6 February 2009

Equity Strategy
Pan-Asia

HSBC Global Research

AI – Asia Insights

What are the short-term drivers?

- **The earnings season will provide a further drag on markets**
- **But cyclical indicators show the first signs of pick-up…**
- **…and unprecedented rate cuts will boost liquidity**

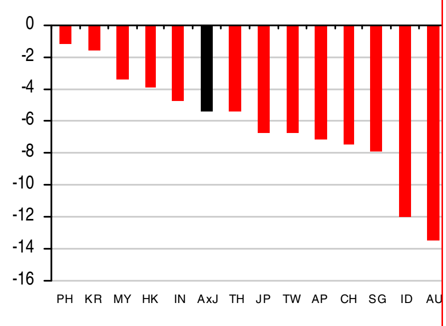
Asian markets have had a disappointing start to 2009. MSCI Asia ex Japan has fallen 5% so far this year, with every country index in negative territory (the best performer, the Philippines, is down 1% – see Chart 1). Weakness in the US, together with worries about earnings, have combined to keep markets just bouncing along the bottom (Chart 2).

We are comfortable with our view – detailed in the Q1 Quarterly – that markets are likely to continue to move in a trading range all year, ending it ±10%. Trying to call the short-term ups and downs is probably a mug's game – not least since the downs are likely to come from inherently unforecastable events such as a bank bail-out or social unrest. But many investors do have to take a month-by-month view. The least we can do is to provide some indicators that might suggest whether you should add to or lighten exposure.

We think there are three key drivers that will move markets over the next couple of months. On the negative side is earnings. The 2008 results for Asian companies are likely to be much worse than analysts expect, as companies "kitchen-sink" problems into last year's numbers. Guidance is likely to be cautious, too, which will trigger further analyst downward revisions. Asia is particularly unfortunate in that the earnings season drags on until April, which means it will take a few more weeks until the bad news is fully out.

By contrast, we would expect to see cyclical and liquidity indicators improve. There are already the first signs of this with the US manufacturing ISM and Chinese money supply growth picking up. Once the earnings season is out of the way, this could trigger a temporary market rally – even if the long-term structural overhangs haven't disappeared.

1. MSCI index performance y-t-d



Source: HSBC, Bloomberg

2. MSCI Asia ex Japan index

Source: HSBC, Bloomberg

Issue no. 73

Garry Evans*
Strategist
The Hongkong and Shanghai Banking Corporation Limited (HK)
+852 2996 6916
garryevans@hsbc.com.hk

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 NYSE and/or NASD regulations

Issuer of report: The Hongkong and Shanghai Banking Corporation Limited

HSBC strategy recommendations

Market Recommendations

Market	HSBC recommendation	Last quarter	Rel Perf 3 mnth	End-2009 target	Current index	Change (%)
Japan	Neutral	Neutral	3.2%	900	804	11.9%
Australia	Neutral	Under	-14.1%	3,800	3,496	8.7%
China	Over	Over	9.3%	45	35	27.2%
Korea	Under	Under	0.9%	1,000	1,158	-13.6%
Taiwan	Neutral	Under	-6.4%	5,000	4,248	17.7%
Hong Kong	Neutral	Neutral	3.3%	16,000	12,579	27.2%
India	Over	Neutral	-7.3%	11,000	9,257	18.8%
Singapore	Over	Over	0.7%	1,900	1,766	7.6%
Malaysia	Under	Over	4.6%	800	880	-9.1%
Indonesia	Neutral	Under	-3.0%	1,400	1,321	5.9%
Thailand	Under	Under	0.3%	400	448	-10.8%
Philippines	Under	Under	2.0%	1,700	1,870	-9.1%
New Zealand	Under	Under	11.6%	n.a	1,927	n/a
Pakistan	Under	Under	-40.4%	n/a	5,140	n/a
Vietnam	No weight	Off-bmk	-11.6%	300	303	-1.1%

