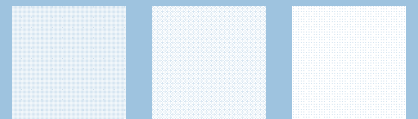


Hudson



July - September 2009



The Hudson Report

Hiring and HR Trends
HONG KONG

Introduction



The Hudson Report is a quarterly survey of forward-looking employer hiring expectations. The report in Asia covers China (Beijing and Shanghai), Hong Kong and Singapore and combines the expectations of nearly 2,000 key employment decision-makers in these three markets.

Participants in this survey are primarily executives at multinational firms and were personally surveyed in May this year by Hudson consultants.

The Hudson Report receives extensive media coverage and acknowledgment from politicians, commentators and business leaders. In the years since its release in Asia in 1998, *The Hudson Report* has established a reputation as a key business and economic indicator, based on the premise that the expectation to increase or decrease staffing levels reflects employers' optimism about their markets.

HUDSON

Hudson (NASDAQ: HHGP) is a leading provider of permanent recruitment, contract professionals and talent management services worldwide. From single placements to total outsourced solutions, Hudson helps clients achieve greater organisational performance by assessing, recruiting, developing and engaging the best and brightest people for their businesses. The company employs nearly 3,000 professionals serving clients and candidates in more than 20 countries. More information is available at hudson.com.

Key findings



“HIRING EXPECTATIONS ARE RISING AGAIN IN MOST SECTORS. HOWEVER, EXPECTATIONS ARE STILL MUCH LOWER THAN A YEAR AGO AND IT IS TOO EARLY TO SAY THAT THE ‘GREEN SHOOTS’ ARE HERE TO STAY.”

MARK CARRIBAN, MANAGING DIRECTOR, ASIA, HUDSON

Hiring expectations are rising this quarter, for the first time since Q1 2008. In this survey of over 400 executives across key business sectors, 22% expect to increase hiring in Quarter Three (Q3) 2009, up from 14% in Q2 2009. The proportion planning to reduce headcount has fallen from 22% in Q2 2009 to 12% this quarter.

KEY FINDINGS

- Despite this quarter's rise, hiring expectations in all the sectors surveyed are much lower than in the same quarter a year ago. However, this is unsurprising in the light of the changes in the global economy;

- Respondents in Hong Kong are more optimistic about prospects for economic recovery in Asia than those in the other markets surveyed, with 59% anticipating recovery by mid-2010;
- Employee motivation & retention, career development and communication are seen as the most important people-related issues to be addressed over the next twelve months;
- Overall, 37% of respondents say that the economic climate means they can reduce starting salaries for new managerial hires, a much higher figure than in Q3 2008;
- Reductions in starting salaries are relatively limited, however, with just 23% decreasing salaries by more than 10%.

Permanent hiring expectations



HIRING EXPECTATIONS RISING AGAIN

Hiring expectations are rising this quarter, for the first time since Q1 2008. Across all sectors, 22% of respondents plan to increase headcount, up from 14% in Q2 2009. With the exception of Consumer, all sectors report higher expectations. The proportion of respondents who expect to shed staff is falling sharply, from 22% in Q2 2009 to 12% this quarter.

Banking & Financial Services

After several quarters of declining expectations, the Banking & Financial Services sector has the highest proportion of respondents who expect to increase hiring - 29%. This is substantially higher than the 12% reported for Q2 2009 and suggests that there is cautious optimism in the industry. However, the growth in hiring is not evenly spread: most of it is taking place in the back and middle office areas, while demand for front office corporate and investment banking roles remains weak. These uneven hiring patterns are borne out by the fact that at 18%, the Banking sector also has the highest figure for expectations to reduce staff numbers.

Media/PR/Advertising

Media/PR/Advertising firms report the greatest increase in hiring expectations: 28% say they will boost recruitment, up from 10% in Q2 2009. The proportion of respondents expecting to reduce headcount has fallen from 14% to just 6% this quarter. Extensive retrenchment took place in the PR segment in Q1 and Q2 this year and some employers are starting to expand their teams again. In Advertising, there is growing demand for professionals with broad experience, including CRM and communication strategy.

IT & T

Expectations are also rising sharply in the IT&T sector. The 23% of respondents who say they will grow headcount this quarter is up from 6% in Q2 2009. Even more significantly, the proportion planning to cut staff has fallen from 43% in Q2 2009 to 7% this quarter. IT professionals with experience in government/public sector and transport are sought after, while demand for specialists in financial services and insurance remains weak.

