

HSBC GLOBAL MARKETS INDICES

HSBC Optimised Global Agriculture Index *February 2009*



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HSBC Optimised Global Agriculture Index

Summary

The HSBC Optimised Global Agriculture Index gives exposure to companies which are engaged in businesses related to crop and cultivation of plants. The focus is on Agriculture Chemicals, Fertilizers and Agriculture derived products. It attempts to include those portions of agriculture and capture inputs which go into growing plants, such as tea, coffee, grains, fruits, nuts, cotton, animal feed, and tobacco. The Index does not focus on companies which are largely engaged in processing and marketing the final products sold to consumers.

The purpose of this index is to concentrate on that segment which is directly linked to food yield enhancement, crop protection, plant growth, disease resistance. The Index is designed to capture the inputs that are essential to the growth of plants. Irrespective of what happens to final commodity prices, these inputs are for the most part essential ingredients.

It is expected that the growth in this segment will increase because the demand for agriculture products is continuing to rise and the global production of biomass in a sustainable basis has to rise because of increasing world populations and rising living standards. The Index has been designed to act as a benchmark for financial products issued by HSBC Global Markets (GM). In this respect the Index has been optimised to capture the performance of the largest companies from around the world, which are also liquid.

Global Agriculture

Agriculture business can refer to all aspects of food production, farm machinery, and food processing and so on. One finds that companies engaged in the manufacture of farm machinery and equipment are also involved in heavy machinery, construction equipment or in the case of tractors in the manufacture of autos. We have thus excluded farm machinery and equipment suppliers from this index as there can be significant volatility in the demand for these products.

Large processed food companies such as Nestle and Unilever are not involved primarily in the production of food, but more so in processing and the sale of final products. Whilst some of the drivers for these companies may be similar, these companies do not qualify for inclusion in this Index.

Drivers of Agriculture Production

Increasing populations globally and rising living standards are the key drivers of demand for food and energy. In addition to feeding more people, as living standards rise consumption of food rich in animal proteins as well as alcohol, soft drinks and coffee starts to mimic the diets of rich countries. For example, Starbucks opened its first outlet in China in 1998. Today it has 600 stores in China. Hence commodities like coffee should see increased production. Livestock production is also on the up; Indians are eating 40 per cent more meat and Brazilians are eating over a third more meat than they were 15 years ago.¹

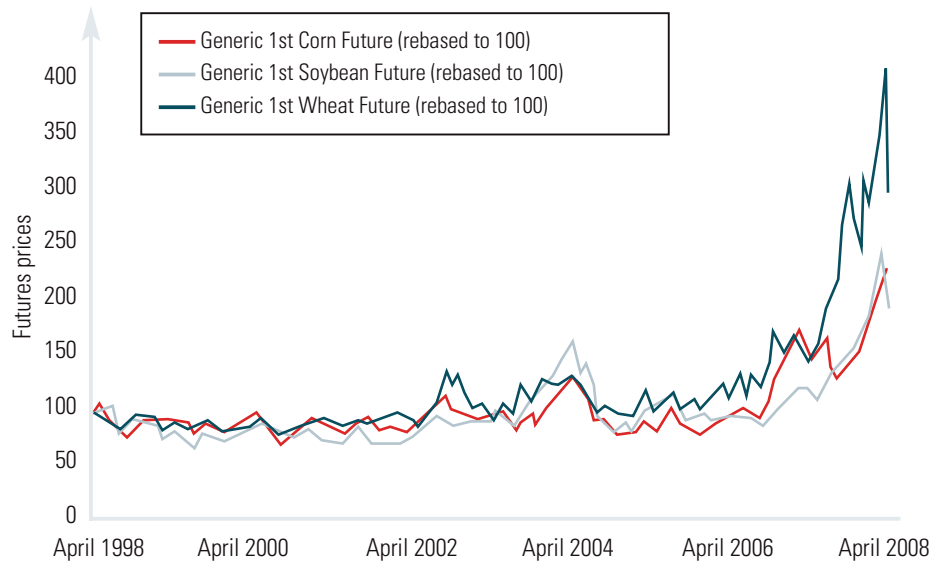
According to the FT (March 27, 2008), the push for ethanol production in the US led farmers to plant a record 93.6m acres of corn in 2007-2008, up by nearly a fifth from the previous year. Total corn, soybean and wheat acres increased 6.4m acres in this period and will further increase by 6.1m acres in the 2008-2009 period. US corn stocks are projected to shrink to 10 year lows, and wheat to 30 year lows, whilst global grain inventories are at 40 year lows.² According to the same article, most usable agriculture land is already in production and there is competition from biodiversity, biofuels and food production.

