

Macro Pan-Asia Equity Strategy

China Investment Atlas (Issue 26)

Summer lull in 2Q10?

8 April 2010

Steven Sun (孙瑜)*

China Strategist

The Hongkong and Shanghai Banking Corporation Limited
+852 2822 4298 stevensun@hsbc.com.hk

Leo Li*

Strategy Associate

The Hongkong and Shanghai Banking Corporation Limited
+852 2996 6919 leofli@hsbc.com.hk

Garry Evans*

Global Head of Equity Strategy

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

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

- ▶ **We see a choppy market in 2Q and cut our index targets by 3-5%: HSI to 25,000, HSCEI to 15,000 and SHCOMP to 3,400**
- ▶ **Cut financials to neutral and staples to UW but raise materials to OW**
- ▶ **Add Maanshan Steel, CNBM and Cheung Kong to our model portfolio**

We expect markets to be choppy and volatile in 2Q10:

- 1 Uncertainty over inflation and interest rate decisions may linger in 2Q10. The drought in southwest China since 4Q09 could be a wild card for inflation. Interest rates need to go up and rate rises could actually remove a major source of uncertainty, but the NDRC and local governments are resistant.
- 2 Earnings revision momentum for MSCI China peaked last November. Our two major concerns for earnings of non-financial sectors are: i) whether there will be another round of temporary price controls; and ii) to what extent companies can cope with rising raw material costs and pass them on to downstream sectors.
- 3 Intertwined with the banking asset quality issue and property bubbles in selected cities, China's local government debt problem is a top concern for international investors.

We are still optimistic on performance for the latter part of the year.

First and foremost, the effort to re-engineer China's economic growth model is under way. Second, HSBC economists expect GDP growth to start to decelerate in 2Q10 and for inflation to peak in early 3Q10. Third, gradual appreciation of the RMB against the USD may resume around or post the Sino-US Strategic and Economic Dialogue in May. Finally, valuations are reasonable at trend levels, earnings growth is strong and liquidity is still ample.

For sector allocation, we cut financials to neutral (on rate uncertainty, capital-raising and asset quality concerns) and staples to underweight (on potential risk of temporary price controls) but raise materials to overweight (on stronger cyclicality and industry-specific catalysts). We remain overweight consumer discretionary and IT, neutral on energy and industrials, and underweight telecom services and IPP.

Revising 2010e Hong Kong/China index targets

	MSCI China	SHComp	CSI 300	HSCEI (H)	HSCCI (R)	Hang Seng
DY	2.7	2.7	2.8	3.2	3.0	3.4
Index level (31 Mar 2010)	64	3,109	3,346	12,398	4,102	21,239
DPS YR1	1.74	82.4	91.1	383.4	121.0	712.0
EPS YR0	3.74	139.8	155.4	851.1	275.3	1294.0
EPS YR1	4.61	177.8	199.5	1056.1	309.2	1585.5
EPS YR2	5.38	214.0	237.4	1247.0	342.8	1855.2
Growth in stage 2	14.0	16.0	16.0	14.0	14.0	12.4
No. of years of excess growth	12	12	12	12	12	10
Perpetual growth rate	3.0	3.0	3.0	3.0	3.0	3.0
COE (%)	10.5	11.0	11.0	10.5	10.5	9.6
Payout ratio now (%)	37.9	46.3	45.7	36.3	39.1	44.9
Payout ratio at end of stage 2	40	40	40	40	40	44
Fair value	73	3,494	3,863	17,372	4,874	26,385
Under/overvalued (%)	-12	-12.4	-15	-31	-16	-20
HSBC 2010 targets (old)	75	3,500	3,800	16,000	4,500	26,000
HSBC 2010 targets (new)	72	3,400	3,600	15,000	4,500	25,000
HSBC target implied 2011 fwd PE	13.4	15.9	15.2	12.0	13.1	13.5
HSBC target implied 12m fwd PE	15.0	18.2	17.2	13.6	14.2	15.1
Index upside	13%	9%	8%	21%	10%	18%

Source: HSBC, Datastream

HSBC 2010 Hong Kong/China model portfolio of 10 equally weighted stocks – 3 in, 7 remain and 3 out

Name	BBG code	Price (HKD)	Perf. since 8 Jan 10	HSBC PE 2010e	HSBC PE 2011e	HSBC EPSG 2010e	HSBC EPSG 2011e	HSBC PB 2010	HSBC PB 2011e	ROE 2010e	ROE 2011e	DY 2010e	Analyst	Contact
3 in														
Maanshan Iron & Steel	323 HK	4.5	-24%	8.9	8.0	768.4%	11.3%	1.0	0.9	12%	12%	3.8%	Kang, Daniel	2996 6669
China National Building Mat.	3323 HK	15.0	-3%	10.8	9.4	21.2%	15.1%	2.1	1.7	19%	18%	0.7%	Ho, Ken	2996 6593
Cheung Kong Holdings	1 HK	100.0	-2%	13.6	10.9	6.3%	25.0%	0.9	0.9	7%	8%	2.7%	Fok, Louisa	2996 6629
7 stay														
China Gas Holdings	384 HK	4.4	2%	35.2	18.0	54.9%	94.9%	3.9	3.4	12%	20%	0.6%	Tsoi, Scully	2996 6620
Lenovo Group	992 HK	5.4	-1%	36.5	12.5	-168.1%	191.1%	4.3	3.4	12%	30%	1.9%	Wang, Wanli	2996 6752
China Mengniu Dairy	2319 HK	24.2	-10%	24.2	19.9	18.2%	21.4%	3.9	3.4	17%	18%	1.0%	Guo, Jessie	2996 6572
Parkson	3368 HK	13.4	-8%	27.9	22.3	29.8%	25.0%	7.5	6.2	29%	30%	1.3%	Yang, Sean	2822 4342
Tencent Holdings.	700 HK	155.8	-7%	32.7	24.4	47.1%	34.1%	13.3	9.1	48%	43%	0.4%	Grinnan, Tucker	2822 4686
Dongfang Electric	1072 HK	44.2	5%	15.4	11.6	28.4%	33.2%	3.4	2.7	25%	26%	0.2%	Chiu, Gary	2822 4297
ICBC	1398 HK	5.9	-7%	10.3	8.2	31.0%	25.6%	2.2	1.9	23%	24%	4.3%	Dunivant, Todd	2996 6599
3 out														
Hutchison Whampoa	13 HK	56.8	1%	19.9	14.2	129.4%	40.4%	0.8	0.8	4%	6%	3.0%	Webb, Mark	2996 6574
Yue Yuen Industrial	551 HK	27.0	10%	11.7	10.7	5.7%	9.0%	1.7	1.6	15%	15%	3.4%	VD Linde, Herald	2996 6575
Bank of China Ltd	3988 HK	4.1	-3%	9.3	7.7	23.2%	20.5%	1.6	1.4	18%	19%	4.8%	Dunivant, Todd	2996 6599
Average			-2%	21.6	14.5	83.7%	47.7%	4.2	3.3	21%	23%	1.7%		
MSCI China		63.9	-4%	13.9	11.9	23.0%	17.1%	2.1	1.9	15%	16%	2.0%		

Notes: (1) These companies represent a selection of those in sectors and markets that loosely reflect the China Investment Atlas strategy described in this report. (2) We choose only stocks on which HSBC's fundamental equity analysts do not hold negative views. (3) Average refers to the average of the 7 staying stocks and 3 newly added stocks, except for performance that refers to staying and outgoing stocks.

Source: HSBC estimates, Datastream; Prices as of 31 Mar 2010

Contents

Market outlook	4	Appendix	21
Uncertainty over inflation and interest rate decision lingers	4	A- and H-share discount stock screen (61 companies)	22
Earnings momentum peaks	6	Data pack	23
Structural issues a concern for foreign investors	7	HSBC China coverage list (175 companies)	24
Why a better 2H for equities?	9	Economic Calendar for April 2010	27
Reality check – valuations, earnings and liquidity	10	Economic Calendar for May 2010	28
		Economic Calendar for June 2010	29
Sector allocation strategy	13	Disclosure appendix	31
General considerations	13	Disclaimer	35
Raise materials to overweight	14		
Lower financials to neutral	16		
Banks	16		
Insurance companies	16		
Downgrade consumer staples to UW from OW	17		
Index targets and model portfolio	18		
Revise 2010 index targets	18		
Model portfolio adjustment	19		

Market outlook

- ▶ We see a choppy and volatile market in 2Q10 on lingering policy uncertainty, downside risks to earnings and structural concerns
- ▶ Better 2H after inflation peaks and the Sino-US summit in May
- ▶ Cut index targets by 3-5%: MSCI China to 72; Hang Seng to 25,000; HSCEI to 15,000 and SHCOMP to 3,400

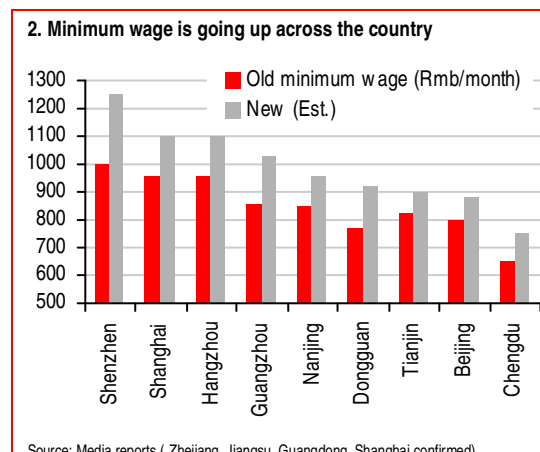
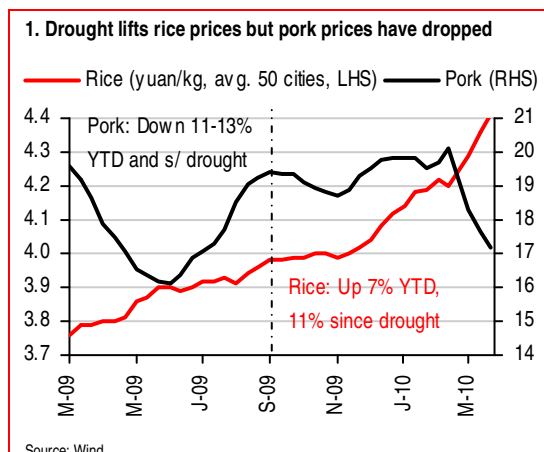
Uncertainty over inflation and interest rate decision lingers

Given China's excessive money and loan growth, sharp rebound in raw material prices and unfavourable climate conditions, investors are generally concerned about inflation in China, as well as monetary policy. Headline CPI, having stayed negative for ten consecutive months in 2009, turned positive last November and shot up to 2.7% y-o-y in February. HSBC China economists also revised up their annual CPI forecast to 3.1% from 2.6%.

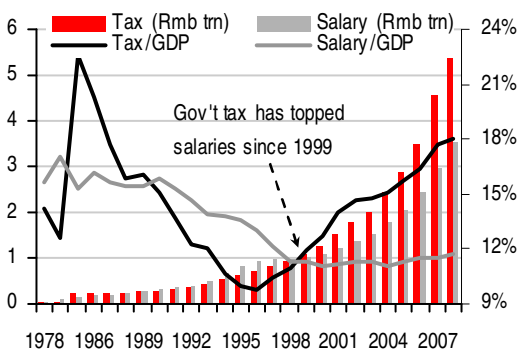
The widespread drought in southwest China since 4Q09, which has affected five provinces and around 5% of the country's arable land, could be a

wild card for food prices going forward. For instance, the average selling price of rice in 50 major cities has gone up 11% since the drought and 7% y-t-d (Chart 1). In contrast, pork prices have dropped roughly 11-13% during the period, which explains the (surprisingly) moderate CPI readings so far. But pork prices appear to be near bottom.

Wages are also going up in China. There is pent-up demand to raise minimum wages by some 10-30% this year after the financial crisis (Chart 2). Shanghai, along with Zhejiang, Jiangsu and Guangdong provinces, i.e., the manufacturing hubs of the Yangtze and Pearl River Delta regions, already announced minimum wage adjustments, while other regions could soon follow.



3. Salaries to GDP ratio has dropped significantly since 1998



Source: China Statistics Yearbooks, CEIC

We believe wage increases are unlikely to be just a transitional phenomenon but rather a trend going forward, given the government’s resolve to reform the income distribution system in China and re-engineer the economic growth model. The share of total remuneration of employees to China’s GDP has dropped consistently from an average of 15.8% in the 1980s to 13.5% in the 1990s and 11.3% since 2000 (Chart 3). In contrast, the share of government tax revenues to GDP nearly doubled to 18% in 2008.

Given the long-term upward trend of wage growth and agriculture product prices as a primary income distribution tool to help low-income groups, as well as the gradual normalisation of production factors such as water, electricity and fuels to facilitate the economic transition (i.e., less indiscriminate investments but more domestic

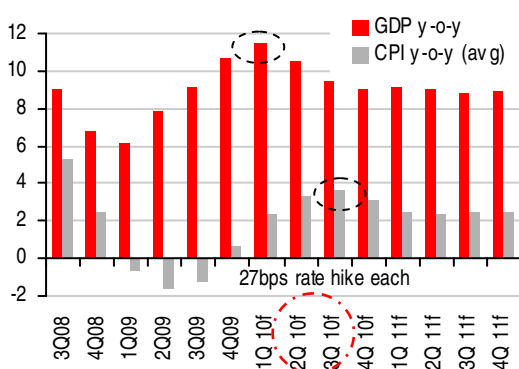
consumption), it’s not difficult to foresee that inflationary pressure could be persistent for the Chinese economy, barring economic shocks or depression. Hence China’s interest rates need to go up over the long run.

But the question is – will the People’s Bank of China (PBoC) hike interest rates any time soon? Hongbin Qu, HSBC’s China economist, forecasts GDP growth to peak at 11.5% y-o-y in 1Q10 and quarterly average CPI to peak at 3.65% y-o-y in 3Q10 (Chart 4). As a result, he is forecasting one 27bps interest rate hike each in 2Q10 and 3Q10.

If that’s the case, we think it could actually be positive for the equity market after an initial knee-jerk correction, because it would remove a major market uncertainty and would be positive for banks’ and insurance companies’ earnings.

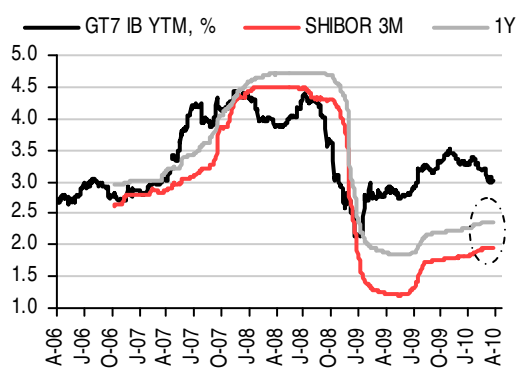
That said, the NDRC and local governments appear resistant to imminent rate hikes and indeed hope they can be postponed – the NDRC is worried about the risk of a double-dip in the Chinese economy and local governments are reluctant to pay higher interest expenses on the RMB6-8trn in loans borrowed through various financing vehicles. Interbank market rates have stayed largely flat for the past month also (Chart 5), indicating a smaller chance of imminent rate hikes being priced in by the market. Hence the uncertainty over rate decisions lingers.

4. HSBC forecasts – quarterly growth and inflation profile



Source: CEIC, HSBC

5. Interbank rates have stayed flat for the past month



Source: Wind

Earnings momentum peaks

Analysts are forecasting strong earnings growth for this year and the next, with a 20% EPS CAGR for the MSCI China universe and 25% for the A-share market. These forecasts imply that MSCI China's earnings could be 26% higher in 2010 and 47% higher in 2011 than the previous peak in 2007, as if the global financial crisis never happened. A-share market numbers are even more aggressive, or 40-70% higher in 2010 and 2011 than 2007. Can things be this rosy? Could there be more downside risk than upside risk for earnings?

Certainly the earnings revision momentum for the MSCI China universe has peaked since last November (chart 6), as did the market index. For instance, the one-month EPS revision momentum, i.e., the percentage change in EPS versus the previous month, has stayed positive for ten consecutive months since last June but dropped to a mere 0.35% at the end of March. We wouldn't be surprised if the one-month revision momentum turns negative in 2Q10.

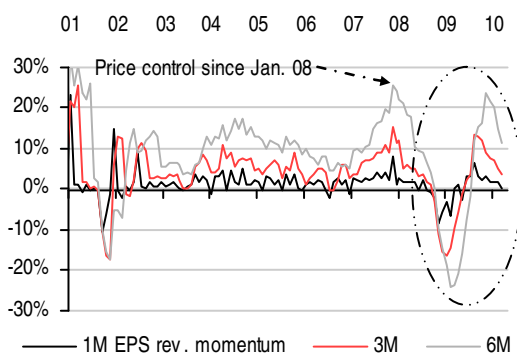
Our two major concerns for the earnings of non-financial sectors are i) whether there will be another round of temporary price controls; and ii) to what extent companies can cope with rising raw material costs and pass them on via price increases to downstream sectors.

When temporary price controls were installed by the NDRC in January 2008, mainly on food items, headline CPI was approaching 7% y-o-y and averaged nearly 8% in 1H08. Price controls lasted about one year and were lifted in December 2008 when inflation dropped below 3%. Not surprisingly, analysts had been revising down their numbers consistently throughout 2008.

Considering that our economists are forecasting a peak level headline CPI of around 4% and annual CPI at 3.1% in 2010, the chance for another round of price controls appears to be low, though we can't rule out the possibility. But the drought could be a wild card affecting food inflation, and we are already seeing delayed price passthrough for oil refiners and electricity tariff hikes for IPPs.

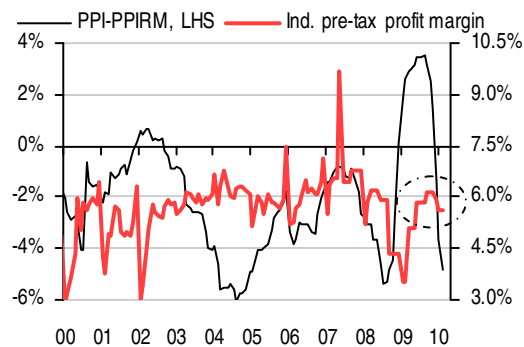
Moreover, raw material costs have been rising fast, and the gap between the PPI raw materials sub-index (up 10.3% in February) and PPI (up 5.4%) almost reached a historical trough (Chart 7). In 2004, industrial companies' pre-tax margins had stayed relatively stable, despite the huge gap, largely because of strong demand and revenue growth. However, companies were less fortunate in 2H08 and early 2009 – because end-demand dried up, margins went down in tandem with the widening gap. In the first two months of 2010, the pre-tax profit margin already dropped by 50bps to 5.64% from 6.14% in September-November 2009.

6. MSCI China earnings revision momentum has peaked



Source: Datastream

7. Profit margin is vulnerable, down 50bps in F2M2010



Source: CEIC

Structural issues a concern for foreign investors

Foreign mutual fund flows (mainly Asia ex Japan regional funds and Global Emerging Market funds) are a major swing factor in Hong Kong's stock market, as they are among the most active doing country allocations. For instance, the rebound in the Hang Seng Index peaked last November when foreign funds bought over USD2.5bn, and market dropped 8% in February when foreign funds sold over USD1.5bn. They sold over USD2.3bn in January-February (Chart 8) and the selling likely continued in March.

