

# 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.

### Thomas Deng, CFA

+852-2978-1062 | thomas.deng@gs.com  
Goldman Sachs (Asia) L.L.C.

### Kinger Lau, CFA

+852-2978-1224 | kinger.lau@gs.com  
Goldman Sachs (Asia) L.L.C.

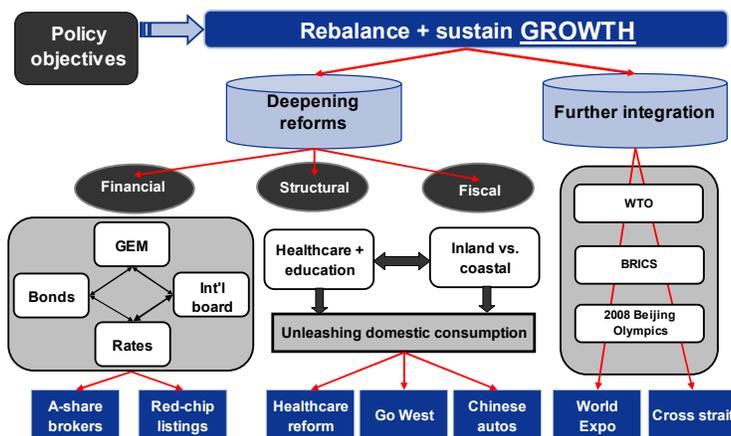
### Kenneth Kok, CFA

+852-2978-0960 | kenneth.kok@gs.com  
Goldman Sachs (Asia) L.L.C.

### Sunil Koul

(212) 934-6971 | sunil.koul@gs.com  
Goldman Sachs India SPL

## Our recommended themes for 2010



Source: GS Global ECS Research.

The Goldman Sachs Group, Inc. does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. For Reg AC certification, see the end of the text. Other important disclosures follow the Reg AC certification, or go to [www.gs.com/research/hedge.html](http://www.gs.com/research/hedge.html). Analysts employed by non-US affiliates are not registered/qualified as research analysts with FINRA in the U.S. This report is intended for distribution to GS institutional clients only.

# 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:

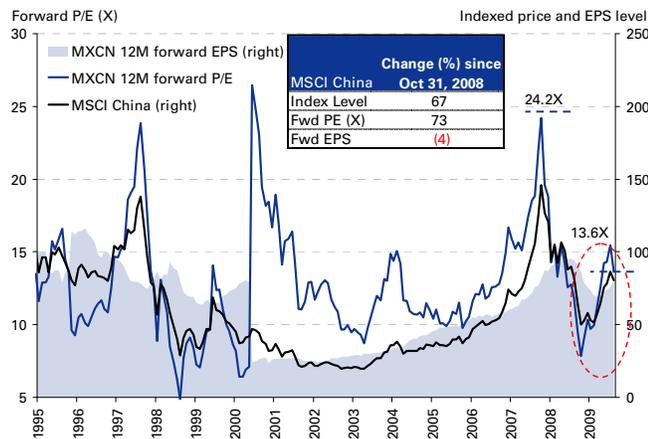
- China needs to boost domestic consumption to sustain growth, as the growth momentum from trade and investment is likely to moderate on an anemic G3 recovery and a high-base effect, respectively. We expect government policies to be increasingly skewed towards the promotion of domestic consumption and 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**

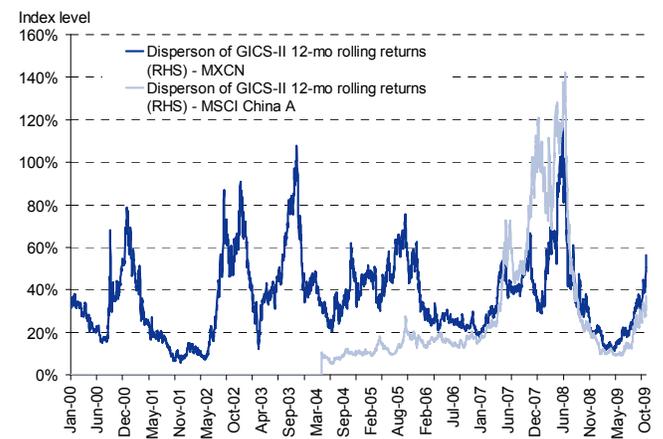
MSCI China forward P/E, EPS index, and price index



