ABOUT US : Website : **stocktipindia.co.cc**

INDIAN STOCKMARKET PREDICTIONS:-Main purpose is to predict the future movements of indian stock markets and indian stocks well before the real movement starts. In this manner to enable all its members to think and prepare for trading in the right direction.Thus opening a gate for earning maximum and bulk of profits for all of its members **AT FREE OF COST**.

(A). FOR FREE EUITY TIPS ON YOUR MOBILE JUST
SMS

JOIN STOCKTIPS08
and Sent on
567673434

or click

http://www.smsgupshup.com/groups/stocktips08

http://www.stocktipindia.co.cc

(B). FOR FREE OPTION TIPS ON YOUR MOBILE
SEND SMS

JOIN OPTIONMASTERS
and send on
567673434

OR Click

http://www.smsgupshup.com/groups/OPTIONMASTERS

visit:

stocktipindia.co.cc

12 September 2008

Equity Strategy
Pan-Asia

HSBC Global Research

AI – Asia Insights

The world's last bulls

- **Indian investors must be the only bulls left in the world**
- **We think their expectations of lower rates and strong earnings are over-optimistic. We remain underweight**
- **Elsewhere bears are ubiquitous, but behaviour has not become ultra-bearish yet**

The worst is not, so long as we can say "This is the worst" (Shakespeare, King Lear)

They are an increasingly rare breed, but we have found a herd of them at last – bulls, that is. In marketing trips over the past few months to the US, Europe and around Asia (even in China and Korea) we do not remember meeting a single bullish investor. Some fund managers have been less bearish than others, but we do not recall a single one telling us they had a high conviction that stocks would rise strongly over coming months.

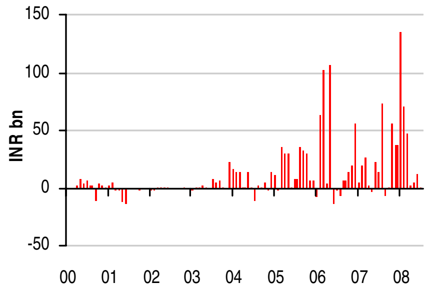
We were shocked, then, to find in meeting fund managers in India this week that perhaps two-thirds are outright bullish, some extremely so, and many are puzzled as to why the Indian market has fallen at all this year and why foreigners have been net sellers. Their bullishness is perhaps understandable when you look at how strongly the Indian market has performed in the past two months, outperforming MSCI Asia ex Japan by 25% and enjoying a nice summer rally while that in the rest of the region petered out (Chart 1). They are also enjoying the luxury of net inflows: Indian domestic equity funds have seen average monthly inflows of INR39bn this year, compared to INR20bn last year (Chart 2).

Outside of India, bulls are non-existent. But, while investors may talk bearishly, they have not necessarily acted that way yet. Mutual fund cash holdings, hedge fund returns and analysts' recommendations have all become a little more bearish in recent months, but none are at capitulation levels yet. The bear market goes on.

1. MSCI India rel to MSCI Asia ex Japan

Source: HSBC, Bloomberg

2. Monthly flows to Indian domestic equity funds



Source: AMFI

Issue no. 63

Garry Evans*
Strategist
The Hongkong and Shanghai Banking Corporation Limited
+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

Recommended market weights

Market	HSBC recommended weight	Benchmark weight	Weighting	End-08 target	Current index	YTD perf *	12-mth fwd PE	EPS growth forecast 2008
Japan	47.5%	47.2%	NEUTRAL	1,350	1,212	-16%	13.8	-3%
Australia	12.5%	14.9%	UNDER	5,500	5,116	-23%	11.5	8%
China	10.5%	8.3%	OVER	70	57	-33%	11.7	14%
Korea	8.0%	8.1%	NEUTRAL	1,400	1,407	-38%	8.9	8%
Taiwan	5.5%	6.4%	UNDER	7,500	6,700	-22%	11.9	-14%
HK	5.0%	5.0%	NEUTRAL	24,000	21,042	-30%	14.2	-27%
India	3.0%	3.6%	UNDER	14,000	15,050	-37%	14.6	20%
Singapore	4.5%	2.7%	OVER	3,300	2,759	-19%	12.6	-3%
Malaysia	2.0%	1.4%	OVER	1,350	1,087	-29%	11.6	-11%
Indonesia	0.5%	0.9%	UNDER	2,200	2,159	-20%	10.5	17%
Thailand	0.0%	0.8%	UNDER	750	660	-26%	8.8	115%
Philippines	0.0%	0.2%	UNDER	#N/A	3,367	-34%	#N/A	#N/A
Pakistan	0.0%	0.1%	UNDER	#N/A	9,230	-43%	#N/A	#N/A
Vietnam	1.0%	0.0%	OFF-BMK	400	539	-40%	13.2	#N/A

