

**Industrials**  
**Construction & Engineering**  
 Equity – India

## Punj Lloyd (PUNJ)

### Underweight (V)

Target price (INR)	110
Share price (INR)	137
Potential return (%)	-19.9

Performance	1M	3M	12M
Absolute (%)	-16.1	-21.4	-32.7
Relative <sup>A</sup> (%)	-13.0	-23.5	-41.6

Index<sup>A</sup> BOMBAY SE IDX

RIC PUJL.BO  
 Bloomberg PUNJ IN

Market cap (USDm) 985  
 Market cap (INRm) 45,630

Enterprise value (INRm) 66,043  
 Free float (%) 32

Note: (V) = volatile (please see disclosure appendix)

UW(V): More pain and no gain

- ▶ **4QFY10 results disappoint, sixth consecutive quarter of project level losses, a bad surprise, expect market to react negatively**
- ▶ **Further write-offs not ruled out given execution delays, cost overruns and dispute with customers over payments**
- ▶ **Reduce our EPS estimate by 36% for FY12 to incorporate execution delays; TP reduced to INR110 (from INR174); UW(V)**

**4QFY10 results – Surprised by losses:** The adjusted loss for 4Q was INR4.6bn against our profit estimate of INR0.7bn and consensus of INR0.9bn. Performance was impacted by 1) lower execution (revenue at INR17.8bn, -45% yoy) and 2) cost overruns at a) Ensus Bio Ethanol project in the UK (this is in addition to INR1.63bn, GBP23.1m liquidated damages claimed by customer in March 2010) and b) ONGC Heera project.

**We fear more pain:** We had highlighted in our note dated 4 March “Further project level losses to impact negatively” that future write-offs cannot be ruled out given the delays in project execution and cost overruns owing to the company’s poor risk management strategy. Further write-offs remain a risk given that 1) cost overruns booked as revenue on the ONGC Heera project (INR2.4bn) have not been acknowledged by the customer, 2) payments withheld by customers (INR1.3bn) and 3) delay in execution at some of its other projects (Ador Power plant and PTT Thailand). Management has already signalled risk of additional cost overruns to be booked on Ensus (extent not disclosed) in FY11.

**Lowering estimates:** We reduce our revenue estimates by 32% and 16% for FY11-12 to incorporate execution delays at its projects in Libya (worth cINR98bn, one-third of total order book). We also lower our EPS forecasts by 61% and 36% for FY11-12 (we expect minimal fixed cost offsets). Our new FY12 EPS is 28% below consensus, and we expect further downward adjustments. Despite the sell-off in the last month (down 17%), we see further weakness on the back of these disappointing results.

**Valuation:** The stock currently trades at a forward PE of 9.5x consensus forecasts. Our target price, which we are lowering by 36% to INR110, implies that in 12 months, the stock will trade at 9x forward PE, and we forecast FY12 EPS of INR12.3. We reiterate our UW(V) rating on the stock. **Key upside risks:** better than expected execution (unlikely) including Libyan orders and recovery of the above-mentioned cost overruns/losses.

*With this note Suman Guliani assumes coverage of Punj Lloyd.*

31 May 2010

**Suman Guliani\***

Analyst  
 HSBC Bank plc  
 +91 80 30013747  
 sumanguliani@hsbc.co.in

**Murtuza Zakiuddin\***

Associate  
 Bangalore

View HSBC Global Research at:  
<http://www.research.hsbc.com>

\*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/qualified pursuant to FINRA regulations

Issuer of report: HSBC Bank plc

### Disclaimer & Disclosures

This report must be read with the disclosures and the analyst certifications in the Disclosure appendix, and with the Disclaimer, which forms part of it

## 4Q results disappointing

The adjusted loss for 4Q was INR4.6bn against our profit estimate of INR0.7bn and consensus of INR0.9bn, which was impacted by 1) lower execution and 2) cost overruns at a) Ensus Bio Ethanol project in the UK (in addition to INR1.63bn, GBP23.1m liquidated damages, LD claimed by customer in March 2010) and b) ONGC Heera project. The company has stated that the Ensus project is commissioned, however there could be additional cost overruns to be booked on Ensus (extent not disclosed) in FY11, while there are no further costs on the Heera project which is to be handed over in 1QFY11.

