INDEX METHODOLOGY

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MSCI China A Index Methodology

INDEX OBJECTIVES, CONSTRUCTION AND MAINTAINANCE METHODOLOGY FOR THE MSCI CHINA A INDEX

August 2008

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About MSCI Barra

MSCI Barra develops and maintains equity, hedge fund, and REIT indices that serve as benchmarks for an estimated USD 3 trillion on a worldwide basis. MSCI Barra's risk models and analytics products help the world's largest investors analyze, measure and manage portfolio and firm-wide investment risk. MSCI Barra is headquartered in New York, with research and commercial offices around the world. Morgan Stanley, a global financial services firm, is the majority shareholder of MSCI Barra.

MSCI Barra was voted "Index Provider of the Year" at the 2007 Global Pensions Magazine Awards.

Table of Contents

Introduction

MSCI: A Leading Global Benchmark Provider

Morgan Stanley Capital International Inc. ("MSCI") is a leading provider of global equity, US equity, fixed income, and hedge fund indices, and benchmark related products and services to investors worldwide.

Equity Indices

MSCI provides global equity indices, which over the last 30 years have become the most widely used international equity benchmarks by institutional investors. Almost 2,000 organizations worldwide currently use MSCI global equity benchmarks. Sector, industry groups, and industry indices are calculated based on the Global Industry Classification Standard (GICS®), developed by MSCI and Standard and Poor's. In addition, MSCI provides value and growth indices for developed and emerging markets based on a two-dimensional, multifactor methodology for style definition and segmentation. In 2002, MSCI launched a new family of US Equity Indices to provide broad and comprehensive coverage of the US equity market. This family of indices consists of a Broad Market Index and its various capitalization, style and sector sub-indices.

Fixed Income Indices

MSCI provides a wide range of global fixed income indices for the investment community, including indices for Sovereign, Investment Grade and High Yield debt markets, as well as the Interest Rate Swaps market. The MSCI Fixed Income Indices are unique in their use of an industry classification system based on the GICS.

Hedge Fund Indices

In 2002, MSCI launched a family of hedge fund indices based on a comprehensive classification system – The MSCI Hedge Fund Classification StandardSM – and a growing fund database, the MSCI Hedge Fund DatabaseSM. The MSCI Hedge Fund Indices aim to reflect the composition and performance characteristics of the entire hedge fund opportunity set and as such include open as well as closed funds. In parallel, MSCI has developed an innovative index construction and maintenance methodology for investable hedge fund indices at the composite level. The MSCI investable hedge fund composite- level indices aim to reflect the aggregate performance of a diversified range of hedge fund strategies and are designed to be replicable in investment vehicles linked to the indices.

Global Capital Markets Indices

In 2005, MSCI is launching the MSCI Global Capital Markets Index. This index is designed to provide a framework for global diversification by depicting the global opportunity set of marketable, liquid and investable financial securities that are available to all international investors, irrespective of their domicile. It currently includes equity and fixed income securities which are represented by MSCI's family of equity and fixed income indices.

Executive Summary

The MSCI China A Index is the first index created by MSCI for the China A share market, which comprises of A shares listed on the Shanghai and Shenzhen Stock Exchanges. The MSCI China A Index is designed with the objective to serve as a performance benchmark for a broad section of investors currently investing in the A share market. In order to do so, the design of the MSCI China A Index endeavors to reflect primarily the investment processes of domestic investors. While not attempting to reflect all the investments constraints currently affecting global investors, the MSCI China A Index is also intended to serve as a tool for them to understand and approach the China A share market.

The China A share market offers a number of important characteristics which include a flat distribution of companies by size, the existence of a large pool of small companies and a relatively fast changing opportunity set. In this context, the index objectives of achieving a broad, and fair market representation and ensuring adequate investability can be best attained by an index construction that targets a 65% industry group representation, combined with an inclusion rule for large securities, and that uses minimum size guidelines reflective of current investment processes. In addition, to further ensure the investability of the MSCI China A Index, a number of eligibility rules and guidelines for index inclusion are applied. The MSCI China A Index is free float-adjusted. MSCI defines the free float of a China A security as the proportion of tradable A Share outstanding that is deemed to be available for purchase in the public equity markets by domestic investors, and therefore excludes strategic and other non-free float shareholdings.

Many of the guidelines and principles applied to the MSCI China A Index are also applied to the MSCI Standard Index Series. Please refer to the MSCI Standard Index Series methodology book for further details.

This Methodology Guide describes MSCI's index construction and maintenance methodology for the MSCI China A Index. Certain specific aspects of MSCI's Standard Index methodology are treated in appendices at the end of the Methodology Book. Any updates to the Methodology will be posted on the web site http://www.mscibarra.com/products/indices/china/. Other useful methodology guidelines can be found in the same link.

This version of the MSCI China A Index Methodology Book is effective as of the close of March 28, 2007.

Section 1: Index Construction Objectives and Guiding Principles

2.1 MSCI China A Index construction objectives

In designing the China A Index construction and maintenance methodology MSCI strives to attain three key index objectives. The first objective is to achieve broad and fair market representation. The second objective is to ensure that the index is investable and replicable and the third objective is to preserve continuity.