The feedback we got from our recent global marketing trips indicates that China's local government debt problem, particularly borrowing by the Urban Development and Investment Companies (UDICs, 城市建设投资公司), is among the top concerns for international investors, partially in sympathy with what's going in Europe and the ballooning US government debt problem as well.

We first warned about this as a potential risk for the equity market at the beginning of the year. Moreover, our analysis below shows that the local government debt problem is also intertwined with China's property market bubble in selected first-tier cities and potential NPL problem for the banking sector.

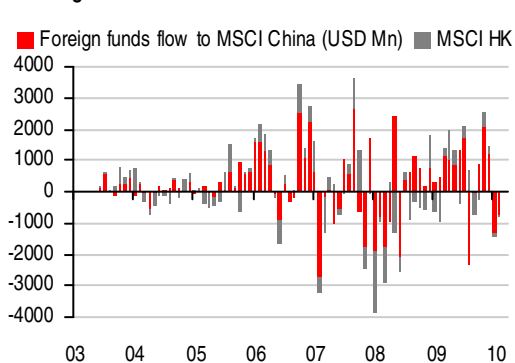
How big is the local debt problem? Official estimates from the PBoC put the total scale of local government debt through some 3,800 financing vehicles at around RMB6trn at end-2009, up from RMB1trn at end-2008, thanks to the RMB4trn stimulus package and RMB10trn in lending by the banks last year (Chart 9).

Together with the reported central government debt of RMB5.6trn, mainly treasury bonds, and foreign debt of RMB2.7trn, mainly loans, China's total debt could be around RMB14.4trn, or 88% of China's total foreign exchange reserves at the end of 2009 and 43% of 2009 GDP.

For the next two years, if we assume total new lending of RMB15trn and another 20-30% goes into local government financing vehicles, this could add another RMB3-4.5trn of local government debt, or additional 9-13% of 2009 GDP. Moreover, the central government could run another RMB2trn deficit in 2010-11.

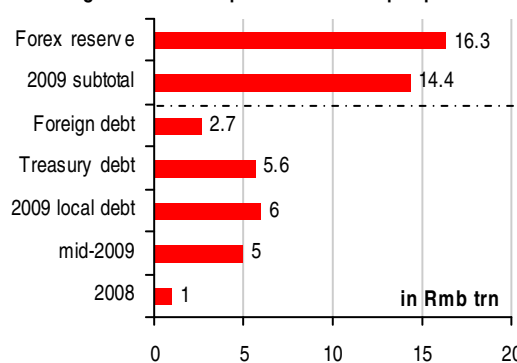
Hence, under our worst-case scenario, China's total debts could reach RMB21trn in 2011, accounting for some 50% of 2011 GDP. By global comparison, this is still a relatively healthy level of government liability and a level that is unlikely to trigger a full-blown fiscal crisis as seen in some southern European countries. That said, it is still an overhang for banks' asset quality and a potential drag on economic growth.

8. Foreign mutual funds sold over USD2.3bn in Jan-Feb



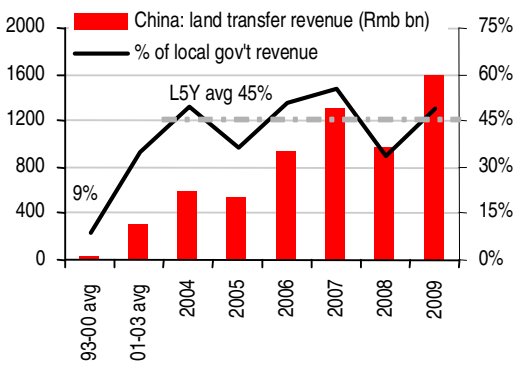
Source: EMPC

9. Local government debt problem – scale in perspective



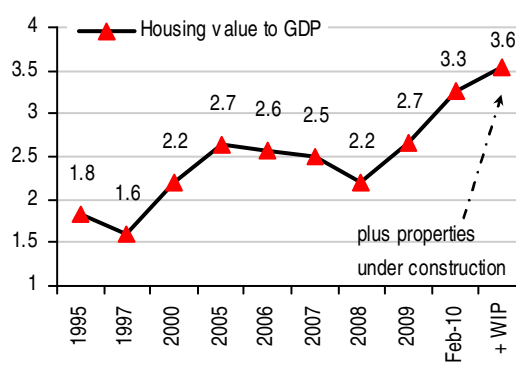
Source: CEIC, PBoC

10. How is the problem tied to the property market bubble?



Source: CEIC, various pieces of academic research (2006 estimated)

11. China – total property value as a percentage of GDP



Source: HSBC credit research (estimates)

Since the tax reform of 1994, revenue-sharing between the central and local governments has averaged 53% vs. 47%, but local governments are responsible for around 75% of fiscal expenditures. This kind of institutional design comes with a price, since most local governments have to heavily rely on land transfer revenues to make up the funding gap and back up their financing vehicles, which inevitably ties the interests of local governments to those of property developers, both private and state-owned, and banks to drive up land and property prices.

For instance, land transfer revenues averaged less than RMB40bn in 1993-2000, or 9% of local government revenues in China. By 2009 it had soared more than 40 times, to RMB1.6trn, averaging 45% of local government revenues over 2005-09 (Chart 10). This also largely explains why it's so hard to rein in land and property prices in China.

Logically speaking, then, to address the roots of the local debt problem, the central governments need to i) reform the two-tiered central-local fiscal system to better match revenue and expenditure for local governments, which could run the risk of weakening the control of the central government; and ii) introduce a more sustainable revenue source, such as imposing the long-talked-about property tax for local governments because land transfer revenues will be increasingly unsustainable

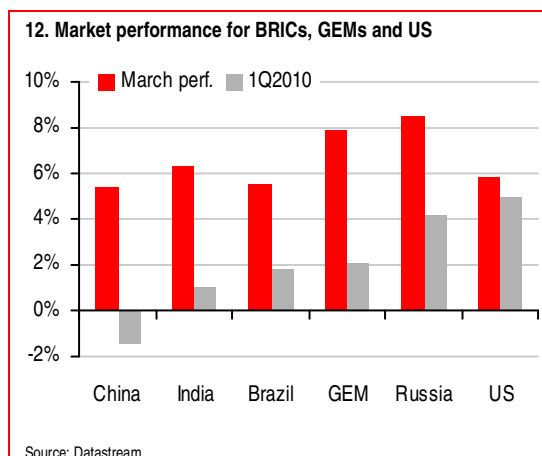
going forward and it aligns the interests of local governments with those of property developers and banks, rather than local citizens.

Reforms of such significance require strong political will from the top, and this has yet to emerge given the impending party leadership reshuffle in October 2012 and the government leadership reshuffle in March 2013. The property tax issue also needs to be handled with extreme caution because of the high stakes involved: Zhiming Zhang, HSBC's Head of China Research, estimates that the total value of property in the country tops RMB100trn, or 3-4 times GDP (Chart 11). Hence a 10% price swing could imply a wealth effect of 30-40% of GDP.

That said, aside from the risk warning and investigation by the PBoC and CBRC in 4Q09, we expect more damage control measures to be rolled out soon. The MoF, PBoC and NDRC are reportedly putting together new regulations in 2Q10 to deal with this – i) platforms with only fund-raising functions could be totally closed out; ii) UDICs with valid businesses could raise funds from the private sector, which was previously not allowed; and iii) a pilot programme to issue municipal bonds could be rolled out this year to improve transparency and introduce market mechanisms in local government financing.

Why a better 2H for equities?

In line with our buy-on-dips call, MSCI China has rebounded over 10% since early February. But y-t-d, MSCI China, down 1.4%, is still an underperformer relative to the MSCI GEM index and developed markets like the US (Chart 12).



Due to our cautious view on 2Q10 Chinese equity market performance, we have lowered our 2010 index targets by some 3-5%. We are now looking for MSCI China at 72 by end-2010, Hang Seng Index at 25,000, H-share index at 15,000 and Shanghai Composite index at 3,400 – the revised targets imply less than 10% potential upside for the A-share market, 13% for MSCI China, 18% for the HSI and 20% for the H-share universe. So why are we still optimistic on performance in 2H?

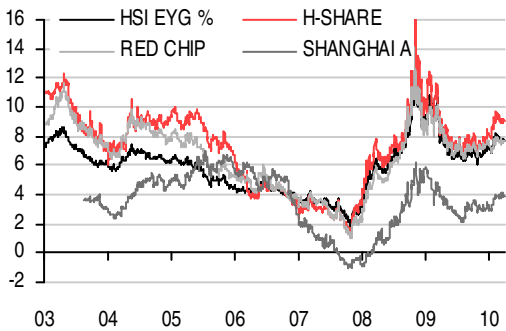
- ▶ First and foremost, the effort to re-engineer China's economic growth model is under way. So far we have seen numerous initiatives to unleash the consuming power of the nation's 1.3bn people – from the continuation of subsidy programmes to invigorate rural consumption, to a larger share of the fiscal budget to revamp social welfare systems, to efforts to improve income growth. Needless to say, these initiatives mark a moderate start to what will be a challenging and long journey, with China moving away from indiscriminate capital investment fuelled by

export demand and easy credit to a more sustainable consumption growth model.

- ▶ The global financial crisis is shifting the focus of asset allocation strategies in favour of economic growth potential rather than existing market capitalisation. Hence emerging markets should eventually become a core holding in global investors' portfolios rather than just a modest diversification play. In a recent survey conducted by the EIU and Fidelity International, over 100 institutional investors in Europe and Asia confirmed that their investment allocations to Asia are set to increase significantly in 2010 with emerging markets – China and India – predicted to take the largest share of the increase.
- ▶ We expect inflation to peak around July. In a note published in January, *Much to learn from 2004 tightening*, we argued that the growth and inflation profile this year could be similar to that of the 2004 cycle of overheating and subsequent tightening. In 2004, economic activity started to decelerate three months after the first monetary tightening measure and inflation peaked five to six months after it. Since the PBoC first hiked the reserve ratio in early January, we expect growth to start to decelerate in 2Q10 and inflation to peak in early 3Q10, which is in line with our economists' forecasts.
- ▶ Sino-US relations could go back on track after the third round of Strategic and Economic Dialogue (S&ED, 中美戰略與經濟對話), scheduled for mid-May. A gradual appreciation of the RMB against the USD may resume around or post the S&ED.
- ▶ Last but not least, valuations are reasonable at trend levels, earnings growth is strong, liquidity is still ample and risk appetite is high (see charts in the following four pages).

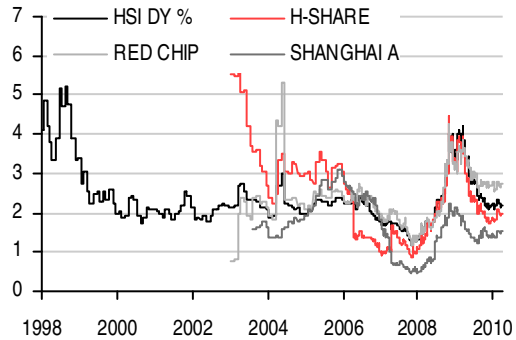
Reality check – valuations, earnings and liquidity

13. Earnings yield gap stays at relatively high level



Source: Datastream

14. Dividend yield comparison and historical trend



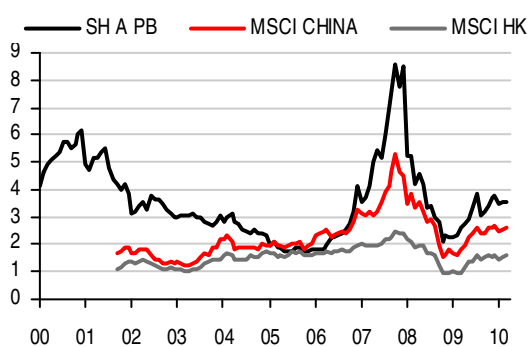
Source: Datastream

15. PE traded at around trend average for the past 10 years



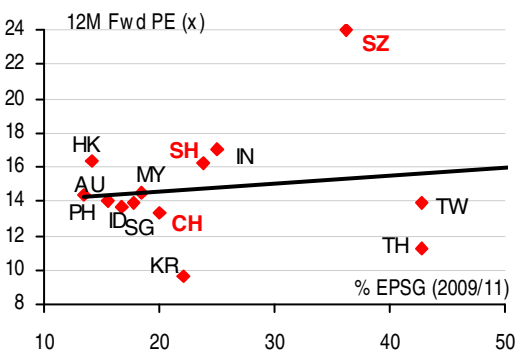
Source: Datastream

16. PB traded at around trend average for the past five years



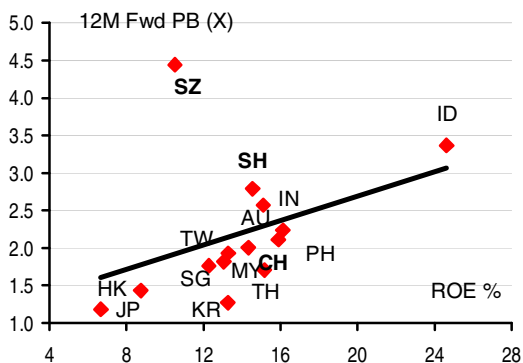
Source: Datastream

17. Regional comparison – PE vs. EPSG



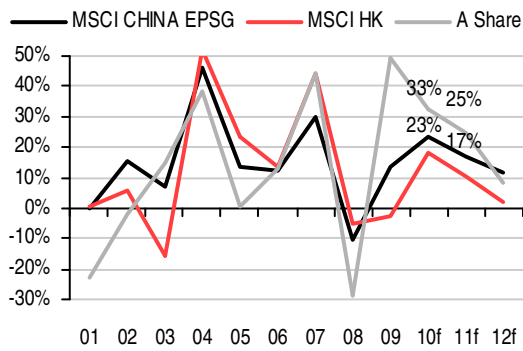
Source: Datastream, Wind

18. Regional comparison – PB vs. ROE



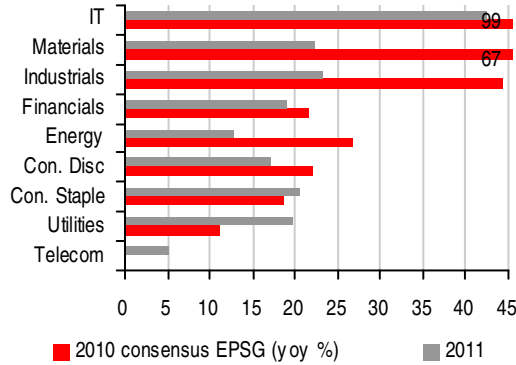
Source: Datastream, Wind

19. Consensus EPSG forecasts across Chinese markets – 2010e earnings 25-40% higher than 2007 peak level



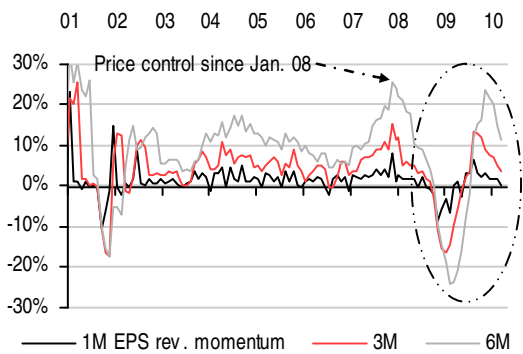
Source: Datastream

20. MSCI China sector EPSG consensus forecasts 2010-11 – expectations high for cyclical and upstream sectors



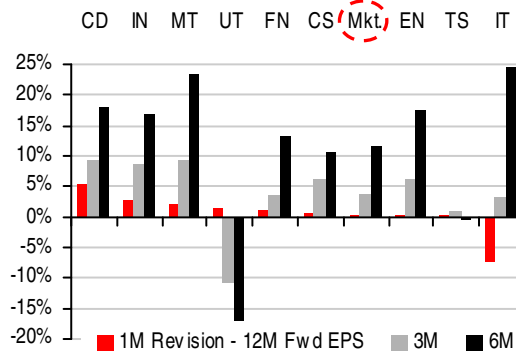
Source: Datastream

21. MSCI China – earnings revision momentum remains positive but peaked last November



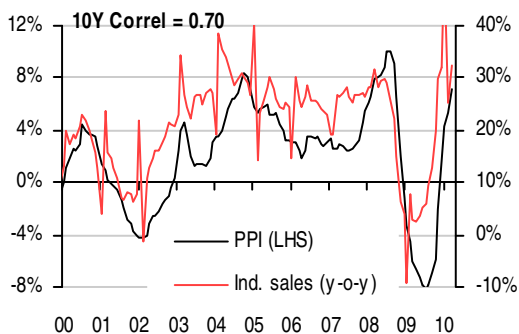
Source: Datastream

22. Cyclical and upstream sectors have better earnings revision momentum



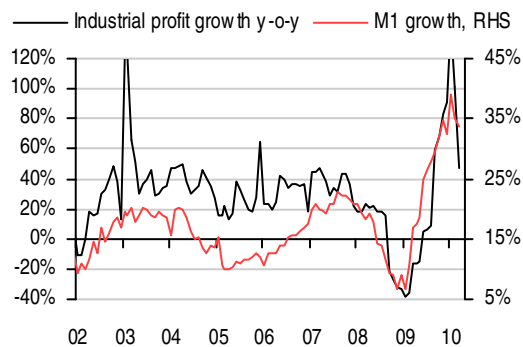
Source: Datastream

23. Industrial enterprise sales, a good proxy for aggregate demand, will continue to record strong growth in early 2010



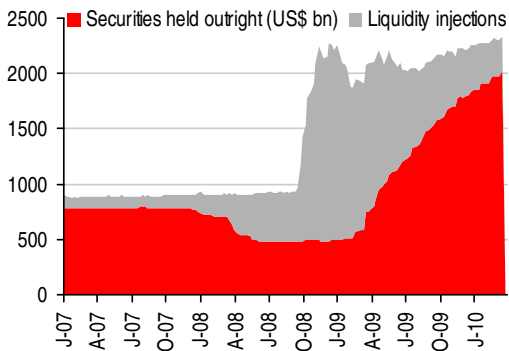
Source: CEIC (Mar. 2010 data forecasted by CEIC software)

24. Industrial profits, a good proxy for listed companies, will continue to record strong growth in early 2010



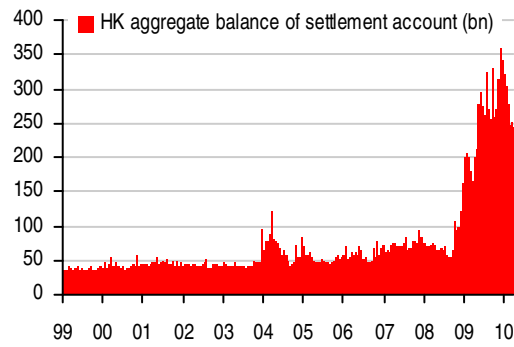
Source: HSBC, CEIC (Mar. 2010 data forecasted by CEIC software)