Source: HSBC (Weights relative to MSCI Asia Pacific) *MSCI index in USD terms

Recommended sector weights

Sector	HSBC recommended weight	Benchmark weight	Weighting	Overweights	Underweights
Financials	23.0%	25.8%	UNDER	CH, HK	AU, IN, JP, TW
Industrials	13.5%	15.1%	UNDER	IN, JP, MY	AU, CH, KR, TW
IT	11.0%	13.2%	UNDER	IN	CH, JP, KR, TW
Cons Discretionary	10.5%	11.9%	UNDER	HK, TW	AU, CH, IN, JP, KR
Materials	10.5%	11.8%	UNDER	KR, TW	AU, CH, IN, JP, KR
Energy	5.5%	5.2%	NEUTRAL	CH, TW	
Telecoms	8.5%	5.1%	OVER	ID, IN, KR, JP, SG	HK
Cons Staples	8.0%	5.1%	OVER	AU, CH, HK, KR, MY, TW	
Utilities	3.5%	3.6%	NEUTRAL	AU	HK, IN
Health Care	6.0%	3.2%	OVER	AU, CH, HK, JP, KR	

Source: HSBC (Weights relative to MSCI Asia Pacific)

Top high-conviction buy ideas

Code	Name	Country/ region	Sector	HSBC rating	Upside to target price (%)	Price (local curr)	Market cap (USDm)
1398 HK	IND & COMM BK OF CHINA - H	CH	Financials	Overweight (V)	33.0	5.19 (HKD)	222,945
SCR US	SIMCERE PHARMACEUTICAL	CH	Healthcare	Overweight (V)	37.6	12.99 (USD)	812
8277 HK	WUMART STORES INC-H	CH	Consumer	Overweight (V)	18.0	7.80 (HKD)	1,109
823 HK	LINK REIT	HK	Real Estate	Overweight	19.6	17.98 (HKD)	4,970
19 HK	SWIRE PACIFIC LTD 'A'	HK	Industrials	Overweight	29.3	78.90 (HKD)	9,241
LT IN	LARSEN & TOUBRO LIMITED	IN	Industrials	Overweight (V)	22.9	2,687.80 (INR)	17,681
9433 JP	KDDI CORP	JP	Telecoms	Overweight	40.6	626,000.00 (JPY)	25,889
000640 KS	DONG-A PHARMACEUTICAL	KR	Healthcare	Overweight	20.3	104,500 (KRW)	933
033780 KS	KT&G CORP	KR	Consumer	Overweight	11.7	94,000 (KRW)	11,519
005490 KS	POSCO	KR	Materials	Overweight (V)	42.1	471,500 (KRW)	35,792
1303 TT	NAN YA PLASTICS CORP	TW	Materials	Overweight	34.6	48.30 (TWD)	11,562

Source: HSBC Note: These stocks are chosen by the strategy team from among HSBC analysts' top large cap Overweights (in terms of upside to target price) with reference to the markets or sectors where the strategy team has an overweight call. A summary of valuation and risks can be found from p77 of *Pan-Asian Equity Strategy: Headwinds?*, pub. 7 Jul 2008.

