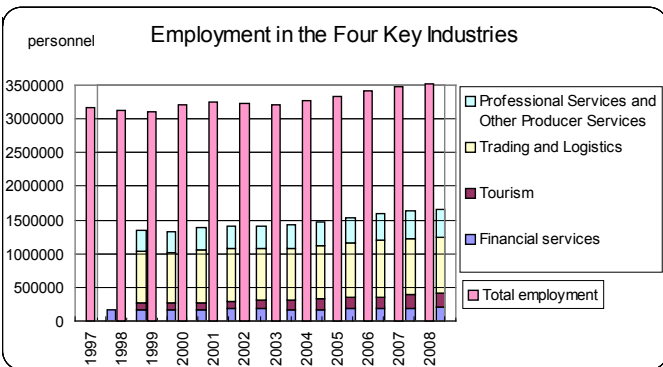
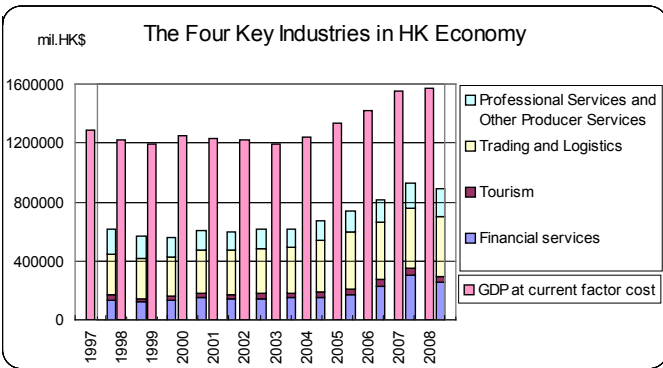


Business Study: Financing and Banking in Hong Kong

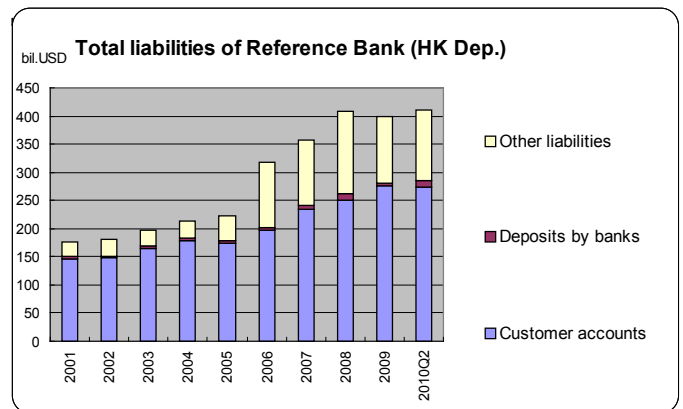
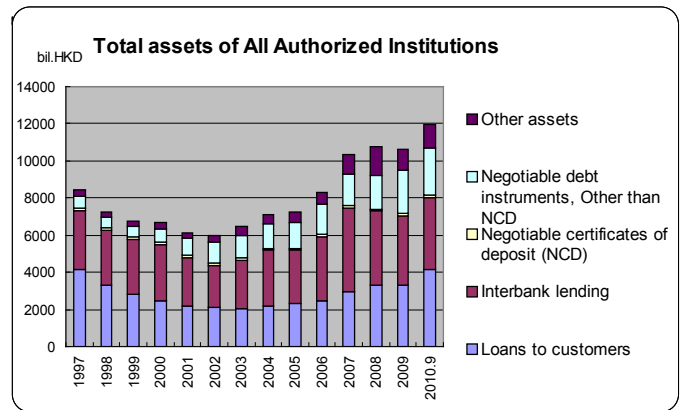
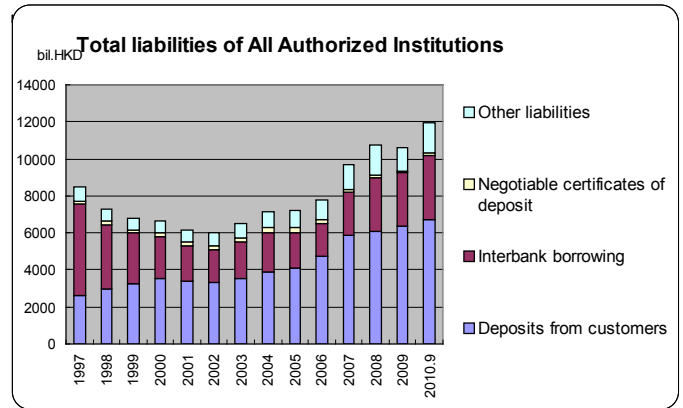
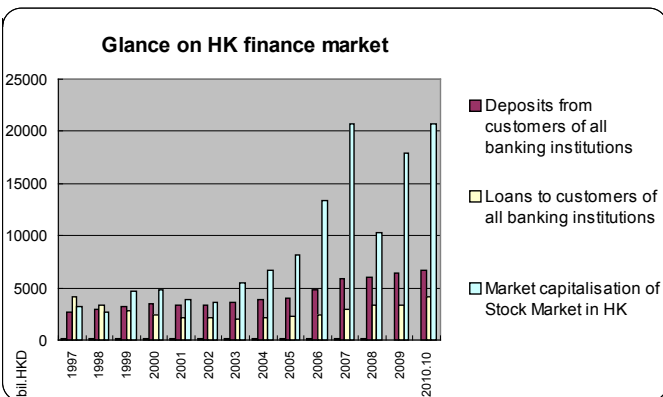
Executive Summary

