

Themes for 2010: Follow the big trends

Thematic investing makes sense

The risk/reward of engaging in theme-based investing seems favorable in 2010 as the government is remolding China's growth orientation and sound investment opportunities usually emerge during a paradigm shift.

Big trends: Reforms and integration

We see the most compelling themes centering on what we believe are two secular trends in China: (1) **Deepening reforms** and (2) **integration**.

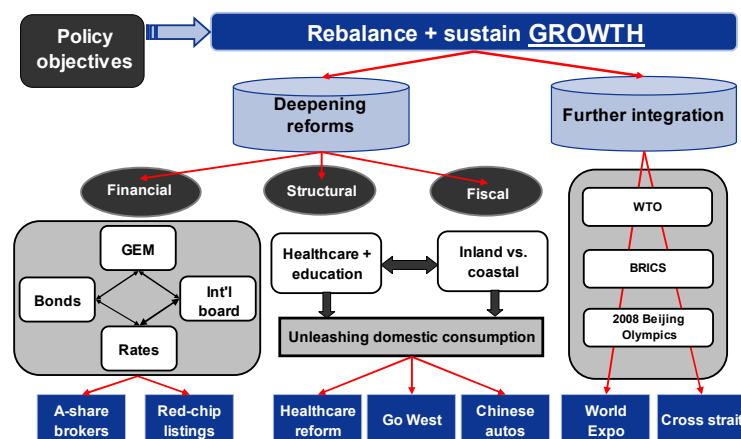
Deepening reforms (Structural, financial, and fiscal support):

- **Health care reform:** The government will spend Rmb850bn in the next 3 years and deregulation could create long-term investment opportunities.
- **Inland vs. coastal:** A more targeted way to trade China's robust domestic demand against an anemic G3 growth recovery.
- **Chinese autos:** Affordability has increased significantly, yet auto penetration in China remains very low in a global context.
- **A-share issuance** – US\$40bn of new equity could hit the market in 2010 (1.5% of market cap). Brokers are likely to be the first to benefit.
- **A-share listing:** Offshore-listed stocks could list domestically in 1Q10 and they tend to perform well ahead of their A-share listing dates.

Integration:

- **Shanghai World Expo:** May attract 70mn visitors to the city and the infrastructure work should bode well for future growth.
- **Cross-strait development:** Closer ties across the strait may benefit all concerned. Buy Chinese IT and Fujian-based firms.

Our recommended themes for 2010



Source: GS Global ECS Research.

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Themes for 2010: Follow the big trends

Market setup: Favorable for thematic investing

We believe investment strategies revolving around thematic investing and proactive sector strategies, as opposed to an outright market beta, could reward investors well in 2010.

Our arguments are backed up by the following shift in policy setup and market dynamics:

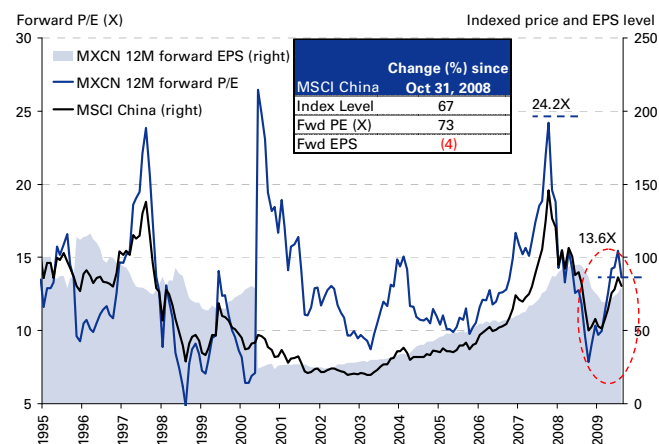
- China needs to boost domestic consumption to sustain growth, as the growth momentum from trade and investment is likely to moderate on an anemic G3 recovery and a high-base effect, respectively. We expect government policies to be increasingly skewed towards the promotion of domestic consumption and attractive long-term investment opportunities usually arise during a paradigm shift, just like they did in China's 11th five-year plan period (2006-2010).
- A significant portion of market returns in 2009 have so far been propelled by valuation normalization off a low base (Exhibit 1). Although we argue that current market valuations are largely fair (14.8X versus our target multiple of 15X for H shares), we believe that fundamentals (EPS growth) will, once again, become the primary returns driver in 2010.
- Rolling returns dispersion has normalized but is not at stretched levels, especially in the A-share market. We believe active sector management approaches make sense (Exhibit 2).

Aggregating our top-down analysis, sector dynamics, and our sector analysts' fundamental views, we see two secular trends – **Deepening reforms and integration** – to which several compelling investment themes are linked. We summarize the themes, their thematic appeal, and the investment implications in Exhibit 3.

For our recommended sector and pair-trade strategies, please see *China Strategy: 2010 outlook: Fostering the roots of growth*, October 29.

Exhibit 1: Returns in 2009 have been largely driven by valuation normalization

MSCI China forward P/E, EPS index, and price index



Source: Factset, I/B/E/S, MSCI, GS Global ECS Research.

Exhibit 2: Sector returns dispersion is still at historically low levels for A shares

Standard deviation of 12-month rolling returns, GICS level 2 sector, MSCI China offshore, and A shares

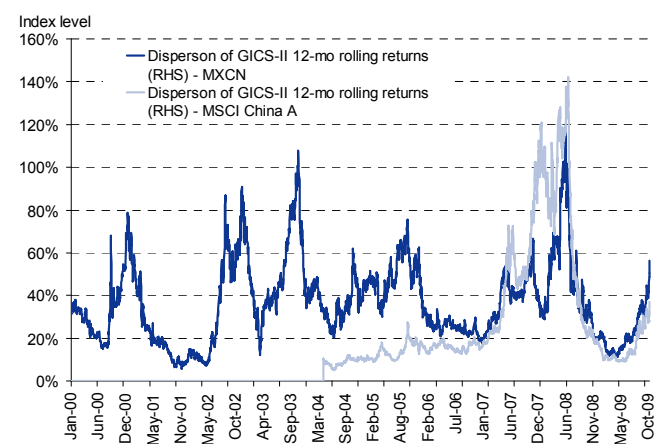


Exhibit 3: We think these investment themes could generate alpha for investors in 2010