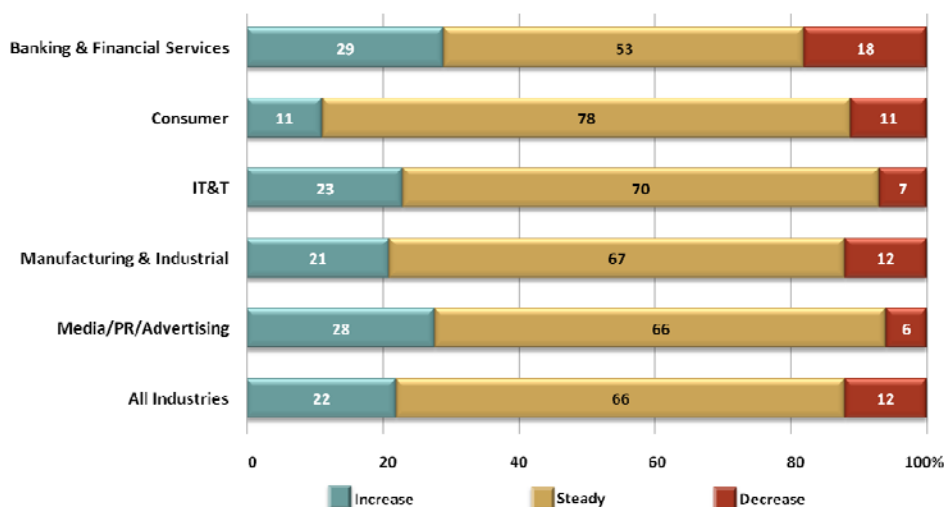
Manufacturing & Industrial

The rise in expectations in the Manufacturing & Industrial sector is less pronounced, from 17% in Q2 2009 to 21% this quarter. But the proportion of respondents saying they will reduce headcount shows a steep decline, from 29% to 12% in the same period. Much of the current hiring activity is in the areas of supply chain and procurement. Many companies have implemented far-reaching restructuring plans and are now seeking talented and experienced staff to operate in smaller, more effective teams.

Consumer

Consumer is the only sector surveyed where respondents report a further fall in hiring expectations: just 11% plan to hire more staff, compared with 15% the previous quarter. The proportion anticipating staff cuts has more than doubled, from 5% in Q2 2009 to 11% this quarter. Most companies are still taking a very cautious approach and the figure for steady hiring - 78% - is higher than for the other sectors. Where hiring is taking place, candidates with CRM experience are sought after.

Permanent hiring expectations in Hong Kong



Source: The Hudson Report, Hong Kong - Q3 2009

Permanent hiring expectations over time



SHARP FALL OVER PAST YEAR

A look at the year-on-year change in hiring expectations puts this quarter's upturn in perspective. Expectations in all sectors are much lower than this time last year. In Q3 2008, 42% of respondents planned to increase hiring, while the corresponding figure for this quarter is 22%. In the same period, the proportion of respondents forecasting staff reductions has risen from 1% to 12%.

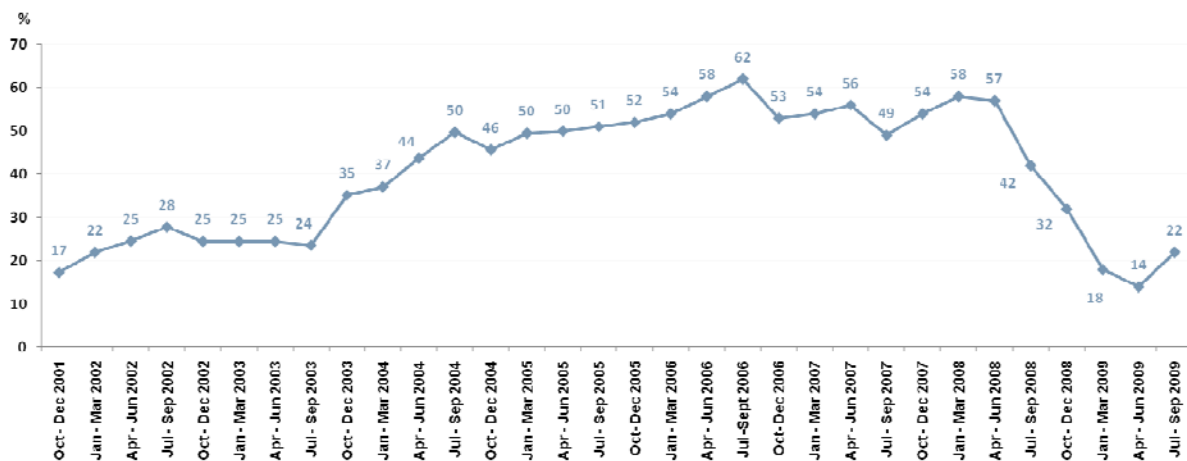
Overall, the sectors surveyed report fairly similar declines in hiring expectations year-on-year. The sharpest fall is reported by the IT&T sector, where the 23% who expect to grow headcount this quarter compares with 45% in Q3 2008. Much of this decline is due to a severe reduction in demand for IT professionals with financial expertise as banks have cancelled or scaled back infrastructure projects.