Source: HSBC

Sector Recommendations

Sector	HSBC recommendation	Last quarter	Rel Perf 3 mnth	Markets overweight	Markets underweight
Financials	Under	Under	-4.4%	TW	AU, CH, IN, KR, HK, MY, SG
Industrials	Over	Over	6.4%	CH, IN, JP	
IT	Under	Under	-1.4%	IN	JP, KR, TW
Consumer discretionary	Under	Under	-6.9%		CH, IN, KR
Materials	Neutral	Under	4.3%	CH	AU
Telecoms	Neutral	Over	8.1%	IN, JP, KR	CH, TW
Consumer staples	Neutral	Neutral	-2.7%	KR	
Utilities	Neutral	Over	4.9%	CH	HK
Energy	Over	Neutral	5.8%	CH, IN	
Healthcare	Neutral	Over	1.1%	CH, KR	KR

Source: HSBC

Asia's Super Ten

Code	Company	Country/region	Sector	HSBC rating	Upside to target price (%)	Price (local, 2/4/2009)	Market cap (USDm)
2409 TT	AU Optronics	TW	Materials	Overweight (V)	62.2	23.30 (TWD)	5,872
1398 HK	Industrial Com Bank Of Ch	CH	Financials	Overweight (V)	33.7	3.29 (HKD)	187,736
INFO IN	Infosys Technologies	IN	IT	Overweight (V)	13.3	1,279.65 (INR)	14,978
494 HK	Li & Fung	HK	Industrials	Overweight (V)	9.2	15.12 (HKD)	7,086
RIL IN	Reliance Industries	IN	Energy	Overweight (V)	34.4	1,280.00 (INR)	41,174
2727 HK	Shanghai Electric Group	CH	Industrials	Overweight (V)	54.2	2.40 (HKD)	6,268
386 HK	Sinopec	CH	Energy	Overweight (V)	63.0	4.11 (HKD)	87,760
19 HK	Swire Pacific	HK	Industrials	Overweight (V)	29.2	48.00 (HKD)	5,605
2330 TT	Taiwan Semiconductor	TW	IT	Overweight (V)	17.2	41.80 (TWD)	31,737
763 HK	ZTE Corporation	CH	Telecoms	Overweight (V)	47.0	22.45 (HKD)	649

Source: HSBC Note: Valuation and risks discussion as well as analyst certification statement for these stocks can be found in the Top Stock Picks section and disclosures at the end of our *Asia Insights Quarterly* published 5 January 2009.

Earnings to get worse

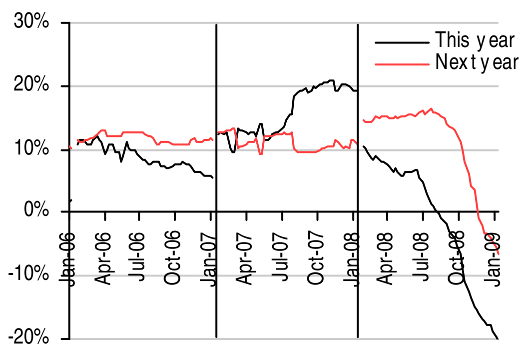
How much easier it would be if Asian companies announced their results more promptly.

The biggest cloud hanging over Asian stock markets at the moment is the probable sharp deterioration in earnings. Given how global growth (and Asian exports) fell off a cliff in October and November, 2008 results are likely to be much worse than analysts currently estimate. Chinese companies, for example, which are obliged to pre-announce within one month of the year-end if net profits have fallen (or risen) more than 50%, have come out with a slew of warnings in the past couple of weeks.

The earnings season is likely to be scary for three reasons: (1) the degree of drop in economic activity in Q4 was unprecedented and its impact on profits therefore hard to quantify; (2) since 2008 earnings will generally be terrible, company managements will be inclined to "kitchen-sink" their numbers, taking the maximum possible write-offs to clear the way for a better 2009; (3) with business sentiment generally at rock-bottom, companies will provide extremely cautious guidance for 2009, probably causing analysts to cut their forecasts further.

Consensus earnings estimates for 2008 have fallen steadily over the past six months. Chart 3 shows how the IBES EPS growth forecast has moved over time (the last point on the "Next year" line still refers to 2009, because IBES does not roll over the data to the next year until February). Analysts estimate that earnings declined by 20% in 2008 – that estimate has fallen from -17% at the end of last year and from -3% at the end of September. But, given the tremendous slowdown in exports and output in the last three months of 2008, it would not be surprising if the final result came in somewhat worse than that – particularly if companies chose to write-off losses in real estate and inventories.