Our recommended themes for 2010 at a glance

	Themes	Thematic appeal	Stock/sector implications
Deepening reforms	Healthcare reform	A secular theme. Healthcare spending: China is low on a global basis and the government is committed to broadening and deepening healthcare coverage. The sector only accounts for 0.2% and 2.7% of market cap in the H- and A-share market, respectively. Similar to that of the property sector 10 years ago.	A-Share healthcare Liquid Sector: GSGHHEAL
	Inland vs. coastal	Separating strong domestic demand growth factors from anemic external demand. Stocks with higher business exposure in the inland regions have performed well over the past four years and we expect this trend to continue.	Refreshed "Go West" CAT: GSSZCNG2
	Chinese autos	Autos penetration rate in China is very low in a global context and affordability is rising on the back of increased income per capita and low auto prices.	SEHK-listed China Autos CAT: GSSZCNAU
	A-share equity issuance	A heavy equity issuance pipeline (new IPOs, the return of H shares/Red Chips, GEM, and the International board) and the proliferation of financial products are positive to A-share brokers' earnings growth.	A-Share Brokers Liquid Sector: GSGHSECU
	A-share listing	An increasing number of Hong Kong-listed Chinese firms have shown interest in listing on the A-share market for financial, liquidity, and strategic reasons. Empirical evidence indicates that H shares tend to generate positive returns before their A-share listing dates.	Potential A-Share Listing CAT: GSSZCNAL
Further integration	Cross-strait development	Closer economic ties across the straits could create a win-win situation for both parties. Chinese IT firms and Fujian-based companies could benefit the most, in our view.	Selected Chinese IT firms and Fujian basket: GSEHFUJI
	Shanghai World Expo	The government estimates that the Shanghai World Expo may attract 70mn visitors to the city. Infrastructure investment should bode well for the city's long-term growth prospects and lay a solid foundation for the city to become a global financial center.	Shanghai-based property companies: GSSZCNWE and GSSZCWEA

Note: The ability to trade this basket will depend upon market conditions, including liquidity and borrow constraints at the time of trade.

Source: GS Global ECS Research.

Exhibit 4: These stocks could generate thematic alpha for investors, in our view

Stocks that belong to each of our highlighted thematic CATs

Deepening reforms					Further integration	
Healthcare reform	Inland vs. coastal	Chinese autos	A-share equity issuance	A-share listing	Cross-strait development	Shanghai World Expo
CATs/baskets						
A-Share healthcare Liquid Sector	Refreshed "Go West" CAT	SEHK-listed China Autos CAT	A-Share Brokers Liquid Sector	GS Potential A-Share Listing CAT	A-Share Fujian Basket	Shanghai World Expo CATs
Bloomberg ticker						
GSGHHEAL	GSSZCNG2	GSSZCNAU	GSGHSECU	GSSZCNAL	GSEHFUJI	GSSZCNWE
Constituents						
Jilin Aodong Medicine Ind (000623 CS)	China Life Insurance (H) (2628 HK)	Byd (1211 HK)	Haitong Sec (600837 CG)	China Mobile (941 HK)	Ind Bank (601166 CG)	Yanlord Land (YLLG SP)
Shanghai Fosun Pharma (600196 CG)	Tencent (700 HK)	Dongfeng Motor (489 HK)	Citic Sec (600030 CG)	CNOOC (883 HK)	Citchamp Dartong (600067 CG)	Shimao Prop (813 HK)
Zhejiang Medicine (600216 CG)	COLI (688 HK)	Geely Automobile (175 HK)	Hong Yuan Sec (000562 CS)	COLI (688 HK)	Fuyao Glass Ind (600660 CG)	Shui On Land (272 HK)
Shandong Dong-E E-Jiao (000423 CS)	Ctrip.com Intl (ADR) (CTRP UW)	Denway Motors (203 HK)	Northeast Sec (000686 CS)	China Telecom (728 HK)	Xiamen Tungsten (600549 CG)	Franshion Prop China (817 HK)
North China Pharm (600812 CG)	China Mengniu Dairy (2319 HK)	Xinyi Glass (868 HK)	Changjiang Sec (000783 CS)	China Comm Constr (1800 HK)	Xiamen C & D (600153 CG)	Shanghai Forte Land (2337 HK)
Sanjiu Medical & Pharma (000999 CS)	Hengan Intl (1044 HK)	Tianneng Power Intl (819 HK)	AnXin Trust & Inv (600816 CG)	Lenovo (992 HK)	Xiamen Intl Trade (600755 CG)	
Searainbow (000503 CS)	Sina (SINA UW)	Brilliance China Automotive (1114 HK)	Pacific Sec (601099 CG)	China Resources Power (836 HK)	Xiamen King Long Motor (600686 CG)	GSSZCNWEA
Beijing Tiantan Biological Products (600161 CG)	Tingyi Cayman Islands (322 HK)	AviChina Ind & Tech (2357 HK)		Citic Pacific (267 HK)	Fujian Newland Computer (000997 CS)	Shanghai AJ (600643 CG)
Northeast Pharma (000597 CS)	China Dongxiang (3818 HK)	Minth (425 HK)		China Resources Ent (291 HK)	Fujian Longking (600388 CG)	Shanghai Zhangjiang Hi-Tech Park (600895 CG)
Tonghua Dongbao Medicines (600867 CG)	Sichuan Expressway (107 HK)	Great Wall Motor (2333 HK)		Beijing Enterprises (392 HK)	Fujian Expressway Dev (600033 CG)	Shanghai Lujiazui Finance & Trade (A) (600663 CG)
Zhejiang NHU (002001 CS)					Xiamen Prosolar Real Estate (600193 CG)	Shanghai Ind Dev (600748 CG)
Tianjin Tianyao Pharma (600488 CG)					Fujian Cement (600802 CG)	Shanghai Jinqiao Export Processing (A) (600639 CG)
Shanghai Fudan Forward S & T (600624 CG)					Fujian Longxi Bearing (600592 CG)	
					Xiamen Engg Machinery (600815 CG)	
					Fujian Septwolves Ind (002029 CS)	
					Sansteel Minguang (002110 CS)	
					Xiamen Port Dev (000905 CS)	
					Fujian Sanmu (000632 CS)	
					Xiamen Faratronic (600563 CG)	
					Xiamen Xindeco (000701 CS)	
					China Wuyi (000797 CS)	
					Fujian Dongbai (600693 CG)	
					Xiamen Intl Airport (600897 CG)	
					Fujian Zhangzhou Dev (000753 CS)	

Source: Bloomberg, GS Global ECS Research.

(1) Healthcare reform: A secular theme

The healthcare sector accounts for a negligible 0.2% and 2.7% of the MSCI China and CSI300 universe, respectively but we believe it could offer significant investment opportunities for long-term oriented investors for the following reasons:

- In January 2009, the state council announced that it will spend Rmb850bn (US\$124bn) on improving China's healthcare system from 2009 to 2011 (Exhibit 5). In addition, it was recently reported by the media (e.g. HKTD, July 1) that the NDRC has submitted a proposal (20 policies) aimed at lowering entry barriers for a select group of monopolistic industries and encourage private sector investment – to the State Council for approval. Healthcare-related companies could benefit from further deregulation, in our view.
- Healthcare-related spending, in both GDP and per capita terms, is low in a global context amid an aging population (Exhibit 6).
- China's growth secular potentials imply that the importance of the healthcare sector in the equity market could be much larger in the future, based on the evolution of cross-country market composition (Exhibit 7).

We compile a list of solid healthcare companies based on our analysts' input and show our A-Share healthcare Liquid Sector in Exhibit 8.

Exhibit 5: Healthcare reform is ongoing in China

Summary table of healthcare reforms in China

Healthcare reform summary

1) Accelerate the formulation of a basic medical insurance system

- Basic medical insurance coverage to reach 390 million, ensuring at least 90% of the rural population is covered by 2009.
- 80 yuan subsidy to residents by 2009, increasing to 120 yuan by 2010.