Table 1: 4QFY10 consolidated results snapshot

INRm	4Q10	4Q09	yoy	Comments
Order book	277,695	208,033	33%	
<b>Net Sales</b>	<b>17,765</b>	<b>32,173</b>	<b>-45%</b>	Lower execution at some of its projects including Libyan orders
Raw material	8,007	11,101	-28%	
% of net sales	45.1%	34.5%		
Contractor charges	3,781	12,344	-69%	
% of net sales	21.3%	38.4%		
Staff cost	3,814	3,783	1%	
% of net sales	21.5%	11.8%		
Other exp.	5,681	3,507	62%	
% of net sales	32.0%	10.9%		
<b>EBITDA</b>	<b>-3,518</b>	<b>1,437</b>	<b>NM</b>	Impacted by cost overruns at a) Ensus Bio Ethanol project in UK and b) ONGC Heera project
EBITDA margin %	-19.8%	4.5%	NM	
Depreciation	680	508	34%	
EBIT	-4,198	929	NM	
EBIT margin %	-23.6%	2.9%		
Interest	728	729	0%	
Other income	-14	134		
PBT	-4,940	334	NM	
Tax	-322	654		
PAT	-4,618	-320	NM	
<b>Net profit (Adjusted)</b>	<b>-4,603</b>	<b>-343</b>	<b>NM</b>	
- Provision for Ensus LD	-1,629			GBP 23.1mn claimed by Ensus as liquidated damages in March 2010
- Provision for SABIC order and others		-2,213		INR2.1bn towards SABIC order executed by Simon Carves Limited
- Gain on sale of investments	3,223			Punj sold its entire stake of 19.43% in Pipavav Shipyard for INR6.6bn with a gain of INR3.1bn
<b>Net profit (Reported)</b>	<b>-3,009</b>	<b>-2,556</b>	<b>NM</b>	
Net profit margin %	-16.9%	-7.9%		

Source: Company data, HSBC

## We fear more pain

The earlier aggressive bidding by Punj Lloyd to secure projects has taken a toll on its profitability. In addition to the write-offs in FY09-10, we believe further write-offs remain a risk given:

- ▶ **Deductions by customers:** Customers have deducted or withheld INR1243m towards payment to Punj Lloyd for projects undertaken (INR655mn by ONGC and significant portion of balance amount, INR588m relates to the Dahej-Vijapur pipeline project).
- ▶ **Delay at ONGC Heera project:** Cost overruns in ONGC's Heera Platform development project due to design changes and increases in the scope of work. Punj Lloyd had booked INR2.4bn of revenue for this cost overrun; however, the customer has yet to agree to these escalations.

- ▶ **Delay in execution at Ador power plant project in Indonesia (project cost INR3.3bn):** The company has indicated that the extension is granted by the client, however, the possibility of damages cannot be ruled out.
- ▶ **2-3 month delay in execution of petrochemical plant for PTT Thailand (project cost USD150m):** This is due to design changes by the client and other contractors. The order was originally scheduled to be completed by March 2010; it is now expected to be completed by June 2010.

## Project level losses booked in the past five quarters

In the five quarters prior to 4Q, Punj Lloyd had booked total project-related losses of INR7.3bn from its two projects in the UK.

Table 2: Summary of project related losses during the past five quarters

	Loss (INRm)	Order value (INRm)	Comments
<b>FY09 - Low Density Polyethylene Plant for SABIC</b>			
Q3*	-2,072		▶ INR2.1bn towards SABIC order for un-agreed upon cost escalations executed by Simon Carves Limited
Q4	-2,235		▶ INR2.2bn towards performance and advance payment guarantee claims by SABIC for order taken by Simon Carves Ltd in 2006
<b>Total</b>	<b>-4,307</b>	<b>11,685</b>	
<b>FY10 - Bioethanol project for Ensus Ltd</b>			
Q1	-296	NA	▶ INR0.3bn cost overruns on Ensus Ltd Bioethanol project
Q2	-1,040	NA	▶ INR1.0bn cost overruns on Ensus Ltd Bioethanol project
Q3	-1,650	NA	▶ INR1.65bn cost overruns on Ensus Ltd Bioethanol project
<b>Total</b>	<b>-2,986</b>	<b>12,000</b>	<b>GBP160m</b>
<b>Grand total</b>	<b>-7,293</b>		