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

|                            | <b>Themes</b>                   | <b>Thematic appeal</b>  | <b>Stock/sector implications</b>                                       |
|----------------------------|---------------------------------|---|--|
| <b>Deepening reforms</b>   | <b>Healthcare reform</b>        | 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: <b>GSGHHEAL</b>                      |
|                            | <b>Inland vs. coastal</b>       | 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: <b>GSSZCNG2</b>                               |
|                            | <b>Chinese autos</b>            | 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: <b>GSSZCNAU</b>                           |
|                            | <b>A-share equity issuance</b>  | 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: <b>GSGHSECU</b>                         |
|                            | <b>A-share listing</b>          | 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: <b>GSSZCNAL</b>                         |
| <b>Further integration</b> | <b>Cross-strait development</b> | 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: <b>GSEHFUJI</b>           |
|                            | <b>Shanghai World Expo</b>      | 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: <b>GSSZCNWE</b> and <b>GSSZCWEA</b> |

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)      | <b>GSSZCNWEA</b>                                   |
| 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 Mingguang (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

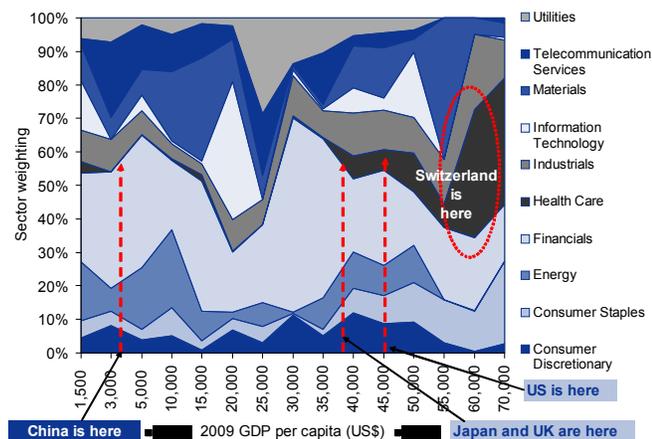
Summary table of healthcare reforms in China

**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

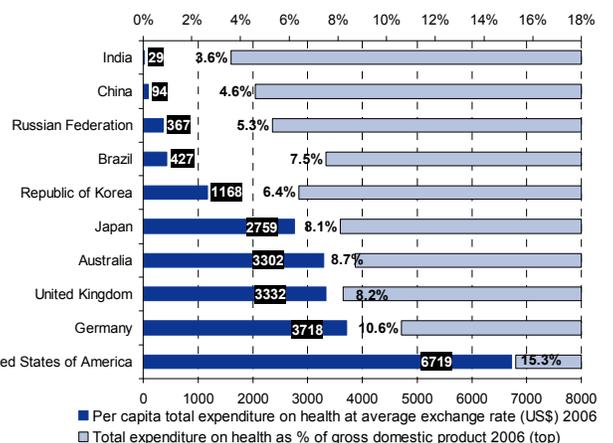
Sector weighting for MSCI market at different GDP/capita



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

## 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 EPS 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   | WuXiPharmaTech        | 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 | Sanjin 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>.

## (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.

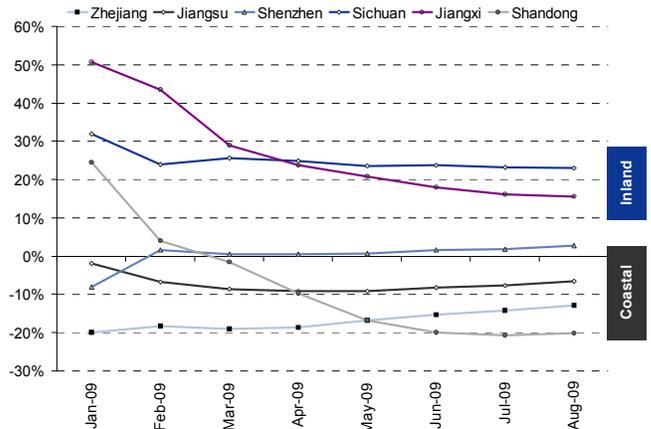
For investors who are interested in this top-down view, we have created a new "Go West" CAT (GSSZCNG2) (Exhibit 12) to replace the old CAT (GSSZNGW), which was created on September 12, 2005 (Exhibit 11).

**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%            |
| Shaanxi              | 18.9%        | 42.6% | 3.5%             | Hunan                | 19.0%        | 39.8% | 8.3%             | Fujian               | 15.3%        | 17.5% | 2.4%             |
| Gansu                | 18.5%        | 36.2% | -7.1%            |                      |              |       |                  | Shandong             | 18.1%        | 22.7% | -3.1%            |
| Qinghai              | 18.6%        | 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 10: Coastal vs. inland traffic divergence is visible**  
Traffic growth, ytd



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



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

| GSSZCNG2 Constituents |                           | CY10E      |                 |         |                |         |         |         |
|-----------------------|---------------------------|------------|-----------------|---------|----------------|---------|---------|---------|
| Ticker                | Stock name                | Weight (%) | 6M GSLE (US\$m) | 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 Intl               | 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    |