1.1.1 Broad and fair market representation

Broad and fair market representation refers to the need for the index to represent the opportunity set that investors can reasonably be expected to get exposure to. This can be defined as the ability of the index to accurately reflect the structure and distribution of business activities across and within industries, with an adequate coverage as well as with the inclusion of the large and liquid companies within each industry group. The targeted representation can be more or less exhaustive depending on the structure and the stage of advancement of the equity market and of the investment management industry. In one approach, the exhaustive representation of the investable market in different size segments leads to a fair and broad market representation. In another approach a sampling of the investable universe whereby only large and liquid companies are selected for index inclusion can be the best way to achieve a broad and fair market representation.

1.1.2 Investability and replicability

To achieve investability and replicability the positions in the index should be replicable in portfolios of reasonable size in a sensibly cost effective manner. In order for that to be so, each constituent must be investable and its weight in the index must be a reflection of the shares available in the market. Therefore the free float and the liquidity of individual securities must be adequate, which requires constant monitoring. Furthermore investability and replicability are impacted by the marginal size of securities and by the number of smaller securities. All these elements also dictate the maximum depth of coverage that can be achieved by an index.

1.1.3 Index continuity

Index continuity, beyond the consistent application of methodology over time, refers to continuity of constituents in the index. This is a primary concern, though not the only one, in the index design and in the maintenance rules and guidelines governing additions and deletions. The MSCI China A Index is managed with the objective of keeping the level of index turnover relatively low, while at the same time reflecting the evolution of the market in a timely fashion. Therefore, turnover associated with the replication of index changes in portfolios is carefully taken into consideration and is generally an important consideration in setting the rules for the addition or deletion of index constituents.

1.1.4 Characteristics of the China A share market and implications for index design

The China A share market has a relatively short history and a potential for rapid transformation given the dynamic course of the Chinese economic growth as well as the fact that only a small fraction of Chinese companies' share capital is available in the public market. Large IPOs and secondary offerings will continue to be an important feature in the market. In addition to this fast changing landscape, the China A share market is also characterized by a flat distribution of companies by size and by the existence of a large pool of small companies. Because of the flat structure, a small change in the market capitalization of a security can lead to a significant change in its ranking by size. In this context, a design attempting to slice the market in size segments and/or to target a fixed number of securities may result in indices that might be subject to instability and might not be reflective of the actual investment process at this stage.

Given the above-mentioned characteristics, the index construction objective of broad and fair market representation is best achieved by a bottom-up sampling approach to index construction that targets a 65% industry group representation and which allows the index to dynamically capture the market as it evolves. In order to ensure that the index also captures the specific risk of the most sizeable companies in the China A share market, the largest 25 securities based on free float-adjusted market capitalization will be systematically included in the index. The inclusion of the largest 25 securities will be applied after sampling for target representation of 65%. A higher target representation at this stage would lead to the inclusion of a large number of smaller securities in light of the flat structure of the current China A share market. The market capitalization of index constituents is adjusted for free float. The investability and replicability of the index is protected by restricting the eligibility of securities to those having adequate liquidity and a reasonable free float-adjusted market capitalization as measured by a minimum size threshold that is reviewed on an annual basis. MSCI defines the free float of a China A security as the proportion of tradable A share outstanding that is deemed to be available for purchase in the public equity markets by domestic investors, and therefore excludes strategic and other non-free float shareholdings.

1.2 Other guiding principles

In order to achieve these various objectives and ensure that the index has all the required characteristics, MSCI also adheres to the following guiding principles

1.2.1 Disciplined Approach: Principles, Rules and Guidelines

The MSCI China A Index is constructed and managed using a set of principles, rules and guidelines. Certain desirable attributes of the index would be difficult to achieve through a fully rule-based, mechanical methodology for inclusion and deletion of index constituents. There are a number of areas in index construction and maintenance where clear, simple, and objective rules can be, and are, applied by MSCI to simplify the index management process, without compromising the ability of the indices to achieve the stated index construction objectives. In other more complicated areas of index construction and maintenance, where the use of rules may be impractical or may lead to conflicts with the objectives of the indices, MSCI makes decisions based on its index guiding principles and guidelines. The basic objective of index guidelines is to ensure that judgment can be applied in a structured and consistent fashion in order to reach final decisions.

1.2.2 Transparency

The MSCI China A Index is constructed and managed with a view to being transparent in the context of MSCI's index construction objectives, guiding principles and methodology. The explicit index rules are published by MSCI and updated if changes are made. In some other areas of index construction and maintenance, MSCI uses internal index guidelines to facilitate the index decision-making process. These guidelines, by their nature, are not intended to be applied rigidly and are subject to change as underlying market conditions change. Therefore, where index guidelines are used, explanations of the framework for analysis used to develop these index guidelines are also published, so that investors and other users of MSCI products can better understand the spirit in which these guidelines are developed and applied by MSCI in the decision-making process.

Finally, in order to provide transparency and predictability to the marketplace, MSCI has a policy of announcing all significant changes to its indices in advance of implementing such changes. As a matter of policy, MSCI generally does not comment on any potential changes to the indices, including but not limited to the potential inclusion of constituents before the changes are made known to clients. In addition, MSCI does not comment on detailed shareholder ownership breakdown of securities due to the potentially price-sensitive nature of such information.

1.2.3 Independence and Objectivity

The MSCI China A Index is constructed and managed with a view to providing independent and objective editorial and content decisions. With respect to editorial decisions, MSCI operates completely independently of all interest groups, including its shareholders, and manages its family of equity indices based on publicly available information. The fact that MSCI is editorially independent and objective does not preclude MSCI from considering the views and suggestions of our clients and other users of our products and services. To the contrary, MSCI believes in fully engaging all stakeholders by frequently soliciting feedback, counsel, and guidance relating to all aspects of index construction and maintenance. MSCI carefully considers and analyzes all the feedback received from various constituencies, and the final decisions are taken independently of any single interest group or stakeholder and have the sole objective of preserving or enhancing the quality of the MSCI indices.