25. US Fed switched from direct liquidity injections to asset purchases, but balance sheet size is making new highs



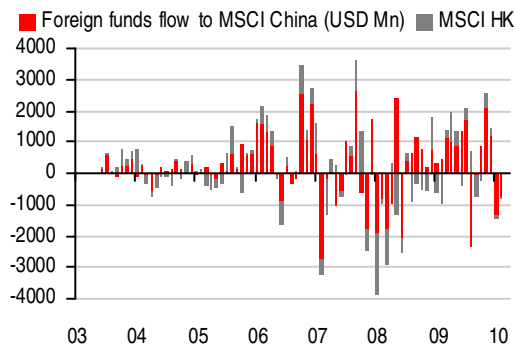
Source: US Federal Reserve

26. HK banking sector liquidity remains ample (though peaked), judging from non-interest bearing settlement balance



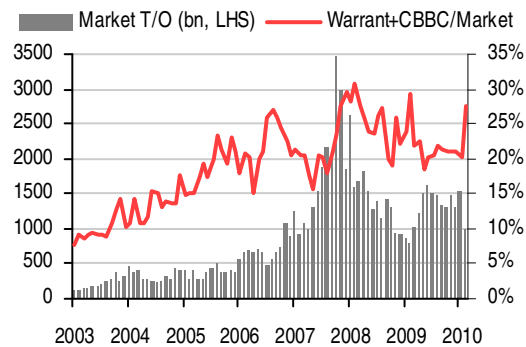
Source: CEIC

27. Foreign equity mutual funds took profits and sold over USD2.3bn in the beginning of 2010 (Jan-Feb)



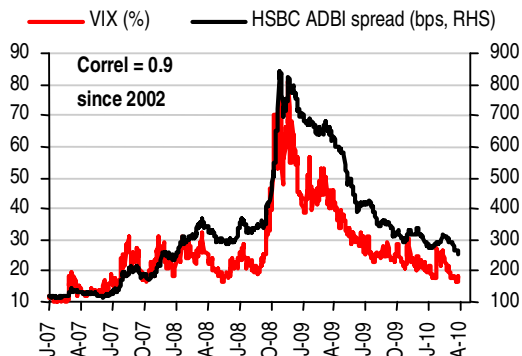
Source: Emerging Market Portfolio

28. Trading volume has remained stable and HK retail investors' participation is warming up



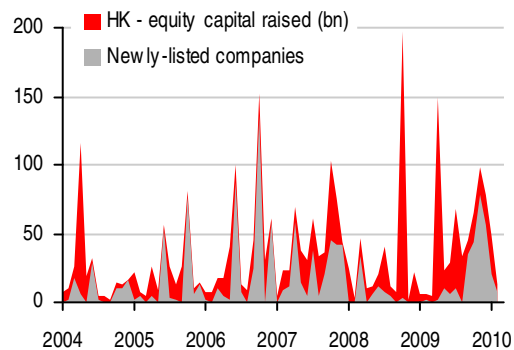
Source: CEIC

29. Equity market volatility continues to drop, indicating higher risk appetite (as portfolio insurance is cheaper)



Source: Bloomberg

30. Equity capital raised averaged HKD65bn per month in 2H09 and exceeded HKD600bn in 2009



Source: CEIC

Sector allocation strategy

- ▶ Raise materials to overweight from neutral
- ▶ Lower financials to neutral
- ▶ Downgrade consumer staples to underweight from overweight

General considerations

For 4Q09, our sector allocation strategy has shifted from overweighting cyclical sectors that benefit from the RMB4trn stimulus package to consumption-driven sectors. The broader consumption-related sectors, namely consumer staples, consumer discretionary and IT, have far outperformed the MSCI China index and cyclical sectors like materials and industrials (Chart 31).

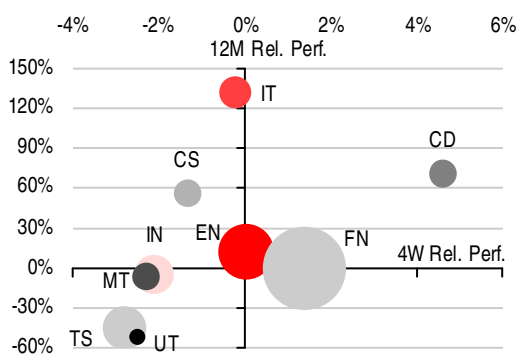
Our sector allocation strategy takes into consideration three major inputs. Admittedly, this is a highly subjective process. But quantitative models don't yield better results:

- ▶ Sector performance – the trend is usually your friend in the Chinese equity market space. Hence if a strategy works, don't change it too frequently.

- ▶ Earnings revision momentum – we constantly monitor 1-month, 3-month and 6-month sector earnings revision momentum (Chart 32) and cross-check with HSBC sector analysts in a bid to identify potential inflection points such as earning peaks and troughs.
- ▶ Major macro trends, such as growth and inflation profiles; policy moves, such as interest and exchange rates; and industrial policies or regional development strategies.

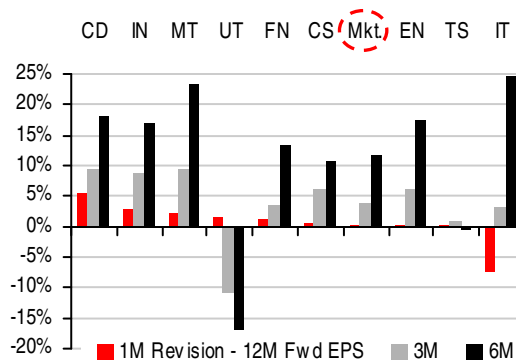
For 2Q10, we overweight consumer discretionary, IT and materials (↑); we are neutral on energy, financials (↓) and industrials. We are underweight telecom services, IPPs and consumer staples (↓).

31. MSCI China – sector LT/ST relative performance (index up 57% in LTM and 3% in L1M)



Source: HSBC, Bloomberg (size of bubble is proportional to sector free-float mkt cap)

32. MSCI China – sector earnings revision momentum – Looking for inflection point

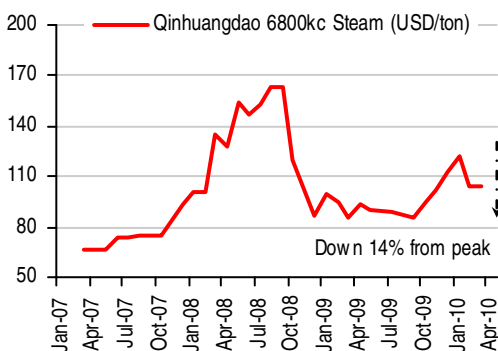


Source: Datastream

Raise materials to overweight

There are three reasons to upgrade materials to overweight in 2Q10: i) input costs such as coal have peaked (Chart 33); ii) stronger seasonality in terms of demand in 2Q (table 34) – HSBC metals & mining analyst Daniel Kang estimates that apparent consumption for key commodity items tends to go up by 19% q-o-q in 2Q; and iii) catalysts such as industry consolidation to cut overcapacity (cuts of 100m tonnes planned for iron in 2010-11 and around 300m tonnes for cement in 2010-12), and the potential announcement of details of the rural subsidy programme for building materials.

33. Thermal coal price has peaked

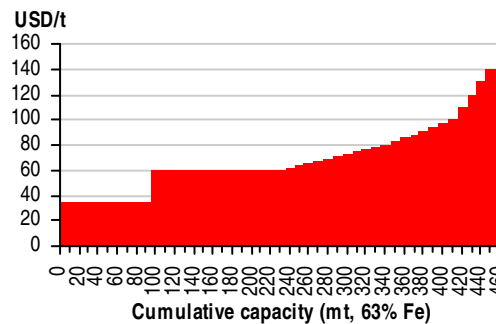


Source: Bloomberg

More interestingly, Kang points that Chinese supply could crash the iron ore party – positive for steel. Squeezed out by low iron ore prices last year, domestic iron ore mines supplied less than 30% of China’s steel mill requirements. However, at current imported prices of USD150/t (cfr

nearly all domestic mines are profitable, which Kang estimates could unleash c220mt (at 63% Fe) of supply this year (Chart 35).

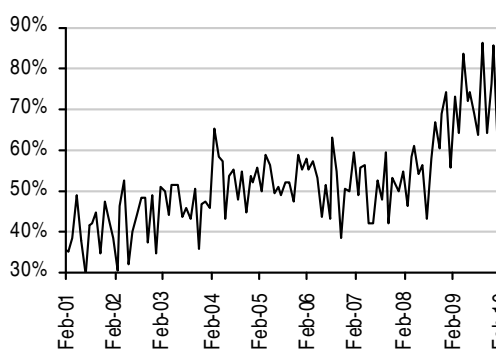
35. China: 2010e iron ore cost curve



Source: HSBC, WSD

Equivalent to about one-third of last year’s imports, this additional supply could bring China’s self-sufficiency back to historic levels of c50% and place downward pressure on iron ore prices (Chart 36). In this scenario, profit margins for steel mills may benefit from a move to shorter-dated, market-based iron ore price contracts.

36. Domestic iron ore demand met by imports (%)



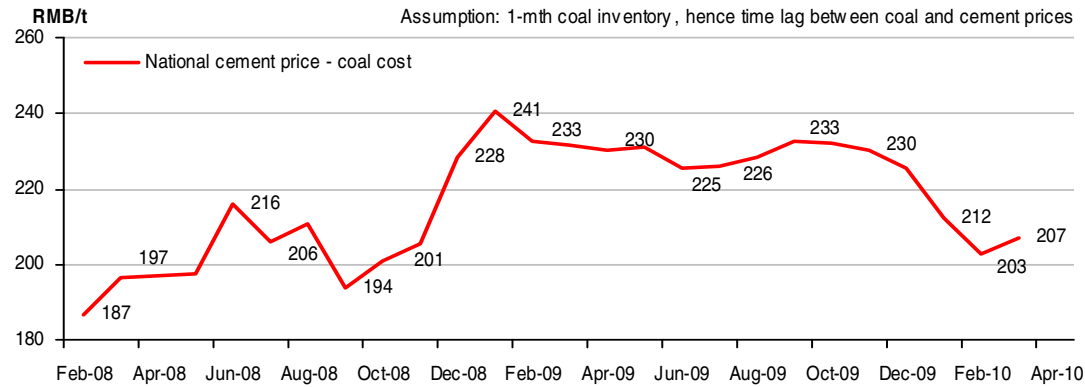
Source: CEIC, NBS, HSBC estimates

34. Apparent consumption: Average movement in each quarter (q-o-q) since 2006

	1Q	2Q	3Q	4Q
Finished steel	1.8%	14.4%	-1.0%	1.7%
Iron ore	-6.0%	20.0%	3.6%	1.7%
Raw coal	-32.0%	32.1%	1.6%	18.3%
Aluminium	-2.9%	19.3%	4.0%	0.7%
Copper	9.0%	5.9%	-0.6%	5.9%
Zinc	-9.3%	21.0%	-1.9%	2.9%
Nickel	8.9%	20.1%	-6.3%	-1.3%
Average quarterly movement	-4.3%	18.9%	-0.1%	4.3%

Source: CEIC, HSBC

37. Cement price – coal price (indicative of gross profit margin)



Note: Assuming 150kg coal is needed to produce 1 ton of cement; using Qinhuangdao Shanxi Mixed Coal Price (ex VAT) & simple avg of national cement price (ex VAT)
Source: Digital Cement, China Coal Resource, HSBC estimates

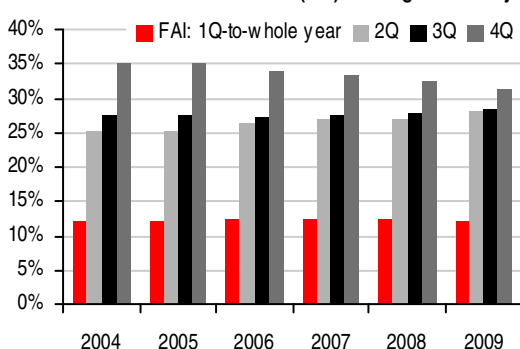
For cement, HSBC analyst Elaine Lam has the following observations:

- ▶ Margin pressure was relieved as national cement prices have remained stable, falling just 1.8% y-t-d, while coal prices dropped rapidly by 13.5% over the same period. This should improve gross margins (Chart 37).
- ▶ We expect a stronger cement ASP outlook in 2Q10 on the back of a pick-up in demand after Chinese New Year.
- ▶ In Eastern (ex Shandong) and Southern regions, the average cement price y-t-d is 4.5% and 1.4% higher than the average price in 2009; Currently, CNBM (3323 HK, OW(V), HKD15.8, TP HKD22.0) has 82.5% of cement capacity over there.

China’s fixed asset investment (FAI) activity has very strong seasonality – due to the weather, the Chinese New Year effect and the fiscal budgeting cycle. In 2004-09, 2Q FAI on average was around 120% higher q-o-q than in 1Q and accounted for 26% of full-year FAI (Chart 38). This supports a positive view of the cement sector for 2Q10.

Last but not least, details on the “building materials to the countryside” subsidy programme could be announced in 2Q10. Our last conversation with CNBM also suggests that the programme could be implemented in Shandong province initially and the subsidy could eventually be translated into an additional 60m tonnes of demand for cement, or 3-4% growth for the whole sector. Companies could benefit from it unevenly due to different rural market exposures (Chart 39).

38. China’s fixed asset investment (FAI) – strong seasonality



Source: CEIC

39. China cement: 2010e sales exposure to rural areas

Company	Rural dev	Infrastructure	Property
Most impact			
Shanshui	19%	41%	41%
CNBM	45%	35%	20%
Moderate impact			
Anhui Conch	32%	46%	22%
Taiwan Cement	30%	40%	30%
Least impact			
CR Cement	20%	60%	20%
Sinoma	15%	65%	20%
Asia Cement	20%	45%	35%

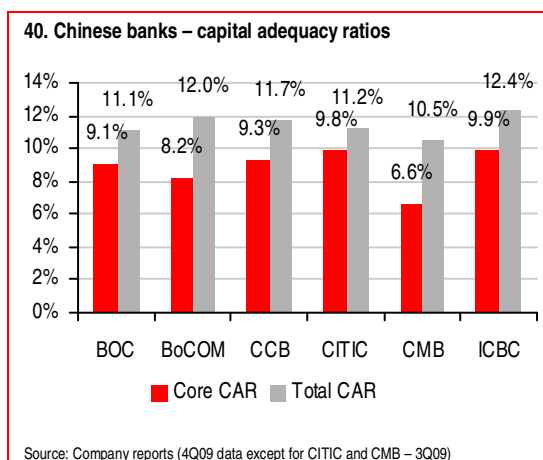
Source: Company data, HSBC estimates

Lower financials to neutral

Banks

Despite Chinese banks' low PE valuations, strong earnings growth and high ROEs, the three major concerns for share prices are capital-raising needs, asset quality and NIM recovery:

- ▶ Capital-raising and the extent of potential EPS dilution in the case of equity issuance. So far, five out of six major banks have either announced or are planning to raise capital (Chart 41) – for instance, BoCOM and CMB have announced RMB42bn and RMB22bn rights issues in both the A- and H-share markets, while BOC and ICBC revealed RMB40bn and RMB25bn A-share convertible bond issues, plus a general mandate to issue up to 20% of new shares in H-share market.



41. Chinese banks – capital-raising plans

RMBm	A-share CB	A+H rights insurance	General mandate
BOC	40,000		20% maximum H-share
BoCOM		42,000	
CCB			Likely post AGM in June
CITIC			No announcement yet
CMB		22,000	
ICBC	25,000		20% maximum H-share

Source: Company reports

- ▶ Asset quality – international investors have a lot of doubts over banks' exposure to the local government debt problem, particularly loans to the so-called UDICs. Chinese banks are

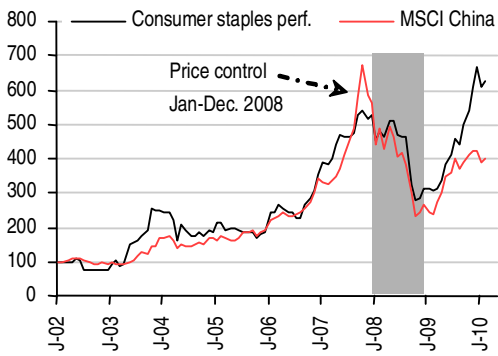
trying to play down the concerns. For instance CCB emphasized that lending to government financing vehicles was focused on high-quality projects with stable cash flows, enhanced with guarantees and collateral and of small sizes relative to the total loan book. CCB said new UDIC loans in 2H09 were only 6.6% of total new loans extended in 2009. ICBC disclosed a total outstanding UDIC loan balance of RMB720bn (or 12.3% of the total loan book) and new UDIC loans of RMB450bn in 2009 (or nearly 40% of 2009 new lending). Both banks stressed that NPL ratios for UDIC loans are extremely low, at 0.14% for CCB and 0.03% for ICBC.

- ▶ The pace of the NIM recovery hinges on the timing of interest rate hikes. Most sell-side analysts have built into their models a 27bp hike in each of 2Q10 and 2H10. Hence if the magnitude of the actual rate hike is smaller than the assumption, or the timing of the rate hike is later than expected, consensus earnings forecasts for the banking sector could be subject to downward revisions.

Insurance companies

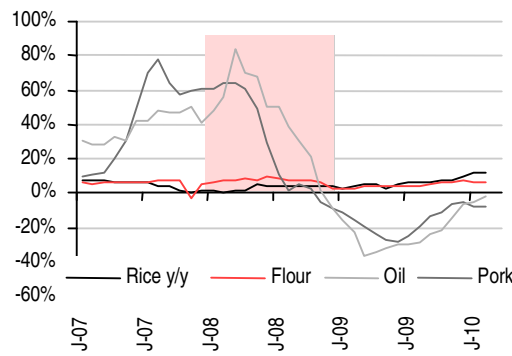
We are long-term bullish on the insurance sector as current valuations are underestimating China's long-term economic growth potential. Yet in the short term, there are three concerns: i) Investors may switch out of existing listed companies for upcoming Asian insurance IPOs, like Taikang Life in Hong Kong, Samsung Life and Mirae Asset Life in Korea, and Reliance in India; ii) The CIRC's new regulation to limit investments in non-insurance financial institutions (30% group NAV) and overseas investments (10%) may affect insurance companies like Ping An; and iii) The interest rate decision uncertainty is also negative for insurance companies. That said, we prefer insurance companies over banks for better fundamentals and growth potential.

42. Price controls the biggest risk for sector and market perf.



Source: Datastream (price rebased at 100 in Jan. 2002)

43. What triggered temporary price controls in 2008?



Source: CEIC

Downgrade consumer staples to UW from OW

Our downgrade is mainly based on the potential risk of temporary price controls and highly stretched valuations in the sector.

Administrative price controls on food items are usually the last resort and the most severe measure to control inflation in China – when it happens, it damages market sentiment and companies’ profit margins. In January-December 2008, China put in place temporary price controls, and during the same period the consumer staples sector index dropped over 40% and the broader market index over 50% (Chart 42).

One may argue that on a relative basis consumer staples still outperformed the market by roughly 10ppts during the 2008 price control period. But back then the consumer staples sector index and the market index pretty much stood at the same level, as compared to the beginning of 2002 when China entered a new round of economic growth. Now the situation is dramatically different – at the

end of February, the consumer staples index had outperformed MSCI China by over 220bps compared to January 2002 levels, or over 50bps compared to the market trough in October 2008.

What triggered the January 2008 price controls were pork and edible oil prices (Chart 43) – pork prices in 2H07 were on average 65% higher than the year before and edible oil over 45%. This time around, what worries us are rice prices – they are up over 11% y-o-y in the past three months as compared to less than 3% y-o-y in 1H07. The drought in southwest China since 4Q09, which is affecting five provinces and around 5% of the country’s arable land, could be a wild card for food prices going forward.