3. Consensus EPS growth forecast, Asia ex Japan



Source: HSBC, IBES, Datastream

And 2009's consensus forecast still looks too optimistic. For Asia ex Japan, analysts forecast a 7% fall in EPS in 2009 (down from a forecast of -3% at the end of last year). But, as Table 4 shows, they are still rather optimistic about a number of countries: notably Korea (where EPS is forecast to grow 6% – contrast that with the -50% Taiwanese analysts are forecasting), China (+5%) and Australia (-1%). In Korea, in particular, we have often found in the past that analysts only revise down the current year's forecast after the preceding year's results have been announced.

4. Consensus EPS growth forecasts (%), by country

	2008 EPS growth	3-mth revision	2009 EPS growth	3-mth revision
PH	-5.9	-8.7	9.5	-11.8
IN	-5.5	-10.0	7.3	-20.6
KR	-27.9	-21.9	5.6	-29.1
CN	-0.2	-14.0	4.7	-19.9
AU	-4.6	-15.6	-0.9	-28.4
ID	6.3	-7.8	-2.2	-28.4
TH	84.4	-17.0	-7.3	-25.3
MY	-14.3	-3.4	-10.0	-14.7
JP	-38.3	-21.1	-10.4	-44.3
HK	-33.5	-7.2	-12.8	-21.9
SG	-9.7	-7.6	-13.8	-22.2
TW	-46.5	-26.5	-50.3	-65.9
AP	-34.7	-25.6	3.7	-33.0
AEJ	-20.2	-16.8	-6.6	-30.0

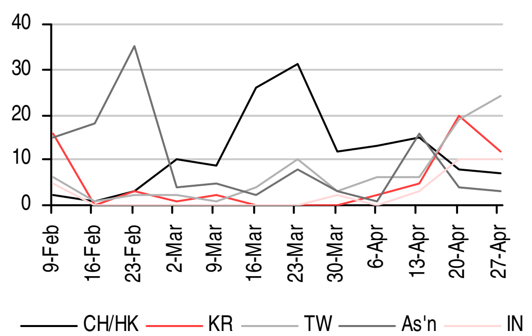
Source: HSBC, IBES, Datastream

All this suggests that the results season could produce a number of negative surprises and that the market will find it hard to rally strongly until this risky period has passed.

That has been the experience in the US where, with about two-thirds of 2008 results for the S&P500 now reported, net profit in Q4 fell 40% y-o-y (and 19% even if financials are excluded). The nasty surprises coming out of the results are doubtless one reason why the US market had its worst January performance ever.

But at least the bad news will be out of the way in the US within the next couple of weeks. In Asia, results come out in dribs and drabs with, at the extreme, Hong Kong-listed companies not required to file until four months after the year-end (and, as they do not report quarterly either, analysts are very much in the dark since the last reported financials were for January-June 2008).

5. No. of MSCI companies announcing results, next 12 weeks



Source: HSBC, Bloomberg

As Chart 5 shows, companies in different markets in Asia report at very different times. India and Japan have mostly March year-ends, but Q3 results for both are almost completed. Many Asean markets are relatively quick to report with, for example, most Malaysia results scheduled to be out by the end of February. Korean companies report quite early – but initially often give only parent numbers (and only in Korean). The laggards are China and Hong Kong, where the peak of results is mid-March and some companies drag out the announcement until the last possible date at the end of April.

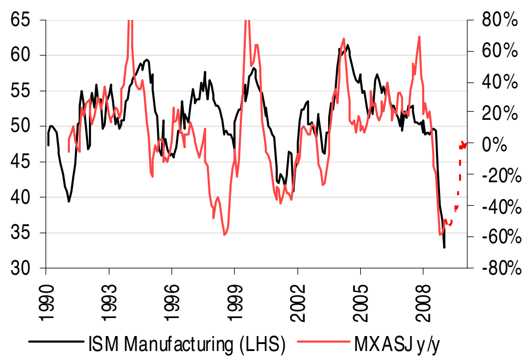
All this means is that the bad news from earnings will not be completely out in the market for another six to eight weeks yet and is likely to remain a drag on stocks for that period.

When will cyclical indicators bounce?

Cyclical lead indicators – the US ISM, PMIs in markets such as China and Hong Kong, and business confidence surveys in Japan and elsewhere – have been disastrously bad recently. In fact, they have been so bad that there is a high chance they will improve over the coming months. Depending on the market's mood at the time, improvements in these short-term sentiment indicators could be a reason for markets to have a bounce.