2) Build a basic medicine system

- A list of basic medicines added to the national insurance coverage to keep the cost of medicines low and increase the claim ratio.
- 30% of cities with a centralized purchase, delivery, allocation, and retail of basic medicines.

3) Improve medical services in less-developed areas

- Standardize the construction of primary healthcare facilities and build 2,000 country hospitals and 29,000 town hospitals by 2011.
- 360,000 town hospital health officers, 160,000 community medical officers, and 1.37 million village health officers to be created by 2011.

4) Gradually provide the same public health services in rural and urban areas

- Establish citizen health profiles – coverage aims to reach 30% of cities and 5% of remote towns by 2011.
- Provide vaccinations, medical supplements, and surgeries for those in need and establish a health service charge at not less than 20 yuan by 2011.

5) Launch a pilot program starting from 2009 to reform public hospitals

- A pilot reform program in about 100 state-run hospitals by the end of 2009 to draw experience from trial projects.
- Gradually abolish extra service charges on medicine and recalibrate the medication fee from public hospitals.

Exhibit 7: The weighting of the Chinese healthcare sector could increase as the economy grows

Sector weighting for MSCI market at different GDP/capita

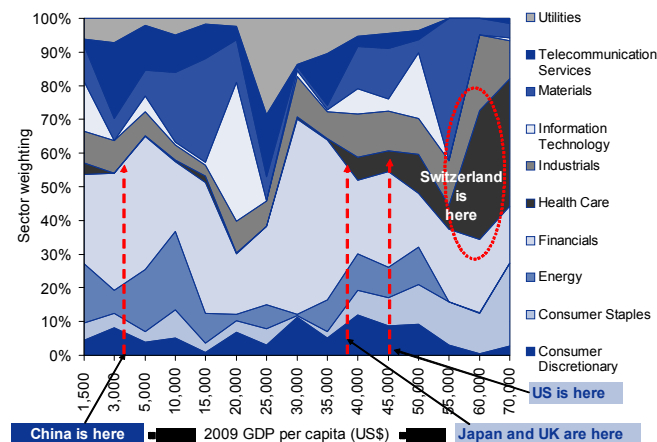


Exhibit 6: Spending on healthcare is low in China

Healthcare spending, % of GDP and per capita, 2006

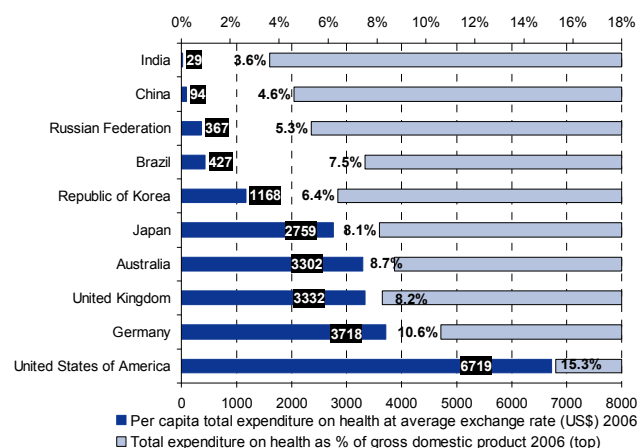


Exhibit 8: These companies could benefit from the high growth potential of the healthcare sector

Buy or Neutral-rated stocks under China healthcare coverage

Ticker	Stock name	GS rating	Price (Quoted) 23 Oct 09	6M GSLE (US\$m)	CY10E P/E (X)	CY10E growth (%)	CY10E P/B (X)	CY10E D/Y (%)	CY10E ROE (%)
8199 HK	Shandong Weigao	N	28.0	2.8	33.2	25.6	7.3	0.6	21.9
2877 HK	China Shineway Pharma	N	11.7	0.3	12.9	15.9	2.8	1.9	21.6
1092 HK	China Pharma	N	4.5	3.4	7.8	(14.2)	1.2	4.2	15.0
MR US	Mindray Medical Int.	N	32.9	16.8	23.7	23.0	5.0	0.8	21.0
SCR US	Sincere Pharma	N	7.7	0.7	9.4	32.6	1.1	-	12.0
WX US	WuXi PharmaTech	B*	13.1	2.9	17.0	12.8	2.6	-	15.2

GS/GHEAL constituents

Ticker	Stock name	Weight (%)	6M GSLE (US\$m)	P/E (X)	EPS growth (%)	P/B (X)	D/Y (%)	ROE (%)
000623 CS	Jilin Aodong Medicine Ind	28.7	55	NA	NA	NA	NA	NA
600196 CG	Shanghai Fosun Pharma	12.0	31	21.6	(69.4)	4.0	0.6	20.0
600216 CG	Zhejiang Medicine	9.3	24	14.1	15.4	NA	NA	NA
000423 CS	Shandong Dong-E E-Jiao	8.2	25	31.0	22.1	5.7	1.3	20.1
600812 CG	North China Pharm	6.7	21	30.5	5.7	3.9	1.3	14.0
000999 CS	Sanjiu Medical & Pharma	5.6	17	23.6	23.6	4.2	1.3	19.0
000503 CS	Searainbow	5.5	23	NA	NA	NA	NA	NA
600161 CG	Beijing Tiantan Biological Products	5.2	33	52.5	10.9	12.4	0.4	25.9
000597 CS	Northeast Pharma	5.1	23	16.8	12.5	NA	NA	NA
600867 CG	Tonghua Dongbao Medicines	4.3	10	31.2	52.1	NA	NA	NA
002001 CS	Zhejiang NHU	4.2	18	11.0	31.9	3.3	0.5	34.4
600488 CG	Tianjin Tianyao Pharma	3.0	9	13.6	NA	NA	NA	NA
600624 CG	Shanghai Fudan Forward S & T	2.1	17	NA	NA	NA	NA	NA

*Denotes stock is on our Conviction List. For important disclosures, please go to <http://www.gs.com/research/hedge.html>.

Source: Factset, MSCI, IMF, WHO, GS Global ECS Research estimates.

(2) Inland vs. coastal: Monetizing China's domestic demand

Domestic demand has been one of our preferred investment themes but its broad definition often makes a top-down investment approach more difficult to implement. To gain appropriate, and more targeted, exposure to China's growth story, we think investors should also think along the geographic spectrum.

Specifically, from a year-to-date growth perspective, inland regions have outperformed their coastal peers on a variety of macro and traffic growth metrics (Exhibit 10). We attribute this divergence to: (1) That export-oriented coastal regions are closely linked to world markets, which are continuing to recover from the financial crisis; (2) large-scale infrastructure investment, which is a major growth contributor by itself, is mostly concentrated in the less-developed inland regions; and (3) low-base effect and increased government subsidies, particularly to the agricultural sector. All in all, we are in sync with our economists' view, as we believe China remains a bright spot globally in terms of its growth potential and diverging growth trajectory between it and the G3. As a consequence, we believe the ripple effect to both inland and coastal regions, is likely to continue.

For investors who are interested in this top-down view, we have created a new “Go West” CAT (GSSZCNG2) (Exhibit 12) to replace the old CAT (GSSZNGW), which was created on September 12, 2005 (Exhibit 11).