HSBC consumer analyst Jessie Guo also thinks that valuation for the whole sector is highly stretched (table 44) at nearly 5.2x 2010e PB on 21% ROE and 27x 2010e PE on 18.8% EPSG. Moreover, she thinks profit margins are under pressure as downstream companies won’t be able to fully pass through raw material cost increases.

44. Valuation snapshot for five sub-sectors of consumer staples

	EV/EBITDA (x)			P/B (x)			P/E (x)			PEG (x)		ROA (%)			ROE (%)			CAGR2009-11e		Dividend yield			Net debt/Equity	
	2009e	2010e	2011e	2009e	2010e	2011e	2009e	2010e	2011e	2010e	2011e	2009e	2010e	2011e	2009e	2010e	2011e	EPS	EBITDA	2009e	2010e	2011e	2009e	2010e
Beverage	18.1	15.2	13.5	4.7	3.5	3.2	34.2	32.9	28.2	2.5	3.0	8.1	6.0	6.5	14.1	10.9	11.4	8%	-14.6	1.2	1.2	1.5	-14.6	-10.2
Wines	13.8	12.0	9.8	10.9	8.2	7.0	31.5	24.2	20.2	1.2	1.2	26.1	26.9	27.1	38.2	35.8	35.2	25%	-65.3	1.7	1.8	2.1	-65.3	-59.9
Dairy	16.8	16.2	13.4	5.8	5.1	4.5	50.6	36.3	31.6	2.7	1.1	6.5	6.6	7.3	19.5	14.6	14.8	25%	-45.7	0.6	0.8	1.0	-45.7	-39.9
Food	23.3	19.8	16.7	5.9	4.8	4.2	28.1	23.2	19.6	1.4	0.4	14.3	13.5	14.1	21.8	20.9	21.4	19%	-12.4	1.5	1.7	2.2	-12.4	-13.6
Staples	19.1	16.4	12.9	5.8	5.4	4.6	28.3	23.0	19.0	1.3	0.7	21.5	18.8	19.2	28.7	24.4	24.5	18%	-39.7	1.4	1.6	1.9	-39.7	-33.8
Average	19.4	16.5	13.8	6.5	5.2	4.5	32.7	27.0	22.9	1.8	1.3	15.6	14.5	15.0	24.1	21.1	21.3	0.2	-29.8	1.4	1.5	1.8	-29.8	-27.2

Source: HSBC consumer research team

Index targets and model portfolio

- ▶ Cut targets by 3-5% – MSCI China 72, Hang Seng 25,000, HSCEI 15,000 and SHCOMP 3,400. Prefer H- over A-shares
- ▶ Add cyclical exposure (Maanshan Steel and CNBM) and Hong Kong property (Cheung Kong)

Revise 2010 index targets

We first set our 2010 index targets in October 2009 (CIA Issue 23, *Steady as she goes*). Since then the Hong Kong equity market has stayed largely flat and the A-share market is up some 10%. In line with our market view (pages 4-12), we cut our 2010 index targets by some 3-5%, except for the red-chip index, which stays the same (table 45). The downward revision is due to short-term policy uncertainty over interest rates (both timing and magnitude) and long-term

structural concerns such as the local government debt problem.

Our new targets imply less than 10% upside for the A-share market (Shanghai Composite Index) on 16x 2011e PE, 18% upside for the Hang Seng Index on 13.5x PE, and 20% upside for the H-share index (Hang Seng China Enterprise Index) on 12x PE. Most of the upside comes from earnings growth rather than PE multiple expansion. Our preference for H-shares over A-shares is mainly due to the 30-40% valuation

45. Revising 2010e Hong Kong/China index targets

	MSCI China	SHComp	CSI 300	HSCEI (H)	HSCCI (R)	Hang Seng
DY	2.7	2.7	2.8	3.2	3.0	3.4
Index level (31 Mar 2010)	64	3,109	3,346	12,398	4,102	21,239
DPS YR1	1.74	82.4	91.1	383.4	121.0	712.0
EPS YR0	3.74	139.8	155.4	851.1	275.3	1294.0
EPS YR1	4.61	177.8	199.5	1056.1	309.2	1585.5
EPS YR2	5.38	214.0	237.4	1247.0	342.8	1855.2
Growth in stage 2	14.0	16.0	16.0	14.0	14.0	12.4
No. of years of excess growth	12	12	12	12	12	10
Perpetual growth rate	3.0	3.0	3.0	3.0	3.0	3.0
COE (%)	10.5	11.0	11.0	10.5	10.5	9.6
Payout ratio now (%)	37.9	46.3	45.7	36.3	39.1	44.9
Payout ratio at end of stage 2	40	40	40	40	40	44
Fair value	73	3,494	3,863	17,372	4,874	26,385
Under/overvalued (%)	-12	-12.4	-15	-31	-16	-20
HSBC 2010 targets (old)	75	3,500	3,800	16,000	4,500	26,000
HSBC 2010 targets (new)	72	3,400	3,600	15,000	4,500	25,000
HSBC target implied 2011 fwd PE	13.4	15.9	15.2	12.0	13.1	13.5
HSBC target implied 12m fwd PE	15.0	18.2	17.2	13.6	14.2	15.1
Index upside	13%	9%	8%	21%	10%	18%

Source: HSBC, Datastream

gap and structural issues such as A-share new floats.

Model portfolio adjustment

In line with our 2Q10 sector allocation strategy view (pages 13-17), we have increased cyclical exposures in our portfolio by adding Maanshan Steel and CNBM. We also added Cheung Kong Holdings to our portfolio, reflecting our positive view on the Hong Kong property market.

- ▶ **Maanshan Iron & Steel** – The fear of monetary tightening and fiscal expenditure rebalancing to cut infrastructure investment is overdone, in our view. Moreover, seasonality suggests a strong 2Q in terms of apparent demand growth, which since 2006 has tended to go up 19% q-o-q in 2Q. And the stock's valuation is cheap both on a PB and PE basis
- ▶ **CNBM** – Coal prices have dropped more than 13% from the recent peak, indicating moderate margin improvement. Cement prices have stabilized and rebounded in certain regions. Moreover, the government's plans to further cut back on overcapacity and

the implementation of the “building materials to countryside” programme could be share-price catalysts in 2Q10

- ▶ **Cheung Kong Holdings** – We like the company for its high earnings visibility, rising market share in Hong Kong and potential asset growth in China. Moreover, we think the low interest rate environment could continue in Hong Kong, at least for this year, which is good for property developers. With the successful launches of Le Prestige, Le Prime and Caribbean Coast La Mer, CK should have locked in 60%+ of its HK property development profit in 2010e. Festival City Phase 1 could be the key catalyst for the share price – the company has so far sold 800 units of Festival City Phase 1, generating sales of HKD7bn. Should all of the 1,360 units in Phase1 be sold, we estimate that CK would have locked in c70% of its 2010e HK property development profit.

46. HSBC 2010 Hong Kong/China model portfolio of 10 equally weighted stocks – 3 in, 7 remain and 3 out

Name	BBG code	Price (HKD)	Perf. since 8 Jan 10	HSBC PE 2010e	HSBC PE 2011e	HSBC EPSG 2010e	HSBC EPSG 2011e	HSBC PB 2010	HSBC PB 2011e	ROE 2010e	ROE 2011e	DY 2010e	Analyst	Contact
3 in														
Maanshan Iron & Steel	323 HK	4.5	-24%	8.9	8.0	768.4%	11.3%	1.0	0.9	12%	12%	3.8%	Kang, Daniel	2996 6669
China National Building Mat.	3323 HK	15.0	-3%	10.8	9.4	21.2%	15.1%	2.1	1.7	19%	18%	0.7%	Ho, Ken	2996 6593
Cheung Kong Holdings	1 HK	100.0	-2%	13.6	10.9	6.3%	25.0%	0.9	0.9	7%	8%	2.7%	Fok, Louisa	2996 6629
7 stay														
China Gas Holdings	384 HK	4.4	2%	35.2	18.0	54.9%	94.9%	3.9	3.4	12%	20%	0.6%	Tsoi, Scully	2996 6620
Lenovo Group	992 HK	5.4	-1%	36.5	12.5	-168.1%	191.1%	4.3	3.4	12%	30%	1.9%	Wang, Wanli	2996 6752
China Mengniu Dairy	2319 HK	24.2	-10%	24.2	19.9	18.2%	21.4%	3.9	3.4	17%	18%	1.0%	Guo, Jessie	2996 6572
Parkson	3368 HK	13.4	-8%	27.9	22.3	29.8%	25.0%	7.5	6.2	29%	30%	1.3%	Yang, Sean	2822 4342
Tencent Holdings	700 HK	155.8	-7%	32.7	24.4	47.1%	34.1%	13.3	9.1	48%	43%	0.4%	Grinnan, Tucker	2822 4686
Dongfang Electric	1072 HK	44.2	5%	15.4	11.6	28.4%	33.2%	3.4	2.7	25%	26%	0.2%	Chiu, Gary	2822 4297
ICBC	1398 HK	5.9	-7%	10.3	8.2	31.0%	25.6%	2.2	1.9	23%	24%	4.3%	Dunivant, Todd	2996 6599
3 out														
Hutchison Whampoa	13 HK	56.8	1%	19.9	14.2	129.4%	40.4%	0.8	0.8	4%	6%	3.0%	Webb, Mark	2996 6574
Yue Yuen Industrial	551 HK	27.0	10%	11.7	10.7	5.7%	9.0%	1.7	1.6	15%	15%	3.4%	VD Linde, Herald	2996 6575
Bank of China Ltd	3988 HK	4.1	-3%	9.3	7.7	23.2%	20.5%	1.6	1.4	18%	19%	4.8%	Dunivant, Todd	2996 6599
Average			-2%	21.6	14.5	83.7%	47.7%	4.2	3.3	21%	23%	1.7%		
MSCI China		63.9	-4%	13.9	11.9	23.0%	17.1%	2.1	1.9	15%	16%	2.0%		

Notes: (1) These companies represent a selection of those in sectors and markets that loosely reflect the China Investment Atlas strategy described in this report. (2) We choose only stocks on which HSBC's fundamental equity analysts do not hold negative views. (3) Average refers to the average of 7 staying stocks and 3 newly added stocks, except for performance that refers to staying and outgoing stocks.

Source: HSBC estimates, Datastream; Prices as of 31 Mar 2010

This page has been left intentionally blank

Appendix

A- and H-share discount stock screen (61 companies)

H-share ticker	As of 31 March 2010 Name	HKD Price	10d av vol m	Mkt cap USDm	% of all shares	A-share ticker	Liquidity reform	CNY price	10d av vol m	Mkt cap USDm	% of all shares	percent unlisted	Premium/ discount	52 week range			
														hi	lo	avg	
1108 HK	Luoyang Glass Company Ltd-H	1.87	1.1	60	50.0%	600876 CH	Y	9.37	1.9	97	14.2%	35.8%	-82.5%	-57.3%	-86.0%	-77.8%	
553 HK	Nanjing Panda Electronics-H	2.00	2.1	62	36.9%	600775 CH	Y	9.12	2.2	105	12.0%	51.1%	-80.7%	-75.7%	-83.7%	-78.9%	
1033 HK	Sinopec Yizheng Chemical-H	1.97	7.5	355	35.0%	600871 CH	N	8.80	2.7	258	5.0%	60.0%	-80.3%	-74.7%	-81.6%	-78.2%	
350 HK	Jingwei Textile Machinery-H	2.58	0.9	60	29.9%	000666 CH	Y	9.75	8.6	325	37.7%	32.4%	-76.7%	-64.8%	-81.5%	-72.9%	
338 HK	Sinopec Shanghai Petrochem-H	3.08	14.2	924	32.4%	600688 CH	N	9.85	3.2	1039	10.0%	57.6%	-72.5%	-65.6%	-76.8%	-72.6%	
42 HK	Northeast Electric Develop-H	1.62	1.9	54	29.5%	000585 CH	Y	4.62	15.1	265	44.8%	25.6%	-69.2%	-50.9%	-83.9%	-64.6%	
1065 HK	Tianjin Capital Environ-H	2.87	2.1	126	23.8%	600874 CH	Y	8.18	10.1	427	25.0%	51.2%	-69.2%	-61.4%	-80.7%	-70.4%	
187 HK	Beiren Printing-H	3.00	1.0	39	23.7%	600860 CH	Y	8.46	5.5	149	28.5%	47.8%	-68.8%	-67.1%	-83.4%	-74.4%	
719 HK	Shandong Xinhua Pharmaceut-H	3.30	1.1	64	32.8%	000756 CH	Y	9.15	3.6	160	26.1%	41.1%	-68.3%	-65.1%	-77.3%	-70.1%	
2727 HK	Shanghai Electric Grp Co L-H	3.78	17.4	1448	23.8%	601727 CH	NA	9.88	13.1	892	4.9%	71.3%	-66.4%	-61.5%	-74.3%	-68.0%	
1071 HK	Huadian Power Intl Corp-H	1.95	10.0	359	23.8%	600027 CH	Y	4.98	5.3	832	18.9%	57.3%	-65.6%	-50.8%	-68.5%	-61.1%	
921 HK	Hisense Kelon Elec Hld-H	3.55	6.2	210	46.3%	000921 CH	Y	8.64	3.6	276	22.0%	31.7%	-63.9%	-55.6%	-82.1%	-69.7%	
991 HK	Datang Intl Power Gen Co-H	3.52	19.4	1480	27.8%	601991 CH	NA	8.39	5.5	5424	34.5%	34.5%	-63.1%	-46.6%	-68.9%	-59.6%	
1053 HK	Chongqing Iron & Steel Co-H	2.43	3.0	168	31.0%	601005 CH	NA	5.46	6.8	280	20.2%	48.8%	-60.9%	-37.7%	-63.6%	-54.2%	
588 HK	Beijing North Star Co Ltd-H	2.40	2.1	219	21.0%	601588 CH	NA	5.38	11.3	1182	44.5%	34.5%	-60.8%	-52.2%	-72.8%	-60.0%	
300 HK	Shenji Group Kunming Machi-H	6.14	0.9	89	26.5%	600806 CH	Y	13.62	5.5	264	31.1%	42.4%	-60.4%	-46.7%	-70.9%	-58.2%	
1055 HK	China Southern Airlines Co-H	3.47	25.4	525	26.8%	600029 CH	Y	7.55	55.6	1106	22.9%	50.3%	-59.6%	-54.2%	-75.6%	-62.9%	
358 HK	Jiangxi Copper Co Ltd-H	17.54	14.4	3135	45.9%	600362 CH	Y	35.65	7.4	1476	9.3%	44.8%	-56.7%	-52.5%	-70.7%	-61.1%	
107 HK	Sichuan Expressway Co-H	4.60	1.9	531	29.3%	601107 CH	NA	9.25	28.6	508	12.3%	58.5%	-56.3%	-16.5%	-70.9%	-58.4%	
670 HK	China Eastern Airlines - H	3.96	17.5	799	32.2%	600115 CH	Y	7.85	23.4	455	8.1%	59.7%	-55.6%	-54.1%	-81.1%	-65.1%	
386 HK	China Petroleum & Chemical-H	6.36	105.8	13747	19.4%	600028 CH	Y	11.73	60.4	14605	9.8%	70.8%	-52.3%	-43.4%	-59.4%	-51.4%	
317 HK	Guangzhou Shipyard Intl Co-H	13.42	1.0	272	31.8%	600685 CH	Y	23.56	2.8	554	32.5%	35.7%	-49.9%	-34.3%	-62.8%	-51.1%	
902 HK	Huaneng Power Intl Inc-H	4.51	33.7	1775	25.3%	600011 CH	Y	7.32	5.5	3086	23.9%	50.8%	-45.8%	-32.7%	-52.5%	-41.9%	
2600 HK	Aluminum Corp Of China Ltd-H	8.02	34.7	4074	29.2%	601600 CH	NA	12.84	32.4	2691	10.6%	60.3%	-45.1%	-35.1%	-61.0%	-46.7%	
548 HK	Shenzhen Expressway Co-H	4.08	3.1	393	34.3%	600548 CH	Y	6.43	9.6	205	10.0%	55.7%	-44.2%	-31.2%	-55.3%	-43.1%	
753 HK	Air China Ltd-H	8.02	17.3	4551	36.0%	601111 CH	NA	12.47	27.7	2994	13.4%	50.7%	-43.5%	-38.9%	-63.8%	-48.6%	
874 HK	Guangzhou Pharmaceutical-H	7.81	1.2	221	27.1%	600332 CH	Y	12.12	6.0	289	20.1%	52.8%	-43.3%	-41.6%	-69.1%	-56.7%	
2866 HK	China Shipping Container-H	3.10	41.0	1498	32.1%	601866 CH	NA	4.71	25.2	1129	14.0%	53.9%	-42.1%	-35.4%	-70.0%	-48.6%	
525 HK	Guangshen Railway Co Ltd-H	3.11	4.2	573	20.2%	601333 CH	NA	4.48	23.3	1804	38.8%	41.0%	-39.0%	-26.2%	-47.8%	-37.0%	
857 HK	Petrochina Co Ltd-H	9.08	95.0	24677	11.5%	601857 CH	NA	12.84	17.6	7524	2.2%	86.3%	-37.8%	-32.4%	-53.4%	-41.9%	
2883 HK	China Oilfield Services-H	11.40	7.2	2254	34.1%	601808 CH	NA	15.88	7.3	1163	11.1%	54.7%	-36.9%	-31.5%	-66.4%	-51.3%	
1812 HK	Shandong Chenming Paper - H	6.25	2.2	315	19.1%	000488 CH	Y	8.69	15.3	1026	39.1%	14.9%	-36.8%	-33.1%	-58.9%	-42.6%	
995 HK	Anhui Expressway Co Ltd-H	5.30	1.4	337	29.7%	600012 CH	Y	7.32	10.5	500	28.1%	42.2%	-36.3%	-15.2%	-44.3%	-28.4%	
2899 HK	Zijin Mining Group Co Ltd-H	6.12	34.5	3158	27.5%	601899 CH	NA	8.20	53.4	12657	0.0%	0.0%	-34.4%	-13.0%	-56.8%	-33.1%	
998 HK	China Citic Bank - H	5.82	33.0	9297	31.8%	601998 CH	NA	7.35	40.3	1922	4.6%	63.7%	-30.4%	-10.4%	-46.6%	-26.3%	
1919 HK	China Cosco Holdings-H	10.28	19.6	3417	25.3%	601919 CH	NA	12.73	21.9	2329	12.2%	62.5%	-29.0%	-23.5%	-62.1%	-38.6%	
1618 HK	Metallurgical Corp Of Chin-H	4.25	16.3	1357	15.0%	601618 CH	NA	5.10	101.5	1462	11.9%	73.1%	-26.7%	-11.6%	-30.8%	-22.4%	
1171 HK	Yanzhou Coal Mining Co-H	18.68	15.3	4712	39.8%	600188 CH	Y	20.80	8.4	1097	7.3%	52.9%	-21.0%	-20.6%	-63.6%	-40.5%	
177 HK	Jiangsu Express Co Ltd-H	7.33	3.9	1154	24.3%	600377 CH	Y	8.06	15.1	412	6.9%	68.8%	-20.0%	1.4%	-27.4%	-13.6%	
2338 HK	Weichai Power Co Ltd-H	65.00	1.2	1059	24.3%	000338 CH	NA	68.79	3.0	1769	33.7%	42.0%	-16.9%	0.2%	-52.7%	-24.6%	
3988 HK	Bank Of China Ltd - H	4.14	307.1	40540	29.9%	601988 CH	NA	4.29	66.1	4081	2.6%	67.5%	-15.2%	1.9%	-37.0%	-17.0%	
390 HK	China Railway Group Ltd - H	5.60	21.5	3035	19.8%	601390 CH	NA	5.80	47.8	2781	15.4%	64.9%	-15.1%	5.1%	-29.6%	-10.9%	
1138 HK	China Shipping Development-H	12.68	11.1	2117	39.0%	600026 CH	Y	12.77	8.3	845	13.6%	47.5%	-12.7%	-4.5%	-45.3%	-27.5%	
1072 HK	Dongfang Electric Corp Ltd-H	44.20	0.6	968	20.8%	600875 CH	Y	44.45	3.1	643	12.1%	67.1%	-12.6%	-9.0%	-61.0%	-28.4%	
1898 HK	China Coal Energy Co - H	12.12	29.1	6411	31.0%	601898 CH	NA	11.67	18.0	2021	8.9%	60.1%	-8.7%	2.0%	-48.3%	-23.8%	
1988 HK	China Minsheng Banking-H	8.01	14.4	3427	15.0%	600016 CH	Y	7.69	99.3	21206	85.0%	0.0%	-8.4%	3.1%	-9.8%	-3.5%	
323 HK	Maanshan Iron & Steel-H	4.50	23.1	1004	25.6%	600808 CH	Y	4.29	23.4	751	17.7%	56.7%	-7.8%	7.8%	-40.1%	-9.1%	
1766 HK	China South Locomotive - H	6.09	7.4	1190	15.2%	601766 CH	NA	5.56	38.2	1685	20.7%	64.1%	-3.7%	-2.2%	-34.6%	-18.3%	
763 HK	Zte Corp-H	47.05	5.5	971	16.7%	000063 CH	Y	42.50	5.2	3333	55.8%	27.5%	-2.7%	12.2%	-27.7%	-8.5%	
3328 HK	Bank Of Communications Co-H	9.25	32.6	27481	47.1%	601328 CH	NA	8.28	43.0	2709	4.6%	48.4%	-1.8%	6.0%	-27.4%	-11.5%	
939 HK	China Construction Bank-H	6.36	255.6	184072	96.1%	601939 CH	NA	5.67	81.2	7476	3.9%	0.0%	-1.4%	6.2%	-22.3%	-6.1%	
1186 HK	China Railway Construction-H	9.57	9.2	2416	16.1%	601186 CH	NA	8.43	27.9	2318	15.4%	68.4%	-0.2%	14.9%	-10.4%	2.5%	
168 HK	Tsingtao Brewery Co Ltd-H	39.05	1.2	3295	50.1%	600600 CH	Y	34.08	2.4	1177	18.0%	31.9%	0.7%	6.8%	-36.8%	-12.0%	
1088 HK	China Shenhua Energy Co - H	33.55	22.6	14687	17.1%	601088 CH	NA	28.90	21.7	7621	9.0%	73.9%	-2.1%	7.0%	-32.4%	-10.5%	
914 HK	Anhui Conch Cement Co Ltd-H	51.30	3.3	2863	27.7%	600585 CH	Y	44.16	5.7	1700	16.8%	55.6%	-5.6%	18.1%	-13.0%	2.7%	
1398 HK	Ind & Comm Bk Of China - H	5.92	270.1	63335	24.9%	601398 CH	NA	4.98	115.2	8803	3.6%	71.5%	4.5%	13.5%	-16.6%	0.5%	
347 HK	Angang Steel Co Ltd-H	14.24	16.1	1992	15.0%	000898 CH	Y	11.69	22.0	2194	17.7%	67.3%	7.1%	19.3%	-24.0%	-1.2%	
2601 HK	China Pacific Insurance Gr-H	34.40	8.3	9680	25.8%	601601 CH	NA	27.00	23.2	10194	30.4%	43.9%	12.0%	17.7%	6.1%	13.2%	
3968 HK	China Merchants Bank - H	21.00	22.8	7201	18.1%	600036 CH	Y	16.28	68.9	11237	32.0%	49.9%	13.4%	14.7%	-27.4%	-3.0%	
2628 HK	China Life Insurance Co-H	37.20	34.7	35656	26.3%	601628 CH	NA	28.48	9.1	6259	5.3%	68.4%	15.7%	13.5%	15.4%	5.4%	
2318 HK	Ping An Insurance Group Co-H	66.90	6.7	22049	34.8%	601318 CH	NA	50.40	30.4	5944	11.0%	54.2%	16.7%	23.2%	-15.1%	8.4%	
													Average	-34.2%	-31.7%	-50.7%	-38.3%