Section 2: Constructing the MSCI China A Index

To construct a relevant and accurate index for domestic investors under the China A Index Methodology, MSCI undertakes an index construction process, which involves:

- Defining the equity universe.
- Adjusting the total market capitalization of all securities in the universe for free float available to domestic investors.
- Classifying the universe of securities under the Global Industry Classification Standard (GICS).
- Selecting securities for inclusion according to MSCI's China A Index construction rules and guidelines.

2.1 Defining the Equity Universe

The index construction process starts with the identification of the relevant universe of investment opportunities.

For the MSCI China A Index, the universe is defined as all China A shares listed on the Shanghai and Shenzhen Stock Exchanges. In general, all listed equity securities, or listed securities that exhibit characteristics of equity securities, except investment trusts, mutual funds and equity derivatives, are eligible for inclusion in the universe.

2.2 Adjusting the Total Market Capitalization of Securities in the Universe for Free Float

After identifying the universe of securities, MSCI Barra calculates the free float-adjusted market capitalization of each security in the universe.

The process of free float-adjusting market capitalization involves:

- Defining and estimating the free float available to domestic investors for each security, using MSCI Barra's definition of free float.
- Assigning a free float-adjustment factor to each security.
- Calculating the free float-adjusted market capitalization of each security.

2.2.1 Defining and Estimating Free Float

MSCI Barra defines the free float of a China A security as the proportion of tradable shares outstanding that are deemed to be available for purchase in the public equity markets by domestic investors. In practice, limitations on free float available to domestic investors also include strategic and other shareholdings that are not considered part of available free float.

MSCI Barra's estimation of free float is based solely on publicly available shareholder information obtained from multiple information sources. For each security, all available shareholdings are considered where public data is available, regardless of the size of the shareholding. MSCI Barra may consult with analysts, other industry experts and official company contacts, particularly where disclosure standards or data quality make the estimation of free float difficult.

For further details on the MSCI free float definition, see Appendix I, entitled "China A Free Float Definition and Estimation Guidelines".

2.2.2 Assigning a Free Float-Adjustment Factor

MSCI free float-adjusts the market capitalization of each security using an adjustment factor referred to as the Domestic Inclusion Factor (DIF).

2.2.2.1 Securities with Free Float Greater Than 15%

For securities with free float greater than 15%, the DIF is equal to the estimated free float, rounded up to the closest 5%.

2.2.2.2 Securities with Free Float Less Than 15%

For securities with free float less than 15%, the DIF is equal to the estimated free float, rounded to the closest 1%.

2.2.3 Calculating the Free Float-Adjusted Market Capitalization

The free float-adjusted market capitalization of a security is calculated as the product of the DIF and the security's full tradable market capitalization.

Free Float-Adjusted Market Capitalization = DIF times the Security's Full Tradable Market Capitalization

The following examples illustrate the calculation of the free float-adjusted market capitalization of securities.

Example:
<u>Calculating Free Float-Adjusted Market Capitalization:</u>

	Company A	*Company B*
Total number of A shares outstanding	2,137,500,000	2,911,341, 000
Total number of tradable A shares outstanding	712.500,000	970,447,000
Number of shares classified as non-free float	306,017,400	117,618,176
Non-free float shareholding (%)	42.95%	12.12%
Free float (%)	57.05%	87.88%
Domestic Inclusion Factor (DIF)	**0.60**	**0.90**
Market price (RMB)	3.43	5.87
Full market capitalization (RMB mm)	2,444	5,697
Free float-adjusted market capitalization (RMB mm)	**1,466**	**5,127**

2.3 Classifying Securities Under the Global Industry Classification Standard (GICS)

In addition to the free float adjustment of market capitalization, all securities in the universe are assigned to the industry that best describes their business activities. To this end, MSCI has designed in conjunction with Standard & Poor's, the Global Industry Classification Standard (GICS). This comprehensive classification scheme provides a universal approach to industries worldwide and forms the basis for achieving MSCI's objective of reflecting broad and fair industry representation in its indices.

2.3.1 Structure of the Global Industry Classification Standard (GICS)

The Global Industry Classification Standard (GICS) consists of 10 sectors, 24 industry groups, 68 industries, and 154 sub-industries. These four industry groupings are strictly hierarchical, as shown below.

The Global Industry Classification Standard (GICS)

10 Sectors

⇧

24 Industry Groups

⇧

68 Industries

⇧

154 Sub-Industries

2.3.2 Industry Classification of Companies under the GICS

Under the Global Industry Classification Standard (GICS), each company is assigned uniquely to one sub-industry according to its principal business activity. Therefore, a company can only belong to one industry grouping at each of the four levels of the GICS.

Classifying securities into their respective sub-industries can be complex, especially in an evolving and dynamic environment such as China. The GICS guidelines used to determine the appropriate industry classification are:

- A security is classified in a sub-industry according to the business activities that generate approximately 60% or more of the company's revenues.
- A company engaged in two or more substantially different business activities, none of which contributes 60% or more of revenues, is classified in the sub-industry that provides the majority of both the company's revenues and earnings.
- Where the above guidelines cannot be applied, or are considered inappropriate, further analysis is conducted, and other factors are analyzed to determine an appropriate classification.

