

# HONG KONG ELECTRONICS INDUSTRY 2014 OUTLOOK AND TRENDS

JANUARY 2014

## ABOUT THE SURVEY

In developing this report, Australia and New Zealand Banking Group Limited ("ANZ") commissioned the Hong Kong Productivity Council ("HKPC") to conduct the survey. The survey was conducted during November and December 2013 and intended to gauge perceptions of future business performance and likely challenges facing companies in the Hong Kong Electronics Industry. For the purposes of the survey, we understand from the HKPC that around 200 companies were interviewed and focus groups were held.

### 2014 INDUSTRY OUTLOOK AND TRENDS:

#### Highlights

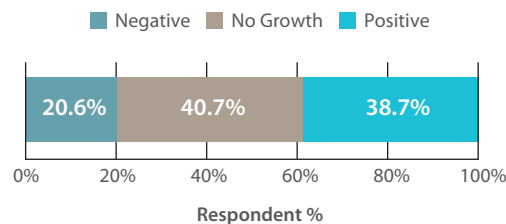
- > Respondents expect an average revenue growth of 16.25% during 2014 due to increasing demand for smart devices and related electronic products.
- > Rising production costs are rated as the top challenge in 2014, however respondents remain positive about their business performance.
- > Respondents cited increasing competition from China and South Korea as the biggest threat to market share.
- > Increasing government support in technology and skill transfer, adoption of international standards, and talent pool development would enhance Hong Kong's competitiveness.
- > Some 17.5% of respondents expect a longer working capital cycle in 2014.
- > A majority of respondents do not exercise any financial risk control measures.

### SMART DEVICES EXPECTED TO DRIVE INDUSTRY GROWTH IN 2014

#### Positive Outlook in 2014

Some 38.7% of respondents predict revenue growth during 2014, with 40.7% expecting no growth and only 20.6% forecasting revenue decline. The average expected revenue growth rate is approximately 16.25%. The results indicate that many respondents expect a positive year in 2014.

#### 2014 Expected Revenue Growth



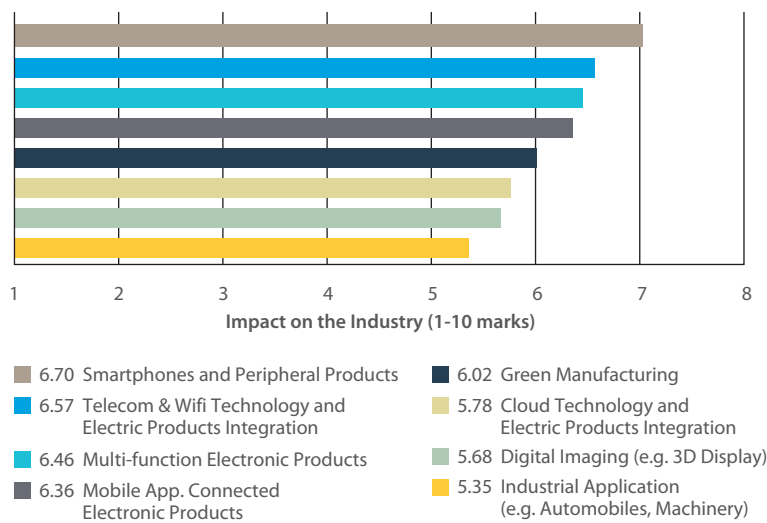
## Smartphones and Peripheral Products Lead the Way in 2014

Smart devices, wireless enabled devices and mobile apps are expected to drive electronic product demand 2014.

Across industry respondents, smartphones and peripheral products scored 6.70 out of 10 as the top trend impacting the industry in 2014, while telecom and wireless products, and products with mobile applications were also seen as key trends, receiving scores of 6.57 and 6.36 respectively.

Of interest, cloud technology and digital imaging scored relatively low in the industry impact ranking for 2014.