Commodity prices have risen to reflect increased demand.

¹ FT, Developing Tastes, Jenny Wiggins, 25 January 2008

² FT, 6 March 2008

Chart 1: Commodity Future Prices



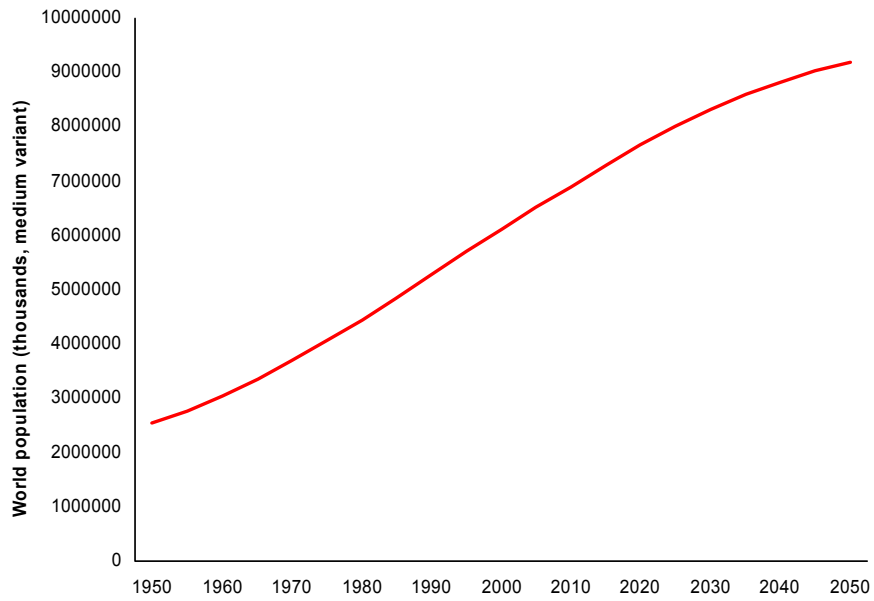
Source: Bloomberg

Climate change is expected to alter the availability of agricultural land, its productivity and suitability for plant growth. More than a quarter of China's land is now desert. Climate change, which can impact the amount of water availability and increase the incidences of pests, could cause Chinese grain output to be reduced by 10 per cent a year from 2030.³

Climate change is a global phenomenon. In summary the demand for enhanced yield through modified seeds, cultivation of genetically modified plants that are resistant to diseases, plants that may be resistant to heat, use less water and the use of plant protection chemicals and most of all the use of incremental amounts of fertilisers is apparent. The HSBC Optimised Global Agriculture Index is expected to be a good reference to capture this demand and the expected growth over the medium and long term.

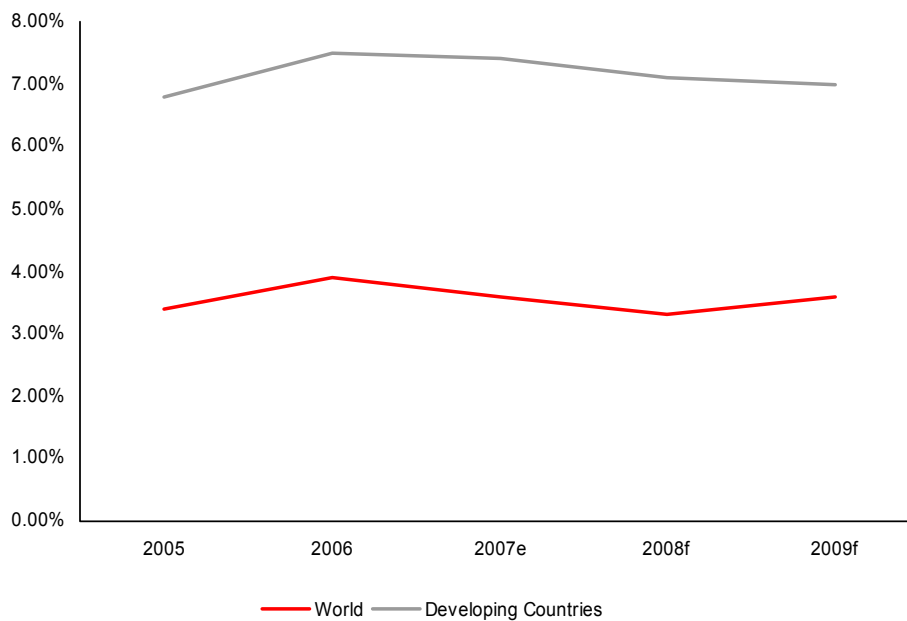
³FT, 2 February 2007

Chart 2: World Population History and Projections



Source: UN

Chart 3: Real GDP Growth



Source: World Bank Global Economic Prospects 2008

Index Description

Bloomberg Ticker Price Return Index: HSIXAGRP Total Return Index: HSIXAGRT

The HSBC Optimised Global Agriculture Index ("Index") is a modified market capitalisation weighted total return index comprising maximum 30 stocks.

