import and export trade (29%); retail (18%); and professional and business services (14%) together made up of over 60% of all micro enterprises.

Micro enterprises together accounted for around 26% of total employment in the private sector. Each of these micro enterprises, on average, engaged 3 persons only. Accommodation and food services industry tended to engage more persons per micro enterprise (5 persons) whereas retail; transportation, storage, postal and courier services; and professional and business services industries appeared to engage less (2 persons). The number of employees (i.e. the number of persons engaged excluding working proprietors and partners and unpaid family workers) among micro enterprises averaged only 2. Larger proportion of persons engaged other than employees was seen in retail (53%); and transport, storage, postal and courier services industries (44%), in contrast to import and export trade industry (9%) which was associated with a particularly low ratio.

Other features of micro enterprises

From the distribution of enterprises by year of operation(4), it is noted that the proportion of enterprises with shorter years of operation was consistently larger among micro enterprises over time. In 2017, 29% of micro enterprises were associated with less than 5 years of operation, while the corresponding share among large enterprises was only 7%. Notwithstanding the above, there was still a notable proportion of micro enterprises (46%)

(4) The number of years of operation of a business unit is derived from the earliest year of commencement among all active establishments under the business unit. The year of commencement of individual establishment is primarily based on the information on commencement date or business registration date as recorded by the Business Registration Office.
Box 1.2 (Cont’d)

having operated for 10 years or more. It appears that a substantial share of micro enterprises is likely to remain small for a long period of time (Chart 3).

**Chart 3: Larger proportion of young enterprises among micro enterprises (2017)**

![Chart showing cumulative share of enterprise (%) by years of operation]

Source: Census and Statistics Department.

In fact, enterprise usually starts with a small scale. Between 2012 and 2017, around 95% of new enterprises coming into operation each year were micro enterprises, probably because starting small can somehow reduce the business risks. At the same time, around 94% of the enterprises ceasing operation were micro enterprises. This may be attributable to various reasons. For instance, micro enterprises could be more vulnerable in staying afloat and some enterprises may have reduced their scale of operation before ceasing business. These incoming and outgoing enterprises made up of around 11% and 10% of all micro enterprises each year respectively. The larger share of incoming and outgoing enterprises among micro enterprises may have affected the overall profit ratio among them.

By tracking the micro enterprises which commenced operation in 2012 for a five-year period, it was found that only around half of them remained in operation by 2017. Their “survival” rate was lower than those commenced as medium-sized (around 60%) and large (around 75%) enterprises. Around a quarter of the micro enterprises which started operation in 2012 ceased to operate within the first two years. The “drop-out” rate moderated during the course of the five-year period, lowering to around 5% in the fifth year of operation. Comparing with medium-sized and large enterprises, micro enterprises were seen to be “dropping out” at a more rapid rate than their counterparts.

Among those micro enterprises which commenced operation in 2012 and stayed in operation in 2017, a tiny proportion (less than 5%) of them did grow bigger and turned into medium-sized/large enterprises by 2017. Though nearly all of the micro enterprises which stayed in operation remained as micro enterprises after five years of operation, around 20% of them in fact expanded in terms of number of persons engaged.

**Micro enterprises vary greatly among themselves**

The snapshot above shows that while there are common features among micro enterprises, their characteristics can vary due to many factors, including the industry in which they are engaging, whether they are new start-ups, whether they are about to wind down, and/or whether they are long-established enterprises which can survive with their own business model.