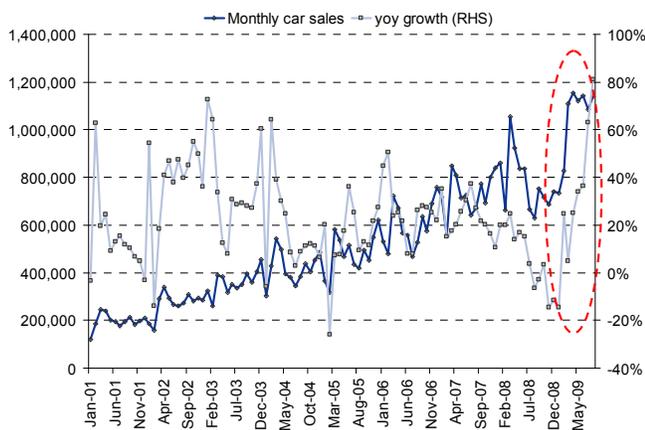
Source: Bloomberg, CEIC, Company data, Factset, I/B/E/S, GS Global ECS Research estimates.

### (3) Chinese autos: Shifting through the gears

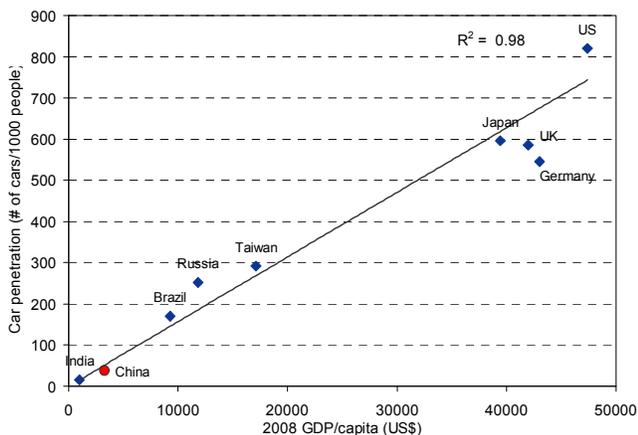
Auto sales have been burgeoning in China since the beginning of 2009, with monthly car sales topping 1.2mn in August, surpassing the US as the largest autos consumer in the world (Exhibit 13). The rapid growth, in our view, can be explained by two major factors – rising affordability and a low penetration 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.

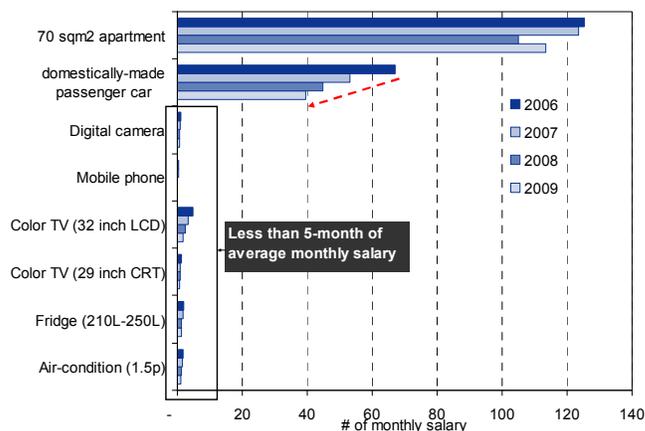
**Exhibit 13: Car sales have grown strongly**  
Monthly auto sales in China



**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.

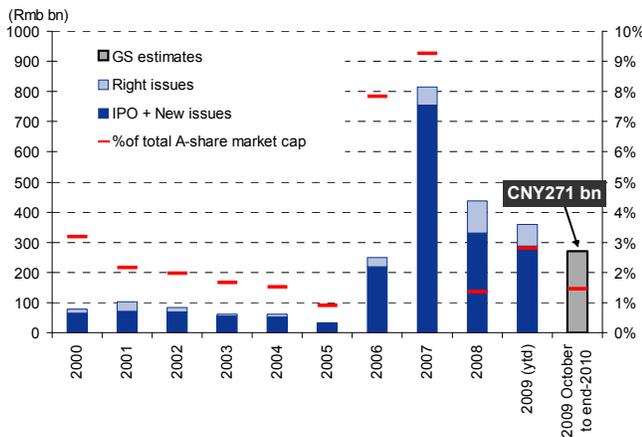
## (4) A-share equity issuance: Benefiting A-share brokers

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:

