2011 outlook: A bastion of growth

Firmly on track, fundamental earnings are solid

We target 16,500 and 4,300 for the HSCEI and CSI300 by end-2011E, representing 21% and 24% upside potential from current levels. We forecast 17% and 19% offshore/onshore 2011E earnings growth, and see earnings growth as the key contributor to returns. The domestic macro environment is robust – fiscal policies are supportive and monetary policies are more selective but still fairly accommodative. Despite likely weak external demand, we believe China will gradually decouple by stimulating domestic growth – both in consumption and investment.

Multiples – expect more reversal of 1H10 moves

We believe a mild further multiple expansion for MSCI China (current 13X to 14X 1-yr fwd) and CSI300 (current 16X to18X 1-yr fwd) are easily achievable. We see the most room for multiple recovery for sectors with most contraction in 1H10 – cyclicals (to mid-cycle or above) and banks (normalize from trough as overhangs are removed), outweighing potential contraction from some defensives. Liquidity outlook is strong (esp. DM-to-EM rotation for offshore as China growth outshines DM and likely inflows onshore) and could even drive a multiple overshoot.

Raising beta in our sectoral positioning

We prefer reasonably priced cyclical sectors (with more domestic reliance), retail and banks in 2011E. Key themes are infrastructure / social housing, consumption / wage increases and R&D / resource savings, as well as macro policy normalization.

GS 2011E index targets, sector preferences and top picks

	EPS growth					Implied valuations	
	2010E	2011E	09E-11E CAGR	2011 target	Implied +/- (%)	P/E (X)	P/B (X)
MSCI China	26%	17%	22%	85.0	21%	14.0	2.3
HSCEI	30%	18%	23%	16,500	21%	13.1	2.2
CSI300	29%	19%	24%	4,300	24%	18.0	3.0

GS Sector	Sector view HK	Sector view A	Top pics	
Banks	OW	OW	Offshore	Onshore
Building materials	OW	OW	Peak Sports (1968.HK)	Guangzhou Friendship (000987.SZ)
Industrials, conglomerates	OW	OW	Anhui Conch (0941.HK)	Guangxi Liugong (000528.SZ)
Retail, hotels, consumer durables	OW	OW	China Citic Bank (0998.HK)	CMB (600036.SS)
Transportation	OW	OW	CEA (0670.HK)	Industrial Bank (601166.SS)
Autos and components	Neutral	Neutral	China Cosco (1919.HK)	China Cosco (601919.SS)
Chemicals	Neutral	Neutral	Ping An (2318.HK)	Ping An (601318.HK)
Computer hardware/assemblers	Neutral	Neutral	China Yurun (1068.HK)	SAIC Motor (600104.SS)
Consumer staples and health care	Neutral	Neutral	Evergrande (3333.HK)	Yihua Chemical (000422.SZ)
Diversified mining, precious metals	Neutral	Neutral	AsiaInfo-Linkage (ASIA US)	China Vanke (000002.SZ)
Insurance and other financials	Neutral	Neutral	Angang (0347.HK)	Baoshan Iron & Steel (600019.SS)
Property	Neutral	Neutral		
Software and services	Neutral	Neutral		
Steel, aluminium	Neutral	Neutral		
Oil and gas	Neutral	UW		
Telecommunication services	UW	Neutral		
Utilities	UW	UW		

Source: MSCI, CSI, I/B/E/S, FactSet, GS Research Estimates, Gao Hua Securities Research, GS Global ECS Research

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The prices in the body of this report are based on the market close of October 25, 2010.

2011 outlook: A bastion of growth

We are positive on China equities in 2011 and forecast HSCEI and CSI300 to reach 16,500 and 4,300 respectively by end-2011 (21% and 24% potential upside). We make the following key points in this report:

1. **Macro – from 'double dip' concerns to 'overheating'**: Concerns over a macro hard landing or overly aggressive policy tightening are subsiding. We think policymakers' main concerns are shifting to pre-empting any potential inflationary pressures resulting from rising input prices and excess liquidity (particularly given very loose monetary policies in the major global economies). Domestic monetary policies may show a slightly tightening bias, but fiscal policies are very supportive and we foresee more moves to facilitate domestic growth (consumption and investment, rather than consumption instead of investment).
2. **Earnings – stable with mild upside risks**: Earnings growth and accrual will be the major contributor to equity returns in 2011E. We forecast 17% and 19% earnings growth for MSCI China and CSI300 in 2011E. Consensus earnings have started to show very mild upticks but have more room to go, based on our cross-check of bottom-up sectoral views from our China research team.
3. **Valuations – reasonable, expecting reversal of 1H10 trends**: Valuation is at around historical average levels for offshore and slightly below for onshore. We forecast slight multiple expansion – mostly from cyclicals (due to more stable growth outlook vs. consensus concerns over a rapid slowdown) and banks (due to normalization of valuation post regulatory overhang removal). This is a reversal of 1H10 trends. In that regard, we could also see some slight multiple contraction on (mostly smaller cap) sectors like consumer staples and healthcare, which may be nearing historical peak valuations.
4. **Liquidity – robust outlook could drive multiple overshoot**: For offshore, developed markets to emerging markets (DM-to-EM) liquidity started flooding Asian markets in 3Q10, starting with south-east Asia and India, then gradually moving to cheaper northern Asian markets like HK/China. Given China's prominence in the EM space and widening growth gaps against DM, we expect the trend (and fixed income to equities fund flow) to continue. For onshore, fund positions are already high, but we think there is plenty of cash that may shift into equities from the sidelines (or other asset classes) – the domestic market tends to be self-feeding in that market performance very quickly drives retail inflows, which in turn drives a further rally in equities. Our IPO and fundraising analysis shows that YTD fundraisings have performed stably/strongly. Although the pipeline is getting bigger, it is not yet stretched as a percentage of market cap.
5. **Currency – 6% revaluation expected**: Our economists forecast 6% Rmb appreciation over the next 12 months, adding to the total return of offshore equities.
6. **Sector strategy – turning more aggressive**: We upgrade banks to OW (from Neutral) as we think overhangs will likely be lifted soon, and take profit on insurance/brokers (OW to Neutral) – we still hold a sanguine fundamental view, but insurance is a more consensus bullish sector already and brokers may see better entry points. We retain our preference for industrials and building materials within cyclicals (more domestic investment-driven) and add transportation given its laggard status. We take profits on consumers staples (OW to Neutral) and move Utilities from Neutral to UW.
7. **Stock implementation – basket and top picks**: We have refreshed our onshore/offshore preferred stock lists, and also reiterate our China Policy Momentum stock basket.

Macro outlook: Above-consensus growth in 2011E

We hold a constructive view towards China's macro outlook in 2011E, forecasting above-consensus GDP of 10.0% (vs. consensus 9.0%). The growth trough should be behind us, and we expect to see a focused growth approach **including dovish fiscal and investment policies** (particularly towards Western areas, social housing, infrastructure) but with a **tightening bias towards selective areas** like commodity property, energy-intensive industries, and credit.

The market may be overly concerned with a sharp drop in investment in 2011E and onward, in our view. We feel policy-makers recognize the need to focus on both consumption and investment as components of domestic demand, in the face of the growing likelihood of sustained weak external demand.

Five areas to watch in 2011E

We summarize the views of China economists on key macro topics as below. For more details, please see their recent publications.

Fiscal/investment outlook generally supportive: We have observed, since mid-2010, a 'stealth loosening' on approval and construction of investment projects. Government expenditures, particularly in transportation and utilities, appear to have picked up. The latest September growth and expenditure data corroborates this view. We expect the relatively loose fiscal policies to extend into 2011E, with a focus on areas like Western provinces development, infrastructure and social housing. Activity data in September did not show as much slowdown from energy-conservation efforts as we had feared. We anticipate some production suspension to extend to year-end but most of the restrictions to be lifted starting 1Q11E.

Monetary policies more selective but still accommodative: Monetary policies have shown a stabilization in M2 and credit growth in 3Q10, ending several quarters of rapid deceleration on the back of stimulus phase-out. The lending pace has run noticeably ahead of the usual 3:3:2:2 quarterly allocation vs. the 2010E loan quota of Rmb7.5tn – perhaps one trigger for the recent PBOC RRR hike against six selective banks. PBOC liquidity absorption has remained slow. RRR and the unexpected rate hike on October 19th do signal a slightly tighter monetary policy bias than before, but we have not seen any clear evidence of severe commercial bank lending restrictions thus far. We forecast a roughly stable loan quota for 2011E of Rmb7.5tn, which implies a slight slowdown to 16% yoy growth (vs. 19%-20% in 2010E) due to a larger base.

Inflation pressures likely to fade out soon: Inflation has been stickier than we had expected in 2H10E so far, but we retain our view that CPI growth should peak out in October. The latest monthly data shows that non-food CPI continued to soften, and we believe food CPI was mainly driven by weather-related temporary factors. Towards year-end we expect CPI to decelerate noticeably as food CPI eases, and as the time-lag effects of slower growth in 2Q10 work their way into less CPI pressure. As highlighted in our August 5, 2010 report titled 'Higher wages have not led to higher inflation and, so far, have not impaired China's international competitiveness,' we demonstrated that the pace of productivity improvement has been fast enough to offset wage increases so there has been no clear evidence of causal effect between wage growth and inflation problems. In addition, recent monthly data has not shown any new evidence of labor costs outpacing output growth.

Rate hike may not signal the start of another tightening cycle: We do not believe the rate hike on October 19, 2010, is likely to signal the start of another tightening cycle, even if policymakers have adopted the less expected adjustment tool this time. We do not forecast a tight series of hikes, unless CPI comes in significantly above expectations towards year-end. We feel that the rate hike reflected greater confidence in the domestic and global economy, and a desire to pre-emptively address inflationary pressures, particularly ahead of potential utility price (electricity, water, etc) reform going forward. We feel the rate hike is not likely to be the most effective, nor the most direct, way to ease food CPI pressure or property price increases. Moreover, some policymakers may still worry about foreign capital flows into China during this period of currency appreciation. Thus, we think this may not necessarily be the beginning of a tightly successive rate hike cycle.

Currency will see a gradual appreciation: We forecast 6% currency appreciation in 12 months, with a slightly bigger move in the next three months due to some politics-related events such as the US mid-term elections and the G20 summit. We do not expect much impact from the US currency bill as it may face challenges in passage (particularly post mid-term elections when Republicans are expected to gain control of the Senate).

Risks to growth in 2011E include inflation and external demand

Downside risks to China's growth in 2011E, in our view, include:

Stickier-than-expected CPI resulting in more rapid tightening: We expect yoy inflation to decelerate in November (partly due to base effect) and thereafter, primarily from food CPI. The risk to our view would be eventual pass-through of rising wage costs into CPI constituent items (if productivity improvements slow meaningfully) or more trade-related issues driving up certain raw material prices.

Continuously weaker external demand, particularly from the US: Despite anticipation of the announcement by the FOMC of round two of quantitative easing (QE2) in early November 2010 (we forecast US$500bn of QE upfront and a total of US$1tn of QE), our US economics team remains skeptical of meaningful improvement to key indicators such as unemployment or CPI. In fact, although sequential GDP is forecast to recover gradually quarter by quarter in 2011, we still forecast noticeably below-consensus trends. US fiscal policy is another risk, with tax rebates galore up for renewal post mid-term elections. Nonetheless, we highlight that we hold more bullish than consensus views on other economies (such as the EU) and China's reliance on the US has been lessening (exports to emerging markets have been the major contributor to its export growth recovery).

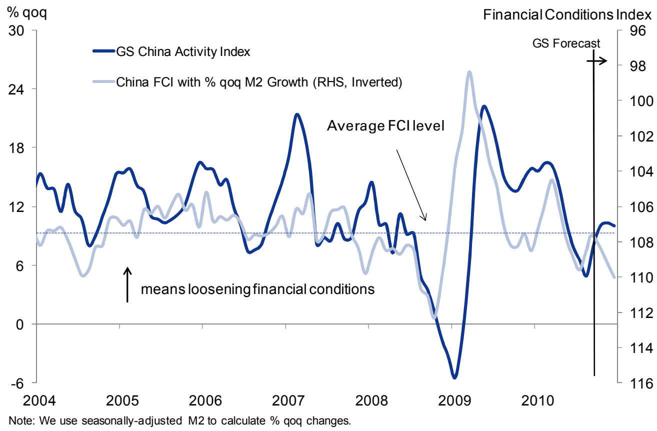
A more proactive move towards quicker rebalancing: Skeptics suggest that with the handover in 2012E to the next generation of top leadership, the new generation could use 2011E as an 'adjustment' year to step on the brakes on growth and change direction, before stepping on the accelerator again post the handover. We feel, however, that there tends to be a smooth continuation of policies during pre-handover years; we believe the Hu-Wen consensus-building style should continue to dominate into 2011E.

Exhibit 1: GDP growth estimates and breakdown, 2007-2011E

	2007	2008	2009	2010F	2011F
GDP	14.2	9.6	9.1	**10.1**	**10.0**
Domestic demand	12.6	9.7	14.8	**10.4**	**9.9**
Private consumption	10.7	8.3	11.0	**9.5**	**9.5**
Government consumption	11.8	8.9	7.3	**9.0**	**9.0**
Fixed investment	13.4	9.7	24.4	**12.0**	**10.5**
Net exports (percentage point contribution)	2.6	0.9	(4.3)	**0.2**	**0.5**
Exports (G&S)	19.5	7.6	(17.1)	**25.0**	**13.0**
Imports (G&S)	18.2	7.4	(13.5)	**26.5**	**13.1**

Source: CEIC, GS Global ECS Research estimates.

Exhibit 2: China FCI has stabilized but remains below long-term trend level

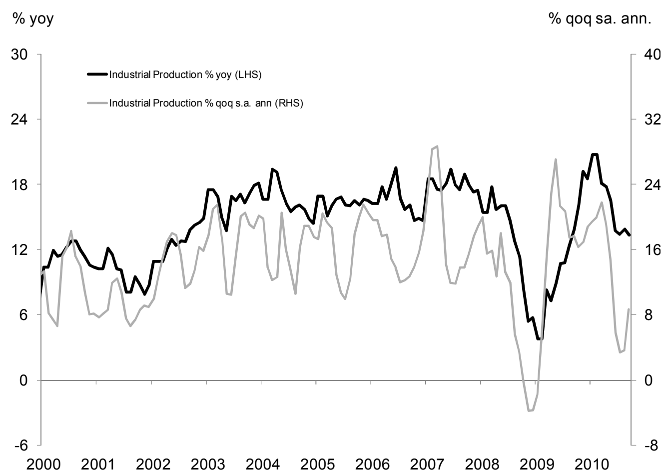


Source: CEIC, GS Global ECS Research estimates.

Exhibit 3: GDP growth should remain double-digit in 2011E

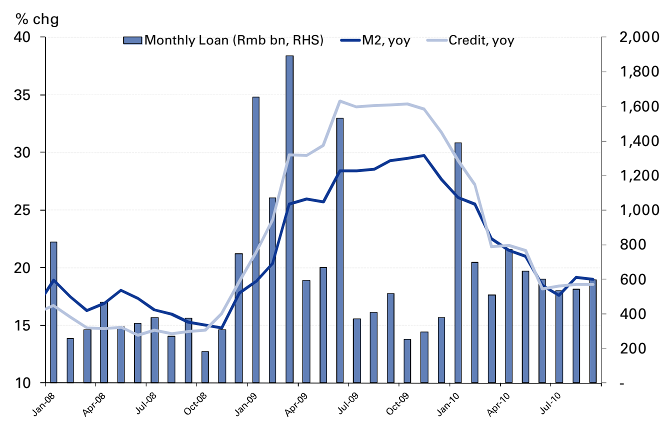
Source: CEIC, GS Global ECS Research estimates.

Exhibit 4: Activity (industry production) growth is strong, low impact from resource conservation so far



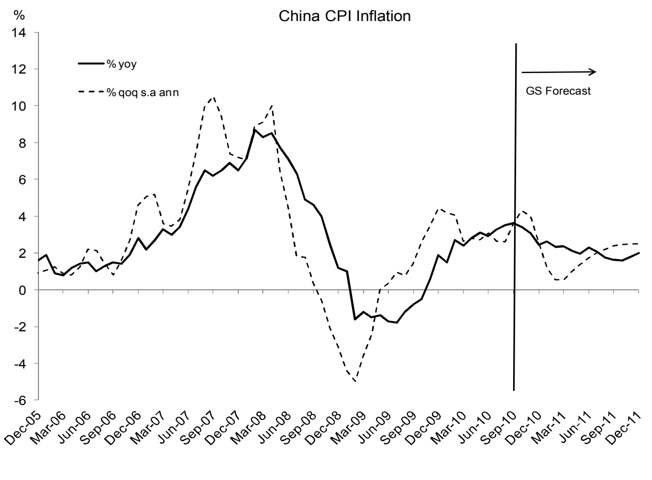
Source: CEIC, GS Global ECS Research.

Exhibit 5: M2 and loan growth has stabilized



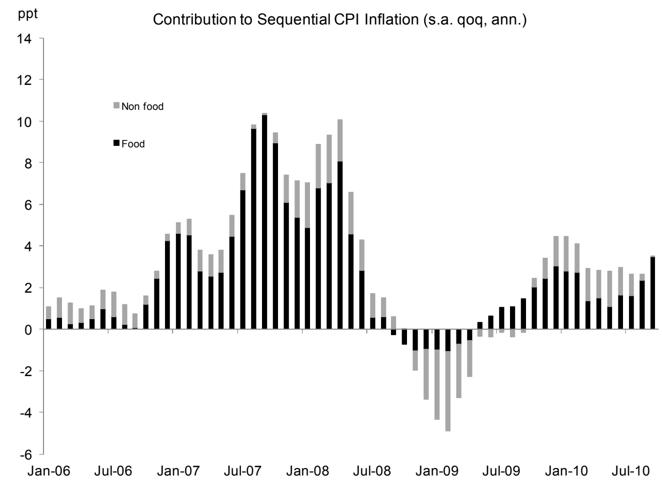
Source: CEIC, GS Global ECS Research.

Exhibit 6: China CPI has been affected by food CPI; total CPI should peak in October 2010E



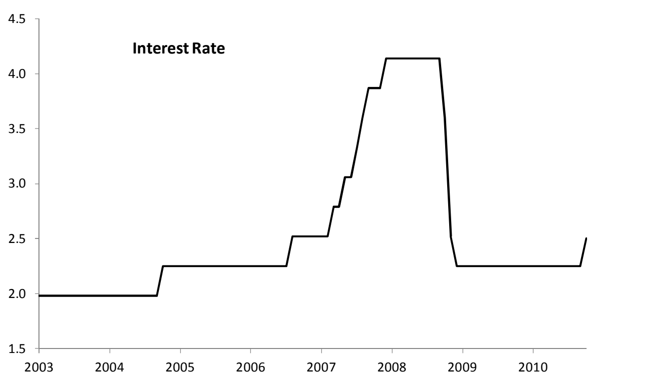
Source: CEIC, GS Global ECS Research estimates.

Exhibit 7: Food prices are a key driver of China CPI increase as food CPI has stabilized in recent months



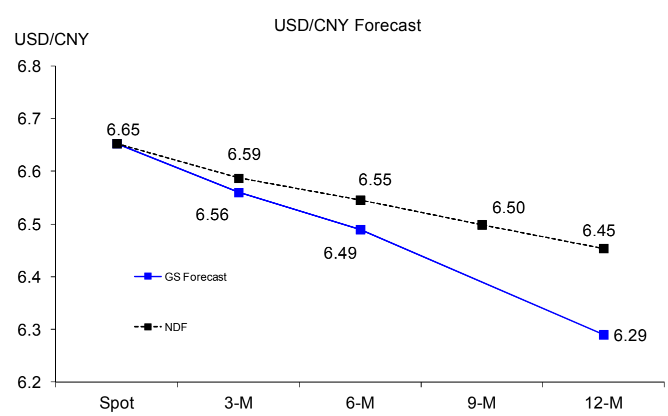
Source: CEIC, GS Global ECS Research.

Exhibit 8: October 19 saw the first rate hike since end-2007, but others may not follow imminently



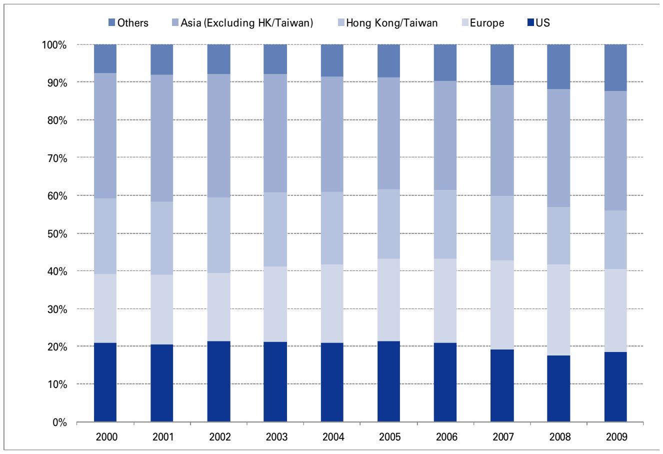
Source: CEIC, PBOC, GS Global ECS Research.

Exhibit 9: We forecast 6% Rmb appreciation in 12 months



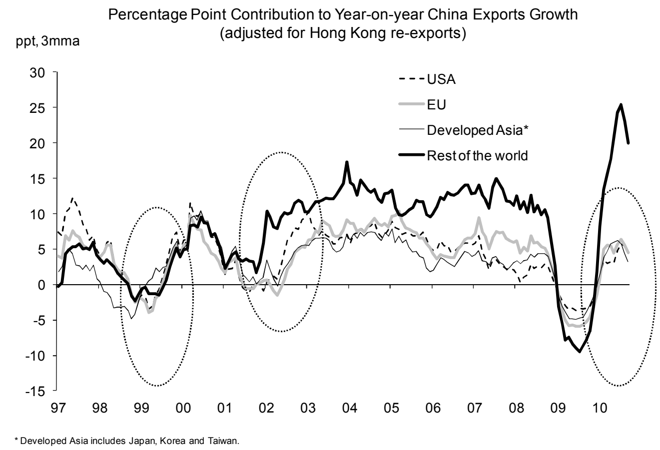
Source: CEIC, GS Global ECS Research estimates.

Exhibit 10: China's reliance on US exports is lessening gradually



Source: CEIC, GS Global ECS Research.

Exhibit 11: Exports recovery has been more from emerging markets



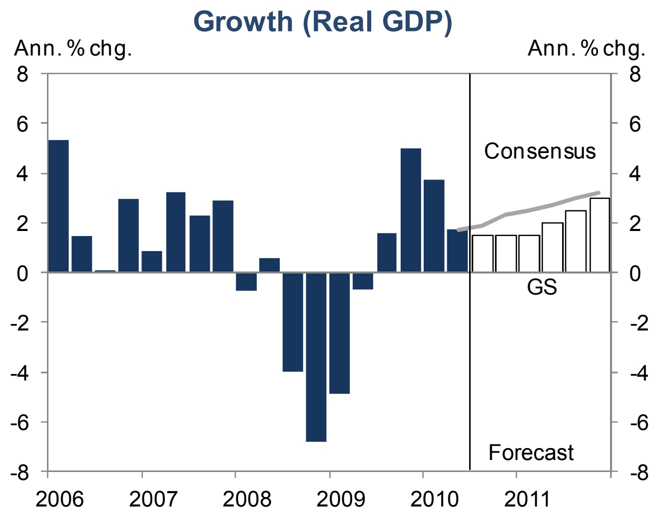
Source: CEIC, GS Global ECS Research.

Exhibit 12: Recent monthly macro indicators vs. GS estimates

	Jul-10			Aug-10			Sep-10		
China Macro Indicators (%,yoy)	Actual	GS Forecast	Differences	Actual	GS Forecast	Differences	Actual	GS Forecast	Differences
Consumer Price Index	3.3	3.4	-0.1	3.5	3.4	0.1	3.6	3.6	0
M2	17.6	18.7	-1.1	19.2	17.7	1.5	19	19.1	-0.1
CNY Loans	18.4	18.6	-0.2	18.6	18.5	0.1	18.5	18.5	0
Retail Sales	17.9	18.7	-0.8	18.4	18.1	0.3	18.8	18.6	0.2
Industrial Production	13.4	13.7	-0.3	13.9	13.3	0.6	13.3	14.2	-0.9
Fixed Asset Invstment	22.3	25.5	-3.2	24.2	23.3	0.9	22.8	26.1	-3.3
Exports	38	39	-1	34.4	37.2	-2.8	25.1	28	-2.9
Imports	22.7	31	-8.3	35.2	24.5	10.7	24.1	29	-4.9

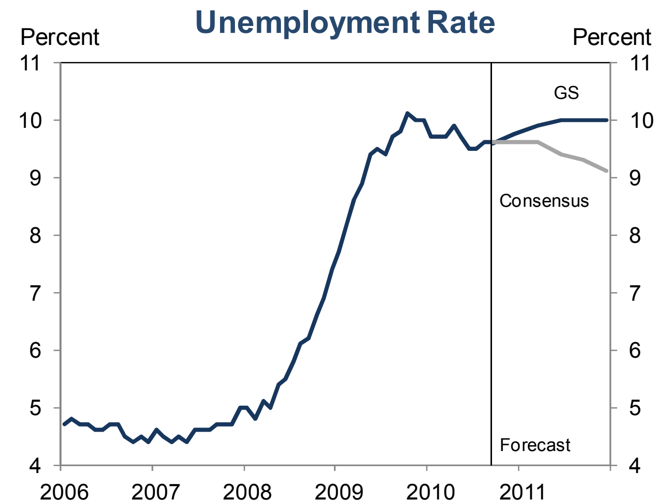
Source: CEIC, GS Global ECS Research estimates.

Exhibit 13: GS vs. consensus US GDP – we are still more bearish



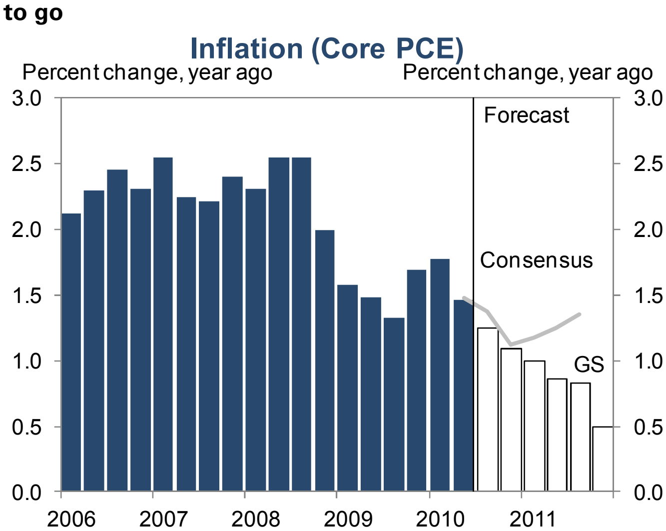
Source: Blue Chip Economic Survey, GS Global ECS Research estimates.

Exhibit 14: GS vs. consensus US unemployment – we still assume 10% at end-2011E



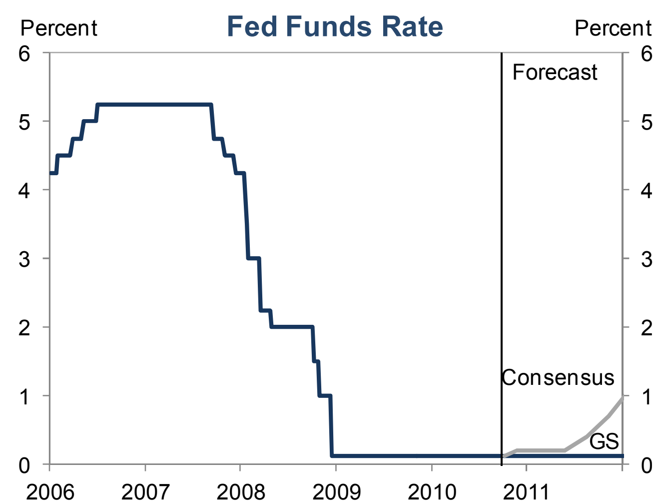
Source: Blue Chip Economic Survey, GS Global ECS Research estimates.

Exhibit 15: GS vs. consensus US CPI – more steps down to go



Source: Blue Chip Economic Survey, GS Global ECS Research estimates.

Exhibit 16: GS vs. consensus US rates outlook – we assume no hikes in 2011E either



Source: Blue Chip Economic Survey, GS Global ECS Research estimates.

Earnings the main driver for targets; multiples may expand further

We set our end-2011E index targets at 16,500 and 4,300 for HSCEI and CSI300, representing 21% and 24% potential upside from current levels. This is mainly due to earnings growth (and accrual), and we feel comfortable with earnings estimates against our optimistic macro backdrop as well as bottom-up trends. On valuations, we are factoring in only slight multiple expansion, which we think will be mainly sourced from normalization of multiples from banks and commodities back towards historical average or mid-cycle levels, against stable or slightly declining multiples from mostly smaller cap sectors that have recently run up a lot. The greater risks to performance probably come from global factors like US macro events and economic recovery (although reliance is lessening) and liquidity shifts.

Exhibit 17: Offshore and onshore key index targets
We expect slightly higher EPS growth and upside for CSI300 than for HSCEI

MSCI China at 10/25/2010 **70.2**
HSCEI at 10/25/2010 **13,606**

	EPS growth					Implied forward valuations	
	2010E	2011E	09E-11E CAGR	2011 target	Implied +/- (%)	P/E (X)	P/B (X)
MSCI China Bull Case	26%	17%	22%	97.1	38%	16.0	2.7
MSCI China	**26%**	**17%**	**22%**	**85.0**	**21%**	**14.0**	**2.3**
MSCI China Bear Case	26%	17%	22%	72.9	4%	12.0	2.0
HSCEI	**30%**	**18%**	**23%**	**16,500**	**21%**	**13.1**	**2.2**

CSI300 at 10/25/2010 **3,481**

	EPS growth					Implied forward valuations	
	2010E	2011E	09E-11E CAGR	2011 target	Implied +/- (%)	P/E (X)	P/B (X)
CSI300 Bull Case	29%	19%	24%	5,000	44%	21.0	3.5
CSI300	**29%**	**19%**	**24%**	**4,300**	**24%**	**18.0**	**3.0**
CSI300 Bear Case	29%	19%	24%	3,600	3%	15.0	2.5

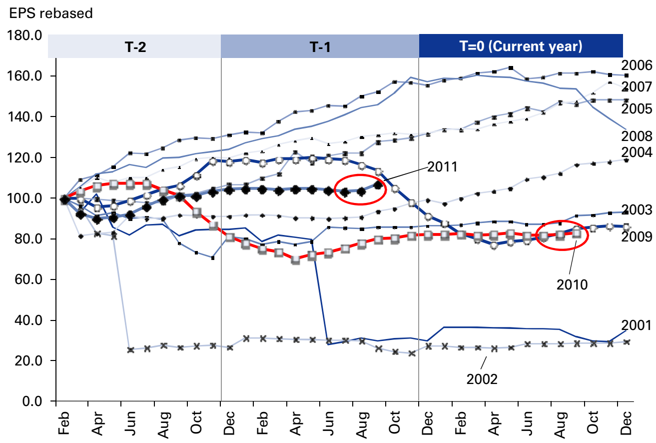
Source: MSCI, FactSet, CSI, I/B/E/S, GS Global ECS Research estimates.

Earnings outlook robust, could see more upward bias

Our earnings model – which includes top-down GS FCI-based regression and bottom-up (GS analyst estimates and consensus) composite estimates – indicates 17% earnings growth for 2011E for MSCI China and 19% for CSI300 – a deceleration vs. 2010E's 26% and 29%, but still robust.

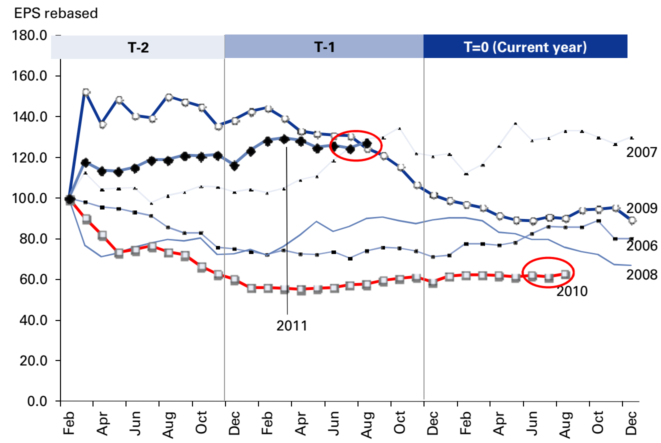
- **Estimates have been revised up:** Compared to our previous update in mid-September, all four metrics show higher 2011E earnings growth. More proactive fiscal policy and clearly lower economic hard landing risk have resulted in upward revisions in a number of cyclical sectors such as industrials, energy, and consumer discretionary. Only telco and utilities (both onshore and offshore) have seen some very mild earnings cuts. Financial conditions driving our top-down model have also shown marked improvements in the past few months. While NBS (industrial) earnings are slowing down in 2H10 vs. 1H10 due to the much higher 2H09 base, absolute growth levels remain robust.

Exhibit 18: MSCI China EPS has been gently moving up



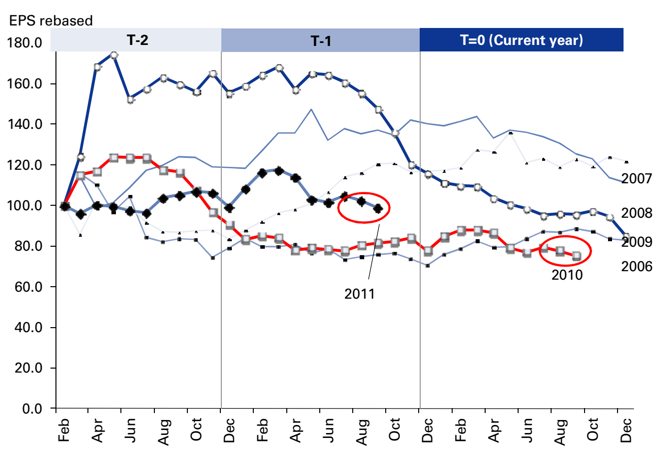
Source: MSCI, Datastream, I/B/E/S, GS Global ECS Research.

Exhibit 19: Shanghai A-share EPS has been stable/up as well lately



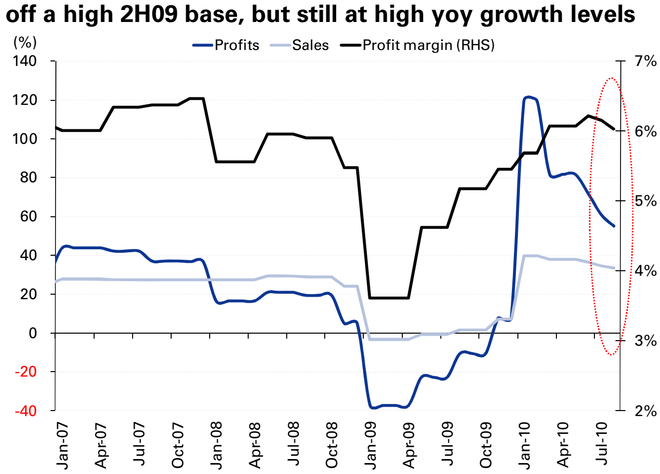
Source: Datastream, I/B/E/S, GS Global ECS Research.

Exhibit 20: Shenzhen A-share EPS has seen more of a downward trend



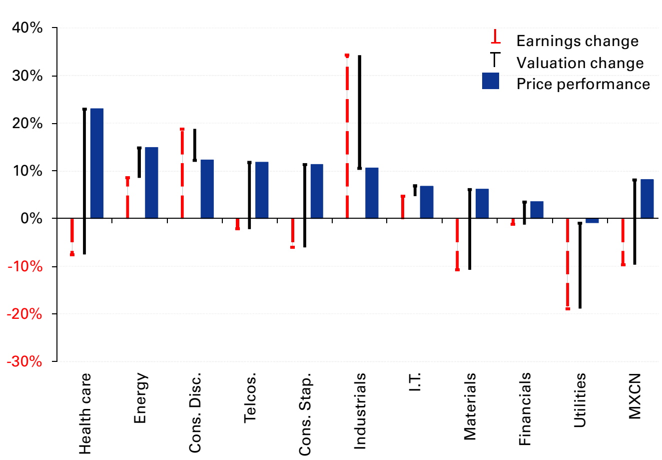
Source: Datastream, I/B/E/S, GS Global ECS Research.

Exhibit 21: NBS data for industrial sectors is decelerating off a high 2H09 base, but still at high yoy growth levels



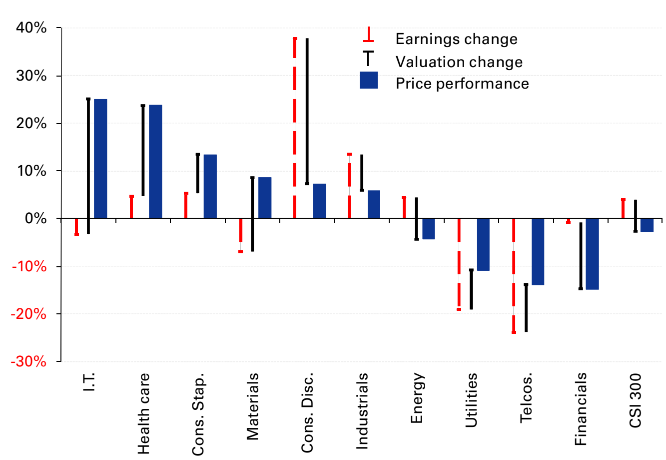
Source: CEIC, NBS, GS Global ECS Research.

Exhibit 22: Sectoral price decomposition YTD, MXCN



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

Exhibit 23: Sectoral price decomposition YTD, CSI300



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

Exhibit 24: We estimate 26%/17% and 29%/19% earnings growth for MXCN and CSI300

	EPS growth				EPS integer			
	MSCI China		CSI300		MSCI China		CSI300	
	2010E	2011E	2010E	2011E	2010E	2011E	2010E	2011E
GS top-down regression	25.9%	17.5%	36.0%	16.6%	4.65	5.46	174	203
GS composite	20.1%	16.8%	20.6%	17.5%	4.44	5.18	166	195
GS bottom-up	30.5%	16.7%	32.9%	20.8%	4.82	5.63	181	218
I/B/E/S consensus	28.7%	16.7%	27.7%	21.0%	4.76	5.55	178	216
Average	**26.3%**	**16.9%**	**29.3%**	**19.0%**	**4.67**	**5.45**	**175**	**208**

Source: NBS, FactSet, I/B/E/S, GS Global ECS Research estimates.

- **Bottom-up outlook cross-check looks solid**: We have compiled from our sector teams how we think GS estimates may compare to consensus now, and thus where we think consensus earnings may go. We see that currently GS 2010E growth is about 2pp above consensus offshore and 5pp above consensus onshore, while 2011E earnings growth rates are similar. We think that most cyclical (as shown in the blue shading below) are still likely to see more upward earnings revisions. Some sectors may see earnings pressure but they are smaller cap.

Exhibit 25: GS/GH China research teams' views on sectoral earnings trends

		Earnings outlook	
	GS analyst	GS vs consensus	Rationale
Airlines	Hino Lam	above	intl visitor arrivals, lower high speed rail diversion risk on domestic routes
Transport infrastructure	Ronald Keung	above	higher GDP expectations, intl visitor arrivals
Brokers	Richard Xu	above	turnover, liquidity, macro/regulatory environment
Construction / machinery	Tian Lu	above	Higher volume
Shipping	Tom Kim	above	ASP for container, higher BDI for bulkers
Insurance	Ning Ma/Richard Xu	above	higher investment returns
Internet/media	James Mitchell/ Catherine Leung	above	advertising outlook
Consumer discretionary	Josh Lu/Caroline Li	In line to above	Higher margins for Belle/Intime
Metals & mining / building materials	Jim Hung/Rowena Chang	in line to above	Meaningfully above for steel, slightly above for cement, slightly below for aluminum
Conglomerates	Simon Cheung	in line to above	more optimistic re steel prices positive for Citic Pacific
Ports	Simon Cheung	in line to above	better volumes positive for Cosco Pacific
Banks	Ning Ma/Richard Xu	in line	higher NIM vs higher credit costs
Healthcare	Wei Du	In line	
Oil & gas	Chris Shiu	In line	above for upstream/gas, below for downstream/oil services
Telecom	Helen Zhu	in line	in line for CM, below for CT
Consumer staples	Yifan Deng	In line	cost pressure vs ASP hike balance
Technology	Donald Lu	mixed	above for AsiaInfo/Longtop, below for Mediatek
Clean energy	Franklin Chow, Amy Song	below on wind/nuclear; above on solar	Wind/nuclear margin/volume pressure; solar shipment strong
Chemicals	Jessie Lai	In line to below	high raw material costs; more gas/coal price hikes (but excl phosphates/potash)
Utilities	Franklin Chow	below	more bearish on coal costs and tariffs
Auto	Yipeng Yang	Slightly below	Front-loading consumption, price pressure
Property	Yi Wang/Jason Sun	below	lower volume

Source: Goldman Sachs Research estimates, Gao Hua Securities Research estimates, GS Global ECS Research.

- **Exposure to US slowdown is less evident in the listco universe**: As mentioned earlier, China is reducing its reliance on exports to the US and other developed markets. Moreover, we highlight that listed universe earnings may be less exposed. For example, of the GS coverage universe, only a small percentage have >25% revenue exposure to non-China sources of revenue. Many of these companies are also smaller-cap (healthcare, tech, etc). Only the oil companies and some transportation companies are meaningfully represented in the indices.

Exhibit 26: GS/GH coverage universe with meaningful exposure to non-China revenues (20% or more) is limited

Company name	Ticker	Greater China	Europe	United States	Others
WuXi PharmaTech Cayman	WX US	0%	12%	80%	8%
China Shipping Container (H)	2866 HK	21%	17%	31%	31%
ZTE Corporation (H)	763 HK	35%	0%	0%	65%
Lenovo Group	992 HK	37%	0%	0%	63%
CITIC Resources Holdings	1205 HK	43%	0%	0%	57%
Mindray Medical International	MR US	45%	10%	20%	25%
China COSCO Holdings (H)	1919 HK	46%	12%	5%	38%
Air China (H)	753 HK	50%	12%	4%	34%
China Eastern Airlines (ADS)	CEA US	50%	8%	4%	38%
China Eastern Airlines (H)	670 HK	50%	8%	4%	38%
China Shipping Development (H)	1138 HK	62%	3%	2%	33%
China Pharmaceutical Group	1093 HK	64%	9%	9%	18%
China Oilfield Services (H)	2883 HK	71%	0%	0%	29%
BYD Electronic	285 HK	73%	7%	5%	15%
CNOOC	883 HK	73%	0%	0%	27%
CNOOC (ADR)	CEO US	73%	0%	0%	27%
Camelot Information Systems	CIS US	75%	0%	0%	25%
BYD Company	1211 HK	78%	0%	0%	22%
Kunlun Energy Company	135 HK	78%	0%	0%	22%
NVC Lighting Holding	2222 HK	79%	0%	0%	21%
China Southern Airlines (ADS)	ZNH US	80%	5%	3%	11%
China Southern Airlines (H)	1055 HK	80%	5%	3%	11%

Company name	Ticker	Greater China	Europe	United States	Others
Shenzhen Hepalink Pharmaceutical	002399 CH	1%	0%	0%	99%
Lier Chemical Co.	002258 CH	8%	20%	49%	23%
Zhejiang Hisun Pharmaceutical Co.	600267 CH	9%	0%	0%	91%
Zhejiang Huahai Pharmaceutical Cc	600521 CH	18%	0%	0%	82%
China Shipping Container (A)	601866 CH	21%	17%	31%	31%
Zhejiang NHU Co	002001 CH	21%	0%	0%	79%
China Merchants Energy Shipping	601872 CH	26%	14%	5%	55%
Lianhe Chemical Technology Co.	002250 CH	26%	11%	45%	18%
ZTE Corporation (A)	000063 CH	35%	0%	0%	65%
China COSCO Holdings (A)	601919 CH	46%	12%	5%	38%
Jiangsu Yangnong Chemical Co.	600486 CH	49%	51%	0%	0%
Air China (A)	601111 CH	50%	12%	4%	34%
China Eastern Airlines (A)	600115 CH	50%	8%	4%	38%
China Shipping Development (A)	600026 CH	62%	3%	2%	33%
Zhejiang Xinan Chemical	600596 CH	63%	37%	0%	0%
Jinduicheng Molybdenum Co.	601958 CH	68%	0%	0%	32%
China Oilfield Services (A)	601808 CH	71%	0%	0%	29%
Xinjiang Goldwind Science & Tech	002202 CH	78%	22%	0%	0%
Yantai Wanhua Polyurethanes	600309 CH	78%	11%	11%	0%
Sany Heavy	600031 CH	79%	1%	1%	20%
Yunnan Yuntianhua	600096 CH	79%	0%	0%	21%
China Southern Airlines (A)	600029 CH	80%	5%	3%	11%

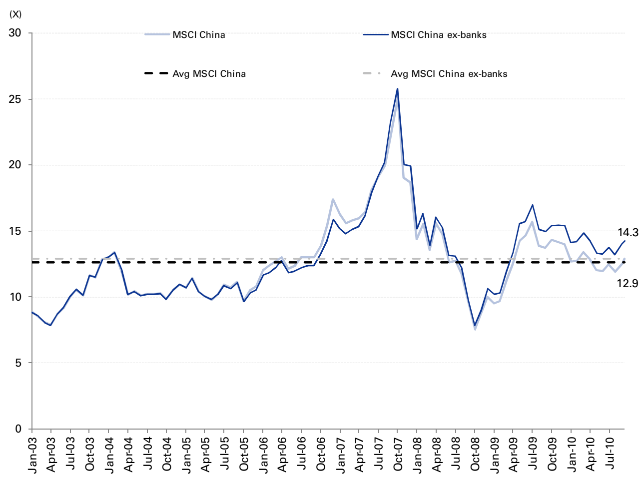
Source: Company data, Goldman Sachs Research, Gao Hua Securities Research.