Notes: Liquidity (non-tradable) reform = Y (completed) P (pending) N (yet to reform) and NA (not applicable).
Source: HSBC, Bloomberg

Data pack

Regional PE vs. EPSG

	12M Fwd PE	EPSG 09-11	PEG
ID	13.73	16.20	0.85
TW	13.89	41.60	0.33
IN	16.96	24.74	0.69
KR	9.67	22.49	0.43
CH	13.30	20.03	0.66
MY	14.85	18.42	0.81
JP	18.21	86.03	0.21
AU	14.03	15.62	0.90
PH	14.14	17.82	0.79
TH	11.52	41.60	0.28
SG	14.22	13.49	1.05
HK	16.14	14.70	1.10
SZ	24.55	36.00	0.68
SH	16.31	23.63	0.69
AEJ	13.12	22.56	0.58
AP	14.84	30.30	0.49

Source: Datastream and Wind

Regional PB vs. RoE/CoE

	COE	Fwd ROE	Fwd ROE/COE	Fwd PB
KR	10.5	13.2	1.26	1.3
HK	8.5	8.7	1.02	1.4
JP	7.5	6.8	0.90	1.2
TW	9.5	13.1	1.38	1.8
MY	8.0	13.3	1.67	2.0
TH	9.5	15.2	1.60	1.7
SG	8.5	12.2	1.44	1.7
PH	9.5	16.0	1.69	2.3
CH	10.0	15.8	1.58	2.1
AU	9.5	14.3	1.51	2.0
ID	11.5	24.5	2.13	3.4
IN	10.5	15.2	1.45	2.6
SH	12.0	14.6	1.21	2.8
SZ	12.0	10.5	0.88	4.5
AEJ	6.1	14.1	2.30	1.8
AP	9.2	10.6	1.16	1.6

Source: Datastream and Wind

MSCI China PE vs. EPSG

	12M Fwd PE	EPSG 09-11	PEG
Banks	9.7	17%	0.6
Insurance	26.0	21%	1.3
Real Estate	11.9	21%	0.6
Oil & Gas	10.7	10%	1.1
Coal	13.7	16%	0.9
Airline	20.1	5%	3.7
Capital goods	13.0	22%	0.6
Toll roads	14.0	9%	1.6
Non-ferrous	11.3	28%	0.4
Steel	13.4	27%	0.5
IT	28.9	69%	0.4
Consumer staple	16.9	20%	0.8
Telecom	12.1	3%	3.6
Utilities	14.7	13%	1.1
Consumer discretionary	18.1	18%	1.0
MSCI China	13.3	20%	0.7

Source: Datastream

MSCI China PB vs. RoE/CoE

	Fwd PB	ROE/COE	Fwd ROE/COE
Banks	1.96	1.71	1.92
Insurance	3.37	0.67	1.23
Real Estate	1.66	1.49	1.33
Oil & Gas	1.93	1.35	1.82
Coal	2.56	1.76	1.90
Capital Goods	1.49	1.17	1.22
Airlines	2.63	-9.03	1.40
Toll roads	1.87	1.39	1.42
Non-ferrous	1.76	-0.09	1.27
Steel	1.34	0.63	0.81
IT	6.19	1.86	2.68
Consumer staple	4.11	2.11	2.31
Telecom	1.83	1.57	1.60
Utilities	1.74	1.45	1.51
Consumer discretionary	3.17	1.74	1.74
MSCI China	2.10	1.43	1.58

Source: Datastream

A-share PE vs. EPSG

	12M Fwd PE	EPSG 09-11	PEG
Cons. Dscr.	23.3	25%	0.9
Cons. Stap.	28.2	34%	0.8
Energy	15.5	16%	0.9
Financials	13.3	22%	0.6
Health care	27.4	23%	1.2
Industrials	23.0	36%	0.6
IT	38.4	39%	1.0
Materials	22.7	66%	0.3
Teleco.	33.1	12%	2.8
Utilities	23.3	18%	1.3
All A-shares	17.6	25%	0.7

Source: Wind

A-share PB vs. RoE/CoE

	PB	ROE/COE
Consumer Discretionary	4.40	0.90
Consumer Staples	6.71	1.28
Energy	3.03	1.24
Financials	2.99	1.46
Health Care	6.37	1.38
Industrials	3.81	0.73
Information Technology	5.60	0.34
Materials	3.33	0.30
Telecommunication Services	2.16	0.65
Utilities	2.89	0.71
All A-shares	3.47	1.10

Source: Wind

HSBC China coverage list (175 companies)

HSBC China coverage list

As of 31 March 2010 Company Name	Ticker	Sector	Price (HKD)	HSBC TP	HSBC Rating	Analyst	Contact	Price Performance			P/E		P/B		Dividend Yield		2010 EPS Revision		Market Cap in USD (m)
								1W	1M	3M	2009	2010	2009	2010	2009	2010	1M	3M	
AAC Acoustic Tech	2018 HK	Utilities	12.98	17.6	Overweight (V)	Wang, Yolanda Yu-ya	(886) 2 8725 6027	-2.1%	7.1%	1.2%	25.91	17.31	N/A	3.76	N/A	2.08%	1.35%	-1.32%	2052.81
Agile Property	3383 HK	Financials	10.6	14.5	Overweight (V)	Wong, Alvin	(852) 2996 6621	7.3%	6.9%	-7.0%	18.60	12.93	2.61	2.27	1.60%	2.17%	1.23%	2.50%	4895.91
Air China	753 HK	Industrials	8.02	7.5	Neutral (V)	Lin, Eric	(852) 2996 6570	9.0%	18.5%	32.1%	20.56	24.30	3.95	3.12	0.62%	0.62%	3.13%	17.86%	4550.54
Air China-A	601111 CH	Industrials	12.47	9.2	Underweight (V)	Lin, Eric	(852) 2996 6570	2.3%	7.1%	28.4%	-51.25	67.12	6.35	4.81	N/A	N/A	N/A	N/A	18883.38
Aluminum Corp of China	2600 HK	Materials	8.02	7	Underweight (V)	Kang, Daniel	(852) 2996 6669	-0.6%	6.8%	-6.2%	-23.38	22.28	N/A	1.90	N/A	0.87%	-10.00%	20.00%	4073.64
Angang Steel	347 HK	Materials	14.24	14.5	Neutral (V)	Kang, Daniel	(852) 2996 6669	2.9%	-0.4%	-16.8%	79.11	17.80	1.96	1.78	0.98%	2.46%	-3.61%	3.90%	1991.30
Anhui Conch Cement Company	914 HK	Industrials	51.3	57.4	Neutral (V)	Ho, Ken	(852) 2996 6593	5.0%	11.5%	2.8%	25.91	19.58	N/A	2.85	N/A	0.90%	0.00%	-1.87%	2862.08
Anta Sports Products Ltd	2020 HK	Consumer Discretionary	12.82	11.2	Neutral (V)	van der Linde, Herald	(852) 2996 6575	-5.2%	14.9%	11.3%	25.59	22.49	6.28	5.62	0.94%	2.42%	11.3%	5.56%	4114.61
Asia Cement China Holding	743 HK	Industrials	4.29	3.9	Underweight (V)	Lam, Elaine	(852) 2822 4398	-0.2%	4.1%	-7.7%	11.00	10.46	N/A	0.88	N/A	2.56%	-2.38%	-2.38%	859.83
ASM Pacific Technology	522 HK	Information Technology	73.55	65	Underweight (V)	Pelayo, Steven	(852) 2822 4391	-0.5%	0.4%	-0.4%	31.03	18.12	8.50	8.13	1.90%	4.39%	25.31%	30.13%	3735.83
Baidu.com Inc.	BIDU US	Information Technology	597	442	Neutral (V)	Grinnan, Tucker	(852) 2822 4686	-1.9%	14.2%	45.2%	96.63	63.18	31.95	21.39	N/A	N/A	N/A	N/A	20708.59
Bank of China Ltd	3988 HK	Financials	4.14	5.1	Overweight (V)	Dunivant, Todd	(852) 2996 6599	3.0%	9.8%	-1.4%	12.94	10.62	N/A	1.83	N/A	4.11%	2.63%	0.00%	40532.68
Bank of Communications	3328 HK	Financials	9.25	11.1	Overweight (V)	Dunivant, Todd	(852) 2996 6599	6.8%	8.3%	2.7%	15.68	12.50	2.68	2.27	2.27%	2.81%	-3.90%	-2.63%	27476.47
Bank of East Asia	23 HK	Financials	28.6	28.5	Neutral (V)	Dunivant, Todd	(852) 2996 6599	-1.0%	0.9%	-7.3%	21.03	17.55	1.34	1.38	N/A	3.25%	0.00%	1.24%	7439.77
Bao Shan Iron & Steel	600019 CH	Materials	7.88	9	Overweight (V)	Kang, Daniel	(852) 2996 6669	0.6%	-3.9%	-18.4%	23.99	11.78	1.49	1.42	N/A	N/A	N/A	N/A	20216.21
Bawing International	1338 HK	Consumer Staples	5.81	5.8	Overweight (V)	van der Linde, Herald	(852) 2996 6575	6.8%	33.3%	7.6%	48.42	32.28	7.26	6.38	1.55%	0.86%	5.88%	12.50%	2173.69
Beijing Capital Internati	694 HK	Industrials	4.64	5.6	Neutral (V)	Lin, Eric	(852) 2996 6570	-0.2%	9.2%	-9.7%	66.29	42.18	N/A	1.55	N/A	1.08%	0.00%	0.00%	1123.06
Beijing Enterprises	392 HK	Industrials	53.95	60.5	Neutral (V)	Tsoi, Scully	(852) 2996 6620	5.0%	10.6%	-4.1%	24.08	20.44	2.03	1.89	1.35%	1.58%	-0.38%	2.33%	7902.59
Belle International Holdi	1880 HK	Consumer Discretionary	10.44	7.9	Neutral (V)	van der Linde, Herald	(852) 2996 6575	11.1%	20.7%	15.2%	34.80	29.00	N/A	4.97	N/A	0.96%	2.86%	2.86%	11340.22
BOC Hong Kong Holdings	2388 HK	Financials	18.52	22.5	Overweight (V)	Dunivant, Todd	(852) 2996 6599	-1.5%	5.8%	5.2%	14.27	12.03	N/A	1.82	N/A	5.29%	-1.28%	0.65%	25217.70
Cathay Pacific	293 HK	Industrials	16.36	17.75	Overweight (V)	Webb, Mark	(852) 2996 6574	2.0%	13.5%	13.0%	13.71	18.20	1.52	1.43	0.61%	1.65%	35.94%	58.18%	8288.49
Champion REIT	2778 HK	Financials	3.71	3.8	Overweight (V)	Kwok, Michelle	(852) 2996 6918	0.3%	5.7%	12.4%	123.67	21.82	N/A	0.62	N/A	5.93%	0.00%	13.33%	2318.00
Cheung Kong Holdings Ltd	1 HK	Financials	100	122	Overweight	Fok, Louisa	(852) 2996 6629	0.1%	2.8%	-0.3%	11.64	12.92	N/A	0.90	N/A	2.57%	1.84%	1.57%	29829.44
Cheung Kong Infrastruct	1038 HK	Industrials	30.05	36	Overweight	Chiu, Gary	(852) 2822 4297	0.5%	2.9%	1.7%	12.17	15.18	1.60	1.59	3.99%	4.13%	-1.00%	-1.00%	8723.97
China Agri-Industries Hol	606 HK	Consumer Staples	10.72	6.5	Neutral (V)	Guo, Jessie	(852) 2996 6572	-0.6%	3.8%	5.1%	20.78	14.89	N/A	2.35	N/A	1.59%	0.00%	5.88%	5329.54
China Blue Chemicals	3983 HK	Materials	5.06	6.5	Overweight (V)	Li, Steven	(852) 2996 6941	3.7%	1.6%	6.5%	24.10	16.32	N/A	2.11	N/A	1.78%	0.00%	0.00%	1154.10
China Citic Bank	998 HK	Financials	5.82	6.5	Overweight (V)	Dunivant, Todd	(852) 2996 6599	2.8%	12.1%	-12.2%	14.92	11.64	2.13	1.86	1.55%	2.23%	-1.26%	0.00%	9295.72
China Coal Energy Co	1898 HK	Utilities	12.12	15.8	Overweight (V)	Mak, Sarah	(852) 2822 4551	4.7%	-2.1%	-14.9%	19.55	15.95	2.48	2.21	1.40%	1.73%	-1.30%	2.70%	6410.13
China Communication Servi	552 HK	Information Technology	3.9	4.4	Neutral	Shing, Walden	(852) 2996 6751	-0.3%	-2.3%	2.1%	14.08	12.19	N/A	1.58	N/A	3.33%	0.00%	0.00%	1000.96
China Communications Cons	1800 HK	Industrials	7.33	7.2	Neutral (V)	Ho, Ken	(852) 2996 6593	1.8%	1.0%	-1.3%	15.27	13.33	2.28	2.01	1.50%	1.77%	-1.79%	-6.78%	4179.63
China Construction Bank	939 HK	Financials	6.36	7.1	Overweight (V)	Dunivant, Todd	(852) 2996 6599	2.6%	8.3%	-4.8%	13.83	11.16	N/A	2.38	N/A	3.93%	0.00%	-1.72%	184041.10
China COSCO Holdings Co	1919 HK	Industrials	10.28	4.1	Underweight (V)	Shahrim, Azura	(852) 2996 6976	-1.3%	6.3%	7.6%	-18.04	-146.86	2.36	2.45	0.00%	0.10%	-16.67%	0.00%	3416.56
China Eastern Airlines Co	670 HK	Industrials	3.96	1.3	Underweight (V)	Lin, Eric	(852) 2996 6570	10.9%	22.2%	43.0%	-44.00	79.20	22.00	5.14	0.00%	0.00%	25.00%	400.00%	1782.11
China Eastern Airlines-A	600115 CH	Industrials	7.85	2.3	Underweight (V)	Lin, Eric	(852) 2996 6570	5.4%	14.4%	27.4%	-16.89	-61.60	-17.25	37.03	N/A	N/A	N/A	N/A	10731.82
China Everbright Internat	257 HK	Utilities	3.95	4.7	Neutral (V)	Ho, Ken	(852) 2996 6593	-1.7%	3.4%	-1.3%	35.27	26.33	3.13	2.86	0.51%	0.51%	-6.25%	-6.25%	1851.69
China Gas Holdings Ltd	384 HK	Energy	4.36	6	Overweight (V)	Tsoi, Scully	(852) 2996 6620	6.6%	7.1%	2.8%	30.92	31.14	4.49	4.11	0.23%	0.69%	0.00%	0.00%	1887.28
China Life Insurance Comp	2628 HK	Financials	37.2	40	Neutral (V)	Garner, James	(852) 2822 4321	3.9%	8.0%	-3.0%	33.21	28.62	4.71	4.11	0.86%	0.99%	0.00%	2.36%	35650.05
China Lilang Limited	1234 HK	Consumer Discretionary	7.54	8.2	Overweight (V)	van der Linde, Herald	(852) 2996 6575	2.0%	27.4%	39.6%	24.48	22.18	N/A	5.42	N/A	1.86%	13.33%	13.33%	1165.28
China Mengniu Dairy	2319 HK	Consumer Staples	24.2	30.5	Overweight (V)	Guo, Jessie	(852) 2996 6572	2.5%	4.5%	-12.8%	32.27	27.19	5.54	4.81	0.54%	0.83%	0.00%	0.00%	5414.26
China Merchants Bank Co L	3968 HK	Financials	21	17.5	Neutral (V)	Dunivant, Todd	(852) 2996 6599	7.5%	16.8%	9.7%	23.33	18.75	4.36	3.51	1.00%	1.43%	-2.61%	-1.75%	10576.08
China Merchants Internati	144 HK	Industrials	28.6	24	Underweight (V)	Jain, Parash	(852) 2996 6717	-0.2%	2.3%	13.3%	23.64	23.64	2.18	2.06	1.89%	1.96%	2.54%	6.14%	8961.50
China Mobile LTD	941 HK	Telecom	74.7	81	Neutral	Grinnan, Tucker	(852) 2822 4686	-0.5%	-2.5%	2.5%	13.17	12.81	N/A	2.61	N/A	3.44%	1.57%	1.57%	192998.60
China National Building M	3323 HK	Industrials	15.04	22.2	Overweight (V)	Ho, Ken	(852) 2996 6593	3.3%	12.6%	-6.4%	16.53	13.08	2.95	2.48	0.60%	0.93%	-0.86%	-5.74%	2325.60
China National Material C	1893 HK	Industrials	5.17	7.4	Overweight (V)	Lam, Elaine	(852) 2822 4398	2.6%	5.7%	-10.4%	19.15	13.97	2.49	2.25	1.35%	1.55%	0.00%	-2.63%	775.13
China Oilfield Services	2883 HK	Energy	11.4	12.3	Neutral (V)	Suttkulpanich, Duke	(852) 2996 6590	-2.7%	6.7%	22.6%	16.52	14.25	2.32	2.05	1.23%	1.49%	-1.23%	3.90%	2253.45
China Overseas Land	688 HK	Financials	17.54	21.91	Overweight (V)	Fok, Louisa	(852) 2996 6629	7.1%	11.4%	7.0%	19.17	16.87	N/A	2.96	N/A	1.37%	0.97%	0.00%	18453.34
China Pacific Insurance	2601 HK	Financials	34.4	33	Neutral (V)	Garner, James	(852) 2822 4321	4.6%	8.3%	11.3%	36.60	32.15	3.15	2.95	0.78%	0.99%	0.94%	N/A	10248.63
China Power International	2380 HK	Utilities	1.85	2.3	Neutral (V)	Chiu, Gary	(852) 2822 4297	-1.1%	-2.1%	-5.1%	14.23	14.23	0.79	0.76	2.16%	2.16%	0.00%	-23.53%	1216.80
China Railway Constructio	1186 HK	Industrials	9.57	12	Overweight (V)	Ho, Ken	(852) 2996 6593	1.3%	-6.4%	-3.8%	20.36	15.44	2.27	2.03	1.36%	1.78%	-3.13%	-3.13%	2559.04
China Railway Group Ltd	390 HK	Industrials	5.6	6.9	Overweight (V)	Ho, Ken	(852) 2996 6593	0.7%	-3.6%	-7.3%	18.67	14.36	1.93	1.72	1.07%	1.61%	0.00%	0.00%	3034.42
China Resources Cement	1313 HK	Industrials	3.75	5	Overweight (V)	Lam, Elaine	(852) 2822 4398	2.7%	10.6%	-2.6%	9.38	14.42	N/A	1.79	N/A	0.00%	-3.70%	-3.70%	3148.51
China Resources Land	1109 HK	Financials	16.88	23.7	Overweight (V)	Fok, Louisa	(852) 2996 6629	7.7%	4.5%	-4.3%	18.80	18.55	N/A	2.00	N/A	1.30%	1.11%	0.00%	10943.02
China Resources Power	836 HK	Utilities	16.62	24	Overweight (V)	Chiu, Gary	(852) 2822 4297	-3.6%	7.8%	7.6%	14.21	13.74	N/A	1.86	N/A	2.29%	4.31%	-0.82%	10039.34
China Shanshui Cement	691 HK	Industrials	4.34	5.2	Overweight (V)	Lam, Elaine	(852) 2822 4398	-0.5%	4.1%	-23.3%	14.07	10.59	2.32	1.98	1.84%	2.53%	0.00%	-10.87%	1566.88
China Shenhua Energy	1088 HK	Utilities	33.55	40	Overweight (V)	Mak, Sarah	(852) 2822 4551	5.8%	0.4%	-11.7%	21.45	17.47	3.91	3.37	1.58%	1.82%	-4.00%	2.13%	14684.72
China Shipping Contain	2866 HK	Industrials	3.1	1.5	Underweight (V)	Shahrim, Azura	(852) 2996 6976	-3.4%	0.0%	10.7%	-5.85	-20.67	1.42	1.48	0.00%	0.00%	0.00%	-7.14%	1497.56
China Shipping Developmen	1138 HK	Industrials	12.68	7.7	Underweight (V)	Shahrim, Azura	(852) 2996 6976	-4.4%	-4.1%	8.7%	40.51	18.38	N/A	1.83	N/A	1.26%	2.99%	1.47%	2116.41
China Southern Airlines C	1055 HK	Industrials	3.47	4.2	Overweight (V)	Lin, Eric	(852) 2996 6570	9.5%	16.4%	43.4%	57.83	21.69	2.63	3.74	0.00%	0.00%	0.00%	-20.00%	1109.38
China Southern Airlines-A	600029 CH	Industrials	7.55	6.7	Neutral (V)	Lin, Eric	(852) 2996 6570	8.3%	14.0%	24.6%	-37.87	-133.47	5.98	1.62	N/A	N/A	N/A	N/A	7216.17
China State Construction	3311 HK	Industrials	3.03	4.2	Overweight (V)	Lam, Elaine	(852) 2822 4398	-1.6%	7.4%	-8.2%	13.84	12.12	N/A	1.81	N/A	2.64%	0.00%	0.00%	1154.38

