



April – June 2009

Hudson



The Hudson Report

Hiring and HR Trends
CHINA

Introduction



The Hudson Report is a quarterly survey of forward-looking employer hiring expectations. The report in Asia covers China (Beijing and Shanghai), Japan, Hong Kong and Singapore and now combines the expectations of nearly 3,000 key employment decision-makers in these four markets.

Participants in this survey are primarily executives at multinational firms and were personally surveyed in February 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 more than 3,000 professionals serving clients and candidates in more than 20 countries. More information is available at www.hudson.com.

Key Findings



“EXPECTATIONS ARE HIGHER THAN IN THE OTHER MARKETS SURVEYED IN ASIA BUT ARE AT THEIR LOWEST SINCE Q4 2001. THE PROPORTION OF EMPLOYERS PLANNING TO REDUCE HEADCOUNT HAS MORE THAN DOUBLED THIS QUARTER.”

MARK CARRIBAN, MANAGING DIRECTOR, ASIA

Hiring expectations continue to fall and this survey of 843 executives across key business sectors shows that 30% plan to grow headcount in Quarter Two (Q2) 2009, compared with 34% in Q1 2009.

- Despite falling for three consecutive quarters, hiring expectations in China remain higher than in the other Asian markets surveyed;

- Across all the business sectors surveyed, 55% of employers have taken steps to reduce HR-related costs in the last six months;
- Reducing headcount and lower bonus payments are the most widely adopted measures to cut costs;
- Companies are using a range of methods to recruit new staff, with direct recruitment being the most frequently used;
- Open communication and CEO reinforcement messages are seen as the most effective ways of maintaining staff morale in tough economic conditions.

Permanent hiring expectations



EXPECTATIONS STILL HIGHEST IN ASIA – BUT FALLING

Although hiring expectations remain significantly higher than in any other market surveyed in Asia, they have fallen for the third consecutive quarter. Across all sectors, 30% of respondents plan to increase hiring this quarter, compared with 34% in Q1. The percentage of respondents saying they will cut headcount has jumped from 8% to 21%.

Consumer

The Consumer sector reports the highest expectations: 41% expect to grow headcount, compared with 47% in the previous quarter. The proportion of respondents forecasting a headcount reduction has risen from 5% to 14%.

Media/PR/Advertising

Media/PR/Advertising firms are relatively optimistic, with 39% of respondents saying they will hire more staff and just 12% planning to reduce headcount, a lower figure than for any other sector. There is some variation between the different businesses that make up this sector. Hiring expectations are falling among PR agencies but many media and advertising firms are reactivating business plans frozen at the end of 2008 and are actively seeking sales and business development professionals. The rapid development of interactive and digital media is boosting demand for staff.

Banking & Financial Services

The steep decline in expectations reported by the Banking & Financial Services sector in Q1 2009 appears to be levelling off. The proportion of respondents anticipating headcount growth has fallen slightly, from 29% in Q1 2009 to 27% this quarter. More than half (53%) expect hiring to remain steady, the highest figure for the sectors surveyed. Many banks are now focusing on internal restructuring.

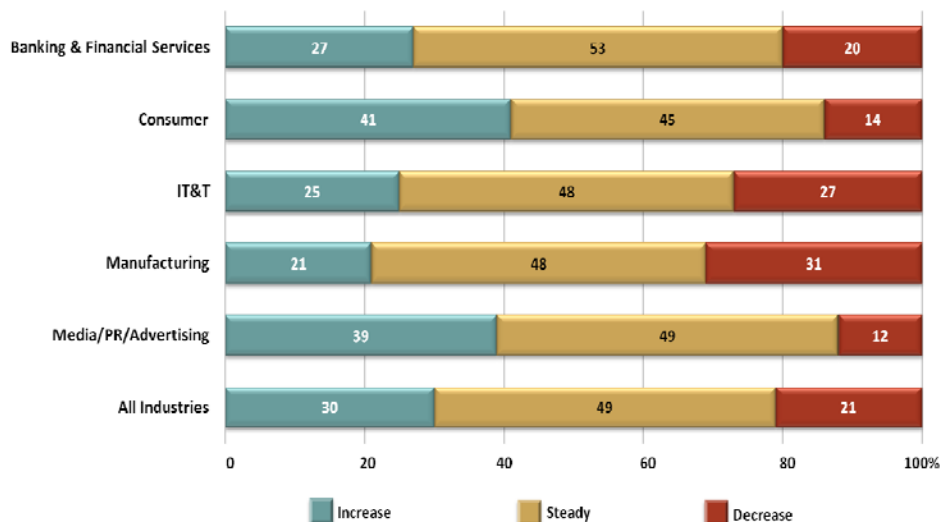
IT & T

Among IT&T firms, a higher proportion of respondents plan to cut headcount this quarter than to increase it; 27% say they will reduce hiring, while 25% will hire more staff. The IT&T sector has been severely affected by the impact of the global economic downturn on car makers and automotive parts suppliers.

