



THE
HUDSON
REPORT

EMPLOYMENT AND HR TRENDS
JANUARY – MARCH 2012

HONG KONG

FROM GREAT PEOPLE TO GREAT PERFORMANCE®



INTRODUCTION

The Hudson Report is an established and highly respected publication, based on in-depth research. Released quarterly, the report uncovers and analyses the hiring expectations of Asian employers in China (Beijing and Shanghai), Hong Kong and Singapore over the coming quarter and provides insights into a range of human resource issues currently impacting business and the broader Asian economy.

Combining robust data on employment expectations with commentary and extensive market knowledge from Hudson's conversations with employers in Asia, *The Hudson Report* is the leading source for business leaders on the relevant trends and issues in the Asian labour market.

METHODOLOGY

The Hudson Report has established a reputation as a key socio-economic indicator in the Asian market. It captures employers' hiring expectations for permanent workforces over the coming three months. *The Hudson Report's* quarterly findings on permanent employment expectations are built on the premise that the expectation to increase or decrease permanent staffing levels represents a significant indication of employers' optimism for the growth of their organisation.

The Hudson Report combines the expectations of key employment decision makers from all major industries across small (<20 employees), medium (20–200 employees) and large (>200 employees) organisations.

For the January – March 2012 period, nearly 1,800 employers were personally surveyed by Hudson recruitment and consulting professionals across Asia in December 2011. Participants in Hong Kong were surveyed from the following six core industry groups:

- └ Banking & Financial Services
- └ Consumer
- └ IT&T
- └ Legal
- └ Manufacturing & Industrial
- └ Media / PR / Advertising



“After falling sharply in Q4 2011, hiring expectations have stabilised this quarter. Ninety percent of employers anticipate paying discretionary year-end bonuses.”

Mark Carriban, Managing Director,
Greater China, Hudson

KEY FINDINGS

In this survey of over 500 executives across key business sectors, 38% forecast headcount growth in Quarter One (Q1) 2012, the same figure as for Q4 2011. However, 13% expect to reduce headcount, up from 8% the previous quarter.

Respondents were also asked about the discretionary year-end bonuses they plan to pay, salaries for new managerial hires and initiatives to retain and motivate high performing staff.

HIGHLIGHTS

- └ Hiring expectations are much lower than they were this time last year: the 38% who plan to hire more staff this quarter compares with 66% in Q1 2011;
- └ Across all sectors, 90% say their organisation will pay discretionary year-end bonuses for 2011, a higher figure than for China and Singapore;
- └ Bonus payments are likely to be significantly higher than they were last year;
- └ Companies in all sectors are prepared to increase salaries to attract new managerial hires but the largest rises will be paid in the Banking & Financial Services sector;
- └ The ability to retain talented staff is the most important factor in determining managerial salaries;
- └ Monetary incentives are seen as by far the most effective tool for retaining and motivating high performers, being mentioned by 74% of respondents.

PERMANENT HIRING EXPECTATIONS

NO CHANGE IN EXPECTATIONS THIS QUARTER

Hiring expectations appear to be stabilising after a substantial decline in the previous quarter: 38% of respondents across all sectors forecast headcount growth this quarter, the same figure as for Q4 2011. However, the proportion of respondents saying they will reduce hiring has risen from 8% to 13%, suggesting that the uncertainty in financial markets is having a severe impact in some sectors.

CONSUMER

Both the highest expectations and the steepest rise are reported by the Consumer sector, where 57% plan to hire more staff this quarter, up from 47% in Q4. Mainland visitors continue to boost demand in many retail segments, while the FMCG area remains steady. Sales directors, retail directors, retail operations managers and CRM managers are all sought after.

MANUFACTURING & INDUSTRIAL

Expectations are also rising in the Manufacturing & Industrial sector, despite the impact of the economic downturn on export-oriented businesses. The 42% of respondents who expect to grow headcount in Q1 compares with 38% the previous quarter. Much of the additional hiring is for roles in project management, quality assurance and technical support. In addition, some companies are moving positions from Singapore to Hong Kong.