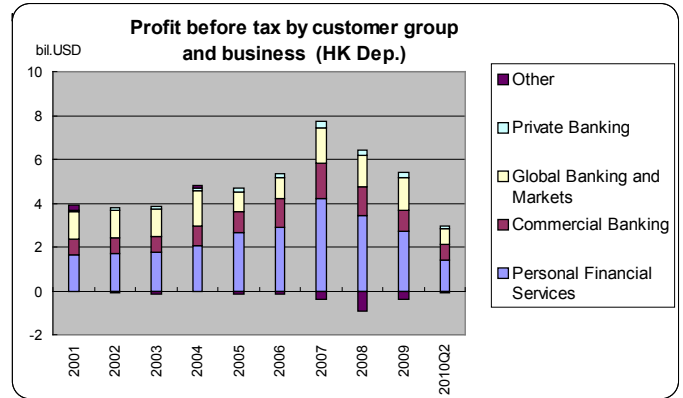
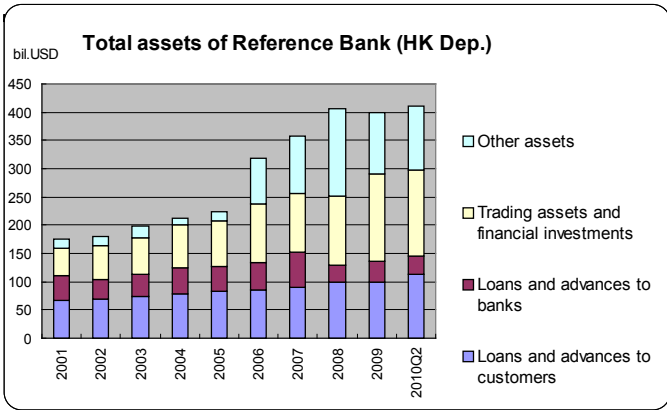
(1) Leading Industry