Manufacturing

Manufacturing companies report the sharpest fall in hiring expectations. Just 21% plan to increase hiring, down from 30% in Q1 2009. The proportion of respondents expecting to reduce headcount shows a substantial rise, from 11% to 31% this quarter. The areas that have been hit particularly hard by the downturn include construction, automotive and supply chain, while employers in the chemical and engineering sectors remain relatively buoyant.

Permanent hiring expectations in China



Source: The Hudson Report, China - Q2 2009

Permanent hiring expectations over time



HIRING EXPECTATIONS AT SEVEN YEAR LOW

Hiring expectations continue to fall over the longer term and are now at the lowest level recorded by *The Hudson Report* since Q4 2001. There has also been a substantial fall over the last year. Across all sectors, the 30% of respondents planning to grow headcount this quarter compares with 52% in Q2 2008, when all industries were still very positive. The proportion forecasting a headcount reduction has climbed from 1% to 21% this quarter.

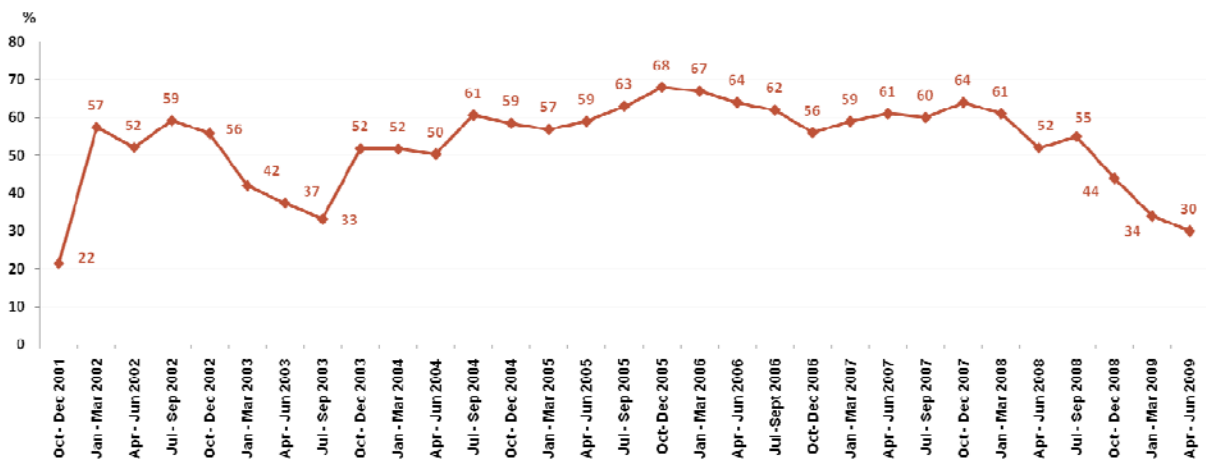
The Manufacturing sector reports the most dramatic change in expectations year-on-year. The proportion of respondents expecting to hire more has dropped from 53% in Q2 2008 to 21% this quarter, while the proportion saying they will cut staff is now 31%, up from just 1% in Q2 2008. These figures reflect

the fact that the effects of the downturn are now being felt throughout the economy, not just in the financial sector.

Expectations are also falling sharply in the Banking & Financial Services sector year-on-year. The 57% who forecasted headcount growth a year ago compares with 27% this quarter. In Q2 2008 the US sub-prime crisis had yet to have a major impact on the Chinese banking sector but its effects have been widely felt over the last year. There is still some hiring activity, however, notably for sales professionals with corporate banking experience.

Hiring expectations are falling most slowly among Consumer companies: 41% plan to grow headcount, a slight decline from 45% in Q2 2008. The luxury goods segment is severely affected by the downturn but FMCG companies remain fairly buoyant.

Expectation to hire over time - China



Source: The Hudson Report, China - Q2 2009

Cost-cutting initiatives



MORE THAN HALF RESPONDENTS HAVE CUT COSTS

More than half of the respondents surveyed report that their organisation has implemented initiatives to reduce HR-related costs in the last six months. Across all sectors, 55% say that their organisation has done so, while 45% have not yet taken any action. Within these overall figures, however, there are significant differences between the sectors.