The criteria that stocks must meet for inclusion into this Index are as follows:

- ▶ At the date of launch and on subsequent review dates, each company must have a minimum Average Daily Traded Value over 3-Month of US\$ 1,000,000. When companies are newly listed on the exchange, and 3-month data is not available, the latest average data for the listing days is used.
- ▶ Only ordinary shares are permitted.
- ▶ American Depository Receipts (ADRs) and Global Depository Receipts (GDRs) are preferred when the minimum liquidity criteria is met.
- ▶ The Index is reviewed every six months.

The following companies are excluded:

- ▶ Companies with below 10 per cent free float.
- ▶ Companies in whose shares HSBC Global Markets is prohibited from dealing and which have been notified to the Calculation Agent by HSBC Global Banking and Markets Compliance.
- ▶ Companies where Foreign Ownership Limits (including regulation or market access as it applies to HSBC) prevent ownership.

Company Selection

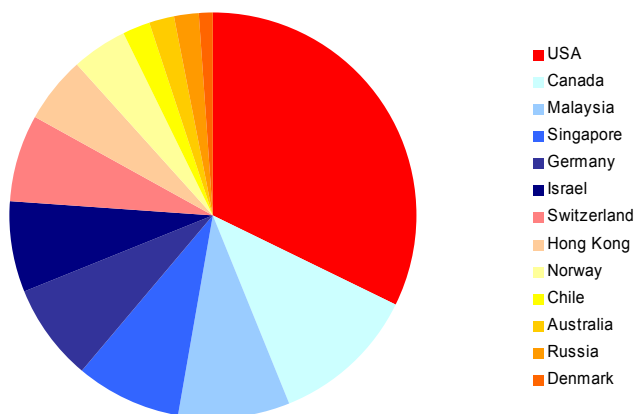
- ▶ Companies in the Index are selected using the following GICS Sectors:
 - Fertilizer and Agriculture Chemicals (15101030)
 - Agricultural Products (30202010)
- ▶ Select the largest constituents as measured by the Market Capitalisation expressed in US\$.
- ▶ Selected companies must have a minimum Average Daily Traded Value 3-Month of US\$ 1,000,000.
- ▶ The maximum number of constituents in the index is 30 and the minimum is 20.
- ▶ The maximum weight per constituent is 7 per cent on the Index launch date and then on subsequent semi-annual review dates.
- ▶ If the total number of companies is consequently lower than 20 then the liquidity criterion is lowered by US\$ 100,000 progressively until at least 20 companies are eligible.

Each index series' base date is 31 January 2008. Historic index values are provided from 31 January 2003, with an initial value of 100.

The Index is calculated independently by HSBC Research's Quantitative Techniques (QT) business in Edinburgh. QT is a division of HSBC and an independent Calculation Agent which provides data and calculates indices for parts of HSBC Group, including to the Global Research Department and to organisations outside of HSBC. HSBC reviews its indices policies and coverage before each review date. Whilst, it is not envisaged that the Rules will change, any modification to the Rules will be published by HSBC GM on the HSBC Global Markets website for indices, www.hsbcinvestorsolutions.com, with 3-month notice period prior to the proposed change. This review process is internal to HSBC GM.

What Does the Index Capture?

Chart 4: Market Region Distribution (by Total Index Weight) as at 11 February 2009