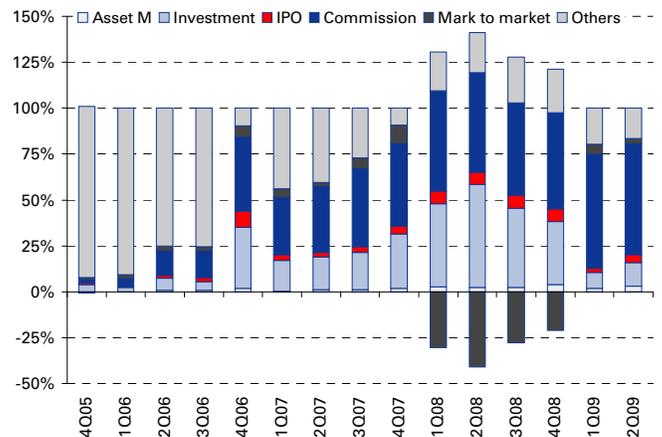
- The potential A-share listing of Red Chips and multinational firms, which could take place as early as in 1Q10, has the potential to further boost the issuance pipeline, in our view. The A-share brokers' revenue model is largely commission-based and potential growth contribution from increases in listing 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).

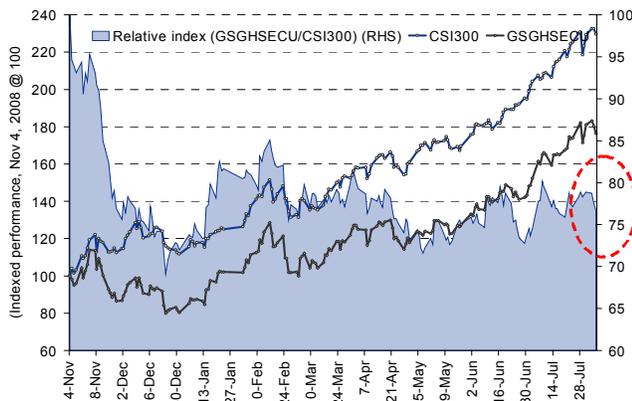
**Exhibit 17: Equity issuance could remain hectic in 2010**  
Equity raised as a % of total market cap



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



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



**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.

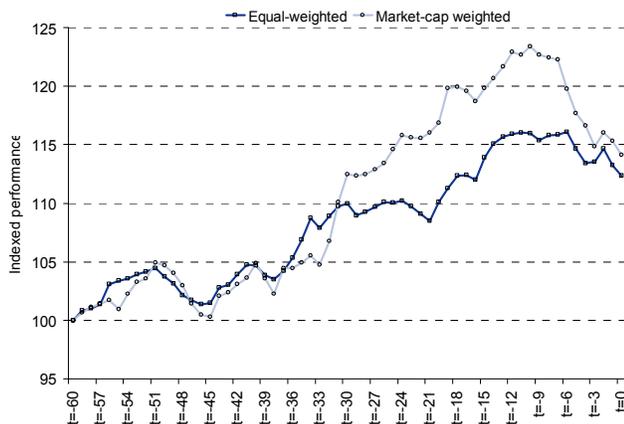
## (5) A-share listing: Back to plan "A"

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).

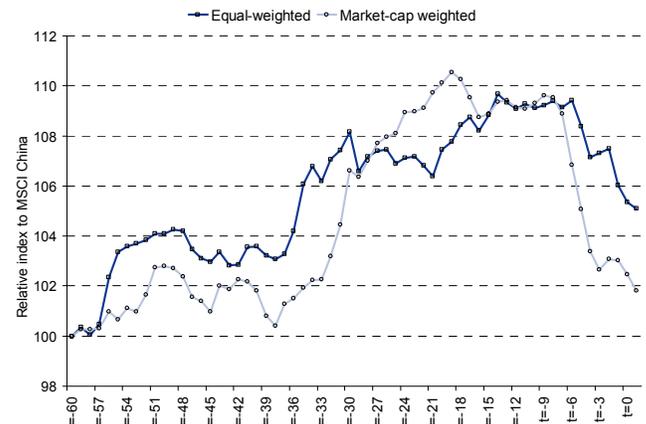
We believe investors could encounter such opportunities more frequently entering 2010 as the regulatory framework for Red Chip listings could materialize as early as 4Q09, with actual listings taking place in 1Q10, at the earliest, based on our discussions with various regulatory bodies and market participants.

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).

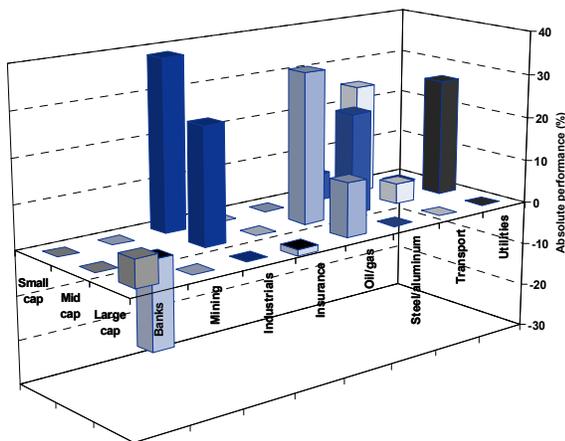
**Exhibit 21: H shares tend to generate meaningful absolute price returns prior to their A-share listing date**  
H-share performance 60 days before A-share listing date