Source: Company data \* Excludes Foreign exchange losses of INR0.8bn on loans taken by Simon Carves Limited

## Estimate changes

We reduce our revenue estimates by 32% and 16% for FY11-12 to incorporate execution delays at its projects in Libya (worth cINR98bn, one-third of total order book). We also lower our EPS forecasts by 61% and 36% for FY11-12 (we expect minimal fixed cost offsets). Our new FY12 EPS is 28% below consensus, and we expect further downward adjustments.

Table 3.: Summary of estimate changes

INRm	Net Sales			EBIDTA			Net profit		
	New	Old	% change	New	Old	% change	New	Old	% change
FY11e	102,774	151,580	-32.2%	8,222	12,460	-34.0%	2,003	5,100	-60.7%
FY12e	144,774	172,161	-15.9%	11,582	14,615	-20.8%	4,091	6,430	-36.4%

Source: HSBC estimates

Table 4: Libyan orders - No significant execution till date (c35% of order book worth INR278bn)

Awardee	Value (INRmn)	Project	Awarded in
International Investment and Services Company (IISCO)	59,040	1) Develop Al-Meatega Resort Village, luxurious villa resort located on a 40 hectare site in Tripoli (by 2012) and 2) Al-Ghiran Village, residential and commercial apartments (By 2011) 3) Al-Froseya Hotel, a five star hotel (By 2011)	1QFY10
Housing and Infrastructure Board	18,732	Designing, procurement, installation and commissioning of utilities for three towns of Libya i.e. at Zawara, Ragdaleen and Al Jamail Towns (within 48 months)	1QFY10
Housing and Infrastructure Board	3,820	EPC for the execution of utilities in Tripoli, Libya	4QFY09
Housing and Infrastructure Board	2,230	EPC for the execution of utilities in Souk Al Juma	4QFY09
Housing and Infrastructure Board	14,530	Upgrade infrastructure of Arada, an existing township in Tripoli ( commissioning of infrastructure networks, water sewerage, storm water mains & branch lines, roads and other facilities) for Arada Zome	3QFY09
<b>Total</b>	<b>98,352</b>		

Source: Company data

Note: We do not factor the above orders into our forecasts given the low visibility in terms of extent of execution (*minimal/none advances in some cases as per the management*)

## Valuation and risks

PUNJ currently trades at a forward PE of 9.5x consensus forecasts. We use a target PE multiple of 9x on FY12e EPS of INR12.3 to arrive at our new target price of INR110 (from INR174). Despite the 17% sell-off in the last month, we see further weakness on the back of these disappointing results.

Under our research model, for stocks with a volatility indicator, the Neutral band is 10ppt above and below the hurdle rate for Indian stocks of 10.5%, or 0.5-20.5% around the current share price. Our new target price of INR110 suggests a negative potential return of 19.9%; thus we stay Underweight (V).

**Key upside risks:** better than expected execution including Libyan orders, order inflows and recovery of cost overruns/losses.

## Financials & valuation

### Financial statements

Year to	03/2009a	03/2010e	03/2011e	03/2012e
<b>Profit &amp; loss summary (INRm)</b>				
Revenue	119,120	125,210	102,774	144,774
EBITDA	8,108	10,540	8,222	11,582
Depreciation & amortisation	-1,771	-2,018	-2,299	-2,440
Operating profit/EBIT	6,337	8,523	5,923	9,142
Net interest	-1,462	-2,290	-2,934	-3,036
PBT	13	1,552	2,990	6,106
HSBC PBT	4,875	6,232	2,990	6,106
Taxation	-2,260	-1,994	-987	-2,015
Net profit	-2,253	-442	2,003	4,091
HSBC net profit	2,608	4,238	2,003	4,091