Top sell ideas

Code	Name	Country/ region	Sector	HSBC rating	Downside to target price (%)	Price (local curr)	Market cap (USDm)
1088 HK	CHINA SHENHUA ENERGY	CH	Materials	Underweight (V)	-6.0	25.00 (HKD)	71,077

Source: HSBC Note: These stocks are chosen by the strategy team from among HSBC analysts' top large cap Underweights (in terms of downside to target price) with reference to the markets or sectors where the strategy team has an underweight call. A summary of valuation and risks can be found from p77 of *Pan-Asian Equity Strategy: Headwinds*, pub. 7 Jul 2008

HSBC

Why Indians are so bullish

There is a certain psychology about managing money. When you continue to receive cash to invest, it is hard to feel too bearish. That is doubly true when you live in a country about whose long-term future you feel tremendously optimistic.

Strong inflows

Domestic Indian equity mutual funds have taken in INR272bn of new net flows in 2008 (bringing total inflows over the past three years to INR1trn). August did, however, see a tiny outflow - the first for 11 months - of INR0.3bn. Detailed data is not available for insurance companies, but their sales of Unit Linked Insurance Policies (essentially savings products) have been growing even more strongly: one large ULIP manager told us his inflows had grown by 170% this year. With so much money needing to be put to work, you need Buy ideas not gloomy views. (Indeed, mutual funds have raised their cash holdings to 12% from about 8% a year ago, mainly because they struggle to invest the new money quickly enough). Compare that to China, where new fund launches have raised dismally small amounts recently, or Korea, where inflows have dried up, and one can perhaps understand why Indian money managers might be more optimistic.

End of the tightening cycle?

There is considerable optimism about the short-term economic outlook too. Most local fund managers consider that inflation in India is close to peaking. Wholesale prices (which are much more closely watched than CPI) reached 12.3% y-o-y last week but investors believe that, with commodity prices now falling, the peak is close. That will allow the Reserve Bank to cut rates within the next few months. The tightening cycle, which began essentially in 2004, is close to over.

As a reflection of this, 10-year Indian government bond yields, which reached 9.5% in July, have fallen back to 8.4% – meaning, the bulls argue, that the PE for India (at around 14.6x 12-month forward earnings, admittedly not super-cheap) can legitimately be higher than the historical average of 13.6x.

A further positive effect of falling commodity prices is that it should bolster earnings. The analysts' consensus currently forecasts 11% growth in net income in the fiscal year to March 2009, and 24% in the following fiscal year. Many fund managers argue that this is not unreasonable (and some dispute whether analysts are really as optimistic as the IBES consensus data show).

Furthermore, lower oil prices will take some of the strain off the government's budget. Subsidies to oil companies to compensate them for low domestic energy prices will decline. The most bullish investors even expect, with an election due by next May, that the government will lower fuel prices and pressure the Reserve Bank to cut rates ahead of the election to create a feel-good factor. The success last weekend of negotiations with the Nuclear Suppliers Group over exports of nuclear-related products to India may, many fund managers feel, add to the government's kudos and lead it to hold the general election before the end of the year. (Elections tend to be positive for the economy because of the money that sloshes around during campaigning.)

Moreover, while Indian investors are very well informed about the poor economic prospects in the US and about the continuing problems caused by the credit crunch globally, many are relaxed about how much this will affect India. They point out that India has an exports/GDP ratio of only 15% (the lowest in Asia) and that only about 15% of those exports go to the US. Even if global growth slows sharply, why should this affect Indian growth much? Higher interest rates have, admittedly, made it harder for Indian consumers to finance house or car purchases (and this has adversely affected these sectors) but there is little sign that credit is becoming harder to get. Moreover, the bulls argue, Indian companies have built up large cash piles during the past five years of strong growth, and generally have very low leverage.

Finally, every Indian investor we met – even those cautious about the short-term outlook – remains upbeat about the long-term prospects of the country. Nobody expects real GDP growth to fall below 7% over the next couple of years. Nobody sees any reason why India should not continue to shine. Some were even angry and puzzled why foreign investors, who have sold USD7bn or so of Indian equities this year, should have cut their exposure. "What has changed about the prospective long-term growth rate that would make anyone less positive on this market?" was a typical comment.