Source: HSBC, Bloomberg, Datastream

HSBC China coverage list (cont'd)

Company Name	Ticker	Sector	Price (HKD)	HSBC TP	HSBC Rating	Analyst	Contact	Price Performance			P/E		P/B		Dividend Yield		2010 EPS Revision		Market Cap in USD (m)
								1W	1M	3M	2009	2010	2009	2010	2009	2010	1M	3M	
China Taiping Insurance	966 HK	Financials	27.15	36	Overweight (V)	Garner, James	(852) 2822 4321	-4.7%	12.7%	8.2%	52.11	34.37	N/A	4.38	N/A	0.33%	-4.82%	1.28%	5951.43
China Telecom Corporation	728 HK	Telecom	3.83	3.6	Neutral	Grinnan, Tucker	(852) 2822 4686	1.6%	12.3%	18.2%	21.28	20.16	N/A	1.33	N/A	2.09%	-5.00%	-5.00%	6845.15
China Unicom	762 HK	Telecom	8.74	8.2	Underweight (V)	Grinnan, Tucker	(852) 2822 4686	-5.2%	-6.1%	-15.0%	21.85	29.13	N/A	0.97	N/A	1.49%	-9.09%	-14.29%	26521.66
China Yurun Food	1068 HK	Consumer Staples	23.7	25	Neutral (V)	Guo, Jessie	(852) 2996 6572	-0.2%	2.6%	3.0%	22.07	20.26	N/A	4.19	N/A	1.31%	10.38%	15.84%	5107.13
China Zhongwang Holdings	1333 HK	Materials	6.82	9.5	Overweight (V)	Kang, Daniel	(852) 2996 6669	-7.7%	1.9%	9.3%	10.83	9.34	2.53	2.12	2.20%	2.64%	1.39%	1.39%	4748.55
CITIC 1616 Holding Ltd	1883 HK	Telecom	2.63	3.2	Overweight (V)	Shing, Walden	(852) 2996 6751	8.7%	6.5%	0.0%	13.99	11.95	3.02	1.98	3.42%	4.18%	0.00%	-4.35%	669.88
CITIC Pacific	267 HK	Industrials	18.56	22.5	Overweight (V)	Jain, Parash	(852) 2996 6717	1.0%	7.2%	-11.2%	11.39	11.39	1.12	1.04	2.16%	2.69%	14.79%	15.60%	8721.48
CLP Holdings Ltd.	2 HK	Utilities	55.5	57	Neutral	Chiu, Gary	(852) 2822 4297	0.7%	3.4%	5.8%	16.28	15.37	1.89	1.92	4.47%	4.47%	1.12%	1.69%	17198.48
CNOOC Ltd.	883 HK	Energy	12.78	13.5	Neutral (V)	Song, Sonia	(852) 2996 6557	2.6%	4.4%	4.8%	19.07	12.91	3.22	2.76	2.27%	2.90%	1.02%	11.24%	73521.50
Comba Telecom Systems	2342 HK	Information Technology	9.94	13.5	Overweight (V)	Shing, Walden	(852) 2996 6751	9.2%	18.1%	9.5%	20.29	15.29	4.30	3.39	1.41%	1.71%	4.84%	12.07%	1368.28
COSCO Pacific	1199 HK	Industrials	11.76	12	Neutral (V)	Jain, Parash	(852) 2996 6717	-5.0%	-2.8%	18.4%	180.92	98.00	N/A	9.12	N/A	0.43%	9.09%	33.93%	3426.71
Dah Sing Banking Group	2356 HK	Financials	10.62	11.5	Neutral (V)	Pun, York	(852) 2822 4396	4.7%	5.6%	-8.4%	17.70	10.51	N/A	1.00	N/A	2.35%	-12.17%	-9.82%	1520.59
Dah Sing Financial	440 HK	Financials	42.5	46.5	Overweight (V)	Pun, York	(852) 2822 4396	11.1%	7.9%	-1.2%	17.63	9.84	N/A	0.88	N/A	1.51%	-5.68%	-4.21%	1424.59
Daphne Intl Holdings Ltd	210 HK	Consumer Discretionary	7.5	7	Neutral (V)	van der Linde, Herald	(852) 2996 6575	3.3%	25.6%	20.0%	22.06	17.44	5.14	4.12	0.93%	1.20%	0.00%	4.88%	1582.06
Datang Power	991 HK	Utilities	3.52	4.6	Overweight (V)	Chiu, Gary	(852) 2822 4297	-2.2%	-0.3%	5.1%	27.08	22.00	1.50	1.42	1.70%	1.99%	0.00%	-11.11%	1503.11
Dongfang Electric Corp	1072 HK	Industrials	44.2	49.1	Overweight (V)	Chiu, Gary	(852) 2822 4297	3.0%	13.3%	6.3%	26.00	21.25	5.11	4.84	0.61%	0.77%	-1.89%	-4.59%	967.71
Espirit	330 HK	Consumer Discretionary	61.25	64.5	Overweight (V)	van der Linde, Herald	(852) 2996 6575	3.0%	10.7%	18.4%	16.08	15.71	5.30	4.84	3.48%	0.73%	-0.26%	0.26%	10093.78
Foxconn International	2038 HK	Information Technology	8.19	5	Underweight (V)	Wang, Yolanda Yu-ya	(886) 2 8725 6027	1.5%	2.9%	-9.2%	819.00	204.75	16.71	15.17	0.00%	0.00%	0.00%	0.00%	7519.68
Franshon Properties	817 HK	Financials	2.64	3.1	Overweight (V)	Kwok, Michelle	(852) 2996 6918	6.5%	5.2%	-3.7%	20.31	17.60	1.31	1.47	1.14%	1.14%	-6.25%	-6.25%	3114.91
Fushan Intl Energy Group	639 HK	Consumer Discretionary	5.9	9	Overweight (V)	Mak, Sarah	(852) 2822 4551	-5.3%	-14.7%	-21.8%	18.44	13.11	2.15	1.87	1.53%	2.54%	-4.26%	-8.16%	4084.62
GCL Poly Energy Holdings	3800 HK	Utilities	1.82	1.2	Underweight (V)	Singh, Shishir	(852) 2822 4292	-2.1%	-4.2%	-21.6%	30.85	16.55	N/A	2.02	N/A	0.00%	-8.33%	-15.38%	3626.45
Golden Eagle Retail Group	3308 HK	Consumer Discretionary	15.52	15.6	Neutral (V)	Yang, Sean	(852) 2822 4342	1.2%	9.3%	-2.0%	45.65	32.33	11.85	9.41	0.71%	1.16%	0.00%	2.13%	3880.09
Great Eagle Holdings Limi	41 HK	Consumer Discretionary	21.8	28	Overweight (V)	Kwok, Michelle	(852) 2996 6918	5.6%	-0.2%	7.9%	11.35	11.91	0.61	0.57	2.39%	2.61%	10.24%	8.93%	1748.20
Guangzhou R&F	2777 HK	Financials	12.72	16.32	Overweight (V)	Fok, Louisa	(852) 2996 6629	4.1%	10.4%	-7.2%	14.13	10.69	N/A	2.19	N/A	3.22%	-4.03%	-3.25%	1663.18
Hainan Melian Airport	357 HK	Industrials	9.81	10	Neutral (V)	Lin, Eric	(852) 2996 6570	2.1%	18.6%	4.1%	25.82	22.30	N/A	2.22	N/A	1.83%	-2.22%	-2.22%	286.68
Hang Lung Properties Ltd	101 HK	Financials	31.3	34.1	Overweight (V)	Wong, Alvin	(852) 2996 6621	1.5%	5.6%	-2.3%	53.97	18.52	1.91	1.68	2.11%	2.24%	0.00%	4.32%	16718.87
Harbin Power Equipment	1133 HK	Industrials	6.41	9.1	Overweight (V)	Chiu, Gary	(852) 2822 4297	-0.3%	2.6%	-7.6%	13.93	11.45	1.01	0.94	0.94%	1.09%	0.00%	1.82%	557.70
Hemly	3989 HK	Consumer Discretionary	2.11	3	Overweight (V)	Ho, Ken	(852) 2996 6593	-2.8%	1.4%	-8.3%	-21.10	16.23	0.97	1.48	1.42%	0.95%	0.00%	333.33%	207.52
Henderson Land Developmen	12 HK	Financials	54.7	64	Neutral (V)	Wong, Alvin	(852) 2996 6621	-0.2%	4.3%	-6.3%	19.68	20.64	0.92	0.88	2.16%	2.05%	-0.38%	1.92%	15123.17
Hengon	1044 HK	Consumer Staples	57.9	41.2	Neutral (V)	van der Linde, Herald	(852) 2996 6575	5.0%	8.5%	0.5%	32.80	28.11	N/A	7.19	N/A	2.21%	0.98%	0.98%	9092.21
Hengdeli Holdings Ltd	3389 HK	Consumer Discretionary	3.31	3.45	Overweight (V)	van der Linde, Herald	(852) 2996 6575	-12.9%	11.8%	12.6%	27.58	20.69	3.68	3.21	1.21%	1.51%	0.00%	0.00%	1734.58
Hidili Industry Internati	1393 HK	Utilities	8.45	9	Neutral (V)	Mak, Sarah	(852) 2822 4551	2.1%	1.6%	-13.5%	44.47	16.90	2.83	2.58	0.59%	1.54%	-1.96%	-5.66%	2241.81
Hong Kong & China Gas	3 HK	Utilities	19.36	17.2	Underweight	Chiu, Gary	(852) 2822 4297	2.3%	10.8%	-0.7%	24.60	26.89	N/A	3.56	N/A	1.96%	1.41%	2.86%	16279.94
Hong Kong Aircraft Engine	44 HK	Industrials	98.05	124	Overweight	Webb, Mark	(852) 2996 6574	-2.7%	-1.4%	-2.7%	23.68	15.08	3.15	2.88	2.04%	3.71%	-3.70%	-3.42%	2100.29
Hong Kong Exchanges and C	388 HK	Financials	129.6	180	Overweight (V)	Pun, York	(852) 2822 4396	0.1%	-0.2%	-7.0%	29.72	24.59	17.37	15.77	3.03%	3.67%	-5.89%	-5.39%	11970.03
Hongkong Electric Holding	6 HK	Utilities	46.05	46.5	Neutral	Chiu, Gary	(852) 2822 4297	1.2%	6.0%	9.1%	14.67	14.44	1.88	1.88	N/A	4.69%	1.92%	2.57%	12657.63
Hongkong Land Holdings Li	HKL SP	Financials	5.07	4.63	Neutral (V)	Kwok, Michelle	(852) 2996 6918	5.4%	9.3%	2.4%	10.50	10.92	0.59	0.58	N/A	N/A	N/A	N/A	8107.94
Huabao Intl Holdings Ltd	336 HK	Materials	9.33	10.1	Overweight (V)	Guo, Jessie	(852) 2996 6572	-3.6%	18.9%	11.5%	25.77	21.70	10.14	7.40	1.50%	1.61%	0.00%	0.00%	3754.35
Huadian Power	1071 HK	Utilities	1.95	2.56	Overweight (V)	Chiu, Gary	(852) 2822 4297	-9.7%	-8.5%	-5.3%	10.26	13.00	N/A	0.80	N/A	2.05%	-16.67%	-25.00%	359.38
Huaneng Power Internation	902 HK	Utilities	4.51	6.8	Overweight (V)	Chiu, Gary	(852) 2822 4297	-0.9%	-3.4%	2.7%	11.00	13.67	N/A	1.19	N/A	3.99%	-10.81%	-19.51%	1774.67
Hutchison Telecommunicati	2332 HK	Telecom	2.13	2.2	Neutral (V)	Shing, Walden	(852) 2996 6751	-0.5%	0.0%	32.3%	2.07	-6.66	N/A	0.98	N/A	0.00%	-18.52%	-18.52%	1320.72
Hutchison Whampoa	13 HK	Industrials	56.8	69	Overweight (V)	Webb, Mark	(852) 2996 6574	-2.0%	2.0%	6.4%	17.11	17.26	N/A	0.84	N/A	3.06%	-6.27%	2.17%	31187.23
Hysan Development Company	14 HK	Financials	22.45	28.5	Overweight (V)	Kwok, Michelle	(852) 2996 6918	4.9%	8.7%	1.8%	21.16	20.98	0.70	0.68	3.03%	3.03%	0.00%	1.90%	3037.62
IOBC (Asia)	349 HK	Financials	19.44	22	Overweight (V)	Pun, York	(852) 2822 4396	3.0%	16.4%	15.0%	9.97	10.62	N/A	1.36	N/A	4.84%	6.40%	8.93%	3300.65
Industrial Com Bank Of Ch	1398 HK	Financials	5.92	7	Overweight (V)	Dunivant, Todd	(852) 2996 6599	3.1%	7.8%	-8.1%	15.18	12.33	N/A	2.51	N/A	3.55%	0.00%	0.00%	63324.39
Intime Department Store	1833 HK	Consumer Discretionary	7.52	6.3	Underweight (V)	Yang, Sean	(852) 2822 4342	5.3%	14.3%	4.7%	35.81	27.85	3.88	3.62	0.80%	1.08%	3.85%	8.00%	1696.64
Jiangsu Expressway	177 HK	Industrials	7.33	8.3	Overweight (V)	Ho, Ken	(852) 2996 6593	1.9%	1.7%	5.9%	17.88	16.66	N/A	2.28	N/A	2.33%	4.91%	4.76%	1153.59
Jiangxi Copper Co Ltd	358 HK	Materials	17.54	17.7	Neutral (V)	Kang, Daniel	(852) 2996 6669	5.3%	11.2%	-4.5%	20.40	12.80	2.30	1.93	0.80%	1.60%	0.00%	7.87%	3134.24
Kerry Properties Limited	683 HK	Financials	41.65	49.7	Overweight (V)	Fok, Louisa	(852) 2996 6629	0.8%	12.7%	5.4%	28.76	19.19	N/A	1.14	N/A	1.97%	4.33%	5.85%	7667.08
Kingboard Chemical Holdin	148 HK	Materials	35.35	40	Overweight (V)	Jain, Parash	(852) 2996 6717	-6.4%	1.6%	14.8%	13.45	10.52	N/A	1.26	N/A	2.60%	9.45%	16.67%	3845.81
Kingboard Laminates	1888 HK	Materials	6.77	6.8	Overweight (V)	Yao, Tse-yong	(852) 2822 4397	4.6%	13.0%	26.1%	11.32	9.40	N/A	2.10	N/A	5.17%	7.46%	24.14%	2615.69
Kwng	1813 HK	Financials	5.64	8.46	Overweight (V)	Wong, Alvin	(852) 2996 6621	3.7%	9.3%	-5.8%	21.69	12.82	N/A	1.41	N/A	1.60%	2.33%	2.33%	2101.48
LDK Solar	LDK US	Information Technology	6.56	6.9	Neutral (V)	Singh, Shishir	(852) 2822 4292	-6.7%	5.5%	-6.4%	-3.09	-16.80	1.03	1.28	N/A	N/A	N/A	N/A	862.18
Lenovo Group Ltd	992 HK	Information Technology	5.36	7.7	Overweight (V)	Wang, Wanli	(852) 2996 6752	3.7%	6.1%	10.3%	-206.15	268.00	38.29	33.50	N/A	0.00%	0.00%	100.00%	6756.32
Li & Fung	494 HK	Consumer Discretionary	38.2	45	Neutral (V)	van der Linde, Herald	(852) 2996 6575	-8.5%	5.8%	18.5%	42.16	27.68	N/A	7.36	N/A	2.88%	-2.13%	3.76%	18617.68
Li Ning	2331 HK	Consumer Discretionary	28.15	25.5	Neutral (V)	van der Linde, Herald	(852) 2996 6575	2.6%	16.1%	-4.8%	31.42	26.06	15.38	11.83	1.78%	1.31%	1.89%	0.93%	3801.73
Lifestyle Intl Holdings L	1212 HK	Consumer Discretionary	14.02	14.4	Neutral (V)	Yang, Sean	(852) 2822 4342	1.6%	9.4%	-3.3%	20.47	20.62	3.82	3.46	1.21%	1.93%	4.62%	7.94%	3025.55
Maanshan Iron & Steel	323 HK	Materials	4.5	6	Overweight (V)	Kang, Daniel	(852) 2996 6669	0.9%	-3.4%	-20.8%	90.00	14.06	1.31	1.22	0.22%	2.00%	3.23%	3.23%	1004.31
Maoye	848 HK	Consumer Discretionary	2.47	2.2	Neutral (V)	Yang, Sean	(852) 2822 4342	-2.0%	18.8%	15.4%	27.14	22.45	3.74	3.38	N/A	1.21%	0.00%	-21.43%	1635.02
Meadville Holdings Ltd	3313 HK	Utilities	3.14	3.47	Neutral (V)	Yao, Tse-yong	(852) 2822 4397	1.6%	5.0%	3.3%	16.53	13.08	1.96	1.60	0.96%	1.91%	0.00%	0.00%	794.23