The January lead indicators are already showing signs of rebounding. Take the US manufacturing ISM, for example, which we have frequently argued has the best correlation, of any economic indicator, with Asian equities. The latest data-point, announced on Monday, showed a small rise to 35.6, from 32.9 (Chart 6).

6. US manuf ISM and MSCI Asia ex Japan (y-o-y change)



Source: HSBC, Bloomberg

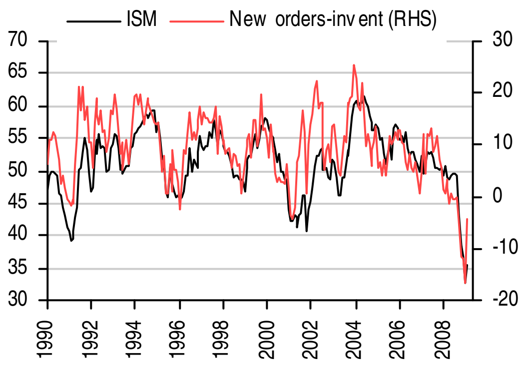
The ISM (and other diffusion indexes calculated in a similar way) are often misinterpreted. It is important to remember that the question asked of businesses is whether their business improved or deteriorated versus the previous month, with the index scoring over 50 when a majority answered that it was improving. So, a score of 35.6 means that conditions are still getting worse, but they are deteriorating less quickly than in the previous month.

But think a little bit further: this implies that when business stops getting any worse (even if conditions are still terrible) the index quickly bounces back to 50. In history, the period between the ISM troughing and its rebounding to 50 has often been quite short: five months in 1991 and four months in 2001, for example (although, admittedly, in the rather nastier recession of 1982 it took nine months to get back to 50).

The chances are quite high, then, that the ISM will be significantly higher in a few months' time. As Chart 6 shows, the correlation between the ISM and Asian stocks is very good. But before investors get too excited about the prospect of Asian equities being higher too, remember that the correlation is with the *year-on-year* change in the stock index. As shown by the red dotted line in the chart, this will automatically improve over the next 12 months if the index just stays at its current level (with the y-o-y change reaching zero by next February). In other words, at the current level, the market has already discounted the ISM getting back to around 50 by early next year. The key, then, is whether it can do this more quickly.

The chances are that it can. A good lead indicator of the ISM itself is new orders minus inventories, which often gives a two to three month guide to where the overall ISM will move. As shown in Chart 7, this bounced sharply last month, to a level which would indicate the ISM recovering to 40-42 over the next couple of months.

7. ISM new orders-inventories

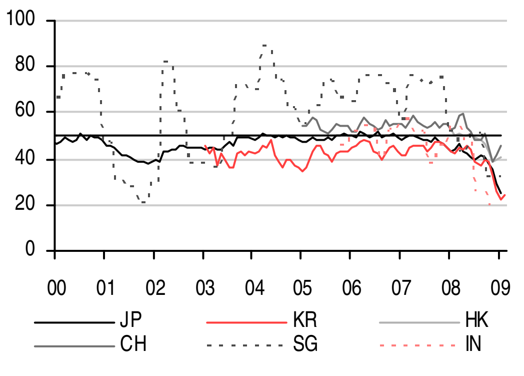


Source: HSBC, Bloomberg

And in Asia?

Asian business sentiment indicators are not as well-established or carefully constructed as the ISM. And mostly they continued to deteriorate in January (see Chart 8). The Japanese Small Business Confidence Index, for example fell to 24.8, compared to 29.4 in December.

8. Selected Asian business sentiment indicators



Source: HSBC, Bloomberg

But there were two exceptions. China's PMI rose to 45.3, the second consecutive monthly rise, after it bottomed at 38.8 in November. And Korea's Business Survey Composite for manufacturing saw a small rise to 49 from 44 (this index uses 100, not 50, as its neutral level).