Valuation multiples not stretched...

Despite the recent market run-up, we feel that China equities remain reasonably priced:

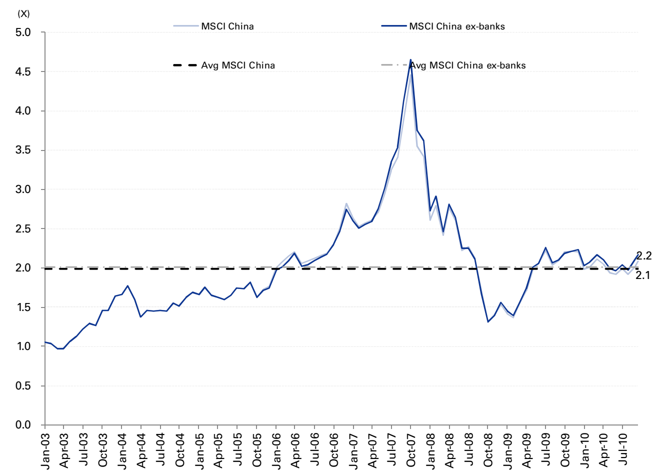
- **Versus their historical range**: MSCI China is only slightly above its historical average, while CSI300 remains below its historical average even after the recent dramatic rally.
- **Versus regional markets**: Despite a comparable earnings growth outlook, China looks meaningfully cheaper than many regional markets, with the exception of Korea (which shows much higher 2010E growth but lower 2011E growth and has historically traded at a discount).

Exhibit 27: MSCI China forward P/E ratio



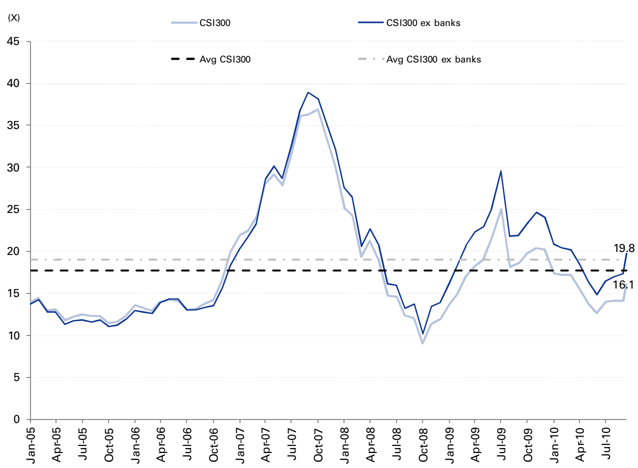
Source: MSCI, FactSet, I/B/E/S, GS Global ECS Research.

Exhibit 28: MSCI China forward P/B ratio



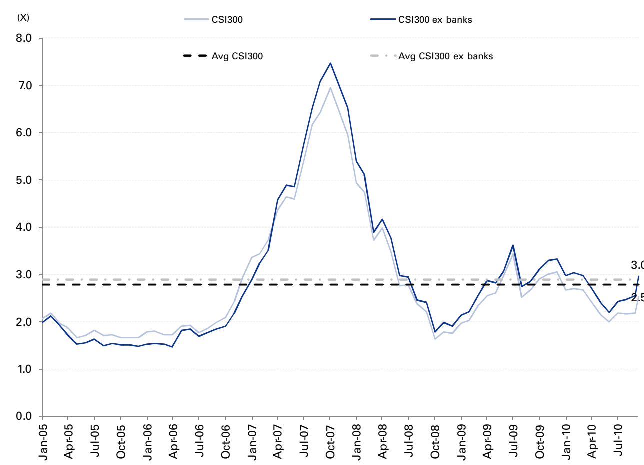
Source: MSCI, FactSet, I/B/E/S, GS Global ECS Research.

Exhibit 29: CSI300 forward P/E ratio



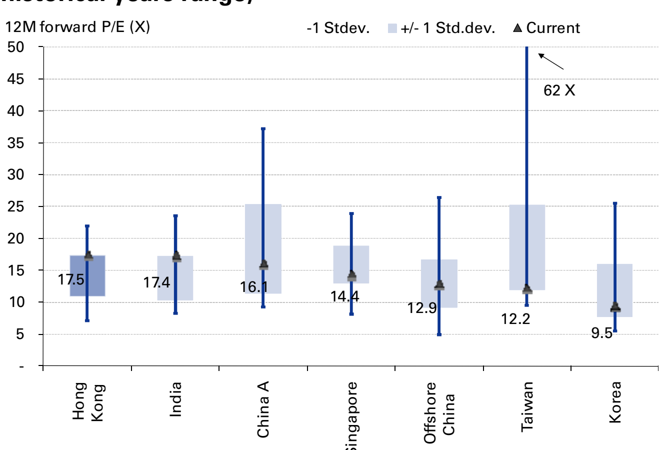
Source: CSI, FactSet, I/B/E/S, GS Global ECS Research.

Exhibit 30: CSI300 forward P/B ratio



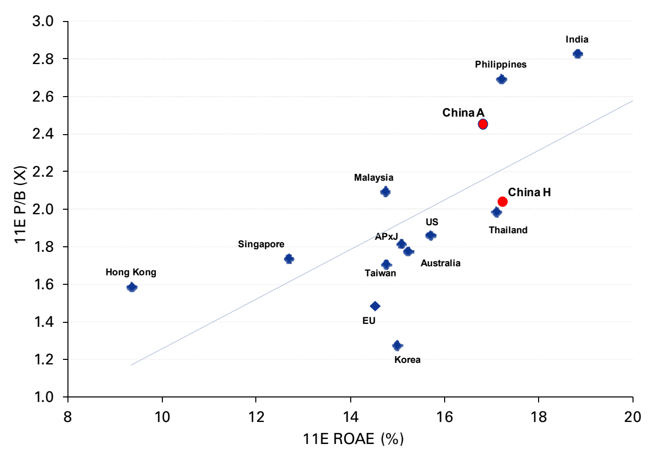
Source: CSI, FactSet, I/B/E/S, GS Global ECS Research.

Exhibit 31: China's valuations vs. regional markets (20 historical years range)



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

Exhibit 32: China vs. Asia on P/B and ROE



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

We see room for multiple expansion in banks and selective cyclicals

From the current levels of 13X and 16X forward P/E, we target a slight multiple expansion for the indices to 14X for MSCI China and 18X for CSI300, which are just above historical average and roughly at historical average levels, respectively.

YTD, many sectors have seen meaningful multiple compression: Namely, financials (due to the higher regulatory risks) and cyclicals (due to concerns over hard landing). In contrast, smaller cap sectors like consumer staples and healthcare saw meaningful multiple expansion, as shown in Exhibits 22-23.

Last 1-2 months' moves have only somewhat reversed those trends, but we still see more room to go. Financials remain at well below their historical averages, while cyclicals are still for the most part noticeably below mid-cycle. We have compiled our China research teams' bottom-up multiple outlook as well and potential drivers, as shown below.

Exhibit 33: GS/GH China research teams' views on sectoral valuation multiples

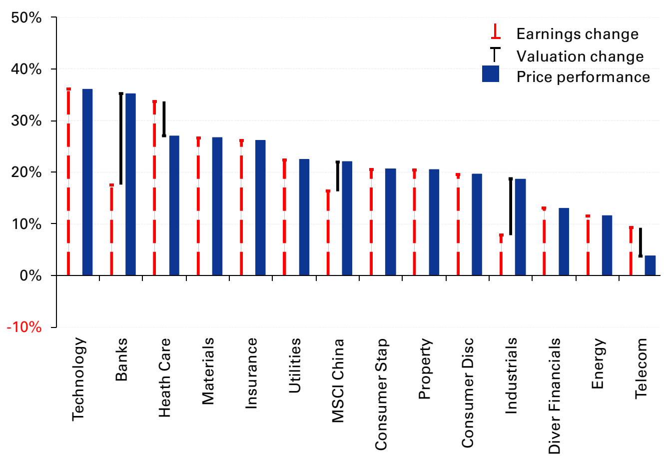
		Valuation outlook		
	GS analyst	Current vs range	Direction	Rationale
Banks	Ning Ma/Richard Xu	trough-mid	expand	Normalize as regulatory risks subside
Transport infrastructure	Ronald Keung	trough-mid	expand to mid cycle	higher earnings/improved outlook
Brokers	Richard Xu	mid	slight expansion	improving turnover, less fee pressure
Construction / machinery	Tian Lu	mid	expand to mid-peak	Improving outlook on investment, R&D policy upside, export growth
Shipping	Tom Kim	slightly below mid for containers, slightly above mid for bulkers	expand	Improving outlook on investment
Airlines	Hino Lam	mid-peak	expand to peak cycle	return to peak profitability
Insurance	Ning Ma	average	expand	improving return outlook
Utilities	Franklin Chow	slightly below avg	slight expansion	better mix with less exposure of coal-fired generation
Metals & mining / building materials	Jim Hung/Rowena Chang	trough-mid, except for non-ferrous (mid-peak)	slight expansion on avg, non-ferrous may contract	Structural improves in consolidation and capacity reduction
Ports	Simon Cheung	trough-mid	slight expansion	Recover to mid cycle range although moving beyond this may be tough due to weaker structural growth
Conglomerates	Simon Cheung	trough-mid	slight expansion	Recover to mid cycle valuation
Technology	Donald Lu	above historical avg, except AsiaInfo	stable to slight expansion, except ZTE	High growth outlook, potential margin upside (except ZTE)
Internet/media	James Mitchell /Catherine Leung	average	stable	more mature market, slowing games growth
Consumer discretionary	Josh Lu/Caroline Li	retailer in line; sportswear below avg	stable except for 2nd tier sports brands	Mostly valuations reasonable except for smaller caps which are cheap
Oil & gas	Chris Shiu	average	Stable	Gas may see some multiple expansion
Chemicals	Jessie Lai	mid-peak	stable	Fertilizer outlook improve, pesticide valuations stable
Auto	Yipeng Yang	mid-peak	stable	ROE peak in 2010E, stable thereafter
Property	Yi Wang/Jason Sun	trough-mid	stable	still uncertain outlook
Clearn Energy	Franklin Chow, Amy Song	above for wind/nuclear, below for solar	contraction for wind/nuclear, expansion for solar	Mean reversion
Healthcare	Wei Du	peak	stable to slight contraction	HK sector could slightly expand due to potential new IPOs with higher growth
Telecom	Helen Zhu	average	stable-slight contraction	Low growth despite multiple similar to market
Consumer staples	Yifan Deng	above historical avg	Stable to down	Stable for those with 25%+ earnings growth/return improvement; slight contraction for others possible

Source: Goldman Sachs Research estimates, Gao Hua Securities Research estimates, GS Global ECS Research.

How to get to our index targets? A hypothetical scenario demonstration

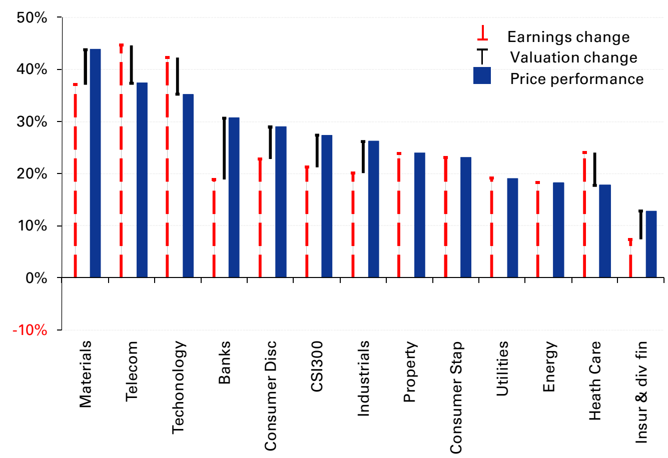
Many investors have asked us, based on our current earnings estimates, where we might see reasonable potential for multiple expansion – and to quantify the resulting impact on the overall index. The exhibits below demonstrate a hypothetical set of assumptions whereby we assign some amount of multiple expansion or contraction to our earnings estimates – we have assumed 10%-15% multiple expansion for banks, 5%-10% expansion for select cyclicals, and some contraction/normalization of multiples for sectors that have seen dramatic expansion YTD. As one can see, it does not take much expansion of multiples to get to our index targets.

Exhibit 34: MSCI multiple adjustments to target analysis



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

Exhibit 35: CSI multiple adjustments to target analysis



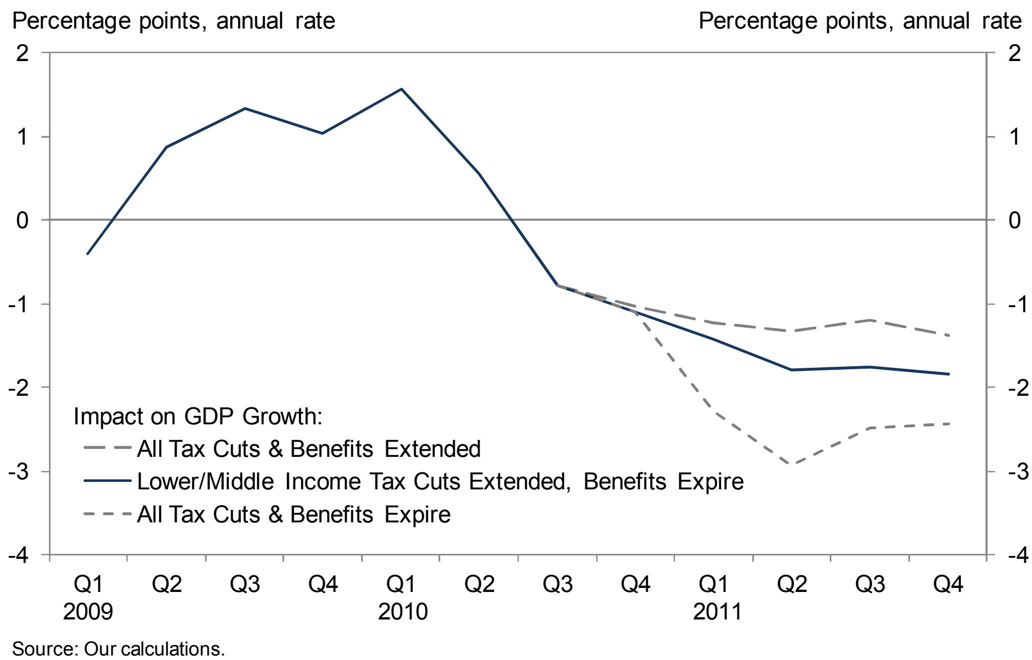
Source: FactSet, I/B/E/S, GS Global ECS Research.

The path may be affected by external factors

Despite our optimism on China's earnings and valuation, we do acknowledge that there may be external factors that may keep equity performance somewhat volatile as the markets are not fully de-coupled. For example, in the near term:

- **Potential profit taking post QE2 in the US**: Our US economists have analyzed the potential impact of QE2 on financial conditions using 'base case' assumptions of US$500bn QE upfront and a total of US$1tn within one year. As suggested in the October 8 report titled 'QE2: How much has been priced in?,' they feel that asset moves (long yield, 3-months LIBOR, SP500, currency) since early August (when QE was first highlighted as a possibility) have already 'gone a good part of the distance towards pricing the program we expect.' Thus, if QE2 is not substantially bigger than our expectation, there could be some profit-taking in 4Q10E.
- **Uncertainties on US fiscal outlook in year-end 2010E and 1Q11E**: In addition, much attention should be paid to the US fiscal policies post elections, when significant tax subsidies expiring by year-end may fade out unless the two parties can agree on a compromise. In a worst-case scenario, the debate may carry into 2011. Our US economists highlight their view that the tax breaks are actually more important to economic recovery outlook than QE itself. By spring 2011E, the actual QE impact on the pace of economic recovery will also be important to monitor.

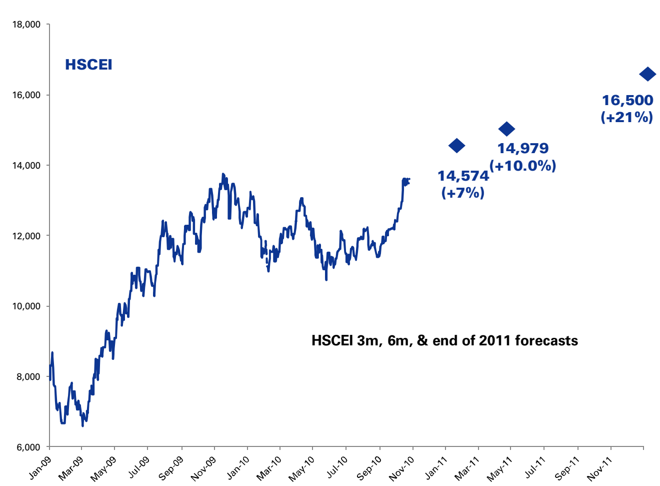
Exhibit 36: Potential tax cuts expiration may be a risk to US GDP outlook and equity market sentiment



Source: GS Global ECS Research.

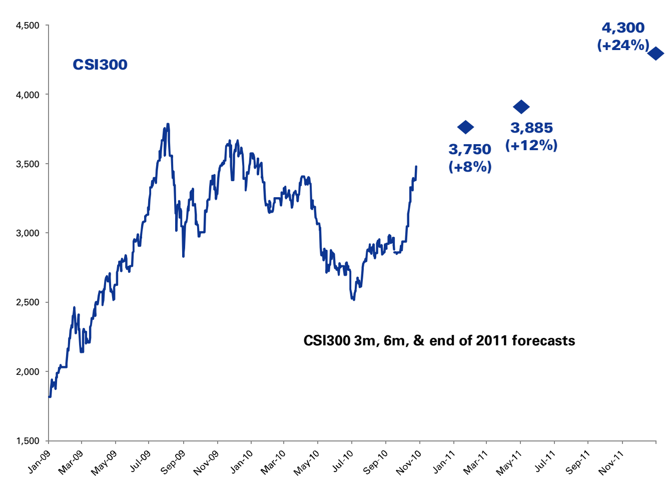
We believe that markets could see a continued rise (albeit volatile) near-term, then settle a bit over a six months time horizon as markets assess whether China will get more aggressive with tightening or not, and whether it's time to lock in profits. Subsequently, we expect more meaningful performance towards mid year-2H11E again as earnings trends look solid and global expectations on recovery further improve.

Exhibit 37: Expected path for HSCEI



Source: Bloomberg, GS Global ECS Research estimates.

Exhibit 38: Expected path for CSI300



Source: Bloomberg, GS Global ECS Research estimates.

Sector preferences: Banks a key re-rating focus; adding laggard cyclicals

We are adjusting our sector preferences to: a) lock in profit in insurance/brokers and switching into banks; b) add to laggard cyclicals like transportation; c) reduce positions on defensives like staples and utilities. We would look to lighten up further on defensives and go more aggressively into deeper global cyclicals like metals and mining as we move further into 2011 and global demand recovery is more in sight.

We include a detailed sector-by-sector 2011E outlook by each of our sectoral analysts later in this report.

Exhibit 39: Sectoral preferences at a glance

	GS strategy preference		PER 2011E		Weighting		
GS Sector	Sector view HK	Sector view A	MXCN	CSI300	MXCN	CSI300	GS comment on sector trends and valuation
Banks	OW	OW	9.6	8.8	23%	19%	Near-term regulatory overhang should be gradually removed in the coming months. Valuations already reflect most of the risks. We see significant multiple re-rating potential.
Building materials, paper, packaging	OW	OW	13.7	14.4	2%	1%	Potential beneficiary of social housing build and recovery in infrastructure FAI, cement less exposed to global slowdown risks than other cyclicals.
Industrials, conglomerates, business services	OW	OW	12.7	16.7	5%	13%	Machinery faces strong domestic demand and overseas market share gain potential; while construction services players are less attractive. Machinery valuation still reasonable despite recent price appreciation. A-shares have more diversified machinery exposure while offshore is more construction services/railroad focused.
Retail, hotels, consumer durables and apparel	OW	OW	18.6	19.4	3%	6%	Favor dept stores with lower store vintage that pose better growth potential such as Intime and Maoye; long-term positive on industry leading brands such as Belle. A-shares have more exposure to dept store and travel names, which we like, and A-share retail is cheaper than A-share consumer staples.
Transportation	OW	OW	14.0	16.9	3%	5%	FAI recovery should drive transportation demand, particularly for bulk shipping near-term.
Autos and components	Neutral	Neutral	13.2	13.8	2%	3%	Policy risk to the upside on EV/fuel-efficient car, downside on the cancellation of the stimulus pack/pro-consumption measures but near-term growth slowdown may be unavoidable. Competition is estimated to intensify esp. after 2012 after international OEMs commit their new capacity. Valuations already rebounded strongly recently.
Chemicals	Neutral	Neutral	15.8	22.1	1%	2%	Policy outlook may be favorable for fertilizers and pesticides. However, crude oil price increase may put refining margins at risk.
Computer hardware/assemblers	Neutral	Neutral	13.0	24.2	1%	2%	Beneficiary of pro R&D policies but may be exposed to ASP and cannibalization risks due to global competition
Consumer staples and health care	Neutral	Neutral	19.5	26.1	7%	9%	Key beneficiary of pro consumption long-term direction, and wage hike trends. Raw material price squeeze may be extended, however. Healthcare faces policy risks. More positive in the offshore market while onshore index has more spirits / healthcare.
Diversified mining, precious metals	Neutral	Neutral	13.2	36.2	2%	8%	May benefit from continued push on electricity grid expansion, otherwise demand is tied to FAI growth. Global demand slowdown may weaken pricing, and have more influence on domestic trends than for other FAI-related sectors like cement.
Insurance and other financial services	Neutral	Neutral	22.0	22.7	10%	11%	Strong structural demand growth; some regulatory overhang although not immediately material. Brokers are well positioned re market re-rating but have already run up significantly recently, so there may be better entry points.
Property	Neutral	Neutral	10.8	12.1	5%	5%	Strong long-term demand but more policy risks in the coming quarters will be an overhang and keep the sector trading within a range. Would watch for concrete signs of ASP pullback.
Software and services	Neutral	Neutral	28.7	26.1	4%	0%	Secular growth maintained for advertising and ecommerce-based models, whereas uncertainty over online gaming market dynamics remains. Internet/media are consumption beneficiaries, and software is likely to be positively influenced by govt policy to support innovation going forward
Steel, aluminium	Neutral	Neutral	14.7	15.4	1%	4%	Outlook for 4Q10E is positive given expected margin expansion as iron ore price declines; prefer steel over aluminum.
Oil and gas	Neutral	UW	11.0	16.0	17%	9%	Sector may lack visible catalysts although we relatively prefer E&P and gas distribution. Less favorable on A-share sector due to higher valuation and more downstream exposure. Resource tax risk on upstream outweighs potential upside from downstream price reform.
Telecommunication services	UW	Neutral	12.3	27.2	12%	1%	China Mobile is the key MSCI constituent and may face unfavorable newsflow given rising competitive threat to the high end and MNP/Vodafone stake overhangs. A-share is only Unicom, which we are more positive on
Utilities	UW	UW	12.6	18.8	2%	3%	Alternative energy should continue to enjoy positive newsflow relating to policy support, while IPPs are less well-positioned. We have already modeled in a tariff hike on a regional basis starting 2011E.
Weight on OW sectors	36%	43%					
Weight on Neutral sectors	50%	44%					
Weight on UW sectors	14%	12%					

Source: FactSet, I/B/E/S, GS Global ECS Research estimates.

Exhibit 40: Sectoral price performance varied widely during the latest rally, and YTD – MSCI China

	Performance						Contribution %					
Sector	1 wk	2 wk	3 wk	4 wk	Since 9/17	YTD	1 wk	2 wk	3 wk	4 wk	Since 9/17	YTD
Chemicals	-2.8%	-2.9%	2.1%	4.5%	6.0%	26.9%	-3.5%	-0.7%	0.4%	0.6%	0.6%	2.4%
Building materials, paper, packaging	1.0%	3.5%	1.1%	6.1%	8.6%	24.9%	2.9%	2.5%	0.6%	1.8%	1.9%	4.4%
Consumer staples and health care	2.4%	-1.5%	-2.4%	-0.9%	1.8%	17.2%	24.2%	-3.3%	-3.0%	-0.7%	1.7%	12.6%
Autos and components	6.9%	11.4%	2.8%	13.4%	19.7%	14.4%	22.9%	9.3%	1.7%	4.7%	5.2%	4.4%
Transportation	1.4%	1.0%	1.6%	3.9%	6.0%	14.2%	6.1%	1.2%	1.1%	1.7%	2.2%	5.1%
Oil and gas	1.3%	1.1%	5.2%	11.7%	14.4%	13.6%	42.5%	10.0%	20.1%	29.5%	29.6%	26.1%
Computer hardware/assemblers	1.5%	2.7%	3.6%	3.6%	5.5%	11.9%	2.6%	1.2%	1.0%	0.7%	0.8%	1.4%
Telecommunication services	-1.9%	-2.0%	-0.7%	-0.9%	0.8%	11.8%	-32.2%	-8.1%	-1.6%	-1.4%	1.2%	12.7%
Banks	0.1%	5.3%	8.7%	9.0%	8.1%	11.2%	5.2%	42.6%	40.3%	29.5%	21.6%	10.7%
Industrials, conglomerates, business servi	0.5%	6.0%	4.2%	5.5%	7.7%	9.8%	4.6%	10.7%	4.6%	4.2%	4.8%	6.3%
Retail, hotels, consumer durables and app	0.5%	-0.4%	-4.7%	-2.7%	-1.9%	7.8%	3.1%	0.0%	-2.4%	-1.0%	-0.5%	5.2%
Insurance and other financial services	3.7%	8.1%	13.3%	14.5%	16.4%	7.1%	52.1%	27.5%	25.8%	20.0%	18.3%	9.3%
Software and services	-0.1%	4.6%	6.1%	8.9%	17.3%	6.9%	-0.6%	6.2%	4.9%	4.9%	7.9%	2.7%
Diversified mining, precious metals	4.7%	3.4%	11.4%	21.7%	27.8%	0.6%	10.8%	2.0%	3.7%	5.0%	5.1%	0.7%
Utilities	-2.4%	-2.2%	-2.6%	-2.8%	-4.7%	-1.7%	-5.9%	-1.3%	-0.8%	-0.6%	-0.9%	0.0%
Property	-4.5%	-0.1%	2.7%	-0.9%	-1.9%	-7.4%	-33.9%	0.1%	3.0%	-0.4%	-0.9%	-2.8%
Steel, aluminium	-0.8%	0.2%	2.1%	8.5%	8.8%	-10.7%	-0.9%	0.2%	0.6%	1.7%	1.4%	-1.0%
MSCI China	**0.6%**	**2.7%**	**4.6%**	**6.7%**	**8.2%**	**8.1%**	100%	100%	100%	100%	100%	100%

Source: Bloomberg, FactSet, MSCI, GS Global ECS Research.

Exhibit 41: Sectoral price performance was widely varying during the latest rally, and YTD – CSI300

	Performance						Contribution %					
Sector	1 wk	2 wk	3 wk	4 wk	Since 9/17	YTD	1 wk	2 wk	3 wk	4 wk	Since 9/17	YTD
Diversified mining, precious metals	15.1%	21.0%	34.4%	45.2%	49.2%	39.0%	19.7%	13.7%	13.2%	15.7%	15.5%	73.4%
Consumer staples and health care	8.9%	4.3%	5.0%	5.3%	8.8%	21.3%	13.8%	3.4%	2.5%	2.5%	3.6%	44.8%
Industrials, conglomerates, business servi	6.9%	12.5%	17.7%	18.3%	20.7%	11.6%	17.3%	15.1%	12.3%	11.9%	12.5%	44.9%
Software and services	12.4%	2.9%	4.7%	2.5%	2.1%	10.1%	0.9%	0.1%	0.1%	0.1%	0.0%	0.8%
Computer hardware/assemblers	12.0%	12.9%	15.7%	11.3%	8.8%	10.0%	3.8%	2.0%	1.5%	1.0%	0.7%	4.1%
Autos and components	16.1%	20.6%	26.1%	23.3%	27.1%	5.8%	7.2%	4.5%	3.4%	2.8%	3.0%	3.9%
Building materials, paper, packaging	10.7%	6.2%	15.0%	14.1%	15.1%	5.7%	2.9%	0.8%	1.1%	1.0%	1.0%	2.7%
Retail, hotels, consumer durables and app	7.7%	8.9%	12.0%	12.3%	16.3%	4.0%	7.7%	4.5%	3.7%	3.5%	4.2%	5.8%
Chemicals	10.2%	8.1%	17.2%	16.3%	20.0%	2.9%	3.7%	1.5%	1.9%	1.6%	1.8%	2.2%
Oil and gas	10.0%	19.0%	35.9%	39.2%	40.2%	-0.3%	16.5%	15.6%	17.4%	17.9%	16.8%	11.6%
Transportation	2.2%	9.9%	16.3%	15.7%	17.1%	-3.8%	1.9%	4.0%	3.9%	3.5%	3.5%	3.7%
Insurance and other financial services	7.7%	18.4%	33.3%	33.7%	36.5%	-5.2%	14.4%	16.7%	17.7%	16.7%	16.5%	-2.8%
Utilities	-1.2%	2.5%	9.8%	9.2%	8.6%	-11.4%	-0.6%	0.7%	1.6%	1.4%	1.2%	-5.9%
Banks	-1.9%	8.4%	15.4%	16.5%	17.0%	-15.7%	-5.9%	13.0%	14.1%	14.1%	13.3%	-53.5%
Property	-3.8%	3.8%	8.7%	11.8%	12.5%	-19.0%	-3.3%	1.8%	2.3%	3.0%	2.9%	-16.1%
Telecommunication services	0.1%	2.5%	6.6%	6.9%	8.1%	-24.1%	0.0%	0.2%	0.3%	0.3%	0.3%	-3.7%
Steel, aluminium	-0.3%	7.2%	15.2%	16.7%	17.5%	-25.3%	-0.1%	2.5%	3.1%	3.2%	3.0%	-15.7%
CSI300	**5.3%**	**11.1%**	**18.6%**	**19.8%**	**21.7%**	**-2.6%**	100%	100%	100%	100%	100%	100%

Source: Bloomberg, FactSet, CSI, GS Global ECS Research.

Upgrade banks to OW, still like insurance but it is more consensus

We believe the time is ripe for overweighting Chinese banks, as:

- **Asymmetrical rate hike overhang removed:** One of the key concerns that investors have held is that the PBOC would raise interest rates in a deposit-rate-only manner without raising lending rates – and the associated NIM squeeze that would materialize. The rate hike on October 19, in our view, has removed that overhang for the time being – in that it involved both deposit and lending rate hikes and netted out mildly NIM positive for the banks. We believe that deposit rate deregulation is a medium-term, rather than foreseeable-term, risk.

- **CAR and NPL risks are priced in:** As Ning Ma and Richard Xu pointed out in their recent note titled '4Q to watch: clarification of two uncertainties for China banks' – the CBRC and MOF are expected to clarify their positions on local government platforms (LGP) NPL treatment/provisioning, and the CBRC will decide on capital adequacy ratio (CAR) and loan-loss ratio (LLR) requirements as well, both in 4Q10E. Our estimates already incorporate the potential 2.5% LLR as well as 1%-2% LGP NPL formation. Even after incorporating these and announced recaps, the sector still trades at a modest 10X P/E and below 2X P/B. Our banks team believes that CAR requirements for China will be modestly higher than Basel 3 standards, with a slightly more stringent adoption deadline (2016 vs. 2018), thereby limiting near-term recap pressure. On LGP, we think the likelihood of a 'worst-case' 6% NPL formation is low.

- **Loan quota not likely to fall significantly as feared**: Investors have recently expressed concerns over a potential monetary policy stance shift from 'accommodative' to 'neutral' and possible loan quota contraction from Rmb7.5tn in 2010E to below Rmb7tn in 2011E. We would not rule out a slight stance shift in monetary policy and (as mentioned earlier in this report) do expect some more tightening bias than before. However, if such adjustments are made, it would likely be in reaction to very loose monetary policy globally and anticipation of excessive liquidity. We expect a flattish loan quota yoy (which already implies a 3pp growth rate deceleration vs. 2010), although we do believe there may be some shift in focus and mix to adhere to other policies and fiscal projects (for example potentially some tightening towards commodity property developers and more lending to Western provinces, etc). We highlight that the headline loan quota target (historically released in the first quarter of each year) may not be restrictive – as in past years, actual lending tended to be in excess of the initial quota.

- **Sector has caught up a little bit but not by much**: Although banks have started to perform recently, they have only very mildly outperformed the MSCI China and under-performed the CSI300 over the past four weeks.

- **Valuations are reasonable vs. historical range and regional peers**. Banks are still trading at near trough P/Es. Although Chinese banks are more expensive than developed market banks, they are meaningfully cheaper than their emerging market peers and their NIMs are in the middle of the pack.

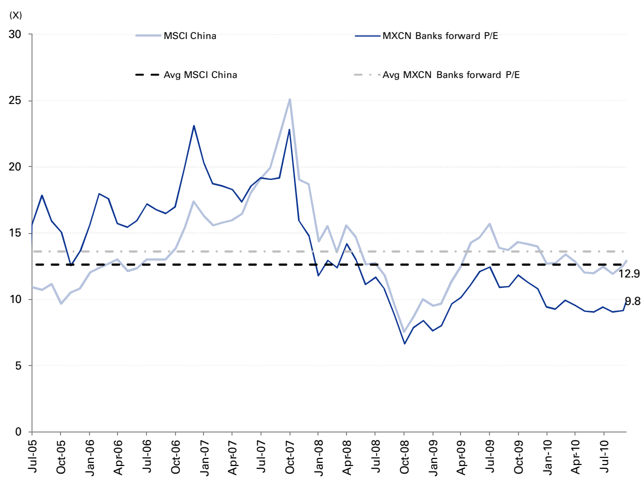
Exhibit 42: Banks sector post recap valuations are still quite reasonable at 10X P/E, <2X P/B

						Current P/B		Current P/E		Vs. trough average (09/15/08-04/30/09)					Vs. trough					Vs. historical average				
	Ticker	Rating	Price	12-mon target price	Potential upside/ downside	Pre-recap	Post-recap	Pre-recap	Post-recap	Trough average P/B	Current Pre-recap Vs.	Current Post-recap Vs.	Trough average P/E	Current Post-recap Vs.	Trough P/B	Current Pre-recap Vs.	Current Post-recap Vs.	Trough P/E	Current Post-recap Vs.	Historical average P/B	Current Pre-recap Vs.	Current Post-recap Vs.	Historical average P/E	Current Post-recap Vs.
H share			**HKD**																					
ICBC (H)	**1398.HK**	**Buy**	6.24	6.70	7%	2.1	2.0	9.8	10.5	1.9	9%	9%	10.3	2%	1.4	50%	50%	6.8	54%	2.6	-19%	-19%	15.4	-32%
BOC (H)	**3988.HK**	**Neutral**	4.60	4.60	0%	1.6	1.6	8.8	9.7	1.2	30%	30%	8.2	19%	0.9	83%	83%	5.2	87%	1.9	-16%	-16%	12.2	-21%
CCB (H)	**0939.HK**	**Buy**	7.49	7.70	3%	2.1	2.1	9.7	10.3	1.8	17%	17%	9.2	12%	1.1	89%	89%	5.2	97%	2.5	-14%	-14%	13.7	-25%
ABC (H)	**1288.HK**	**Neutral**	4.06	4.10	1%	1.8	1.8	10.1	10.1											1.7	7%	7%	9.7	3%
BoCom (H)	**3328.HK**	**Neutral**	9.31	8.80	-5%	1.8	1.8	10.1	10.1	1.6	16%	16%	9.4	7%	1.0	83%	83%	5.3	90%	2.5	-27%	-27%	16.3	-38%
CMB (H)	**3968.HK**	**Neutral**	22.90	22.90	0%	2.7	2.7	13.9	13.9	2.0	31%	31%	9.2	52%	1.4	91%	91%	5.5	153%	3.4	-23%	-23%	18.3	-24%
CNCB (H)	**0998.HK**	**Buy***	5.75	7.40	29%	1.4	1.5	7.8	8.8	1.1	30%	30%	8.2	7%	0.7	90%	90%	5.1	74%	1.8	-20%	-20%	14.1	-38%
Minsheng (H)	**1988.HK**	**Neutral**	7.25	7.70	6%	1.4	1.4	8.5	8.5											1.6	-8%	-8%	10.4	-18%
Average						**1.9**	**1.9**	**9.8**	**10.2**	**1.6**	**16%**	**16%**	**9.1**	**13%**	**1.1**	**72%**	**72%**	**5.5**	**85%**	**2.2**	**-16%**	**-16%**	**13.8**	**-26%**
A share			**Rmb**																					
ICBC (A)	**601398.SS**	**Buy**	4.45	5.80	30%	1.7	1.6	8.1	8.6	1.9	-10%	-10%	10.0	-14%	1.7	2%	2%	8.0	8%	2.7	-36%	-36%	15.9	-46%
BOC (A)	**601988.SS**	**Neutral**	3.51	3.90	11%	1.4	1.4	7.7	8.5	1.6	-13%	-13%	10.4	-18%	1.4	-2%	-2%	8.5	0%	2.3	-39%	-39%	16.0	-47%
CCB (A)	**601939.SS**	**Buy**	5.18	6.70	29%	1.7	1.6	7.7	8.2	1.8	-4%	-4%	9.0	-9%	1.5	10%	10%	7.4	11%	2.4	-30%	-30%	11.8	-31%
ABC (A)	**601288.SS**	**Buy**	2.76	3.60	30%	1.4	1.4	7.9	7.9											1.5	-2%	-2%	8.3	-5%
BoCom (A)	**601328.SS**	**Neutral**	6.41	7.60	19%	1.4	1.4	8.0	8.0	1.6	-11%	-11%	9.1	-12%	1.2	22%	22%	6.0	34%	2.5	-42%	-42%	13.5	-41%
CMB (A)	**600036.SS**	**Buy***	14.96	19.80	32%	2.0	2.0	10.5	10.5	2.0	-1%	-1%	8.6	23%	1.6	26%	26%	5.8	81%	3.1	-35%	-35%	17.5	-40%
CNCB (A)	**601998.SS**	**Neutral**	5.99	6.40	7%	1.7	1.6	9.4	10.5	1.6	4%	4%	11.4	-8%	1.4	23%	23%	8.8	19%	2.5	-32%	-32%	20.5	-49%
Minsheng (A)	**600016.SS**	**Neutral**	5.65	6.70	19%	1.3	1.3	7.6	7.6	1.3	-3%	-3%	8.7	-12%	1.1	22%	22%	6.5	18%	2.5	-49%	-49%	15.1	-50%
SPDB	**600000.SS**	**Neutral**	14.62	13.80	-6%	1.7	1.5	8.0	9.7	1.8	-3%	-3%	8.4	16%	1.2	38%	38%	5.1	90%	2.7	-37%	-37%	16.1	-40%
Industrial	**601166.SS**	**Buy**	28.11	35.50	26%	1.6	1.6	8.6	8.6	1.5	8%	8%	7.6	13%	1.0	58%	58%	4.4	93%	2.8	-43%	-43%	14.3	-40%
SZDB	**000001.SZ**	**Neutral**	18.66	16.80	-10%	1.5	1.3	8.1	9.2	1.7	-8%	-8%	9.1	1%	1.2	33%	33%	5.7	60%	3.2	-52%	-52%	25.9	-64%
Hua Xia	**600015.SS**	**Sell**	13.26	9.60	-28%	1.6	1.5	8.4	10.8	1.5	12%	12%	11.1	-3%	1.1	50%	50%	7.3	48%	2.1	-21%	-21%	16.1	-33%
BONB	**002142.SZ**	**Sell**	14.01	11.10	-21%	2.5	2.3	12.8	15.5	2.1	23%	23%	14.2	9%	1.5	73%	73%	9.2	68%	3.1	-18%	-18%	20.8	-25%
BOBJ	**601169.SS**	**Neutral**	13.82	15.00	9%	1.8	1.8	9.6	10.0	1.8	1%	1%	10.3	-3%	1.1	55%	55%	6.8	46%	2.4	-25%	-25%	14.4	-31%
BONJ	**601009.SS**	**Sell**	13.11	10.40	-21%	2.0	1.7	11.1	12.4	1.6	27%	27%	11.9	5%	1.2	71%	71%	9.0	39%	2.0	-2%	-2%	15.6	-20%
Average						**1.7**	**1.6**	**8.9**	**9.7**	**1.7**	**1%**	**1%**	**10.0**	**-2%**	**1.3**	**31%**	**31%**	**7.0**	**38%**	**2.5**	**-32%**	**-32%**	**16.1**	**-40%**

For important disclosures, please go to http://www.gs.com/research/hedge.html. For methodology and risks associated with our price targets, please see our previously published research.

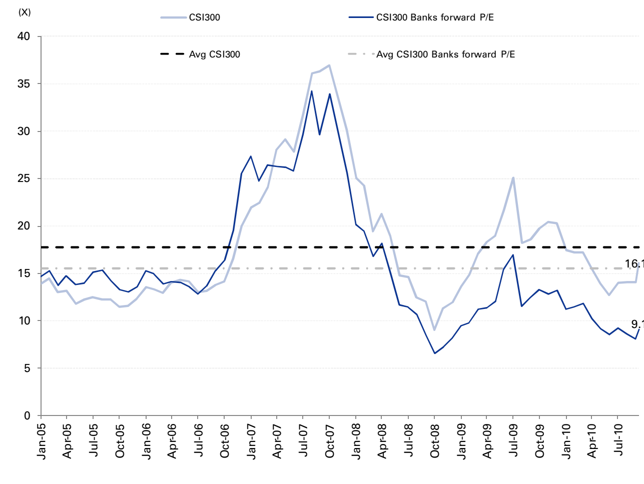
Source: Datastream, Goldman Sachs Research estimates, Gao Hua Securities Research estimates.

Exhibit 43: MSCI China Banks P/E progression



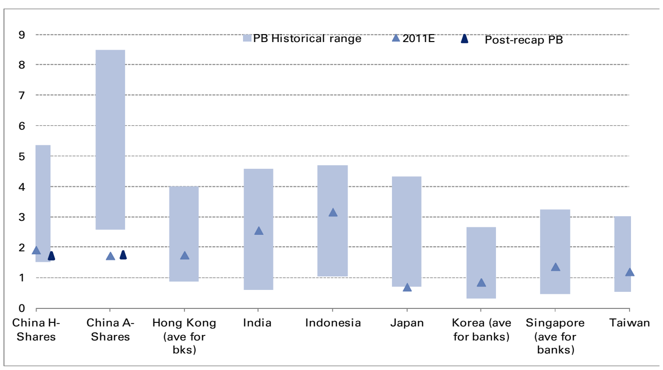
Source: FactSet, I/B/E/S, GS Global ECS Research.

Exhibit 44: CSI300 China Banks P/E progression



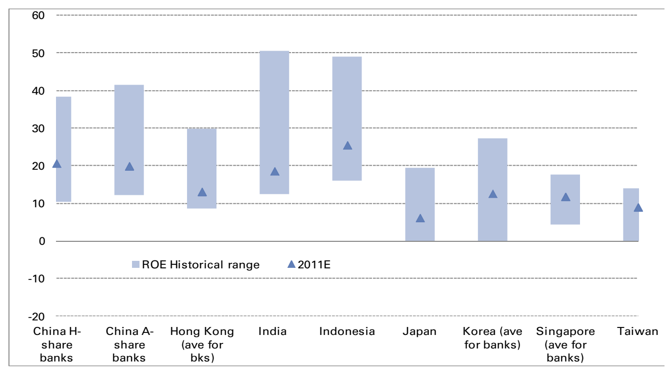
Source: FactSet, I/B/E/S, GS Global ECS Research.