Exhibit 9: Growth momentum appears to shift inland
2009 FAI, retail sales, and power production yoy growth, ytd

Western (ytd growth)				Central (ytd growth)				Eastern (ytd growth)			
	Retail sales	FAI	Power production		Retail sales	FAI	Power production		Retail sales	FAI	Power production
Inner Mongolia	19.6%	35.0%	6.0%	Shanxi	18.5%	41.0%	-1.1%	Beijing	14.3%	39.0%	-2.7%
Guangxi	18.9%	54.9%	2.3%	Jilin	18.8%	39.3%	-7.0%	Tianjin	20.9%	45.2%	-2.2%
Chongqing	18.2%	30.7%	6.8%	Heilongjiang	19.0%	43.6%	-3.8%	Hebei	17.7%	49.9%	1.8%
Sichuan	20.4%	44.3%	13.3%	Anhui	18.7%	31.9%	19.9%	Liaoning	17.7%	42.9%	-8.8%
Guizhou	19.0%	36.6%	14.7%	Jiangxi	18.5%	42.1%	-5.6%	Shanghai	13.9%	9.0%	-6.3%
Yunnan	19.0%	39.8%	13.4%	Henan	18.6%	33.1%	-4.6%	Jiangsu	17.4%	24.9%	-3.1%
Tibet	26.2%	29.1%	4.8%	Hubei	19.3%	36.6%	0.9%	Zhejiang	14.2%	13.8%	-3.4%
Gansu	18.9%	42.6%	3.5%	Hunan	19.0%	39.8%	8.3%	Fujian	15.3%	17.5%	2.4%
Shaanxi	18.5%	36.2%	-7.1%					Shandong	18.1%	22.7%	-3.1%
Qinghai	18.5%	31.6%	5.3%					Guangdong	15.7%	15.4%	-9.0%
Ningxia	19.5%	37.9%	-13.9%					Hainan	18.9%	39.2%	3.2%
Xinjiang	15.2%	24.2%	8.0%								
Aggregate	19.1%	39.2%	6.2%	Aggregate	18.8%	37.0%	1.0%	Aggregate	15.7%	27.2%	-3.8%

Going "West"

Exhibit 11: Performance of old "Go West" CAT (GSSZNGW) vs. the MSCI China since inception
GSSZCNGW and MSCI China



Exhibit 10: Coastal vs. inland traffic divergence is visible
Traffic growth, ytd

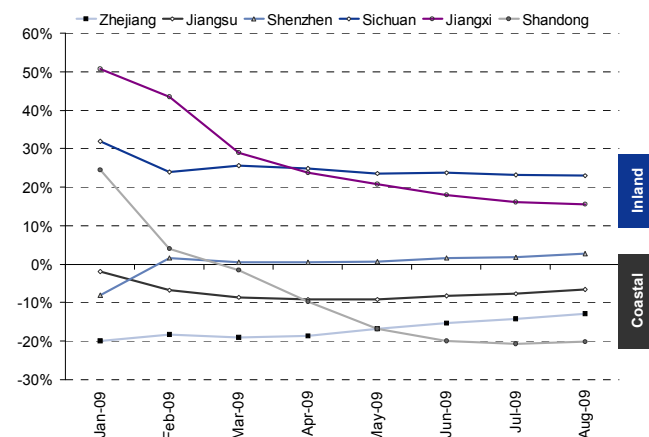


Exhibit 12: We have created a new "Go West" CAT
GSSZCNG2 constituents

GSSZCNG2 Constituents		Weight (%)	6M GSLE (US\$mm)	CY10E				
Ticker	Stock name			P/E (X)	EPS growth (%)	P/B (X)	D/Y (%)	ROE (%)
2628 HK	China Life Insurance (H)	17.1	182.9	26.2	16.3	3.8	1.1	15.5
700 HK	Tencent	15.6	55.5	34.5	39.1	13.6	0.5	47.4
688 HK	China Overseas Land & Inv	13.1	42.9	17.9	29.2	3.1	1.2	18.8
CTRP UW	Ctrip.com Intl (ADR)	11.6	44.5	36.9	31.5	8.5	0.8	26.1
2319 HK	China Mengniu Dairy	9.3	14.3	20.4	19.2	3.4	1.0	17.6
1044 HK	Hengan Int'l	9.3	9.9	24.9	NA	6.5	2.5	27.3
SINA UW	Sina	8.8	37.7	27.9	28.4	3.3	-	12.6
322 HK	Tingyi Cayman Islands	7.1	5.1	28.9	22.0	7.5	1.7	27.7
3818 HK	China Dongxiang	5.4	7.2	13.8	18.6	2.8	4.0	21.3
107 HK	Sichuan Expressway	2.8	1.6	9.5	15.3	1.1	4.1	11.8

Source: Bloomberg, CEIC, Company data, Factset, I/B/E/S, GS Global ECS Research estimates.

(3) Chinese autos: Shifting through the gears

Auto sales have been burgeoning in China since the beginning of 2009, with monthly car sales topping 1.2mn in August, surpassing the US as the largest autos consumer in the world (Exhibit 13). The rapid growth, in our view, can be explained by two major factors – rising affordability and a low penetration rate. With regard to affordability, a combination of lower selling prices for autos (Rmb109,000 in 2009 vs. Rmb117,000 in 2006 for a domestically-made passenger car), possibly due to productivity enhancements, intense competition, and rising income levels (annualized average wage of Rmb33,000 in 2009 from Rmb21,000 in 2006) has almost doubled the affordability of autos for the average Chinese worker over the past four years. With regard to a low penetration rate, China's current car ownership ratio is only around 0.4% (40 cars per 1,000 people), which is not only far behind developed markets but also trailing its emerging market peers such as Brazil and Russia. As per capita GDP continues to rise, the upside potential for car penetration is significant in China given the strong correlation between the two, in our view (Exhibit 15).

In terms of implementation, we have screened a basket of Chinese auto stocks (GSSZCNAU), with a focus on high liquidity for investors who want exposure to this theme but in a more diverse approach.