### Cash flow summary (INRm)

Cash flow from operations	-10,304	-3,081	3,976	-5,703
Capex	-7,265	-3,000	-2,000	-2,000
Cash flow from investment	-8,417	-3,060	-2,060	-2,060
Dividends	-107	-233	-271	-271
Change in net debt	18,297	-388	-1,705	7,975
FCF equity	-12,708	-1,401	1,976	-7,703

### Balance sheet summary (INRm)

Intangible fixed assets	0	0	0	0
Tangible fixed assets	21,727	22,709	22,411	21,971
Current assets	82,955	90,021	83,576	104,599
Cash & others	8,122	9,510	11,694	3,720
Total assets	111,292	119,400	112,716	133,359
Operating liabilities	48,952	49,974	41,019	57,782
Gross debt	35,592	36,592	37,072	37,072
Net debt	27,470	27,082	25,377	33,352
Shareholders funds	25,265	31,352	33,143	37,023
Invested capital	47,608	53,247	53,274	65,068

### Ratio, growth and per share analysis

Year to	03/2009a	03/2010e	03/2011e	03/2012e
---------	----------	----------	----------	----------

#### Y-o-y % change

Revenue	53.6	5.1	-17.9	40.9
EBITDA	26.5	30.0	-22.0	40.9
Operating profit	28.1	34.5	-30.5	54.3
PBT	-99.7	11482.2	92.6	104.3
HSBC EPS	-24.4	55.3	-54.7	104.3

#### Ratios (%)

Revenue/IC (x)	3.0	2.5	1.9	2.4
ROIC	-2660.0	-4.8	7.5	10.4
ROE	9.9	15.0	6.2	11.7
ROA	-394.5	-1.1	3.5	5.1
EBITDA margin	6.8	8.4	8.0	8.0
Operating profit margin	5.3	6.8	5.8	6.3
EBITDA/net interest (x)	5.5	4.6	2.8	3.8
Net debt/equity	108.7	86.4	76.6	90.1
Net debt/EBITDA (x)	3.4	2.6	3.1	2.9
CF from operations/net debt			15.7	

#### Per share data (INR)

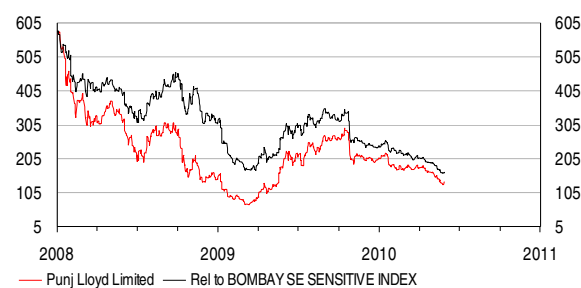
EPS reported (fully diluted)	-7.42	-1.39	6.04	12.35
HSBC EPS (fully diluted)	8.60	13.35	6.04	12.35
DPS	0.30	0.63	0.70	0.70
Book value	83.26	98.77	100.02	111.72

### Valuation data

Year to	03/2009a	03/2010e	03/2011e	03/2012e
EV/sales	0.6	0.5	0.6	0.5
EV/EBITDA	8.2	6.3	7.8	6.2
EV/IC	1.4	1.2	1.2	1.1
PE*	16.0	10.3	22.7	11.1
P/Book value	1.7	1.4	1.4	1.2
FCF yield (%)	-32.6	-3.6	5.1	-19.8
Dividend yield (%)	0.2	0.5	0.5	0.5

Note: \* = Based on HSBC EPS (fully diluted)

### Price relative



Source: HSBC

Note: price at close of 28 May 2010

# Disclosure appendix

## Analyst Certification

The following analyst(s), economist(s), and/or strategist(s) who is(are) primarily responsible for this report, certifies(y) that the opinion(s) on the subject security(ies) or issuer(s) and/or any other views or forecasts expressed herein accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Suman Guliani

## Important disclosures

### Stock ratings and basis for financial analysis

HSBC believes that investors utilise various disciplines and investment horizons when making investment decisions, which depend largely on individual circumstances such as the investor's existing holdings, risk tolerance and other considerations. Given these differences, HSBC has two principal aims in its equity research: 1) to identify long-term investment opportunities based on particular themes or ideas that may affect the future earnings or cash flows of companies on a 12 month time horizon; and 2) from time to time to identify short-term investment opportunities that are derived from fundamental, quantitative, technical or event-driven techniques on a 0-3 month time horizon and which may differ from our long-term investment rating. HSBC has assigned ratings for its long-term investment opportunities as described below.