(2.1) Total Liabilities and Total Assets



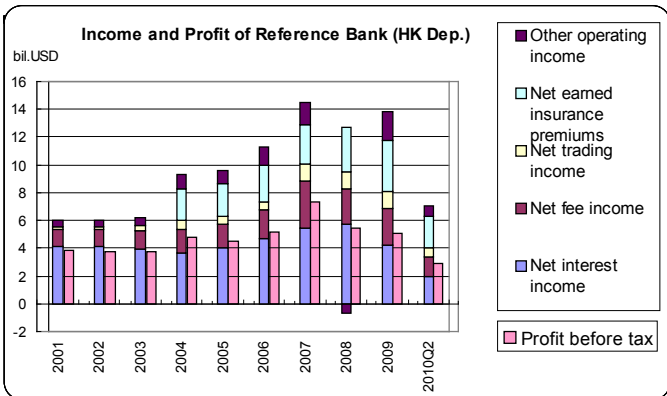
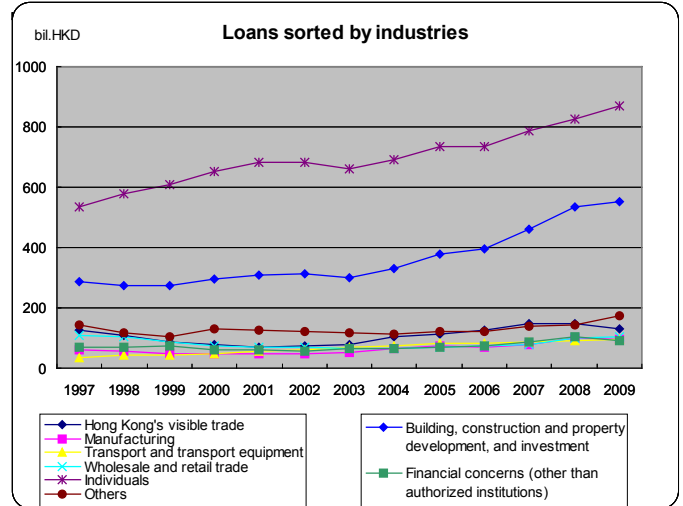
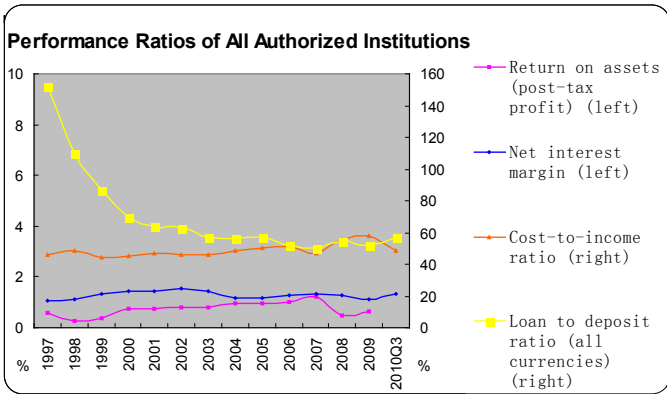
(2) Figures of Financial Services





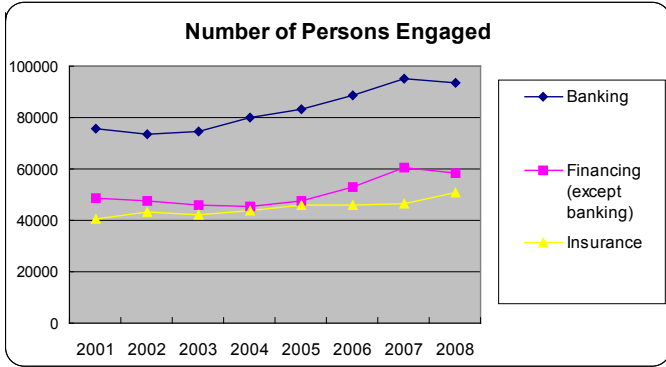
(2.2) Performance

(2.3) Important Customers

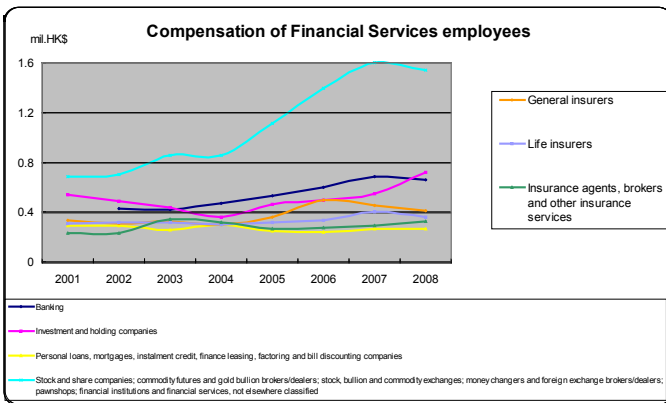


(3) Human Resources

(3.1) Recruitment



(3.2) Compensation



(4) Future Outlook

- * Financial Service industry in Hong Kong is a highly developed industry. It creates high value-added and hires little number employees.
- * Banking services got more money to develop because people prefer putting their money deposit.
- * “Negotiable Assets” are salience assets for banks, the ratio of these assets to Total Assets is back to the average level before 2008.
- * All the formats and ratios for banking industry are still taking place. All the ratios are still kept in their average level.
- * Effect on banking industry after financial tsunami is reduction of Interest Income and shrinking of Personal Financial Services. The result still lasts to 2010.
- * Although government put “Ten Major Infrastructure Projects” into reality soon after financial tsunami, Individuals Loans are still the most significant business in banking industry.