The Consumer sector has also experienced a sharp decline in hiring expectations over the past year and the proportion saying they will hire more staff has fallen from 31% in Q3 2008 to 11% this quarter. Many Consumer companies expanded in the first half of 2008 in the run-up to the Beijing Olympics and are now cutting back on recruitment.

The Manufacturing & Industrial sector reports the smallest fall in expectations year-on-year, though it is still substantial: 21% expect to expand hiring this quarter, compared with 35% a year ago.

By far the greatest increase in expectations to reduce headcount is reported by the Banking & Financial Services sector, from just 2% in Q3 2008 to 18% this quarter. Although banks are gradually starting to hire again in certain areas, the business environment is still very challenging, particularly in corporate and investment banking.

Expectations to hire over time - Hong Kong



Source: The Hudson Report, Hong Kong - Q3 2009

Expectations for Asia's economic recovery



HIGH LEVEL OF OPTIMISM ABOUT RECOVERY

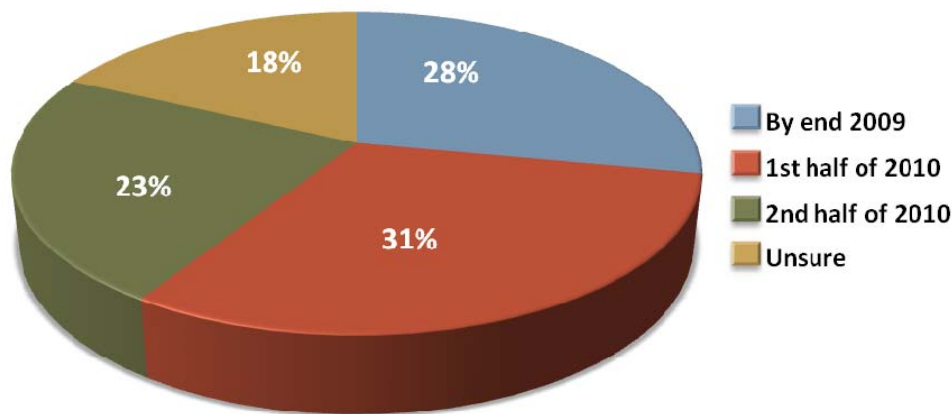
Respondents were asked when they expect Asia's economy to begin recovery, given the current market climate. Overall, 28% expect recovery to begin by the end of this year, a much higher figure than for the other markets surveyed in Asia. A further 31% anticipate recovery by mid-2010, while only 18% say they are unsure - far fewer than in the other markets. This suggests a high degree of optimism about the economy.

A very high 44% of respondents in the Consumer sector say they expect recovery to begin this year and a further 22% expect it to happen in the first half of 2010. Most employers in this sector appear confident about the future, despite their low expectations for hiring in the current quarter. After a period of consolidation, they are prepared to delay hiring until the recovery actually takes place.

The Media/PR/Advertising sector also appears bullish about prospects for the economy, with 78% saying that recovery will start by mid-2010. The figures for end 2009 and first half of 2010 are 36% and 42% respectively. Continuing growth in new areas such as digital and interactive media is boosting confidence in this sector.

Respondents in the IT&T sector are less optimistic about prospects for economic recovery in the near future. Just 13% expect it to begin this year, while 33% say that the economy will not recover until the second half of 2010, a higher figure than for any other sector surveyed. IT firms often experience economic recovery later than those in other sectors as companies may be reluctant to invest in major IT projects until they are certain that the recovery is solid.