Sources: HSBC

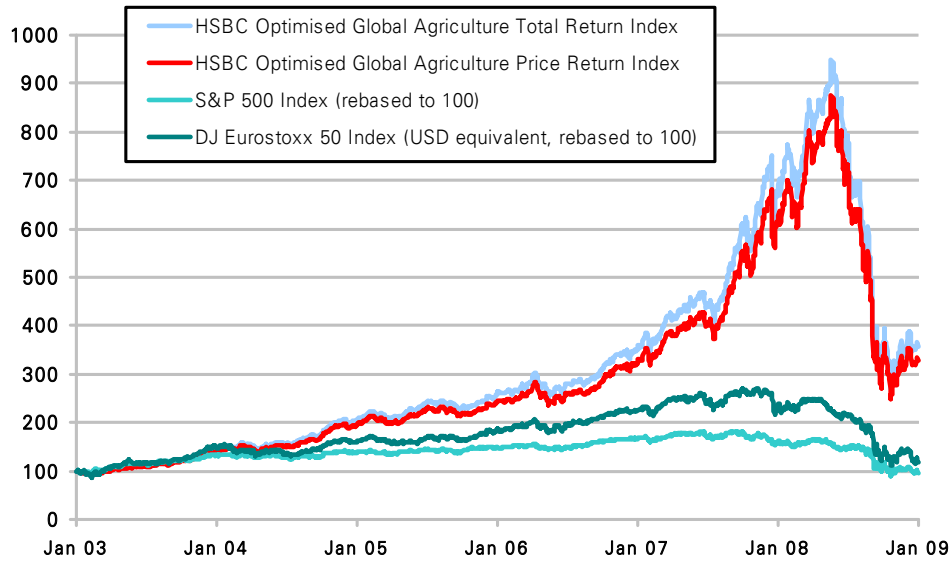
Table 1: Index Constituents as at 11 February 2009

Name	Bloomberg	US\$ Equivalent Market Cap (millions)	Country	GICS Sub Sector	Index Weight
Wilmar International Ltd	WIL SP	12,263.95	Singapore	Agricultural products	7.00%
Archer-Daniels-Midland Co	ADM US	17,563.56	USA	Fertilizers and agricultural chemicals	7.00%
Mosaic Co/The	MOS US	15,851.03	USA	Fertilizers and agricultural chemicals	7.00%
Potash Corp of Saskatchewan	POT US	22,098.75	Canada	Fertilizers and agricultural chemicals	7.00%
Syngenta AG	SYNN VX	18,832.35	Switzerland	Fertilizers and agricultural chemicals	7.00%
Monsanto Co	MON US	41,629.08	USA	Fertilizers and agricultural chemicals	7.00%
Israel Chemicals Ltd	ICL IT	8,997.22	Israel	Fertilizers and agricultural chemicals	6.23%
K+S AG	SDF GR	7,876.38	Germany	Fertilizers and agricultural chemicals	5.45%
IOI Corp	IOI MK	6,678.74	Malaysia	Agricultural products	4.62%
Yara International ASA	YAR NO	6,620.97	Norway	Fertilizers and agricultural chemicals	4.58%
Agrium Inc	AGU US	5,247.49	Canada	Fertilizers and agricultural chemicals	3.63%
Bunge Ltd	BG US	5,222.66	USA	Agricultural products	3.62%
Sinofert Holdings	297 HK	4,033.29	Hong Kong	Fertilizers and agricultural chemicals	2.79%
Sociedad Quimica y Minera de Chile SA	SQM US	3,262.22	Chile	Fertilizers and agricultural chemicals	2.26%
PPB Group Bhd	PEP MK	3,103.31	Malaysia	Agricultural products	2.15%
Suedzucker AG	SZU GR	3,009.73	Germany	Agricultural products	2.08%
Kuala Lumpur Kepong Bhd	KLK MK	2,942.28	Malaysia	Agricultural products	2.04%

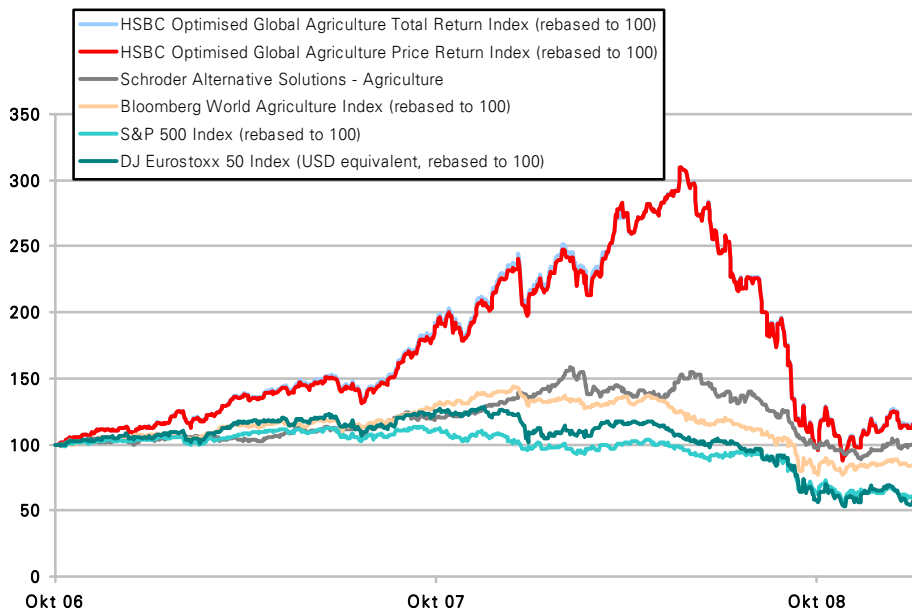
Table 1 continued: Index Constituents as at 11 February 2009