For further details on the GICS, see Appendix II, entitled "Global Industry Classification Standard (GICS)".

2.4 Selecting Securities for Index Inclusion

In order to ensure a broad and fair representation in the index of the diversity of business activities in the universe, MSCI follows a "bottom-up" approach to index construction, building the index from the industry group level up. The bottom-up approach to index construction requires a thorough analysis and understanding of the characteristics of the universe. This analysis drives the individual security selection decisions, which aim to reflect the overall features of the universe in the country index. This approach is combined with a large security inclusion rule which ensures that the index also captures the specific risk of the most sizeable companies in the market.

For the MSCI China A Index, MSCI targets a 65% free float-adjusted market representation level within each industry group., the security selection process starts within each industry group on the basis of the careful analysis of:

- Each company's business activities and the diversification that its securities would bring to the index.
- The size (based on free float-adjusted market capitalization) and liquidity of securities. All other things being equal, MSCI targets for inclusion the most sizable and liquid securities in an industry group. In addition, securities that do not meet the minimum size guidelines discussed below and/or securities with inadequate liquidity are not considered for inclusion.
- The estimated free float for securities. Only securities of companies with an estimated security free float greater than 15% of the tradable shares are, in general, considered for inclusion.

Thereafter, the large securities rule is applied where the top 25 largest securities based on free float-adjusted market capitalization are systematically included in the index.

2.4.1 Index Constituent Eligibility Rules and Guidelines

In order to ensure the investability of the MSCI China A Index, the following index eligibility rules and guidelines for index inclusion are applied in the index construction process.

2.4.1.1 Minimum Size Guidelines

All securities that are considered for inclusion or currently are included in the MSCI China A Index must be of reasonable size, in terms of free float-adjusted market capitalization. In order to derive guidelines on eligible minimum size for inclusion and deletion, the following factors are considered:

- The overall free float-adjusted market capitalization of the market.
- The distribution of free float-adjusted market capitalization in the country.
- The level of market concentration.
- The marginal contribution to the market of the largest security at different percentiles of the free float-adjusted market capitalization distribution.
- Other characteristics of the underlying market.

Based on this framework a minimum size threshold, expressed in RMB of free-float adjusted market capitalization, is defined. This threshold determines the eligibility for inclusion of new constituents in the MSCI China A Index. MSCI has a policy of periodically reviewing the minimum size thresholds at the time of its regularly scheduled annual full country index review. Please refer to Appendix III for the current definition of the minimum size guideline.

2.4.1.2 Liquidity

All securities that are considered for inclusion or currently are included in the MSCI China A Index must have adequate liquidity. However, liquidity is not the sole determinant for inclusion in the index, though it is an important consideration.

In making an assessment of adequate liquidity levels, a number of absolute and relative liquidity measures are considered. These include patterns of traded volume and traded value over several periods of time. A useful measure to compare liquidity within the same market is the Annualized Traded Value Ratio (ATVR), which screens out extreme daily trading volumes and takes into account the difference in market capitalization size of securities.

The ATVR Ratio of each security is calculated in a 3-step process described below:

- First, monthly median traded values are computed using the daily median traded value, multiplied by the number of days in the month that the security traded. The daily traded value of a security is equal to the number of shares traded during the day, multiplied by the closing price of that security. The daily median traded value is the median of the daily traded values in a given month.
- Second, the monthly median traded value ratio is obtained by dividing the monthly median traded value of a security by its free float-adjusted security market capitalization at the end of the month.
- Third, the ATVR is obtained by taking the average of the monthly median trade value ratios of the previous 12 months – or the number of months for which this data is available – and multiplying it by 12.

The analysis of the adequacy of a security's liquidity also considers the average liquidity for the China A share market and the industry group to which the security belongs. MSCI does not define absolute minimum or maximum liquidity levels for stock inclusion or exclusion from the MSCI China A Index, but considers their relative standing within the market and between cycles. In addition, liquidity is partly a function of the cyclicality of markets and industries, and limiting index constituents to only the most liquid stocks would introduce a bias against those stocks and sectors that are temporarily out of favor with investors.

2.4.1.3 Companies with Free Float Less Than 15%

Securities of companies with a free float less than 15% of the tradable shares are generally not eligible for inclusion. Exceptions to this general rule are made only in significant cases, where not including a security of a large company would compromise the index's ability to fully and fairly represent the characteristics of the underlying market.

For a security with a free float less than 15% to be eligible for inclusion, the free float-adjusted market capitalization of the security must be within the top 25 largest securities based on free float-adjusted market capitalization.

For an existing constituent which experiences a decline in its DIF to below 15%, as a result of a corporate event (other than conversion of share classes and merger of different share classes) to be eligible to remain in the index, the free float-adjusted market capitalization of the security must be within the top 50 largest securities based on free float-adjusted market capitalization.

2.4.1.4 Other eligibility criteria

Securities of companies with a "ST", "*ST" or "PT" status are not eligible for inclusion in the MSCI China A Index.

2.4.2 Target Representation

As mentioned above, in constructing the MSCI China A Index, MSCI aims to achieve a uniform level of 65% of free float-adjusted market representation within each industry group on top of the inclusion of the 25 largest securities based on free float-adjusted market capitalization.

MSCI's bottom-up approach to index construction, which builds the MSCI China A Index from the industry group level up, coupled with the 65% industry group representation guideline, may at times lead to a large company in an industry group not being included in the index, while a smaller company from the same or a different industry group might be added. The large securities rule will minimize the occurrence of such a situation and will help to capture the specific risk of the most sizeable companies.