IT&T

The figures for the IT&T sector are very similar, with Q4's 37% rising to 41%. The outlook for vendors remains positive and many companies are recruiting for sales and technical roles. Firms working in financial IT are affected by

the downturn in the banking business and many have implemented hiring freezes, though there are still openings for contract positions.

BANKING & FINANCIAL SERVICES

At 33%, the proportion of respondents in the Banking & Financial Services sector saying they will expand recruitment is unchanged from Q4. The proportion forecasting staff reductions, on the other hand, has risen from 14% to 20%, a much higher figure than for any other sector. The turbulence in financial markets, especially in Europe, is clearly having a negative effect and extensive layoffs are expected. Some institutions are still hiring for revenue generating roles in sales, wealth management and private banking.

MEDIA / PR / ADVERTISING

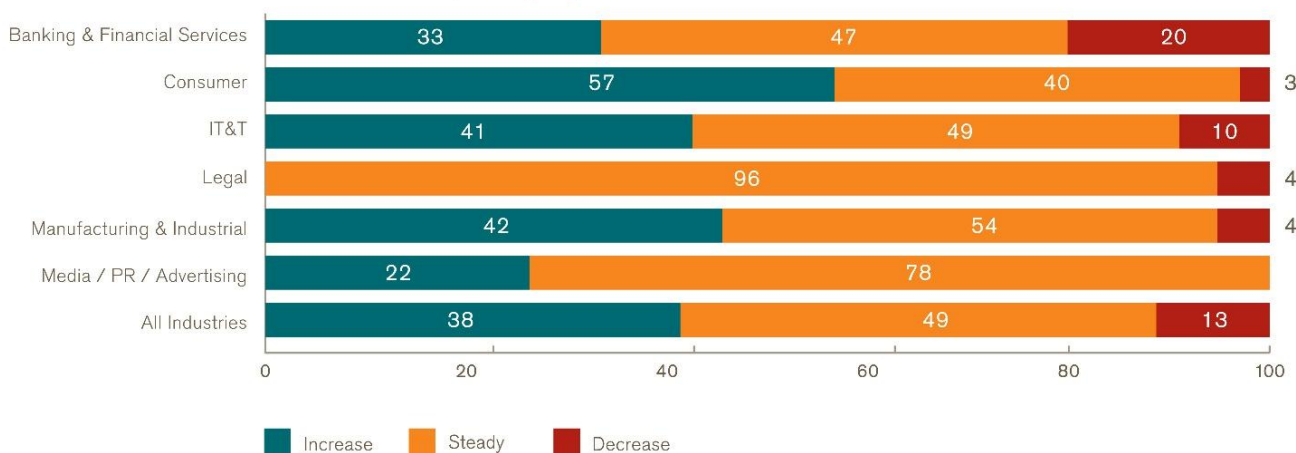
The Media / PR / Advertising sector reports the steepest decline in expectations, from 50% in Q4 to just 22% this quarter. Much of the hiring took place in the second half of 2011 and most open positions have now been filled. The level of business in this industry is very dependent upon activity in other sectors and the growing economic turmoil means that employers are taking a more conservative approach. Hiring is only taking place when workload increases.

LEGAL

Legal firms are being very cautious about hiring, with 96% of respondents saying that expectations remain steady this quarter, a much higher figure than for the other sectors surveyed. This sector is heavily affected by events in the financial industry and demand for corporate finance lawyers has fallen sharply. Candidates with good Chinese language skills are still sought for in-house positions in China.

PERMANENT HIRING EXPECTATIONS IN HONG KONG

Source: The Hudson Report, Hong Kong - Q1 2012



PERMANENT HIRING EXPECTATIONS OVER TIME

SHARP FALL YEAR-ON-YEAR

Every sector except Consumer reports a steep decline in hiring expectations compared with Q1 2011. Overall, the 38% of respondents forecasting headcount growth this quarter is down from 66% a year ago. The proportion planning to shed staff has risen from 1% to 13% in the same period.