…and why we aren't

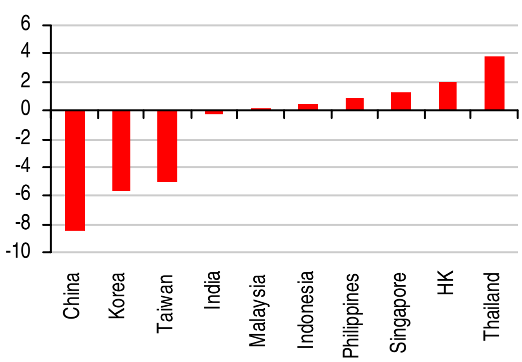
We are rather more cautious on the Indian market. While we generally agree with the long-term story, the next four to six quarters are likely to be more difficult than the consensus expects. (See our India strategist Vivek Misra's latest monthly, *Looking through the bear,* published last Friday for details). Our economists believe, for example, that, while inflation may indeed peak soon, it is likely to stay high for some time particularly at the consumer price level. A recent wage rise for civil servants will not help.

We are also sceptical about whether companies can really achieve the sort of earnings growth over the next two years that the consensus currently forecasts. EBITDA margins for Indian companies have fallen by 4ppts to 17% since the July-September 2007 quarter, and net profit growth was only 9% y-o-y in the latest quarter, but analysts have hardly lowered their forecasts at all: according to Vivek, the forecast for the current fiscal year has been cut by only 2% in the past six months.

And, while we accept that India is indeed less vulnerable to a slowdown in exports than other markets, there are reasons to think that the domestic economy will continue to slow anyway, particularly from the delayed effects of monetary tightening.

Moreover, India cannot escape completely from the affects of global risk aversion: foreign investors have pulled out of India since the start of this year only 13% of the money they put in during the 2003-7 bull market, much less than they have withdrawn from other markets (for example, 19% in Taiwan, 64% in Thailand and 31% in HK and China). Because of this, funds remain fairly fully weighted in India: the average holding of an Asia ex Japan fund, for example, was 9.5% at the end of July, compared to the MSCI benchmark of 9.7% (Chart 3). Funds are much more underweight in China, Korea and Taiwan. The selling of Indian stocks may have further to go therefore.

3. Asia ex Japan: country weight rel to MSCI benchmark



Source: Emerging Portfolio Fund Research

Finally, the political situation is a concern. Investors have been cheered by the government's winning a no-confidence vote last month over the nuclear deal with the US, which led the two Marxist parties to leave the ruling coalition. But, with an election at some point over next eight months, what colour of government will be running the country by next summer is very hard to predict. Congress Party's popularity is low and it seems unlikely to form the next government except as part of a large coalition. The risk of a "Third Front" government dominated by regional or ethnically based parties – which would probably be anti-market and anti-foreign investment – remains low, but is too high to ignore.

Accordingly, we are happy to keep our underweight rating, even if the Sensex index has risen by 14% in the past six weeks. This in retrospect is likely to turn out to have been just a typical bear-market rally. Ultimately, we think the optimism may miss the fact that, while conditions in India may still seem good, even this market cannot escape the gloomy global picture.

Signs of capitulation elsewhere?

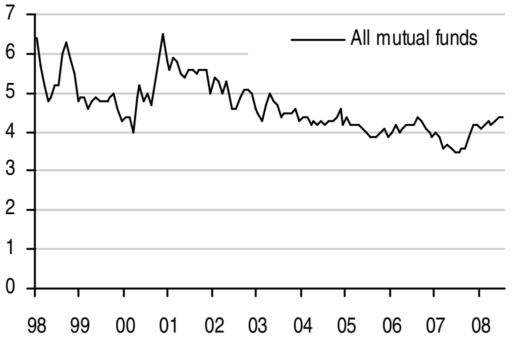
But what about elsewhere? We have certainly sensed a deepening of investors' bearishness over the past three months or so, as the economic news became increasingly gloomy and the effects of the credit crunch came to be even more widely felt. The stomach-churning volatility of markets over the past week will not have helped either.

But how much of this gloom is showing through in the way that market participants are acting, rather than how they are feeling or talking? Have funds significantly raised their cash holdings? Have long-short hedge funds shifted to a net-short position so they make money even in a down month for stock markets? Have analysts downgraded their stock recommendations? The answer, we find is that, while investors' behaviour has become a little more bearish, it has not reached the deep defensiveness that it usually gets to in bear markets.