This report addresses only the long-term investment opportunities of the companies referred to in the report. As and when HSBC publishes a short-term trading idea the stocks to which these relate are identified on the website at [www.hsbcnet.com/research](http://www.hsbcnet.com/research). Details of these short-term investment opportunities can be found under the Reports section of this website.

HSBC believes an investor's decision to buy or sell a stock should depend on individual circumstances such as the investor's existing holdings and other considerations. Different securities firms use a variety of ratings terms as well as different rating systems to describe their recommendations. Investors should carefully read the definitions of the ratings used in each research report. In addition, because research reports contain more complete information concerning the analysts' views, investors should carefully read the entire research report and should not infer its contents from the rating. In any case, ratings should not be used or relied on in isolation as investment advice.

## Rating definitions for long-term investment opportunities

### Stock ratings

HSBC assigns ratings to its stocks in this sector on the following basis:

For each stock we set a required rate of return calculated from the risk free rate for that stock's domestic, or as appropriate, regional market and the relevant equity risk premium established by our strategy team. The price target for a stock represents the value the analyst expects the stock to reach over our performance horizon. The performance horizon is 12 months. For a stock to be classified as Overweight, the implied return must exceed the required return by at least 5 percentage points over the next 12 months (or 10 percentage points for a stock classified as Volatile\*). For a stock to be classified as Underweight, the stock must be expected to underperform its required return by at least 5 percentage points over the next 12 months (or 10 percentage points for a stock classified as Volatile\*). Stocks between these bands are classified as Neutral.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation of coverage, change of volatility status or change in price target). Notwithstanding this, and although ratings are subject to ongoing management review, expected returns will be permitted to move outside the bands as a result of normal share price fluctuations without necessarily triggering a rating change.

\*A stock will be classified as volatile if its historical volatility has exceeded 40%, if the stock has been listed for less than 12 months (unless it is in an industry or sector where volatility is low) or if the analyst expects significant volatility. However,

stocks which we do not consider volatile may in fact also behave in such a way. Historical volatility is defined as the past month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility has to move 2.5 percentage points past the 40% benchmark in either direction for a stock's status to change.

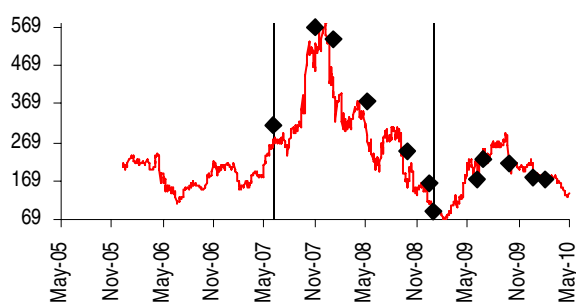
## Rating distribution for long-term investment opportunities

As of 31 May 2010, the distribution of all ratings published is as follows:

Overweight (Buy)	50%	(13% of these provided with Investment Banking Services)
Neutral (Hold)	37%	(12% of these provided with Investment Banking Services)
Underweight (Sell)	13%	(11% of these provided with Investment Banking Services)

## Share price and rating changes for long-term investment opportunities

Punj Lloyd Limited (PUJL.BO) Share Price performance INR Vs HSBC rating history



Source: HSBC

Recommendation & price target history

From	To	Date
N/A	Overweight (V)	03 July 2007
Overweight (V)	Underweight (V)	26 January 2009
Target Price	Value	Date
Price 1	315.00	03 July 2007
Price 2	570.00	30 November 2007
Price 3	540.00	04 February 2008
Price 4	378.00	02 June 2008
Price 5	247.00	29 October 2008
Price 6	165.00	12 January 2009
Price 7	90.00	26 January 2009
Price 8	174.00	06 July 2009
Price 9	223.00	28 July 2009
Price 10	215.00	26 October 2009
Price 11	180.00	25 January 2010
Price 12	174.00	03 March 2010