The steepest fall over the past year is reported by the Banking & Financial Services sector, where positive expectations have more than halved, from 75% in Q1 2011 to just 33% this quarter. By contrast, the proportion of respondents expecting to reduce staff numbers has soared from 1% to 20%.

Most banks were still hiring actively at the beginning of 2011, as they replaced staff lost during the

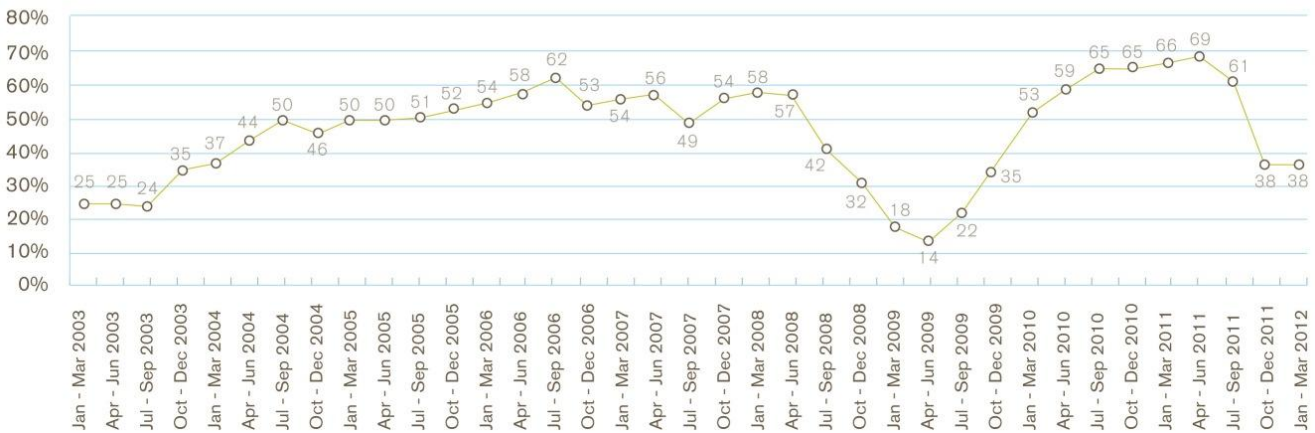
earlier downturn, but they are now looking at major retrenching initiatives.

The IT&T sector has also experienced a substantial fall in expectations over the past year. This quarter's figure of 41% is only just over half of the 77% reported in Q1 2011. Many employers in this sector focus on financial IT and have been hit hard by banks' decisions not to go ahead with major projects.

As noted, Consumer is the only sector where expectations have risen year-on-year. This quarter's figure of 57% compares with 54% in the same quarter last year. Most segments in this industry, including luxury goods, travel, hospitality and FMCG are still expanding or holding steady. Hong Kong's reputation as a serious shopping destination is helping to maintain the numbers of overseas visitors.

EXPECTATIONS TO HIRE OVER TIME - HONG KONG

Source: The Hudson Report, Hong Kong - Q1 2012



EACH QUARTER, APART FROM ASKING ABOUT HIRING EXPECTATIONS, WE SELECT SURVEY TOPICS THAT INDICATE HOW BUSINESSES EXPECT TO COPE WITH THEIR ENVIRONMENT. THIS QUARTER WE ASKED ABOUT DISCRETIONARY YEAR-END BONUSES, SALARY INCREASES FOR NEW MANAGERIAL HIRES, THE FACTORS AFFECTING MANAGERIAL SALARIES AND INITIATIVES TO RETAIN AND MOTIVATE HIGH PERFORMERS.

DISCRETIONARY YEAR-END BONUSES

VAST MAJORITY WILL PAY BONUSES

Across all sectors 90% of respondents say that their organisation will pay discretionary year-end bonuses for 2011, a substantial rise from the 82% who gave this response in Q1 2011. This figure is higher than those for China and Singapore. However, employers in certain sectors are much more likely to make bonus payments than those in others.