Exhibit 13: Car sales have grown strongly
Monthly auto sales in China

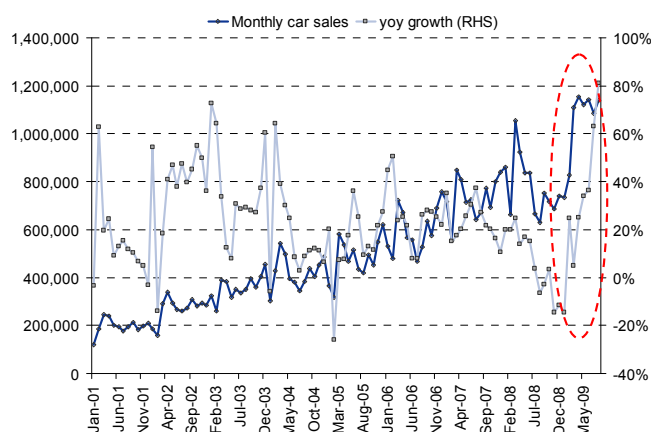


Exhibit 15: Upside potential for a higher autos penetration rate seems high
Car penetration, 2008

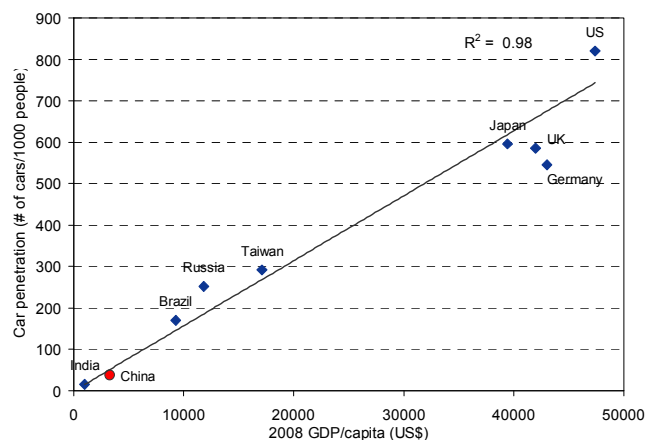


Exhibit 14: Affordability has improved significantly
Affordability ratio for various consumer items

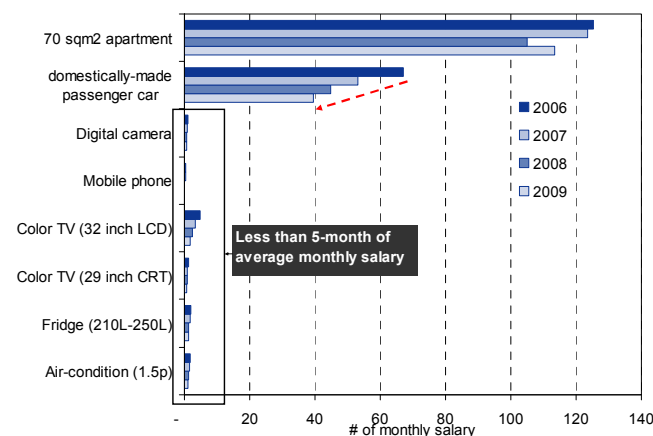


Exhibit 16: A portfolio of relatively liquid autos stocks in China

GSSZCNAU constituent

GSSZCNAU Constituents		Weight (%)	6M GSLE (US\$m)	P/E (X)	EPS growth (%)	CY10E		
Ticker	Stock name					P/B (X)	D/Y (%)	ROE (%)
1211 HK	Byd	17.1	48	52.1	41.4	8.2	-	17.5
489 HK	Dongfeng Motor	15.9	21	13.3	13.1	2.4	0.8	19.8
175 HK	Geely Automobile	13.6	11	13.4	15.8	2.5	0.8	19.9
203 HK	Denway Motors	13.2	10	10.5	10.4	1.6	2.5	15.9
868 HK	Xinyi Glass	10.9	5	10.9	33.3	1.8	4.4	17.6
819 HK	Tianneng Power Intl	7.5	4	14.3	11.7	2.2	2.0	16.7
1114 HK	Brilliance China Automotive	7.1	2	NA	NA	0.8	-	-
2357 HK	AviChina Ind & Tech	6.7	2	19.8	256.8	2.9	-	15.7
425 HK	Minth	4.1	1	11.3	18.0	1.7	2.5	16.4
2333 HK	Great Wall Motor	3.9	2	10.7	24.2	1.0	2.6	9.9

Source: CEIC, Factset, Global Insights, I/B/E/S, IMF, GS Global ECS Research estimates.

(4) A-share equity issuance: Benefiting A-share brokers

According to International Financial Review (IFR) and WIND, a total of US\$39.8bn (Rmb271bn) worth of new equity (1.5% of A-share market cap, 5.1% by free-float cap) could be raised in the A-share market between 4Q09 and the end of 2010. Obviously, domestic brokers/underwriters will be at the main beneficiaries of this potentially heavy issuance pipeline from a revenue perspective. On top of this top-line catalyst, the overall risk/reward for A-share brokers also looks attractive:

- The potential A-share listing of Red Chips and multinational firms, which could take place as early as in 1Q10, has the potential to further boost the issuance pipeline, in our view. The A-share brokers' revenue model is largely commission-based and potential growth contribution from increases in listing revenue could be significant.
- Product proliferation: The potential launch of the long-awaited index futures, margin trading, and securities lending could help A-share brokers take advantage of additional revenue.
- Turnover upside: Our Asia financials research team forecasts an average daily turnover for the A-share market of Rmb220bn in 2010E.
- Attractive entry levels: A-share brokers have underperformed the aggregate market ytd (Exhibit 19) and are now trading at a 24% discount to the market in forward P/E terms.

For implementation, we highlight our existing A-Share Brokers Liquid Sector (GSGHSECU).

Exhibit 17: Equity issuance could remain hectic in 2010
Equity raised as a % of total market cap

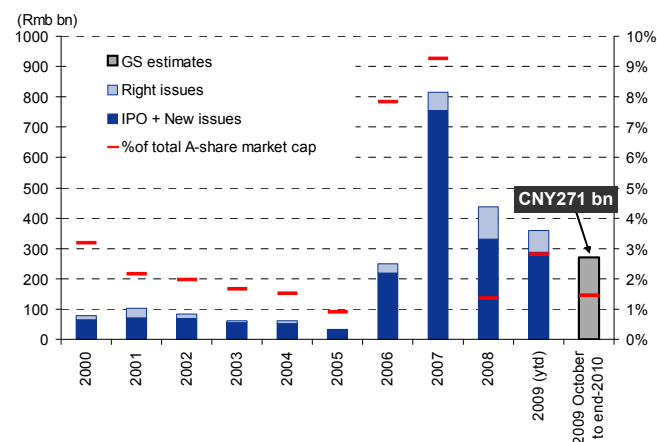


Exhibit 19: Brokers are laggards in A-shares
Performance since the trough of 2008

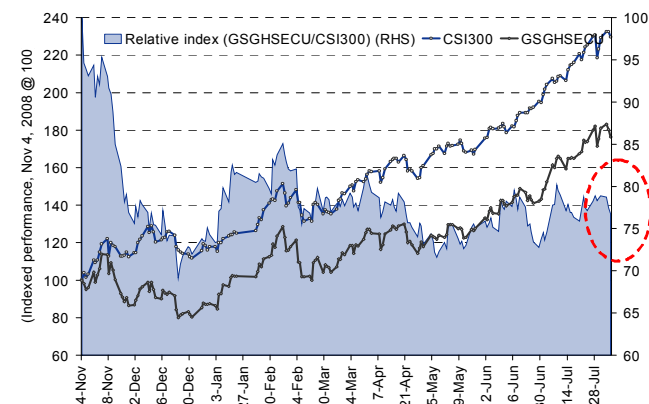


Exhibit 18: Brokers' revenue is commission-based
Revenue breakdown for A-share brokers