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

| GSSZCNAL Constituents |                           | Weight (%) | 6M    |         | CY10E          |         |         |         |
|-----------------------|---------------------------|------------|-------|---------|----------------|---------|---------|---------|
| Ticker                | Stock name                |            | US\$m | P/E (X) | 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

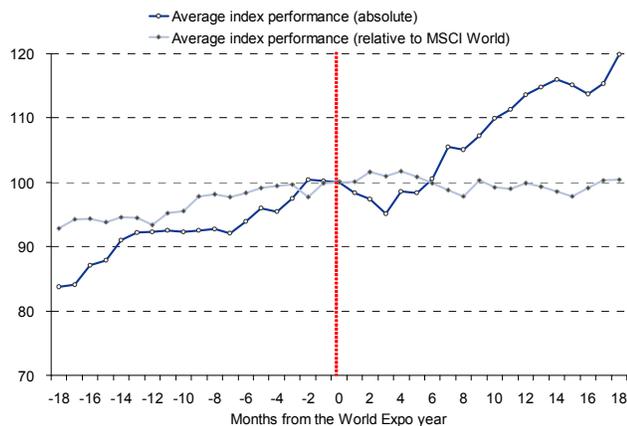
The government estimates that the 2010 World Expo, which will be held in Shanghai between May and October, could attract up to 70mn visitors to the city. While many Shanghai-based companies believe the event will have little incremental impact on their business, a favorable ripple effect to the equity 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.

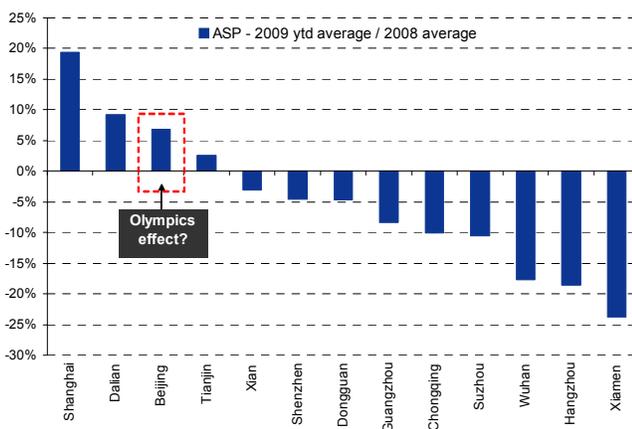
To trade this theme, we think selecting a portfolio of companies with a high concentration of land bank in Shanghai would be a sensible choice (Exhibit 28).

**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 billion 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 Zhongjiang 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 Jingqiao 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

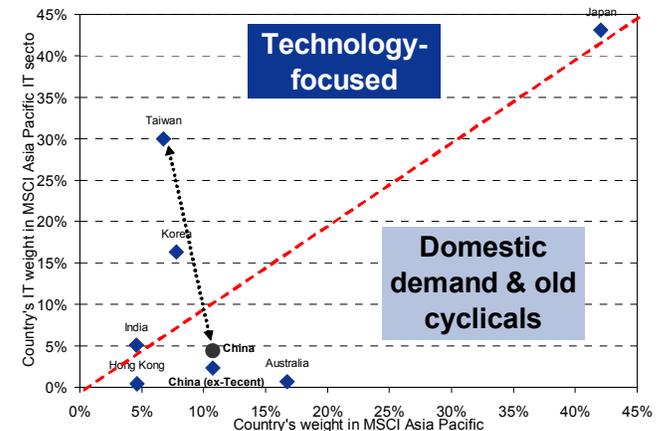
The Straits Exchange Foundation (SEF) of Taiwan and the Association for Relations Across the Taiwan Straits of China (ARATS) have hosted the official meetings since June 2008 and have reached agreement on several issues relating to enhancing communication (flight, sea transportation, and tourism) and 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.<br>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 (ODI)   | FSC provided application guidelines for mainland ODI 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      |

| 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 Faratron       | 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      |

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

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

## MSCI disclosure

---

All MSCI data used in this report is the exclusive property of MSCI, Inc. (MSCI). Without prior written permission of MSCI, this information and any other MSCI intellectual property may not be reproduced or re-disseminated in any form and may not be used to create any financial instruments or products or any indices. This information is provided on an "as is" basis, and the user of this information assumes the entire risk of any use made of this information. Neither MSCI, any of its affiliates nor any third party involved in, or related to, computing or compiling the data makes any express or implied warranties or representations with respect to this information (or the results to be obtained by the use thereof), and MSCI, its affiliates and any such third party hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of this information. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in, or related to, computing or compiling the data have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages. MSCI and the MSCI indexes are service marks of MSCI and its affiliates. The Global Industry Classification Standard (GICS) were developed by and is the exclusive property of MSCI and Standard & Poor's. GICS is a service mark of MSCI and S&P and has been licensed for use by The Goldman Sachs Group, Inc.