Original Content

Introduction

There are four key industries in Hong Kong. These four key industries are financial services, tourism, trading & logistics and professional services & other producer services. These four key industries compose most of the GDP value addedness of Hong Kong.

Among them, financial services and trading & logistics are the most developed industries in Hong Kong. This report will focus to study financial services.

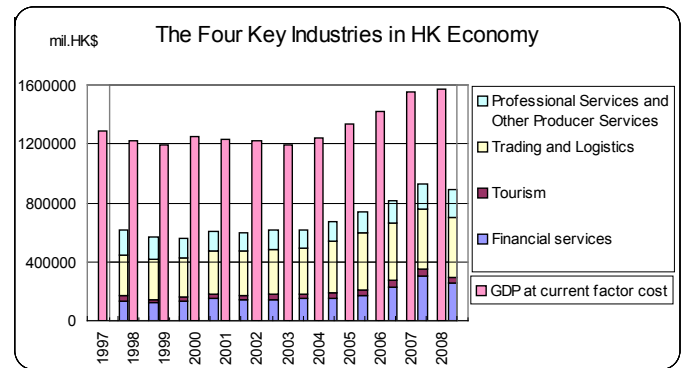
Methodology

This report will study financial services industry in vertical and horizontal ways. After reading this report, readers will have a clear view on the situation about this industry.

(1) Leading Industry

In the 2009 -10 Policy Address, the Chief Executive announced that HK had four key industries. And in the future, these four key industries will still be the pillar industries of HK. Exhibit 1 is the comparison of these four key industries and GDP value.

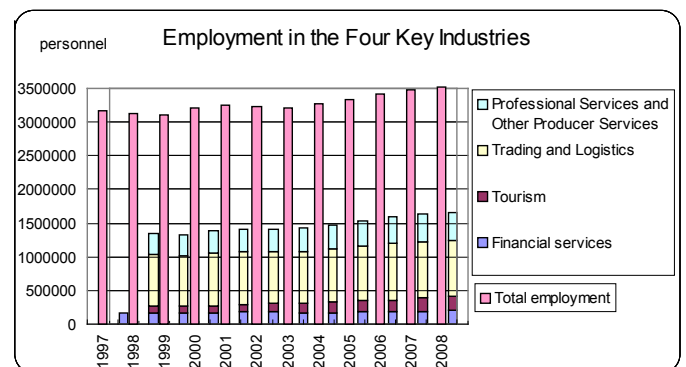
Exhibit 1



Source: H.K. SAR – Census and Statistics Dept. (2010)

From Exhibit 1, one can see that the four key industries occupy over 50% value of GDP in Hong Kong. Financial Services is the foundation industry for other industries. This industry develops in a high speed after year 2005. Except value addedness, the figure of employment also shows how important these four key industries are. Exhibit 2 is the figure of employment in these four key industries.

Exhibit 2

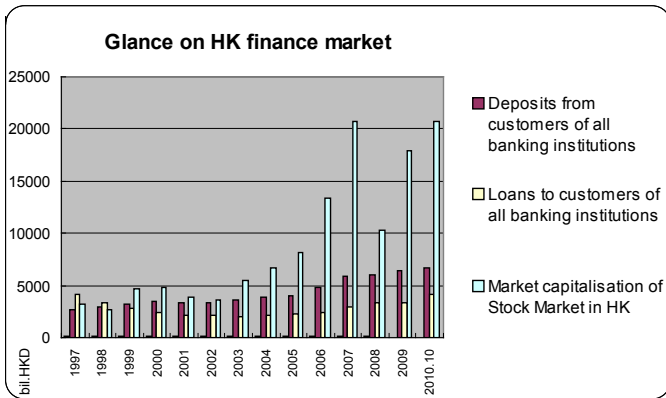


Source: H.K. SAR – Census and Statistics Dept. (2010)

(2) Figures of Financial Services

According to the statistics concluded by HK SAR, financial services contain banking, insurance and financing. Exhibit 3 shows the major figures of this industry.