2.4.2.1 Over- and Under-Representation

The distribution of free float-adjusted market capitalization, the level of concentration within industries and industry groups, the free float-adjusted market capitalization of securities as well as the systematic inclusion of the largest 25 securities also affect the level of market representation that can reasonably be realized in the MSCI China A Index and may result in an industry group representation level that may exceed or remain below the 65% target representation guideline in the MSCI China A Index.

2.4.2.2 Number of Constituents and Industry Representation

MSCI does not target a specific number of securities for inclusion in the index. However, there may be instances where an appropriate balance needs to be attained between including a large number of securities and the additional diversification benefits that these securities bring to the index.

Section 3: Maintaining the MSCI China A Index

The MSCI China A Index is maintained with the objective of reflecting the evolution of the underlying equity markets on a timely basis. In maintaining the index, emphasis is also placed on continuity, replicability and on minimizing turnover in the index.

Maintaining the index involves many aspects, including additions to and deletions from the index and changes in number of shares and changes in Domestic Inclusion Factors (DIFs) as a result of updated free float estimates.

Potential additions are analyzed not only with respect to their industry group, but also with respect to their industry or sub-industry group, in order to represent a wide range of economic and business activities. All additions are considered in the context of MSCI's Methodology, including the index constituent eligibility rules and guidelines described in Section 2.4.1.

In assessing deletions, it is important to emphasize that the index must represent the full-investment cycle, including bull as well as bear markets. Out-of-favor industries and their securities may exhibit declining prices, declining market capitalization, and/or declining liquidity, and yet are not deleted because they continue to be good representatives of their industry groups.

As a general policy, changes in number of shares are coordinated with changes in Domestic Inclusion Factor (DIF) to accurately reflect the investability of the underlying securities. In addition, MSCI continuously strives to improve the quality of its free float estimates and the related Domestic Inclusion Factors (DIFs). Additional shareholder information may come from better disclosure by companies or more stringent disclosure requirements by a country's authorities. It may also come from MSCI's ongoing examination of new information sources for the purpose of further enhancing free float estimates and better understanding shareholder structures. When MSCI identifies useful additional sources of information, it seeks to incorporate them into its free float analysis.

Overall, index maintenance can be described by three broad categories of implementation of changes.

- Annual full country index reviews that systematically re-assess the various dimensions of the equity universe for the China A share market.
- Quarterly index reviews aimed at promptly reflecting other significant market events.
- Ongoing event-related changes, such as mergers and acquisitions, which are generally implemented in the index promptly as they occur.

3.1 Annual Full Country Index Review in May

The objective of the annual full country index review is to systematically re-assess the various dimensions of the China A share market, on a fixed annual timetable. This includes a re-appraisal of the free float-adjusted industry group representation, a detailed review of the shareholder information used to estimate free float for constituent and non-constituent securities, updating of minimum size guidelines for new and existing constituents, as well as changes typically considered for a quarterly index review as discussed below.

3.1.1 Annual Full Country Index Review Changes in Constituents

During a full country index review, securities may be added to or deleted from the country index for a range of reasons, including the reasons underlying constituent changes during quarterly index reviews, outlined in Section 3.2.1. Other reasons for additions and deletions that are unique to the annual full country index review include the following:

- Additions or deletions of securities following the re-appraisal of the free float-adjusted industry group representation within the country relative to the 65% target.
- Additions or deletions of securities following an update of the minimum size guidelines for additions and deletions described in Appendix III.
- Deletion of securities with a security free float of less than 15% that have decreased in size in terms of free float-adjusted market capitalization due to reduction in free float or due to performance and that no longer meet the criteria described in section 2.4.1.3.

3.1.2 Annual Full Country Index Review Changes in Domestic Inclusion Factors (DIFs)

During an annual full country index review, a detailed review of the shareholder information used to estimate free float for constituent and non-constituent securities is carried out. As such, the review will be comprehensive, covering all aspects of shareholder information. Changes in DIFs also include those typically implemented during quarterly index reviews, as outlined in Section 3.2.2.

For further details on DIF changes that are implemented during an annual full country index review, see Appendix IV entitled "Quarterly and Annual Index Review Changes in DIFs".

3.1.3 Annual Full Country Index Review Frequency and Timing

The annual full country index review for the MSCI China A Index is carried out once every 12 months and implemented as of the close of the last business day of May. Please refer to Appendix V for details on MSCI's policy regarding market closures during index reviews.

3.2 Quarterly Index Review

The quarterly index review process is designed to ensure that the index continues to be an accurate reflection of the evolving equity marketplace. This is achieved by reflecting significant market driven changes that were not captured in the index at the time of their actual occurrence and that should not wait until the annual full country index review due to their importance. These quarterly index reviews may result in additions, deletions, and changes in DIFs and in number of shares.

3.2.1 Quarterly Index Review Changes in Constituents

During a quarterly index review, securities may be added to or deleted from a country index for a variety of reasons including the following:

- Addition of securities that rank within the top 25 largest in free float-adjusted market capitalization based on the large securities rule as per section 2.4.2.