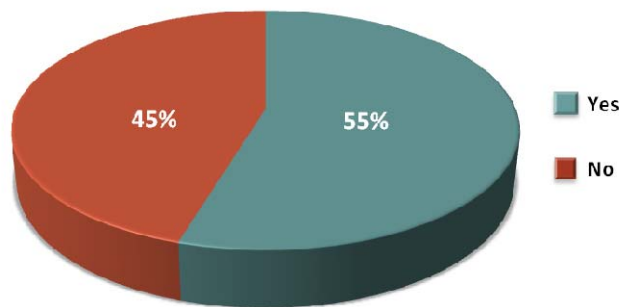
Manufacturing companies are the most likely to have implemented HR-related cost-cutting measures, with over two-thirds (68%) of respondents in this sector reporting that their organisation has done so. China is still widely seen as an attractive manufacturing location and companies are working

hard to cut costs and remain competitive.

At 61%, the Banking & Financial Services sector also has a higher than average proportion of respondents whose organisations have cut HR-related costs in the last six months. As noted, banks have been severely affected by the global economic downturn.

Companies in the Consumer sector are less likely to have implemented cost-cutting measures than those in other industries. Just 37% of respondents say their organisation has done so. Continuing demand for everyday goods means that this sector has so far been insulated from the worst effects of the downturn but the need for cost reductions may increase over the next six months.

Organisations that have implemented cost-cutting initiatives



Source: The Hudson Report, China - Q2 2009

Key cost-cutting measures



HEADCOUNT AND BONUSES BOTH AFFECTED

Reducing headcount and lower bonus payments are the most widely adopted initiatives to cut HR-related costs. Across all sectors, 39% of respondents say their organisation has implemented headcount reductions in the last six months, while 35% report that bonuses have been cut. The latter is a higher figure than for any other market surveyed in Asia.

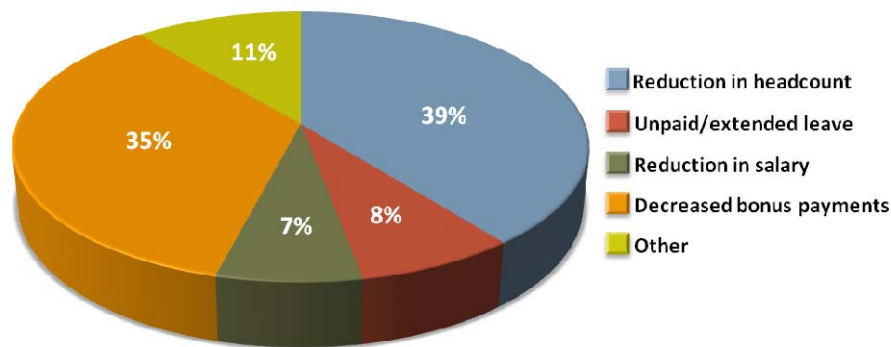
The Consumer and Media/PR/Advertising sectors have the highest proportion of respondents whose organisations have reduced headcount – 45% and 43% respectively. Consumer companies tend to be highly labour-intensive and decreasing headcount has a significant impact on costs. Logistics and

support functions are the first targets for reductions.

Banking & Financial Services is the only sector where reducing headcount is not the single most important cost-cutting initiative: 38% say their organisation has taken this approach, compared with 45% who have cut bonus payments. Bonuses form a large part of total remuneration and reducing them means that banks can make significant savings.

Across all sectors, 11% of respondents report that their organisation has taken “other” measures to cut costs. These measures include freezing headcount and placing tight controls on travel and administration costs. Employers are adopting such tactics in an effort to retain talented staff for as long as possible.