## Equity Basket disclosures

---

The Equities Division of the firm has previously introduced the basket of securities discussed in this report. The Equity Analyst may have been consulted as to the composition of the basket prior to its launch. However, the views expressed in this research and its timing were not shared with the Equities Division.

## RegAC

---

We, Thomas Deng, CFA, Kinger Lau, CFA, Kenneth Kok, CFA and Sunil Koul, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

## Investment Profile

---

The Goldman Sachs Investment Profile provides investment context for a security by comparing key attributes of that security to its peer group and market. The four key attributes depicted are: growth, returns, multiple and volatility. Growth, returns and multiple are indexed based on composites of several methodologies to determine the stocks percentile ranking within the region's coverage universe.

The precise calculation of each metric may vary depending on the fiscal year, industry and region but the standard approach is as follows:

**Growth** is a composite of next year's estimate over current year's estimate, e.g. EPS, EBITDA, Revenue. **Return** is a year one prospective aggregate of various return on capital measures, e.g. CROCI, ROACE, and ROE. **Multiple** is a composite of one-year forward valuation ratios, e.g. P/E, dividend yield, EV/FCF, EV/EBITDA, EV/DACF, Price/Book. **Volatility** is measured as trailing twelve-month volatility adjusted for dividends.

## Quantum

---

Quantum is Goldman Sachs' proprietary database providing access to detailed financial statement histories, forecasts and ratios. It can be used for in-depth analysis of a single company, or to make comparisons between companies in different sectors and markets.

## Disclosures

---

### Coverage group(s) of stocks by primary analyst(s)

Compendium report: please see disclosures at <http://www.gs.com/research/hedge.html>. Disclosures applicable to the companies included in this compendium can be found in the latest relevant published research.

### Option Specific Disclosures

**Price target methodology:** Please refer to the analyst's previously published research for methodology and risks associated with equity price targets.

**Pricing Disclosure:** Option prices and volatility levels in this note are indicative only, and are based on our estimates of recent mid-market levels. All prices and levels exclude transaction costs unless otherwise stated.

**Buying Options** - Investors who buy call (put) options risk loss of the entire premium paid if the underlying security finishes below (above) the strike price at expiration. Investors who buy call or put spreads also risk a maximum loss of the premium paid. The maximum gain on a long call or put spread is the difference between the strike prices, less the premium paid.

**Selling Options** - Investors who sell calls on securities they do not own risk unlimited loss of the security price less the strike price. Investors who sell covered calls (sell calls while owning the underlying security) risk having to deliver the underlying security or pay the difference between the security price and the strike price, depending on whether the option is settled by physical delivery or cash-settled. Investors who sell puts risk loss of the strike price less the premium received for selling the put. Investors who sell put or call spreads risk a maximum loss of the difference between the strikes less the premium received, while their maximum gain is the premium received.

**For options settled by physical delivery**, the above risks assume the options buyer or seller, buys or sells the resulting securities at the settlement price on expiry.

### Company-specific regulatory disclosures

Compendium report: please see disclosures at <http://www.gs.com/research/hedge.html>. Disclosures applicable to the companies included in this compendium can be found in the latest relevant published research.

### Distribution of ratings/investment banking relationships

Goldman Sachs Investment Research global coverage universe

|        | Rating Distribution |      |      | Investment Banking Relationships |      |      |
|--------|---------------------|------|------|----------------------------------|------|------|
|        | Buy                 | Hold | Sell | Buy                              | Hold | Sell |
| Global | 30%                 | 53%  | 17%  | 51%                              | 52%  | 43%  |

As of October 1, 2009, Goldman Sachs Global Investment Research had investment ratings on 2,674 equity securities. Goldman Sachs assigns stocks as Buys and Sells on various regional Investment Lists; stocks not so assigned are deemed Neutral. Such assignments equate to Buy, Hold and Sell for the purposes of the above disclosure required by NASD/NYSE rules. See 'Ratings, Coverage groups and views and related definitions' below.

## Price target and rating history chart(s)

Compendium report: please see disclosures at <http://www.gs.com/research/hedge.html>. Disclosures applicable to the companies included in this compendium can be found in the latest relevant published research.

## Regulatory disclosures

### Disclosures required by United States laws and regulations

See company-specific regulatory disclosures above for any of the following disclosures required as to companies referred to in this report: manager or co-manager in a pending transaction; 1% or other ownership; compensation for certain services; types of client relationships; managed/co-managed public offerings in prior periods; directorships; for equity securities, market making and/or specialist role. Goldman Sachs usually makes a market in fixed income securities of issuers discussed in this report and usually deals as a principal in these securities.