Exhibit 45: Regional banks' P/B at a glance



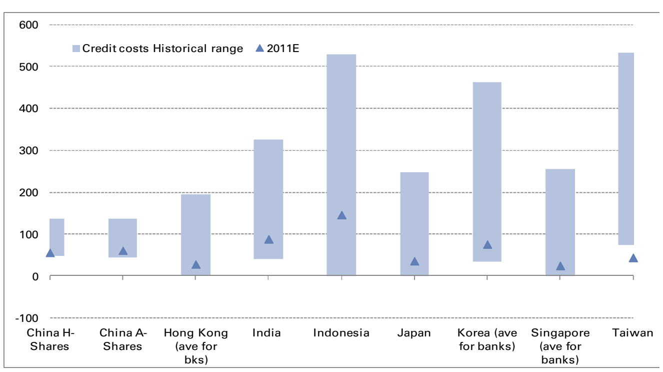
Source: MSCI, CSI, FactSet, I/B/E/S, Goldman Sachs Research estimates

Exhibit 46: Regional banks' ROE at a glance



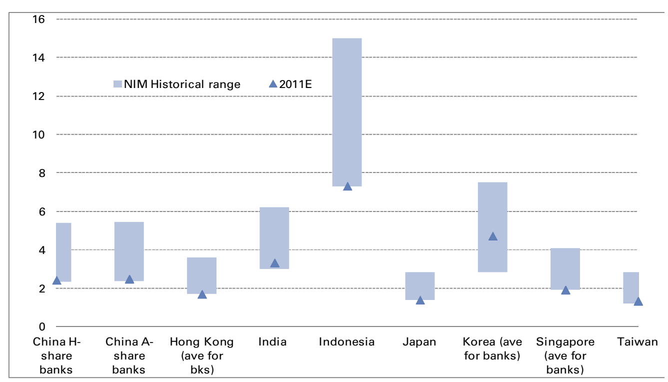
Source: MSCI, CSI, FactSet, I/B/E/S, Goldman Sachs Research estimates.

Exhibit 47: Regional banks' credit costs at a glance



Source: FactSet, I/B/E/S, Goldman Sachs Research estimates.

Exhibit 48: Regional banks' NIM at a glance



Source: FactSet, I/B/E/S, Goldman Sachs Research estimates.

We still like insurance/brokers' fundamentals, but prefer to OW banks within financials now because:

- **Banks may have more explicit catalysts**: We think the removal of LGP and CAR overhangs in the coming couple of months, assuming an outcome in line with or better than our estimates, would drive a meaningful multiple re-rating for the banks. Insurance will also benefit from potentially rising yields and stock market returns, but with less of an explicit event or catalyst timeline.
- **Insurance/brokers have meaningfully outperformed recently**: As Exhibits 40 and 41 above show, insurance and brokers have outperformed the MSCI China and CSI300 by 8%-10% in the past month. We think their valuations remain reasonable and are still positive on the sector outlook. But, we think they (particularly insurance) are more of a 'consensus' overweight now. We feel that some investors have started to increase their weightings in the banks, but that it is not yet an overweight in many portfolios.
- **There may be better entry points for the brokers:** Valuations for brokers still have room to expand from their current mid-cycle levels, in our view (particularly given our constructive view on the market, which will likely imply stronger turnover). Nonetheless, given their very aggressive run in October, we think there may be better entry points given a potentially volatile path.

Selectively adding transportation to the cyclical line-up

Given our more bullish than consensus view on investment going into 2011E, we believe that investors should have reasonable exposure to cyclicals. However, we prefer cyclicals that have more domestic reliance as it may be too early to dive into global deep cyclicals. We maintain our Overweight on industrials and building materials (see our Sept. 17 report titled 'Policy mix drives focused returns' for more details) and add transportation as a laggard.

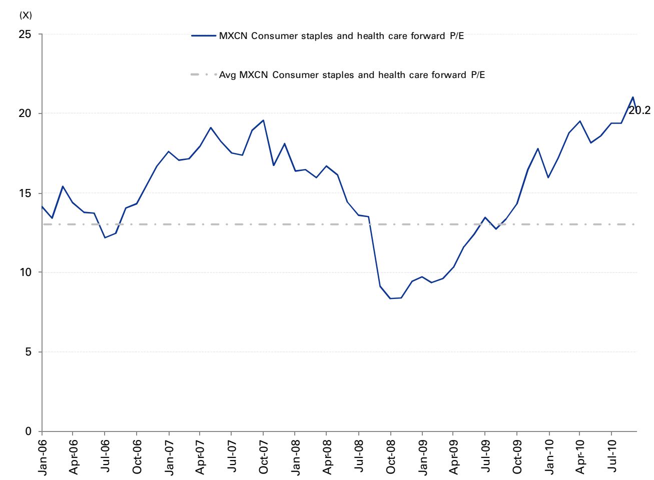
- **Transportation is attractively valued and likely to benefit from more activity**. We like:
  - **Bulk shipping** – due to expectations of strong investment in China, higher BDI and rates. Valuations are just a touch above mid-cycle. We think the cold winter, rate improvements and potential positive surprises on investment are all catalysts.
  - **Container shipping** – as supply/demand balance is favorable medium-term. Valuations are below mid-cycle and any stabilization of freight rates or a continuously weak USD could be catalysts. However, on a three to six month time-frame, we expect container shipping to underperform bulk as rates are likely to soften on seasonally weaker demand and accelerating supply until 2Q11.
  - **Airlines** – multiples have expanded significantly, but we still think high-speed rail cannibalization effect is over-played, and expect sector multiples to expand to 2007 peak levels as airlines achieve peak profitability.
- **Industrials have re-rated to some extent but are still not expensive**. We still like machinery's domestic growth story, policy support outlook, R&D/high tech exposure and eventual longer-term global market share gain potential.
- **Building materials remain at slightly below mid-cycle multiples.** We think the reduction in redundant capacity is a longer-term theme that should continue to push up cement prices, particularly in our more favored north-eastern and northern regions. Valuations have caught up a bit but have not expanded markedly, as they have for coal or diversified mining.

Less favorable on staples and utilities

We are reducing staples from Overweight (offshore) to Neutral and utilities from Neutral (onshore and offshore) to Underweight. Aside from generally shifting weight towards higher beta, some recent observations include:

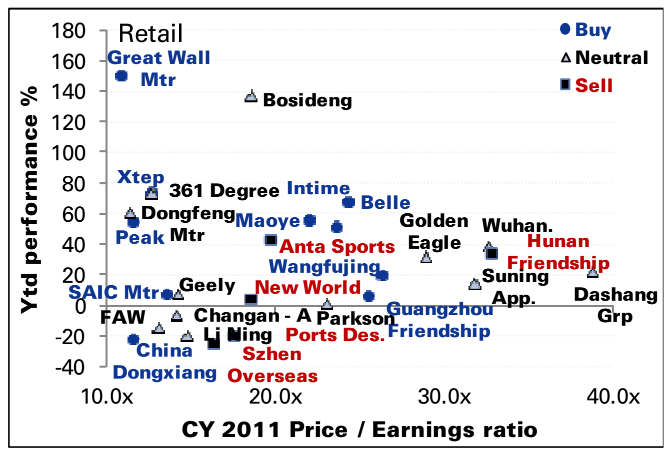
- **Staples:** Despite lagging the past few weeks, staples remain one of the best performing sectors YTD. While we believe a decline in raw material prices will lead to margin expansion over time, inflation has been sticker than expected so far. We think that retail fits better within the 'trading up' theme, adhering to the 'wealth redistribution' and 'higher wages' objectives.
- **Utilities**: Our analysts' updated IPP estimates already reflect one regional (not nationwide) tariff hike to be effective January 1, 2011E. While the government may consider some staggered tariffs for higher consumption homes going forward, residential electricity consumption is a small proportion of overall consumption.

Exhibit 49: Consumer staples' valuations are nearing peak levels



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

Exhibit 50: Retail stocks show significant dispersion, still some laggard names with GARP characteristics



Source: Goldman Sachs Research estimates.

Can we be positive on the market without being positive on property? Yes, we believe a de-coupling is underway

Historically, property has been highly correlated with the market performance, likely for two "perceptions"-type reasons which we think are not valid:

Perception 1): The property market is the leading determinant of investment and economic activity: Although property itself is around a quarter of total investment, roughly half of property GFA is non-residential. The current tightening policies are centered on residential commodity property, which is only about a third of total property investment in 2009. With more emphasis on social housing, we think investment demand could see some cushioning that may partly offset a slowdown in commodity housing growth. Moreover, we note that construction starts and in progress have seen a dramatic pick-up recently and would point to very strong investment growth in the near- to medium term, even accounting for some potential project delays in commodity residential housing.

Exhibit 51: GFA breakdown shows only about half the property market is residential; moreover commodity residential property is only a portion of this

sqm mn	Floor space completed-Total	yoy %	Floor space completed-Residential	yoy %	Floor space completed-Non-residential	yoy %
2005	1,103	*14%*	611	*10%*	492	*19%*
2006	1,121	*2%*	594	*-3%*	527	*7%*
2007	1,270	*13%*	661	*11%*	609	*16%*
2008	1,281	*1%*	658	*0%*	623	*2%*
2009	1,574	*23%*	789	*20%*	785	*26%*

Source: NBS, CEIC, GS Global ECS Research.

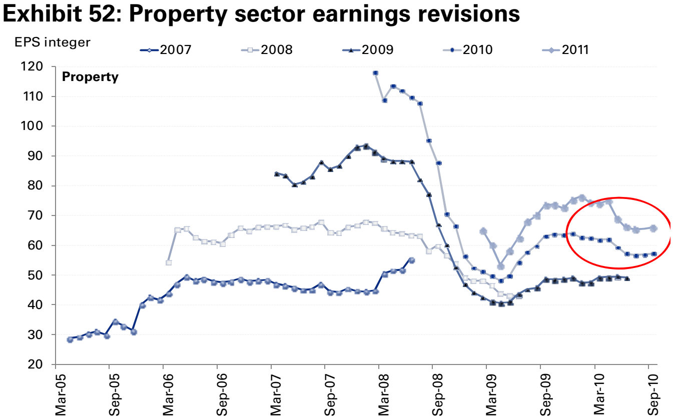
Perception 2): ASP declines would lead to banking systemic risks: Even though mortgage loan-to-value may be 60%-70%, a 20%-30% 'worst-case' ASP decline may not result in negative equity. Average loans may be priced off 2006-2007 property ASP levels, for example, rather than say, April 2010 peak levels. So a 20%-30% pullback from peak levels may still not put the vast majority of mortgages at risk. Most families are not over-leveraged, and the property developers are in better financial shape now than in the 2008 cycle as well.

When is the right time to OW property stocks?

We think that sectoral risks will be even more fully reflected once we have seen:

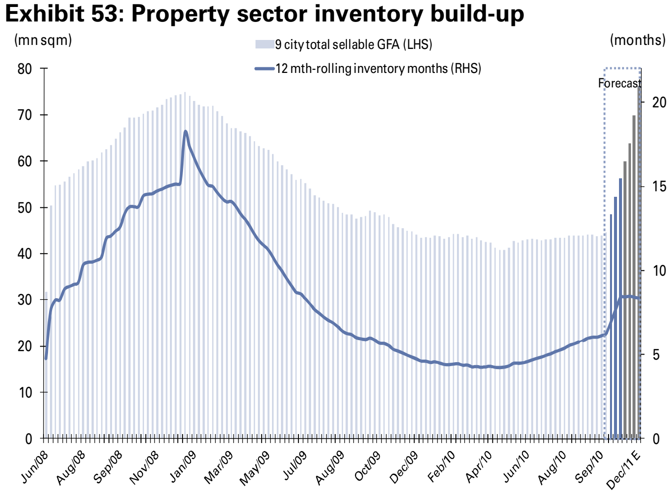
- Additional tightening policies announced to stimulate developers to put more supply into the market (like pre-sale proceeds restrictions, etc).
- More clear evidence of a price-cutting cycle starting, driving sectoral earnings to be more reflective of our view. We think this would also further lift the policy overhang on the sector.

Exhibit 52: Property sector earnings revisions



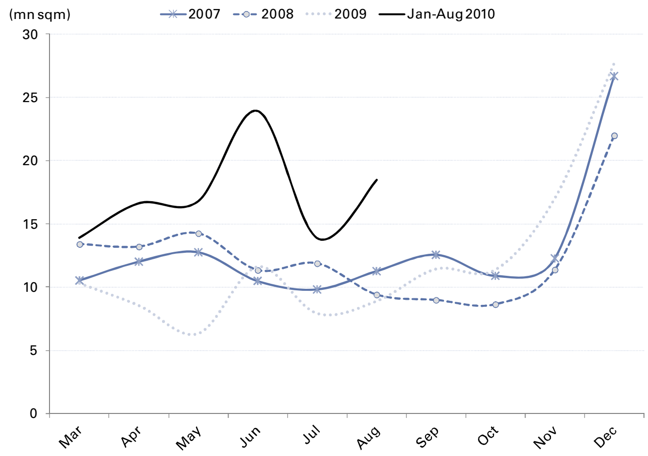
Source: NBS, CEIC, GS Global ECS Research.

Exhibit 53: Property sector inventory build-up



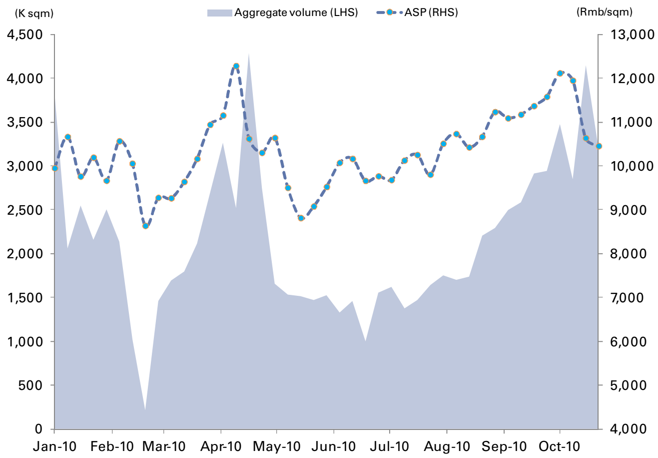
Source: NBS, CEIC, GS Global ECS Research.

Exhibit 54: Construction starts have surged



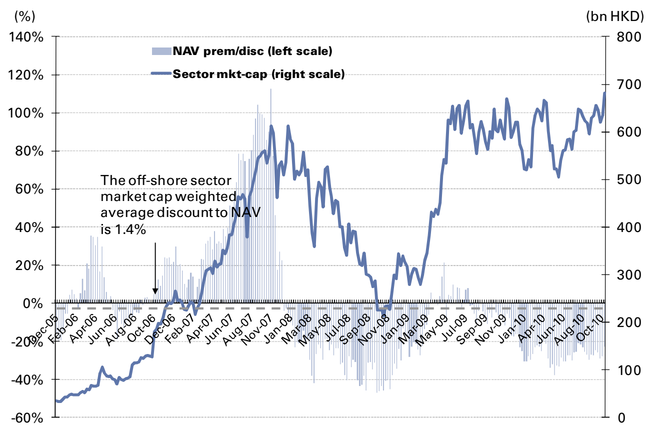
Source: NBS, CEIC, GS Global ECS Research.

Exhibit 55: ASPs and volumes pulled back in early October post policy announcements, but it remains to be seen whether this is mainly a holiday effect



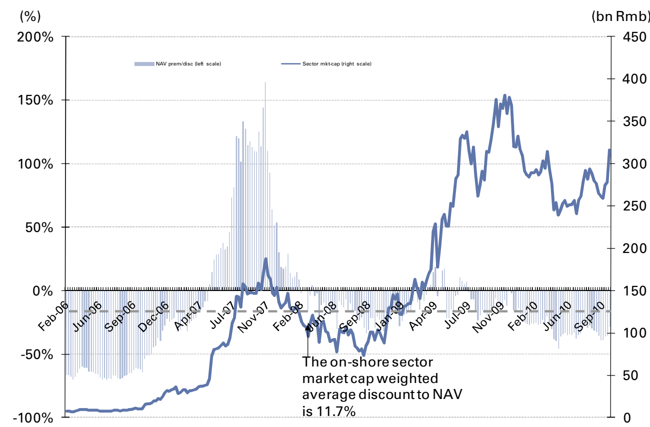
Source: NBS, CEIC, GS Global ECS Research.

Exhibit 56: NAV discounts offshore



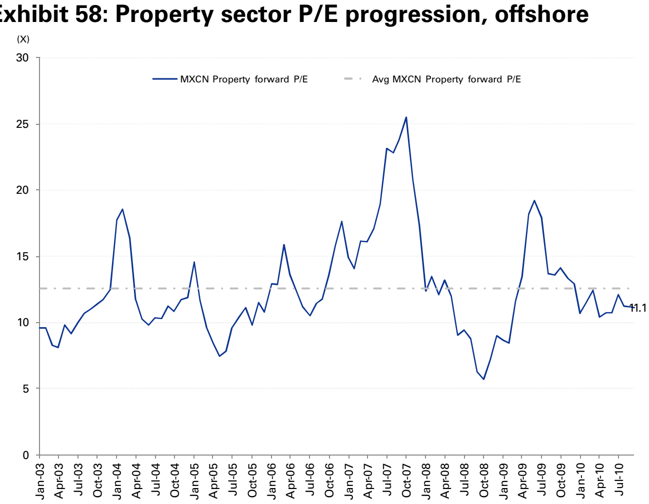
Source: FactSet, I/B/E/S, GS Global ECS Research.

Exhibit 57: NAV discounts onshore



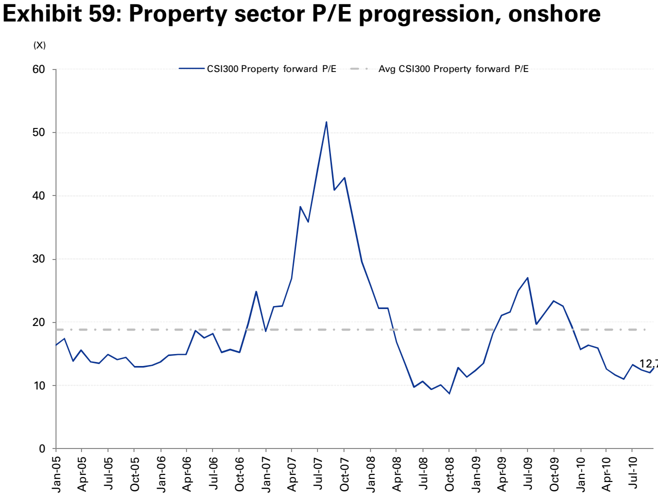
Source: FactSet, I/B/E/S, GS Global ECS Research.

Exhibit 58: Property sector P/E progression, offshore



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

Exhibit 59: Property sector P/E progression, onshore



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

Liquidity likely to outweigh capital raising overhang

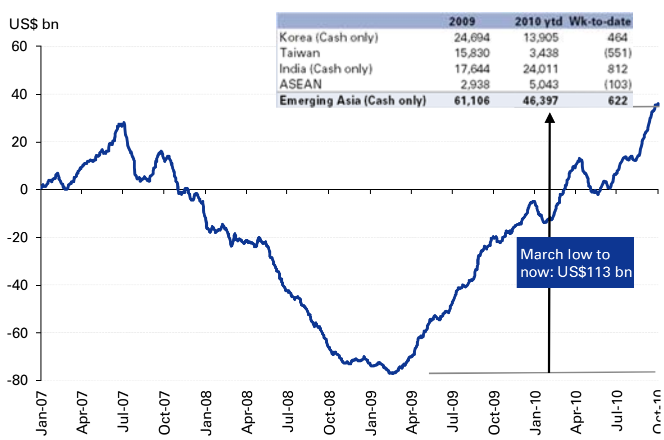
We believe liquidity (developed to emerging markets, fixed income to equities, new account openings) has been one underlying driver of equity market performance recently, and will continue to be. Any reversal in the fund flow position is unlikely to drag down China first as offshore equities have lagged other regional markets in performance this year, and A-share equities have underperformed other investment options. Some investors are concerned regarding the fundraising pipeline, but 2010 YTD deals have been well-absorbed. The pipeline is big and represents a potential risk, but is not excessively burdensome as a percentage of market cap.

Liquidity outlook is favorable; any reversal may not hit China first

We have seen, and are likely to continue to see, the following supportive factors with regards to liquidity:

- loose monetary conditions globally,
- increasingly evident divergence in developed markets vs. emerging markets growth outlook and returns, and
- investors are relatively more cautiously positioned in Chinese stocks vs. some more high-flying ASEAN and Indian markets.

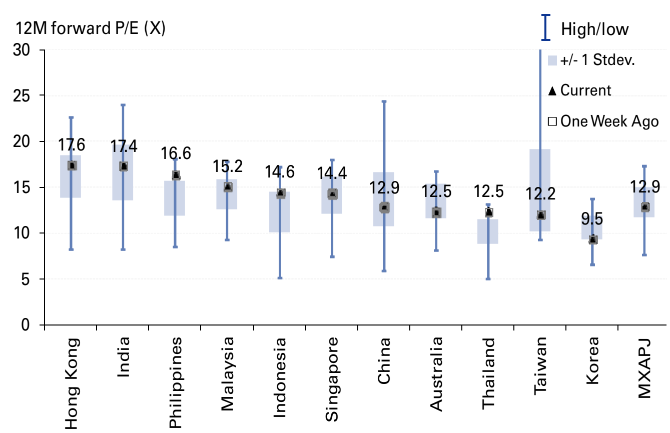
Exhibit 60: Foreign buying has been a key support factor of Asian markets in 3Q10…



	2009	2010 ytd	Wk-to-date
Korea (Cash only)	24,694	13,905	464
Taiwan	15,830	3,438	(551)
India (Cash only)	17,644	24,011	812
ASEAN	2,938	5,043	(103)
Emerging Asia (Cash only)	**61,106**	**46,397**	**622**

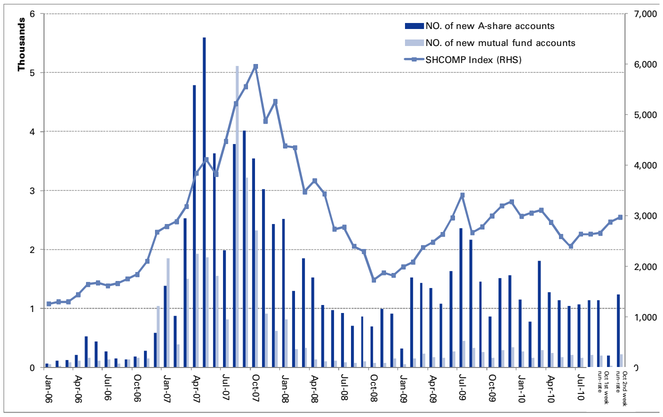
Source: AMG, Bloomberg, Reuters, GS Global ECS Research.

Exhibit 61: …but investors are not likely to exit China first given cheaper valuation and underperformance



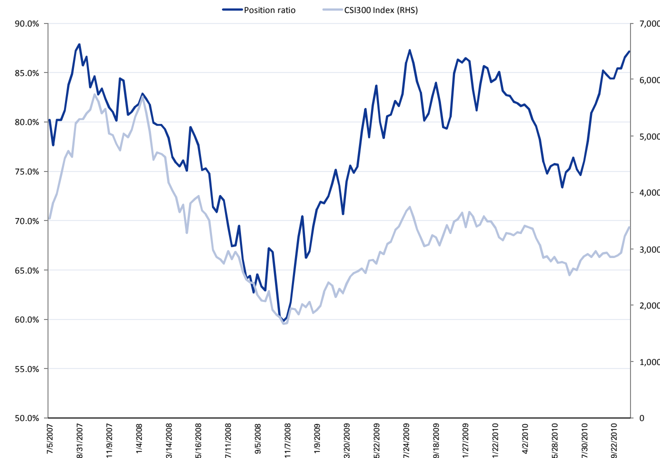
Source: FactSet, I/B/E/S, MSCI, GS Global ECS Research.

Exhibit 62: A-share account openings tend to pick up once the market has rallied



Source: Wind, CEIC, GS Global ECS Research.

Exhibit 63: A-share fund positions, however, are high



Source: Desheng Fund Research Centre, Bloomberg, GS Global ECS Research.

Fundraising pipeline is large, but not excessive as a % of market cap

Investors have remarked to us about that perception of a ramp-up in fundraising in 3Q10E, expressing concerns over further fundraising overhang. Our analysis of fundraising (both primary and secondary) in the China offshore and onshore markets YTD indicate:

- **Recently, deal flow did pick up offshore, but not yet onshore**: Excluding the bump-up from the Agricultural Bank of China IPO in August, A-share market IPOs were bigger in 1H10 vs. 2H10 so far.
- **Deal size has been quite small as a percentage of market cap**: For both markets, IPOs accounted for 1%-2% of market cap YTD, small vs. the historical range of 2%-3%.
- **Post-IPO performance has been fairly stable**, with few pronounced trends in terms of weak after-listing trading. Generally, YTD smaller caps have outperformed larger caps.
- **Secondary fundraisings** have picked up again in Aug/Sept offshore, but remain negligibly small onshore.
- **Sector concentration** for both primary and secondary has focused on financials, industrials, materials, and consumer.

In terms of IPO pipeline, we estimate a significant number of deals but a still accounting for a small percentage of market cap, based on available information from IFR. We note that the primary issuance calendar can be quite responsive to market conditions – if the market moves up strongly as we expect, we do anticipate the fundraising size to grow both due to more deals and more aggressive pricing. Of course, should this reach an excessive level, the market will likely react and the deal pipeline and pricing will 'self-adjust' accordingly.

Exhibit 64: Offshore IPOs by month and as % of market cap

2010	# of IPOs	Fund raising (USD mn)	% of total fundraising	% of beg of month market cap
Jan	2	2,637	10%	0.11%
Feb	5	895	3%	0.04%
Mar	6	846	3%	0.04%
Apr	3	397	2%	0.02%
May	5	1,197	5%	0.05%
Jun	6	527	2%	0.02%
Jul	9	12,652	49%	0.57%
Aug	4	257	1%	0.01%
Sep	8	1,245	5%	0.05%
Oct	16	4,942	19%	0.19%
Total	64	25,594	100%	1.11%

Note: 1) Only IPO deals listed in HK stock exchange included here
2)Listing by introduction is not included this analysis

Source: Wind, FactSet, GS Global ECS Research.

Exhibit 65: Onshore IPOs by month and as % of market cap

2010	# of IPOs	Fund raising (USD mn)	% of total fundraising	% of beg of month market cap
Jan	37	7,073	12%	0.16%
Feb	24	6,898	11%	0.17%
Mar	30	3,830	6%	0.09%
Apr	30	5,050	8%	0.12%
May	26	5,029	8%	0.12%
Jun	28	4,537	7%	0.12%
Jul	25	13,446	22%	0.39%
Aug	31	7,416	12%	0.19%
Sep	29	5,323	9%	0.13%
Oct	16	2,545	4%	0.06%
Total	276	61,146	100%	1.40%

Note: 1) Only IPO deals listed in China domestic market included here
2)Listing by introduction is not included this analysis

Source: Wind, FactSet, GS Global ECS Research.

Exhibit 66: Offshore IPO YTD by sector

Sector	# of IPOs	Fund raising (USD mn)	% of total fundraising
Consumer Discretionary	15	3,020	12%
Consumer Staples	6	726	3%
Energy	4	1,887	7%
Financials	8	12,925	50%
Health Care	4	547	2%
Industrials	12	2,634	10%
Information Technology	4	481	2%
Materials	10	3,362	13%
Telecom	1	11	0%
Total	64	25,594	100%

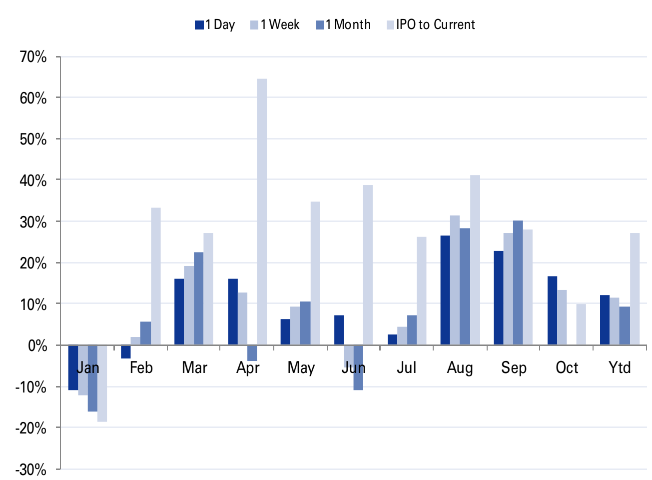
Source: Wind, FactSet, GS Global ECS Research.

Exhibit 67: Onshore IPO YTD by sector

Sector	# of IPOs	Fund raising (USD mn)	% of total fundraising
Consumer Discretionary	39	5,746	9%
Consumer Staples	12	1,461	2%
Energy	5	1,142	2%
Financials	5	16,753	27%
Health Care	21	4,293	7%
Industrials	69	14,627	24%
Information Technology	67	9,316	15%
Materials	54	6,737	11%
Telecom	1	117	0%
Utilities	3	953	2%
Total	276	61,146	100%

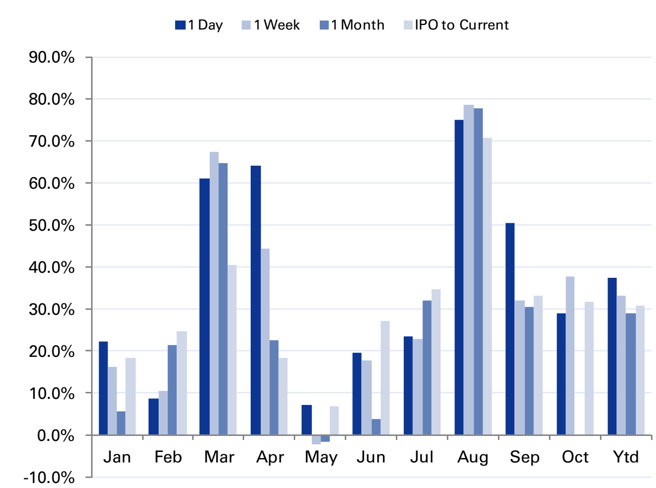
Source: Wind, FactSet, GS Global ECS Research.

Exhibit 68: Offshore IPO performance by month



Source: Wind, FactSet, GS Global ECS Research.

Exhibit 69: Onshore IPO performance by month



Source: Wind, FactSet, GS Global ECS Research.

Exhibit 70: Offshore secondary offerings by month and as a % of market cap

2010	# of secondary offerings	Fund raising (USD mn)	% of total fundraising	% of beg of month market cap
Jan	58	2,202	15%	0.01%
Feb	32	2,878	19%	0.02%
Mar	52	2,704	18%	0.02%
Apr	57	2,271	15%	0.01%
May	28	739	5%	0.00%
Jun	30	714	5%	0.00%
Jul	23	616	4%	0.00%
Aug	28	1,076	7%	0.01%
Sep	28	1,585	10%	0.01%
Oct	13	370	2%	0.00%
Total	349	15,155	100%	0.66%

Source: Wind, FactSet, GS Global ECS Research.

Exhibit 71: Onshore secondary offerings by month and as a % of market cap

2010	# of secondary offerings	Fund raising (USD mn)	% of total fundraising	% of beg of month market cap
Jan	9	52	3%	0.00%
Feb	8	63	4%	0.00%
Mar	12	205	13%	0.00%
Apr	10	344	21%	0.00%
May	14	16	1%	0.00%
Jun	14	164	10%	0.00%
Jul	15	24	1%	0.00%
Aug	6	569	35%	0.00%
Sep	9	82	5%	0.00%
Oct	14	105	6%	0.00%
Total	111	1,624	100%	0.04%

Source: Wind, FactSet, GS Global ECS Research.

Exhibit 72: IPO pipeline

	No. Deals		Fund raising (USD mn)		% of curr mkt cap	
Sector	CH	HK	CH	HK	CH	HK
Consumer Staples	0	1	0	1,000	0.00%	0.04%
Energy and Power	2	14	1,640	10,570	0.04%	0.39%
Financials	6	4	7,306	18,750	0.16%	0.70%
Healthcare	0	4	0	1,050	0.00%	0.04%
Industrials	6	18	6,791	19,855	0.15%	0.74%
Materials	1	9	1,491	2,762	0.03%	0.10%
Media	1	2	298	250	0.01%	0.01%
Real Estate	1	13	89	7,100	0.00%	0.26%
Retail	0	6	0	1,450	0.00%	0.05%
Technology	0	3	0	285	0.00%	0.01%
Transportation	2	1	675	175	0.01%	0.01%
Total	19	75	18,291	63,247	0.40%	2.36%

Source: Bloomberg, IFR, GS Global ECS Research.

Implementation and top stock picks

Exhibit 73: GS/GH 2011E China top picks by sector and theme

GS Sector	GS strategy preference: Sector view HK	GS strategy preference: Sector view A	Themes: Consumption/wage increase	Themes: Infrastructure/social housing	Themes: Macro policy normalization	Themes: R&D/ Resources saving
Banks	OW	OW			China CITIC Bank(998 HK, Buy), China Merchants Bank (A) (600036.SS, CL-Buy), Industrial Bank (601166.SS, Buy)	
Building materials, paper, packaging	OW	OW		Anhui Conch(0914.HK, Buy)		Anhui Conch(0914.HK, Buy, HK$34.85)
Industrials, conglomerates, business services	OW	OW		Guangxi Liugong (000528.SZ, Buy)		
Retail, hotels, consumer durables and apparel	OW	OW	Guangzhou Friendship (000987.SZ, Buy), Peak Sport Products(1968.HK, CL-Buy)			
Transportation	OW	OW	China Eastern Airlines (H) (0670.HK, CL-Buy)	China COSCO Holdings (A) (601919.SS, CL-Buy); China Cosco Holdings (H) (1919.HK, Buy)		
Autos and components	Neutral	Neutral	SAIC Motor (600104 CG, Buy)			
Chemicals	Neutral	Neutral			Hubei Yihua Chemical Industry (000422.SZ, CL-Buy),	
Computer hardware/assemblers	Neutral	Neutral				
Consumer staples and health care	Neutral	Neutral	China Yurun(1068.HK, CL-Buy, HK$30.40)			
Diversified mining, precious metals	Neutral	Neutral				
Insurance and other financial services	Neutral	Neutral	Ping An (2318.HK, Buy); Ping An (A) (601318.SS, CL-Buy)			
Property	Neutral	Neutral			China Vanke(000002.SZ, CL-Buy, Rmb9.20); Evergrande(3333.HK, CL-Buy, HK$3.13)	
Software and services	Neutral	Neutral				AsiaInfo-Linkage (ASIA US, Buy)
Steel, aluminium	Neutral	Neutral		Baoshan Iron & Steel (600019.SS, CL-Buy), Angang (0347.HK, Buy)		Baoshan Iron & Steel (600019.SS, CL-Buy), Angang (0347.HK, Buy)
Oil and gas	Neutral	UW				
Telecommunication services	UW	Neutral				
Utilities	UW	UW				

Source: MSCI, CSI, FactSet, I/B/E/S, GS Global ECS Research, Goldman Sachs Research estimates.

Exhibit 74: GS China Policy Momentum basket (GSCNPCLY) constituents and valuations

Ticker	Name	GS Sector	Weight	GS Rating	Quoted Currency	Price (Quoted)	6M ADVT (US$mn)	CY11E P/E	CY11E EPS growth	CY11E P/B	CY11E ROE	CY11E D/Y
1288.HK	ABC	Banks	9.6%	N	HKD	4.05	160.5	9.6	22.2%	1.7	17.9%	4.1%
0175.HK	Geely Automobile	Autos and components	9.5%	N	HKD	4.62	28.9	18.2	18.4%	3.0	16.6%	0.8%
CTRP.OQ	Ctrip	Retail, hotels, consumer durables and apparel	8.6%	N	USD	52	91.0	41.9	36.0%	7.5	17.9%	0.7%
0992.HK	Lenovo	Computer hardware/assemblers	8.1%	B	HKD	5.33	30.0	18.5	48.6%	3.4	18.3%	2.1%
1109.HK	China Resources Land	Property	7.7%	B	HKD	15.74	27.0	15.4	26.1%	1.6	10.7%	1.8%
0914.HK	Anhui Conch Cement (H)	Building materials, paper, packaging	7.6%	B	HKD	34.3	22.9	18.3	24.9%	2.7	14.8%	1.1%
2601.HK	China Pacific Insurance	Insurance and other financial services	7.3%	N	HKD	33.05	32.8	22.7	28.0%	2.6	11.6%	1.4%
MR.N	Mindray	Consumer staples and health care	7.0%	N	USD	29.16	30.2	17.8	14.7%	3.3	18.8%	1.1%
3333.HK	Evergrande Real Estate	Property	6.4%	B*	HKD	3.12	17.2	5.3	31.6%	1.5	28.5%	2.3%
1044.HK	Hengan Intl	Consumer staples and health care	6.3%	B	HKD	71.3	16.0	27.0	23.4%	7.7	28.4%	2.3%
2319.HK	China Mengniu Dairy	Consumer staples and health care	6.2%	B	HKD	23.35	18.7	19.6	36.9%	3.1	16.0%	1.1%
3818.HK	China Dongxiang	Retail, hotels, consumer durables and apparel	5.2%	B	HKD	4.51	14.8	11.9	17.7%	2.4	20.5%	6.0%
0323.HK	Maanshan Iron & Steel (H)	Steel, aluminium	4.9%	B	HKD	4.73	14.6	13.3	55.0%	1.0	7.8%	2.6%
3339.HK	Lonking	Industrials, conglomerates, business services	3.8%	N	HKD	4.39	5.2	10.8	15.1%	2.9	26.9%	2.7%
0848.HK	Maoye Intl	Retail, hotels, consumer durables and apparel	1.7%	B	HKD	3.35	2.0	21.0	32.4%	3.4	16.0%	1.4%
China policy momentus basket							118.8	13.8	27.7%	2.3	16.7%	2.2%
MSCI China								12.7	16.5%	2.1	16.2%	2.8%

Note: Weightings shown above are post-adjustments to odd lots and trade size of US$10mn for illustrative purpose. N=Netral, B=Buy, * Indicates the stock is on our Convinction list

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

Source: I/B/E/S, FactSet, Goldman Sachs Research estimates, GS Global ECS Research.

2011 outlook by sector

Agrochemicals: Fertilizer re-rating on strengthening fundamentals

Analyst: Jessie Pinglun Lai (jessie.p.lai@ghsl.cn)

Sector stance

2011 sector outlook:

We expect to see: a) rising domestic fertilizer prices, supported by favorable Chinese farmer economics and near record high premium between international spot and domestic prices since the commodities boom in 2008; b) tight North America fertilizer inventories supporting global phosphate and potash fertilizer prices; c) rising and normalizing fertilizer demand, up from below normalized levels in 2010. We expect phosphate and potash producers to show stronger earnings growth and more revision potential (on tighter global inventories and less oversupply in China), while urea producers would see more modest margin gains as we expect coal and gas costs to increase as well. We favor stocks with vertical integration (more control over raw material costs) and exposure to phosphate and potash fertilizers; and avoid stocks with high exposure to urea that do not have cost leadership. Within pesticides, we favor pesticide stocks with a diversified product mix, strong R&D and cost leadership.

Key themes/issues and our view:

1) **China fertilizer prices to rally further:** We expect domestic fertilizer prices to catch up with higher global prices when Chinese export season begins in Nov-Dec 2010, and expect elevated prices to continue into 1H2011 as we believe Chinese farmers will invest more in yields to benefit from rising crop prices.

2) Industry consolidation for urea fertilizers and pesticides: We expect consolidation to accelerate, triggered by below historical average returns for urea producers (squeezed by high raw material costs and limited raw material availability) and government-driven shutdowns (stricter environmental and energy efficiency regulations and relocations). We expect integrated cost leaders such as China BlueChemical, Hubei Yihua and Xinan Chemical to gain market share in 2011 and 2012.

3) Potash and phosphate resource scarcity value to re-emerge: We expect global M&A activity in potash and high-quality phosphate assets to support premium valuations for these two subsectors.

What surprised us in 2010:

1) Earlier-than-seasonal rally in fertilizer prices driven by stronger-than-expected exports on robust global demand; 2) extreme weather hurting fertilizer demand.

How we differ from consensus on earnings outlook:

We are in line to below consensus on sector earnings outlook as we have factored in higher raw material costs, expecting further gas price hikes and rising coal prices for 2011E-2012E. We expect higher earnings upside revision potential for distributors and producers with exposure to phosphates and potash.

Current sector valuation: Chinese fertilizers are trading at an average 24X 2011E P/E (average 24X), above mid-cycle of 18X but below last 24 months' average of 28X. Chinese pesticides are trading at an average 24X, slightly below mid-cycle of 26X.

Valuation outlook: We expect fertilizers to see multiple expansion over the next 3-6 months given the improving fundamental outlook, while pesticide valuations will likely remain range-bound given already steep valuations and lack of clarity of 2011E demand outlook (dependent on winter conditions).

Key risks to our views:

1) Adverse weather conditions; 2) sharp spikes in coal/gas raw material costs; 3) decline in crop prices.

Stock recommendations (offshore)

Favored #1: Sinofert (0297.HK, Buy)

Reasons/catalysts: 1) Best beneficiary of rising fertilizer prices as inventory costs are already locked in; 2) attractive valuations (below mid-cycle).

Stock recommendations (A-share)

Favored #1: Hubei Yihua (000422.SZ, Buy, Conviction List)

Reasons/catalysts: 1) High earnings sensitivity to rising urea, phosphate and PVC prices; 2) overall cost leadership across its key products; 3) earnings-accretive asset injection from parent.

Favored #2: Yangnong Chemical (600486.SS, Buy)

Reasons/catalysts: 1) One of China's largest insecticide producers and diversified customer portfolio; 2) potential M&A.

Avoid #1: Noposion (002215.SZ, Sell)

Reasons/catalysts: 1) Higher selling and distribution expenses to manage broader retail client base; 2) premium valuations not justified given lack of clarity for pesticide demand in 2011E.

Avoid #2: Lier Chemical (002258.SZ, Sell)

Reasons/catalysts: 1) Declining margins due to intense price competition from new Chinese competitors; 2) negative earnings surprises.

Exhibit 75: Chemicals – stock valuations

Ticker	Name	Rating	Currency	Price	Target Price	+/- to TP (%)	US$ Mn		CY 2011 E			
							Mcap	6m ADVT	P/E (x)	P/B (x)	DY (%)	EV / EBITDA
297 HK	Sinofert Hldgs	B	HKD	4.4	5.4	23%	3,962	8	17.6	1.8	0.6	19.3
3983 HK	China BlueChem.	N	HKD	6.4	5.7	-11%	3,814	4	19.4	2.2	1.7	9.2
000578 CS	Qinghai Salt Lake Industry	S	CNY	31.1	12.3	-60%	14,343	17	51.7	9.1	0.8	25.5
000792 CS	Qinghai Salt Lake Potash	N	CNY	70.7	47.4	-33%	8,150	50	32.3	9.9	0.8	15.8
600309 CG	Yantai Wanhua Polyurethanes	N	CNY	20.6	20.0	-3%	5,136	39	15.8	4.6	1.7	11.2
600143 CG	KingFa Science & Tech.	S	CNY	14.0	5.6	-60%	2,941	17	47.3	5.8	1.0	25.8
600096 CG	Yunnan Yuntianhua	N	CNY	28.5	22.9	-20%	2,523	27	28.6	3.2	1.2	13.2
600596 CG	Zhejiang Xinan Chem. Industrial	N	CNY	17.5	10.9	-38%	1,841	38	38.2	2.8	1.1	17.0
000422 CS	Hubei Yihua Chem. Industry	B*	CNY	24.0	24.5	2%	1,953	37	22.2	2.9	0.9	6.9
002250 CS	Lianhe Chem. Tech.	N	CNY	34.2	24.7	-28%	1,262	8	27.0	7.9	1.3	17.8
600426 CG	Shandong Hualu Hengsheng Chem.	N	CNY	17.2	18.2	6%	1,280	21	21.8	1.8	0.7	9.3
002215 CS	Shenzhen Noposion Agrochem.	S	CNY	29.0	21.5	-26%	965	5	31.5	4.7	1.3	21.6
600486 CG	Jiangsu Yangnong Chem.	B	CNY	27.5	25.8	-6%	710	11	27.2	2.6	0.6	8.9
002258 CS	Lier Chem.	S	CNY	19.3	12.7	-34%	587	7	29.7	4.8	3.2	19.9

B = Buy, H = Hold, S = Sell. Pricing as at market close on 25 October, 2010. *Indicates the stock is on the Conviction List.