Cost-cutting initiatives implemented by organisations



Source: The Hudson Report, China - Q2 2009

Recruitment methods



DIRECT RECRUITMENT IS MOST POPULAR APPROACH

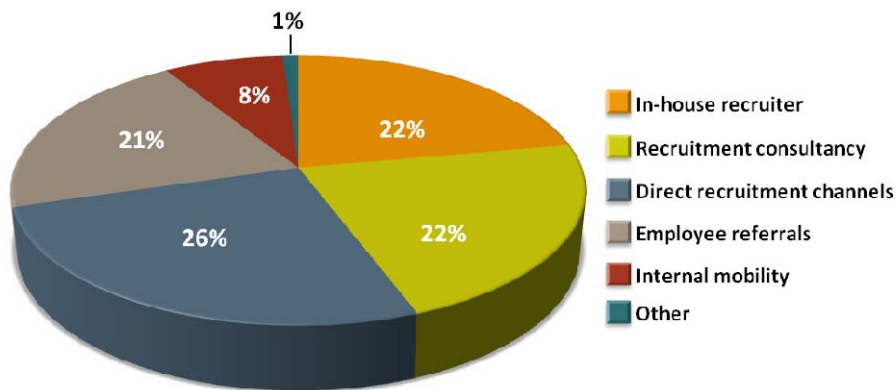
Employers have used a range of methods for recruiting new staff during the last six months. Overall, direct recruitment is the most widely used method, being mentioned by 26% of respondents. In-house recruiters, recruitment consultancies and employee referrals are mentioned by 22%, 22% and 21% respectively.

Direct recruitment is seen as particularly important in the Manufacturing sector, where it has been used by 31% of respondents in the last six months. Companies in this sector are trying hard to cut costs and this is putting HR departments under substantial pressure to reduce recruitment budgets.

Employee referrals are by far the most frequently used method among Media/PR/Advertising firms: 35% of respondents say their organisation takes this approach. This is a tightly-knit business with a relatively small talent pool and many professionals know and have worked with staff in other firms. Personal relationships therefore play an important role in the recruitment process.

Companies in the IT&T and Banking & Financial Services sectors are increasingly using in-house recruiters to find the talent they need, with 29% and 28% respectively saying they have done so in the last six months. There is a marked trend for companies to hire experienced staff from recruitment consultancies and bring the process in-house.

Most frequently used methods for recruiting new staff



Source: The Hudson Report, China - Q2 2009

Maintaining staff morale



OPEN COMMUNICATION AND CEO MESSAGES USED TO BOOST MORALE

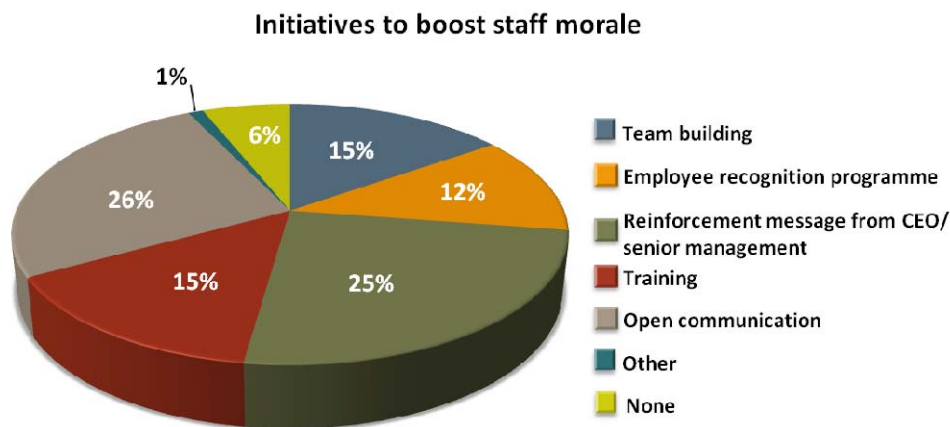
Most companies recognise that they have to take steps to maintain staff morale in today's tough economic climate. Overall, just 6% of respondents report that their organisation is not taking any such measures. Encouraging open communication between managers and staff and reinforcement messages from the CEO or senior management are seen as the most effective means of maintaining morale. Across all sectors, 26% and 25% respectively mention these strategies.

Open communication is seen as particularly important in the Media/PR/Advertising sector, where it is mentioned by 33% of respondents. Companies in this sector tend to be quickly

affected by a downturn and many employers seek to retain key staff by keeping them abreast of current developments.

Compared with the other markets surveyed in Asia, China has a high proportion of companies in which team building and employee recognition programmes are regarded as valuable means of maintaining staff morale. Overall, these approaches are cited by 15% and 12% respectively. Companies in the Consumer sector are the most likely to implement these strategies; they are mentioned by 18% and 15% respectively. This is a labour-intensive business with many customer-facing employees and such methods are seen as highly appropriate.

Training is also seen as an effective means of maintaining morale, particularly in the IT&T sector, where it is used by 19% of respondents. Some companies are using the downturn to train staff in preparation for economic recovery.



Source: The Hudson Report, China - Q2 2009

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