Source: HSBC, Bloomberg, Datastream

HSBC China coverage list (cont'd)

Company Name	Ticker	Sector	Price (HKD)	HSBC TP	HSBC Rating	Analyst	Contact	Price Performance			P/E		P/B		Dividend Yield		2010 EPS Revision		Market Cap in USD (m)
								1W	1M	3M	2009	2010	2009	2010	2009	2010	1M	3M	
Minh Group	425 HK	Consumer Discretionary	13	9.9	Overweight (V)	Guliani, Suman	(91 80) 3001 3747	0.0%	15.9%	13.6%	20.06	16.46	N/A	N/A	1.69%	6.76%	6.76%	1618.78	
MTR Corporation	66 HK	Consumer Discretionary	29.4	29	Neutral	Wong, Alvin	(852) 2996 6621	2.8%	9.3%	9.7%	17.40	21.94	N/A	1.54	1.80%	2.29%	3.08%	21692.02	
Netease.com Inc.	NTES US	Information Technology	35.52	42	Neutral (V)	Grinnan, Tucker	(852) 2822 4686	-4.9%	-7.3%	-5.6%	17.15	12.37	4.32	3.21	N/A	N/A	N/A	4597.23	
New World Department Stor	825 HK	Consumer Discretionary	7.48	9.2	Overweight (V)	Yang, Sean	(852) 2822 4342	3.3%	5.9%	5.2%	23.38	22.00	2.84	2.64	2.01%	2.14%	0.00%	1624.32	
Orient Overseas Internati	316 HK	Industrials	57.55	68.3	Overweight (V)	Shahrim, Azura	(852) 2996 6976	-1.1%	1.4%	58.5%	-95.28	31.97	N/A	7.39	0.16%	4.65%	1600.00%	4638.22	
Pacific Basin Shipping	2343 HK	Industrials	6.18	7.5	Overweight (V)	Shahrim, Azura	(852) 2996 6976	0.8%	-0.2%	9.8%	104.75	123.60	8.83	8.24	12.62%	0.00%	0.00%	1535.19	
Parkson	3368 HK	Consumer Discretionary	13.4	16.9	Overweight (V)	Yang, Sean	(852) 2822 4342	0.6%	4.2%	-2.0%	41.23	33.50	9.44	8.17	1.12%	1.42%	-6.98%	4845.55	
PCCW	8 HK	Telecom	2.31	2.5	Overweight (V)	Shing, Walden	(852) 2996 6751	0.4%	7.4%	23.5%	10.41	10.50	-2.89	-2.96	5.63%	0.00%	0.00%	2014.78	
Perfect World Co Ltd	PWRD US	Information Technology	37.45	60	Overweight (V)	Grinnan, Tucker	(852) 2822 4686	-5.6%	4.3%	-5.0%	13.13	9.21	5.87	3.85	N/A	N/A	N/A	1865.97	
PetroChina	857 HK	Energy	9.08	10.3	Overweight (V)	Song, Sonia	(852) 2996 6557	1.5%	4.7%	-2.6%	16.21	12.27	N/A	1.81	N/A	3.52%	-2.63%	24672.96	
PICC Property & Casualty	2328 HK	Financials	7.91	5.3	Underweight (V)	Garner, James	(852) 2822 4321	3.8%	12.7%	13.0%	67.89	41.63	3.63	3.28	0.13%	0.38%	11.76%	3520.66	
Ping An Insurance (Group)	2318 HK	Financials	66.9	80	Overweight (V)	Garner, James	(852) 2822 4321	3.5%	13.0%	-1.6%	41.81	32.16	4.97	4.36	0.64%	0.81%	4.00%	22405.07	
Ports Design Ltd.	589 HK	Consumer Discretionary	19.7	22.8	Neutral (V)	van der Linde, Herald	(852) 2996 6575	-10.5%	2.9%	-18.3%	24.02	20.31	8.38	7.22	3.15%	3.30%	-1.02%	1433.93	
Renesola	SOLA LN	Information Technology	188.75	1.26	Underweight (V)	Clover, Robert	(44 20) 7991 6741	14.7%	8.8%	26.7%	-7.79	22.12	1.07	1.18	N/A	N/A	N/A	4.96	
Renhe Commercial Holdings	1387 HK	Financials	1.8	1.4	Underweight (V)	Wong, Alvin	(852) 2996 6621	-1.6%	1.1%	2.3%	10.00	7.83	3.46	2.90	5.00%	6.67%	0.00%	5100.01	
Ruinian International	2010 HK	Consumer Staples	4.04	5.00	Overweight (V)	Guo, Jessie	(852) 2996 6572	-3.81%	15.4%	N/A	13.10	12.80	3.50	2.20	0.00%	2.20%	N/A	534.72	
Sany Heavy Equipment Intl	631 HK	Consumer Discretionary	8.7	8.6	Neutral (V)	Ho, Ken	(852) 2996 6593	2.5%	9.6%	-11.3%	N/A	25.59	N/A	3.36	N/A	1.61%	N/A	2324.95	
Semiconductor Manufacturing	SMI US	Information Technology	6.38	4.3	Neutral (V)	Pelayo, Steven	(852) 2822 4391	22.5%	19.7%	96.9%	-3.43	-35.05	1.48	1.54	N/A	N/A	N/A	2859.65	
Shanda	SNDA US	Information Technology	43.59	50	Neutral (V)	Grinnan, Tucker	(852) 2822 4686	4.8%	7.6%	-17.1%	12.99	10.99	1.79	1.51	N/A	N/A	N/A	2910.42	
Shanghai Electric Group	2727 HK	Industrials	3.78	4.4	Neutral (V)	Chiu, Gary	(852) 2822 4297	-1.6%	7.7%	5.3%	19.89	18.00	1.95	1.79	1.59%	1.59%	0.00%	1447.27	
Shanghai Industrial	363 HK	Industrials	35.6	4.4	Overweight (V)	Jain, Parash	(852) 2996 6717	-3.1%	6.7%	-10.2%	13.43	9.62	1.51	1.33	2.95%	5.37%	-4.55%	4950.57	
Shimao Property	813 HK	Financials	14.28	19	Overweight (V)	Wong, Alvin	(852) 2996 6621	6.1%	10.4%	-3.0%	15.03	13.47	2.22	2.01	1.54%	1.68%	-2.75%	6516.53	
Shui On Land Limited	272 HK	Financials	3.97	5.2	Neutral (V)	Kwok, Michelle	(852) 2996 6918	3.4%	5.3%	-13.7%	11.03	14.70	0.92	0.87	1.76%	0.00%	0.00%	2568.03	
Sino Land Company Ltd	833 HK	Financials	15.22	17.5	Overweight (V)	Wong, Alvin	(852) 2996 6621	4.5%	3.4%	0.8%	19.77	21.74	1.23	1.19	2.63%	2.94%	4.48%	9575.43	
Sino Ocean Land Holdings	3377 HK	Financials	6.84	7.24	Neutral (V)	Fok, Louisa	(852) 2996 6629	1.2%	0.0%	-4.7%	20.36	17.54	N/A	1.52	N/A	1.1%	-7.14%	4965.39	
Sinofert Holdings Ltd	297 HK	Materials	4.64	6	Overweight (V)	Li, Steven	(852) 2996 6941	2.4%	6.7%	6.9%	-22.52	22.10	N/A	2.33	N/A	0.65%	0.00%	4193.83	
Sinopec	386 HK	Energy	6.36	7	Neutral (V)	Song, Sonia	(852) 2996 6557	0.6%	4.4%	-8.0%	8.98	8.71	N/A	1.31	N/A	3.30%	-1.35%	13744.76	
Sinopec Shanghai Petroche	338 HK	Materials	3.08	3.2	Neutral (V)	Suttikulpanich, Duke	(852) 2996 6590	1.7%	11.2%	0.3%	13.94	14.00	N/A	1.36	N/A	2.60%	15.79%	924.23	
Sinotrans	598 HK	Industrials	2.15	3	Overweight (V)	Webb, Mark	(852) 2996 6574	8.0%	2.4%	5.4%	21.50	16.54	N/A	1.00	N/A	1.86%	-7.14%	494.92	
Sinotrans Shipping Ltd	368 HK	Industrials	3.71	4.1	Neutral (V)	Shahrim, Azura	(852) 2996 6976	-1.6%	-0.5%	3.1%	137.41	123.67	7.27	7.00	1.35%	0.27%	0.00%	1907.44	
Sinotruk	3808 HK	Consumer Discretionary	8.2	9.5	Neutral (V)	Katre, Alok	(91 80) 3001 3725	-2.6%	1.4%	-9.6%	19.52	17.83	N/A	1.30	N/A	0.61%	0.00%	2915.78	
SmarTone Telecommunicatio	315 HK	Telecom	8.03	7.5	Neutral	Shing, Walden	(852) 2996 6751	0.4%	20.8%	25.5%	105.66	42.26	1.63	1.62	1.00%	2.86%	58.33%	544.85	
Soho China Limited	410 HK	Financials	4.4	4.6	Neutral (V)	Kwok, Michelle	(852) 2996 6918	1.4%	15.2%	4.8%	12.90	6.47	N/A	1.18	N/A	4.09%	1.49%	2939.68	
Spreadtrum Communications	SPRD US	Information Technology	5.59	8.4	Overweight (V)	Wang, Yolanda Yu-ya	(886) 2 8725 6027	-8.2%	-17.3%	2.4%	-16.60	7.97	1.56	1.22	N/A	N/A	N/A	247.35	
Sun Hung Kai Properties	16 HK	Financials	116.8	135.2	Overweight (V)	Fok, Louisa	(852) 2996 6629	0.9%	8.3%	0.4%	28.91	19.43	1.35	1.25	2.14%	3.22%	9.27%	38573.86	
Suntech Power Holdings	STP US	Industrials	14.02	17.5	Overweight (V)	Singh, Shishir	(852) 2822 4292	0.8%	4.5%	-15.7%	29.28	21.56	1.57	1.46	N/A	N/A	N/A	2465.85	
TCC International	1136 HK	Industrials	3.3	3.7	Neutral (V)	Lam, Elaine	(852) 2822 4398	2.8%	7.5%	-9.8%	41.25	8.05	N/A	0.96	N/A	1.82%	-6.82%	933.64	
Tencent Holdings Ltd.	700 HK	Information Technology	155.8	200	Overweight (V)	Grinnan, Tucker	(852) 2822 4686	-1.6%	2.4%	-7.5%	55.82	37.91	N/A	15.20	N/A	0.38%	3.27%	36589.41	
The Link REIT	823 HK	Financials	19.14	21.6	Overweight	Kwok, Michelle	(852) 2996 6918	0.1%	-1.9%	-3.4%	22.52	18.76	1.42	1.31	4.39%	5.02%	1.51%	6.25%	5428.04
The Wharf (Holdings) Ltd	4 HK	Industrials	43.75	49	Neutral (V)	Webb, Mark	(852) 2996 6574	-0.5%	9.4%	-2.2%	22.75	17.29	N/A	1.00	N/A	2.35%	11.45%	15516.55	
Tingyi Holding Corp.	322 HK	Consumer Staples	18.36	22.5	Neutral	Guo, Jessie	(852) 2996 6572	-2.5%	1.9%	-4.4%	266.09	229.50	N/A	59.23	N/A	0.22%	0.00%	13210.23	
Towngas China Co Ltd	1083 HK	Utilities	3.75	4	Neutral (V)	Tsoi, Scully	(852) 2996 6620	-2.3%	10.3%	19.8%	27.78	23.44	N/A	1.08	N/A	0.53%	0.00%	945.80	
Trina Solar	TSL US	Industrials	24.41	29	Overweight (V)	Singh, Shishir	(852) 2822 4292	8.0%	8.2%	-9.5%	13.88	12.87	2.19	1.71	N/A	N/A	N/A	1898.15	
Tsingtao Brewery Company	168 HK	Consumer Staples	39.05	28.2	Underweight (V)	Guo, Jessie	(852) 2996 6572	0.0%	5.5%	-9.2%	41.11	33.38	6.91	6.06	1.10%	1.41%	2.63%	3294.46	
Want Want Holdings Limite	151 HK	Consumer Staples	5.51	5.3	Neutral (V)	Guo, Jessie	(852) 2996 6572	-1.1%	8.3%	1.3%	229.58	183.67	78.71	61.22	N/A	0.36%	0.00%	9366.96	
Wing Hang Bank	302 HK	Financials	7.1	7.4	Neutral (V)	Pun, York	(852) 2822 4396	-0.4%	9.1%	-2.1%	17.53	12.43	N/A	1.58	N/A	2.45%	2.33%	2697.87	
Wumart Stores Inc.	8277 HK	Consumer Staples	15.66	12.9	Underweight (V)	Yang, Sean	(852) 2822 4342	7.1%	5.0%	27.5%	43.50	34.80	N/A	4.77	N/A	1.21%	0.00%	1021.66	
Xiniao Gas	2688 HK	Utilities	19.84	27	Overweight (V)	Tsoi, Scully	(852) 2996 6620	5.2%	6.4%	-0.8%	25.11	20.24	4.17	3.59	1.01%	1.41%	0.00%	2683.29	
Xinyi Glass	868 HK	Consumer Discretionary	7.09	7.65	Overweight (V)	Guliani, Suman	(91 80) 3001 3747	1.0%	18.2%	0.9%	15.93	12.22	N/A	2.22	N/A	3.81%	3.57%	1616.99	
Yanzhou Coal Mining Co Lt	1171 HK	Utilities	18.68	19	Overweight (V)	Mak, Sarah	(852) 2822 4551	10.3%	13.8%	8.9%	21.47	14.83	3.17	2.68	1.45%	1.98%	0.80%	4711.44	
Yingli	YGE US	Industrials	12.74	13.4	Neutral (V)	Singh, Shishir	(852) 2822 4292	3.7%	7.8%	-19.4%	104.01	19.36	1.91	1.74	N/A	N/A	N/A	1890.36	
Yizheng Chemical Fibre	1033 HK	Materials	1.97	2.1	Neutral (V)	Li, Steven	(852) 2996 6941	-3.0%	-2.5%	-7.5%	20.52	24.63	N/A	1.08	N/A	1.52%	0.00%	355.20	
Yue Yuen Industrial	551 HK	Consumer Discretionary	27	32	Overweight (V)	van der Linde, Herald	(852) 2996 6575	-0.2%	16.6%	20.0%	108.43	96.43	14.67	13.57	0.41%	0.00%	0.00%	5733.78	
Zhejiang Expressway	576 HK	Industrials	7.01	8.1	Neutral (V)	Ho, Ken	(852) 2996 6593	-0.3%	-0.1%	-2.5%	16.97	15.93	2.14	2.06	4.42%	4.42%	0.00%	1294.49	
ZTE Corporation	763 HK	Information Technology	47.05	54	Overweight (V)	Grinnan, Tucker	(852) 2822 4686	2.7%	-2.0%	-2.0%	34.09	26.43	4.93	4.18	0.64%	0.81%	-1.11%	2119.42	