For important disclosures, please go to http://www.gs.com/research/hedge.html. For methodology and risks associated with our price targets, please see our previously published research.

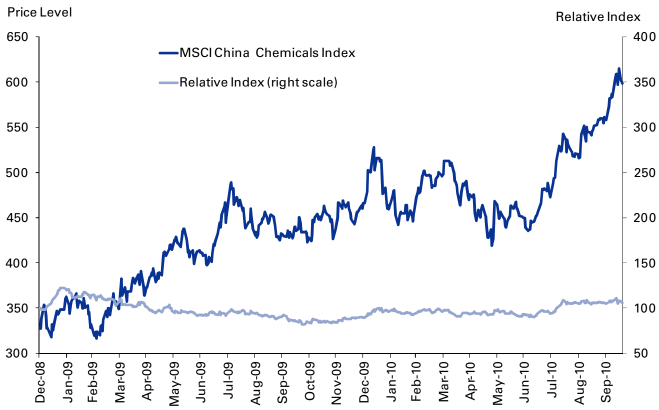
Source: FactSet, I/B/E/S, Goldman Sachs Research estimates, Gao Hua Securities Research estimates.

Exhibit 76: Chemicals – stock fundamentals (2011E)

Ticker	Name	EPS Growth (%)	Revenue Growth (%)	EBITDA Growth (%)	EBITDA Margin (%)	EBIT Margin (%)	Net Margin (%)	ROE (%)	Total debt/Equity	Asset T/O (x)	Net Debt / Equity
297 HK	Sinofert Hldgs	75.8	17.9	78.1	4.5	3.7	3.9	10.2	0.5	7.0	0.5
3983 HK	China BlueChem.	7.2	29.5	17.9	31.8	19.4	14.4	10.2	0.2	0.7	0.1
000578 CS	Qinghai Salt Lake Industry	-16.0	-1.1	-13.5	46.6	42.0	22.2	11.6	0.3	0.5	0.2
000792 CS	Qinghai Salt Lake Potash	5.2	3.0	5.1	52.0	48.2	27.0	17.0	0.0	1.3	-0.3
600309 CG	Yantai Wanhua Polyurethanes	75.2	47.3	75.3	25.6	21.0	16.7	24.5	0.4	1.6	0.3
600143 CG	KingFa Science & Tech.	9.5	30.3	17.1	7.0	5.7	3.3	11.1	1.1	5.9	0.8
600096 CG	Yunnan Yuntianhua	32.7	22.8	14.4	26.6	14.2	7.7	8.2	1.7	0.5	1.4
600596 CG	Zhejiang Xinan Chem. Industrial	18.9	26.1	15.9	11.0	6.7	5.1	6.9	0.1	1.8	-0.1
000422 CS	Hubei Yihua Chem. Industry	-4.6	22.6	8.4	20.3	13.8	5.6	8.8	0.7	1.4	0.2
002250 CS	Lianhe Chem. Tech.	48.2	38.5	44.8	19.0	16.2	12.2	29.2	0.3	2.6	0.2
600426 CG	Shandong Hualu Hengsheng Chem.	-17.8	8.5	12.8	23.6	12.9	9.3	8.4	0.5	0.8	0.2
002215 CS	Shenzhen Noposion Agrochem.	85.0	44.0	67.7	12.1	10.6	8.6	14.5	0.1	4.2	-0.1
600486 CG	Jiangsu Yangnong Chem.	14.5	16.8	14.5	22.5	11.0	9.4	9.3	0.1	1.6	-0.5
002258 CS	Lier Chem.	59.2	87.3	80.1	19.7	17.2	12.9	15.6	0.3	2.3	0.1

Source: FactSet, I/B/E/S, Goldman Sachs Research estimates, Gao Hua Securities Research estimates.

Exhibit 77: Offshore Chemicals performance



Source: FactSet, MSCI, GS Global ECS Research

Exhibit 78: Onshore Chemicals performance

Source: FactSet, GS Global ECS Research

Airlines: Favorable operating environment; HSR threat overblown

Analyst: Hino Lam (hino.lam@gs.com)

Sector stance

2011 sector outlook:
We expect a favorable demand and supply environment for Chinese airlines in 2011, as carriers are well positioned ahead of high speed rail (HSR) expansion plans. **On the domestic segment**, we expect domestic capacity growth to slow to 10% yoy, lower than the 14% yoy registered between 2001 and 2009. Meanwhile, we expect net demand growth to exceed capacity growth even after factoring in HSR traffic diversion. We forecast domestic traffic growth of 14.3% yoy, representing 1.4X our China GDP forecast. Contrary to market expectations, we do not expect significant high speed rail traffic diversion in 2011, as most key projects e.g. the Beijing-Shanghai line, are scheduled to operate in early 2012. With a favorable demand and supply balance, we expect load factors to improve to 79% by 2011E, resulting in a modest increase in yields by 1.0%, compared to market expectations of a yoy yield decline. **On international routes**, we expect international traffic to grow at a faster pace of 23% yoy in 2011E, underpinned by strong demand growth from tier-one cities. In our view, carriers including Air China (AC) and China Eastern Airlines (CEA) are better positioned to benefit from the traffic growth given higher exposure in international routes. However, we believe China Southern Airlines (CSA) may struggle to fill international seats as they begin to take delivery of A380s in 2011E, leading to depressed international load factors and yields.

Key themes/issues and our view:
1) Carriers to focus on developing premium international product: In anticipation of HSR traffic diversion post 2011, we expect airlines to focus on expanding the international product. We believe this development is timely as we expect more upside on international airfares to maintain earnings growth.

2) HSR impact less pronounced than market expectations: We estimate only 0.7% of 2011 demand growth will be diverted to the HSR. In our view, although diversion risks will likely peak in subsequent years, total traffic diversion is no more than 9% until 2016E, vs market expectations of a high double-digit traffic diversion scenario.

3) Continued strong tourism growth post Shanghai Expo: We expect tourism growth to continue in 2011, following 25% yoy 2010E growth, thanks to the Shanghai World Expo. Our research analyzing precedents for cities hosting the World Expo shows that six out of seven prior Expos achieved positive foreign visitor arrival growth the year following the event.

What surprised us in 2010:
1) Stronger-than-expected recovery in domestic yields; 2) degree of positive operating leverage leading to stronger-than-expected earnings.

How we differ from consensus on earnings outlook:
We are above consensus on sectoral earnings outlook due to our more sanguine outlook on international visitor arrivals and lower diversion risk from HSR to domestic routes.

Current sector valuation: The sector is currently trading between mid- and peak-cycle EV/FV multiples. In our view, the market is overly pessimistic on traffic diversion risks from HSR and has more than priced in a traffic slowdown in 2011E.

Valuation outlook: We expect multiples to further expand to peak levels by 2011E, underpinned by: 1) our expectation of airlines returning to peak cycle 2011E profitability, and 2) less traffic diversion than the market currently expects.

Key risks to our views:
Earlier-than-expected operation of HSR lines and slower-than-expected international traffic recovery.

Stock recommendations (offshore)

Favored #1: China Eastern Airlines (H) (0670.HK, Buy (Conviction List))
Reasons/catalysts: **1)** Focus on international product bodes well with robust 2011E international traffic growth, underpinning yield improvement; **2)** continued international tourism growth post Shanghai Expo to underpin earnings growth; **3)** stock trading at attractive valuations of 1.27X 2011E EV/FV vs. peer group average of 1.35X.

Avoid #1: China Southern Airlines (H) (1055.HK, Sell)

Reasons/catalysts: **1)** Among the three carriers, CSA is most vulnerable to HSR diversion risk, given its 85% domestic traffic exposure; **2)** expected negative free cash flows for 2011E-12E, as CSA takes delivery of five A380s; **3)** depressed international load factors and yields for A380s to weigh on profitability.

Stock recommendations (A-share)

Favored #1: China Eastern Airlines (A) (600115.SS, Buy)

Reasons/catalysts: The thesis and catalysts for CEA (A) are the same as those of the H shares. CEA (A) is trading at attractive valuations of 1.81X 2011E EV/FV vs. average 2011-12E ROF of 9.8%.

Avoid #1: China Southern Airlines (A) (600029.SS, Sell)

Reasons/catalysts: The thesis and catalysts for CSA (A) are the same as those of the H shares. CSA (A) is trading at 1.59X EV/FV relative to forward 2011E-12E ROF of 8.5%.

Exhibit 79: Airlines – stock valuations

Ticker	Name	Rating	Currency	Price	Target Price	+/- to TP (%)	US$ Mn Mcap	US$ Mn 6m ADVT	CY 2011 E P/E (x)	CY 2011 E P/B (x)	CY 2011 E DY (%)	CY 2011 E EV / EBITDA
753 HK	Air China Ltd - H	N	HKD	11.3	8.4	-26%	25,540	21	12.7	2.4	0.4	8.8
670 HK	China Eastern Airlines - H	B*	HKD	5.0	5.9	17%	10,571	10	11.5	2.4	-	5.8
1055 HK	China Southern Airlines - H	S	HKD	5.8	2.9	-50%	11,786	11	17.8	1.7	-	6.9
601111 CG	Air China - A	S	CNY	16.2	11.0	-32%	25,540	69	21.2	4.1	0.3	12.9
600029 CG	China Southern Airlines - A	S	CNY	12.0	5.6	-53%	11,786	69	42.4	4.1	-	11.9
600115 CG	China Eastern Airlines - A	B	CNY	9.1	11.4	26%	10,571	41	24.2	5.0	-	9.2

B = Buy, H = Hold, S = Sell. Pricing as at market close on 25 October, 2010. *Indicates the stock is on the Conviction List.

For important disclosures, please go to http://www.gs.com/research/hedge.html. For methodology and risks associated with our price targets, please see our previously published research.

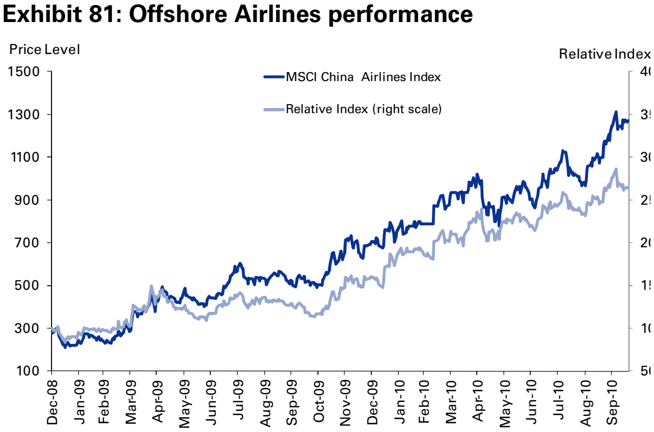
Source: FactSet, I/B/E/S, Goldman Sachs Research estimates, Gao Hua Securities Research estimates.

Exhibit 80: Airlines – stock fundamentals (2011E)

Ticker	Name	EPS Growth (%)	Revenue Growth (%)	EBITDA Growth (%)	EBITDA Margin (%)	EBIT Margin (%)	Net Margin (%)	ROE (%)	Total debt/Equity	Asset T/O (x)	Net Debt / Equity
753 HK	Air China Ltd - H	-10.5	22.7	23.3	21.2	11.3	10.3	19.2	1.4	1.0	1.0
670 HK	China Eastern Airlines - H	17.4	13.3	25.4	19.4	9.3	5.3	20.7	2.7	1.1	1.9
1055 HK	China Southern Airlines - H	55.4	13.4	21.4	16.5	7.1	3.4	9.7	2.0	1.1	1.4
601111 CG	Air China - A	-10.5	22.7	23.3	21.2	11.3	10.3	19.2	1.4	1.0	1.0
600029 CG	China Southern Airlines - A	55.4	13.4	21.4	16.5	7.1	3.4	9.7	2.0	1.1	1.4
600115 CG	China Eastern Airlines - A	17.4	13.3	25.4	19.4	9.3	5.3	20.7	2.7	1.1	1.9

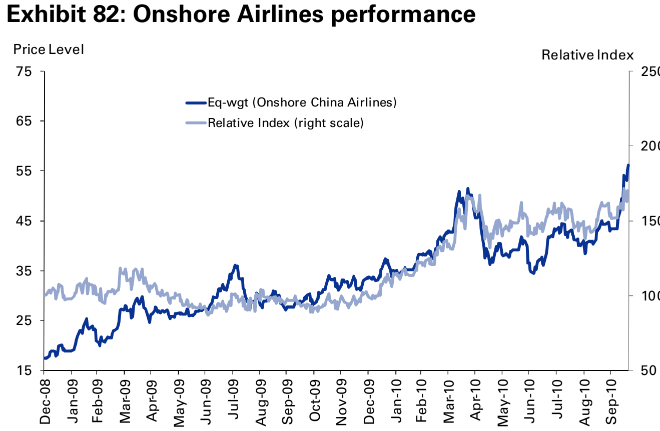
Source: FactSet, I/B/E/S, Goldman Sachs Research estimates, Gao Hua Securities Research estimates.

Exhibit 81: Offshore Airlines performance



Source: FactSet, MSCI, GS Global ECS Research

Exhibit 82: Onshore Airlines performance



Source: FactSet, GS Global ECS Research

Airports, Toll Roads & Railways: Strong growth at reasonable price

Analyst: Ronald Keung (ronald.keung@ghsl.cn)

Sector stance

2011 sector outlook:

Airports: We continue to favor airports with slot capacity for growth, limited capex requirements and with high leverage to the faster growing international and outbound traffic for 2011. Limited slot availability at tier-one cities will likely impact *aircraft movement* growth in 2011, but we expect *domestic passenger traffic growth* of 14.3% yoy and *international traffic growth* of 23% yoy in 2011 for the industry driven by strong demand, higher load factors and larger planes used flying into the main hubs. **Expressways and Railroads:** We expect overall toll traffic and rail cargo traffic to grow in-line with China GDP growth, while the performance of individual expressways will likely diverge depending on the opening of new linking roads or parallel roads.

Key themes/issues and our view:

1) **Air space congestion in China:** We think air space congestion, limited slot availability and flight delays will continue to be key areas of focus for the industry in 2011 and we anticipate more concrete actions by the civil aviation regulator to address these issues. Any further reform/opening up of civil air space would be a positive catalyst.

2) Airport construction fee rebate: The airport construction fee rebate received by Beijing, Guangzhou and Hainan Meilan airports as revenues are set to expire or be renewed from 1 Jan 2011. Our forecasts assume the fee continues but any reduction in the rebate % (currently at 48%) could have a material impact on earnings of these three listed airports from 2011.

3) Continued infrastructure build-out in rail and highways: We think continued spending in infrastructure FAI could lead to parallel roads and high-speed rail diversion to existing toll-road and railroad operators over the next few years. We think Sichuan and Jiangxi Ganyue Expressway could see a boost to traffic helped by new linking roads in 2011.

What surprised us in 2010:

1) Stronger-than-expected aviation and toll traffic growth.

How we differ from consensus on earnings outlook:

We are roughly above consensus on sectoral earnings outlook driven by higher China GDP expectations and our more sanguine view on international aviation traffic.

Current sector valuation: The sector is currently trading in between trough and mid-cycle EV/GCI and P/B multiples.

Valuation outlook: We expect multiples to further expand to mid-cycle levels by 2011E underpinned by higher earnings and a favorable sector outlook.

Key risks to our views:

Lower-than-expected China GDP growth, earlier-than-expected operation of HSR lines, slower-than-expected international aviation traffic recovery.

Stock recommendations (offshore)

Favored #1: Zhejiang Expressway (0576.HK, Buy)

Reasons/catalysts: 1) Diversion on Shangsan less severe than expected; 2) recovery of securities business earnings; 3) we expect 19% earnings growth in 2011E driving higher payout and dividend yields next year.

Favored #2: Sichuan Expressway (0107.HK, Buy)

Reasons/catalysts: 1) Possible higher toll rate on trucks next year on cancellation of toll discount ; 2) continued strong traffic growth driven by new linking roads and China's emphasis on developing the western provinces.

Avoid #1: Beijing Airport (0694.HK, Sell, on Conviction List)

Reasons/catalysts: 1) Uncertainty in airport fee revenues; 2) capacity bottleneck limits revenue growth potential; 3) may participate in construction of Beijing's second airport, which could mean negative free cash flow over the next few years.

Stock recommendations (A-share)

Favored #1: Shanghai Int'l Airport (600009.SS, Buy)

Reasons/catalysts: 1) The airport still has capacity for growth being <70% utilized; 2) has highest exposure to the fast growing international traffic market; 3) could benefit most from the upcoming airport charge alignment between foreign and domestic carriers assuming charges on foreign carriers stay.

Favored #2: Shandong Expressway (600350.SS, Buy, on Conviction List)

Reasons/catalysts: 1) Announced asset injection should be accretive to earnings from 2011; 2) the company has one of the highest CROCI amongst its peers but is trading at a significant discount to its peers on most metrics, e.g. P/E, EV/GCI, etc.

Exhibit 83: Airports, Toll Roads & Railways – stock valuations

Ticker	Name	Rating	Currency	Price	Target Price	+/- to TP (%)	US$ Mn		CY 2011 E			
							Mcap	6m ADVT	P/E (x)	P/B (x)	DY (%)	EV / EBITDA
576 HK	Zhejiang Expressway	B	HKD	7.8	8.4	8%	4,343	6	13.6	1.9	5.5	5.9
177 HK	Jiangsu Expressway	N	HKD	8.5	6.7	-21%	5,648	4	13.3	2.2	5.3	9.1
694 HK	Beijing Capital Intl Airport	S*	HKD	4.5	3.5	-23%	2,534	4	25.4	1.3	2.0	11.4
107 HK	Sichuan Expressway - H	B	HKD	5.1	5.7	11%	2,022	1	11.3	1.5	3.1	7.1
525 HK	Guangshen Railway	B	HKD	3.1	3.6	16%	3,838	2	13.2	0.8	3.5	5.6
548 HK	Shenzhen Expressway - H	N	HKD	4.3	3.9	-9%	1,619	1	9.7	0.9	5.1	7.8
601006 CG	Daqin Railway	B	CNY	9.0	13.0	45%	20,229	38	13.8	2.3	3.6	7.5
600377 CG	Jiangsu Expressway	N	CNY	7.5	6.7	-11%	5,648	5	13.7	2.2	5.1	9.4
600009 CG	Shanghai Intl Airport	B	CNY	14.3	14.7	3%	4,142	33	19.2	1.8	1.0	10.7
601333 CG	Guangshen Railway	N	CNY	3.9	3.8	-2%	3,838	11	19.2	1.1	2.4	8.1
600350 CG	Shandong Expressway	B*	CNY	5.1	6.5	27%	2,582	6	12.2	1.6	4.9	6.5
601107 CG	Sichuan Expressway - A	S	CNY	7.4	5.7	-23%	2,397	13	19.0	2.5	1.8	11.2
600269 CG	Jiangxi Ganyue Expressway	N	CNY	6.6	6.1	-7%	2,312	12	12.5	1.5	2.0	8.1
600004 CG	Guangzhou Baiyun Intl Airport	N	CNY	10.4	9.2	-12%	1,796	12	17.3	1.8	2.9	8.4
600033 CG	Fujian Expressway Dev.	S	CNY	4.0	3.1	-23%	1,665	12	18.1	1.5	1.7	13.9
000089 CS	Shenzhen Airport	N	CNY	6.4	5.1	-20%	1,615	7	14.3	1.7	2.1	11.4
600548 CG	Shenzhen Expressway - A	N	CNY	5.6	4.3	-23%	1,619	3	14.8	1.4	3.4	9.7

B = Buy, H = Hold, S = Sell. Pricing as at market close on 25 October, 2010. *Indicates the stock is on the Conviction List.

For important disclosures, please go to http://www.gs.com/research/hedge.html. For methodology and risks associated with our price targets, please see our previously published research.

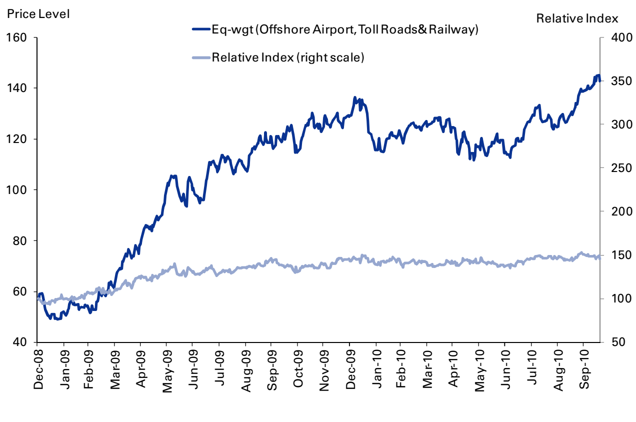
Source: FactSet, I/B/E/S, Goldman Sachs Research estimates, Gao Hua Securities Research estimates.

Exhibit 84: Airports, Toll Roads & Railways – stock fundamentals (2011E)

Ticker	Name	EPS Growth (%)	Revenue Growth (%)	EBITDA Growth (%)	EBITDA Margin (%)	EBIT Margin (%)	Net Margin (%)	ROE (%)	Total debt/Equity	Asset T/O (x)	Net Debt / Equity
576 HK	Zhejiang Expressway	19.4	8.8	14.3	59.5	47.8	30.2	11.0	0.1	0.6	-0.2
177 HK	Jiangsu Expressway	8.6	5.7	5.3	64.4	53.6	39.0	15.7	0.3	0.4	0.3
694 HK	Beijing Capital Intl Airport	33.3	10.3	13.0	51.4	25.7	10.5	5.0	1.6	0.2	1.5
107 HK	Sichuan Expressway - H	3.8	10.7	20.8	70.3	49.0	37.9	13.2	0.4	0.7	0.2
525 HK	Guangshen Railway	6.4	4.3	6.6	26.0	15.6	10.8	5.9	0.1	0.5	0.0
548 HK	Shenzhen Expressway - H	32.0	22.5	44.2	61.0	38.6	22.4	8.6	1.1	0.2	1.0
601006 CG	Daqin Railway	-3.5	5.4	0.7	53.7	41.2	28.7	16.4	0.4	0.6	0.0
600377 CG	Jiangsu Expressway	8.6	5.7	5.3	64.4	53.6	39.0	15.7	0.3	0.4	0.3
600009 CG	Shanghai Intl Airport	22.0	15.4	23.2	55.5	37.2	30.4	9.4	0.2	0.4	0.0
601333 CG	Guangshen Railway	6.4	4.3	6.6	26.0	15.6	10.8	5.9	0.1	0.5	0.0
600350 CG	Shandong Expressway	16.6	8.4	7.8	67.1	49.4	34.5	12.9	0.2	0.6	0.1
601107 CG	Sichuan Expressway - A	3.8	10.7	20.8	70.3	49.0	37.9	13.2	0.4	0.7	0.2
600269 CG	Jiangxi Ganyue Expressway	2.1	10.2	11.2	64.9	50.0	29.8	10.8	0.6	0.2	0.6
600004 CG	Guangzhou Baiyun Intl Airport	18.5	9.1	14.6	42.1	25.6	16.8	9.8	0.5	0.4	0.4
600033 CG	Fujian Expressway Dev.	-6.5	7.9	6.4	81.1	63.9	28.8	6.6	1.4	0.1	1.4
000089 CS	Shenzhen Airport	3.7	7.0	7.9	57.1	46.6	37.2	12.0	0.4	0.3	0.4
600548 CG	Shenzhen Expressway - A	32.0	22.5	44.2	61.0	38.6	22.4	8.6	1.1	0.2	1.0

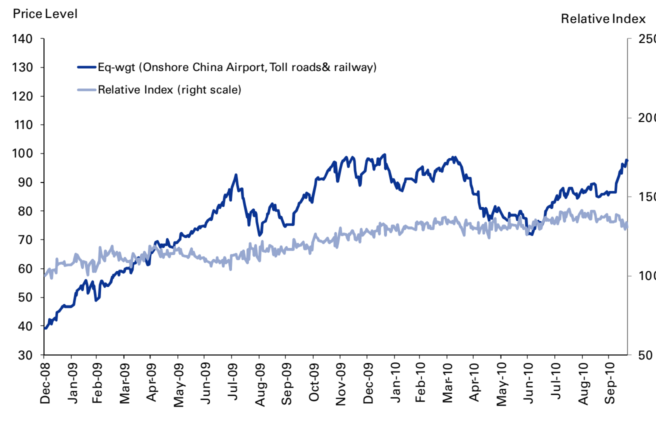
Source: FactSet, I/B/E/S, Goldman Sachs Research estimates, Gao Hua Securities Research estimates.

Exhibit 85: Offshore Airports, Toll Roads & Railways performance



Source: FactSet, MSCI, GS Global ECS Research

Exhibit 86: Onshore Airports, Toll Roads & Railways performance



Source: FactSet, GS Global ECS Research

Autos: Volume increases, growth slows, profitability sustains

Analyst: Yipeng Yang (yipeng.yang@ghsl.cn)

Sector stance

2011 sector outlook:
China's passenger car market has shown strong, ongoing growth momentum, helped by the positive impact of the Rmb3,000 subsidy for fuel efficient cars and the October Golden week holiday. We recently raised our 2010E/11E/12E Chinese car total volume forecasts by 4%/3%/2% to 11.0/12.2/13.5 mn units, which implies 26%/11%/11% yoy growth for 2010E/11E/12E. We believe industry profitability (ROE) will remain high but gradually fall from a 2010 peak due to slowing market growth, increasing price erosion, falling sales volume per model, and less favorable auto policies.

Key themes/issues and our view:
1) Yoy growth rates: We have revised up our 2010-2012 car sales volume forecasts by 4%/3%/2% due to strong August volumes; however, yoy growth rates in 2011E/12E decrease slightly due to a higher base.

2) Aggressive price cuts from BYD and Toyota (mainly FAW-Toyota) will impose extra price pressure on both local and international brands; however, we do not anticipate a price war until overall capacity constraints are removed in 2012/2013.

3) Intensive new model launches will start to nudge down average sales volume per model over the next 2 to 3 years, in our view.

4) Auto policies turning less preferential: as stimulus packages are phased out the focus will shift to "green" policies in 2011E and car market growth could slow.

How we differ from consensus on earnings outlook:
We are in-line with consensus on sectoral earnings outlook on 2010 due to strong short-term demand. However, we are slightly below consensus on 2011/12 earnings outlook due to front-loading consumption and possible higher price erosion.

Current sector valuation: between peak and mid-cycle.

Valuation outlook: We estimate industry ROE will peak in 2010E and then be maintained at a high level (although decrease slightly). We expect valuations to stay stable in the next 12 months.

Key risks to our view:
1) Slower-than-expected market growth; 2) higher-than-expected price erosion.

Stock recommendations (offshore)

Favored #1: Great Wall Motor (2333.HK, Buy)
Reasons/catalysts: 1) Gradually gaining car market share from 1.3% in 2007 to 2.2% in YTD Aug 2010 and we forecast a further increase to 2.9% in 2012E via extensive SUV product portfolio and newly launched sedan model; 2) export volumes will gradually recover from 33K unit in 2009 to 118K in 2012E; 3) attractive valuation.

Avoid #1: BYD Company (1211.HK, Sell)
Reasons/catalysts: 1) its business model of creating large dealer inventory is backfiring as market growth starts slowing; 2) the newly launched M6/L3/S6 models are all in higher price segments and the weaker BYD brand equity might not able to justify the higher prices; 3) softer margins in its handset component business; 4) most of the current newsflow has boosted sentiment rather than fundamentals.

Stock recommendations (A-share)

Favored #1: SAIC Motor (600104.SS, Buy)
Reasons/catalysts: 1) continuous market share increase via strong product portfolio from SGM and SVW; 2) strong growth of the local brand MG and Roewe; 3) attractive valuation.

Exhibit 87: Autos – stock valuations

Ticker	Name	Rating	Currency	Price	Target Price	+/- to TP (%)	US$ Mn Mcap	US$ Mn 6m ADVT	CY 2011 E P/E (x)	CY 2011 E P/B (x)	CY 2011 E DY (%)	CY 2011 E EV / EBITDA
489 HK	Dongfeng Motor	N	HKD	18.0	17.6	-2%	19,962	43	11.6	2.8	1.1	6.6
1211 HK	BYD	S	HKD	56.9	42.0	-26%	16,681	49	24.1	4.7	0.8	14.3
175 HK	Geely Auto. Hldgs	N	HKD	4.6	3.3	-29%	4,418	29	16.4	3.1	0.6	10.2
2238 HK	Guangzhou Auto.	N	HKD	13.0	14.9	15%	4,867	22	9.8	2.1	3.1	5.4
3808 HK	Sinotruk (HK)	NC	HKD	9.1	-	-	3,230	3	15.3	1.1	1.0	5.9
2338 HK	Weichai Power	NC	HKD	94.4	-	-	12,586	12	11.8	3.1	0.9	6.9
2333 HK	Great Wall Motor	B	HKD	24.1	23.8	-1%	3,394	6	11.8	2.2	2.3	7.0
200625 CS	Chongqing Changan Auto - B	N	HKD	8.1	7.1	-12%	4,055	5	7.6	1.3	2.0	11.8
600104 CG	SAIC Motor	B	CNY	22.0	18.9	-14%	28,157	45	14.1	3.1	2.1	6.9
000800 CS	FAW Car	N	CNY	22.4	18.7	-16%	5,475	44	13.5	3.6	3.7	8.7
000625 CS	Chongqing Changan Auto - A	N	CNY	13.2	12.2	-8%	4,055	31	14.6	2.5	1.0	24.0

B = Buy, H = Hold, S = Sell, NC = Not Covered. Pricing as at market close on 25 October, 2010.

For important disclosures, please go to http://www.gs.com/research/hedge.html. For methodology and risks associated with our price targets, please see our previously published research.

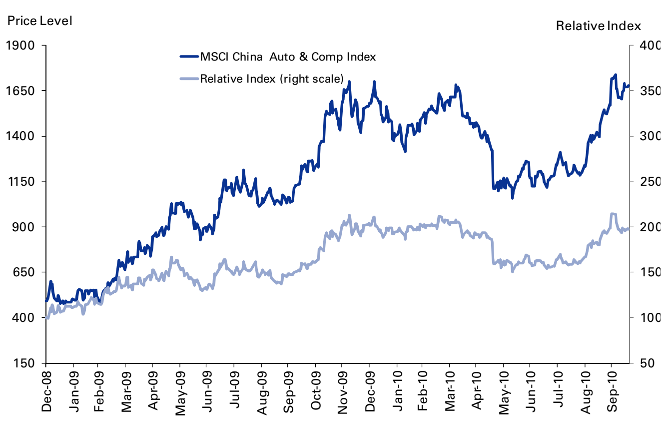
Source: FactSet, I/B/E/S, Goldman Sachs Research estimates, Gao Hua Securities Research estimates.

Exhibit 88: Autos – stock fundamentals (2011E)

Ticker	Name	EPS Growth (%)	Revenue Growth (%)	EBITDA Growth (%)	EBITDA Margin (%)	EBIT Margin (%)	Net Margin (%)	ROE (%)	Total debt/Equity	Asset T/O (x)	Net Debt / Equity
489 HK	Dongfeng Motor	1.0	10.7	5.0	13.8	11.0	8.8	22.1	0.1	4.4	-0.3
1211 HK	BYD	12.6	23.7	15.5	13.0	9.2	7.5	17.2	0.2	2.3	0.1
175 HK	Geely Auto. Hldgs	22.2	31.6	49.1	11.9	9.2	7.3	16.8	0.3	3.8	0.0
2238 HK	Guangzhou Auto.	8.1	15.5	10.9	12.1	10.1	9.3	21.4	0.3	5.0	-0.6
3808 HK	Sinotruk (HK)	5.1	7.1	9.4	7.8	5.8	3.5	7.4	-	1.0	-16.9
2338 HK	Weichai Power	14.7	8.5	12.7	16.3	14.4	9.9	30.0	-	1.3	-30.4
2333 HK	Great Wall Motor	1.8	18.3	6.2	11.8	9.1	7.6	17.9	-	2.9	-0.2
200625 CS	Chongqing Changan Auto - B	0.1	13.0	-1.4	3.2	1.3	5.5	16.9	0.1	5.3	-0.1
600104 CG	SAIC Motor	19.7	19.9	23.9	6.9	5.8	3.8	15.4	0.3	8.7	-0.2
000800 CS	FAW Car	9.3	15.1	13.7	9.1	7.5	6.4	25.3	-	7.6	-0.3
000625 CS	Chongqing Changan Auto - A	0.1	13.0	-1.4	3.2	1.3	5.5	16.9	0.1	5.3	-0.1

Source: FactSet, I/B/E/S, Goldman Sachs Research estimates, Gao Hua Securities Research estimates.

Exhibit 89: Offshore Autos performance



Source: FactSet, MSCI, GS Global ECS Research.

Exhibit 90: Onshore Autos performance

Source: FactSet, GS Global ECS Research

Banks: Less policy noise, more focus on NIM / earnings / fundamentals

Analysts: Ning Ma (ning.ma@ghsl.cn) Richard Xu, CFA (richard.xu@ghsl.cn)

Sector stance

2011 sector outlook:
We expect clarification on capital and provision requirements in 4Q10, which could lead to a relief rally for bank shares. We believe prudential norm tightening and policy "noise" should be less of a focus in 2011, and bank fundamentals and earnings will be more important share performance drivers in 2011. We expect healthy net income growth of an average 22% for listed China banks, driven by mid-teen sector loan growth, modest NIM expansion, and healthy fee income partly offset by normalization of credit costs. We see potential upside from improving loan pricing power if economic growth remains healthy and additional symmetric rate hikes, if any.

Key themes/issues and our view:
1) Potential NIM expansion from recent rate hike and improving loan pricing power: We believe the level of NIM expansion will be a key differentiator for net income growth at China banks in 2011. We think the recent rate hike and potential loan pricing power gains will be a key driver for further NIM expansion and expect smaller banks such as CMB, Citic, Industrial and Minsheng to benefit more from these factors.

2) Business model diversification: Some banks will continue to focus on SME or the development of a consumer bank franchise in 2011, and the pace of this kind of business shift will differ among banks. Hence, we expect to see more business model diversification in 2011.

What surprised us in 2010: A surprise rate hike by PBOC in 4Q10, which was modestly positive for banks' NIM.

How we differ from consensus on earnings outlook:
We are inline with consensus on sector earnings forecast. While we are modestly more optimistic on NIM assumptions, we forecasted higher credit costs given more conservative NPL formation and LLRs build as we are assuming smaller banks will increase LLR/loan ratio to 2.5% by 2016.

Current sector valuation: China A/H share banks are trading at 1.7X/1.8X 2011E P/B and 10.2X/10.1X 2011E P/E on a post re-cap basis, still notably below market multiples and their historical medians. In addition, China banks remain one of the lower-valued sectors relative to other Asian banking sectors, which provides room for further valuation recovery in our view.

Valuation outlook: We believe China banks will have a relief rally after the clarification of capital requirement and the provisioning standards for local government-owned entity lending. However, a further rerating beyond this will hinge on: 1) NIM positive rate hikes that could lead to earnings/NIM upgrades; and 2) fiscal sector reform, including more transparent and better monitored local government entity borrowing, more tax allocation to the local government, and allowing municipal bond issuance.

Key risks to our views:
1) China over-tightening; 2) stricter-than-expected provision/capital requirements.

Stock recommendations (offshore)

Favored #1: China Citic (0998.HK, Buy, on Conviction List)
Reasons/catalysts: 1) One of the best placed banks to benefit from a rising rate environment and improving loan pricing power; 2) Citic is trading at 22% and 16% discounts to H-share bank peers on a recap basis; 3) credit cost concern overdone and planned rights issue has limited market impact.

Favored #2: ICBC (1398.HK, Buy) and CCB (939.HK, Buy)
Reasons/catalysts: 1) High ROE, tier I CAR post right issue; high internal capital generation; 2) high NPL coverage ratio; and 3) strong franchise, especially in the retail banking business.

Stock recommendations (A-share)

Favored #1: CMB (600036.SS, Buy, on Conviction List)

Reasons/catalysts: 1) CMB's NIM expansion could be better than peers in the rising rate environment, given its liquid balance sheet, and has one of the highest consumer and SME loan exposures within China banks supporting loan pricing power; 2) A shares are priced at a deep discount to the H shares; and 3) strong management, retail banking franchise.

Favored #2: Industrial (601166.SS, Buy)

Reasons/catalysts: 1) leading inter-bank deposit base and treasury operations; 2) notable discount to A-share bank peer average despite the bank's premium franchise; 3) very sensitive to NIM expansion, therefore also a top beneficiary of rate hikes

Avoid #1: Huaxia (600015.SS, Sell)

Reasons/catalysts: 1) ROE lower than peers, resulting in higher recap demand; 2) credit quality management/risk control improvements/initiatives are yet to be proved.

Avoid #2: BONJ (601009.SS, Sell)

Reasons/catalysts: 1) Less geared to NIM expansion in light of rising interest rates; 2) relatively high loan exposure to local government-owned entities; and 3) premium P/E valuation.

Exhibit 91: Banks – stock valuations

Ticker	Name	Rating	Currency	Price	Target Price	+/- to TP (%)	US$ Mn		CY 2011 E			
							Mcap	6m ADVT	P/E (x)	P/B (x)	DY (%)	EV / EBITDA
939 HK	CCB - H	B	HKD	7.4	7.7	4%	221,929	194	9.7	2.1	4.1	-
1398 HK	ICBC - H	B	HKD	6.2	6.7	8%	237,425	193	9.7	2.0	4.2	-
3988 HK	BOC - H	N	HKD	4.5	4.6	2%	139,453	138	8.7	1.6	4.6	-
3328 HK	BoCom - H	N	HKD	9.3	8.8	-5%	60,747	43	10.1	1.8	3.4	-
1288 HK	ABC - H	N	HKD	4.1	4.1	1%	169,503	161	9.9	1.8	3.5	-
3968 HK	CMB - H	N	HKD	22.6	22.9	1%	51,639	59	13.6	2.6	1.8	-
998 HK	China CITIC - H	B*	HKD	5.7	7.4	30%	34,251	28	7.5	1.4	4.0	-
1988 HK	China Minsheng Banking - H	N	HKD	7.2	7.7	8%	24,648	21	8.3	1.4	2.3	-
601398 CG	ICBC - A	B	CNY	4.5	5.8	28%	237,425	54	8.2	1.7	4.9	-
601288 CG	ABC - A	B	CNY	2.8	3.6	27%	138,053	197	8.1	1.5	4.3	-
601988 CG	BOC - A	N	CNY	3.6	3.9	10%	139,453	28	7.8	1.4	5.1	-
600036 CG	CMB - A	B*	CNY	15.2	19.8	31%	51,639	154	10.6	2.0	2.3	-
600000 CG	Shanghai Pudong Dev. Bank	N	CNY	14.7	13.8	-6%	31,723	138	9.6	1.6	2.0	-
601328 CG	BoCom - A	N	CNY	6.5	7.6	17%	60,747	51	8.1	1.5	4.2	-
601166 CG	Industrial Bank	B	CNY	28.5	35.5	25%	25,633	142	8.7	1.6	2.3	-
601998 CG	China CITIC - A	N	CNY	6.0	6.4	8%	34,251	30	9.2	1.7	3.3	-
600016 CG	China Minsheng Banking - A	N	CNY	5.7	6.7	18%	22,710	96	7.6	1.3	2.5	-
601169 CG	Bank of Beijing	N	CNY	14.1	15.0	7%	13,160	62	10.1	1.8	3.3	-
600015 CG	Hua Xia Bank	S	CNY	13.4	9.6	-28%	10,036	41	8.5	1.7	3.0	-
000001 CS	Shenzhen Dev. Bank	N	CNY	18.9	16.8	-11%	9,898	57	8.8	1.6	-	-
601939 CG	CCB - A	B	CNY	5.3	6.7	28%	221,929	41	7.8	1.7	5.1	-
002142 CS	Bank of Ningbo	S	CNY	14.3	11.1	-22%	6,176	35	14.4	2.7	1.3	-
601009 CG	Bank of Nanjing	S	CNY	13.3	10.4	-22%	4,752	33	11.2	2.0	1.7	-

B = Buy, H = Hold, S = Sell. Pricing as at market close on 25 October, 2010. *Indicates the stock is on the Conviction List.

For important disclosures, please go to http://www.gs.com/research/hedge.html. For methodology and risks associated with our price targets, please see our previously published research.

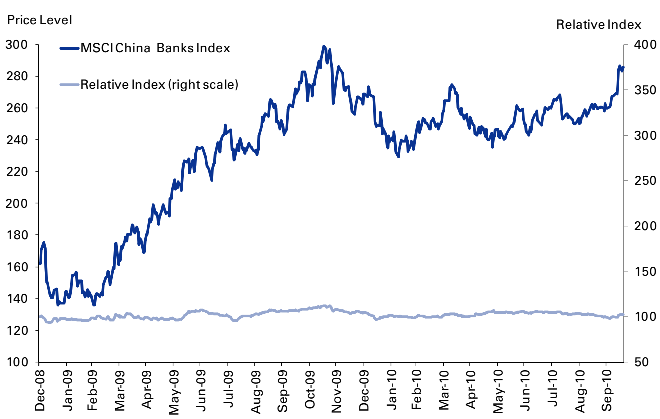
Source: FactSet, I/B/E/S, Goldman Sachs Research estimates, Gao Hua Securities Research estimates.

Exhibit 92: Banks – stock fundamentals (2011E)

Ticker	Name	EPS Growth (%)	Revenue Growth (%)	EBITDA Growth (%)	EBITDA Margin (%)	EBIT Margin (%)	Net Margin (%)	ROE (%)	Total debt/Equity	Asset T/O (x)	Net Debt / Equity
939 HK	CCB - H	16.4	18.0	-	-	-	-	21.7	-	5.0	-
1398 HK	ICBC - H	17.2	16.9	-	-	-	42.1	20.4	-	5.1	-
3988 HK	BOC - H	13.1	17.1	-	-	-	-	18.0	-	2.7	-
3328 HK	BoCom - H	21.2	20.1	-	-	-	-	17.9	-	3.1	-
1288 HK	ABC - H	17.0	19.2	-	-	-	34.7	18.3	-	2.5	-
3968 HK	CMB - H	20.5	21.8	-	-	-	-	19.1	-	4.6	-
998 HK	China CITIC - H	27.7	26.4	-	-	-	36.0	18.3	-	5.9	-
1988 HK	China Minsheng Banking - H	23.9	20.9	-	-	-	31.6	16.9	-	6.9	-
601398 CG	ICBC - A	17.2	16.9	-	-	-	42.1	20.4	-	5.1	-
601288 CG	ABC - A	17.0	19.2	-	-	-	34.7	18.3	-	2.5	-
601988 CG	BOC - A	15.3	17.1	-	-	-	33.8	17.1	-	2.7	-
600036 CG	CMB - A	20.5	21.8	-	-	-	-	19.1	-	4.6	-
600000 CG	Shanghai Pudong Dev. Bank	6.8	21.1	-	-	-	-	15.7	-	-	-
601328 CG	BoCom - A	23.5	20.1	-	-	-	-	17.9	-	3.1	-
601166 CG	Industrial Bank	20.3	21.2	-	-	-	37.7	18.9	-	7.0	-
601998 CG	China CITIC - A	27.7	26.4	-	-	-	36.0	18.3	-	5.9	-
600016 CG	China Minsheng Banking - A	23.9	20.9	-	-	-	31.6	16.9	-	6.9	-
601169 CG	Bank of Beijing	19.2	26.2	-	-	-	43.6	18.1	-	9.6	-
600015 CG	Hua Xia Bank	27.7	18.4	-	-	-	-	19.6	-	-	-
000001 CS	Shenzhen Dev. Bank	21.2	23.2	-	-	-	-	18.2	-	-	-
601939 CG	CCB - A	18.7	18.0	-	-	-	-	21.7	-	5.0	-
002142 CS	Bank of Ningbo	25.7	25.5	-	-	-	33.1	19.1	-	7.5	-
601009 CG	Bank of Nanjing	16.7	24.0	-	-	-	41.4	17.9	-	3.6	-

Source: FactSet, I/B/E/S, Goldman Sachs Research estimates, Gao Hua Securities Research estimates.

Exhibit 93: Offshore Banks performance



Source: FactSet, MSCI, GS Global ECS Research

Exhibit 94: Onshore Banks performance

Source: FactSet, GS Global ECS Research

Clean Energy: Attractive wind/solar; overpriced nuclear

Analysts: Franklin Chow, CFA (franklin.chow@ghsl.cn); Amy Song (amy.song@ghsl.cn)

Sector stance

2011 sector outlook:
We think development of alternative energy will remain one of the top priorities of the Chinese government. We expect hydro/wind power to see the largest generation capacity increase in China, followed by nuclear power. We think solar products remain mostly for export and low-cost, tier-one manufacturers will further grow global market share in an environment of falling prices. We believe further bidding in offshore wind farms and solar farms in China will see drastic cuts in product prices which should accelerate innovation at the expense of near-term industry orders.