Recovery of Asia's economy



Source: The Hudson Report, Hong Kong - Q3 2009

Critical people-related issues



MOTIVATION AND RETENTION ARE THE MOST IMPORTANT ISSUES

Employee motivation & retention are seen as the most important people-related issues to be addressed over the next twelve months. Across all sectors, 19% of respondents mention these issues. Career development and communication are also seen as key issues, being cited by 15% and 14% respectively. Remuneration and reducing headcount are not seen as particularly important: they are mentioned by just 6% and 4% respectively.

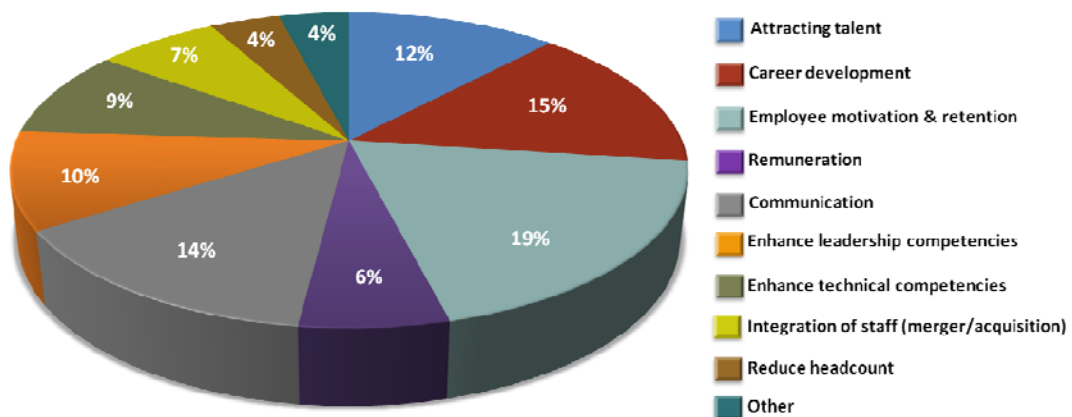
Respondents in the Banking & Financial Services sector attach the greatest importance to employee motivation & retention, with 21% raising these factors. Career development and communication with staff are also seen as key priorities, at 16% each. Most banks have implemented far-reaching restructuring initiatives in recent quarters and many have reduced headcount. They are now focusing on motivating staff through retention schemes, reinforcement messages and reassurance about career prospects.

At 20%, the Manufacturing & Industrial sector also has a high proportion of respondents mentioning employee motivation & retention. The 15% who say that enhancing leadership competencies is a top priority is far higher than in any other sector. Many companies have restructured their senior management teams and are now seeking to develop the leadership potential of middle management staff. Employers in this sector are also promoting more local managers, to reduce the cost of expatriate staff.

Respondents in the IT&T sector regard attracting talent as the most pressing people-related issue: 20% give this response, a much higher figure than for any other sector. In addition, 19% mention employee motivation & retention. IT skills change rapidly so attracting and retaining talent with the required skills is critical. At 10%, the proportion of respondents citing remuneration is also higher than for the other sectors.

The most important issue for Media/PR/Advertising firms is career development, with 18% mentioning this. As noted, PR and Advertising agencies are expanding again and recognise the need to invest in staff training and development.

Most important people-related issues in the next 12 months



Source: The Hudson Report, Hong Kong - Q3 2009

Salaries for new managerial hires



TREND TOWARDS LOWER STARTING SALARIES

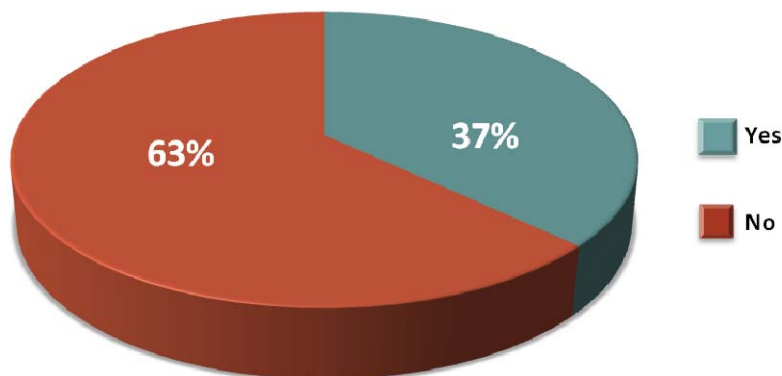
Across all the sectors surveyed, 37% of respondents say that the current economic climate means they can negotiate lower salaries for new managerial hires. When this question was last asked, in Q3 2008, the corresponding figure was just 13%. This suggests that the balance of power in salary negotiations has moved decisively in favour of employers. However, there are some variations between the sectors and skilled candidates in niche roles still command high salaries.