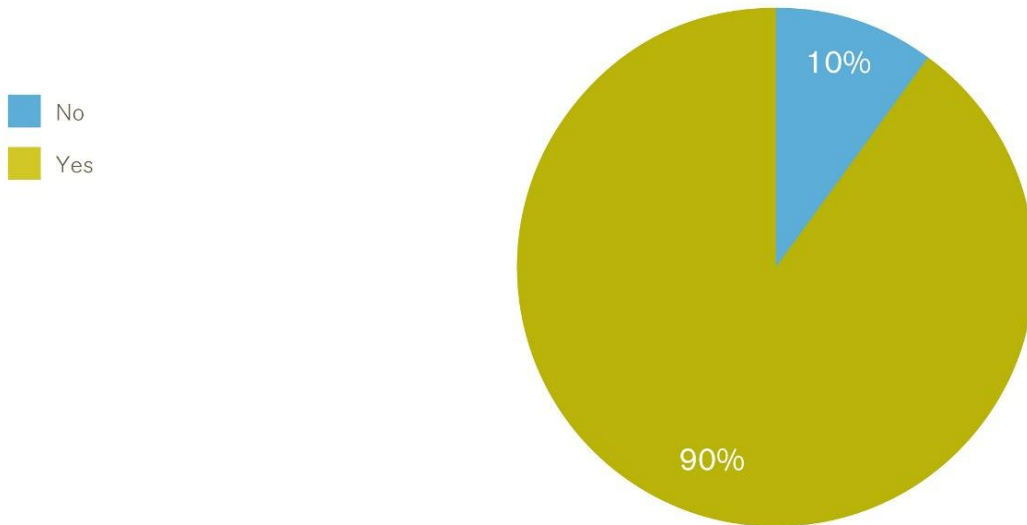
At 95%, the Banking & Financial Services sector has the highest proportion of respondents planning to pay bonuses this year. This industry is extremely bonus driven and even in a challenging market environment, employers recognise that they must make payments to retain their top talent.

Employers in the Consumer sector are also highly likely to pay year-end bonuses, with 93% of respondents saying their organisation will do so. This industry remains buoyant and most companies are in a strong position to offer financial incentives. Senior managers in the luxury goods segment who look after multiple functions are the most likely to receive substantial bonuses.

Fewer than two-thirds (64%) of respondents in the IT&T sector expect to make bonus payments this year, a much lower figure than for any other sector. Even this figure, however, represents a significant increase over the 53% reported in Q1 2011. Most bonuses in this industry tend to be paid to technical and solutions delivery professionals, as sales staff already receive commissions as part of their remuneration.

ORGANISATIONS PAYING DISCRETIONARY YEAR-END BONUS IN 2011

Source: The Hudson Report, Hong Kong - Q1 2012



YEAR-END BONUS LEVELS

BIGGER BONUS PAYMENTS THIS YEAR

Respondents whose organisation will pay discretionary bonuses this year were also asked about the range in which payments will be made. On average, the size of bonuses is likely to be considerably larger than in Q1 2011. Across all sectors, 58% of respondents plan to pay more than 10%, up from 45% a year ago. Just 8% say they will pay 5% or less, a sharp decline from 18% in Q1 2011.