Source: HSBC

## HSBC & Analyst disclosures

### Disclosure checklist

Company	Ticker	Recent price	Price Date	Disclosure
PUNJ LLOYD LIMITED	PUJL.BO	137.40	28-May-2010	4

Source: HSBC

- 1 HSBC\* has managed or co-managed a public offering of securities for this company within the past 12 months.
- 2 HSBC expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 3 At the time of publication of this report, HSBC Securities (USA) Inc. is a Market Maker in securities issued by this company.
- 4 As of 30 April 2010 HSBC beneficially owned 1% or more of a class of common equity securities of this company.
- 5 As of 30 April 2010, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of investment banking services.
- 6 As of 30 April 2010, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of non-investment banking-securities related services.
- 7 As of 30 April 2010, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of non-securities services.
- 8 A covering analyst/s has received compensation from this company in the past 12 months.
- 9 A covering analyst/s or a member of his/her household has a financial interest in the securities of this company, as detailed below.

- 10 A covering analyst/s or a member of his/her household is an officer, director or supervisory board member of this company, as detailed below.
- 11 At the time of publication of this report, HSBC is a non-US Market Maker in securities issued by this company and/or in securities in respect of this company

Analysts, economists, and strategists are paid in part by reference to the profitability of HSBC which includes investment banking revenues.

For disclosures in respect of any company mentioned in this report, please see the most recently published report on that company available at [www.hsbcnet.com/research](http://www.hsbcnet.com/research).

\* *HSBC Legal Entities are listed in the Disclaimer below.*

### Additional disclosures

- 1 This report is dated as at 31 May 2010.
- 2 All market data included in this report are dated as at close 28 May 2010, unless otherwise indicated in the report.
- 3 HSBC has procedures in place to identify and manage any potential conflicts of interest that arise in connection with its Research business. HSBC's analysts and its other staff who are involved in the preparation and dissemination of Research operate and have a management reporting line independent of HSBC's Investment Banking business. Information Barrier procedures are in place between the Investment Banking and Research businesses to ensure that any confidential and/or price sensitive information is handled in an appropriate manner.
- 4 As of 30 April 2010, HSBC and/or its affiliates (including the funds, portfolios and investment clubs in securities managed by such entities) either, directly or indirectly, own or are involved in the acquisition, sale or intermediation of, 1% or more of the total capital of the subject companies securities in the market for the following Company(ies) : PUNJ LLOYD LIMITED



# Disclaimer

\* Legal entities as at 31 January 2010

'UAE' HSBC Bank Middle East Limited, Dubai; 'HK' The Hongkong and Shanghai Banking Corporation Limited, Hong Kong; 'TW' HSBC Securities (Taiwan) Corporation Limited; 'CA' HSBC Securities (Canada) Inc, Toronto; HSBC Bank, Paris branch; HSBC France; 'DE' HSBC Trinkaus & Burkhardt AG, Dusseldorf; 000 HSBC Bank (RR), Moscow; 'IN' HSBC Securities and Capital Markets (India) Private Limited, Mumbai; 'JP' HSBC Securities (Japan) Limited, Tokyo; 'EG' HSBC Securities Egypt S.A.E., Cairo; 'CN' HSBC Investment Bank Asia Limited, Beijing Representative Office; The Hongkong and Shanghai Banking Corporation Limited, Singapore branch; The Hongkong and Shanghai Banking Corporation Limited, Seoul Securities Branch; The Hongkong and Shanghai Banking Corporation Limited, Seoul Branch; HSBC Securities (South Africa) (Pty) Ltd, Johannesburg; 'GR' HSBC Pantelakis Securities S.A., Athens; HSBC Bank plc, London, Madrid, Milan, Stockholm, Tel Aviv, 'US' HSBC Securities (USA) Inc, New York; HSBC Yatirim Menkul Degerler A.S., Istanbul; HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC, HSBC Bank Brasil S.A. - Banco Múltiple, HSBC Bank Australia Limited, HSBC Bank Argentina S.A., HSBC Saudi Arabia Limited.