The following are additional required disclosures: **Ownership and material conflicts of interest:** Goldman Sachs policy prohibits its analysts, professionals reporting to analysts and members of their households from owning securities of any company in the analyst's area of coverage.

**Analyst compensation:** Analysts are paid in part based on the profitability of Goldman Sachs, which includes investment banking revenues. **Analyst as officer or director:** Goldman Sachs policy prohibits its analysts, persons reporting to analysts or members of their households from serving as an officer, director, advisory board member or employee of any company in the analyst's area of coverage. **Non-U.S. Analysts:** Non-U.S. analysts may not be associated persons of Goldman, Sachs & Co. and therefore may not be subject to NASD Rule 2711/NYSE Rules 472 restrictions on communications with subject company, public appearances and trading securities held by the analysts.

**Distribution of ratings:** See the distribution of ratings disclosure above. **Price chart:** See the price chart, with changes of ratings and price targets in prior periods, above, or, if electronic format or if with respect to multiple companies which are the subject of this report, on the Goldman Sachs website at <http://www.gs.com/research/hedge.html>.

### Additional disclosures required under the laws and regulations of jurisdictions other than the United States

The following disclosures are those required by the jurisdiction indicated, except to the extent already made above pursuant to United States laws and regulations. **Australia:** This research, and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act. **Canada:** Goldman Sachs Canada Inc. has approved of, and agreed to take responsibility for, this research in Canada if and to the extent it relates to equity securities of Canadian issuers. Analysts may conduct site visits but are prohibited from accepting payment or reimbursement by the company of travel expenses for such visits. **Hong Kong:** Further information on the securities of covered companies referred to in this research may be obtained on request from Goldman Sachs (Asia) L.L.C. **India:** Further information on the subject company or companies referred to in this research may be obtained from Goldman Sachs (India) Securities Private Limited; **Japan:** See below. **Korea:** Further information on the subject company or companies referred to in this research may be obtained from Goldman Sachs (Asia) L.L.C., Seoul Branch. **Russia:** Research reports distributed in the Russian Federation are not advertising as defined in the Russian legislation, but are information and analysis not having product promotion as their main purpose and do not provide appraisal within the meaning of the Russian legislation on appraisal activity. **Singapore:** Further information on the covered companies referred to in this research may be obtained from Goldman Sachs (Singapore) Pte. (Company Number: 198602165W). **Taiwan:** This material is for reference only and must not be reprinted without permission. Investors should carefully consider their own investment risk. Investment results are the responsibility of the individual investor. **United Kingdom:** Persons who would be categorized as retail clients in the United Kingdom, as such term is defined in the rules of the Financial Services Authority, should read this research in conjunction with prior Goldman Sachs research on the covered companies referred to herein and should refer to the risk warnings that have been sent to them by Goldman Sachs International. A copy of these risks warnings, and a glossary of certain financial terms used in this report, are available from Goldman Sachs International on request.

**European Union:** Disclosure information in relation to Article 4 (1) (d) and Article 6 (2) of the European Commission Directive 2003/126/EC is available at [http://www.gs.com/client\\_services/global\\_investment\\_research/europeanpolicy.html](http://www.gs.com/client_services/global_investment_research/europeanpolicy.html) which states the European Policy for Managing Conflicts of Interest in Connection with Investment Research.

**Japan: Goldman Sachs Japan Co., Ltd. is a Financial Instrument Dealer under the Financial Instrument and Exchange Law, registered with the Kanto Financial Bureau (Registration No. 69), and is a member of Japan Securities Dealers Association (JSDA) and Financial Futures Association of Japan (FFAJ). Sales and purchase of equities are subject to commission pre-determined with clients plus consumption tax.** See company-specific disclosures as to any applicable disclosures required by Japanese stock exchanges, the Japanese Securities Dealers Association or the Japanese Securities Finance Company.

## Ratings, coverage groups and views and related definitions

**Buy (B), Neutral (N), Sell (S)** -Analysts recommend stocks as Buys or Sells for inclusion on various regional Investment Lists. Being assigned a Buy or Sell on an Investment List is determined by a stock's return potential relative to its coverage group as described below. Any stock not assigned as a Buy or a Sell on an Investment List is deemed Neutral. Each regional Investment Review Committee manages various regional Investment Lists to a global guideline of 25%-35% of stocks as Buy and 10%-15% of stocks as Sell; however, the distribution of Buys and Sells in any particular coverage group may vary as determined by the regional Investment Review Committee. Regional Conviction Buy and Sell lists represent investment recommendations focused on either the size of the potential return or the likelihood of the realization of the return.

**Return potential** represents the price differential between the current share price and the price target expected during the time horizon associated with the price target. Price targets are required for all covered stocks. The return potential, price target and associated time horizon are stated in each report adding or reiterating an Investment List membership.