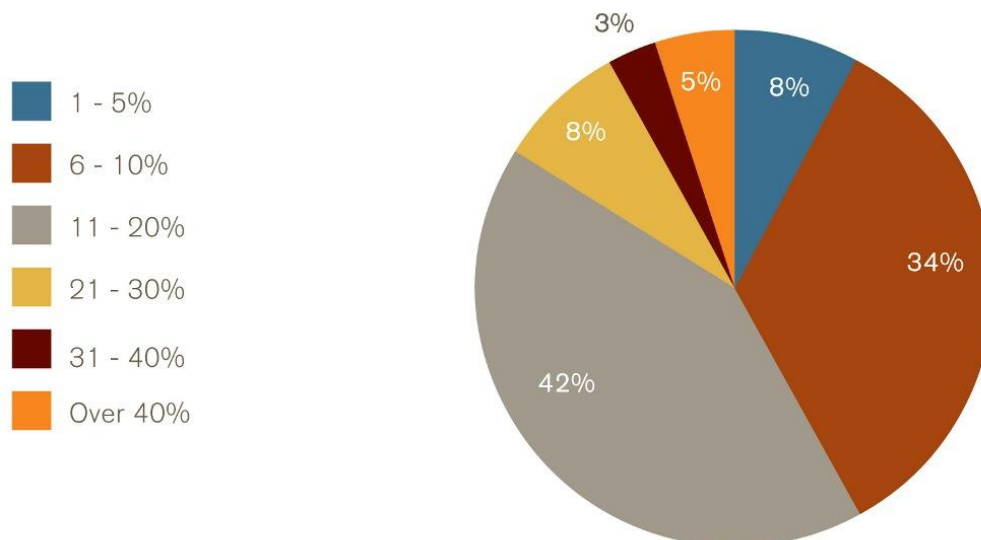
As well as being the most likely to pay bonuses, employers in the Banking & Financial Services sector are paying the largest amounts this year. Nearly two-thirds (65%) say that bonuses will exceed 10%, a rise from Q1 2011's 56%. Of these, 27% plan to pay more than 20%, more than twice as many as for any other sector. Two to three months' salary is considered a standard bonus for front office sales staff, while high performers may receive up to twelve months. Bonuses for back office staff tend to be lower.

Bonus payments are also likely to be high in the Consumer sector, where 62% of respondents expect to pay more than 10%, a substantial rise from 37% in the same quarter last year. Just 2% say that bonuses will be 5% or less, a much smaller figure than in the other sectors. The level of bonus payments confirms the continuing positive outlook in this sector. Staff in the luxury goods segment are more likely to receive large bonuses than their counterparts in FMCG, a mature business with lower incremental growth.

The Media / PR / Advertising sector reports the steepest decline in bonus payments, with just 19% planning to pay more than 10%, a much lower figure than the 56% response given in Q1 2011. No respondents expect to pay more than 20%, down from 12% a year ago. As noted, hiring expectations are low in this industry and while employers are trying to retain key talent, they are taking a conservative approach to financial incentives.

RANGE OF DISCRETIONARY YEAR-END BONUS IN 2011

Source: The Hudson Report, Hong Kong - Q1 2012



SALARY INCREASES FOR NEW MANAGERIAL HIRES

MOST NEW HIRES RECEIVING PAY RISES

Companies in all sectors are still prepared to pay salary increases to attract new managerial hires. Just 10% of respondents across all sectors say they do not expect to have to pay any increment to new hires, while 46% say they will pay rises of more than 10%.

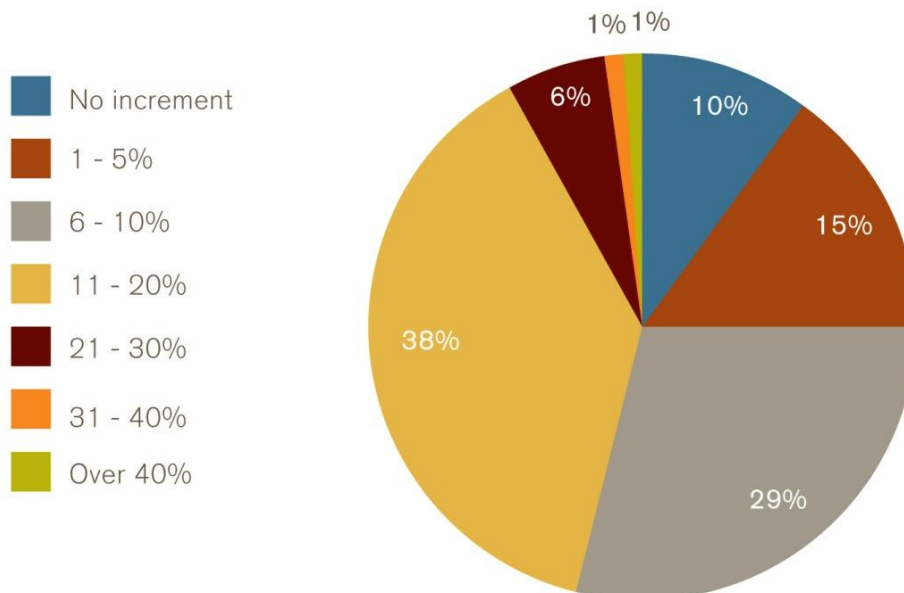
These figures are affected by the very high increases being offered in the Banking & Financial Services sector, where 48% expect to pay rises in the 11-20% range and a further 14% will offer more than 20%. Both figures are much higher than those for the other sectors. This industry is driven by monetary rewards and even though hiring expectations are relatively low this quarter, financial institutions are still prepared to pay well to attract top talent when they do have positions to fill.