Key themes/issues and our view:
1) **Wind turbine ASPs to moderate:** We expect wind turbine makers to see moderating average selling prices (ASPs) which could relieve them of further significant margin squeezes. However, annual installation of turbines may peak in 2011, with upside risk.

2) Nuclear equipment order backlog to grow: We believe nuclear power equipment makers may enjoy an oligopoly in a market with a growing order backlog, though annual installation may also peak soon for safety and production capacity reasons.

3) Tier-one solar makers to see strong growth: We expect tier-one solar component (cell/wafer) makers with an ultra-low-cost structure and sustainably larger operating scale to enjoy strong growth due to increasing component/OEM outsourcing.

What surprised us in 2010:
1) Significant share price outperformance of nuclear-related stocks; 2) solar ASPs and silicon prices were more volatile than expected.

How we differ from consensus on earnings outlook:
We are below consensus on wind/nuclear earnings outlook as we think consensus estimates are overly bullish in margins and volumes. We are above consensus on solar companies on a stronger shipment outlook.

Current sector valuation: 2011E P/Es of nuclear power equipment makers are generally above historical average P/Es (since 2006). For solar stocks, their CROCI/WACC trade below sector regressed EV/GCI multiples.

Valuation outlook: We expect P/E multiple contraction for nuclear power equipment makers and EV/GCI multiple expansion for solar stocks.

Key risks to our views:
1) Lower-than-expected ASPs and gross margins; 2) regulatory risks in power tariffs and government subsidies; 3) strong Rmb vs. currency of export markets may dampen export growth potential.

Stock recommendations (offshore)

Favored #1: China High Speed Transmission (0658.HK, Buy)
Reasons/catalysts: 1) Resilient gross margins; 2) dominant (and growing) market shares in wind gearboxes; 3) potential upside from new growth avenues (e.g. high-speed rail, computer numerical controlled products, and others).

Favored #2: JA Solar (JASO, Buy, on Conviction List)
Reasons/catalysts: 1) Stronger orders from domestic and international component/OEM demand; 2) improving customer profiles; 3) internal wafer production and ultra-low-cost cell production could improve gross margins.

Avoid #1: Dongfang Electric (1072.HK, Sell)
Reasons/catalysts: Unwarranted P/E valuation premium despite a favorable power equipment product mix including strong market leadership in each major fuel type.

Avoid #2: Suntech (STP, Sell)
Reasons/catalysts: 1) High-cost basis; 2) new product execution risk (i.e. Pluto); 3) Global Solar Fund receivables overhang.

Stock recommendations (A-share)

Avoid: Dongfang Electric (600875.SS, Neutral)

Reasons/catalysts: Unwarranted P/E valuation premium despite a favorable power equipment product mix including strong market leadership in each major fuel type.

Exhibit 95: Clean Energy – stock valuations

Ticker	Name	Rating	Currency	Price	Target Price	+/- to TP (%)	US$ Mn		CY 2011 E			
							Mcap	6m ADVT	P/E (x)	P/B (x)	DY (%)	EV / EBITDA
3800 HK	GCL-Poly Energy Hldgs	B	HKD	2.5	2.7	7%	5,044	14	9.6	2.0	-	5.7
658 HK	China High Speed Transmission Equipment	B	HKD	16.5	21.0	27%	2,931	23	11.7	2.3	2.9	9.7
TSL UN	Trina Solar (ADS)	N	USD	27.5	30.0	9%	2,136	85	8.2	1.8	-	5.6
2727 HK	Shanghai Electric	N	HKD	4.8	3.8	-21%	7,915	7	17.2	1.9	1.7	9.4
YGE UN	Yingli Green Energy Hldg (ADS)	N	USD	11.9	13.0	9%	1,783	42	8.9	1.3	-	5.0
1072 HK	Dongfang Electric - H	S	HKD	38.7	26.4	-32%	11,097	8	23.1	5.0	0.4	15.3
STP UN	Suntech Power Hldgs (ADS)	S	USD	8.8	8.0	-9%	1,584	34	12.0	1.0	-	7.2
JASO UW	JA Solar Hldgs (ADS)	B*	USD	8.5	11.0	30%	1,430	59	6.5	1.5	-	4.5
1133 HK	Harbin Power Equipment	N	HKD	10.4	8.5	-18%	1,845	6	13.2	1.2	1.2	3.0
600875 CG	Dongfang Electric - A	N	CNY	37.6	25.8	-31%	11,097	56	26.2	5.7	0.4	17.7

B = Buy, H = Hold, S = Sell. Pricing as at market close on 25 October, 2010. *Indicates the stock is on the Conviction List.

For important disclosures, please go to http://www.gs.com/research/hedge.html. For methodology and risks associated with our price targets, please see our previously published research.

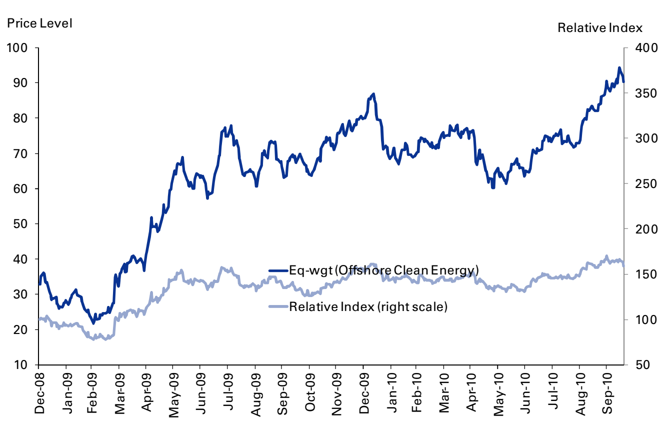
Source: FactSet, I/B/E/S, Goldman Sachs Research estimates, Gao Hua Securities Research estimates.

Exhibit 96: Clean Energy – stock fundamentals (2011E)

Ticker	Name	EPS Growth (%)	Revenue Growth (%)	EBITDA Growth (%)	EBITDA Margin (%)	EBIT Margin (%)	Net Margin (%)	ROE (%)	Total debt/Equity	Asset T/O (x)	Net Debt / Equity
3800 HK	GCL-Poly Energy Hldgs	88.4	77.8	75.9	29.2	22.8	13.5	19.6	0.7	1.1	0.5
658 HK	China High Speed Transmission Equipment	17.3	33.7	28.2	22.4	19.3	15.6	19.9	0.5	2.2	0.4
TSL UN	Trina Solar (ADS)	7.4	20.3	3.9	21.2	17.7	13.9	21.8	0.5	1.9	0.1
2727 HK	Shanghai Electric	11.9	11.8	15.3	6.6	4.6	4.4	8.8	0.1	4.7	-0.3
YGE UN	Yingli Green Energy Hldg (ADS)	29.0	7.9	9.2	24.4	18.0	10.9	12.2	0.7	1.1	0.3
1072 HK	Dongfang Electric - H	34.3	23.0	34.0	8.5	6.5	6.6	21.0	0.2	4.0	-0.7
STP UN	Suntech Power Hldgs (ADS)	10.9	13.3	-0.1	11.5	8.1	4.1	8.1	1.1	2.4	0.6
JASO UW	JA Solar Hldgs (ADS)	21.1	29.8	17.9	15.7	13.0	10.2	22.2	0.5	3.4	0.1
1133 HK	Harbin Power Equipment	11.1	11.1	10.1	4.6	3.3	2.6	7.7	0.2	7.4	-0.6
600875 CG	Dongfang Electric - A	34.3	23.0	34.0	8.5	6.5	6.6	21.0	0.2	4.0	-0.7

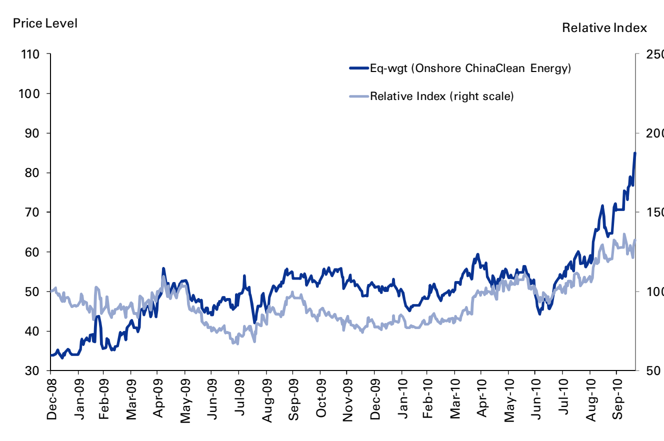
Source: FactSet, I/B/E/S, Goldman Sachs Research estimates, Gao Hua Securities Research estimates.

Exhibit 97: Offshore Clean Energy performance



Source: FactSet, MSCI, GS Global ECS Research

Exhibit 98: Onshore Clean Energy performance



Source: FactSet, GS Global ECS Research

Commodities: Structural changes to drive share performance

Analysts: Jim Hung (jim.hung@ghsl.cn); Rowena Chang (Rowena.chang@ghsl.cn)

Sector stance:

2011 sector outlook:
We believe that the Chinese government will continue to focus on energy rationalization, pushing for higher energy efficiency for the overall metals & mining industries. While the previous push from the government for more industry consolidation and higher industry concentration rate led to limited synergies and impact on these sectors in previous years, we think the renewed focus on energy efficiency will lead to more actual phase-outs of inefficient suppliers, especially for the steel industry. We believe more supply constraint will help maintain or improve the industry's demand/supply balance for the metals & mining sector overall (though at different magnitudes for different sectors), providing better product price support (especially for steel and cement products).

Key themes/issues and our view:
1) **Steel rationalization may be more significant:** We believe that given its larger scale, higher geographic concentration of capacity, and lower profitability for steel mills, the potential impact from the government's energy rationalization focus will be more significant for steel producers than other sub-sectors.

2) Cement leaders should benefit from consolidation: Given the government's encouragement of inland China's development, and our belief that the deceleration in property construction growth has been fairly factored into our assumptions, we expect the future investment thesis for cement will focus on both regional consolidation leaders as well as well-positioned niche players in inland China.

3) Non-ferrous outlook is more mixed: While copper remains our favorite and aluminum our least favorite of the metals, we see fewer investment opportunities here given rich valuation, and less incentives for structure change.

What surprised us in 2010:
1) Small steel mills' margin defensiveness on high raw material prices; 2) strong execution on energy controls.

How we differ from consensus on earnings outlook:
We are above consensus on the steel sector's earnings outlook due to our belief that better supply discipline will help support steel product prices; on the other hand, with crude steel production growth set to decelerate and better availability of iron ore and coal in the future to help keep production costs more stable, steel mills could experience margin expansion. We are slightly above consensus on cement and slightly below consensus on non-ferrous.

Current sector valuation: We see steel companies providing more attractive valuations than cement and non-ferrous companies under our coverage. Steel trades at close to trough-cycle multiples while cement is slightly below mid-cycle, but non-ferrous valuations are between mid-cycle and peak on multiples.

Valuation outlook: We see a potential re-rating of multiples for the steel companies given higher-than-expected earnings improvement in the coming two years while current market expectations are low. Cement multiples may also expand while non-ferrous multiples may contract.

Key risks to our views:
1) Execution on energy rationalization to be weaker than expected. 2) Further tightening from the government to lead to a sharper-than-expected decline in demand.

Stock recommendations (offshore)

Favored #1: Maanshan Iron & Steel (0323.HK, Buy)
Reasons/catalysts: 1) Potential market share gain on the long product side as the small steel mills likely to be phased-out are mostly focusing on long product; 2) higher steel product prices driven by better supply discipline to lead to potential expansion.

Favored #2: Anhui Conch Cement (0914.HK, Buy)
Reasons/catalysts: 1) Higher industry concentration to lead to better support for cement price in Eastern China, providing potential margin expansion for the company.

Avoid #1: Aluminum Corporation of China (2600.HK, Sell)

Reasons/catalysts: 1) Structural oversupply in the aluminum sector and the current high inventory level to lead to potential downside to aluminum prices; 2) limited earnings contribution from its overseas iron mines in the coming 5 years.

Stock recommendations (A-shares)

Favored #1: Baoshan Iron & Steel (600019.SS, Buy, on Conviction List)

Reasons/catalysts: 1) Higher steel product prices driven by supply discipline to lead to potential margin expansion; 2) higher exposure to the high-end steel products to make it enjoy higher margin premium than its peers.

Favored #2: Maanshan Iron & Steel (60808.SS, Buy)

Reasons/catalysts: 1) Potential market share gain on the long product side as the small steel mills likely to be phased-out are mostly focusing on long product; 2) higher steel product prices driven by better supply discipline to lead to potential expansion.

Avoid #1: Aluminum Corporation of China (601600.SS, Sell)

Reasons/catalysts: 1) Structural oversupply in the aluminum sector and the current high inventory levels to lead to potential downside for aluminum prices; 2) limited earnings contribution from its overseas iron mines in the coming 5 years.

Avoid #2: Jilin Ji En Nickel (600432. SS, Sell)

Reasons/catalysts: 1) We think the current deficit in global nickel supply will turn into oversupply in 2011, leading to downside potential to nickel prices.

Exhibit 99: Commodities – stock valuations

Stock valuations							US$ Mn		CY 2011 E			
Ticker	Name	Rating	Currency	Price	Target Price	+/- to TP (%)	Mcap	6m ADVT	P/E (x)	P/B (x)	DY (%)	EV / EBITDA
900948 CG	Inner Mongolia Yitai Coal	NC	USD	7.1	-	-	10,413	20	12.1	-	2.1	-
1088 HK	China Shenhua Energy	CS	HKD	36.2	-	-	90,258	73	14.7	2.7	2.4	7.7
2689 HK	Nine Dragons Paper Hldgs	NC	HKD	13.1	-	-	7,829	18	14.0	2.2	1.4	10.8
1898 HK	China Coal Energy	CS	HKD	14.9	-	-	25,925	42	13.7	2.0	2.0	6.8
1171 HK	Yanzhou Coal Mining	CS	HKD	24.1	-	-	20,010	41	12.0	2.4	2.5	7.6
2600 HK	Chalco - H	S	HKD	7.9	3.5	-56%	22,509	32	28.4	1.6	1.1	10.9
358 HK	Jiangxi Copper - H	N	HKD	23.3	18.9	-19%	19,348	37	12.8	1.9	1.0	8.3
2314 HK	Lee & Man Paper Manufacturing	NC	HKD	6.8	-	-	3,975	11	13.1	2.4	2.5	10.8
2899 HK	Zijin Mining	CS	HKD	7.8	-	-	20,805	28	15.1	3.6	2.5	8.8
3323 HK	China National Bldg Material	N	HKD	20.2	16.0	-21%	7,027	28	15.6	2.4	0.5	8.5
914 HK	Anhui Conch Cement - H	B	HKD	34.3	41.0	20%	14,747	23	16.9	2.7	1.0	10.3
639 HK	Fushan Intl Energy	NC	HKD	5.4	-	-	3,730	15	14.5	1.5	2.8	7.0
1333 HK	China Zhongwang Hldgs	NC	HKD	5.0	-	-	3,490	6	6.3	1.2	5.1	2.8
1393 HK	Hidili Industry Intl Dev.	CS	HKD	8.4	-	-	2,235	8	13.2	1.9	1.9	10.0
347 HK	Angang Steel - H	N	HKD	12.9	15.0	16%	10,676	27	10.0	1.4	5.8	6.1
2009 HK	BBMG	NC	HKD	11.9	-	-	5,959	10	9.6	1.8	1.6	7.1
2222 HK	NVC Lighting Hldg	B	HKD	4.2	4.5	7%	1,662	9	26.0	3.0	-	12.1
323 HK	Maanshan Iron & Steel - H	B	HKD	4.7	7.8	65%	4,525	15	10.0	1.1	3.5	3.6
3993 HK	China Molybdenum	N	HKD	6.2	7.5	22%	3,864	5	16.1	2.0	3.1	8.6
600019 CG	Baoshan Iron & Steel	B*	CNY	7.4	11.8	60%	19,384	45	9.2	1.2	4.9	4.2
601600 CG	Chalco - A	S	CNY	12.9	5.4	-58%	22,509	46	55.7	3.2	0.5	16.8
600362 CG	Jiangxi Copper - A	N	CNY	48.7	32.7	-33%	19,348	109	32.2	4.8	0.4	20.1
601958 CG	Jinduicheng Molybdenum	N	CNY	25.0	14.3	-43%	12,120	54	30.3	5.0	0.2	20.1
600585 CG	Anhui Conch Cement - A	B	CNY	27.3	34.0	25%	14,747	51	16.1	2.6	1.1	9.9
000898 CS	Angang Steel - A	N	CNY	9.6	10.8	13%	10,676	39	8.9	1.2	6.5	5.6
601168 CG	Western Mining	N	CNY	19.8	11.3	-43%	7,087	83	33.4	3.8	1.2	18.1
600005 CG	Wuhan Iron & Steel	N	CNY	5.2	7.0	36%	6,075	26	12.1	1.4	4.7	5.7
000825 CS	Shanxi Taigang Stainless Steel	B	CNY	6.2	8.8	43%	5,279	25	10.1	1.4	3.0	6.1
000060 CS	Shenzhen Zhongjin Lingnan Nonfemet	N	CNY	24.9	11.5	-54%	5,930	78	29.5	7.2	1.0	17.5
600497 CG	Yunnan Chihong Zinc & Germanium	S	CNY	29.7	10.3	-65%	4,491	23	49.4	6.4	1.4	24.7
600808 CG	Maanshan Iron & Steel - A	B	CNY	3.9	6.7	73%	4,525	14	9.5	1.0	3.7	3.5
600432 CG	Ji Lin Ji En Nickel Industry	S	CNY	31.5	13.4	-57%	3,833	33	48.7	6.2	0.3	24.5

B = Buy, H = Hold, S = Sell, CS = Coverage Suspended, NC = Not Covered. Pricing as at market close on 25 October, 2010. *Indicates the stock is on the Conviction List.

For important disclosures, please go to http://www.gs.com/research/hedge.html. For methodology and risks associated with our price targets, please see our previously published research.

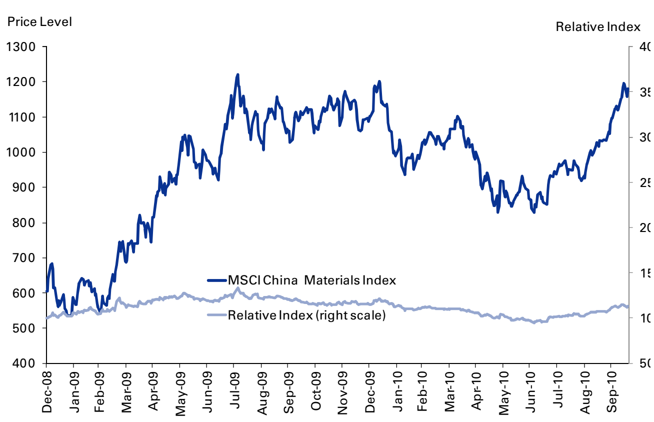
Source: FactSet, I/B/E/S, Goldman Sachs Research estimates, Gao Hua Securities Research estimates.

Exhibit 100: Commodities – stock fundamentals (2011E)

Ticker	Name	EPS Growth (%)	Revenue Growth (%)	EBITDA Growth (%)	EBITDA Margin (%)	EBIT Margin (%)	Net Margin (%)	ROE (%)	Total debt/Equity	Asset T/O (x)	Net Debt / Equity
900948 CG	Inner Mongolia Yitai Coal	6.6	13.3	-	-	-	31.2	-	-	-	-
1088 HK	China Shenhua Energy	13.8	14.7	18.8	50.5	41.1	26.2	19.6	-	0.5	-2.3
2689 HK	Nine Dragons Paper Hldgs	40.7	35.1	32.7	22.2	18.6	13.3	16.8	-	0.6	68.9
1898 HK	China Coal Energy	21.5	16.5	24.5	27.9	23.3	15.6	15.9	-	0.6	-20.5
1171 HK	Yanzhou Coal Mining	19.9	20.9	19.5	40.3	33.7	23.6	22.0	-	0.4	11.0
2600 HK	Chalco - H	89.7	4.5	33.2	14.8	7.8	3.0	5.8	1.2	1.0	1.2
358 HK	Jiangxi Copper - H	12.4	3.7	10.7	12.3	10.1	7.2	14.7	0.2	3.2	0.1
2314 HK	Lee & Man Paper Manufacturing	19.2	21.6	16.8	22.8	19.8	15.4	19.5	-	0.7	52.7
2899 HK	Zijin Mining	24.3	19.8	21.7	36.6	30.4	21.8	26.4	-	0.8	-21.9
3323 HK	China National Bldg Material	0.8	22.1	5.8	17.7	14.0	4.9	15.3	2.1	1.2	1.7
914 HK	Anhui Conch Cement - H	32.7	18.1	28.4	26.6	20.2	14.8	16.0	0.2	0.9	0.2
639 HK	Fushan Intl Energy	8.5	20.2	14.6	57.7	49.3	28.9	10.7	-	0.3	-22.0
1333 HK	China Zhongwang Hldgs	3.3	15.1	6.9	38.7	33.2	25.0	20.4	-	0.9	-42.2
1393 HK	Hidili Industry Intl Dev.	38.8	39.6	36.1	47.0	41.0	30.6	15.7	-	0.2	30.7
347 HK	Angang Steel - H	92.9	6.9	43.2	16.6	10.5	7.5	13.2	0.4	2.0	0.4
2009 HK	BBMG	52.3	27.3	40.8	25.8	25.3	15.5	20.5	-	0.5	61.7
2222 HK	NVC Lighting Hldg	-13.1	21.6	11.6	21.5	14.0	12.0	11.2	0.0	3.3	-0.5
323 HK	Maanshan Iron & Steel - H	86.7	5.8	25.0	15.3	8.7	4.5	9.8	0.5	2.0	0.2
3993 HK	China Molybdenum	59.0	20.9	56.5	53.3	44.9	30.6	12.9	0.1	1.0	-0.1
600019 CG	Baoshan Iron & Steel	16.9	4.3	10.7	17.8	10.2	7.2	12.0	0.2	1.7	0.2
601600 CG	Chalco - A	86.9	4.5	31.2	14.3	7.8	3.0	5.8	1.5	1.0	1.2
600362 CG	Jiangxi Copper - A	10.7	3.7	9.0	11.9	10.1	7.2	14.7	0.3	3.2	0.1
601958 CG	Jinduicheng Molybdenum	124.4	74.6	149.9	35.8	32.2	25.0	16.1	0.1	1.5	-0.2
600585 CG	Anhui Conch Cement - A	30.7	18.1	26.4	25.8	20.2	14.8	16.0	0.3	0.9	0.2
000898 CS	Angang Steel - A	91.2	6.9	41.9	16.2	10.5	7.5	13.2	0.5	2.0	0.4
601168 CG	Western Mining	17.9	1.5	21.2	16.8	12.5	8.9	10.9	0.5	2.0	0.1
600005 CG	Wuhan Iron & Steel	117.4	4.4	21.3	12.3	7.0	4.6	11.3	0.6	1.7	0.4
000825 CS	Shanxi Taigang Stainless Steel	80.2	4.2	19.5	9.9	5.8	3.7	13.4	1.1	3.2	0.8
000060 CS	Shenzhen Zhongjin Lingnan Nonfemet	34.0	-5.0	48.3	26.8	19.4	14.8	21.2	0.6	1.5	0.5
600497 CG	Yunnan Chihong Zinc & Germanium	65.7	47.5	50.8	18.2	12.8	8.4	12.0	0.7	1.5	0.4
600808 CG	Maanshan Iron & Steel - A	90.3	5.8	27.4	15.4	8.7	4.5	9.8	0.5	2.0	0.2
600432 CG	Ji Lin Ji En Nickel Industry	216.8	42.4	131.9	46.7	34.1	21.5	12.1	0.9	1.1	0.6

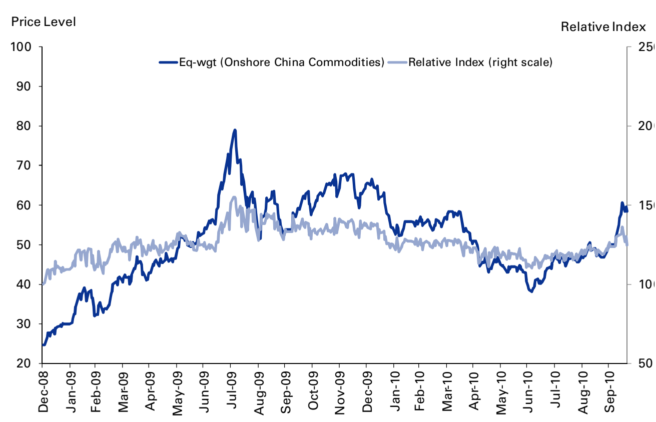
Source: FactSet, I/B/E/S, Goldman Sachs Research estimates, Gao Hua Securities Research estimates.

Exhibit 101: Offshore Commodities performance



Source: FactSet, MSCI, GS Global ECS Research.

Exhibit 102: Onshore Commodities performance



Source: FactSet, GS Global ECS Research.

Conglomerates: Bottom-up focus

Analyst: Simon Cheung (simon.cheung@gs.com)

Sector stance

2011 sector outlook:

China conglomerate stocks have exhibited diverse price performance ytd. Looking into 2011, we believe the strategy for this sector will remain bottom-up, identifying companies with sustainable earnings growth, exposure to sector themes and company-specific catalysts. After years of underperformance, we think a change of market perception and improving return profiles should underpin a further re-rating of CITIC Pacific.

Key themes/issues:

(1) Inflation-led price hike, but also presents potential margin pressure: In an inflationary environment, we expect escalating food prices to drive up the same-store-sale growth of supermarkets, one of the key growth drivers for China Resources Enterprise (CRE). On the other hand, its beer business may face cost pressure from higher barley and rice prices. The key is its ability to pass it onto end-users.

(2) Upside in steel prices on supply control and energy saving: We expect less supply due to the energy rationalization program by Chinese government and increased demand driven by social housing construction to underpin 25% yoy growth in steel prices in 2010E, followed by 5% in 2011E.

(3) Asset disposals and acquisitions: CRE has the financial capability and track record of conducting acquisitions to strengthen its market positioning in the beer and retail industries. But given the surge in asset valuations ytd, coupled with the increase of market concentration particularly in the beer industry, we believe reasonably-valued, quality opportunities will become increasingly difficult to locate. Management has started to focus more on its growth strategies in its purified water and food processing businesses. On the other hand, except for Dah Chong Hong and CITIC 1616, CITIC Pacific is open to disposing of its other non-core assets, which do not generate good cash flow and have no synergy with its existing core operations.

Current sector valuation: CITIC Pacific is trading at 1.1X P/B and 25% discount to 2011E NAV, below its historical average of 1.2X and mid-cycle valuation of 15%. CRE is trading at 13.4X EV/EBITDA, looking demanding vs. its China beverage/supermarket/food processing peers, averaging 13X/9X/10X, respectively.

Valuation outlook: Our 12-month NAV-based target prices imply mid-cycle valuation for stocks under coverage.

Key risks to our view:

(1) Sharper-than-expected cost increase affecting the profitability of the underlying businesses; (2) Chinese government not executing the energy rationalization program effectively.

Stock recommendations (offshore)

Favored #1: CITIC Pacific (0267.HK, Buy)

Reasons/catalysts: (1) With steel and iron ore together accounting for 48% of its 2011E NAV, we believe CITIC will benefit from rising steel prices, as mentioned above; (2) trading at a 29% discount to 2011E NAV, we think the stock has not fully priced in any of the potential gains from the execution of its Sino Iron Ore project, which could be a multi-year driver for the group's earnings and returns.

Avoid #1: China Resources Enterprise (0291.HK, Neutral)

Reasons/catalysts: Although we continue to see CRE as one of the best-managed conglomerates to benefit from China's secular consumption growth story, the stock's valuation looks full to us, trading at 13.1X 2011E EV/EBITDA and 29.3X P/E, a premium to its long-term averages of 11X and 23.6X. Operationally, the group has strong market positioning in the beer and retail industries in China, but its profitability and ROE have been less than satisfactory, probably a function of its aggressive acquisition and growth pace in recent years.

Exhibit 103: Conglomerates – stock valuations (2011E)

Stock valuations Ticker	Name	Rating	Currency	Price	Target Price	+/- to TP (%)	US$ Mn Mcap	6m ADVT	CY 2011 E P/E (x)	P/B (x)	DY (%)	EV / EBITDA
267 HK	CITIC Pacific	B	HKD	20.8	23.6	14%	9,756	14	10.6	1.1	1.9	13.0
291 HK	China Resources	N	HKD	34.4	33.9	-1%	10,630	15	30.9	2.7	1.5	10.8
392 HK	Beijing Enterprises Hldgs	CS	HKD	53.6	-	-	7,856	9	18.2	1.7	1.7	10.7
363 HK	Shanghai Industrial Hldgs	CS	HKD	36.9	-	-	5,127	13	12.8	1.2	3.1	7.8
656 HK	Fosun Intl	CS	HKD	6.8	-	-	5,610	3	11.1	1.3	2.5	5.2

B = Buy, H = Hold, S = Sell, CS = Coverage Suspended, NC = Not Covered. Pricing as at market close on 25 October, 2010.

For important disclosures, please go to http://www.gs.com/research/hedge.html. For methodology and risks associated with our price targets, please see our previously published research.

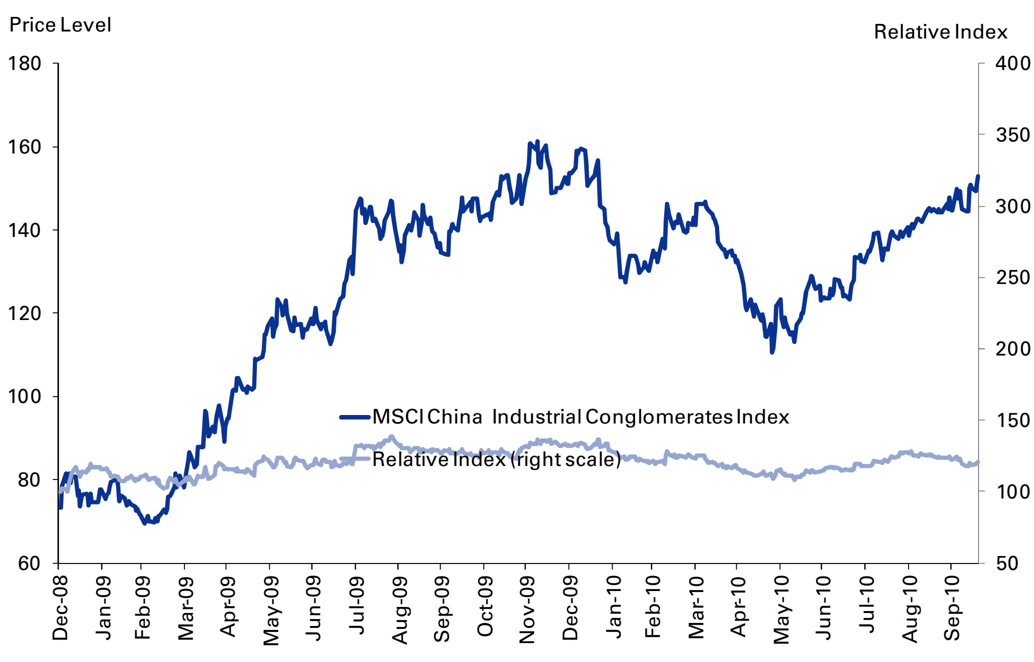
Source: FactSet, I/B/E/S, Goldman Sachs Research estimates, Gao Hua Securities Research estimates.

Exhibit 104: Conglomerates – stock fundamentals

Ticker	Name	EPS Growth (%)	Revenue Growth (%)	EBITDA Growth (%)	EBITDA Margin (%)	EBIT Margin (%)	Net Margin (%)	ROE (%)	Total debt/Equity	Asset T/O (x)	Net Debt / Equity
267 HK	CITIC Pacific	17.7	31.4	83.8	13.1	10.9	8.3	10.1	1.0	0.8	0.9
291 HK	China Resources	-51.1	15.8	19.0	7.6	4.6	2.7	8.8	0.3	2.2	0.0
392 HK	Beijing Enterprises Hldgs	16.2	11.2	19.4	19.1	13.5	10.2	9.6	-	0.5	19.0
363 HK	Shanghai Industrial Hldgs	-46.4	16.1	22.4	41.7	38.2	22.9	9.9	-	0.2	-5.6
656 HK	Fosun Intl	23.3	12.8	16.2	18.7	13.7	6.8	12.2	-	0.5	35.0

Source: FactSet, I/B/E/S, Goldman Sachs Research estimates, Gao Hua Securities Research estimates.

Exhibit 105: Offshore Conglomerates performance



Source: FactSet, MSCI, GS Global ECS Research.

Construction Machinery: 'Gearing' up for expansion and upgrades

Analyst: Tian Lu (tian.lu@ghsl.cn)

Sector stance

2011 sector outlook:
We expect to see volume growth decelerate gradually, but think a major dip in demand is unlikely. We think a stealthy flow of approvals for both government and non-government investment projects is ongoing which will partially offset the impact from energy-saving, environment protection and, in particular, property tightening efforts.

Key themes/issues and our view:
1) **Policy tightening** in the commodity property space remains the biggest uncertainty and harsher/longer-than-expected tightening will hit construction machinery, and in particular concrete machinery, demand hard. However we also expect social housing to cushion a good portion of potential commodity property slowdown.

2) Export growth/overseas expansion: Exports as a percentage of total revenue have decreased from c.20% at their peak in 2007 to c.5% for most Chinese construction machinery companies. We expect export growth to pick up in 2011 because: 1) we expect strong demand growth in other EM countries such as Brazil and India, and stronger recovery in developed markets; 2) in the past year major Chinese companies have expanded their overseas distribution network or even established plants directly.

3) Technological upgrade: We have seen a continuing strong focus on R&D for Chinese construction machinery companies (in particular Sany and Liugong) in the past few years and expect technological upgrades to enable these companies to gain further market share from foreign competitors, especially in the excavator market.

What surprised us in 2010:
1) An exceptionally strong growth in construction machinery unit volume, driven by high infrastructure investment as well as property investment.

2) Margin expansion on the back of subdued steel prices in H1.

How we differ from consensus on earnings outlook:
We are above consensus on sectoral earnings outlook due to above-consensus volume assumptions.

Current sector valuation: The sector is valued at 10-15X P/E. H-shares used to trade at a discount to A-shares but the discount has narrowed (in fact, almost disappeared) recently.

Valuation outlook: We expect to see valuation expansion as the market gets more visibility on the extent of policy tightening in the property space and the impact that has.

Key risks to our views:
Earlier-/later-than-expected policy easing; lighter-/harsher-than-expected property tightening policies; and lower-/higher-than-expected steel prices.

Stock recommendations (offshore)

Favored #1: Lonking (3339.HK, Neutral)
Reasons/catalysts: 1) Attractive valuation; 2) efficient cost control and strong execution which should enable the company to further consolidate its leading position in the loader market and penetrate into the excavator market.

Stock recommendations (A-share)

Favored #1: Sany Heavy (600031.SS, Neutral)
Reasons/catalysts: 1) Industry leader with highest CROCI (cash returns); 2) oligopoly position in most of the product segments it operates in; 3) strongest execution record – the company has shown its strong ability to quickly mobilize resources to enter into new product categories and gain market share. We are Neutral on the stock because its valuation appears less attractive than previously, post a strong rally since July.

Favored #2: Guangxi Liugong (000528.SZ, Neutral)
Reasons/catalysts: 1) Mean-reversion opportunity as the stock has underperformed its peers; 2) despite losing market share in the loader market in H1 2010 due to capacity constraints we expect the company to hold on to its market share.

Exhibit 106: Machinery – stock valuations

Ticker	Name	Rating	Currency	Price	Target Price	+/- to TP (%)	US$ Mn		CY 2011 E			
							Mcap	6m ADVT	P/E (x)	P/B (x)	DY (%)	EV / EBITDA
200039 CS	China Intl Marine Containers - B	NC	HKD	14.6	-	-	5,887	2	11.0	1.9	2.5	11.8
3339 HK	Lonking Hldgs	N	HKD	4.4	4.9	12%	2,421	5	9.2	2.7	3.9	7.2
1766 HK	CSR	NC	HKD	8.3	-	-	11,485	7	22.2	3.7	1.1	12.3
1618 HK	Metallurgical Corp of China	NC	HKD	4.1	-	-	9,998	6	9.8	1.4	2.7	6.1
600031 CG	Sany Heavy Industry	N	CNY	21.5	17.8	-17%	34,266	84	18.1	5.6	0.9	12.6
000528 CS	Guangxi Liugong Machinery	N	CNY	33.7	31.2	-7%	3,291	38	11.8	3.0	0.6	9.1

B = Buy, H = Hold, S = Sell, NC = Not Covered. Pricing as at market close on 25 October, 2010.

For important disclosures, please go to http://www.gs.com/research/hedge.html. For methodology and risks associated with our price targets, please see our previously published research.

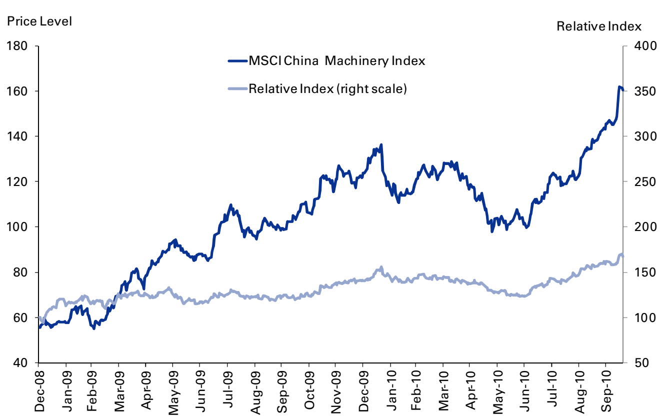
Source: FactSet, I/B/E/S, Goldman Sachs Research estimates, Gao Hua Securities Research estimates.

Exhibit 107: Machinery – stock fundamentals (2011E)

Ticker	Name	EPS Growth (%)	Revenue Growth (%)	EBITDA Growth (%)	EBITDA Margin (%)	EBIT Margin (%)	Net Margin (%)	ROE (%)	Total debt/Equity	Asset T/O (x)	Net Debt / Equity
200039 CS	China Intl Marine Containers - B	32.5	28.3	29.7	6.3	5.7	5.2	18.6	-	1.6	45.6
3339 HK	Lonking Hldgs	8.3	8.6	8.9	19.4	17.6	13.4	29.7	0.5	3.8	0.4
1766 HK	CSR	49.8	41.1	44.5	7.7	6.2	4.4	17.9	-	1.2	-21.6
1618 HK	Metallurgical Corp of China	28.7	28.5	28.7	7.1	5.8	2.8	15.1	-	0.7	97.5
600031 CG	Sany Heavy Industry	12.2	17.1	14.1	22.6	20.8	15.5	27.6	0.2	3.7	0.1
000528 CS	Guangxi Liugong Machinery	14.1	11.3	14.3	14.1	13.0	10.9	25.3	0.2	6.7	0.0

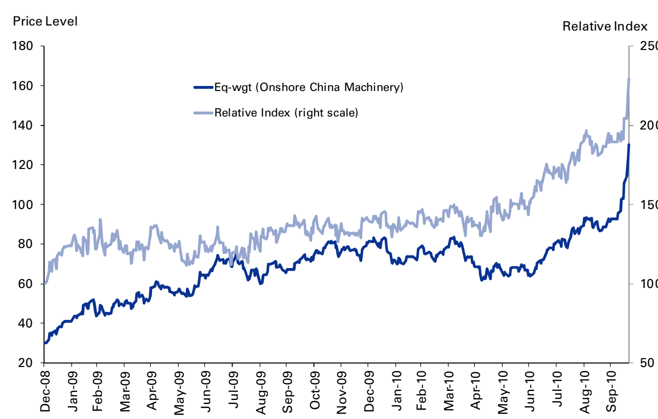
Source: FactSet, I/B/E/S, Goldman Sachs Research estimates, Gao Hua Securities Research estimates.

Exhibit 108: Offshore Machinery performance



Source: FactSet, MSCI, GS Global ECS Research.

Exhibit 109: Onshore Machinery performance



Source: FactSet, GS Global ECS Research.

Consumer Discretionary: Demand and consolidation driving growth

Analysts: Joshua Lu (joshua.lu@gs.com); Caroline Li (caroline.li@ghsl.cn)

Sector stance

2011 sector outlook:
1) We expect demand growth to remain healthy, but slower than in 2010 given the more difficult comparison. While wage growth will likely remain strong, inflation and housing prices are the two key risks to monitor. Both could have a negative impact on consumer sentiment and consumption. 2) Department stores continue to be a favorable spot with good operating leverage in an inflationary environment, healthy organic growth potential as well as selective acquisition opportunities. 3) Sports brands continue to face diverging growth trend, with tier-1/-2 cities' demand growth in the low to mid-teens, but tier-3/-4 cities' demand growth in 20%+.

Key themes/issues and our view:
1) **Higher growth in lower-tier cities:** Not everyone is equally positioned to be able to tap into these opportunities, so investors need to be selective.

2) Consumers trading up: Potential market share consolidation favoring strong brands, at the expense of small brands or no-brand products.

3) Modest inflation generally favorable for consumer discretionary: Department stores in particular.

What surprised us in 2010:
1) Better-than-expected SSS from specialty retailers and department stores underscore strong consumption rebound.

2) Slower-than-expected growth in sports brands.

How we differ from consensus on earnings outlook:
We are most above consensus on Belle and Intime, mainly on our margin assumptions. For the rest of the stocks we are largely in line.

Current sector valuation: Retailers' valuation is in line with its historical median, on average justifiable given continued strong growth momentum; sports brands' valuation is below historical median as leaders (e.g. Li Ning) have seen a growth slowdown, while the market remains concerned on the brand longevity of the second-tier brands.

Valuation outlook: For stocks able to sustain 20% or better EPS growth, we view current valuations as fair. Multiples may not re-rate much further, except for the second-tier sports brands.

Key risks to our views:
1) Worse-than-expected macro; 2) execution slippage in new store expansion.

Stock recommendations (offshore)

Favored #1: Belle (1880.HK, Buy)
Reasons/catalysts: 1) Better-than-expected EPS driven by store expansion, SSS, and OP margin expansion; 2) market share gains as acquired brands gaining traction at retail; 3) beneficiary of Nike/Adidas market share gains in China.

Favored #2: Peak Sports (1968.HK, Buy, on Conviction List)
Reasons/catalysts: 1) Best growth potential in China sports brands from a low base; 2) focus on lower-tier city basketball market, a differentiated brand; 3) trade fair results and retail SSS strong catalyst for re-rating.

Avoid #1: Anta (2020.HK, Sell, on Conviction List)
Reasons/catalysts: 1) Least growth potential among mass market sports brands; 2) priced for perfect execution, risk/reward unattractive.

Avoid #2: Ports Design (589.HK, Sell)
Reasons/catalysts: 1) Lack of incremental new customer limits store expansion potential; 2) lower-than-expected store additions could result in earnings miss.

Stock recommendations (A-share)

Favored #1: Guangzhou Friendship (000987.SZ, Buy)

Reasons/catalysts: 1) High-margin, high-return department store operator; 2) new store additions from a low base driving above-average growth.

Favored #2: Wangfujing (600859.SS, Buy)

Reasons/catalysts: 1) Strong track record in national expansion; 2) new stores turning profitable, driving earnings growth ; 3) three to four new store openings a year provide sustainable sales growth driver.

Avoid #1: Hunan Friendship & Apollo. Co (002277.SZ, Sell)

Reasons/catalysts: 1) We expect growth to normalize and therefore current high valuations are unsupported.