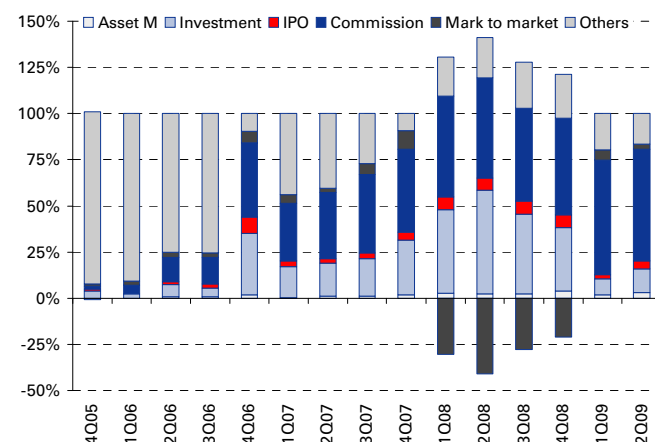


Exhibit 20: A list of A-share brokers in our basket
GSGHSECU

GSGHSECU Constituents		CY10E						
Ticker	Stock name	Weight (%)	6M GSLE (US\$m)	P/E (X)	EPS growth (%)	P/B (X)	D/Y (%)	ROE (%)
600837 CG	Haitong Sec	37.9	187	25.2	(0.2)	2.8	1.5	11.4
600030 CG	Citic Sec	37.2	392	20.8	8.3	2.8	0.6	14.1
000562 CS	Hong Yuan Sec	9.0	45	26.6	2.2	4.3	0.3	17.5
000686 CS	Northeast Sec	6.3	54	34.9	(11.4)	7.2	0.5	22.8
000783 CS	Changjiang Sec	4.1	37	24.4	12.2	4.9	0.9	21.9
600816 CG	AnXin Trust & Inv	3.3	12	4.3	30.6	NA	NA	NA
601099 CG	Pacific Sec	2.2	21	NA	NA	NA	NA	NA

Source: CEIC, International Financial Review, WIND, GS Global ECS Research estimates.

(5) A-share listing: Back to plan “A”

In August this year, we highlighted the trading opportunities arising from the A-share listing of offshore-listed Chinese stocks as they – based on historical precedents – tend to perform well ahead of their listing dates for financial, liquidity, and strategic reasons (Exhibits 21 and 22).

We believe investors could encounter such opportunities more frequently entering 2010 as the regulatory framework for Red Chip listings could materialize as early as 4Q09, with actual listings taking place in 1Q10, at the earliest, based on our discussions with various regulatory bodies and market participants.

In terms of investment implications, we believe two types of stocks are well positioned to take advantage of this catalyst: (1) stocks that have been mentioned in news reports (such as Reuters and Apple Daily) could be among the first batch of Red Chips being approved for A-share listing, including China Mobile, CNOOC, China Resources Enterprise, CITIC Pacific, and Beijing Enterprises and (2) we screen for companies that are eligible for A-share listing in the context of regulatory issues, fundamentals, and the company's size and sector attributes (Exhibit 23). We have created a highly liquid CAT based on the above criteria for investors who want exposure to this theme (Exhibit 24).

Exhibit 21: H shares tend to generate meaningful absolute price returns prior to their A-share listing date
H-share performance 60 days before A-share listing date

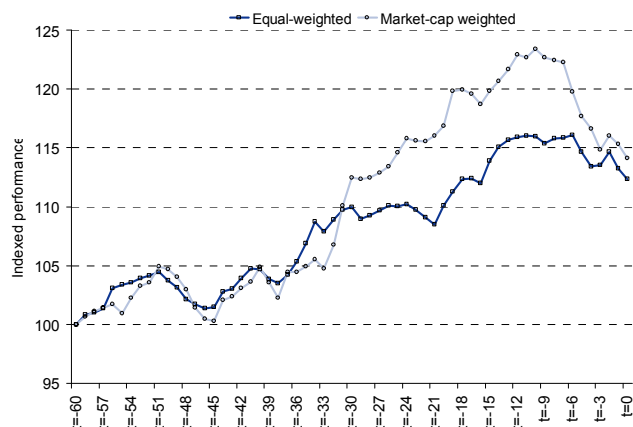


Exhibit 23: Small/mid caps tend to react more positively to the A-share listing catalysts
Performance 60 days prior to A-share by size and sector

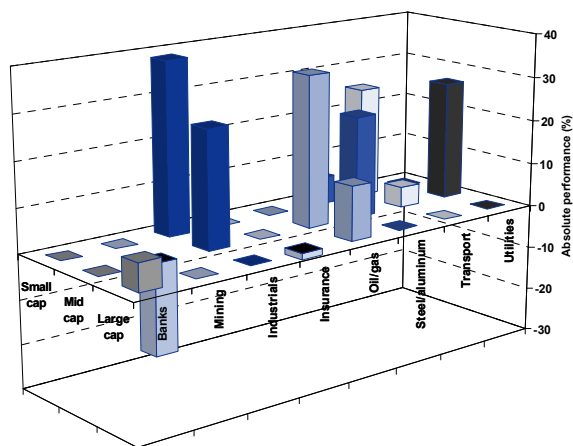


Exhibit 22: Outperformance relative to the market is visible ahead of the actual listing date
H-share performance 60 days before A-share listing date

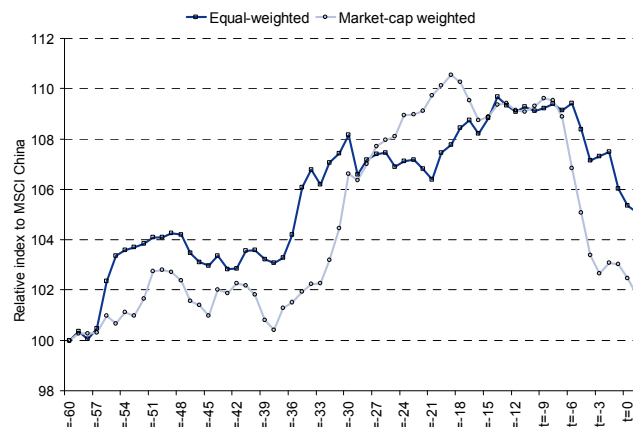


Exhibit 24: A-share listing could be a positive catalyst for these stocks
GSSZCNAL constituents

GSSZCNAL Constituents		Weight (%)	6M GSLE (US\$m)	P/E (X)	CY10E			
Ticker	Stock name				EPS growth (%)	P/B (X)	D/Y (%)	ROE (%)
941 HK	China Mobile	17.1	208	11.8	1.6	2.3	3.8	21.3
883 HK	CNOOC	15.7	122	13.5	35.3	2.5	2.6	19.8
688 HK	China Overseas Land & Inv	13.9	43	17.9	29.2	3.1	1.2	18.8
728 HK	China Telecom	12.6	37	16.1	13.6	1.1	2.2	7.0
1800 HK	China Comm Constr	10.9	23	12.9	20.3	2.1	1.8	17.4
992 HK	Lenovo	6.8	17	26.3	NA	3.7	0.9	14.6
836 HK	China Resources Power	6.4	14	14.0	19.5	2.0	2.3	15.0
267 HK	Citic Pacific	6.4	16	14.3	(8.9)	1.3	2.1	9.2
291 HK	China Resources Ent	6.0	11	23.9	15.3	2.1	1.9	9.2
392 HK	Beijing Enterprises	4.2	7	18.1	16.6	1.6	1.8	8.9

Source: Bloomberg, Datastream, MSCI, GS Global ECS Research estimates.