Exhibit 3



Source: H.K. SAR – Census and Statistics Dept. (2010), and annual reports (1997-2009) & monthly reports of Hong Kong Monetary Authority 2010

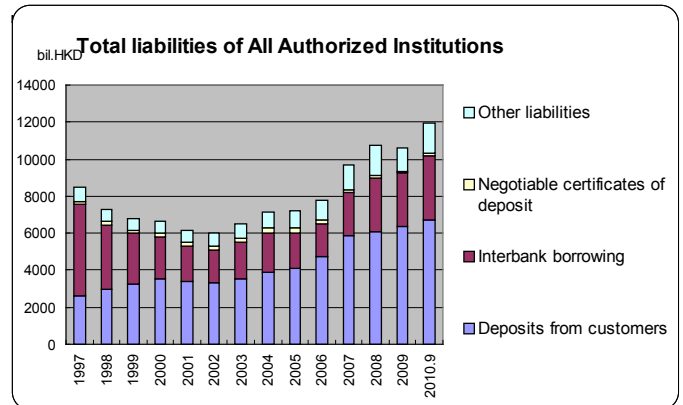
Comparing with the report one year ago, the data “Value Added of Financial Services (Banking)” which are shown in <Report on 2008 Annual Surveys of Storage, Communication, Banking, Financing, Insurance and Business Services> are replaced by NA. It is a point to show that the government is not sure what is the correct information to show. In addition, because the data that is shown in Hong Kong Monetary Authority are limited, this report will study the finance figure of HK through comparing with the data of Hong Kong Monetary Authority and one international banking group.

According to Exhibit 3, it seems that the financial tsunami which spread through out the world didn't affect the operation of financial and banking industry except market capitalisation of stock market.

(2.1) Total Liabilities and Total Assets

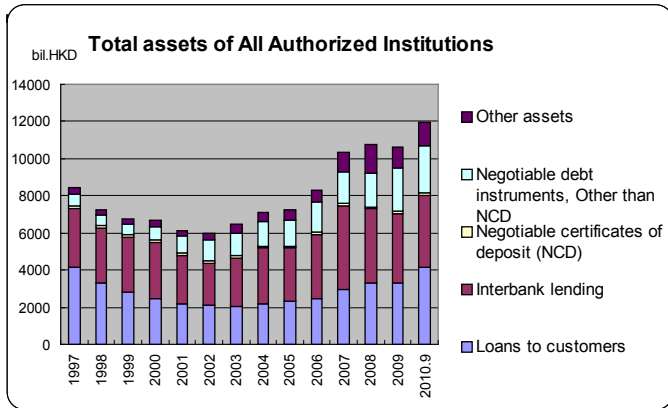
As a bank, the source of its money is mostly deposits. Exhibit 4 and 5 are the liabilities and assets of all authorized institutions in banking area.

Exhibit 4



Source: annual reports (1997-2009) & monthly reports of Hong Kong Monetary Authority 2010

Exhibit 5



Source: annual reports (1997-2009) & monthly reports of Hong Kong Monetary Authority 2010

According to Exhibit 4, one can see that the short period after the financial tsunami, the deposits from customers have increased. Contrarily, the amount of negotiable certificates of deposit is decreased. It means the players are prudent while playing the game.

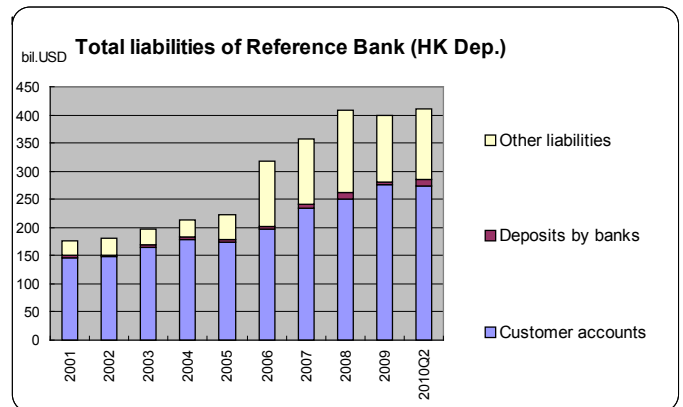
But according to the data, up to Sep.2010, the value of “negotiable certificates of deposit” was up to 147 bil. HKD again. It is about 6/7 of that comparing to year 2007 and about 4/7 to year 2005 (the highest value year).