Where's the cash?

Take mutual funds' cash holdings. In the US, these had risen to 4.4% of total assets at the end of July, compared to 4.2% at the end of last year, and an average of 4.1% over the past five years (see Chart 4). But that is well below the level they got up to in previous bear markets: for example, 6.5% in 2000.

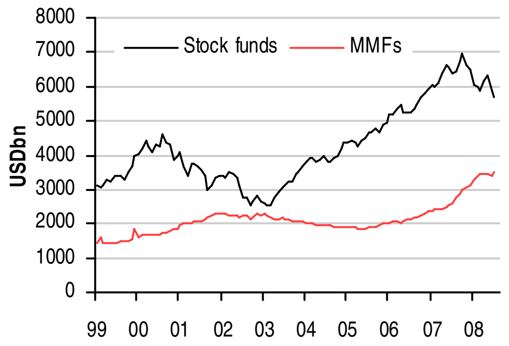
4. Cash holdings of US mutual funds



Source: Investment Companies Institute

To an extent, retail investors have done their own asset reallocation by shifting money out of stock funds and into money market funds. Stock funds in the US have seen net outflows USD708bn and MMFs net inflows of USD873bn over the past year. But the outflow from stock funds remains much less than it was in 2000-2 (when it was USD1.9trn) and, if anything, money market funds have stopped seeing new money flowing in since February. Bearish, yes, but not super-bearish.

5. Outstandings of US mutual funds, by type

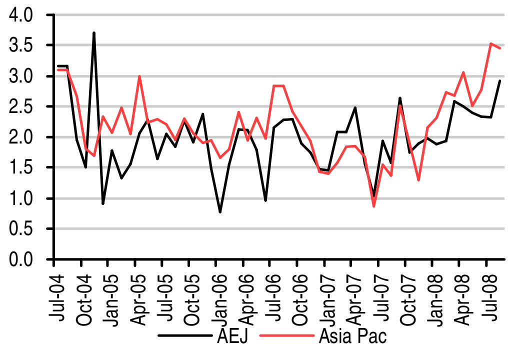


Source: Investment Companies Institute

The situation for mutual funds worldwide that invest in Asia is similar. Cash holdings of Asia ex Japan funds at the end of July were 2.9% of assets, up from 2.0% at the end of last year; Asia Pacific funds had 3.4% in cash compared to 1.3% last year (Chart 6). That certainly represents an increase in defensiveness, but not an extreme level of cash. Unfortunately, we do not have data from before mid-2004 but, judging by GEMS funds in the US, we would suspect that cash levels were significantly higher in 1998 and 2001.

Moreover, when we analyse the cash holdings by fund management group, what we find is that some large funds have increased cash significantly, pushing up the average, but most have not. For example, in the EPFR universe, only 23 out of 45 fund management groups, just over half, had a higher level of cash in July than in March. But Lloyd George, for example, increased the average cash holdings of its funds to 5.5% from 1.2% over that period, and JP Morgan to 5.5% from 2%.

6. Cash holdings of Asia funds

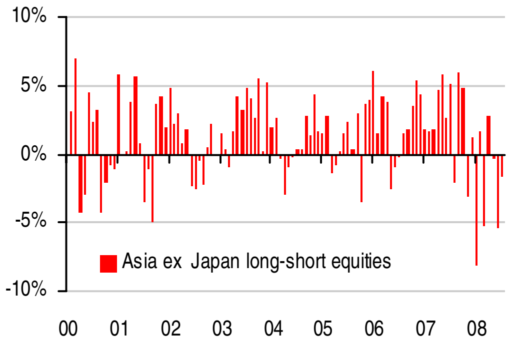


Source: Emerging Portfolio Fund Research

Hedge fund or long-only?

The logic of long-short market-neutral hedge funds, surely, is that they should underperform moderately in bull markets but outperform massively in bear ones. But a look at the recent performance of Asian long-short funds suggests that they have found it difficult to switch away from the generally leveraged-long strategies they migrated to during the 2003-7 period. EurekaHedge data, for example (Chart 7), show that the average return for these funds was -3.0% in August and -1.7% in July. This year, only February and April saw positive returns. Something similar happened after 2000: it took hedge funds almost a year before they fully understood we were in a bear market and adjusted strategies accordingly. They don't seem to have done this yet this time.