### Trends that Will Impact the Industry in 2014



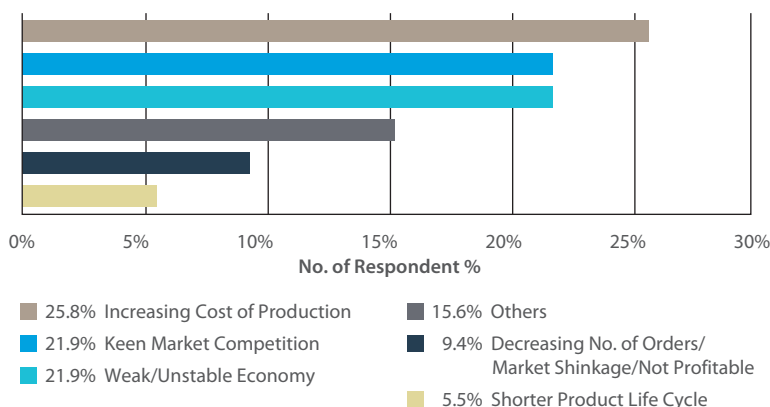
## RISING PRODUCTION COSTS RATED AS THE TOP CHALLENGE IN 2014

Rising production costs are rated as the top challenge in 2014, while overall, respondents remain positive about their business performance in 2014.

### Controlling Production Costs Remains the Top Priority

25.8% of respondents rated "Increasing Cost of Production" as the top challenge for the electronics industry in 2014. "Keen Market Competition" and "Weak/ Unstable Economy" were rated as the next two key challenges (both at 21.9%). Only 9.4% rated "Decreasing in Orders / Market Shrinkage / Not Profitable" as a top challenge.

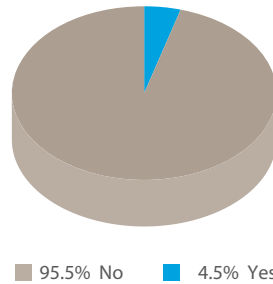
### Challenge for the Hong Kong Electronics Industry



## RMB Appreciation Exacerbates Rising Cost Impact

A majority of respondents (95.5%) with manufacturing facilities in China indicated that they have no plan to relocate in the next 2 years. China's double digit wage increases in major cities and RMB appreciation will continue to have a significant cost impact on production in 2014.

### Plan to Relocate Manufacturing Processes in 1-2 Years



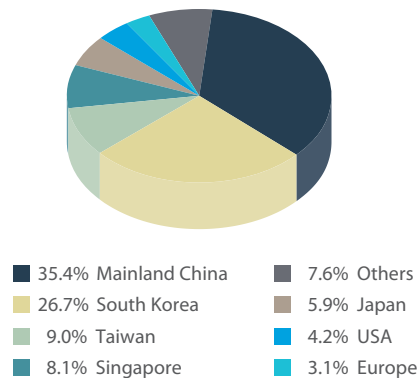
## COMPETITION FROM MAINLAND CHINA AND SOUTH KOREA IMPACTING MARKET SHARE

### Market Competition a Key Challenge

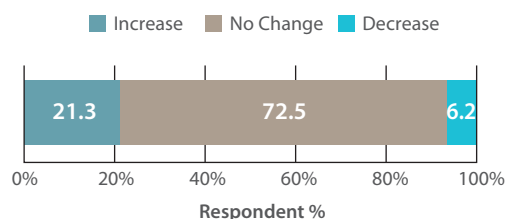
35.4% of respondents indicated Mainland China as their top competitor, followed by South Korea with 26.7%. Only 9% of respondents said that Taiwan was their top competitor.

Respondents cited government support for Research & Development (R&D) and a strong talent pool as two key advantages Mainland China and South Korea have over Hong Kong. According to the World Bank, R&D expenditure as a % of GDP for South Korea and Mainland China are 5 times and 2.35 times larger respectively than Hong Kong. Moreover, R&D talent in South Korea has grown by 66% in the past few years, while Hong Kong has recorded zero growth.

### Major Competitors



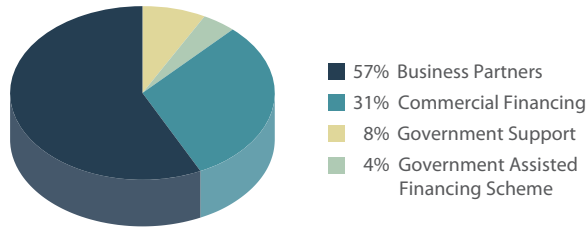
### 2014 Change in R&D Expenditure



## Require Government Support for Growing Talent and R&D Investment

Although some 21.3% of respondents plan to increase R&D spending in 2014, only 12% plan to leverage government support. A majority expressed their difficulty in hiring good talent, with some respondents suggesting more support from the government was needed to grow talent as well as in providing R&D resources.