More than half (51%) of respondents in the IT&T sector say they will either pay no increment or just 5% or less. However, 34% are willing to offer pay rises of more than 10%, the second highest proportion after the Banking & Financial Services sector. Of these, 3% will pay more than 30%, the highest figure for all the sectors surveyed. This suggests that talented IT professionals with sought after skills can still command substantial increases.

Thirty percent of respondents in the Manufacturing & Industrial sector expect that salary rises for new managerial hires will exceed 10%. Employers in this sector do not offer large increments for all positions but are prepared to pay above the market rate for candidates with international exposure, experience in multinational corporations and good language skills. Candidates with regional or international experience in supply chain roles are especially sought after and can expect significant increases.

SALARY INCREMENTS TO ATTRACT NEW MANAGERIAL TALENT

Source: The Hudson Report, Hong Kong - Q1 2012



FACTORS AFFECTING MANAGERIAL SALARIES

TOP PRIORITY IS ABILITY TO RETAIN TALENTED STAFF

Respondents were asked about the key performance criteria that affect base salaries for managerial hires.

Across all sectors, the ability to retain talented staff is seen as the single most important factor, being mentioned by 58% of respondents. Attracting candidates in areas with skill shortages and keeping up with the competition are also seen as key criteria in determining managerial salaries. They are mentioned by 51% and 49% respectively.

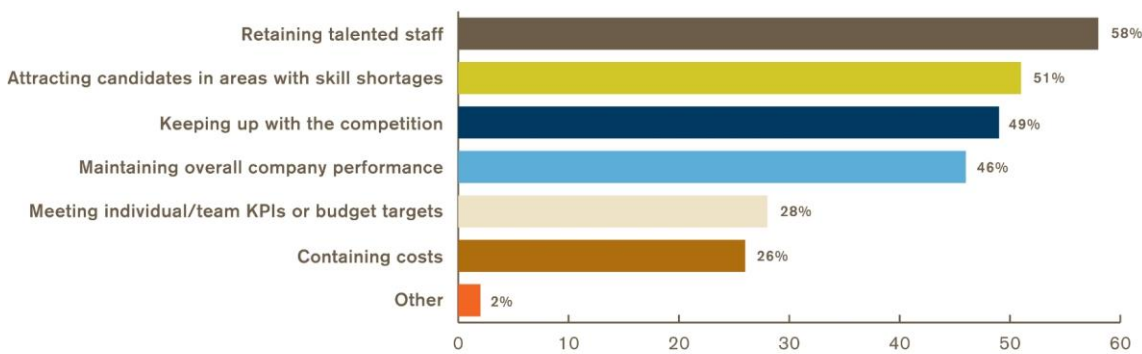
At 78%, the Media / PR / Advertising sector has by far the highest proportion of respondents who mention retaining talented staff. Employers in this sector also see attracting candidates in areas with skill shortages as important, with 61% giving this response. This business needs talented creative staff and although agencies prefer to retain talent wherever possible, they also recognise the need to have managers who can recruit the right candidates.

Respondents in the Manufacturing & Industrial sector place almost equal emphasis on attracting candidates in areas with skill shortages and retaining talented staff. These factors are cited by 51% and 49% respectively. Many companies require professionals with niche product knowledge and specialist skills so they are very focused on retaining and attracting staff.