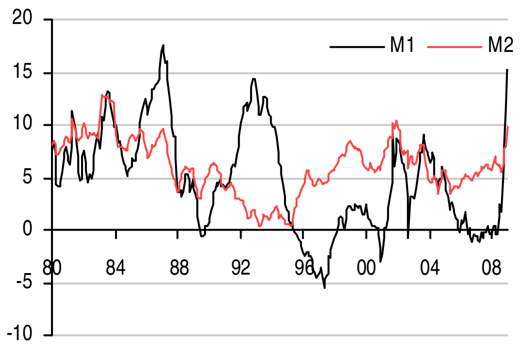
Our feeling is that, short term at least, these indicators are likely to improve further over the next few months, as modest re-stocking from overseas customers kicks in, triggering a moderate rebound (or at least less dramatic decline) in exports and industrial production.

The liquidity story

Interest rate cuts globally and in Asia have been dramatic recently. This week alone, Australia cut rates 100bp to 3.25% and Indonesia cut 50bp to 8.25%. Outside our region, both the UK (at 1.5%) and the US (0-0.25%) have cut rates to historic lows. Does there come a point at which this liquidity injection starts to have an impact on asset markets – particularly in the absence of strong need for funds in the real economy?

Certainly, the monetary stimulus is starting to show through in money supply growth figures. In the US, for example, M1 grew 17% y-o-y in December, up from only 2% back in August (Chart 9). And, despite suggestions that the money multiplier would completely break down and that monetary injections would be pushing on the proverbial piece of string, M2 growth has also picked up modestly.

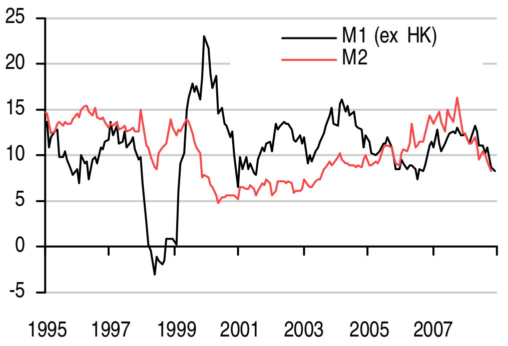
9. US money supply (% y-o-y growth)



Source: HSBC, Bloomberg

In Asia, money supply growth never slowed that much. Chart 10 shows a simple average of M1 and M2 growth for Asia ex Japan (we excluded HK from the M1 numbers because of the extreme volatility of the series). Both M1 and M2 slowed a little over the past 12 months, but continue to grow around 7-8%.

10. Simple average of Asian M1 and M2 growth

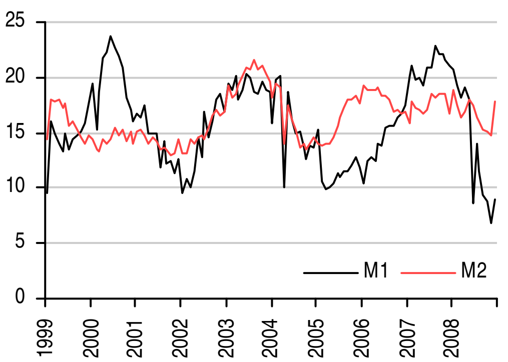


Source: HSBC, Bloomberg

This is important because of the strong correlation between M1 growth and Asian stock markets. There is a 70% correlation with MSCI Asia ex Japan for the period 1996-2008. For individual markets, the correlation is particularly high in Taiwan and Malaysia. Only in Japan is it not significant.

The latest data shows the first signs of M1 picking up again. In China, notably (Chart 11), both M1 and M2 appear to have turned in the past month or two – no doubt triggered by the much-discussed acceleration in bank lending since December. But the phenomenon is not limited to China: M1 has picked up in Korea and Taiwan too, in the past month, although not in Australia, India or Singapore.

11. Money supply growth in China (y-o-y, %)



Source: HSBC, Bloomberg

Before investors get too excited about the prospects of a liquidity-driven rally, Japan's experience in the 1990s provides a salutary lesson. Japan's M1 grew at an annual rate of 16% in 1996 and 30%-plus in 2002, without this having a positive effect on M2 growth (which has never exceeded 5% a year since 1991) or on the stock market. That is why Japan alone has a negative correlation (-16%) between M1 growth and the stock index. Even an aggressive central bank cannot kick-start a motor that is completely dead.

What this all means

It is never easy to forecast short-term movements in markets. We are happy to stick with our main investment advice for this year, which is to invest in Asia's Super Ten, blue-chip stocks that will perform decently through both the rallies and corrections.