In Exhibit 5, one can see that all the amount of “loans to customers” and “interbank lending” are occupying “total assets” from 72.2% in year 2007 to 67.2% in Sep.2010. (The details are 71.22% in 2006, 72.2% in 2007, 67.98% in 2008, 67.2% in 2009 and 67.2% in Sep.2010.)

On the other hand, the amount of “negotiable certificates of deposit (NCD)” and “negotiable debt instruments, Other than NCD” increases from 17.2% to 23%. (The details are 20.7% in 2006, 17.2% in 2007, 17.8% in 2008, 23% in 2009 and 23% in Sep.2010.)

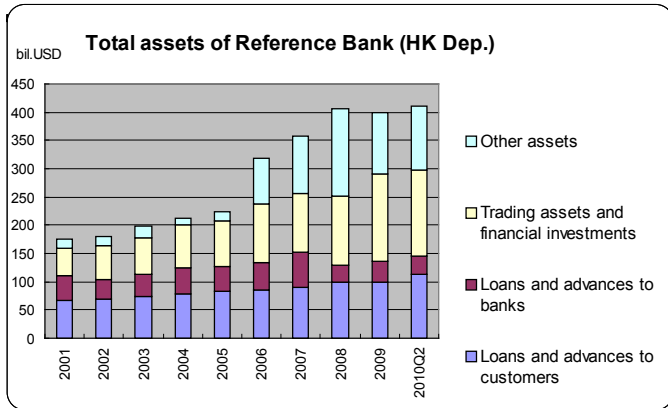
In order to know the banking area in detail, the report will take a famous bank, Hong Kong Bank, in Hong Kong as reference. The following Exhibit 6 and 7 are the liabilities and assets of this famous bank group in Hong Kong area.

Exhibit 6



Source: annual reports (2001-2009) and interim report 2010 of HSBC

Exhibit 7



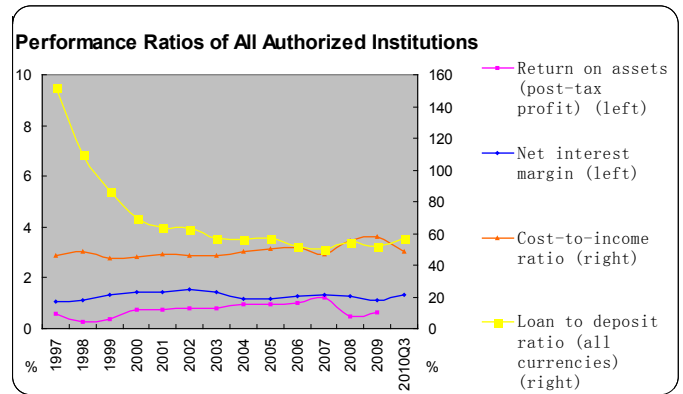
Source: annual reports (2001-2009) and interim report 2010 of HSBC

The situation can match up with all banking institutions. After year 2007, people like to take their deposits into banks most. In addition, financial players pay more and more attention to “trading assets and financial investments” after year 2008. The ratio of “trading assets and financial investments” to total assets are from 30.11% in year 2008 to 36.82% up to Quarter 2 of year 2010. (The details are 32.53% in 2006, 28.63% in 2007, 30.11% in 2008, 38.68% in 2009 and 36.82% in 2010Q2.)

(2.2) Performance

Performance of banking is in a steady manner. Exhibit 8 will present it by some performance ratios.