**Coverage groups and views:** A list of all stocks in each coverage group is available by primary analyst, stock and coverage group at <http://www.gs.com/research/hedge.html>. The analyst assigns one of the following coverage views which represents the analyst's investment outlook

on the coverage group relative to the group's historical fundamentals and/or valuation. **Attractive (A)**. The investment outlook over the following 12 months is favorable relative to the coverage group's historical fundamentals and/or valuation. **Neutral (N)**. The investment outlook over the following 12 months is neutral relative to the coverage group's historical fundamentals and/or valuation. **Cautious (C)**. The investment outlook over the following 12 months is unfavorable relative to the coverage group's historical fundamentals and/or valuation.

**Not Rated (NR)**. The investment rating and target price have been removed pursuant to Goldman Sachs policy when Goldman Sachs is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances. **Rating Suspended (RS)**. Goldman Sachs Research has suspended the investment rating and price target for this stock, because there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon. **Coverage Suspended (CS)**. Goldman Sachs has suspended coverage of this company. **Not Covered (NC)**. Goldman Sachs does not cover this company. **Not Available or Not Applicable (NA)**. The information is not available for display or is not applicable. **Not Meaningful (NM)**. The information is not meaningful and is therefore excluded.

## Global product; distributing entities

The Global Investment Research Division of Goldman Sachs produces and distributes research products for clients of Goldman Sachs, and pursuant to certain contractual arrangements, on a global basis. Analysts based in Goldman Sachs offices around the world produce equity research on industries and companies, and research on macroeconomics, currencies, commodities and portfolio strategy. This research is disseminated in Australia by Goldman Sachs JBWere Pty Ltd (ABN 21 006 797 897) on behalf of Goldman Sachs; in Canada by Goldman Sachs Canada Inc. regarding Canadian equities and by Goldman Sachs & Co. (all other research); in Hong Kong by Goldman Sachs (Asia) L.L.C.; in India by Goldman Sachs (India) Securities Private Ltd.; in Japan by Goldman Sachs Japan Co., Ltd.; in the Republic of Korea by Goldman Sachs (Asia) L.L.C., Seoul Branch; in New Zealand by Goldman Sachs JBWere (NZ) Limited on behalf of Goldman Sachs; in Russia by OOO Goldman Sachs; in Singapore by Goldman Sachs (Singapore) Pte. (Company Number: 198602165W); and in the United States of America by Goldman, Sachs & Co. Goldman Sachs International has approved this research in connection with its distribution in the United Kingdom and European Union.

**European Union:** Goldman Sachs International, authorized and regulated by the Financial Services Authority, has approved this research in connection with its distribution in the European Union and United Kingdom; Goldman, Sachs & Co. oHG, regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht, may also distribute research in Germany.

## General disclosures

This research is for our clients only. Other than disclosures relating to Goldman Sachs, this research is based on current public information that we consider reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. We seek to update our research as appropriate, but various regulations may prevent us from doing so. Other than certain industry reports published on a periodic basis, the large majority of reports are published at irregular intervals as appropriate in the analyst's judgment.

Goldman Sachs conducts a global full-service, integrated investment banking, investment management, and brokerage business. We have investment banking and other business relationships with a substantial percentage of the companies covered by our Global Investment Research Division. **SIPC:** Goldman, Sachs & Co., the United States broker dealer, is a member of SIPC (<http://www.sipc.org>).

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desks that reflect opinions that are contrary to the opinions expressed in this research. Our asset management area, our proprietary trading desks and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this research.

We and our affiliates, officers, directors, and employees, excluding equity and credit analysts, will from time to time have long or short positions in, act as principal in, and buy or sell, the securities or derivatives, if any, referred to in this research.

This research is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Clients should consider whether any advice or recommendation in this research is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice. The price and value of investments referred to in this research and the income from them may fluctuate. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Fluctuations in exchange rates could have adverse effects on the value or price of, or income derived from, certain investments.

Certain transactions, including those involving futures, options, and other derivatives, give rise to substantial risk and are not suitable for all investors. Investors should review current options disclosure documents which are available from Goldman Sachs sales representatives or at <http://www.theocc.com/publications/risks/riskchap1.jsp>. Transactions cost may be significant in option strategies calling for multiple purchase and sales of options such as spreads. Supporting documentation will be supplied upon request.

Our research is disseminated primarily electronically, and, in some cases, in printed form. Electronic research is simultaneously available to all clients.

Disclosure information is also available at <http://www.gs.com/research/hedge.html> or from Research Compliance, One New York Plaza, New York, NY 10004.

**Copyright 2009 The Goldman Sachs Group, Inc.**

**No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of The Goldman Sachs Group, Inc.**