**Issuer of report**

**HSBC Bank plc**

8 Canada Square

London, E14 5HQ, United Kingdom

Telephone: +44 20 7991 8888

Fax: +44 20 7992 4880

Website: [www.research.hsbc.com](http://www.research.hsbc.com)

In the UK this document has been issued and approved by HSBC Bank plc ("HSBC") for the information of its Clients (as defined in the Rules of FSA) and those of its affiliates only. It is not intended for Retail Clients in the UK. If this research is received by a customer of an affiliate of HSBC, its provision to the recipient is subject to the terms of business in place between the recipient and such affiliate.

HSBC Securities (USA) Inc. accepts responsibility for the content of this research report prepared by its non-US foreign affiliate. All U.S. persons receiving and/or accessing this report and wishing to effect transactions in any security discussed herein should do so with HSBC Securities (USA) Inc. in the United States and not with its non-US foreign affiliate, the issuer of this report.

In Singapore, this publication is distributed by The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch for the general information of institutional investors or other persons specified in Sections 274 and 304 of the Securities and Futures Act (Chapter 289) ("SFA") and accredited investors and other persons in accordance with the conditions specified in Sections 275 and 305 of the SFA. This publication is not a prospectus as defined in the SFA. It may not be further distributed in whole or in part for any purpose. The Hongkong and Shanghai Banking Corporation Limited Singapore Branch is regulated by the Monetary Authority of Singapore.

In Australia, this publication has been distributed by The Hongkong and Shanghai Banking Corporation Limited (ABN 65 117 925 970, AFSL 301737) for the general information of its "wholesale" customers (as defined in the Corporations Act 2001). Where distributed to retail customers, this research is distributed by HSBC Bank Australia Limited (AFSL No. 232595). These respective entities make no representations that the products or services mentioned in this document are available to persons in Australia or are necessarily suitable for any particular person or appropriate in accordance with local law. No consideration has been given to the particular investment objectives, financial situation or particular needs of any recipient.

This publication has been distributed in Japan by HSBC Securities (Japan) Limited. It may not be further distributed, in whole or in part, for any purpose. In Hong Kong, this document has been distributed by The Hongkong and Shanghai Banking Corporation Limited in the conduct of its Hong Kong regulated business for the information of its institutional and professional customers; it is not intended for and should not be distributed to retail customers in Hong Kong. The Hongkong and Shanghai Banking Corporation Limited makes no representations that the products or services mentioned in this document are available to persons in Hong Kong or are necessarily suitable for any particular person or appropriate in accordance with local law. All inquiries by such recipients must be directed to The Hongkong and Shanghai Banking Corporation Limited. In Korea, this publication is distributed by The Hongkong and Shanghai Banking Corporation Limited, Seoul Securities Branch ("HBAP SLS") for the general information of professional investors specified in Article 9 of the Financial Investment Services and Capital Markets Act ("FSCMA"). This publication is not a prospectus as defined in the FSCMA. It may not be further distributed in whole or in part for any purpose. HBAP SLS is regulated by the Financial Services Commission and the Financial Supervisory Service of Korea.

This document is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. HSBC has based this document on information obtained from sources it believes to be reliable but which it has not independently verified; HSBC makes no guarantee, representation or warranty and accepts no responsibility or liability as to its accuracy or completeness. The opinions contained within the report are based upon publicly available information at the time of publication and are subject to change without notice.

Nothing herein excludes or restricts any duty or liability to a customer which HSBC has under the Financial Services and Markets Act 2000 or under the Rules of FSA. A recipient who chooses to deal with any person who is not a representative of HSBC in the UK will not enjoy the protections afforded by the UK regulatory regime. Past performance is not necessarily a guide to future performance. The value of any investment or income may go down as well as up and you may not get back the full amount invested. Where an investment is denominated in a currency other than the local currency of the recipient of the research report, changes in the exchange rates may have an adverse effect on the value, price or income of that investment. In case of investments for which there is no recognised market it may be difficult for investors to sell their investments or to obtain reliable information about its value or the extent of the risk to which it is exposed.

HSBC Bank plc is registered in England No 14259, is authorised and regulated by the Financial Services Authority and is a member of the London Stock Exchange.

© Copyright. HSBC Bank plc 2010, ALL RIGHTS RESERVED. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, on any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of HSBC Bank plc. MICA (P) 177/08/2009