Employers realise that negotiating substantially lower starting salaries for new managers is not always the most appropriate strategy as these candidates are likely to look elsewhere as soon as the market picks up.

Nearly half - 48% - of employers in the Banking & Financial Services sector say they are able to reduce salaries for new managerial hires. This is a higher figure than for any other sector, by a substantial margin. This sector has seen a large number of retrenchment initiatives and many positions have been made redundant. The resulting influx of talent into the market means that many banks are offering much less generous packages than they did a year ago.

At 31%, the Manufacturing & Industrial sector has the lowest proportion of respondents who feel able to cut managers' starting salaries. Many companies have shed a number of senior positions and now recognise that they must pay well to attract the talented managers they need, particularly those with multi-national experience. Also, staff in this sector tend to move less frequently than in some other industries and attractive salaries are necessary to persuade them to do so.

Negotiation of lower salaries for new managerial hires



Source: The Hudson Report, Hong Kong - Q3 2009

Extent of reduction in new managerial salaries



SALARY REDUCTIONS ARE LIMITED

Where employers are able to negotiate lower salaries for new managerial hires, the extent of the reduction is likely to be fairly limited. Overall, 36% of respondents say they can reduce starting salaries by 5% or less, while 41% are achieving reductions in the range of 6-10%. Just 3% are able to make savings of more than 20%. This suggests that most candidates are sufficiently confident to refuse positions with salaries significantly lower than their expectations.

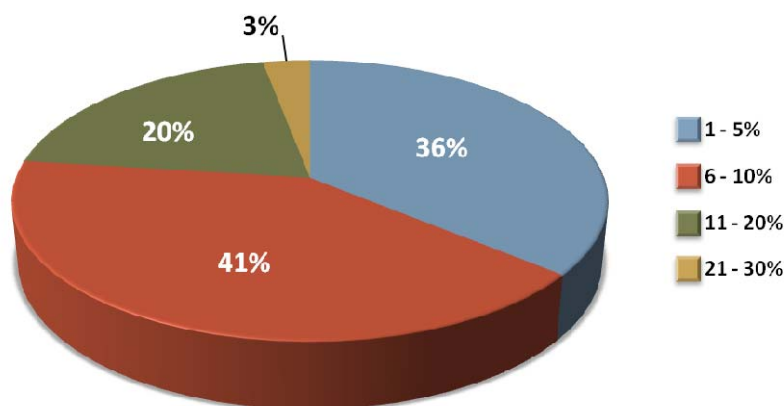
Unsurprisingly, employers in the Banking & Financial Services sector are in a stronger position than those in most other sectors: 27% say they can reduce starting salaries by 11-20% and a further 6% by more than 20%. Remuneration in this industry was still rising rapidly this time last year but things have changed dramatically since then. A substantially enlarged pool of available talent means employers are confident that they can offer less attractive packages.

A very high 40% of respondents in IT&T are reducing starting salaries by 11-20%, though none are achieving cuts of more than 20%. Only 20% say that reductions are 5% or less, a lower figure than for any other sector. Candidates for roles in banking and financial services IT are the most likely to be offered lower salaries as the declining number of projects is boosting the availability of talent in this area.

Consumer companies are making the smallest reductions in starting salaries for new managerial hires: 53% say they are lowering salaries in the range of 1-5%, while just 10% are achieving reductions of 11-20%. This is consistent with this sector's optimistic view of the region's economic prospects.

Media/PR/Advertising firms are also making relatively small cuts in managers' starting salaries, with 42% reporting that they are lowering salaries in the range of 1-5%. There is still a shortage of some specialist skills in this business and employers recognise that they must pay attractive salaries to recruit the talent they need.

Gap between salary expectation and offer



Source: The Hudson Report, Hong Kong - Q3 2009

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