7. Monthly returns of Asia ex Japan long-short funds

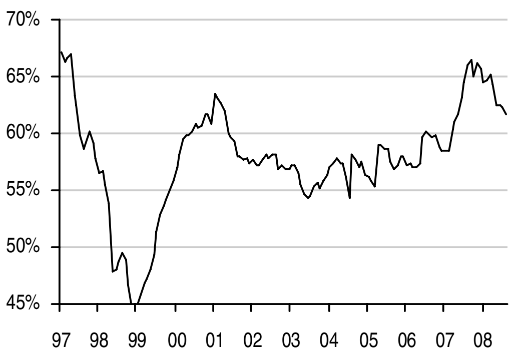


Source: EurekaHedge, Bloomberg

…and where are the bearish analysts?

Analysts also remain stubbornly bullish. As we have argued in previous AIs, their EPS forecast for Asia ex Japan for 2009, 16%, looks notably over-optimistic given the current environment. Their stock recommendations are similarly upbeat. In the region, sell-side analysts currently have 62% of their ratings as Buys, 28% Holds and only 11% Sells. (Indian analysts are particularly bullish, with 65% Buys, the highest after Korea). The percentage of Buys has fallen a little recently, from a peak of 67% at the end of last year, but it is still well above the level it fell to in previous bear markets (See Chart 8).

8. Percentage of Buy recommendations in Asia ex Japan



Source: HSBC, Bloomberg

Conclusion: it ain't all over yet

The truth is probably that investors have reacted to the stockmarket sell-off and gloomy macro news by hankering down and doing little. Mutual funds' largest sector overweights in Asia are in defensive sectors such as telecoms and consumer staples. Hong King and Singapore, the two developed markets in Asia ex Japan, are among funds' biggest overweights (Chart 3 above). Stock market activity has fallen sharply in recent months: turnover in Asia ex Japan in August was less than half the same month in 2007.

Despite the bearish talk, the data suggests that they have not capitulated yet by going 100% defensive. That is probably a necessary condition before stocks can bottom. But given the way markets have moved this week – particularly with what seem like forced liquidations of hedge fund positions – maybe that day is not so far away.

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, Sumeet Agrawal, Tucker Grinnan, Daniel Kang, Michelle Kwok, Hongxing Li, Sarah Mak, Matt Marsden, Nam Park, Mark Webb, Sean Yang and Todd Dunivant

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 11 September 2008, the distribution of all ratings published is as follows:

Overweight (Buy)	53%	(19% of these provided with Investment Banking Services)
Neutral (Hold)	32%	(17% of these provided with Investment Banking Services)
Underweight (Sell)	15%	(6% 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
CHINA SHENHUA ENERGY	1088.HK	23.50	10-Sep-2008	4
INDUSTRIAL COM BANK OF CHINA	1398.HK	5.07	10-Sep-2008	4
LARSEN & TOUBRO	LART.BO	2716.05	10-Sep-2008	2, 5, 6, 7
POSCO	005490.KS	422000.00	10-Sep-2008	2, 6, 7, 11
SIMCERE PHARMACEUTICAL GR	SCR.N	12.36	11-Sep-2008	6, 7
SWIRE PACIFIC	0019.HK	79.30	10-Sep-2008	2, 4, 6, 7, 11
THE LINK REIT	0823.HK	17.72	10-Sep-2008	5

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 August 2008 HSBC beneficially owned 1% or more of a class of common equity securities of this company.
5 As of 31 July 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 July 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 July 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.

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 12 September 2008.
2 All market data included in this report are dated as at close 10 September 2008, 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 August 2008, HSBC beneficially owned 2% or more of a class of common equity securities of the following company(ies) : CHINA SHENHUA ENERGY

Disclaimer

** Legal entities as at 22 August 2007*
'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.

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 HSBC Stockbroking (Australia) Pty Limited (ABN 60 007 114 605) for the general information of its "wholesale" customers (as defined in the Corporations Act 2001). It makes 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.