- Additions or deletions of securities, due to one or more industry groups having become significantly over- or under-represented as a result of mergers, acquisitions, restructuring and other major market events affecting that industry group.
- Additions or deletions resulting from changes in industry classification, significant increases or decreases in free float.
- Additions of large companies that did not meet the minimum size criterion for early inclusion at the time of their IPO or secondary offering described in section 3.3.2.1. Please note that newly-listed equity securities that did not meet these early inclusion criteria are eligible for inclusion at the quarterly index review immediately following their IPO, or at the following quarterly index review if the trading period was too short to assess the security's investability.
- Replacement of companies, which are no longer suitable industry representatives.
- Deletion of securities whose security free float has fallen to less than 15% and which do not meet the criteria described in section 2.4.1.3.
- Deletion of securities that have become very small or illiquid.
- Deletion of securities that have been issued the "ST", "*ST" or "PT" status by the Shanghai or Shenzhen stock exchanges.
- Additions or deletions of securities as a result of other market events.

3.2.2 Quarterly Index Review Changes in DIFs

Significant changes in security free float estimates and corresponding changes in the DIFs for constituents, related to relatively large events, are reflected in the index at the quarterly index reviews. Changes may result from the following:

- Large market transactions, involving strategic shareholders, that are publicly announced (for example transactions made by way of immediate bookbuilding and other processes, e.g. block sales or block buys).
- Secondary offerings that, given the lack of sufficient notice, were not reflected immediately and secondary offerings that represent less than 5% of the security's number of shares.
- Corrections resulting from the reclassification of shareholders from strategic to non-strategic, (and vice versa) and rectification of the number of shares.
- Update of DIFs following the public disclosure of the new shareholder structure for companies involved in mergers, acquisitions or spin-offs, where different from MSCI's pro forma security free float estimate at the time of the event.
- Large conversions of exchangeable bonds and other similar securities into already existing shares.
- End of lock-up periods or expiration of loyalty incentives for non-strategic shareholders, which determine the reclassification of these shareholdings and result in an increase in security free float.
- Changes in DIFs resulting from other events of similar nature.

For further details on DIF changes that are implemented during a quarterly index review, see Appendix IV, entitled "Quarterly and Annual Full Country Index Review Changes in DIFs".

3.2.3 Quarterly Index Review Changes in Number of Shares

Updates in number of shares are generally small changes in a security's shares outstanding and are deferred to the quarterly index review. They result from amongst other things:

- Exercise of options or warrants and employee stock option plans.
- Conversion of convertible bonds or other instruments, including periodic conversion of preferred stocks, and small debt-to-equity swaps.
- Periodic share buybacks and cancellation of treasury shares.
- Increases in a security's number of shares resulting from acquisition of non-listed companies and unlisted shares.
- Increases of less than 5% in a security's number of shares resulting from any equity offerings.
- Other changes in number of shares resulting from events that could not be implemented on or near the effective dates, and where no price adjustment factor (PAF) is necessary.
- Share cancellations.

Updates in number of shares implemented as part of the quarterly index review could also trigger a review of the free float of the security. Any resultant change in DIF would be implemented simultaneously.

3.2.4 Quarterly Index Review Frequency and Timing

The implementation of changes resulting from a quarterly index review occurs on only three dates throughout the year: as of the close of the last business day of February, August and November. Please refer to Appendix V for details on MSCI's policy regarding market closures during index reviews.

3.3 Ongoing Event-Related Changes

Ongoing event-related changes to the index are the result of mergers, acquisitions, spin-offs, bankruptcies, reorganizations and other similar corporate events. They can also result from capital reorganizations in the form of rights issues, bonus issues, public placements and other similar corporate actions that take place on a continuing basis. These changes are reflected in the index at the time of the event.

General principles that are applied in the treatment of these ongoing event-related changes are described in the following pages. The handling of ongoing event-related changes can be classified in two broad categories:

- Corporate events affecting existing index constituents.
- Corporate events affecting non-index constituents.

3.3.1 Corporate Events Affecting Existing Index Constituents

Corporate events can affect existing index constituents in various ways:

- Changes in Domestic Inclusion Factor (DIF), number of shares or industry classification for existing constituents.

- Early inclusions of non-index constituents.
- Early deletions of existing index constituents.

3.3.1.1 Changes in DIF, Number of Shares or Industry Classification for Existing Constituents

In order to ensure that the index accurately reflects the investability of the underlying securities, it is a general policy to coordinate changes in number of shares with changes in DIF.

When two companies merge, or a company acquires or spins-off another company, the security free float of the resulting entity is estimated on a pro forma basis, using pro forma number of shares if applicable, and the corresponding DIF is applied simultaneously with the event. When there is a subsequent public disclosure regarding the new shareholder structure, which results in a different security free float estimation than at the time of the event, MSCI will update the DIF at the next quarterly index review. Other corporate events, which result in a change in shareholder structure and DIFs, will typically be reflected in the index simultaneously with the implementation of the event in the index. Any other pending shareholder information updates or reclassifications will generally also be reflected in the pro forma security free float estimation related to the event.

Changes in number of shares and DIF resulting from primary equity offerings representing more than 5% of the security's number of shares are generally implemented as of the close of the first trading day of the new shares, if all necessary information is available at that time. Otherwise, the event is implemented as soon as practicable after the relevant information is made available. A primary equity offering involves the issuance of new shares by a company.

Changes in number of shares and DIF resulting from primary equity offerings representing less than 5% of the security's number of shares are deferred to the next regularly scheduled Quarterly Index Review following the completion of the event.