Keeping up with the competition is a top priority in the Banking & Financial Services sector, where 53% give this response. The difficult market environment is making this industry even more competitive. The downturn is also forcing financial institutions to cut costs wherever possible: 30% of respondents say that managers must be able to contain costs, the highest proportion giving this response, along with the Consumer sector.

FACTORS MOST INFLUENCING BASE SALARY FOR MANAGERIAL HIRES

Source: The Hudson Report, Hong Kong - Q1 2012



Note: Figures do not add up to 100% as respondents could select more than one option.

STAFF RETENTION AND MOTIVATION

MONETARY INCENTIVES BY FAR THE MOST IMPORTANT

Money is widely seen as the most effective way of retaining and motivating high performers. Across all sectors, 74% of respondents say that their organisation will use monetary incentives and bonuses as a retention and motivation tool in 2012. This figure is by far the highest for all the suggested initiatives and also higher than the comparable figures for China and Singapore.

Unsurprisingly, financial initiatives are most highly valued in the Banking & Financial Services sector, where 85% say they will offer monetary incentives in 2012 and 24% mention stock option programmes. Both figures are the highest out of all the sectors surveyed. This sector is driven by financial rewards, which are seen as an effective tangible means of recognising high performers.

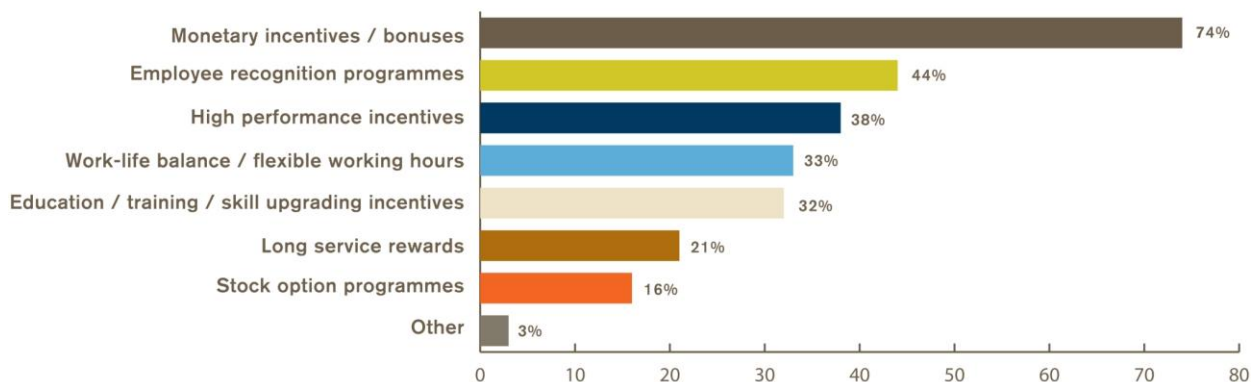
At 33%, the Media / PR / Advertising sector has the lowest proportion of respondents who see monetary rewards as a

useful retention and motivation tool. Employers in this sector tend to focus on non-financial incentives such as high performance awards, work-life balance and long service rewards. These approaches are mentioned by 78%, 61% and 39% respectively, all much higher figures than for any other sector. Many employees in this industry work long hours under great pressure and programmes that help staff to spend time away from work and improve their work-life balance are seen as very attractive.

Although both the Consumer and Manufacturing & Industrial sectors recognise the value of monetary incentives as a motivational tool – this factor is cited by 75% and 64% respectively – they also place a high priority on education, training and skill upgrades. Forty-five percent of respondents in the Consumer sector mention this approach and 40% in Manufacturing & Industrial. Staff in manufacturing companies, in particular, are keen to upgrade their technical skills and obtain qualifications in such areas as SAP skills.

INITIATIVES USED TO RETAIN AND MOTIVATE HIGH PERFORMERS IN 2012

Source: The Hudson Report, Hong Kong - Q1 2012



Note: Figures do not add up to 100% as respondents could select more than one option.

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