Exhibit 8

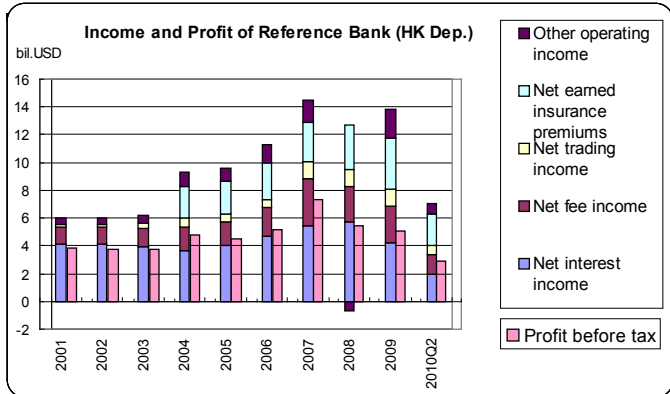


Source: annual reports (1997-2009) & Quarterly reports of Hong Kong Monetary Authority 2010

According to Exhibit 8, one can see that the cost-to-income ratio is getting higher and higher after year 2007. At the same time, ROA gets down in a sharp speed. It means it is a harsh time for the banks to develop. When time comes to 2010, the two ratios are changing. It means the harsh time has been overcome. But this time, ROA seems hard to be calculated. So the data is not found in any updated publications.

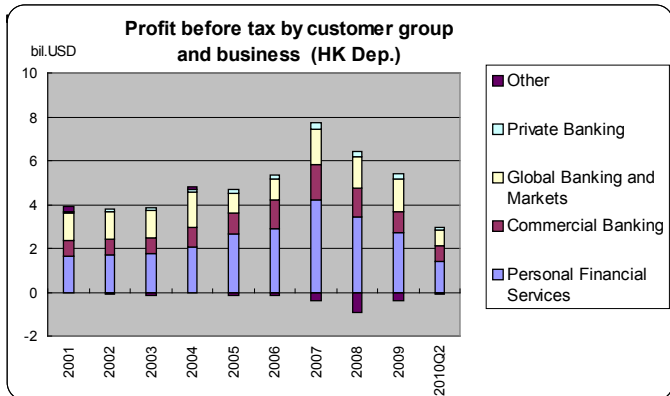
After taking a glance of the whole picture, Exhibit 9 and 10 will focus on detail of the reference bank in their business performance.

Exhibit 9



Source: annual reports (2001-2009) and interim report 2010 of HSBC

Exhibit 10



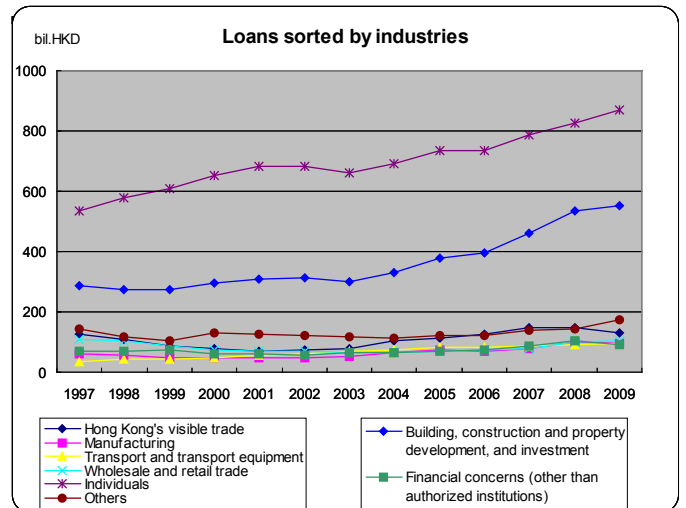
Source: annual reports (2001-2009) and interim report 2010 of HSBC

According to exhibits 9 and 10, one can see that although the income in 2009 was larger than that of 2008, the profit was smaller than those of 2008. The result in year 2010 is expected to be better than the previous years due to the most update figure presented in exhibit 10.

(2.3) Important Customers

After the financial tsunami happened in year 2008, most of the corporations recorded great lost in their annual reports. It made all kinds of industries drop into their harsh times. In that time, what kind of customers were the most valuable customers to retail banks? Exhibit 11 is the picture to show the loans sorted by industries.

Exhibit 11



Source: annual reports of Hong Kong Monetary Authority (1997-2009)

Remark: Individuals include 1) to purchase flats in the Home Ownership Scheme, the Private Sector Participation Scheme and the Tenants Purchase Scheme, 2) to purchase other residential properties, 3) other purposes.