### 2014 Source of R&D Expenditure

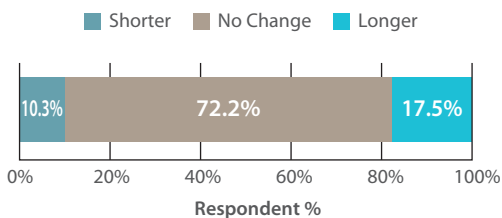


## LONGER WORKING CAPITAL CYCLE IN 2014

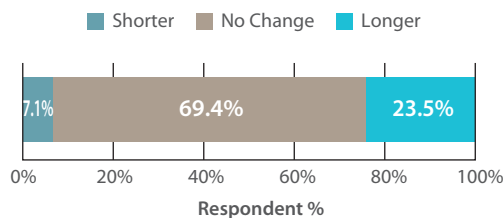
### Expecting a Longer Working Capital Cycle in 2014

23.5% of respondents expect their accounts receivable cycle to be longer in 2014, while only 7.1% expect a shorter accounts receivable cycle. Overall, respondents expect the working capital cycle to be longer in 2014 which will require funding through existing operations or increased financing.

### 2104 Change in Working Capital Cycle



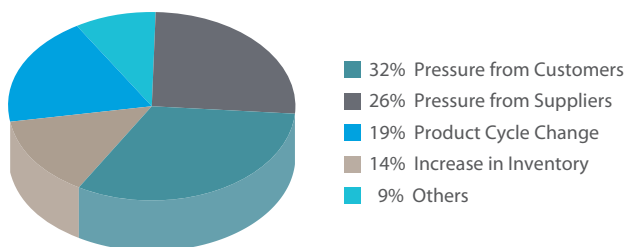
### 2014 Change in Accounts Receivable



## Pressure from Customers the Major Impact on the Working Capital Cycle

Most respondents cited pressure from customers as the major reason for the lengthening of the working capital cycle. In addition, pressure from suppliers and increases in product cycle times are the next two factors most affecting working capital cycle time.

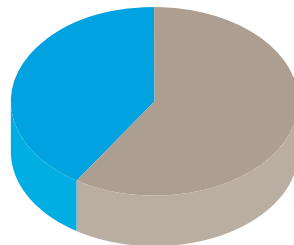
### Factors Impacting the Working Capital Cycle



## APPENDIX

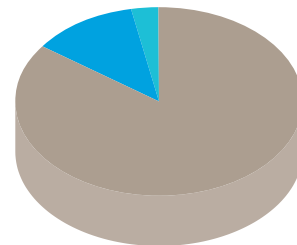
### Manufacturing Facilities

#### Have a Manufacturing Process



■ 59% Yes  
■ 41% No

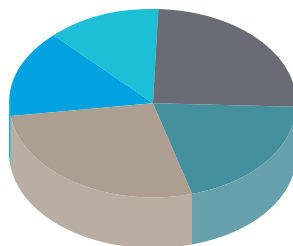
#### Locations of Manufacturing Facilities



■ 85% Mainland China  
■ 12% Other Asian Countries  
■ 3% Non-Asian Countries

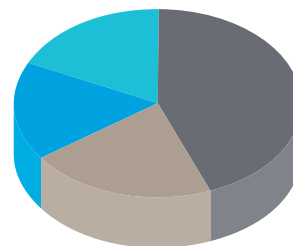
### R&D Related Statistics

#### R&D Cycle Time



■ 25% <1 month  
■ 20% 1-3 months  
■ 27% 3-6 months  
■ 15% 6-12 months  
■ 13% 12 months or longer

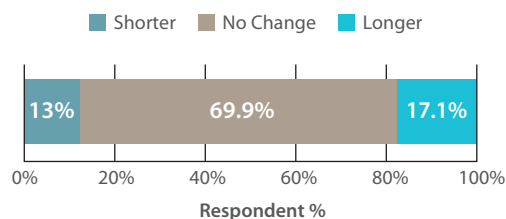
#### R&D Partners



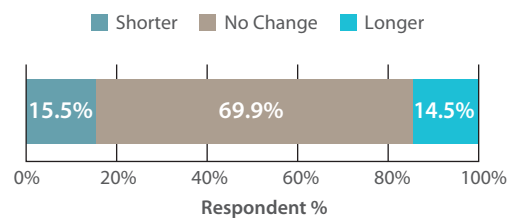
■ 44% Commercial Enterprises  
■ 21% R&D Centers  
■ 18% Others  
■ 17% Universities

### Working Capital Related Statistics

#### 2014 Change in Accounts Payable



#### 2014 Change in Inventory Turnover



## ENQUIRY CONTACT

If you would like to make an appointment with one of our Relationship Managers, please contact:

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