For public secondary offerings of existing constituents representing more than 5% of the security's number of shares, where possible, MSCI Barra will announce these changes and reflect them shortly after the results of the subscription are known. Secondary public offerings that, given lack of sufficient notice, were not reflected immediately will be reflected at the next Quarterly Index Review. Secondary offerings involve the distribution of existing shares of current shareholders' in a listed company and are usually pre-announced by a company or by a company's shareholders and open for public subscription during a pre-determined period.

Changes in industry classification resulting from a corporate event are generally implemented simultaneously with the event. Other changes in industry classifications are implemented at the end of the month.

3.3.1.2. Early Inclusions of Non-Index Constituents

When there is a corporate event affecting index constituents, non-index constituents that are involved in the market event are generally considered for immediate inclusion in the MSCI China A Index, as long as they meet all the index constituent eligibility rules and guidelines described in Section 2.4.1.

For example, if a non-constituent company acquires a constituent company, the constituent company's securities may be replaced by the securities of the acquiring company. Similarly, if a constituent company merges with a non-constituent company, the merged company may replace the constituent company. In addition, securities spun-off from existing constituents may be considered for early inclusion at the time of the event.

Generally, if the resulting new entity or spun-off security ranks amongst the top 25 largest securities based on free float-adjusted market capitalization, it will be automatically added to the index.

3.3.1.3. Early Deletions of Existing Constituents

MSCI will remove from the MSCI China A Index as soon as practicable securities of companies that file for bankruptcy, securities of companies that have been issued the 'ST" or "*ST" status, securities of companies that file for protection from their creditors and/or are suspended and for which a return to normal business activity and trading is unlikely in the near future.

When the primary exchange price is not available, MSCI will delete securities at an over-the-counter or equivalent market price when such a price is available and deemed relevant. If no over-the-counter or equivalent price is available, the company will be deleted at the smallest price (unit or fraction of the currency) at which a security can trade on a given exchange.

Securities may also be considered for early deletion in other significant cases, such as decreases in security free float. In addition, when a constituent company acquires or merges with a non-constituent company or spins-off another company, the securities of the constituent company may be removed from the index, if, for example, these securities are no longer representative of the industry as a result of the event.

For securities that are suspended, MSCI will carry forward the market price immediately prior to the suspension during the suspension period.

3.3.2 Corporate Events Affecting Non-Index Constituents

3.3.2.1 IPOs and Other Early Inclusions

In general, newly listed equity securities available to domestic investors are considered for inclusion in the MSCI China A Index, according to MSCI's China A Index Methodology index rules and guidelines, at the time of the quarterly index review. However, for IPOs, which are significant in size and meet all the MSCI inclusion criteria, an early inclusion, outside of the quarterly index review, may be considered. If the decision is made to include an IPO early, it will generally become effective after the close of the company's tenth day of trading. However, in certain cases, another date may be chosen for the inclusion to reduce turnover, for example, where the normal inclusion date is close to the effective date of the next quarterly index review.
Securities may also be considered for early inclusion in other significant cases, including those resulting from a large additional offering of an already listed security, consolidation or restructuring in the industry giving rise to a large new company, or company spun-off from a non-constituent company. Such cases will be treated in the same way as the IPOs.

In order to qualify for IPOs and other early inclusions, a security must meet the index constituent eligibility rules and guidelines described in Section 2.4.1 and have a free float-adjusted market capitalization which is at least 4 times the minimum size guidelines for normal inclusion, or rank amongst the top 25 largest securities by free float adjusted market capitalization.

3.4 Announcement Policy

3.4.1 Annual Full Country Index Review

The results of the annual full country index reviews are announced at least two weeks in advance of their effective implementation dates as of the close of the last business day of May.

3.4.2 Quarterly Index Review

The results of the quarterly index reviews are announced at least two weeks in advance of their effective implementation dates as of the close of the last business day of February, August and November.

3.4.3 Ongoing Event-Related Changes

All changes resulting from corporate events are announced prior to their implementation in the MSCI China A Index.

The changes are typically announced at least ten business days prior to these changes becoming effective in the index as an "expected" announcement, or as an "undetermined" announcement, when the effective dates are not known yet or when aspects of the event are uncertain. MSCI sends "confirmed" announcements at least two business days prior to events becoming effective in the index, provided that all necessary public information concerning the event is available. The full list of all new and pending changes is delivered to clients on a daily basis, at 5:30 PM US Eastern Standard Time (EST) through the Advance Corporate Events (ACE) File.

In exceptional cases, events are announced during market hours for same or next day implementation. Announcements made by MSCI during market hours are usually linked to late company disclosure of corporate events or unexpected changes to previously announced corporate events.

In the case of secondary offerings representing more than 5% of a security's number of shares for existing constituents, these changes will be announced prior to the end of the subscription period when possible and a subsequent announcement confirming the details of the event (including the date of implementation) will be made as soon as the results are available

Early deletions of constituents due to bankruptcy or other significant cases are announced as soon as practicable prior to their implementation in the MSCI China A Index.

If warranted, MSCI may make additional announcements for events which are complex in nature and would benefit from additional clarification.

3.4.3.1 IPOs and Other Early Inclusions

Early inclusions of large IPOs in the MSCI China A Index are announced no earlier than shortly before the first day of trading and no later than before the opening of the third day of trading in the market where the company has its primary listing.

Early inclusions of already listed securities following large secondary offerings of new and/or existing shares are announced no earlier than shortly after the end of the offer period.

It is MSCI policy not to comment on future listed equity securities, including their industry classification under the Global Industry Classification Standard (GICS), their country classification and their potential inclusion in an MSCI Index. The same applies to non-index constituents that are already listed with pending large events.