(6) Shanghai Expo: A better city; a better life

The government estimates that the 2010 World Expo, which will be held in Shanghai between May and October, could attract up to 70mn visitors to the city. While many Shanghai-based companies believe the event will have little incremental impact on their business, a favorable ripple effect to the equity space is visible, in our view. Exhibit 25 aggregates the equity market performance of 13 previous hosts around the event and shows that equity markets tend to deliver reasonably strong performance post the event although the relative performance against the global market is less conclusive. Apart from equities, the long-term value of local real estate may also rise post the event.

The Shanghai city government previously stated that it will spend more than US\$30bn to improve its transportation systems, recreational facilities, and utilities in the city (Exhibit 26). These investments, in our view, should have a long-lasting positive effect on the city and help buoy property market prices even further, as illustrated by the robust performance of the property market in Beijing post the Olympics era (Exhibit 27), all else being equal.

To trade this theme, we think selecting a portfolio of companies with a high concentration of land bank in Shanghai would be a sensible choice (Exhibit 28).

Exhibit 25: World Expo seems to have a positive impact on the stock market of the host nation

Index performance around World Expo, 13 nations

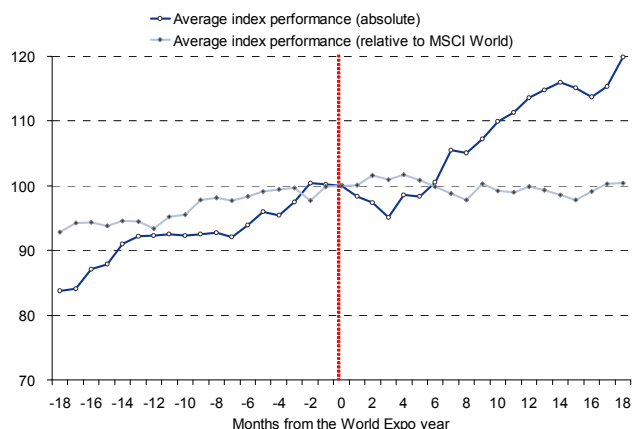


Exhibit 27: Local property prices may benefit from the large-scale infrastructure investment post World Expo

Change of average selling price (ASP), by city

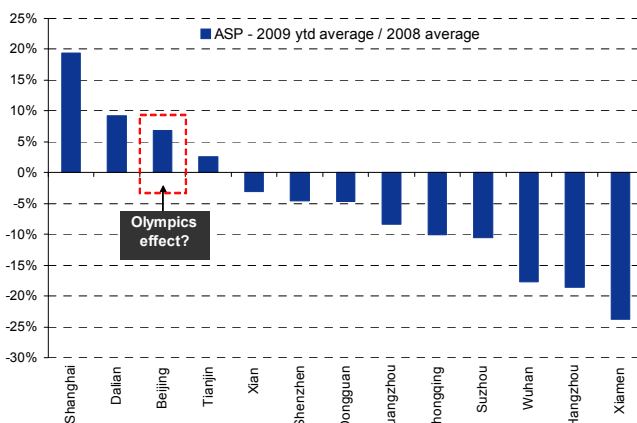


Exhibit 26: Infrastructure investment is likely to improve the efficiency and living quality of Shanghai

Investment projects in Shanghai ahead of the Expo

Projects	Description
1) Transformation of Riverbank Areas	A 735-million-dollar project to build an eight-lane road, 3.3 km of which is underground
2) Shanghai's Metro Rail System	Expand to 11 lines from the current 7, of which 5 links to the Expo site and 1 link to the airport
3) High-speed Railway	Linking Shanghai to the eastern lakeside city of Hangzhou
4) Expansion of Pudong International Airport	A 2.8 million project to build a new terminal and 3 new runways to increase passenger capacity fourfold
5) Expansion of Hongqiao Domestic Airport	A new terminal and runway to increase its passenger capacity fivefold to 40 million passengers
5) Elevated pedestrian walkways in Pudong	Linking the financial district's main Metro station to the Oriental Pearl TV Tower, major office towers and malls.

Exhibit 28: We believe developers with high exposure to the Shanghai market could benefit from this theme

World Expo Offshore Shanghai CAT constituents

GSSZCNWE Constituents		CY10E						
Ticker	Stock name	Weight (%)	6M GSLE (US\$m)	P/E (X)	EPS growth (%)	P/B (X)	D/Y (%)	ROE (%)
813 HK	Shimao Prop	42.1	30.3	13.6	18.8	1.9	2.0	14.9
272 HK	Shui On Land	25.1	12.4	12.9	0.6	0.9	1.2	7.3
YLLG SP	Yanlord Land	19.1	13.2	14.9	13.4	1.8	0.7	13.1
817 HK	Franshion Prop China	9.8	3.9	14.8	24.1	1.3	1.3	8.8
2337 HK	Shanghai Forte Land	3.9	1.6	10.7	48.8	0.9	2.3	8.7

Note: These are the top-5 stocks with highest Shanghai exposure in their land bank, based on our analysts' estimates.

World Expo A-Share Shanghai CAT constituents

GSSZCNEA Constituents		CY10E						
Ticker	Stock name	Weight (%)	6M GSLE (US\$m)	P/E (X)	EPS growth (%)	P/B (X)	D/Y (%)	ROE (%)
600643 CG	Shanghai AJ	25.2	30	52.6	(20.7)	NA	NA	NA
600895 CG	Shanghai Zhongliang Hi-Tech Park	24.6	25	20.8	53.9	2.6	1.2	14.6
600663 CG	Shanghai Lujiazui Finance & Trade (A)	23.9	23	44.1	15.9	4.3	0.5	10.2
600748 CG	Shanghai Ind Dev	18.0	20	33.6	27.5	5.8	NA	18.3
600639 CG	Shanghai Jingiao Export Processing (A)	8.2	12	27.2	75.8	3.1	1.1	12.0

Note: We screen the 5 largest A-share Shanghai-based developers by total market cap.

Source: China Index Academy, Datastream, Factset, I/B/E/S, International Exhibitions Bureau, GS Global ECS Research estimates.

(7) Cross-strait development: A win-win situation

The Straits Exchange Foundation (SEF) of Taiwan and the Association for Relations Across the Taiwan Straits of China (ARATS) have hosted three official meetings since June 2008 and have reached agreement on several issues relating to enhancing communication (flight, sea transportation, and tourism) and developing a closer economic relationship (Exhibit 29). As highlighted by our regional strategy team, Taiwanese equities could benefit from closer economic ties with its fast-growing neighbor from both an earnings (more business opportunities) and valuations (lower policy risk premium) perspective. See *Asia Pacific Portfolio Strategy: Taiwan: Material hope*, May 3.