Name	Bloomberg	US\$ Equivalent Market Cap (millions)	Country	GICS Sub Sector	Index Weight
Incitec Pivot Ltd	IPL AU	2,723.99	Australia	Fertilizers and agricultural chemicals	1.89%
CF Industries Holdings Inc	CF US	2,672.42	USA	Fertilizers and agricultural chemicals	1.85%
Uralkaliy 'Gdr'	URKA LI	2,668.23	Russia	Fertilizers and agricultural chemicals	1.85%
Terra Nitrogen LP	TNH US	2,266.12	USA	Fertilizers and agricultural chemicals	1.57%
Scotts Miracle Group	SMG US	2,106.35	USA	Fertilizers and agricultural chemicals	1.46%
Terra Industries Inc	TRA US	2,091.64	USA	Fertilizers and agricultural chemicals	1.45%
Golden Agri Resources Ltd	GGR SP	2,048.04	Singapore	Agricultural products	1.42%
Viterra INC	VT CN	1,773.19	Canada	Agricultural products	1.23%
Danisco	DCO DC	1,767.76	Denmark	Agricultural products	1.22%
Corn Products International Inc	CPO US	1,724.33	USA	Agricultural products	1.19%
Israel Corp Ltd/The	ILCO IT	1,683.61	Israel	Fertilizers and agricultural chemicals	1.17%
Chaoda Modern Agri	682 HK	1,628.95	Hong Kong	Agricultural products	1.13%
China Agriculture Industry Holdings	606 HK	1,623.41	Hong Kong	Agricultural products	1.12%

Historical Theoretical Performance



Sources: Bloomberg, backtesting by HSBC Quantitative Technique



Sources: Bloomberg, backtesting by HSBC Quantitative Technique

Indices at HSBC

About HSBC Optimised Indices

HSBC Optimised Indices have been promoted by HSBC GM to provide reference underlying indices for creating structured products which either track the Index performance or provide pay-offs linked to the specified Index. These indices have been optimised to take into account the unique characteristics of each underlying theme or strategy and the availability of the universe of companies which best captures this. The number of eligible constituents varies in each case in accordance with the objectives for each Index. The aim of HSBC GM is to provide liquid, transparent, tradable instruments, which can act as robust references for a variety of investment products.

HSBC combines its expertise in indices with its knowledge both of local markets and investment products in its provision of HSBC Optimised Indices.

About HSBC Indices

HSBC, through the HSBC Global Research department, started publishing indices in 1993 with the launch of the HSBC (formerly James Capel) Smaller European Companies Indices. Other indices followed, such as HSBC Dragon 300 (June 1996), HSBC Latin America 100 (May 1994), and HSBC Subcontinent of India (February 1996). HSBC has remained focused on smaller companies indices, emerging markets indices, and custom indices. HSBC calculates a total of 5,471 indices covering 69 countries and territories worldwide.

The HSBC Indices are maintained and distributed by HSBC Quantitative Techniques ('QT'). QT is part of HSBC's Global Research business, which in turn is part of HSBC's Global Banking and Markets division. QT provides advisory services, indices and data products to customers on a commercial basis. QT is both structurally and physically separated from other parts of HSBC and hence provides an independent service to users of the HSBC Indices and its other customers.

Investors should be aware that the HSBC Optimised Global Agriculture Index is constituted by HSBC GM and is not an independent research index operated by the Global Research department.

The HSBC Global Markets Indices are a distinct series of indices from the range offered by HSBC Global Research, of which the Calculation is a part. HSBC Global Research operates as a separate business within HSBC from HSBC Global Markets.

Contacts

For general information about the HSBC Optimised Global Agriculture Index and other HSBC Global Markets Indices, please contact your local HSBC GM representative or contact HSBC Global Markets Third Party Structured Products Development at 44 (0) 20 7992 6002, e-mail structured.investments@hsbcib.com.

For more information concerning these Ground Rules and the calculation of the HSBC Global Markets Indices, please contact the calculation agent, QT, at 44 84 5584 7360 or e-mail qt-inquiries@hsbcib.com.

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