Source: HSBC, Bloomberg, Datastream

Economic Calendar for April 2010

Sun	Mon	Tue	Wed	Thu	Fri	Sat
				1	2	3
				China: PMI Manufacturing; HSBC Manufacturing PMI US; Bloomberg FCI Monthly; Challenger Job Cuts YoY; Initial Jobless Claims; Continuing Claims; ISM Manufacturing; ISM Prices Paid; Construction Spending MoM	US: Domestic Vehicle Sales; Total Vehicle Sales; Change in Nonfarm Payrolls; Avg Hourly Earning MOM All Emp; Avg Hourly Earning YOY All Emp; Avg Weekly Hours All Employees; Unemployment Rate; Change in Manufact. Payrolls	
4	5	6	7	8	9	10
	US: ISM Non-Manf. Composite; Pending Home Sales MoM; Pending Home Sales YoY		US: Minutes of FOMC Meeting; ABC Consumer Confidence; MBA Mortgage Applications	US: Consumer Credit; Initial Jobless Claims; Continuing Claims; ICSC Chain Store Sales YoY	China: Entrepreneur Confidence Index; Business Climate Index US: Wholesale Inventories	China: China NDRC Housing Prices; Money Supply - M0 (YoY); Money Supply - M1 (YoY); Money Supply - M2 (YoY); New Yuan Loans; Trade Balance (USD); Exports YoY%; Imports YoY%
11	12	13	14	15	16	17
China: Foreign Exchange Reserves	China: Actual FDI (YoY)	US: Monthly Budget Statement; NFIB Small Business Optimism; Trade Balance; Import Price Index (MoM); Import Price Index (YoY); IBD/TIPP Economic Optimism	US: ABC Consumer Confidence; MBA Mortgage Applications; Bloomberg Global Confidence; Consumer Price Index (MoM); CPI Ex Food & Energy (MoM); Consumer Price Index (YoY); Advance Retail Sales; Retail Sales Less Autos; CPI Ex Food & Energy (YoY); Retail Sales Ex Auto & Gas; CPI Core Index SA; Consumer Price Index NSA; Business Inventories	China: Real GDP YoY; Producer Price Index; Purchasing Price Index; Consumer Price Index; Retail Sales; Industrial Production; Fixed Assets Inv Urban US: Fed's Beige Book; Initial Jobless Claims; Continuing Claims; Empire Manufacturing; Net Long-term TIC Flows; Total Net TIC Flows; Industrial Production; Capacity Utilization; Philadelphia Fed.	US: NAHB Housing Market Index; Housing Starts; Building Permits; Housing Starts MOM%; Building Permits MOM%; U. of Michigan Confidence	
18	19	20	21	22	23	24
	US: Leading Indicators		US: ABC Consumer Confidence; MBA Mortgage Applications	US: Producer Price Index (MoM); PPI Ex Food & Energy (MoM); Producer Price Index (YoY); PPI Ex Food & Energy (YoY); Initial Jobless Claims; Continuing Claims; RPX Composite 28dy YoY; RPX Composite 28dy Index; Existing Home Sales; House Price Index MoM; Existing Home Sales MoM	US: Durable Goods Orders; Durables Ex Transportation; New Home Sales; New Home Sales MoM	
25	26	27	28	29	30	
	China: Leading Index US: Dallas Fed Manf. Activity	US: S&P/CaseShiller Home Price Ind; S&P/CS Composite-20 YoY; S&P/CS 20 City MoM% SA; Consumer Confidence; Richmond Fed Manufact. Index	US: ABC Consumer Confidence; MBA Mortgage Applications	US: FOMC Rate Decision; Chicago Fed Nat Activity Index; Initial Jobless Claims; Continuing Claims	US: GDP QoQ (Annualized); Personal Consumption; GDP Price Index; Core PCE QoQ; Employment Cost Index; Chicago Purchasing Manager; U. of Michigan Confidence; NAPM-Milwaukee	

Source: Bloomberg

Economic Calendar for May 2010

Sun	Mon	Tue	Wed	Thu	Fri	Sat
						1 China: PMI Manufacturing US; Bloomberg FCI Monthly
2	3 China: HSBC Manufacturing PMI US: Personal Income; Personal Spending; PCE Deflator (YoY); PCE Core (MoM); PCE Core (YoY); ISM Manufacturing; ISM Prices Paid; Construction Spending MoM	4 US: Domestic Vehicle Sales; Total Vehicle Sales; Factory Orders; Pending Home Sales MoM; Pending Home Sales YoY	5 US: ABC Consumer Confidence; MBA Mortgage Applications; Challenger Job Cuts YoY; ADP Employment Change; ISM Non- Manf. Composite	6 US: Nonfarm Productivity; Unit Labor Costs; Initial Jobless Claims; Continuing Claims; ICSC Chain Store Sales YoY	7 US: Change in Nonfarm Payrolls; Avg Hourly Earning MOM All Emp; Avg Hourly Earning YOY All Emp; Avg Weekly Hours All Employees; Unemployment Rate; Change in Manufact. Payrolls	8 US: Consumer Credit
9	10 China: China NDRC Housing Prices; Money Supply - M0 (YoY); Money Supply - M1 (YoY); Money Supply - M2 (YoY); New Yuan Loans; Trade Balance (USD); Exports YoY%; Imports YoY%	11 China: Producer Price Index (YoY); Purchasing Price Index (YoY); Consumer Price Index (YoY); Retail Sales (YoY); Retail Sales YTD YoY; Industrial Production (YoY); Industrial Production YTD YoY; Fixed Assets Inv Urban YTD YoY US; NFIB Small Business Optimism; Wholesale Inventories; IBD/TIPP Economic Optimism	12 China: Actual FDI (YoY) US: ABC Consumer Confidence; MBA Mortgage Applications; Bloomberg Global Confidence; Trade Balance	13 US: Monthly Budget Statement; Import Price Index (MoM); Import Price Index (YoY); Initial Jobless Claims; Continuing Claims	14 US: Advance Retail Sales; Retail Sales Less Autos; Retail Sales Ex Auto & Gas; Industrial Production; Capacity Utilization; U. of Michigan Confidence; Business Inventories	15
16	17 US: Empire Manufacturing; Net Long-term TIC Flows; Total Net TIC Flows	18 US: NAHB Housing Market Index; Producer Price Index (MoM); PPI Ex Food & Energy (MoM); Producer Price Index (YoY); PPI Ex Food & Energy (YoY); Housing Starts; Building Permits; Housing Starts MOM%; Building Permits MOM%	19 US: ABC Consumer Confidence; MBA Mortgage Applications; Consumer Price Index (MoM); CPI Ex Food & Energy (MoM); Consumer Price Index (YoY); CPI Ex Food & Energy (YoY); CPI Core Index SA; Consumer Price Index NSA	20 US: Minutes of FOMC Meeting; Initial Jobless Claims; Continuing Claims; RPX Composite 28dy YoY; RPX Composite 28dy Index; Philadelphia Fed.; Leading Indicators	21	22
23	24 China: Leading Index US; Chicago Fed Nat Activity Index; Existing Home Sales; Existing Home Sales MoM	25 US: S&P/CaseShiller Home Price Ind; S&P/CS Composite-20 YoY; S&P/CS 20 City MoM% SA; S&P/Case-Shiller US HPI; S&P/Case-Shiller US HPI YOY%; Consumer Confidence; House Price Index MoM; Richmond Fed Manufact. Index; House Price Purchase Index QoQ	26 US: ABC Consumer Confidence; MBA Mortgage Applications; Durable Goods Orders; Durables Ex Transportation; New Home Sales; New Home Sales MoM	27 US: GDP QoQ (Annualized); Personal Consumption; GDP Price Index; Core PCE QoQ; Initial Jobless Claims; Continuing Claims	28 US: Personal Income; Personal Spending; PCE Deflator (YoY); PCE Core (MoM); PCE Core (YoY); Chicago Purchasing Manager; U. of Michigan Confidence; NAPM-Milwaukee	29
30	31					

Economic Calendar for June 2010

Sun	Mon	Tue	Wed	Thu	Fri	Sat
		1 China: PMI Manufacturing; HSBC Manufacturing PMI US: ISM Manufacturing; ISM Prices Paid; Construction Spending MoM; Dallas Fed Manf. Activity	2 US: ABC Consumer Confidence; MBA Mortgage Applications; Challenger Job Cuts YoY; Pending Home Sales MoM; Pending Home Sales YoY	3 US: Domestic Vehicle Sales; Total Vehicle Sales; ADP Employment Change; Nonfarm Productivity; Unit Labor Costs; Initial Jobless Claims; Continuing Claims; Factory Orders; ISM Non-Manf. Composite; ICSC Chain Store Sales YoY	4 US: Change in Nonfarm Payrolls; Avg Hourly Earning MOM All Emp; Avg Hourly Earning YOY All Emp; Avg Weekly Hours All Employees; Unemployment Rate; Change in Manufact. Payrolls	5
6	7	8 China: China Manpower Survey US: Consumer Credit; NFIB Small Business Optimism; IBD/TIPP Economic Optimism	9 US: ABC Consumer Confidence; MBA Mortgage Applications; Wholesale Inventories	10 China: Money Supply - M0 (YoY); Money Supply - M1 (YoY); Money Supply - M2 (YoY); New Yuan Loans; China NDRC Housing Prices; Trade Balance (USD); Exports YoY%; Imports YoY% US: Fed's Beige Book; Trade Balance; Initial Jobless Claims; Continuing Claims	11 China: Producer Price Index (YoY); Purchasing Price Index (YoY); Consumer Price Index (YoY); Retail Sales; Industrial Production; Fixed Assets Inv Urban; Actual FDI (YoY) US: Monthly Budget Statement; Advance Retail Sales; Retail Sales Less Autos; Retail Sales Ex Auto & Gas; U. of Michigan Confidence; Business Inventories	12
13	14	15 US: Import Price Index (MoM); Import Price Index (YoY); Empire Manufacturing; Net Long-term TIC Flows; Total Net TIC Flows	16 US: NAHB Housing Market Index; ABC Consumer Confidence; MBA Mortgage Applications; Bloomberg Global Confidence; Producer Price Index (MoM); PPI Ex Food & Energy (MoM); Producer Price Index (YoY); PPI Ex Food & Energy (YoY); Housing Starts; Building Permits; Housing Starts; Building Permits; Industrial Production; Capacity Utilization	17 US: Consumer Price Index (MoM); CPI Ex Food & Energy (MoM); Consumer Price Index (YoY); CPI Ex Food & Energy (YoY); CPI Core Index SA; Initial Jobless Claims; Consumer Price Index NSA; Continuing Claims; Current Account Balance; Philadelphia Fed.; Leading Indicators	18	19
20	21	22 US: Existing Home Sales; House Price Index MoM; Richmond Fed Manufact. Index; Existing Home Sales MoM	23 US: ABC Consumer Confidence; MBA Mortgage Applications; New Home Sales; New Home Sales MoM	24 US: FOMC Rate Decision; Durable Goods Orders; Durables Ex Transportation; Initial Jobless Claims; Continuing Claims; RPX Composite 28dy YoY; RPX Composite 28dy Index	25 China: Industrial Profits YTD YoY US: GDP QoQ (Annualized); Personal Consumption; GDP Price Index; Core PCE QoQ; U. of Michigan Confidence	26
27	28 China: Leading Index US: Personal Income; Chicago Fed Nat Activity Index; Personal Spending; PCE Deflator (YoY); PCE Core (MoM); PCE Core (YoY); Dallas Fed Manf. Activity	29 US: S&P/CaseShiller Home Price Ind; S&P/CS Composite-20 YoY; S&P/CS 20 City MoM% SA; Consumer Confidence	30 US: ABC Consumer Confidence; MBA Mortgage Applications; ADP Employment Change; Chicago Purchasing Manager; NAPM-Milwaukee			

Source: Bloomberg

Notes

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: Steven Sun, Leo Li and 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 07 April 2010, the distribution of all ratings published is as follows:

Overweight (Buy)	48%	(12% of these provided with Investment Banking Services)
Neutral (Hold)	38%	(11% of these provided with Investment Banking Services)
Underweight (Sell)	14%	(9% 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
BANK OF CHINA LTD	3988.HK	4.21	06-Apr-2010	5, 6, 7, 11
CHEUNG KONG HOLDINGS LTD	0001.HK	102.50	06-Apr-2010	4, 6
CHINA GAS HOLDINGS LTD	0384.HK	4.39	06-Apr-2010	11
CHINA NATIONAL BUILDING M	3323.HK	15.80	06-Apr-2010	4, 11
DONGFANG ELECTRIC CORP	1072.HK	43.60	06-Apr-2010	7
HUTCHISON WHAMPOA	0013q.L	57.50	06-Apr-2010	4, 11
INDUSTRIAL COM BANK OF CHINA	1398.HK	6.05	06-Apr-2010	4, 11
LENOVO GROUP LTD	0992.HK	5.50	06-Apr-2010	4, 6, 7, 11
MAANSHAN IRON & STEEL	0323.HK	4.47	06-Apr-2010	4, 7, 11
TENCENT HOLDINGS LTD.	0700.HK	154.10	06-Apr-2010	6, 7, 11
YUE YUEN INDUSTRIAL	0551.HK	25.10	06-Apr-2010	4, 6, 7

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 28 February 2010 HSBC beneficially owned 1% or more of a class of common equity securities of this company.
- 5 As of 28 February 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 28 February 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 28 February 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.

* HSBC Legal Entities are listed in the Disclaimer below.

Additional disclosures

- 4 This report is dated as at 08 April 2010.
- 5 All market data included in this report are dated as at close 31 March 2010, unless otherwise indicated in the report.
- 6 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.
- 7 As of 28 February 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) : HUTCHISON WHAMPOA , CHEUNG KONG HOLDINGS LTD , INDUSTRIAL COM BANK OF CHINA , MAANSHAN IRON & STEEL , CHINA NATIONAL BUILDING M , YUE YUEN INDUSTRIAL , LENOVO GROUP LTD

- 8 As of 01 March 2010, HSBC owned a significant interest in the debt securities of the following company(ies) : HUTCHISON WHAMPOA , CHEUNG KONG HOLDINGS LTD
- 9 We previously included the following stocks in our Hong Kong/China model portfolio:
- CNOOC (08/01/08 at HKD13.28 to 02/05/08 at HKD13.76)
 - SINOPEC (08/01/08 at HKD11.78 to 06/10/09 at HKD6.61)
 - CHINA MOBILE (08/01/08 at HKD137.9 to 08/12/2008 at HKD71.1)
 - CHINA CONSTRUCTION BANK (08/01/08 at HKD6.61 to 08/10/08 at HKD4.06)
 - INDUSTRIAL AND COMMERCIAL BANK OF CHINA (21/02/08 at HKD5.38)
 - BANK OF COMMUNICATIONS (08/01/08 at HKD10.88 to 02/05/08 at HKD11.22)
 - PING AN INSURANCE (08/01/08 at HKD83.7 to 08/12/2008 at HKD36.60)
 - CIH (08/01/08 at HKD21.4 to 08/12/2008 at HKD13.0)
 - PACIFIC BASIN (08/01/08 at HKD12.58 to 08/12/2008 at HKD4.64)
 - SHANGHAI ELECTRIC (08/01/08 at HKD6.6 to 25/6/09 at HKD3.36)
 - UNITED LABORATORIES (08/01/08 at HKD4.64 to 08/10/08 at HKD2.40)
 - NEW WORLD DEPARTMENT STORE (08/01/08 at HKD11.04 to 08/10/08 at HKD3.68)
 - ESPRIT (08/01/08 at HKD116 to 08/10/08 at HKD47.35)
 - PORTS DESIGN (08/01/08 at HKD27.2 to 08/10/08 at HKD11.98)
 - DATANG POWER (30/05/08 at HKD5.11 to 08/12/2008 at HKD3.98)
 - CHINA RES POWER (30/05/08 at HKD20.10 to 06/10/09 at HKD17.70)
 - CHINA YURUN FOOD (30/05/08 at HKD12.54 to 14/4/2009 at HKD10.32)
 - PETROCHINA (02/05/08 at HKD11.6 to 08/12/2008 at HKD6.41)
 - MAANSHAAN STEEL (02/05/08 at HKD5.02 to 25/6/09 at HKD4.99)
 - YANGZHOU COAL (02/05/08 at HKD14.38 to 08/12/2008 at HKD4.97)
 - WUMART (8/7/08 at HKD7.10 to 08/10/09 at HKD6.30)
 - SIMCERE PHARMA (8/7/08 at HKD12.60 to 08/10/08 at HKD6.88)
 - CHINA GAS (8/7/08 at HKD2.08 to 08/10/08 at HKD1.02)
 - DONGFANG ELECTRIC (08/10/08 at HKD19.00 to 08/12/2008 at HKD19.02)
 - CHINA COMMUNICATION CONSTRUCTION (08/10/08 at HKD5.35 to 25/6/09 at HKD9.19)
 - LINK REIT (08/10/08 at HKD13.5 to 08/12/08 at HKD13.16)
 - CHINA RESOURCE LAND (08/12/08 at HKD10.22 to 14/4/09 at 13.26)
 - ZTE (08/12/08 at HKD17.90 to 14/4/09 at HKD32.5)
 - ANHUI CONCH (08/12/08 at HKD33.40 to 14/4/09 at HKD42.4)
 - CHINA BLUE CHEMICAL (14/4/09 at HKD4.26 to 06/10/09 at HKD4.30)
 - CHINA AGRI-IND. (14/4/09 at HKD4.23 to 25/6/09 at HKD4.95)
 - ZHEJIANG EXPRESSWAY (14/4/09 at HKD5.90 to 08/01/10 at HKD7.67)
 - PACIFIC BASIN (14/4/09 at HKD4.36 to 25/6/09 at HKD4.82)
 - SHIMAO (25/06/09 at HKD14.74 to 06/10/09 at HKD14.04)
 - BOCOM (25/06/09 at HKD8.11 to 06/10/09 at HKD9.39)
 - TENCENT (25/06/09 at HKD92.80)
 - DONGFANG ELECTRIC (25/06/09 at HKD28.05)
 - GOLDEN EAGLE (25/06/09 at HKD8.23 to 08/01/10 at HKD15.50)
 - CHINA SHANSHUI CEMENT (06/10/09 at HKD5.80 to 08/01/10 at HKD5.52)
 - AIR CHINA (06/10/09 at HKD4.39 to 08/01/10 at HKD6.17)
 - CNOOC (06/10/09 at HKD10.80 to 08/01/10 at HKD13.02)
 - BOC (06/10/09 at HKD4.15 to 31/3/10 at HKD4.1)
 - COLI (06/10/09 at HKD17.18 to 08/01/10 at HKD16.48)
 - HUTCHISON WHAMPOA (08/01/10 at HKD56.50 to 31/3/10 at HKD56.8)
 - CHINA GAS (08/01/10 at HKD4.40)
 - LENOVO (08/01/10 at HKD5.43)
 - CHINA MENGNIU (08/01/10 at HKD27.15)
 - YUE YUEN (08/01/10 at HKD23.90 to 31/3/10 at HKD27.0)
 - PARKSON (08/01/10 at HKD14.50)
 - MAANSHAN IRON & STEEL (8/4/10 at HKD4.5)
 - CHINA NATIONAL BUILDING MATERIALS (8/4/10 at HKD15.0)
 - CHEUNG KONG HOLDINGS (8/4/10 at HKD100.0)

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

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. 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.

© Copyright. The Hongkong and Shanghai Banking Corporation Limited 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 The Hongkong and Shanghai Banking Corporation Limited. MICA (P) 177/08/2009

[264323]

Global Equity Strategy Research Team

Global

Garry Evans
Global Head of Equity Strategy
+852 2996 6916 garryevans@hsbc.com.hk

Europe

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

CEEMEA

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

Wietse Nijenhuis
+44 20 7992 3680 wietse.nijenhuis@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