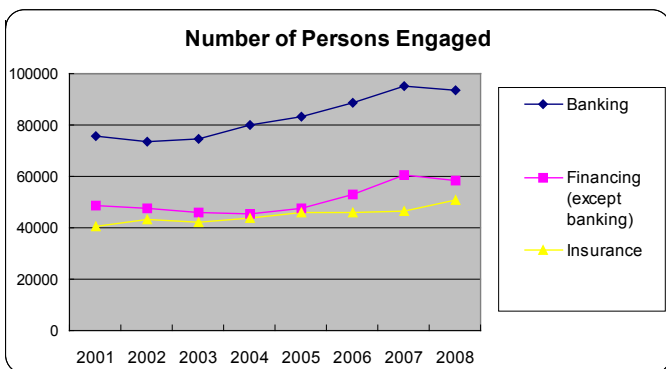
According to Exhibit 11, one can see that individuals and property development and investment can still support the increase of loans in retail banks. In addition, although “Ten Major Infrastructure Projects” has taken place, the slope of curve of “Building, Construction and Property Development, and Investment” is not as sharp as the curve of individuals.

(3) Human Resources

Because the financial establishments in Hong Kong are mostly international corporations, the recruitment requirements are very high. So in these industries, the unemployment rate is very low. But on the other hand, the average working hours in these industries are for more than 48 hours per week.

(3.1) Recruitment

Exhibit 12

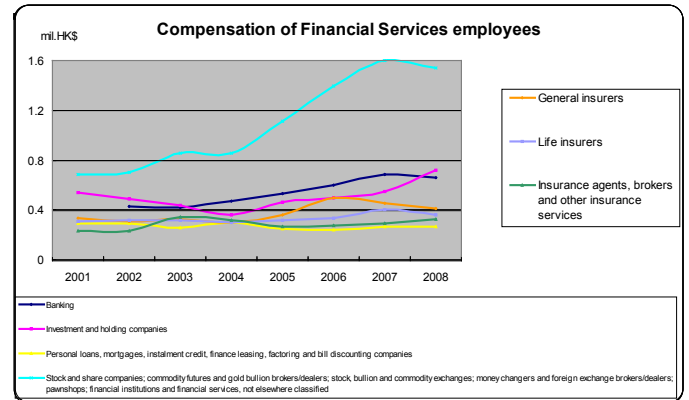


Source: Report on (2001 to 2008) Annual Surveys of Storage, Communication, Banking, Financing, Insurance and Business Services

Exhibit 12 tells that banking always recruits most of the personnel.

(3.2) Compensation

Exhibit 13



Source: Report on (2001 to 2008) Annual Surveys of Storage, Communication, Banking, Financing, Insurance and Business Services

According to Exhibit 13, one can see that the dealers and brokers earn lots of salary than that working in other positions. Besides, working in banking can also earn more than that in other financial services positions.

(4) Future Outlook

According to exhibit 1 and 2, one can see that Financial Service industry in Hong Kong is a highly developed industry. It creates high value-addedness but hires few number of employees.

After the financial tsunami in year 2008, capital market (stock market) gained great hit. It took two years to recover. But banking services got more money to develop because people were more likely to put their money into bank deposit.

In year 2008, “Negotiable Assets” decreased most. But they are salience assets for banks, so up to 2010, the ratio of these assets to Total Assets is back to the average level before 2008.

Since Hong Kong has been the financial center for many years, the infrastructure and regulations for banking industry are firm and steady. Although banking industry was hit and impacted most in year 2008, all the fundamentals are still operational at satisfactory level.

The changes of banking industry after financial tsunami is reduction of Interest Income and shrinking of Personal Financial Services. The impact still exists in the year 2010.

Although government put “Ten Major Infrastructure Projects” into reality. Soon after financial tsunami, individuals loans are still the significant loans to banking industry.

Conclusion

Financial services can be classified as virtual economy. Difference from real economy, they will be in great impact while being hit by outside force. Since Hong Kong has been financial center for many years, formats and ratios for banking industry in the whole economy are firm and steady.

In the year 2008, “Negotiable Assets” decreased most, they are salience assets for banks. So in 2010, the ratio of these assets to Total Assets is back to the average level before 2008.

With regards to compensations, although banking services hire most of the employees, securities companies offer most attractive salary to their employees.

– End of Report –

BY : Jade Xuan

Analyst

(December 2010)

Jade Xuan**Disclaimer**

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