Exhibit 110: Consumer Discretionary – stock valuations

Stock valuations

Ticker	Name	Rating	Currency	Price	Target Price	+/- to TP (%)	US$ Mn Mcap	US$ Mn 6m ADVT	CY 2011 E P/E (x)	CY 2011 E P/B (x)	CY 2011 E DY (%)	CY 2011 E EV / EBITDA
1880 HK	Belle Intl Hldgs	B	HKD	13.7	15.0	9%	14,889	26	22.7	4.5	1.1	15.4
551 HK	Yue Yuen Industrial (Hldgs)	N	HKD	28.5	32.5	14%	6,045	7	11.1	1.7	4.3	9.0
493 HK	GOME	RS	HKD	2.8	-	-	5,956	44	-	-	-	-
2020 HK	Anta Sports	S*	HKD	16.2	13.2	-18%	5,199	12	18.9	5.2	3.3	12.6
3308 HK	Golden Eagle Retail	N	HKD	21.0	18.2	-13%	5,244	6	29.4	7.8	1.7	19.1
3368 HK	Parkson Retail	N	HKD	13.9	14.0	1%	5,031	7	24.9	6.2	1.9	14.6
3998 HK	Bosideng Intl Hldgs	N	HKD	4.1	4.2	4%	4,056	6	14.7	3.7	6.2	9.7
3818 HK	China Dongxiang	B	HKD	4.5	6.0	33%	3,293	15	11.6	2.5	6.1	6.4
2331 HK	Li Ning	N	HKD	23.8	28.0	18%	3,218	16	14.5	4.8	2.8	8.5
1833 HK	Intime Dept. Store	B	HKD	12.0	10.3	-14%	2,724	6	25.3	4.1	1.6	15.6
848 HK	Maoye Intl Hldgs	B	HKD	3.4	3.7	10%	2,219	2	21.8	3.4	1.4	13.9
1361 HK	361 Degrees	N	HKD	7.8	8.0	2%	2,084	4	12.8	3.0	2.4	7.9
1368 HK	Xtep Intl Hldgs	B	HKD	7.4	7.9	7%	2,072	3	13.4	3.4	4.9	8.7
1968 HK	Peak Sports	B*	HKD	6.5	7.8	20%	1,763	6	11.7	2.7	3.0	7.0
751 HK	Skyworth Digital Hldgs	NC	HKD	4.7	-	-	1,553	26	8.2	1.6	3.4	6.9
HTHT US	China Lodging	N	USD	25.9	16.2	-37%	1,558	-	43.3	4.6	-	16.6
308 HK	China Travel Intl Investment HK	NC	HKD	1.9	-	-	1,416	2	-	-	-	-
589 HK	Ports Design	S	HKD	19.5	18.0	-8%	1,422	4	17.3	5.1	3.5	12.6
NPD UN	China Nepstar Chain Drugstore	N	USD	4.3	3.3	-23%	454	1	22.5	1.6	2.2	12.0
002024 CS	Suning Appliance	N	CNY	16.1	10.3	-36%	16,886	64	32.6	6.7	0.3	21.2
002269 CS	Shanghai Metersbonwe	N	CNY	30.0	22.0	-27%	4,524	6	43.8	9.0	1.6	24.0
600859 CG	Beijing Wangfujing Dept. Store	B	CNY	44.3	44.0	-1%	2,613	10	26.2	4.8	1.2	10.8
600694 CG	Dashang	N	CNY	54.0	49.0	-9%	2,381	16	38.8	4.2	-	13.8
600631 CG	Shanghai Bailian	N	CNY	13.8	17.0	23%	2,245	13	27.3	1.8	1.2	10.3
000987 CS	Guangzhou Friendship	B	CNY	29.6	33.0	11%	1,598	8	25.7	6.0	1.5	14.2
000501 CS	Wuhan Dept. Store	N	CNY	20.8	16.0	-23%	1,588	7	32.8	4.5	-	13.3
002277 CS	Hunan Friendship & Apollo Business	S	CNY	25.9	17.0	-34%	1,357	22	33.7	5.0	1.2	16.8

B = Buy, H = Hold, S = Sell, NC = Not Covered, NR = Not Rated, RS = Rating Suspended. Pricing as at market close on 25 October, 2010. *Indicates the stock is on the Conviction List.

For important disclosures, please go to http://www.gs.com/research/hedge.html. For methodology and risks associated with our price targets, please see our previously published research.

Source: FactSet, I/B/E/S, Goldman Sachs Research estimates, Gao Hua Securities Research estimates.

Exhibit 111: Consumer Discretionary – stock fundamentals (2011E)

Ticker	Name	EPS Growth (%)	Revenue Growth (%)	EBITDA Growth (%)	EBITDA Margin (%)	EBIT Margin (%)	Net Margin (%)	ROE (%)	Total debt/Equity	Asset T/O (x)	Net Debt / Equity
1880 HK	Belle Intl Hldgs	28.1	19.8	31.3	20.7	17.4	14.7	19.9	0.0	13.6	-0.4
551 HK	Yue Yuen Industrial (Hldgs)	7.7	14.2	8.7	11.2	7.9	7.9	13.3	0.0	3.5	0.2
493 HK	GOME	-	-	-	-	-	-	-	-	-	-
2020 HK	Anta Sports	18.9	18.9	23.9	27.4	25.3	20.6	27.5	-	10.1	-0.8
3308 HK	Golden Eagle Retail	28.4	28.9	32.0	57.6	49.7	36.8	26.4	0.1	0.5	-0.2
3368 HK	Parkson Retail	29.2	16.5	24.6	41.6	35.4	25.3	24.2	0.2	2.0	-0.5
3998 HK	Bosideng Intl Hldgs	13.2	15.3	16.0	25.8	23.9	20.0	25.3	-	14.3	-0.7
3818 HK	China Dongxiang	18.1	17.8	24.7	42.8	38.5	33.2	21.7	0.0	8.8	-0.8
2331 HK	Li Ning	30.9	16.7	29.5	19.4	16.4	12.8	32.1	0.0	16.5	-0.6
1833 HK	Intime Dept. Store	21.1	30.1	37.5	37.9	26.9	22.6	14.7	0.2	1.0	0.0
848 HK	Maoye Intl Hldgs	22.5	16.7	31.7	62.5	47.2	29.6	14.0	0.5	0.4	0.9
1361 HK	361 Degrees	10.2	17.7	16.6	24.2	22.6	18.3	23.3	-	5.5	-0.7
1368 HK	Xtep Intl Hldgs	25.6	18.8	24.8	24.1	22.6	19.1	25.3	-	10.5	-0.8
1968 HK	Peak Sports	29.3	26.6	31.6	23.7	22.2	18.4	23.2	-	10.8	-0.7
751 HK	Skyworth Digital Hldgs	18.7	16.7	19.7	7.2	6.2	4.9	20.5	-	1.6	28.4
HTHT US	China Lodging	25.1	41.7	35.7	23.5	12.5	9.7	10.5	0.0	1.4	-0.3
308 HK	China Travel Intl Investment HK	-	-	-	-	-	-	-	-	-	-
589 HK	Ports Design	13.5	9.2	17.1	39.4	33.3	29.0	29.9	0.3	6.6	-0.2
NPD UN	China Nepstar Chain Drugstore	23.7	9.9	30.9	6.1	3.6	4.7	6.8	-	10.6	-0.5
002024 CS	Suning Appliance	19.4	14.5	19.1	6.8	5.9	5.0	19.7	0.0	10.1	-0.7
002269 CS	Shanghai Metersbonwe	29.6	23.8	38.3	15.2	11.4	8.1	20.5	0.3	3.4	0.2
600859 CG	Beijing Wangfujing Dept. Store	36.1	20.3	28.7	7.8	6.0	4.0	18.3	0.2	6.7	-0.9
600694 CG	Dashang	97.4	13.0	29.1	4.0	2.4	1.6	10.8	0.3	5.4	-0.3
600631 CG	Shanghai Bailian	15.5	11.9	18.8	11.6	7.9	4.2	6.6	0.4	1.8	0.1
000987 CS	Guangzhou Friendship	20.7	40.9	21.9	10.7	9.8	7.9	23.3	-	12.9	-1.5
000501 CS	Wuhan Dept. Store	10.3	16.9	9.8	7.4	6.0	3.0	13.6	0.7	3.0	0.0
002277 CS	Hunan Friendship & Apollo Business	13.4	11.9	13.1	10.7	8.8	6.9	14.7	-	4.7	-1.1

Source: FactSet, I/B/E/S, Goldman Sachs Research estimates, Gao Hua Securities Research estimates.

Exhibit 112: Offshore Consumer Discretionary performance

Source: FactSet, MSCI, GS Global ECS Research.

Exhibit 113: Onshore Consumer Discretionary performance

Source: FactSet, GS Global ECS Research.

Consumer Staples: Further consolidation & better pricing power

Analysts: Yifan Deng (yifan.deng@gs.com); Joey Zeng (joey.zeng@ghsl.cn)

Sector stance

2011 sector outlook:
1) We expect consolidation to continue across subsectors in consumer staples, while the hog slaughtering industry is showing the biggest potential for consolidation with its extremely fragmented market landscape. 2) We expect more M&A activity in the beer sector, as the key players start a new round of expansion. 3) We expect the intense competition in the beverage market to continue, with more efforts on brand building and new products. 4) Cost pressure may continue, as many input prices stay high. But we expect margins to trend up with efforts on cost cutting/pass-through and there is likely to be more ASP hikes by the leading staple companies in an inflationary environment.

Key themes/issues and our view:
1) **Cost pressure.** Soft commodity prices would be among the key things to watch, given rising volatility. Input cost movement will impact margins in the near term, while we believe leading staple names will benefit in the long term with better pricing power.

2) Rising inflation: A high inflation environment would be positive to staple companies, providing more flexibility to hike ASPs.

3) Consumption upgrade: Driven by rising income levels; we believe companies with a strong brand and higher exposure to premium/high-end products will benefit.

What surprised us in 2010:
1) Higher-than-expected increase in most soft commodity prices; 2) margin performance in 1H2010 was better than expected despite high costs.

How we differ from consensus on earnings outlook:
We are largely in-line with consensus on sectoral earnings outlook.

Current sector valuation: Consumer staples are trading above historical averages, while we believe the sector as a whole has tended to re-rate over the past five years due to strong earnings growth, improving returns and the strengthening market position of the leading listed companies.

Valuation outlook: For the stocks with 25%+ earnings growth and continuous returns improvement, we believe current valuations will be sustained.

Key risks to our views:
1) Slower-than-expected demand; 2) higher-than-expected costs; 3) worse-than-expected competition.

Stock recommendations (offshore)

Favored #1: China Yurun (1068.HK, Buy, on Conviction List)
Reasons/catalysts: 1) Upstream slaughtering business to see better profit from rising hog prices; 2) strong volume growth with aggressive capacity expansion; 3) well positioned for further industry consolidation.

Favored #2: Tingyi (322.HK, Buy)
Reasons/catalysts: 1) Improving pricing power from its solid market position; 2) potential ASP hike; 3) top-line growth would provide upside surprise.

Avoid #1: China Foods (506.HK, Sell)
Reasons/catalysts: 1) FY2010 results should surprise on the downside; 2) high execution risk on the new sales model for its wine business; 3) expensive valuations with lackluster earnings.

Stock recommendations (A-share)

Favored #1: Kweichow Moutai (600519.SS, Buy)
Reasons/catalysts: 1) Strong pricing power and we expect another round of price hikes in early 2011; 2) scarcity value as the only pure premium play in the China staples space; 3) attractive risk/reward trading at a discount to A-share peers.

Avoid #1: Bright Dairy (600597.SS, Sell)
Reasons/catalysts: 1) Sluggish growth in both its headquarters in Shanghai and other regions; 2) more pressure on costs than peers; 3) valuation is expensive with slow growth and low returns.

Exhibit 114: Consumer Staples – stock valuations

Stock valuations Ticker	Name	Rating	Currency	Price	Target Price	+/- to TP (%)	US$ Mn Mcap	6m ADVT	CY 2011 E P/E (x)	P/B (x)	DY (%)	EV / EBITDA
322 HK	Tingyi (Cayman Islands)	B	HKD	21.1	20.8	-1%	15,154	13	26.1	7.3	1.9	12.1
151 HK	Want Want	N	HKD	7.1	6.3	-12%	12,070	16	25.3	9.8	3.2	18.2
1044 HK	Hengan Intl	B	HKD	71.3	82.8	16%	11,248	16	23.2	7.7	2.8	16.6
200869 CS	Yantai Changyu Pioneer Wine - B	N	HKD	100.1	78.8	-21%	8,271	2	25.6	10.2	2.7	17.5
168 HK	Tsingtao Brewery - H	N	HKD	41.9	38.8	-7%	7,406	8	25.2	4.3	0.7	13.2
1068 HK	China Yurun Food	B*	HKD	30.3	31.7	5%	6,888	19	19.3	3.7	1.4	15.0
606 HK	China Agri-Industries Hldgs	B	HKD	11.8	10.2	-14%	6,130	15	14.1	2.1	1.8	14.4
336 HK	Huabao Intl Hldgs	B	HKD	12.1	11.4	-6%	4,922	6	21.3	6.9	2.3	15.8
2319 HK	China Mengniu Dairy	B	HKD	23.4	28.4	22%	5,228	19	19.5	2.9	1.5	9.5
8277 HK	Wumart Stores Inc.	NC	HKD	18.0	-	-	2,978	2	27.7	4.8	1.7	13.1
682 HK	Chaoda Modern Agriculture (Hldgs)	NC	HKD	6.3	-	-	2,698	15	3.8	0.7	2.2	2.7
506 HK	China Foods	S	HKD	6.2	3.6	-42%	2,238	4	27.2	2.8	1.5	11.0
600519 CG	Kweichow Moutai	B	CNY	173.0	162.5	-6%	24,523	50	23.8	7.0	1.7	14.9
000869 CS	Yantai Changyu Pioneer Wine	N	CNY	113.9	74.1	-35%	8,271	7	34.0	13.5	2.1	23.4
600600 CG	Tsingtao Brewery - A	N	CNY	37.1	33.4	-10%	7,406	20	26.0	4.5	0.7	13.7
600887 CG	Inner Mongolia Yili Indl	B	CNY	38.8	38.8	0%	4,659	32	28.2	5.9	0.7	13.6
000729 CS	Beijing Yanjing Brewery	N	CNY	20.4	20.6	1%	3,708	23	24.5	2.9	1.4	11.0
600597 CG	Bright Dairy & Food	S	CNY	9.8	7.2	-27%	1,546	11	39.8	4.3	1.5	14.5

B = Buy, H = Hold, S = Sell. Pricing as at market close on 25 October, 2010. *Indicates the stock is on the Conviction List.

For important disclosures, please go to http://www.gs.com/research/hedge.html. For methodology and risks associated with our price targets, please see our previously published research.

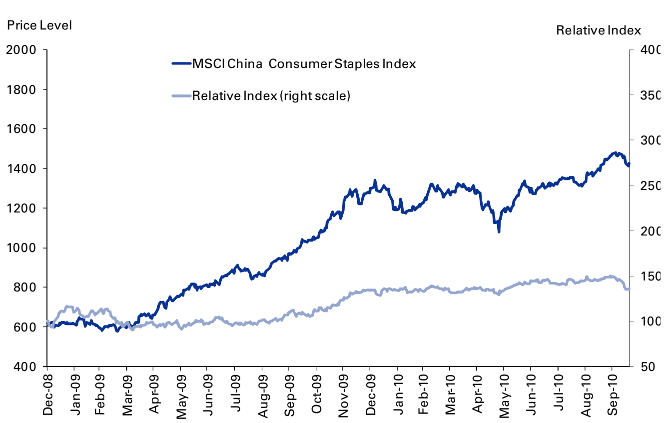
Source: FactSet, I/B/E/S, Goldman Sachs Research estimates, Gao Hua Securities Research estimates.

Exhibit 115: Consumer Staples – stock fundamentals (2011E)

Ticker	Name	EPS Growth (%)	Revenue Growth (%)	EBITDA Growth (%)	EBITDA Margin (%)	CY 2011E EBIT Margin (%)	Net Margin (%)	ROE (%)	Total debt/Equity	Asset T/O (x)	Net Debt / Equity
322 HK	Tingyi (Cayman Islands)	32.2	24.5	25.0	14.3	11.2	7.2	28.0	0.1	3.0	-0.4
151 HK	Want Want	25.0	24.2	25.4	23.7	21.3	17.6	38.8	0.3	3.2	-0.3
1044 HK	Hengan Intl	38.9	34.0	38.8	29.0	26.0	20.7	33.2	0.2	2.9	0.0
200869 CS	Yantai Changyu Pioneer Wine - B	24.8	21.2	26.3	40.2	37.2	28.2	39.8	0.1	2.7	-0.3
168 HK	Tsingtao Brewery - H	24.3	13.3	19.6	14.5	12.0	8.8	17.2	0.1	3.9	-0.6
1068 HK	China Yurun Food	9.4	29.9	15.4	13.9	12.2	10.9	19.2	0.3	3.0	0.0
606 HK	China Agri-Industries Hldgs	20.6	34.3	7.6	6.1	4.2	4.9	13.0	0.6	3.2	0.5
336 HK	Huabao Intl Hldgs	18.1	22.3	21.5	66.0	63.5	53.2	31.3	0.0	11.0	-0.5
2319 HK	China Mengniu Dairy	32.8	18.0	27.5	8.0	5.8	4.9	15.1	0.0	5.2	-0.6
8277 HK	Wumart Stores Inc.	30.2	26.8	26.8	7.7	5.9	4.2	18.4	-	2.0	-73.7
682 HK	Chaoda Modern Agriculture (Hldgs)	22.2	26.9	20.4	58.8	49.8	48.7	19.8	-	0.4	-12.5
506 HK	China Foods	42.3	19.3	30.7	6.4	4.6	2.8	10.2	0.1	5.6	-0.1
600519 CG	Kweichow Moutai	23.7	20.3	23.2	65.1	63.3	45.8	29.4	-	3.4	-0.7
000869 CS	Yantai Changyu Pioneer Wine	24.8	21.2	26.3	40.2	37.2	28.2	39.8	0.1	2.7	-0.3
600600 CG	Tsingtao Brewery - A	24.3	13.3	19.6	14.5	12.0	8.8	17.2	0.1	3.9	-0.6
600887 CG	Inner Mongolia Yili Indl	29.0	17.0	22.5	5.8	3.9	3.2	21.0	0.3	6.8	-0.6
000729 CS	Beijing Yanjing Brewery	22.1	14.7	15.4	17.9	11.7	8.5	11.7	0.1	1.5	-0.1
600597 CG	Bright Dairy & Food	32.3	19.5	22.9	5.6	3.6	2.3	10.8	0.1	8.1	-0.4

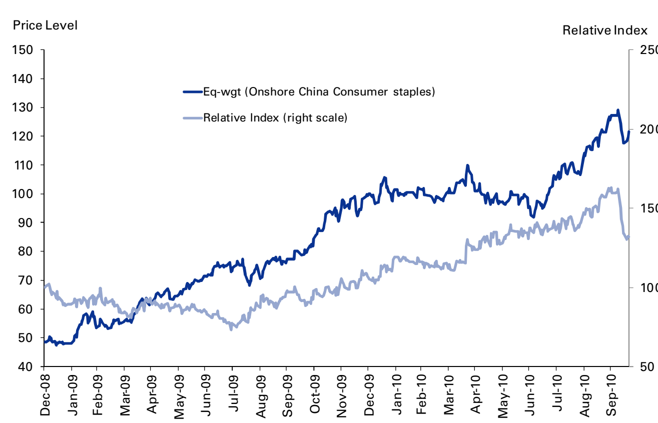
Source: FactSet, I/B/E/S, Goldman Sachs Research estimates, Gao Hua Securities Research estimates.

Exhibit 116: Offshore Consumer Staples performance



Source: FactSet, MSCI, GS Global ECS Research.

Exhibit 117: Onshore Consumer Staples performance



Source: FactSet, GS Global ECS Research.

Diversified Financials: More favorable industry trends, but entry level key

Analyst: Richard Xu (richard.xu@ghsl.cn)

Sector stance

2011 sector outlook:
We expect healthy economic growth and potential further recovery in A-share market valuation (CSI300 is trading at 15.7X forward P/E vs. historical average of 18.7X) to drive favorable industry trends for China brokers in 2011. Specifically, we expect: 1) a yoy rebound in A-share turnover in 2011 driven by our expectation of A-share market appreciation and strong trading velocity; 2) moderation in the pace of commission rate decline given slower pace of trading outlet openings and increased scrutiny on irrational commission rate pricing by regulators and the Securities Association of China; 3) improving prop trading gains; and 4) a healthy investment banking pipeline. In addition, we believe the pace of China's capital markets structural growth will also be a focus in 2011 with potential new product launches as a sector catalyst. However, given the highly volatile nature of China broker shares and more reasonable valuations post the recent sector share price rebound, we believe entry levels are the key to watch, and believe a market correction with notable shrinkage in trading turnover tends to offer a better buying opportunity if the economic growth trend is intact.

Key themes/issues and our view:
1) Rebound in A-share turnover: We expect healthy economic growth, strong corporate earnings growth and still ample liquidity to drive a yoy rebound in A-share market turnover.

2) Commission rate trend will likely be a key industry valuation driver: We believe a slower pace of trading outlet openings, increased scrutiny on irrational commission rate pricing and potentially higher new account opening by regulators and the Securities Association of China will support commission rates. However, the exact pace of commission rate moderation will remain a key focus of investors.

3) Potential new products could offer industry catalysts: The CSRC governor recently indicated the potential launch of external funding and securities depository for brokers' margin financing and securities borrowing businesses, which we view as a industry catalyst if launched.

What surprised us in 2010:
1) Commission rate dropped more than expected in 1H10; 2) stronger-than-expected rebound in A-share turnover/velocity in October; 3) the turnover of index futures upon debut surprised us on the upside.

How we differ from consensus on earnings outlook:
We are above consensus on A-share turnover, prop trading revenue due to our favorable view of valuation recovery and liquidity conditions as well as the macro/regulatory environment with regards to A shares next year.

Current sector valuation: On average, A-share brokers are trading at 3.2X 2011E P/B and 21.7X 2011E P/E vs. 2.2X and 15.7X for the CSI 300 index.

Valuation outlook: We would turn more positive on the sector's outlook if the commission fee rate could stabilize, and the new businesses develop more quickly than we expect.

Key risks to our views:
1) Deep A-share correction; 2) China macro over-tightening; 3) sharp decline of corporate earnings growth.

Stock recommendations (A-shares)

Favored #1: CITIC Securities (600030.SS, Buy)
Reasons/catalysts: 1) Industry leader with lowest valuation among China brokers; 2) potential removal of China AMC stake sale overhang; 3) better positioned towards new businesses with stronger net equity.

Favored #2: China Merchants Securities (600999.SS, Buy)

Reasons/catalysts: 1) Premium brokerage business with good brand name, high-end clientele and leading institutional client base; 2) likely more modest commission rate pressure relative to peers given its already low commission rate enabled by its more efficient trading outlet network; 3) best channel to gain exposure to China asset management sector.

Avoid #1: Hong Yuan Securities (000532.SZ, Sell)

Reasons/catalysts: 1) Expensive valuation; 2) very sensitive to turnover given little or no new businesses or asset management business; 3) less well positioned for long-term structural development of China's capital markets.

Exhibit 118: Diversified Financials – stock valuations

Ticker	Name	Rating	Currency	Price	Target Price	+/- to TP (%)	US$ Mn Mcap	US$ Mn 6m ADVT	CY 2011 E P/E (x)	CY 2011 E P/B (x)	CY 2011 E DY (%)	CY 2011 E EV / EBITDA
165 HK	China Everbright	N	HKD	21.4	18.3	-14%	4,752	18	24.2	1.3	1.5	-
600030 CG	CITIC Sec.	B	CNY	16.5	15.8	-4%	24,692	181	18.9	2.1	1.6	-
600837 CG	Haitong Sec.	N	CNY	12.4	10.0	-19%	15,262	99	20.6	2.1	1.6	-
600999 CG	China Merchants Sec.	B	CNY	25.2	25.3	1%	13,544	17	21.3	3.3	1.6	-
601788 CG	Everbright Sec.	N	CNY	18.9	15.6	-17%	9,692	35	25.6	2.5	1.0	-
000562 CS	Hong Yuan Sec.	S	CNY	22.9	13.6	-41%	5,023	24	26.1	4.1	1.2	-

B = Buy, H = Hold, S = Sell. Pricing as at market close on 25 October, 2010.

For important disclosures, please go to http://www.gs.com/research/hedge.html. For methodology and risks associated with our price targets, please see our previously published research.

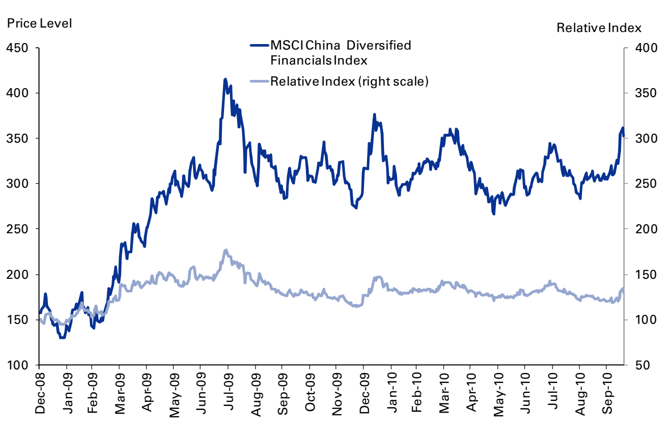
Source: FactSet, I/B/E/S, Goldman Sachs Research estimates, Gao Hua Securities Research estimates.

Exhibit 119: Diversified Financials – stock fundamentals (2011E)

Ticker	Name	EPS Growth (%)	Revenue Growth (%)	EBITDA Growth (%)	EBITDA Margin (%)	EBIT Margin (%)	Net Margin (%)	ROE (%)	Total debt/Equity	Asset T/O (x)	Net Debt / Equity
165 HK	China Everbright	14.1	7.2	-	-	-	139.4	5.5	-	2.3	-
600030 CG	CITIC Sec.	-37.3	3.7	-	-	-	44.1	10.7	-	11.2	-
600837 CG	Haitong Sec.	24.6	27.4	-	-	-	43.3	10.0	-	9.4	-
600999 CG	China Merchants Sec.	45.7	36.6	-	-	-	47.6	15.5	-	6.7	-
601788 CG	Everbright Sec.	27.1	31.8	-	-	-	-	-	-	2.9	-
000562 CS	Hong Yuan Sec.	4.8	9.8	-	-	-	42.9	15.7	-	1.4	-

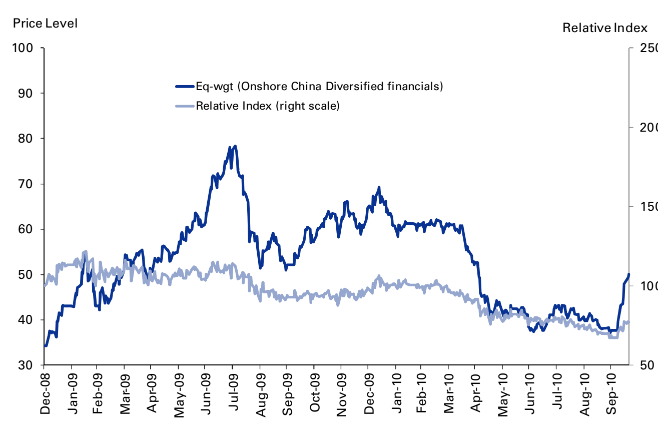
Source: FactSet, I/B/E/S, Goldman Sachs Research estimates, Gao Hua Securities Research estimates.

Exhibit 120: Offshore Diversified Financials performance



Source: FactSet, MSCI, GS Global ECS Research.

Exhibit 121: Onshore Diversified Financials performance



Source: FactSet, GS Global ECS Research.

Healthcare: Rising quality standard coupled with price control

Analyst: Wei Du, PhD. (wei.du@ghsl.cn)

Sector stance

2011 sector outlook: We expect sustained 20%+ growth in the sector driven by insurance coverage expansion, rising disposable income and the booming "third terminal" market (rural market). We continue to favor medical device makers, branded traditional Chinese Medicine manufacturers, leading distributors and emerging Contract Manufacturing Organizations. We prefer companies focusing on biologics, new business initiatives, and names with consolidation themes.

Key themes/issues and our view:

1) Rising quality standard coupled with further price cut: We expect policy to continue to lean toward medical cost containment, including drug price cuts, control on total treatment costs by designing standard treatment protocols for common diseases, similar to the DRG (diagnosis-related groups) system. To ensure drug quality against the backdrop of price cuts, we believe implantation of higher GMP and new pharmacopeia standard is one of the top priorities in 2011.

2) Accelerated supply chain consolidation: We expect to see intensified competition in drug supply chains, boosted by the government's commitment to cut layers of distributors to improve industry efficiency. We expect to see accelerated M&A activity in drug distribution, amid a wave of potential IPOs and announcement of "An Outline on the Development of China's Medicine logistics industry" towards the end of 2010.

3) Third terminal market is a main driver: We see an increasing growth contribution from China's rural market. We expect strong growth in sales of antibiotics, cardiovascular, diabetes and cancer-related drugs in the rural market.

What surprised us in 2010:
1) Stretched valuation of onshore healthcare stocks against moderate earnings growth; 2) vague policy measures.

How we differ from consensus on earnings outlook:
We are largely in-line with consensus on earnings outlook as we expect strong growth to continue across all sub-sectors. Volume expansion and industry consolidation are likely to mitigate the impact of price reductions.

Current sector valuation: Sector valuation premium is at the peak of the historical range against the market's valuation, on strong long-term fundamentals and a limited selection of offshore listed healthcare stocks.

Valuation outlook: We expect the sector valuation of onshore healthcare stocks to stay at current levels, and further multiple expansion in HK-listed shares driven by potential new IPOs.

Key risks to our views:
1) Policy uncertainty; 2) substantial price cuts; 3) fierce industry competition.

Stock recommendations (offshore)

Favored #1: Shineway (2877, Buy)
Reasons/catalysts: 1) Leading market position in TCM injections; 2) Products tailored to the fast growing rural market; 3) capacity grow ensure stable growth

Avoid #1: China Pharmaceutical (1093HK, Sell)
Reasons/catalysts: 1) weak vitamin, penicillin raw material prices due to over capacity issues; 2) foreign exchange risk

Stock recommendations (A-share)

Favored #1: Zhejiang Huahai Pharmaceutical (600521.SS, Buy, on Conviction List)
Reasons/catalysts: 1) Strong volume growth driven by booming generic industry; 2) capacity expansion offers OEM opportunities; 3) potential upside on approval of its own generic finished dosage form.

Favored #2: Kehua Bioengineering (002022.SS, Buy)
Reasons/catalysts: 1) Attractive valuation; 2) best industry position as a low-cost medical device maker; 3) meaningful growth recovery in 2011.

Avoid #1: Zhejiang NHU (002001.SZ, Sell)
Reasons/catalysts: 1) Stagnant global demand; 2) potential new entrant; 3) foreign exchange risk.

Exhibit 122: Healthcare – stock valuations

Ticker	Name	Rating	Currency	Price	Target Price	+/- to TP (%)	US$ Mn		CY 2011 E			
							Mcap	6m ADVT	P/E (x)	P/B (x)	DY (%)	EV / EBITDA
MR UN	Mindray Medical Intl (ADS)	N	USD	29.2	27.3	-6%	3,333	30	18.0	3.1	0.9	11.6
WX UN	WuXi PharmaTech (Cayman) Inc.	N	USD	17.0	15.4	-9%	1,216	10	16.3	2.8	-	9.8
SCR UN	Simcere Pharma (ADS)	N	USD	9.5	8.5	-10%	516	1	21.0	1.6	-	9.9
1099 HK	Sinopharm	N	HKD	30.6	29.8	-2%	8,915	19	33.7	5.1	2.2	14.3
2877 HK	China Shineway Pharma	B	HKD	23.9	25.5	7%	2,542	9	17.8	4.3	1.6	11.5
1066 HK	Shandong Weigao Med. Polymer	S	HKD	21.8	14.2	-35%	6,033	3	38.3	8.8	0.3	43.8
1093 HK	China Pharma	S	HKD	4.5	3.3	-26%	884	3	15.3	1.2	2.5	5.9
874 HK	Guangzhou Pharma Co Ltd	N	HKD	8.2	6.3	-24%	1,443	2	17.3	1.4	1.1	15.8
002399 CS	Shenzhen Hepalink Pharma	N	CNY	125.2	143.1	14%	7,524	28	27.2	4.9	-	19.7
000538 CS	Yunnan Baiyao	N	CNY	67.0	62.6	-7%	6,986	17	37.9	8.7	0.5	29.0
600276 CG	Jiangsu Hengrui Medicine	N	CNY	48.0	43.8	-9%	5,399	16	33.1	7.9	-	24.4
000423 CS	Shandong Dong-E E-Jiao	N	CNY	46.5	39.0	-16%	4,566	28	42.9	10.4	1.4	36.2
600267 CG	Zhejiang Hisun Pharma	N	CNY	39.5	40.9	3%	2,872	14	47.7	4.3	0.3	22.3
002001 CS	Zhejiang NHU	S	CNY	28.7	17.7	-38%	4,692	23	20.5	5.1	1.8	12.5
600535 CG	Tianjin Tasly Pharma	N	CNY	34.0	33.5	-2%	2,495	19	34.7	7.0	1.8	24.4
002038 CS	Beijing SL Pharma	N	CNY	53.0	41.1	-22%	2,014	13	36.2	8.4	-	31.5
600521 CG	Zhejiang Huahai Pharma	B*	CNY	19.0	24.1	27%	1,277	10	30.8	5.7	1.2	28.7
002022 CS	Shanghai Kehua Bio-Engineering	B	CNY	17.3	20.3	17%	1,281	25	25.4	6.3	-	19.4

B = Buy, H = Hold, S = Sell. Pricing as at market close on 25 October, 2010. *Indicates the stock is on the Conviction List.

For important disclosures, please go to http://www.gs.com/research/hedge.html. For methodology and risks associated with our price targets, please see our previously published research.

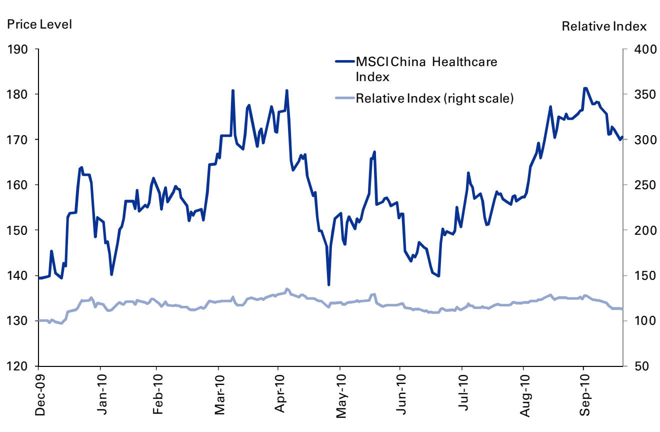
Source: FactSet, I/B/E/S, Goldman Sachs Research estimates, Gao Hua Securities Research estimates.

Exhibit 123: Healthcare – stock fundamentals (2011E)

Ticker	Name	EPS Growth (%)	Revenue Growth (%)	EBITDA Growth (%)	EBITDA Margin (%)	EBIT Margin (%)	Net Margin (%)	ROE (%)	Total debt/Equity	Asset T/O (x)	Net Debt / Equity
MR UN	Mindray Medical Intl (ADS)	13.8	13.8	15.8	29.8	24.2	22.7	17.2	0.1	3.9	-0.5
WX UN	WuXi PharmaTech (Cayman) Inc.	30.4	24.3	24.5	25.9	18.0	17.7	17.4	0.1	1.7	-0.3
SCR UN	Simcere Pharma (ADS)	31.6	17.3	21.8	13.4	9.5	6.8	6.8	0.1	2.6	-0.1
1099 HK	Sinopharm	39.3	30.3	40.7	4.5	4.1	2.1	12.0	0.1	29.6	-0.3
2877 HK	China Shineway Pharma	23.6	24.6	24.5	47.1	41.1	37.5	24.1	-	2.2	-0.8
1066 HK	Shandong Weigao Med. Polymer	28.2	30.4	25.9	27.5	24.8	32.6	22.9	0.0	2.4	-0.3
1093 HK	China Pharma	-34.0	7.0	-18.9	13.9	7.4	5.6	7.4	0.3	1.9	-0.1
874 HK	Guangzhou Pharma Co Ltd	14.1	9.8	19.9	7.2	4.4	6.8	8.2	0.0	3.6	-0.1
002399 CS	Shenzhen Hepalink Pharma	36.4	33.1	31.9	37.8	37.6	32.6	18.1	0.0	25.0	-0.8
000538 CS	Yunnan Baiyao	29.2	26.2	29.8	12.0	11.4	9.9	22.6	0.0	17.1	-0.6
600276 CG	Jiangsu Hengrui Medicine	25.3	25.5	33.6	28.5	27.3	22.4	23.0	0.0	9.1	-0.5
000423 CS	Shandong Dong-E E-Jiao	20.5	21.2	25.8	24.1	22.0	22.1	23.3	-	4.6	-0.8
600267 CG	Zhejiang Hisun Pharma	26.5	24.3	18.1	15.1	9.9	6.7	9.0	0.4	1.5	0.2
002001 CS	Zhejiang NHU	2.8	11.4	15.0	47.7	40.7	30.0	23.9	0.1	1.6	-0.1
600535 CG	Tianjin Tasly Pharma	21.9	18.4	23.3	12.2	10.2	8.4	18.9	0.4	4.1	0.1
002038 CS	Beijing SL Pharma	17.6	20.4	23.8	66.9	64.1	62.6	22.5	-	3.6	-0.6
600521 CG	Zhejiang Huahai Pharma	68.4	34.5	84.3	21.0	14.3	19.9	18.2	0.1	1.8	-0.1
002022 CS	Shanghai Kehua Bio-Engineering	27.8	25.8	29.2	40.8	39.0	34.7	23.5	0.0	5.0	-0.6

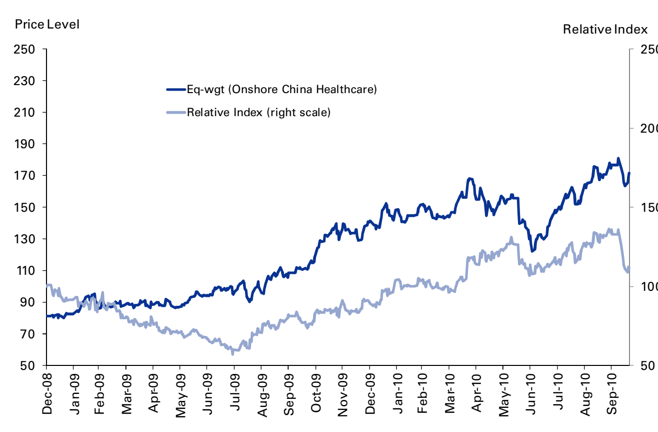
Source: FactSet, I/B/E/S, Goldman Sachs Research estimates, Gao Hua Securities Research estimates.

Exhibit 124: Offshore Healthcare performance



Source: FactSet, MSCI, GS Global ECS Research.

Exhibit 125: Onshore Healthcare performance



Source: FactSet, GS Global ECS Research.

Insurance: Riding on rate rise cycle

Analysts: Ning Ma (Ning.ma@ghsl.cn); Richard Xu, CFA (Richard.xu@ghsl.cn)

Sector stance

2011 sector outlook:
We stay positive on China insurers given the strong long-term premium growth outlook, continued strong new business value growth, and potential better investment return outlook than in 2010, following the rate hike in October. The key upside catalysts for China insurers include: 1) further rate hikes in 2011, if CPI and asset inflation continue to stay high; and 2) continued A-share markets rally as our portfolio strategy team forecast modest A-share returns in 2011. We expect the P&C business to have stable combined ratios yoy in 2011E, reflecting more auto claims data sharing among P&C insurers.

Key themes/issues and our view:
1) How much CPI, rate hike and yield curve rise in 2011.

2) Whether Ping An will continue its lead in NBV growth rates among insurers. We currently forecast Ping An/China Life/CPIC will achieve 23%, 15% and 21% yoy NBV growth in 2011E, vs. 36%, 13% and 24% yoy in 2010E.

What surprised us in 2010:
A divergence of new business value growth: Ping An shows strong agent productivity and substantially high new business value growth at 44% yoy in 1H10 than China Life and CPIC's 12% and 18% yoy, respectively.

How we differ from consensus on earnings outlook:
We are higher than consensus earnings forecasts given our modestly higher forecasts on investment returns than consensus.

Current sector valuation: H-share life insurers trade at an average 2.5X 2011E P/EV, in-line with historical mean; while A-share life insurers trade at an average 2.1X 2011E P/EV.

Valuation outlook: We believe there could be continued multiple expansion in 2011 as early-cycle rate hikes will be positive for insurers.

Key risks to our views:
1) China macro overheating, worse-than-expected A-share market fall; 2) life insurance products guarantee rate deregulations.

Stock recommendations (offshore)

Favored #1: Ping An H-shares (2318.HK, Buy)
Reasons/catalysts: 1) Strong agent productivity and better product mix to drive above-peer NBV growth; 2) professional investment team to drive strong investment performance; and 3) new business multiple is in-line with its historical mean which leaves room for further rerating if Ping An delivers above-peer NBV growth and investment returns.

Stock recommendations (A-share)

Favored #1: Ping An A-shares (601318.SS, Buy, on Conviction List)
Reasons/catalysts: 1) Strong agent productivity and better product mix to drive above-peer NBV growth; 2) professional investment team to drive strong investment performance; and 3) new business multiple is below its historical mean and below Ping An H-shares which leaves room for further rerating if Ping An delivers above-peer NBV growth and investment returns.

Favored #2: CPIC A-shares (601601.SS, Buy)
Reasons/catalysts: 1) Strong premium growth to drive 20%+ yoy NBV growth in 2011E; 2) new business multiple is below its historical mean which leaves room for further rerating if CPIC delivers 20%+ yoy NBV growth and strong investment returns; and 3) no overhang for CPIC A-shares, vs. the potential sale of 16% CPIC H-share stake owned by Carlyle Group.

Exhibit 126: Insurance – stock valuations

Ticker	Name	Rating	Currency	Price	Target Price	+/- to TP (%)	US$ Mn		CY 2011 E			
							Mcap	6m ADVT	P/E (x)	P/B (x)	DY (%)	EV / EBITDA
2628 HK	China Life - H	N	HKD	35.9	32.5	-9%	120,431	203	19.2	3.8	2.0	-
2318 HK	Ping An Ins. - H	B	HKD	87.3	89.5	3%	80,172	95	24.6	4.5	1.3	-
2601 HK	China Pacific Ins. - H	N	HKD	33.1	35.5	7%	36,625	33	16.9	2.3	1.5	-
966 HK	China Taiping Insurance Hldgs	NC	HKD	29.8	-	-	6,527	7	35.2	4.0	0.2	7.8
2328 HK	PICC	N	HKD	12.0	9.2	-23%	17,200	23	16.5	3.7	0.6	-
601628 CG	China Life - A	N	CNY	27.5	28.3	3%	120,431	71	17.0	3.3	2.3	-
601318 CG	Ping An Ins. - A	B*	CNY	66.8	78.0	17%	80,172	129	21.6	3.9	1.5	-
601601 CG	China Pacific Ins. - A	B	CNY	27.6	31.0	12%	35,689	105	18.8	2.6	1.3	-

B = Buy, H = Hold, S = Sell, NC = Not Covered. Pricing as at market close on 25 October, 2010. *Indicates the stock is on the Conviction List.

For important disclosures, please go to http://www.gs.com/research/hedge.html. For methodology and risks associated with our price targets, please see our previously published research.

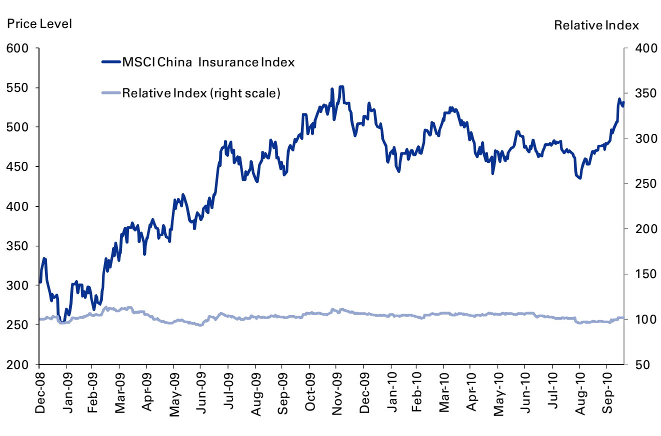
Source: FactSet, I/B/E/S, Goldman Sachs Research estimates, Gao Hua Securities Research estimates.

Exhibit 127: Insurance – stock fundamentals (2011E)

Ticker	Name	EPS Growth (%)	Revenue Growth (%)	EBITDA Growth (%)	EBITDA Margin (%)	EBIT Margin (%)	Net Margin (%)	ROE (%)	Total debt/Equity	Asset T/O (x)	Net Debt / Equity
2628 HK	China Life - H	28.9	-	-	-	-	-	19.5	-	-	-
2318 HK	Ping An Ins. - H	29.2	-	-	-	-	-	18.2	-	-	-
2601 HK	China Pacific Ins. - H	32.4	-	-	-	-	-	13.6	-	-	-
966 HK	China Taiping Insurance Hldgs	27.9	20.0	35.1	6.5	6.5	2.4	12.2	-	0.5	-198.9
2328 HK	PICC	17.7	-	-	-	-	-	22.1	-	-	-
601628 CG	China Life - A	31.2	-	-	-	-	-	19.5	-	-	-
601318 CG	Ping An Ins. - A	31.7	-	-	-	-	-	18.2	-	-	-
601601 CG	China Pacific Ins. - A	32.4	-	-	-	-	-	13.6	-	-	-

Source: FactSet, I/B/E/S, Goldman Sachs Research estimates, Gao Hua Securities Research estimates.