But if we had to stick our necks out and suggest a likely scenario for the next few months it would be as follows:

- The market is likely to struggle over the next few weeks as (1) earnings surprise on the downside, (2) hedge funds see large redemptions ahead of the quarter-end, (3) there is further disappointment over the size and contents of the US fiscal stimulus package and new bank bail-out plan, and (4) export and production numbers for January (especially for China) are even worse than the November-December horrors.
- By April or May, the cyclical indicators such as the US ISM should be improving further, and export growth should bottom as a modest re-stocking takes place. Moreover, provided that some sort of fiscal stimulus package does get passed in the US, there should be expectations of a Q3 economic rebound. With earnings expectations for 2009 now cut back to a realistically gloomy level, the market could easily rally for a couple of months.
- However, the rally is very unlikely to turn into a full-blown bull market. There remain too many structural overhangs: under-capitalised banks globally, second-round effects of the economic slowdown in Asia (such as capex declines and rising unemployment), continued falls in the US property market, jitters in currency and government bond markets worldwide as investors digest the implications of zero interest rates and massive increases in budget deficits. With 2010 likely also to see only anaemic growth globally, the market could easily fall again in the second half.

We are comfortable, then, with our view that, after all these ups and downs, Asian equities will end the year close to where they started it. But after the excitements of last year, maybe dull is good. It inevitably will take a year or two of consolidation before stock markets can start to rise sustainably again.

Change to portfolio

We have replaced **China Steel** (2002 TT, TWD23.05) with **AU Optronics** (2409 TT, Overweight (V), TWD25.5) in our Asia Super Ten list (see page 2 of this AI for the full list).

Our analyst Daniel Kang this week became more cautious on the Asian steel sector, arguing that the sector rebound looks premature and that steel prices have not yet bottomed. He downgraded China Steel to Neutral (V) from Overweight (V). In line with our rule that we include only Overweight stocks in our portfolio, we have removed China Steel. He has cut his target price from TWD40 to TWD25, which is based on a PB multiple of 1.3x. The key risk for the stock lies in the movement of steel prices. (See *Asia Steel: sector rebound looks premature*, 5 February, for details.)

AU Optronics fits the criteria for our Super Ten list in that it is large cap (USD6bn), has a healthy balance-sheet (net debt/equity ratio of 17% for 2009e), is the leader in its field globally and, in our view, a long-term winner, but can currently be bought at a very cheap valuation (PB of 0.7x). It is in a very cyclical industry and we forecast that it will make a net loss of TWD6bn this year. But we expect that short-term re-stocking demand, low inventories and supply control will cause panel prices to recover over the course of 2009.

Our analyst, Frank Su, has a target price of TWD37.8 for AU Optronics, based on a PB of 1.0x, AU's trough valuation since 2005. The main downside risk to his view is a greater decline in panel prices than he currently expects. (See *AU Optronics: Improving Prospects*, 22 January, for details.)

Disclosure appendix

Analyst certification

The following analyst(s), who is(are) primarily responsible for this report, certifies(y) that the opinion(s) on the subject security(ies) or issuer(s) and 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: Garry Evans

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. 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.

Prior to this, from 7 June 2005 HSBC applied a ratings structure which ranked the stocks according to their notional target price vs current market price and then categorised (approximately) the top 40% as Overweight, the next 40% as Neutral and the last 20% as Underweight. The performance horizon is 2 years. The notional target price was defined as the mid-point of the analysts' valuation for a stock.

From 15 November 2004 to 7 June 2005, HSBC carried no ratings and concentrated on long-term thematic reports which identified themes and trends in industries, but did not make a conclusion as to the investment action that potential investors should take.

Prior to 15 November 2004, HSBC's ratings system was based upon a two-stage recommendation structure: a combination of the analysts' view on the stock relative to its sector and the sector call relative to the market, together giving a view on the stock relative to the market. The sector call was the responsibility of the strategy team, set in co-operation with the analysts. For other companies, HSBC showed a recommendation relative to the market. The performance horizon was 6-12 months. The target price was the level the stock should have traded at if the market accepted the analysts' view of the stock.