In relation to China, we see two layers of investment implications in the equity market: (1) from a longer-term perspective, we believe Taiwan's advanced technologies and production management excellence will be the main focus areas of Chinese corporates should both sides integrate further. After all, very few Chinese firms are able to compete in the global arena, as indicated by the composition of China's current equity markets, and emerging IT-focused companies should focus on acquiring operational best practices and latest technologies from their Taiwanese counterparts, in our view. We believe this list should include Lenovo (992 HK, HK\$ 4.67; Buy, on our Conviction Buy List) and ZTE (763 HK, HK\$ 46.45; Buy) and (2) geographically, companies based in Fujian, which is China's closest point to Taiwan (within 2 hours flight time), could enjoy increased growth if investment regulations for Taiwanese investors are relaxed further given the language and cultural similarities that exist and the general proximity between Fujian and Taiwan.

Exhibit 29: China and Taiwan are increasingly linked

The timeline of cross-strait development

1st round SEF-ARATS meeting (June 13, 2008)	
• Direct weekend chartered flights	Initiating 18 direct chartered flights from each side of the strait each weekend.
• Policy on mainland Chinese tourists visiting Taiwan	Average daily quota of mainland tourists visiting Taiwan raised from 1,000 to 3,000.
2nd round SEF-ARATS meeting (November 4, 2008)	
• Direct flights	New, shorter flight routes established between the strait to reduce travel time; increased frequency.
• Direct sea transportation	Direct cross-strait sea transportation to increase logistics efficiency and boost Taiwan's agricultural exports.
3rd round SEF-ARATS meeting (April 25-26, 2009)	
• Cooperative agreement on cross-strait financial services	a) Set up a joint regulatory framework to supervise the operation of banks, brokers, and insurers on both sides. b) Sign memorandums of understanding (MOU), on banking, brokerage, insurance, and other financial services.
• Direct flights	Increase the number of direct flights from 108 per week currently to 270 per week in the future.
April 29, 2009	
• Financial investments (QDII)	FSC provided application guidelines for mainland QDII to invest directly in shares and futures listed on Taiwan's market, with up to a 10% stake in any individual company.
• Strategic cooperation between 2 telecom companies from China and Taiwan	The two companies have signed a strategic agreement to work together on roaming, joint procurement, new products, and services development.
May 4, 2009	
• Accelerate development of economic zone near the Taiwan Strait	China's State Council approved a plan to accelerate the development of the coastal economic zone near the Taiwan Strait (mainly the south-eastern part of Fujian Province), focusing on providing a solid platform for further cross-strait exchanges.
May 16-17, 2009 (Xiamen Cross-Straits Forum)	
• Economic Cooperation Framework Agreement (ECFA)	Agree to establish a more formalized economic cooperation mechanism and start consultation as soon as possible.
June 5, 2009	
• Executive Yuan finalized list of 100 sectors to be opened to Chinese investment	Mainly concentrating on traditional manufacturing industries and service and infrastructure projects, which are related to the latest cross-strait policy developments.

Exhibit 30: Both sides could get what they want

Country and sector weighting in MSCI Asia Pacific

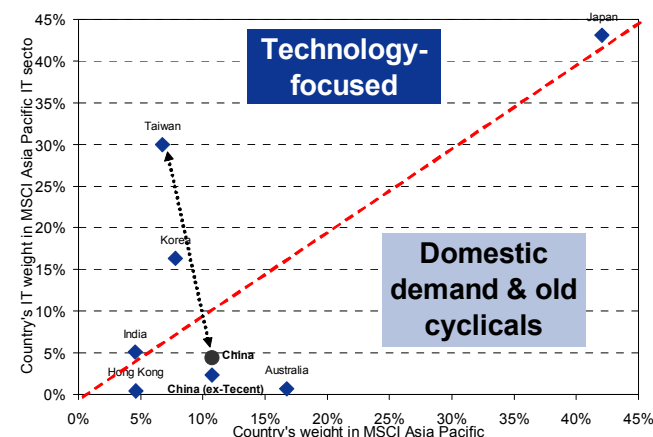


Exhibit 31: Companies located in Fujian Province could benefit from closer cross-strait economic ties

Fujian basket constituents

GSEHFUJI Constituents		CY10E						
Ticker	Stock name	Weight (%)	6M GSLE (US\$m)	P/E (X)	EPS growth (%)	P/B (X)	D/Y (%)	ROE (%)
601166 CG	Ind Bank	7.4	107	13.8	18.9	2.8	1.3	21.9
600067 CG	Citicamp Dartong	7.1	19	20.7	72.3	3.7	0.1	20.4
600660 CG	Fuyao Glass Ind	6.8	24	17.7	48.8	4.4	1.9	27.4
600549 CG	Xiamen Tungsten	6.7	25	47.1	31.3	5.6	0.8	12.6
600153 CG	Xiamen C & D	6.5	15	NA	NA	NA	NA	NA
600755 CG	Xiamen Intl Trade	6.3	16	NA	NA	NA	NA	NA
600686 CG	Xiamen King Long Motor	5.7	11	21.0	6.5	2.3	NA	11.5
000997 CS	Fujian Newland Computer	5.6	14	63.4	20.0	NA	NA	NA
600388 CG	Fujian Longking	5.6	15	20.3	29.1	2.4	NA	12.4
600033 CG	Fujian Expressway Dev	5.2	10	14.1	(14.0)	1.9	1.8	14.0
600193 CG	Xiamen Prosolar Real Estate	4.8	10	11.9	126.7	NA	NA	NA
600802 CG	Fujian Cement	3.8	8	NA	NA	NA	NA	NA

Screening criteria: (1) Fujian-based companies; (2) Domestic-demand focused.

GSEHFUJI Constituents		CY10E						
Ticker	Stock name	Weight (%)	6M GSLE (US\$m)	P/E (X)	EPS growth (%)	P/B (X)	D/Y (%)	ROE (%)
600592 CG	Fujian Longxi Bearing	3.7	7	22.1	9.2	NA	NA	NA
600815 CG	Xiamen Engg Machinery	3.5	7	19.4	35.7	2.4	0.9	12.8
002029 CS	Fujian Septwolves Ind	3.2	6	23.6	22.1	3.5	0.9	16.0
002110 CS	Sansteel Minguang	3.0	7	11.2	165.2	2.3	1.8	22.0
000905 CS	Xiamen Port Dev	2.9	5	NA	NA	NA	NA	NA
000632 CS	Fujian Sanmu	2.9	6	NA	NA	NA	NA	NA
600563 CG	Xiamen Faratronic	2.1	8	25.9	22.7	2.9	1.3	12.0
000701 CS	Xiamen Xindeco	1.9	10	NA	NA	NA	NA	NA
000797 CS	China Wuyi	1.6	5	15.4	63.6	NA	NA	NA
600693 CG	Fujian Dongbai	1.6	6	22.0	24.8	3.5	1.2	17.4
600897 CG	Xiamen Intl Airport	1.2	5	18.7	11.2	3.2	1.6	18.3
000753 CS	Fujian Zhangzhou Dev	1.0	5	NA	NA	NA	NA	NA

Source: Bloomberg, Datastream, MSCI, GS Global ECS Research estimates.

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