Exhibit 128: Offshore Insurance performance



Source: FactSet, MSCI, GS Global ECS Research.

Exhibit 129: Onshore Insurance performance

Source: FactSet, GS Global ECS Research.

Internet/Media: eCommerce takes focus, Gaming recovery possible

Analysts: James Mitchell (james.mitchell@gs.com); Catherine Leung (catherine.leung@gs.com); Lisa Yuan (lisa.yuan@gs.com)

Sector stance

2011 sector outlook:

We are positive on the online advertising market in 2011, and see growth being driven by robust underlying economic growth and the continued secular shift from traditional media. Specifically, rising consumption, with increasing emphasis on tier-2 and tier-3 cities and strongly growing eCommerce activity, should benefit both brand and search advertising demand. We are more cautious on the online gaming segment, due to the slowdown in sector growth, higher gamer standards and uncertainty around game launch schedules in 2011.

Key themes/issues and our view:

1) **Ongoing eCommerce boom.** Search engines (Baidu) are the prime beneficiaries of surging eCommerce activity, and brand advertising portals (Sina, Sohu) should also benefit. However, eCommerce growth has also raised investor concerns over the adaptability of business models such as Ctrip's and competition from pure online travel platforms (e.g. Taobao). We view such concerns as premature due to still-low online penetration of travel.

2) Maturing China Internet market driving platform strategies: With China's Internet penetration surpassing 30% in 2010, and a generation of Internet users having now developed, company strategies have adapted toward more sophisticated and diversified user activity. Developing a platform, including incorporating social networking elements, to increase user stickiness and time spent on websites, has been a main focus for many companies. We view most positively those companies which have started to execute along more concrete strategies, such as Tencent and Sina.

3) Slowdown in MMORPG (online game) segment growth: The market has reached a more mature stage with nearly 70% of internet users playing online games and 18% playing MMO games. Several top legacy games have passed their peak stages. Key title launches may help online game growth in 2011, but we are unlikely to see previous momentum.

What surprised us in 2010:

1) Online advertising sector growth in this recovery year has been stronger than expected; 2) Baidu's growth acceleration driven by Phoenix Nest, Google market share gains and overall ad spend growth; 3) online game industry growth has slowed down to low-20% in 2010, with several key players pushing back title launches.

How we differ from consensus on earnings outlook:

We are above consensus on sector earnings outlook (our 2011E EPS for Sina and Baidu are 3%/6% above consensus).

Current sector valuation: Valuations are generally in-line with historical averages.

Valuation outlook: We expect significant multiple expansion from current levels to be challenging given the more mature stage of the Internet market, as a return to historical growth rates appears difficult unless specific company-specific catalysts are identified.

Key risks to our views:

1) A slowdown in the economy would hurt online advertising and travel segments; 2) companies may not be able to execute strategies to adapt to a more mature Internet user base; 3) the "hit-or-miss" nature of the online game industry and uncertainty around game launch schedules.

Stock recommendations (offshore)

Favored #1: Sina (SINA, Buy)

Reasons/catalysts: 1) Well positioned to capture display advertising recovery due to its leading portal position. 2) Executed well in terms of cost savings due to operating leverage and new effective marketing tools such as using the mini-blog service for branding. 3) Potential catalyst is cash deployment given large net cash position, and share buybacks providing downside support to the stock.

Favored #2: Baidu (BIDU, Buy)

Reasons/catalysts: 1) Sustained growth generated from a sharp improvement in the quality of revenue growth, due to the successful transition to Phoenix Nest monetization algorithm. More revenue has been generated from the top left of its results page, improving the revenue source diversification and making the company less vulnerable to media criticism. 2) Prime beneficiary of rapidly growing eCommerce activity. 3) Supportive regulatory stance versus foreign competitors.

Avoid #1: Shanda Interactive (SNDA, Sell)

Reasons/catalysts: 1) Given GAME directly and indirectly contributes around 90% of SNDA’s revenue and close to all of its earnings (given losses at Ku6), and we expect the gaming business to underperform peers. 2) Ex-GAME, sustained earning losses at Ku6 as well as possibly more small-sized acquisitions may continue to be a negative drag on SNDA’s profitability in the near-term. 3) While SNDA should see downside support in a down-market given its net cash accounted for half of its market cap and aggressive buybacks, we expect the stock to underperform GAME and our China internet coverage in a rising market.

Exhibit 130: Internet & Media – stock valuations

Ticker	Name	Rating	Currency	Price	Target Price	+/- to TP (%)	US$ Mn		CY 2011 E			
							Mcap	6m ADVT	P/E (x)	P/B (x)	DY (%)	EV / EBITDA
BIDU UW	Baidu Inc. (ADS)	B	USD	109.8	115.0	5%	28,899	997	44.3	18.0	-	32.5
CTRP UW	Ctrip.com Intl (ADS)	N	USD	52.0	42.0	-19%	7,689	91	35.6	7.9	-	29.1
NTES UW	Netease.com Inc. (ADS)	N	USD	42.4	36.0	-15%	5,498	34	14.9	3.1	-	7.8
EDU UN	New Oriental Educ (ADS)	N	USD	102.9	99.0	-4%	3,935	33	37.2	6.8	-	30.6
FMCN UW	Focus Media (ADS)	N	USD	24.6	23.0	-7%	3,573	39	17.9	2.4	-	8.0
SINA UW	SINA	B	USD	56.8	51.0	-10%	3,475	50	27.2	2.3	-	16.2
SNDA UW	Shanda Interactive Ent. (ADS)	S	USD	40.0	39.0	-3%	2,700	14	9.2	1.4	-	1.9
SOHU UW	Sohu.com Inc.	N	USD	74.9	55.0	-27%	2,835	39	15.6	3.1	-	6.2
GAME US	Shanda Games	N	USD	6.6	6.7	1%	1,906	-	8.8	2.4	-	4.8
CYOU UW	Changyou.com	N	USD	36.0	32.0	-11%	1,845	4	9.0	3.1	-	5.1
700 HK	Tencent Hldgs	N	HKD	185.5	157.0	-15%	43,824	109	29.0	10.0	0.5	20.4
1688 HK	Alibaba.com	N	HKD	15.0	14.0	-6%	9,726	18	32.1	7.5	-	24.2

B = Buy, H = Hold, S = Sell. Pricing as at market close on 25 October, 2010.

For important disclosures, please go to http://www.gs.com/research/hedge.html. For methodology and risks associated with our price targets, please see our previously published research.

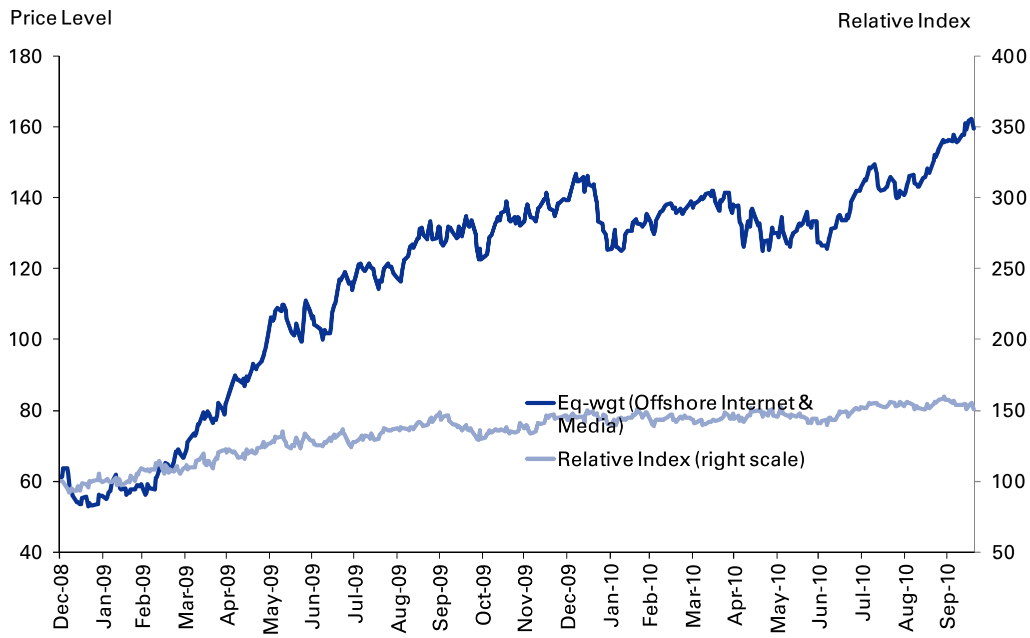
Source: FactSet, I/B/E/S, Goldman Sachs Research estimates, Gao Hua Securities Research estimates.

Exhibit 131: Internet & Media – stock fundamentals (2011E)

Ticker	Name	EPS Growth (%)	Revenue Growth (%)	EBITDA Growth (%)	EBITDA Margin (%)	EBIT Margin (%)	Net Margin (%)	ROE (%)	Total debt/Equity	Asset T/O (x)	Net Debt / Equity
BIDU UW	Baidu Inc. (ADS)	63.1	65.5	67.1	61.3	54.3	46.4	39.7	-	5.7	-0.9
CTRP UW	Ctrip.com Intl (ADS)	25.8	31.4	29.5	44.9	42.5	31.0	17.2	-	2.5	-0.5
NTES UW	Netease.com Inc. (ADS)	14.1	16.8	9.3	49.0	46.3	37.9	20.1	-	10.7	-1.0
EDU UN	New Oriental Educ (ADS)	26.8	28.8	29.0	142.0	18.4	18.0	17.7	-	2.1	-0.8
FMCN UW	Focus Media (ADS)	15.9	2.8	14.3	48.2	38.1	33.6	13.0	-	13.1	-0.7
SINA UW	SINA	25.1	25.1	19.5	31.0	26.7	25.3	8.6	0.1	15.9	-0.6
SNDA UW	Shanda Interactive Ent. (ADS)	40.5	14.6	22.7	38.5	34.2	20.4	10.8	0.1	10.7	-0.8
SOHU UW	Sohu.com Inc.	21.0	20.1	21.7	45.5	42.2	26.3	19.0	-	6.2	-0.8
GAME US	Shanda Games	1.0	8.5	10.0	38.7	33.6	29.8	25.8	0.0	30.0	-0.7
CYOU UW	Changyou.com	17.8	21.5	18.3	63.5	61.4	55.6	34.9	-	5.6	-1.0
700 HK	Tencent Hldgs	18.8	26.0	23.5	54.5	50.5	40.5	33.5	-	5.4	-0.7
1688 HK	Alibaba.com	16.9	18.2	19.7	37.0	34.8	31.5	23.3	-	5.4	-0.7

Source: FactSet, I/B/E/S, Goldman Sachs Research estimates, Gao Hua Securities Research estimates.

Exhibit 132: Offshore Internet & Media performance



Source: FactSet, GS Global ECS Research.

Oil & Gas: Prefer gas and E&P exposure

Analyst: Chris Shiu, CFA (chris.shiu@ghsl.cn)

Sector stance Neutral

2011 sector outlook:

We believe a return to "demand rationing" crude oil prices seems more likely in 2012E rather than 2011E. However, to the extent oil markets anticipate a very tight 2012E, we would expect oil prices to grind higher during 2011E, with a combination of OPEC spare capacity and inventories showing declines starting in 4Q2010. We are the most positive on the gas distribution sub-sector followed by E&P, and we prefer them to the downstream and oil services. We remain positive on gas on the back of fast-growing demand meeting new sources of supply, and we believe it will be a major beneficiary in the 12th Five-Year Plan. 2010E YTD domestic refining margins have averaged at about US$5/bbl, and we think there is some upside risk to our margin forecasts of US$4/bbl for 2011E, but regulatory risks still exist as long as the NDRC retains the ultimate discretion for the timing and magnitude of price adjustments. We believe the recent strength of petrochemicals could be sustained.

Key themes/issues and our view:

1) **Continued growth in the gas sector:** We continue to believe natural gas demand in China will increase rapidly in 2011E, made possible by increasing domestic supply and more imports, which supports our positive view on the China gas distribution names. The new 12th Five-Year plan will also be a key industry driver as the Chinese government has been trying to increase the percentage of natural gas in total primary energy consumption.

2) Potential regulatory changes: These include potential onshore oil and gas resources tax reforms (which could be introduced together with potential reforms to the special oil income levy), higher frequency of refined oil product price reviews, and VAT reforms for refined oil products.

3) Overseas M&A/asset injections for the three Chinese oil majors: We expect them to continue to be more focused on the upstream than the downstream.

What surprised us in 2010:

1) Range-bound crude oil prices; 2) strength of petrochemicals; 3) no adjustment for wellhead natural gas price until June.

How we differ from consensus on earnings outlook:

We are largely in-line with consensus on sector earnings outlook overall. We are generally above consensus for the upstream but below for the downstream. We are also above consensus for gas but below for oil services.

Current sector valuation: The sector valuation is roughly in-line with market valuation and historical average, which we think is fair given in-line growth.

Valuation outlook: While we believe sector valuations are generally fair, we believe the gas names could see some multiple expansion given the potential upside we see for them.

Key risks to our views:

1) Sharp oil price pullback; 2) major projects delays; 3) lower demand due to unexpected economic slowdown.

Stock recommendations (offshore)

Favored #1: China Gas (0384.HK, Buy, on Conviction List)

Reasons/catalysts: 1) Strong volume growth at 35% CAGR for FY2010-FY2013E; 2) favorable customer mix; 3) reasonable valuations.

Favored #2: CNOOC (0883.HK/CEO, Buy)

Reasons/catalysts: 1) Robust production increase; 2) superior returns and growth, which warrant premium valuation; 3) M&A upside: potential earnings uplift + production growth boost; 4) exploration potential; 5) potential A-share listing.

Avoid #1: Honghua (0196.HK, Sell, on Conviction List)

Reasons/catalysts: 1) Uncertainty over orders backlog delivery schedule; 2) Honghua's plans to enter into the offshore jack-up rigs market have seen delays and we believe execution risks remain high.

Avoid #2: PetroChina (0857.HK/PTR, Sell)

Reasons/catalysts: 1) Limited production growth; 2) higher capex commitment might put pressure on free cash flow; 3) possible resource tax changes a risk.

Stock recommendations (A-share)

Favored #1: Offshore Oil Engineering (600583.SS, Buy)

Reasons/catalysts: 1) Major beneficiary of CNOOC's capex during the 12th Five-Year Plan period for increasing production capacity; 2) we believe OOE is moving beyond the trough in 2010E at the end of the 11th Five-Year Plan period.

Avoid #1: PetroChina (601857.SS, Sell)

Reasons/catalysts: 1) In addition to those mentioned above for its H share, another concern is that the potential A-share listing of CNOOC could potentially lead to diversion of fund allocation from PetroChina's A shares.

Avoid #2: Yizheng (600871.SS, Sell)

Reasons/catalysts: 1) High valuation, with A-share premium among the highest of all A-H dual-listed shares.

Exhibit 133: Oil & Gas – stock valuations

Stock valuations							US$ Mn		CY 2011 E			
Ticker	Name	Rating	Currency	Price	Target Price	+/- to TP (%)	Mcap	6m ADVT	P/E (x)	P/B (x)	DY (%)	EV / EBITDA
857 HK	PetroChina - H	S	HKD	9.9	6.2	-38%	305,456	95	10.2	1.6	4.4	5.9
883 HK	CNOOC	B	HKD	16.1	15.3	-5%	92,902	113	11.3	2.6	3.5	6.4
2883 HK	China Oilfield Serv. - H	N	HKD	12.1	10.2	-16%	9,926	13	11.0	1.6	1.8	7.9
338 HK	SINOPEC Shanghai Petrochem - H	S	HKD	3.6	2.4	-34%	7,667	6	14.5	1.2	-	8.3
135 HK	Kunlun Energy	N	HKD	10.1	11.1	10%	6,422	19	16.2	2.7	1.8	12.0
1033 HK	SINOPEC Yizheng Chem. Fibre - H	N	HKD	2.9	2.1	-27%	4,369	2	21.1	1.3	1.9	8.8
2688 HK	ENN Energy Hldgs	B	HKD	24.1	22.6	-6%	3,254	11	16.3	3.2	2.1	8.5
1193 HK	China Resources Gas	B	HKD	11.9	13.0	9%	2,808	5	22.5	7.6	0.6	11.1
384 HK	China Gas Hldgs	B*	HKD	4.6	5.8	26%	2,153	7	14.8	2.8	1.4	9.4
1205 HK	CITIC Resources Hldgs	B	HKD	2.1	2.1	0%	1,645	3	7.9	1.2	-	4.8
2168 HK	Yingde Gases	N	HKD	6.9	8.0	16%	1,611	2	10.1	2.0	1.4	6.9
196 HK	Honghua	S*	HKD	1.1	0.6	-52%	474	0	23.6	0.7	0.8	10.7
601857 CG	PetroChina - A	S	CNY	11.5	8.8	-23%	305,456	33	13.7	2.1	3.3	7.6
601808 CG	China Oilfield Serv. - A	N	CNY	17.0	15.4	-9%	9,926	14	18.0	2.7	1.1	11.0
600688 CG	SINOPEC Shanghai Petrochem - A	S	CNY	9.0	6.3	-30%	7,667	6	42.0	3.6	-	19.7
600583 CG	Offshore Oil Engineering	B	CNY	8.2	8.8	8%	4,761	46	20.6	2.8	-	11.8
600871 CG	SINOPEC Yizheng Chem. Fibre - A	S	CNY	9.8	6.4	-35%	4,369	3	82.8	5.2	0.5	41.4

B = Buy, H = Hold, S = Sell. Pricing as at market close on 25 October, 2010. *Indicates the stock is on the Conviction List.

For important disclosures, please go to http://www.gs.com/research/hedge.html. For methodology and risks associated with our price targets, please see our previously published research.

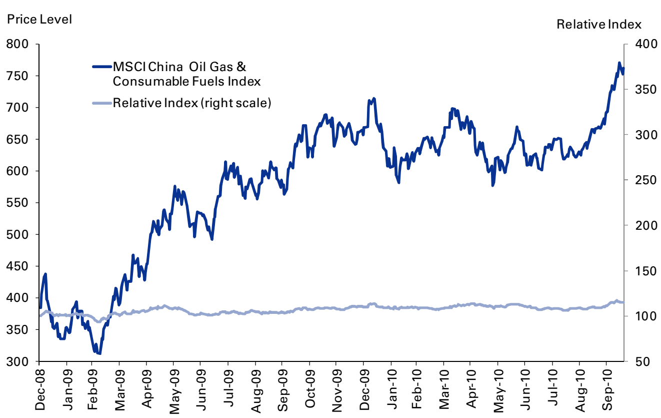
Source: FactSet, I/B/E/S, Goldman Sachs Research estimates, Gao Hua Securities Research estimates.

Exhibit 134: Oil & Gas – stock fundamentals (2011E)

Ticker	Name	EPS Growth (%)	Revenue Growth (%)	EBITDA Growth (%)	EBITDA Margin (%)	CY 2011E EBIT Margin (%)	Net Margin (%)	ROE (%)	Total debt/Equity	Asset T/O (x)	Net Debt / Equity
857 HK	PetroChina - H	15.8	12.2	12.6	25.5	17.3	12.1	15.3	0.4	0.9	0.3
883 HK	CNOOC	12.3	11.6	10.3	52.3	41.2	30.1	22.7	0.1	0.8	0.0
2883 HK	China Oilfield Serv. - H	20.2	15.3	15.0	45.7	28.4	20.3	14.8	1.1	0.4	1.0
338 HK	SINOPEC Shanghai Petrochem - H	0.4	19.0	1.3	5.0	2.7	2.1	8.4	0.5	4.4	0.5
135 HK	Kunlun Energy	30.2	18.7	24.1	45.7	36.1	39.6	14.5	0.1	1.0	-0.4
1033 HK	SINOPEC Yizheng Chem. Fibre - H	-27.5	0.0	-4.8	5.7	2.7	3.0	6.3	-	5.0	-0.3
2688 HK	ENN Energy Hldgs	18.7	22.7	17.7	19.7	16.3	9.2	15.7	0.7	1.3	0.3
1193 HK	China Resources Gas	21.0	59.2	48.2	20.2	15.3	7.9	24.2	2.2	1.1	1.4
384 HK	China Gas Hldgs	26.5	48.1	27.0	13.6	10.4	5.4	15.4	2.0	1.6	1.4
1205 HK	CITIC Resources Hldgs	102.5	34.7	72.9	15.1	8.9	4.9	13.1	1.4	1.8	0.9
2168 HK	Yingde Gases	37.0	27.7	40.1	44.3	37.5	30.2	19.2	0.2	0.6	0.0
196 HK	Honghua	823.4	34.7	130.5	11.2	7.5	5.4	3.0	0.2	2.2	0.0
601857 CG	PetroChina - A	15.8	12.2	12.6	25.5	17.3	12.1	15.3	0.4	0.9	0.3
601808 CG	China Oilfield Serv. - A	20.2	15.3	15.0	45.7	28.4	20.3	14.8	1.1	0.4	1.0
600688 CG	SINOPEC Shanghai Petrochem - A	0.6	19.0	1.3	5.0	2.7	2.1	8.4	0.5	4.4	0.5
600583 CG	Offshore Oil Engineering	137.4	65.0	81.2	22.5	15.5	11.8	13.7	0.3	1.2	0.3
600871 CG	SINOPEC Yizheng Chem. Fibre - A	-27.5	0.0	-4.8	5.7	2.7	3.0	6.3	-	5.0	-0.3

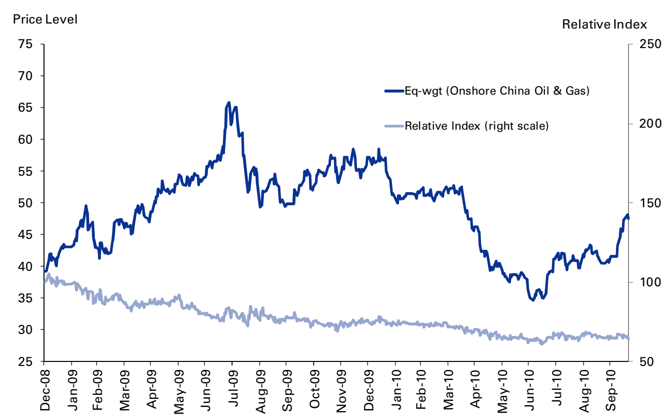
Source: FactSet, I/B/E/S, Goldman Sachs Research estimates, Gao Hua Securities Research estimates.

Exhibit 135: Offshore Oil & Gas performance



Source: FactSet, MSCI, GS Global ECS Research.

Exhibit 136: Onshore Oil & Gas performance



Source: FactSet, GS Global ECS Research.

Ports: Favorable risk-reward trade-off; upside in expectations

Analyst: Simon Cheung (simon.cheung@gs.com)

Sector stance

2011 sector outlook:

Despite resilient port throughput growth ytd, lingering concerns over a deceleration in global trade growth from 4Q10 have weighed on the port stocks. At current share prices, we argue the stocks have priced in a fairly pessimistic scenario for China's ports throughput 2011. We believe China's port sector outlook is not as bleak as that experienced in 2008-09, and hence see good buying opportunities in selective names, e.g. COSCO Pacific. We project 15%, 10% and 7% China port throughput growth in 2010E, 2011E and 2012E, assuming China's share of global trade rises from 26% in 2009 to 28% in 2012E. After the slowdown in construction pace in the last two years, we estimate the average utilization rate of ports is around 73%. This may give certain ports pricing power to raise tariffs, though not in our base case assumption.

Key themes/issues:

1) Trading activity is unlikely to freeze unless there is another credit crunch: We believe the driver for falling China trade and port throughput in 2008-09 was the credit crunch. As long as bank lending and global trade continue, China, as a key manufacturing hub, should still capture a significant portion of container cargo throughput globally. With the US retail inventory-to-sales ratio still at an all-time-low, we believe there is not much room for further de-stocking.

2) Pickup of demand from Asia and emerging economies to offset slowdown in US/Europe: China has become less dependent on demand from the G3 and more on the rest of the world. Economies outside of the US, EU and Developed Asia have contributed to almost 60% of China's export growth in 2010 ytd, compared to 48% in 2006 and 53% in 2007.

What surprised us in 2010:

China container port throughput growth has been much stronger than we had forecast at the beginning of 2010 (+12% yoy) on back of recovered trading activity and strong order books. We see China port throughput on track to achieve 15% yoy growth this year.

How we differ from consensus on earnings outlook:

We are ahead of street consensus on COSCO Pacific.

Current sector valuation: COSCO Pacific is trading at 12.3X 2011E P/E and 1.1X P/B, almost one standard deviation below its long-term averages of 17X and 1.7X. China Merchants is trading at 15.3X 2011E P/E and 9.2X P/CE, vs. long-term average of 20X and 12.2X.

Valuation outlook: Our 12-m TP of HK$15.3 for COSCO Pacific implies 16.3x 2011E P/E and 1.4x P/B and that for China Merchants implies 18.3x 2011E P/E and 11.1x P/CE. Both are slightly below their long-term average, as we expect the China ports' throughput growth will be unlikely to repeat the 20+% CAGR experienced in the past decade.

Key risks to our view:

1) Double-dip in the global economy; 2) sharp correction in container tariff.

Stock recommendations (offshore)

Buy #1: COSCO Pacific (1199.HK, Buy, on Conviction List)

Reasons/catalysts: (1) Financial turnaround of Piraeus and Nansha ports on cost savings and more shipping lines calling, which should help to drive company returns back to pre-crisis levels; (2) solid demand for container leasing until 3Q2011, implying a more noticeable earnings recovery in 4Q10 and 2011; (3) rising contribution from port division in the medium term, which should re-rate the stock over time.

Exhibit 137: Ports – stock valuations

Ticker	Name	Rating	Currency	Price	Target Price	+/- to TP (%)	US$ Mn		CY 2011 E			
							Mcap	6m ADVT	P/E (x)	P/B (x)	DY (%)	EV / EBITDA
144 HK	China Merchants Hldgs (Intl)	N	HKD	27.7	33.0	19%	8,694	18	15.3	1.7	2.8	17.1
1199 HK	Cosco Pacific	B*	HKD	11.7	15.3	30%	4,102	15	12.5	1.1	3.2	21.6
600018 CG	Shanghai Intl Port	S	CNY	4.6	4.1	-10%	14,376	10	19.2	2.6	2.6	9.8

B = Buy, H = Hold, S = Sell. Pricing as at market close on 25 October, 2010. *Indicates the stock is on the Conviction List.

For important disclosures, please go to http://www.gs.com/research/hedge.html. For methodology and risks associated with our price targets, please see our previously published research.

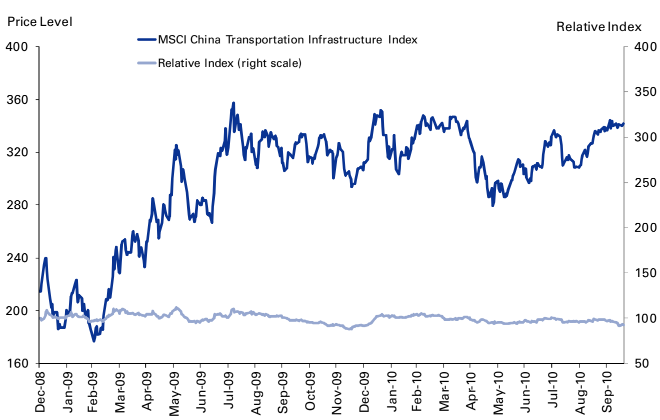
Source: FactSet, I/B/E/S, Goldman Sachs Research estimates, Gao Hua Securities Research estimates.

Exhibit 138: Ports – stock fundamentals (2011E)

Ticker	Name	EPS Growth (%)	Revenue Growth (%)	EBITDA Growth (%)	EBITDA Margin (%)	EBIT Margin (%)	Net Margin (%)	ROE (%)	Total debt/Equity	Asset T/O (x)	Net Debt / Equity
144 HK	China Merchants Hldgs (Intl)	-25.3	25.1	24.9	67.0	49.3	67.9	11.1	0.3	0.3	0.2
1199 HK	Cosco Pacific	-9.7	17.7	19.2	42.8	25.4	56.0	8.7	0.0	0.2	0.3
600018 CG	Shanghai Intl Port	4.6	8.5	9.9	47.7	38.1	24.6	11.5	0.3	0.8	0.0

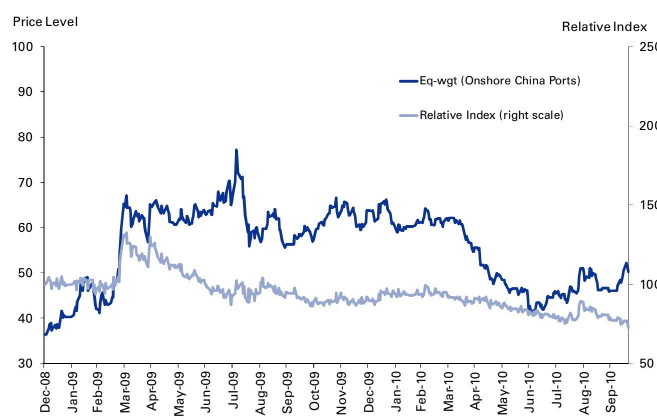
Source: FactSet, I/B/E/S, Goldman Sachs Research estimates, Gao Hua Securities Research estimates.

Exhibit 139: Offshore Ports performance



Source: FactSet, MSCI, GS Global ECS Research.

Exhibit 140: Onshore Ports performance



Source: FactSet, GS Global ECS Research.

Power Utilities: Positive on hydro power exposure

Analysts: Franklin Chow, CFA (franklin.chow@ghsl.cn); Alex Wu (alex.wu@ghsl.cn)

Sector stance

2011 sector outlook:
IPPs - We expect the Chinese government to target further cuts in energy consumption per unit GDP and promote alternative energy such as hydro power. We think coal costs may moderate though delayed fuel cost pass-through could still depress margins of coal-fired IPPs. We expect competition among major IPPs in capacity expansion to continue, resulting in slow recovery of free cash flows. We see slower growth in thermal capacity and the proportion of hydro and wind power capacity in the mix to rise further.

Key themes/issues and our view:
1) **Diversification into hydro power:** We like diversification into hydro power as a way to reduce exposure to coal due to unfavorable coal-fired power tariff regime and the unlikely scenario of a major decline in coal prices (moderation is possible).

2) Utilization recovery outlook: We expect national utilization to further recover in 2011E as power demand growth (10% yoy) exceeds capacity growth (8% yoy). Even if power demand is slower than expected due to emission control targets by the government, utilization of non-thermal power plants (e.g. hydro) should remain intact due to priority dispatch.

3) Divergent results from IPPs: We expect divergent results from IPPs venturing outside into coal/chemical projects due to the varied levels of acquisition costs and execution. Nonetheless, these businesses may still offer further earnings growth.

What surprised us in 2010:
Coal prices are higher than expected in 2H10 despite slowing power generation growth.

How we differ from consensus on earnings outlook:
We are below consensus on sectoral earnings outlook due to our more conservative assumptions on coal costs and tariffs.

Current sector valuation: Trading around or below historical average P/Es (since 2006).

Valuation outlook: We expect slight expansion in P/E multiples for select IPPs with declining exposure of coal-fired power generation and increasing mix of more resilient/profitable coal mine assets.

What surprised us in 2010:
Higher-than-expected unit coal costs, lower-than-expected tariffs, utilization, and capacity expansion.

Stock recommendations (offshore)

Favored #1: CRP (0836.HK, Buy)
Reasons/catalysts: 1) Upside surprises in coal assets; 2) better-than-peer execution in power; 3) attractive valuation.

Favored #2: CPI (2380.HK, Buy)
Reasons/catalysts: 1) Rising exposure and profit mix in hydro power is not reflected its 2011E P/B of 0.6X.

Avoid #1: Huadian (1071.HK/600027.SS, Neutral/Sell)
Reasons/catalysts: 1) Most dependent on imminent tariff hike at above-peer rate to avoid negative net profit in the near term.

Avoid #2: Datang (0991.HK/601991.SS, Neutral/Sell)
Reasons/catalysts: 1) Uncertain profit outlook in coal-chemical projects; 2) highest 2011E P/E among peers.

Stock recommendations (A-share)

Favored #1: Guodian (600795.SS, Buy)
Reasons/catalysts: 1) Well positioned to benefit from hydro power growth; 2) potentially EPS-accretive asset injection.

Favored #2: Yangtze Power (600900.SS, Buy)
Reasons/catalysts: 1) Strong cash flow and above-peer dividend yield from the cash-cow hydro power generation.

Avoid #1: Guangdong Electric (000539.SZ, Neutral)
Reasons/catalysts: 1) Among the highest coal-fired exposure in terms of current and future capacity.

Exhibit 141: Power Utilities – stock valuations

Ticker	Name	Rating	Currency	Price	Target Price	+/- to TP (%)	US$ Mn Mcap	US$ Mn 6m ADVT	CY 2011 E P/E (x)	CY 2011 E P/B (x)	CY 2011 E DY (%)	CY 2011 E EV / EBITDA
836 HK	China Resources Power	B	HKD	15.4	20.4	33%	9,339	15	10.6	1.5	3.2	9.4
270 HK	Guangdong Investment	B*	HKD	4.0	5.0	24%	3,227	3	10.0	1.2	3.4	5.0
902 HK	Huaneng Power Intl Inc.	N	HKD	4.6	5.2	14%	10,694	13	10.4	1.0	4.9	7.9
991 HK	Datang Intl Power Generation - H	N	HKD	3.3	3.1	-6%	11,357	10	14.0	1.0	3.8	9.3
2380 HK	China Power Intl Dev.	B	HKD	1.8	2.2	24%	1,171	1	10.1	0.6	4.4	9.9
1071 HK	Huadian Power Intl	N	HKD	1.9	1.7	-12%	3,694	2	13.2	0.6	1.6	10.3
1065 HK	Tianjin Capital Env. Protection - H	N	HKD	2.8	2.4	-14%	1,283	0	13.7	1.0	3.4	8.3
600900 CG	China Yangtze Power	B	CNY	8.3	9.7	17%	20,519	44	16.7	2.0	4.2	11.0
601991 CG	Datang Intl Power Generation - A	S	CNY	7.4	5.8	-21%	11,357	6	38.2	2.9	1.4	12.6
600011 CG	Huaneng Power Intl Inc.	N	CNY	6.6	6.8	3%	10,694	6	18.4	1.7	2.8	9.7
600795 CG	GD Power Dev.	B	CNY	3.5	4.5	28%	6,553	29	16.2	1.7	0.6	10.6
600642 CG	Shenergy	N	CNY	9.4	9.5	2%	4,423	15	17.7	1.5	1.7	12.8
600027 CG	Huadian Power Intl	S	CNY	4.2	3.4	-18%	3,694	5	34.6	1.7	0.6	12.6
600649 CG	Shanghai Chengtou Hldg	N	CNY	9.0	10.0	11%	3,103	15	18.7	1.6	1.1	14.3
000539 CS	Guangdong Electric Power Dev.	N	CNY	7.0	7.4	6%	2,631	6	18.0	1.7	1.7	13.4
600008 CG	Beijing Capital	N	CNY	6.6	6.1	-8%	2,187	10	29.8	2.7	1.9	11.4
600874 CG	Tianjin Capital Env. Protection - A	S	CNY	7.1	2.9	-59%	1,283	9	40.0	2.8	1.2	16.4

B = Buy, H = Hold, S = Sell. Pricing as at market close on 25 October, 2010. *Indicates the stock is on the Conviction List.

For important disclosures, please go to http://www.gs.com/research/hedge.html. For methodology and risks associated with our price targets, please see our previously published research.

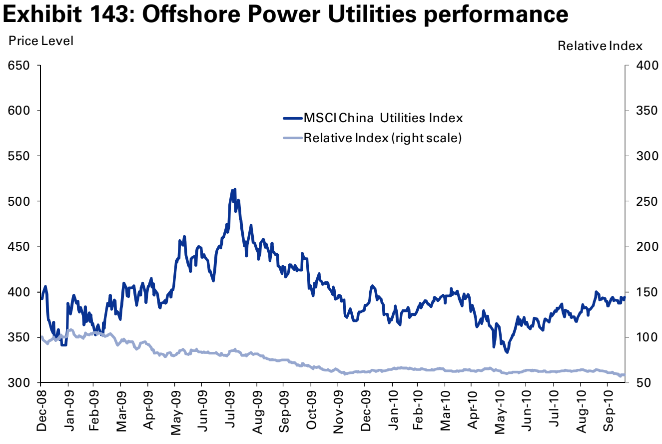
Source: FactSet, I/B/E/S, Goldman Sachs Research estimates, Gao Hua Securities Research estimates.

Exhibit 142: Power Utilities – stock fundamentals (2011E)

Ticker	Name	EPS Growth (%)	Revenue Growth (%)	EBITDA Growth (%)	EBITDA Margin (%)	EBIT Margin (%)	Net Margin (%)	ROE (%)	Total debt/Equity	Asset T/O (x)	Net Debt / Equity
836 HK	China Resources Power	20.5	33.0	36.9	28.2	19.2	11.0	11.7	1.7	0.5	1.6
270 HK	Guangdong Investment	10.6	7.5	7.6	67.0	52.9	35.9	10.7	0.1	1.9	-0.1
902 HK	Huaneng Power Intl Inc.	8.9	11.5	18.7	21.0	9.2	3.8	7.6	2.1	0.7	2.6
991 HK	Datang Intl Power Generation - H	26.2	16.3	29.0	29.9	15.2	3.4	5.4	3.0	0.4	3.7
2380 HK	China Power Intl Dev.	34.3	8.0	16.0	30.6	17.1	4.9	4.4	1.9	0.3	2.3
1071 HK	Huadian Power Intl	8132.2	18.5	46.7	20.4	9.1	1.6	3.6	3.5	0.4	4.3
1065 HK	Tianjin Capital Env. Protection - H	-4.8	7.8	7.1	56.9	40.6	18.0	6.9	0.8	0.4	0.9
600900 CG	China Yangtze Power	1.8	-0.2	-0.7	84.1	57.0	37.6	12.3	1.0	0.2	1.0
601991 CG	Datang Intl Power Generation - A	22.2	16.3	24.9	28.5	15.2	3.4	5.6	3.8	0.4	3.7
600011 CG	Huaneng Power Intl Inc.	5.5	11.5	14.9	19.9	9.2	3.8	7.8	2.6	0.7	2.6
600795 CG	GD Power Dev.	15.3	30.1	38.4	30.4	17.1	6.5	7.7	2.6	0.4	2.5
600642 CG	Shenergy	1.1	10.6	1.0	13.5	8.3	8.6	6.1	0.3	1.2	0.1
600027 CG	Huadian Power Intl	7871.4	18.5	42.1	19.4	9.1	1.6	3.7	4.4	0.4	4.3
600649 CG	Shanghai Chengtou Hldg	3.9	5.6	4.4	33.4	25.0	24.1	8.4	0.2	1.1	0.1
000539 CS	Guangdong Electric Power Dev.	28.7	60.7	55.8	18.8	9.0	5.4	6.5	2.0	0.6	1.8
600008 CG	Beijing Capital	5.1	11.3	8.8	43.2	31.0	14.4	5.8	0.5	0.6	0.3
600874 CG	Tianjin Capital Env. Protection - A	-3.0	7.8	9.1	58.1	40.6	18.0	6.9	1.0	0.4	0.9

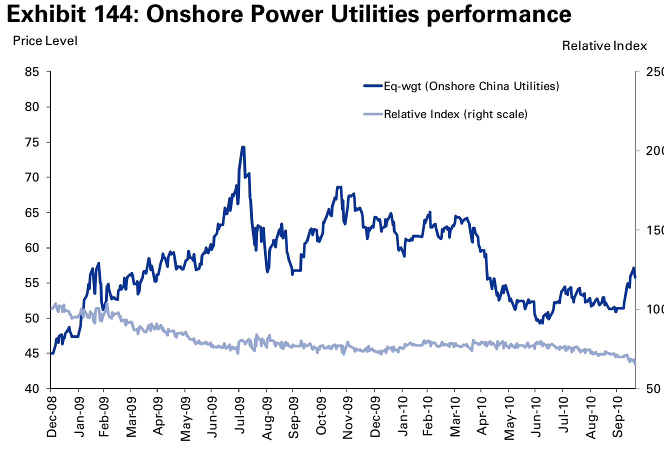
Source: FactSet, I/B/E/S, Goldman Sachs Research estimates, Gao Hua Securities Research estimates.

Exhibit 143: Offshore Power Utilities performance



Source: FactSet, MSCI, GS Global ECS Research.

Exhibit 144: Onshore Power Utilities performance



Source: FactSet, GS Global ECS Research.

Property: Volume names to outperform

Analysts: Yi Wang (yi.wang@ghsl.cn); Jason Sun (jason.sun@ghsl.cn)

Sector stance

2011 sector outlook:

Prices to decline; achieving volume is the key growth driver. We think the tug-of-war between the government, developers, and home-buyers may continue for some time, but in a local/central government synchronized policy environment and with gradually rationalizing homebuyer sentiment, we expect developers' weakening balance sheets but rising inventory to eventually have an effect on selling prices. We expect property prices to decline 20% from current levels over the next 12 months. We retain our 10% p.a. price increase forecast for 2012E/2013E as we believe price recovery in future will be limited by government policies until a meaningful scale of social housing is built. Consequently, we believe achieving asset turnover will become more important than price when it comes to driving earnings growth and stock valuations.

Key themes:

1) **Exposure to Central/Western China:** We prefer names that are rapidly growing their exposure to central and western China, given higher growth potential and less policy risk.

2) Branding: We prefer names focusing on improving their product quality/property management to enhance product attractiveness.

3) Balance sheet strength: We expect listed developers with strong balance sheets, good access to capital and strong execution skills to take advantage of a prolonged industry slowdown and become industry consolidators.

What surprised us in 2010:

Hasher-than-expected government policy tightening on the sector.

How we differ from consensus on earnings outlook:

We are below consensus on sectoral earnings outlook due to lower volumes assumed in our model than the street.

Current sector valuation: Our on/off-shore coverage is currently trading at 45%/46% discount to end-2011E NAV, 13.2X/12.6X 2011E P/E vs. 2006-10 averages of 12%/1.4% and 18.2X/15.3X 12-month rolling P/Es.

Valuation outlook: We don't expect substantial re/de-rating of multiples from current levels.

Key risks to our views:

Upside: Stronger-than-expected volume growth; potential M&A. Downside: Unexpected government policy tightening and a macro hard landing.

Stock recommendations (offshore)

Favored #1: Evergrande (3333.HK, Buy, on Conviction List)

Reasons/catalysts: (1) Strong 2010E results to be reported in April 2011E ; **(2)** stronger-than-peers property sales performance, particularly in 1Q11E; **(3)** Qidong project (accounts for 19% of our estimated end-2011E NAV) to be launched for presale in 2H11E to crystallize the valuation of the project.

Favored #2: Agile (3383.HK, Buy)

Reasons/catalysts: (1) Its low land cost advantage (18% of 2010E ASP vs. peers' 25%) offers better-than-peers' margin and earnings outlook. **(2)** Its high NAV exposure (69%) to Tier-2 and Tier-3 cities provides it with better than peers' advantage for contract sales performance given less policy risk. We are confident of our forecasts of Rmb5.2bn/Rmb4.2bn/Rmb4.6bn contract sales in 2010E-2012E for the project, respectively. YTD the company has achieved Rmb4.7bn for its projects**. (3)** Stronger-than-expected monthly contract sales on the back of its healthier-than-peers' GFA exposure, such as the projects in Chengdu, Xi'an, and Chongqing. **(4)** We believe investors' current policy concerns relate to a potential property tax trial-run in Shanghai and Chongqing. We believe Agile could be a potential relative outperformer as it only has small NAV exposure there.