Rating distribution for long-term investment opportunities

As of 05 February 2009, the distribution of all ratings published is as follows:

Overweight (Buy)	40%	(30% of these provided with Investment Banking Services)
Neutral (Hold)	38%	(33% of these provided with Investment Banking Services)
Underweight (Sell)	22%	(23% of these provided with Investment Banking Services)

Information regarding company share price performance and history of HSBC ratings and price targets in respect of its long-term investment opportunities for the companies the subject of this report,is available from www.hsbcnet.com/research.

HSBC & Analyst disclosures

Disclosure checklist

Company	Ticker	Recent price	Price Date	Disclosure
AU OPTRONICS	2409.TW	25.50	04-Feb-2009	5, 6, 7
CHINA STEEL CORP	2002.TW	23.05	04-Feb-2009	6, 7
INDUSTRIAL COM BANK OF CHINA	1398.HK	3.36	04-Feb-2009	4
INFOSYS TECHNOLOGIES	INFY.NS	1281.65	04-Feb-2009	6
LI & FUNG	0494.HK	14.74	04-Feb-2009	1, 2, 4, 5, 6, 7, 11
RELIANCE INDUSTRIES	RELI.BO	1307.50	04-Feb-2009	2, 5, 6, 9, 11
SINOPEC	0386.HK	4.34	04-Feb-2009	2, 4, 5, 6, 7
SWIRE PACIFIC	0019.HK	46.50	04-Feb-2009	2, 4, 5, 6, 7, 11
ZTE CORPORATION	0763.HK	24.00	04-Feb-2009	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 31 December 2008 HSBC beneficially owned 1% or more of a class of common equity securities of this company.
5 As of 31 December 2008, 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 31 December 2008, 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 31 December 2008, 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 are paid in part by reference to the profitability of HSBC which includes investment banking revenues.

For disclosures in respect of any company, please see the most recently published report on that company available at www.hsbcnet.com/research.

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

Additional disclosures

1 This report is dated as at 06 February 2009.
2 All market data included in this report are dated as at close 04 February 2009, 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. Chinese Wall 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 31 December 2008, HSBC beneficially owned 2% or more of a class of common equity securities of the following company(ies) : LI & FUNG

HSBC

Disclaimer

** Legal entities as at 22 October 2008*
'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; 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 Múltiplo, HSBC Bank Australia Limited, HSBC Bank Argentina S.A., HSBC Saudi Arabia Limited.

Issuer of report
The Hongkong and Shanghai Banking Corporation Limited
Level 19, 1 Queen's Road Central
Hong Kong SAR
Telephone: +852 2843 9111
Telex: 75100 CAPEL HX
Fax: +852 2596 0200
Website: www.research.hsbc.com

This document has been issued by The Hongkong and Shanghai Banking Corporation Limited ("HSBC") 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 is regulated by the Securities and Futures Commission. All enquires by recipients in Hong Kong must be directed to your HSBC contact in Hong Kong. If it 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. 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. Expressions of opinion are those of the Research Division of HSBC only and are subject to change without notice. HSBC and its affiliates and/or their officers, directors and employees may have positions in any securities mentioned in this document (or in any related investment) and may from time to time add to or dispose of any such securities (or investment). HSBC and its affiliates may act as market maker or have assumed an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis and may also perform or seek to perform investment banking or underwriting services for or relating to those companies.

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 the UK this report may only be distributed to persons of a kind described in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001. The protections afforded by the UK regulatory regime are available only to those dealing with a representative of HSBC Bank plc in the UK. 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.

In Japan, this publication has been distributed by HSBC Securities (Japan) Limited. It may not be further distributed in whole or in part for any purpose.

Global Equity Strategy Research Team

Global

Kevin Gardiner
Global Sector Head
+44 20 7991 6714 kevin.gardiner@hsbcib.com

Europe

Robert Parkes
+44 20 7991 6716 robert.parkes@hsbcib.com

CEMEA

John Lomax
+44 20 7992 3712 john.lomax@hsbcib.com

Asia

Garry Evans
+852 2996 6916 garryevans@hsbc.com.hk

Leo Li
+852 2996 6919 leofli@hsbc.com.hk

Steven Sun
+852 2822 4298 stevensun@hsbc.com.hk

Jacqueline Tse
+852 2996 6602 jacquelinetse@hsbc.com.hk

Vivek Misra
+91 80 3001 3699 vivekmisra@hsbc.co.in