Avoid #1: IFM (CTC, Sell, on Conviction List)

Reasons/catalysts: (1) We expect secondary market transaction volumes in Tier-1 cities over the next 12 months to be 30% below average 2009 levels given the limitations imposed by the government on the purchase of new property in these Tier-1 cities as well as further mortgage tightening on multiple property purchases. We estimate that if management continues at its current expansion pace of new store openings, the timing for IFM to turn profitable could be further delayed. **(2)** We also believe the policy stance on commodity properties, particularly in Tier-1 cities, is unlikely to change over the medium term, until a meaningful scale of social housing is built up. Consequently, despite IFM's management quality, brand, and the long-term attractiveness of its franchise model, we think the return profile of the secondary property agent business over the medium term is unlikely to improve. **(3)** We expect the company's primary agency business to expand and start to contribute to earnings in 2011E. **Key catalysts:** We expect continued loss-making to be reported by IFM in the coming three quarters. We think improvement of profitability hinges on: **(1)** the stabilization of transaction volumes, and/or **(2)** neutralized policy stance in Tier-1 cities.

Avoid #2: Greentown (3900.HK, Sell)

Reasons: (1) We project a 12% yoy earnings decline in 2011E, mainly as a result of shrinking margins. We estimate its GPM/NM to deteriorate to 37%/7% in 2011E from 45%/13% in 2010E; moreover, we do not expect any improvement in 2012E, due to a weaker pricing trend (about 50% of its contract sales to be generated from those cities with even stricter tightening measures, such as Hangzhou), higher sales contribution from expensive land bank acquired in 2009 (land cost over 40% of est. ASP), and rising construction/fitting cost to make its products attractive. **(2)** We expect its stretched balance sheet (about 150% net gearing ratio will last for the next 2-3 years) to cap the company's scale expansion. **Key catalysts: (1)** We expect its sales performance to underperform peers**. (2)** Higher policy risk on high-end products.

Stock recommendations (A-share)

Favored #1: Vanke A (00002.SZ, Buy, on Conviction List)

Reasons: (1) We believe Vanke's leading industry position, well-known brand, competitive product quality, and strong balance sheet ensure that the company is well positioned to become a potential industry consolidator amid any prolonged industry slowdown. We expect Vanke to achieve solid earnings growth by deepening its current footholds and furthering its geographical expansion. The company has acquired 61 new projects ytd vs. 44 for full-year 2009. **(2)** Despite rapid expansion, the company has been controlling its land acquisition cost at a reasonable level (24% of 2011E ASP), which should underpin a stable margin outlook and ROE. **Key catalysts: (1)** We estimate the company will launch the presale of about 50 new projects in 2011E to sustain its volume growth and deliver better-than-peers contract sales figures in the coming 12 months. **(2)** We believe Vanke can beat street earnings' projections by 20%-30% in 2010E and 2011E, driven by better-than-expected volume growth and project delivery, and solid margins. **(3)** We expect Vanke to undertake M&A activity to help it boost its medium-term earnings outlook.

Favored #2: Poly A (600048.SS, Buy)

Reasons: We like Poly mainly because of the following advantages: **(1)** Its high 76% GFA exposure to non Tier-1 cities provides the company with better than peers' contract sales performance outlook due to less policy risk. **(2)** Its business model pursues high asset turnover, which could help reduce expansion risk amid current frequent policy tightening measures. **(3)** Its high estimated 2011E revenue lock-in ratio (75% vs. peers' 41%) as of September 2010E provides the best earnings visibility among its peers. **(4)** Its attractive valuation at only 10X 2011E P/E, vs. A-share peers' 13X. **Key catalysts: (1)** Stronger-than-expected monthly contract sales on the back of aggressive project launches and healthier-than-peers' GFA exposure. We are expecting its 2010E contract sales to reach Rmb55bn, higher than market consensus at about Rmb45-50bn. **(2)** Earnings revisions from the street, given that our 2010E/2011E EPS are 3%/12% ahead of WIND consensus. **(3)** Better accessibility to credit due to its state-owned background given increasing credit tightening.

Avoid #1: OCT (000069.SZ, Sell)

Reasons: We believe OCT will continue to suffer from the government's tightening measures over the next few quarters, given: **(1)** Its high 82% NAV exposure to Shenzhen, Shanghai, and Beijing is where we see much stricter tightening measures and expect weaker property sales performance than lower-tier cities. **(2)** Its business model targets high margins from high-end products rather than high asset turnover may result in worse-than-peers contract sales performance. **(3)** Its high net gearing at 98% as of 2010E may further limit its growth potential, in our view. **Key catalysts: (1)** Weaker-than-peers' contract sales performance due to high exposure to Tier-1 cities and **(2)** potential earnings cuts from the street. Our 2011E-2012E earnings estimates are 9%/20% below WIND consensus.

Avoid #2: CWTC (600007.SS, Sell)

Reasons: We maintain our Sell rating on China World Trade Center because of the company's weak earnings outlook. We expect the company's earnings to decline by 55% in 2010E due to a significant increase in interest expenses from loans that cannot be capitalized any more. We believe the market is overly bullish about the earnings contribution from CWTC phase III project and expect significant earnings cuts from the market. **Key catalysts: (1)** Potential earnings cuts from the street. Our 2010E-2012E earnings estimates are 40%/54%/67% below WIND consensus.

Exhibit 145: Property – stock valuations

Ticker	Name	Rating	Currency	Price	Target Price	+/- to TP (%)	US$ Mn		CY 2011 E			
							Mcap	6m ADVT	P/E (x)	P/B (x)	DY (%)	EV / EBITDA
EJ UN	E-House (China) Hldgs	N	USD	17.3	20.0	15%	1,389	8	21.1	1.5	0.9	6.5
900932 CG	Shanghai Lujiazui Fin. & Trade Zone - B	NC	USD	1.6	-	-	4,590	1	13.1	-	-	-
CTC UN	IFM Investments (ADS)	S*	USD	5.2	4.0	-24%	238	0	20.1	1.8	-	5.7
YLLG SP	Yanlord Land	N	SGD	1.7	1.9	11%	2,587	8	12.9	1.2	0.8	6.9
688 HK	China Overseas Land & Invst	N	HKD	16.3	19.8	21%	17,186	51	12.4	2.3	1.6	6.5
1109 HK	China Resources Land	B	HKD	15.7	19.8	26%	10,219	27	16.9	1.7	1.5	12.5
3333 HK	Evergrande Real Est.	B*	HKD	3.1	5.1	63%	6,031	17	5.0	1.7	5.0	3.2
813 HK	Shimao Property Hldgs	N	HKD	12.7	13.8	8%	5,822	27	10.8	1.3	0.9	7.7
2007 HK	Country Garden Hldgs	B	HKD	2.8	3.5	23%	6,111	4	10.9	1.5	1.8	6.6
960 HK	Longfor Properties	NC	HKD	9.3	-	-	6,158	6	10.8	2.3	1.6	8.6
3383 HK	Agile Property Hldgs	B	HKD	9.6	14.6	52%	4,309	17	8.6	1.4	2.9	6.2
1387 HK	Renhe Commercial Hldgs	NC	HKD	1.5	-	-	4,309	9	4.8	1.7	9.3	2.6
410 HK	Soho China	N	HKD	6.2	6.7	8%	4,151	5	21.0	1.4	2.1	7.1
3377 HK	Sino-Ocean Land Hldgs	B	HKD	5.5	7.2	32%	3,981	10	11.1	1.1	1.6	9.3
119 HK	Poly (Hong Kong) Invst	B	HKD	8.4	11.2	34%	3,891	16	17.3	1.3	1.2	12.0
817 HK	Franshion Properties (China)	N	HKD	2.6	2.8	10%	3,022	3	22.8	1.5	0.6	16.0
272 HK	Shui On Land	N	HKD	4.0	4.1	3%	2,663	7	23.4	0.8	0.9	24.3
1813 HK	KWG Property Hldg	N	HKD	6.3	6.5	3%	2,352	6	10.3	1.2	0.5	6.9
754 HK	Hopson Dev. Hldgs	NC	HKD	8.8	-	-	1,996	3	6.7	0.4	2.1	5.4
3900 HK	Greentown China Hldgs	S	HKD	8.9	8.2	-8%	1,873	2	7.0	1.0	4.3	5.4
200002 CS	China Vanke Co Ltd - B	B	HKD	10.4	13.6	31%	15,138	4	8.5	1.8	1.7	3.0
2777 HK	Guangzhou R&F Prop.	N	HKD	11.2	12.7	13%	4,667	23	8.2	1.4	4.9	7.3
604 HK	Shenzhen Investment	S	HKD	2.7	2.4	-13%	1,249	4	11.7	0.7	3.4	14.6
1238 HK	Powerlong Real Estate Hldgs	N	HKD	2.3	2.4	7%	1,201	1	5.4	0.7	3.3	6.4
1777 HK	Fantasia Hldgs	B	HKD	1.3	2.4	87%	810	3	5.2	1.0	3.8	2.9
2337 HK	Shanghai Forte Land	N	HKD	2.4	2.5	6%	769	0	5.9	0.6	3.4	6.6
000002 CS	China Vanke	B*	CNY	9.2	12.7	38%	15,138	95	8.8	1.9	1.6	4.2
600048 CG	Poly Real Estate	B	CNY	14.2	19.0	34%	9,731	74	9.8	1.9	2.0	7.3
000069 CS	Shenzhen Overseas Chinese Town	S	CNY	13.1	11.5	-12%	6,109	37	16.2	2.9	1.5	14.9
600383 CG	Gemdale	B	CNY	6.9	9.0	30%	4,641	97	9.6	1.6	1.4	6.9
000024 CS	China Merchants Property Dev.	N	CNY	19.0	18.8	-1%	4,627	46	14.4	1.6	0.7	13.5
000402 CS	Financial Street Hldg	N	CNY	7.2	7.5	4%	3,273	36	20.7	1.3	1.5	22.3
600007 CG	China World Trade Center	S	CNY	11.8	10.0	-15%	1,778	4	56.0	2.6	0.5	31.7
600325 CG	Huafa Industrial Zhuhai	N	CNY	11.8	12.8	8%	1,453	25	12.1	1.5	1.7	12.1

B = Buy, H = Hold, S = Sell, NC = Not Covered. Pricing as at market close on 25 October, 2010. *Indicates the stock is on the Conviction List.

For important disclosures, please go to http://www.gs.com/research/hedge.html. For methodology and risks associated with our price targets, please see our previously published research.

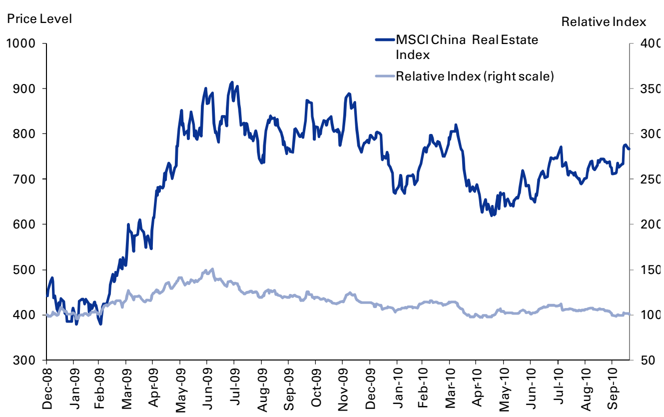
Source: FactSet, I/B/E/S, Goldman Sachs Research estimates, Gao Hua Securities Research estimates.

Exhibit 146: Property – stock fundamentals (2011E)

Ticker	Name	EPS Growth (%)	Revenue Growth (%)	EBITDA Growth (%)	EBITDA Margin (%)	EBIT Margin (%)	Net Margin (%)	ROE (%)	Total debt/Equity	Asset T/O (x)	Net Debt / Equity
EJ UN	E-House (China) Hldgs	56.2	52.2	61.8	25.3	20.5	12.8	4.6	-	18.0	-0.4
900932 CG	Shanghai Lujiazui Fin. & Trade Zone - B	24.0	23.6	-	-	-	46.7	-	-	-	-
CTC UN	IFM Investments (ADS)	176.0	119.7	269.3	10.6	6.9	6.6	9.4	-	9.9	-0.9
YLLG SP	Yanlord Land	-14.9	-16.0	-35.4	37.3	37.1	15.3	5.5	0.4	50.0	0.2
688 HK	China Overseas Land & Invst	12.5	4.3	17.1	33.2	33.2	18.8	18.0	0.4	43.7	-0.2
1109 HK	China Resources Land	-10.9	26.9	24.6	29.5	29.5	16.1	9.3	0.6	7.2	0.6
3333 HK	Evergrande Real Est.	33.6	35.3	44.0	28.7	28.5	15.3	32.1	0.9	86.4	0.3
813 HK	Shimao Property Hldgs	2.9	7.5	1.6	35.0	33.2	14.7	11.4	1.1	2.3	0.9
2007 HK	Country Garden Hldgs	24.3	17.2	20.7	25.8	25.8	13.3	13.7	0.8	5.5	0.3
960 HK	Longfor Properties	66.1	50.6	65.3	25.5	25.5	16.0	23.7	-	0.3	92.7
3383 HK	Agile Property Hldgs	-34.4	20.6	-23.7	33.5	32.9	17.2	13.4	0.9	6.3	0.5
1387 HK	Renhe Commercial Hldgs	25.8	20.1	26.1	67.9	69.8	53.4	38.9	-	0.4	-56.7
410 HK	Soho China	-59.3	-50.5	-53.7	38.0	35.7	17.2	6.6	0.4	2.3	-0.3
3377 HK	Sino-Ocean Land Hldgs	-19.7	-0.6	-4.7	28.4	28.2	14.6	7.4	0.6	48.7	0.5
119 HK	Poly (Hong Kong) Invst	25.0	33.7	43.7	30.3	28.5	12.9	7.1	1.0	2.3	0.8
817 HK	Franshion Properties (China)	-42.6	-22.2	-28.2	42.6	39.4	16.4	4.1	0.6	0.9	0.8
272 HK	Shui On Land	-62.8	-20.6	-53.0	38.6	37.3	19.0	3.3	0.9	6.4	0.9
1813 HK	KWG Property Hldg	26.8	22.6	29.0	30.9	30.3	15.6	11.7	0.8	9.6	0.4
754 HK	Hopson Dev. Hldgs	-1.6	31.4	13.9	27.4	26.9	12.4	6.6	-	0.2	22.5
3900 HK	Greentown China Hldgs	-11.7	64.7	42.0	30.5	29.9	6.8	10.1	1.9	10.4	1.7
200002 CS	China Vanke Co Ltd - B	63.1	81.5	60.9	38.3	38.1	14.1	15.6	0.5	23.1	0.0
2777 HK	Guangzhou R&F Prop.	6.5	14.0	7.6	25.4	25.2	13.0	17.1	1.4	7.7	1.1
604 HK	Shenzhen Investment	-22.0	-7.5	-11.0	27.9	27.2	16.8	5.6	1.0	7.4	0.7
1238 HK	Powerlong Real Estate Hldgs	-42.8	13.1	1.4	47.7	45.9	37.7	12.4	0.5	12.7	0.3
1777 HK	Fantasia Hldgs	28.1	35.2	37.0	41.1	40.7	19.4	18.0	0.7	27.2	0.2
2337 HK	Shanghai Forte Land	-56.1	21.3	-26.7	28.8	28.8	9.8	9.4	1.7	30.9	1.3
000002 CS	China Vanke	63.1	81.4	79.0	27.7	27.5	14.1	15.4	0.5	21.1	-0.1
600048 CG	Poly Real Estate	35.5	40.5	45.4	22.5	22.3	13.4	17.6	1.1	110.0	0.4
000069 CS	Shenzhen Overseas Chinese Town	2.3	6.3	11.9	25.9	25.9	17.6	17.0	1.5	1.0	1.0
600383 CG	Gemdale	31.1	31.0	41.1	22.8	22.7	14.6	14.6	1.1	247.5	0.2
000024 CS	China Merchants Property Dev.	11.5	7.5	1.5	24.2	23.9	18.0	9.9	0.8	30.0	0.4
000402 CS	Financial Street Hldg	-5.8	10.0	-1.3	20.4	20.4	13.4	6.0	1.2	2.3	0.8
600007 CG	China World Trade Center	62.2	25.3	25.3	34.7	34.7	15.1	4.6	0.9	-	0.8
600325 CG	Huafa Industrial Zhuhai	9.1	7.0	8.8	21.4	21.4	15.4	11.9	1.3	13.5	0.5

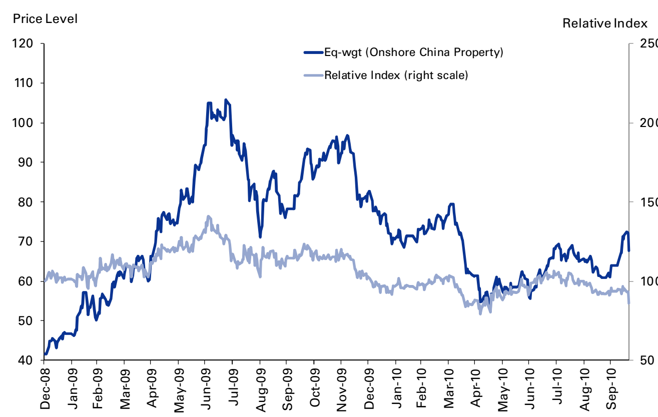
Source: FactSet, I/B/E/S, Goldman Sachs Research estimates, Gao Hua Securities Research estimates.

Exhibit 147: Offshore Property performance



Source: FactSet, MSCI, GS Global ECS Research.

Exhibit 148: Onshore Property performance



Source: FactSet, GS Global ECS Research.

Shipping: Growth markets to sustain secular growth

Analyst: Tom Kim (tom.kim@gs.com)

Sector stance

2011 sector outlook:

We reiterate our attractive stance for bulkers and containers for 2011E. We prefer containers over bulkers medium-term due to more favorable demand/supply dynamics. We highlight our outlook as follows:

Containers: Based on our ECS team's global economic growth forecast of 4.5% in 2011E, we think 2011E demand could continue to grow in the low teens at 10.7% yoy, offsetting supply growth of 8.9% yoy, leading to a marginal rate improvement of 1.7% yoy. We believe stronger volumes should drive positive earnings growth in 2011E. The market is overly pessimistic on the negative impact of scheduled newbuild deliveries. In our view, effective supply is likely to be less than expected due to three mitigating factors, which are delays in new orders, slow steaming and idling of excess capacity.

Bulkers:

We expect strong demand growth of 8.1% yoy in 2011E, underpinned by iron ore and coal seaborne trade growth of 12.1% yoy and 6.0% yoy, respectively. This should be largely offset by effective supply growth of 7.9% yoy, resulting in a balance demand/supply profile and hence stable rate performance in 2011E. Based on our sensitivity analysis, the market is discounting an average BDI of 2,645 vs. our expectation of 3,022 for 2011E. In our view, the market is concerned about the adverse impact of high supply growth due to newbuild orders scheduled to be delivered in 2011E. However, we continue to believe that supply growth is likely to fall short of expectations in 2011E due to cancellations and delays.

Key themes/issues:

1) Containership – Rise of resource-rich markets: While developed markets will likely remain key demand generators for the containership industry, we expect the growth drivers to shift to growth markets (GM), including Middle East, Latin America and Africa. We expect GM growth to accelerate over time and drive container trade flows, given the long-term growth potential flagged by our ECS team.

2) Bulkers – Coal imports to China and India to be the next demand driver: In our view, urbanization and industrialization in India and China could continue to underpin strong growth for electricity production, driving higher demand growth for coal imports. Stronger coal trade could lift Panamax and Handys rates, offsetting potentially weaker Capesize performance as nominal Capesize supply growth is expected to grow at 26.5% yoy in 2011E, according to Clarksons.

What surprised us in 2010:

Containerships: Stronger-than-expected recovery in volumes and rates for containerships; **Bulkers:** Greater-than-expected newbuild deliveries of bulker vessels, particularly Capesize.

How we differ from consensus on earnings outlook:

Containerships: We are above consensus on earnings outlook as we expect marginal rate improvement of 1.7% yoy in 2011E while consensus is expecting a decline. **Bulkers:** We are above consensus on earnings outlook as we expect an average BDI of 3,022 in 2011E while the market is discounting an average BDI of 2,635.

Current sector valuation: Containerships: The sector is trading at valuations of 0.99X 2011X EV/FV, slightly below midcycle of around 1.1X. **Bulkers:** The sector is trading at valuations of 1.31X on 2011E EV/FV, slightly above mid-cycle of 1.1X.

Valuation outlook: Containerships: We expect EV/FV multiples to expand to 1.07X EV/FV over the next 12 months and 2.1X EV/FV in three years' time. **Bulkers:** We expect EV/FV multiples to expand to 1.48X EV/FV over the next 12 months.

Key risks to our view:

1) Containerships: Industry capacity and pricing ill discipline; **2)** Bulkers: Fewer-than-expected cancellations and delays.

Stock recommendations (offshore)

Favored #1: China COSCO Holdings (H) (1919.HK, Buy)

Reasons: **1)** We think continued improvement in its earnings contribution from two of its main businesses, bulkers and containerships, could lift its return to 20.1% in 2011E, well above its peer group average of 12.0%. **2)** Profits from bulker operations for 2010E are likely to be strong despite volatile spot rates during 2010E as the company has contracted in 70% of its total operating days for 2010E. **3)** The stock is trading at attractive valuations of 0.87X 2011E EV/FV vs. the peer group average of 1.30X EV/FV.

Catalysts: 1) Consensus earnings upgrades; **2)** Potential tanker asset injection announcement as part of the group's ongoing restructuring plans.

Stock recommendations (A-share)

Favored #1: China COSCO Holdings (A) (601919.HK, Buy, on Conviction List)

The reasons and catalysts for China COSCO (A) are the same as those for China Cosco (H). China COSCO (A) is trading at attractive valuations of 0.87X 2011E EV/FV vs. the peer group average of 1.30X 2011E EV/FV.

Favored #2: China Shipping Development (A) (600026.SS, Buy)

Reasons: 1) We think there is upside risk to consensus forecasts as our earnings estimates are 14%-30% higher than consensus forecasts for 2011E-2012E; **2)** the stock is trading at attractive valuations of 1.29X vs. a forward return on fleet of 13.0% for 2011E-2012E.

Catalysts: (1) A recovery in tanker freight rates; **(2)** a turnaround in international coal shipments in 2011E.

Avoided #1: China Shipping Container Lines (601866.SS, Sell)

Reasons: 1) We think average freight rates in 2011E may disappoint due to poor yield management; **2)** the stock is trading at demanding valuations of 1.41X versus the peer group average of 0.98X 2011E EV/FV.

Catalysts: Consensus ratings downgrade as 52% of brokers rate the stock a Buy versus 35% Neutral, and 13% a Sell.

Exhibit 149: Shipping – stock valuations

Ticker	Name	Rating	Currency	Price	Target Price	+/- to TP (%)	US$ Mn		CY 2011 E			
							Mcap	6m ADVT	P/E (x)	P/B (x)	DY (%)	EV / EBITDA
316 HK	Orient Overseas (Intl)	B*	HKD	67.2	102.0	52%	5,415	9	11.2	1.0	4.5	5.3
1919 HK	China COSCO Hldgs - H	B	HKD	9.3	13.8	49%	16,229	27	7.0	1.4	3.5	4.5
1138 HK	China Shipping Dev. - H	N	HKD	11.9	9.8	-18%	5,522	10	11.0	1.4	2.9	9.2
368 HK	Sinotrans Shipping	B	HKD	3.3	4.8	46%	1,687	2	12.4	0.8	2.4	7.5
2866 HK	China Shipping Container Lines - H	N	HKD	3.0	3.1	3%	6,642	17	11.6	1.0	1.7	6.4
601919 CG	China COSCO Hldgs - A	B*	CNY	11.5	14.7	28%	16,229	42	10.1	2.0	2.4	6.2
601866 CG	China Shipping Container Lines - A	S	CNY	4.4	3.9	-10%	6,642	13	19.5	1.7	1.0	10.1
600026 CG	China Shipping Dev. - A	B	CNY	11.1	11.5	3%	5,522	15	12.0	1.5	2.7	9.7
601872 CG	China Merchants Energy Shipping	N	CNY	4.9	4.4	-11%	2,542	7	11.0	1.5	2.2	7.7

B = Buy, H = Hold, S = Sell. Pricing as at market close on 25 October, 2010. *Indicates the stock is on the Conviction List.

For important disclosures, please go to http://www.gs.com/research/hedge.html. For methodology and risks associated with our price targets, please see our previously published research.

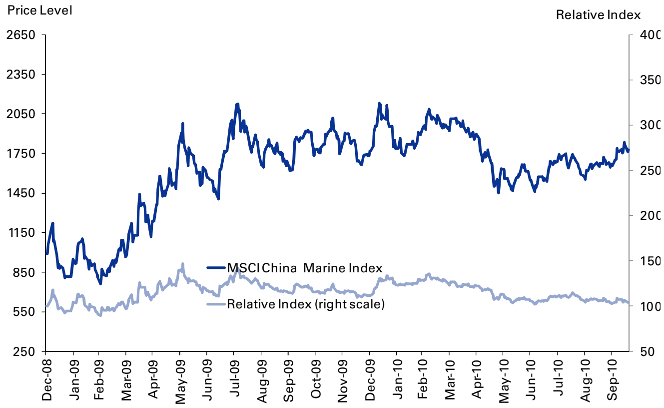
Source: [FactSet, I/B/E/S, Goldman Sachs Research estimates, Gao Hua Securities Research estimates.

Exhibit 150: Shipping – stock fundamentals (2011E)

Ticker	Name	EPS Growth (%)	Revenue Growth (%)	EBITDA Growth (%)	EBITDA Margin (%)	EBIT Margin (%)	Net Margin (%)	ROE (%)	Total debt/Equity	Asset T/O (x)	Net Debt / Equity
316 HK	Orient Overseas (Intl)	-17.3	14.9	-13.5	10.6	6.2	6.5	9.3	0.5	2.9	-0.2
1919 HK	China COSCO Hldgs - H	28.6	21.9	16.8	19.2	15.1	10.5	20.1	1.1	1.4	0.2
1138 HK	China Shipping Dev. - H	71.2	24.7	53.9	38.9	28.7	22.2	12.8	0.8	0.4	0.6
368 HK	Sinotrans Shipping	18.2	5.1	6.0	52.7	41.4	47.8	6.1	-	0.2	-0.3
2866 HK	China Shipping Container Lines - H	9.4	17.0	7.8	15.2	10.6	7.0	8.7	0.6	1.0	0.2
601919 CG	China COSCO Hldgs - A	28.6	21.9	16.8	19.2	15.1	10.5	20.1	1.1	1.4	0.2
601866 CG	China Shipping Container Lines - A	9.4	17.0	7.8	15.2	10.6	7.0	8.7	0.6	1.0	0.2
600026 CG	China Shipping Dev. - A	71.2	24.7	53.9	38.9	28.7	22.2	12.8	0.8	0.4	0.6
601872 CG	China Merchants Energy Shipping	40.3	26.6	30.5	65.9	52.3	41.0	13.2	0.4	0.3	0.2

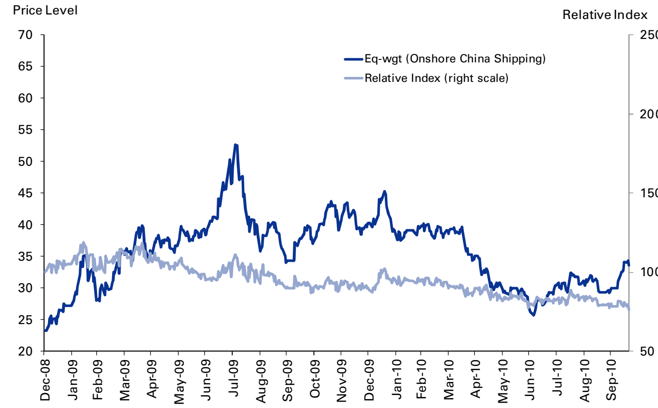
Source: FactSet, I/B/E/S, Goldman Sachs Research estimates, Gao Hua Securities Research estimates.

Exhibit 151: Offshore Shipping performance



Source: FactSet, MSCI, GS Global ECS Research.

Exhibit 152: Onshore Shipping performance



Source: FactSet, GS Global ECS Research.

Technology: Growth stories are still the focus

Analyst: Donald Lu (donald.lu@ghsl.cn)

Sector stance Neutral

2011 sector outlook:
(1) We think China's smartphone market growth will accelerate in 2011E. We expect three phases for the growth: the iPhone, Lephone and Nokia's smartphone in 2010-2011; the US$100-US$150 Android phone in 2011-2012; and the sub-US$100 Android phone after 2012. (2) The consolidation of cable carriers (in a highly fragmented market) will continue to prepare for the commercial launch of three network convergence services in 2012E. Both telecom and cable carriers need to invest into each other's business. (3) China IT service/software market growth will continue due to policy stimulus and demand for efficiency improvement. Local vendors may share gain from overseas vendors based on their cost advantage and localized service. We would focus on secular growth stories such as the benefit of domestic market development or overseas expansion of Chinese companies.

Key themes/issues and our view:
1) **Smartphone market takes off in China**. We see six forces working on smartphone growth — price, operating system, 3G, brand, distribution, and adoption of mobile applications. We believe price is key, but distribution, brand, and adoption are also necessary. We expect uptake of the US$150 smartphone to improve; WCDMA smartphones should continue to outpace TD and EVDO in cost reduction and variety; and the potential rapid growth of Wi-Fi hot spots to alleviate network congestion.

2) IT service/software market: policy stimulus and industry consolidation. We expect China's government to at least maintain its stimulus policies on IT service/software industry development in 2011. Due to the fragmented market structure, industry leaders may drive their growth through merger and acquisition.

3) Three network convergence: Due to competition, telecom and cable carriers may increase their capex and companies along the industry food chains should benefit.

What surprised us in 2010:
1) Slower-than-expected IT spending recovery; 2) PC demand slowdown in 2H10.

How we differ from consensus on earnings outlook:
We are in-line with consensus on Ufida. We have above consensus estimates for AsiaInfo and Longtop, to reflect our positive view on their growth. We have below consensus forecasts for ASMP as we believe its peaking orders will not be sustained.

Current sector valuation: Sector valuation is relatively higher than market valuation, due to higher earnings growth outlook.

Valuation outlook: We expect sector valuation to outperform when the market pulls back, due to less uncertainty about sector growth.

Key risks to our views:
1) Intensifying competition in the China market; 2) stronger-than-expected Android phone ramp-up; 3) shortage of IT experts.

Stock recommendations (offshore)

Favored #1: AsiaInfo-Linkage (ASIA, Buy)
Reasons/catalysts: Growth should be on track due to competition among telcos; market has overreacted to ASIA's guidance cut.

Avoid #1: ASMP (0522.HK, Sell)
Reasons/catalysts: Unsustainable orders in light of moderating packaging growth in 2H10 and intensifying competition.

Stock recommendations (A-share)

Favored #1: ZTE (000063.SZ/0763.HK, Neutral)
Reasons/catalysts: To benefit from the growth of both smartphone and mobile data traffic in China.

Exhibit 153: Technology – stock valuations

Stock valuations Ticker	Name	Rating	Currency	Price	Target Price	+/- to TP (%)	US$ Mn Mcap	6m ADVT	CY 2011 E P/E (x)	P/B (x)	DY (%)	EV / EBITDA
LFT UN	Longtop Financial Technologies (ADS)	B	USD	38.9	41.0	6%	2,193	15	29.1	3.9	-	18.0
ASIA UW	AsiaInfo-Linkage Inc.	B	USD	20.6	30.0	46%	1,529	26	14.4	3.1	-	8.6
AMAP US	AutoNavi Hldgs	N	USD	19.3	17.0	-12%	905	-	28.2	4.1	-	16.6
CIS US	Camelot Information Systems	N	USD	17.7	14.4	-18%	779	-	25.3	3.0	-	15.7
992 HK	Lenovo	B	HKD	5.3	5.5	3%	6,671	30	16.4	3.4	2.1	5.1
2038 HK	Foxconn Intl Hldgs	S	HKD	6.1	4.1	-33%	5,652	10	-	1.6	-	24.5
148 HK	Kingboard Chem. Hldgs	NC	HKD	38.1	-	-	4,165	6	8.3	1.2	3.4	4.9
522 HK	ASM Pacific Tech.	S	HKD	70.6	63.0	-11%	3,588	8	18.0	5.5	3.0	12.3
2018 HK	AAC Acoustic Tech. Hldgs Inc.	B*	HKD	19.0	21.0	11%	3,007	7	12.5	3.9	3.2	9.3
981 HK	Semiconductor Manufacturing Intl	NC	HKD	0.7	-	-	2,194	8	85.2	1.1	-	5.2
763 HK	ZTE - H	N	HKD	32.6	29.0	-11%	12,739	20	20.7	2.9	-	11.3
903 HK	TPV Tech.	N	HKD	5.0	5.7	14%	1,514	1	8.3	0.8	3.8	3.9
285 HK	BYD Electronic (Intl)	N	HKD	4.4	4.1	-7%	1,286	3	11.8	1.1	1.9	5.2
000063 CS	ZTE - A	N	CNY	30.0	27.0	-10%	12,739	51	-	-	-	-
600588 CG	UFIDA Software	N	CNY	24.5	24.0	-2%	2,997	13	29.1	6.2	1.0	22.9

B = Buy, H = Hold, S = Sell, NC = Not Covered. Pricing as at market close on 25 October, 2010. *Indicates the stock is on the Conviction List.

For important disclosures, please go to http://www.gs.com/research/hedge.html. For methodology and risks associated with our price targets, please see our previously published research.

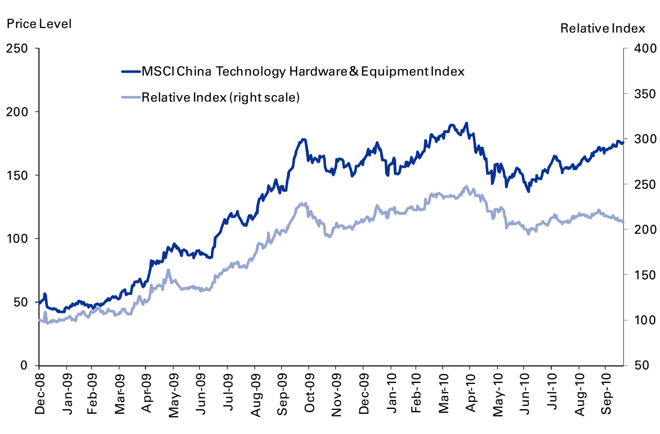
Source: FactSet, I/B/E/S, Goldman Sachs Research estimates, Gao Hua Securities Research estimates.

Exhibit 154: Technology – stock fundamentals (2011E)

Ticker	Name	EPS Growth (%)	Revenue Growth (%)	EBITDA Growth (%)	EBITDA Margin (%)	EBIT Margin (%)	Net Margin (%)	ROE (%)	Total debt/Equity	Asset T/O (x)	Net Debt / Equity
LFT UN	Longtop Financial Technologies (ADS)	1011.2	28.2	291.6	35.7	30.4	28.3	13.5	0.0	9.9	-0.7
ASIA UW	AsiaInfo-Linkage Inc.	21.1	43.3	48.6	23.9	23.0	20.4	21.8	-	104.9	-0.9
AMAP US	AutoNavi Hldgs	84.4	38.1	79.0	39.4	34.9	29.7	13.3	-	4.5	-0.8
CIS US	Camelot Information Systems	62.7	27.3	49.4	19.0	16.7	14.2	12.0	0.0	55.9	-0.5
992 HK	Lenovo	58.4	18.3	31.5	3.0	2.2	1.7	20.0	0.1	71.9	-1.5
2038 HK	Foxconn Intl Hldgs	58.2	8.7	0.5	2.9	-0.8	-0.7	-1.6	0.1	4.4	0.0
148 HK	Kingboard Chem. Hldgs	6.8	5.2	6.2	21.7	16.2	11.1	14.7	-	0.7	5.4
522 HK	ASM Pacific Tech.	-33.4	-10.7	-27.8	27.4	23.6	20.2	30.4	-	6.1	-0.4
2018 HK	AAC Acoustic Tech. Hldgs Inc.	61.4	51.0	60.0	38.7	34.0	31.3	31.6	0.1	2.6	-0.3
981 HK	Semiconductor Manufacturing Intl	-	4.5	3.7	40.2	1.1	1.6	1.2	-	0.4	46.6
763 HK	ZTE - H	18.0	16.9	20.3	9.0	7.2	4.6	13.0	0.9	8.3	0.2
903 HK	TPV Tech.	11.5	15.0	6.6	2.5	1.7	1.4	10.0	0.2	34.0	-0.1
285 HK	BYD Electronic (Intl)	-12.3	2.4	0.4	9.7	5.0	4.5	9.4	-	3.4	-0.1
000063 CS	ZTE - A	18.0	16.9	20.3	9.0	7.2	4.6	13.0	0.9	8.3	0.2
600588 CG	UFIDA Software	40.5	27.8	42.7	21.7	19.7	18.0	21.1	-	4.1	-0.3

Source: FactSet, I/B/E/S, Goldman Sachs Research estimates, Gao Hua Securities Research estimates.

Exhibit 155: Offshore Technology performance



Source: FactSet, MSCI, GS Global ECS Research.

Exhibit 156: Onshore Technology performance

Source: FactSet, GS Global ECS Research.

Telecom Services: Diverging trends become clearer

Analyst: Helen Zhu (helen.zhu@gs.com)

Sector stance

2011 sector outlook:
We expect to see: a) subs: slightly decelerating mobile sub adds, moderating fixed-line losses and robust/stable broadband adds; b) diverging ARPU trends as China Mobile (CM) sees ARPU erosion and Unicom (CU) is the main beneficiary; c) diverging margin trends as CM faces more subsidy/competition pressure but CU and China Telecom (CT) pass their margin troughs as newly gained mobile subs start to contribute to revenues. We still expect telecom services revenues to grow below GDP and to decelerate, but the key will be how fast revenue and EBITDA market share shifts happen. We believe the market challengers pose more revision potential (to the upside for CU and to the downside for CT).

Key themes/issues and our view:
1) Sustainability of product differentiation: We feel CT will gradually make further inroads on CDMA handset availability and that the potential introduction of CDMA iPhone in mid-2011 could be a sentiment catalyst for CT to the detriment of CU. Despite the hype, we do not believe TD-LTE will be available as commercial product in the foreseeable term, and expect CM's high-end product disadvantage to sustain (any non-3G-dependent 'killer apps' could help CM).

2) Regulatory overhang re-emergence: Possible updates on number portability adoption (around mid-year) or any upped targets on TD-SCDMA (for the sake of innovation) could be negatives for CM and positives for CU/CT.

3) Major shifts in S&M strategy: CT has been aggressive on quantity but achieved weak sub quality, while CU has been prioritizing quality over quantity. Both could adjust their strategy in 2011, in our view.

What surprised us in 2010:
1) CM's lackluster efforts towards TD; 2) CU's over-emphasis on sub quality over quantity; 3) negligible regulatory issues.

How we differ from consensus on earnings outlook:
We are in line with consensus on sectoral earnings outlook – we expect weaker earnings recovery for CT (as retention expenses ramp up and subsidies cannot be weaned out quickly for low-end subs) and stronger momentum for CU (as 3G revenues continue to outperform guidance, due to robust ARPU despite quantity being slightly slow).

Current sector valuation: Sector valuation is roughly in line with market valuation despite offering inferior earnings growth; probably due to neutralizing positions on CM vs underweight at beginning of the year.

Valuation outlook: We think the sector will struggle to see more multiple expansion and may underperform unless the market has strong pullbacks. But, multiples may diverge between various stocks with those gaining market share possibly able to enjoy extended periods of multiple expansion.

Key risks to our views:
1) Faster-than-expected TD & CDMA handset improvement; 2) price war at low end; 3) fixed line deterioration accelerates.

Stock recommendations (offshore)

Favored #1: China Unicom (0762.HK, Buy)
Reasons/catalysts: 1) 3G progress/sub quality under-appreciated; 2) EV/EBITDA still cheap; 3)WCDMA advantage sustainable longer than consensus expects.

Favored #2: China Mobile (0941.HK, Buy)
Reasons/catalysts: 1) Rising dividends/FCF yield may keep price stable, however 3) catalysts are lacking.

Avoid #1: China Telecom (0728.HK, Neutral)
Reasons/catalysts: 1) Mgmt targets on S&M/revenue savings may be challenging; 2) stock has run up already; 3) fixed line still dominates.

Avoid #2: China Comm Services (0552.HK, Neutral)

Reasons/catalysts: 1) 1H10 growth unsustainable; 2) revenue mix change to lead to margin pressure; 3) multiple stretched.

Stock recommendations (A-share)

Favored #1: China Unicom (600050.SS, Neutral)

Reasons/catalysts: 1) 3G progress/sub quality under-appreciated; 2) WCDMA advantages sustainable longer than consensus expects.

Exhibit 157: Telco – stock valuations

Ticker	Name	Rating	Currency	Price	Target Price	+/- to TP (%)	US$ Mn		CY 2011 E			
							Mcap	6m ADVT	P/E (x)	P/B (x)	DY (%)	EV / EBITDA
941 HK	China Mobile	B	HKD	80.2	94.0	17%	207,357	277	10.9	2.1	4.1	4.4
762 HK	China Unicom (HK)	B	HKD	11.3	12.5	10%	34,430	46	28.5	1.1	1.9	5.0
728 HK	China Telecom	N	HKD	4.2	3.7	-11%	43,592	30	19.1	1.2	2.0	4.6
552 HK	China Comm. Services	N	HKD	4.7	4.5	-6%	3,518	5	12.9	1.5	3.1	5.3
600050 CG	China United Network Comm.	N	CNY	5.4	6.4	19%	17,128	69	41.9	0.5	1.3	3.2

B = Buy, H = Hold, S = Sell. Pricing as at market close on 25 October, 2010.

For important disclosures, please go to http://www.gs.com/research/hedge.html. For methodology and risks associated with our price targets, please see our previously published research.

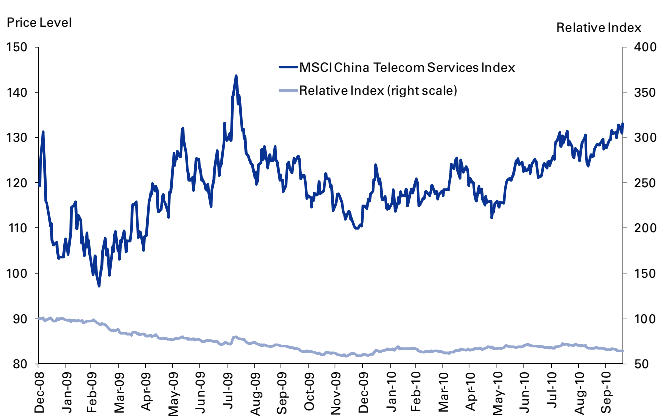
Source: FactSet, I/B/E/S, Goldman Sachs Research estimates, Gao Hua Securities Research estimates.

Exhibit 158: Telco – stock fundamentals (2011E)

Ticker	Name	EPS Growth (%)	Revenue Growth (%)	EBITDA Growth (%)	EBITDA Margin (%)	EBIT Margin (%)	Net Margin (%)	ROE (%)	Total debt/Equity	Asset T/O (x)	Net Debt / Equity
941 HK	China Mobile	4.8	5.4	3.4	48.8	30.7	24.8	19.6	0.0	1.1	-0.5
762 HK	China Unicom (HK)	73.1	6.4	10.0	37.3	6.0	4.6	3.9	0.5	0.4	0.5
728 HK	China Telecom	17.1	5.0	2.9	32.0	9.9	6.6	6.4	0.4	0.8	0.2
552 HK	China Comm. Services	3.0	7.0	12.1	5.8	5.2	3.9	11.9	0.1	11.0	-0.6
600050 CG	China United Network Comm.	73.1	6.4	10.0	37.3	6.0	1.6	1.3	0.5	0.4	0.5

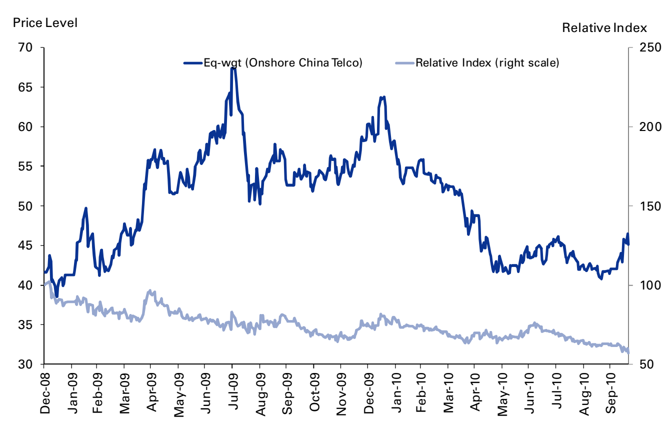
Source: FactSet, I/B/E/S, Goldman Sachs Research estimates, Gao Hua Securities Research estimates.

Exhibit 159: Offshore Telco performance



Source: FactSet, MSCI, GS Global ECS Research.

Exhibit 160: Onshore Telco performance



Source: FactSet, GS Global ECS Research.

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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.

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	Rating Distribution			Investment Banking Relationships		
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