3.4.3.2 Global Industry Classification Standard (GICS)

Non-event related changes in industry classification at the sub-industry level are announced at least two weeks prior to their implementation as of the close of the last business day of each month.

MSCI announces GICS changes twice a month. In order to correspond to the general MSCI announcement policy for GICS changes, the first announcement is being made on the first business day of the month and the second one is being made at least ten business days prior to the last business day of the month. All GICS changes announced in a given month will be implemented as of the close of the last business day of the month.

Appendices

Appendix I: China A Free Float Definition and Estimation Guidelines

MSCI defines the free float of a China A security as the proportion of tradable A Share outstanding that is deemed to be available for purchase in the public equity markets by domestic investors. In practice, limitations on the investment opportunities available to domestic institutional investors include:

- **Strategic and other non-free float shareholdings**: Stakes held by private or public shareholders whose investment objectives or other characteristics suggest that those holdings are not likely to be available in the market. In practice, disclosure requirements generally do not permit a clear determination of these investment objectives. Therefore, MSCI primarily classifies shareholdings as free float or non-free float based on a categorization of investor types into non-strategic and strategic respectively.

Classification of Shareholder Types

STRATEGIC SHAREHOLDER TYPES (NON-FREE FLOAT)	
Governments	Shareholdings owned by governments and affiliated entities are generally classified as non-free float.
Companies	Shares owned by companies. This includes treasury shares owned by the company itself.
Banks	Shareholdings by banks are considered as strategic, excluding shareholdings held in trust on behalf of third parties that are deemed to be non-strategic.
Principal officers and board members	Shares owned by the company's principal officers or members of the Board of Directors, including shares owned by individuals or families that are related to or closely affiliated with the company's principal officers, members of the Board of Directors, or founding members deemed to be insiders.
Employees	Shares of the employing companies, held by both officers and non-officers, which are held in a variety of ways including plans sponsored by the employer for the purpose of retirement and savings plans, incentive compensation programs and other deferred and employee pension funds.
NON-STRATEGIC SHAREHOLDER TYPES (FREE FLOAT)	
Individuals	Shares owned by individuals, excluding shares owned by individuals or families that are related to or closely affiliated with the company's principal officers or members of the Board of Directors or founding members deemed to be insiders, and, also excluding those shareholdings held by individuals, the significant size of which suggests that they are strategic in nature.

Investment funds, mutual funds and unit trusts	Shares owned in investment funds, mutual funds and unit trusts, including shares owned in passively managed funds.
Security brokers	Non-strategic interests held by broker dealers (e.g., trades in the process of settlement, holdings in the process of being transferred, as part of underwriting activity etc), unless held within the same group or the nature of holding is deemed strategic.
Pension funds	Shares owned in employee pension funds, excluding shares of the employing company, its subsidiaries or affiliates.
Insurance companies	In principle, all stakes held by insurance companies are part of free float. For exceptions to this general principle, please refer to the additional discussion on insurance companies presented below.
Social security funds	Shares owned in social security funds, unless the fund's management is deemed to exert influence over the management of the company.

In the event that the above categories should not appropriately capture the nature of a specific shareholding, its classification as free float or non-free float will be determined based on a more extensive analysis.

Special Cases

The following guidelines will be applied in analyzing the special cases set forth below:

- **Nominees or trustees:** Shareholdings registered in the name of a nominee or trustee are classified as strategic or non-strategic based on an analysis of who the ultimate beneficial owner of the shares is, according to the shareholder types described above.

- **Government agencies and government-related investment funds:** Shareholdings of government agencies and government-related investment funds are classified based on an analysis of the objective of the investment and the extent of government involvement in managing the companies.

- **Insurance companies:** Shareholdings by insurance companies are considered as non-free float, when analysis shows that these holdings are unlikely to be made available as free float in the market. This analysis typically looks at the nature of the insurance business in each country, a company's business practices with its group-related or other companies, and the regulatory environment in the country, including fiscal incentives. These factors, individually or combined, could restrict the insurance company's shareholdings from being made freely available in the stock market.

- **Lock-up periods:** Any shares that are subject to lock-up periods will be considered as non-free float during the lock-up period. At the end of the lock-up period, these shares will be classified as strategic or non-strategic based on the nature of the shareholder.

Appendix II: Global Industry Classification Standard (GICS)

Introduction

The Global Industry Classification Standard (GICS) was developed by MSCI in collaboration with Standard & Poor's (S&P) to provide an efficient, detailed and flexible investment tool. It is designed to respond to the global financial community's need for a global, accurate, complete and widely accepted approach to defining industries and classifying securities by industry. Its universal approach to industry classification aims to improve transparency and efficiency in the investment process.

Key Features of GICS

The key features of GICS are that it is:

- Universal: the classification applies to companies globally.
- Accurate: the structure precisely reflects the state of industries in the equity investment universe.
- Flexible: the classification consists of four levels of analysis, ranging from the most general to the most specialized sub-industry.
- Evolutionary: annual reviews are conducted to ensure that the classification remains fully representative of the universe.

To provide the level of precision critical in the investment process, GICS is designed with four levels of classifications:

The Global Industry Classification Standard (GICS)

10 Sectors

⇧

24 Industry Groups

⇧

68 Industries

⇧

154 Sub-Industries

GICS has 10 sector classifications:

- Energy
- Materials
- Industrials
- Consumer Discretionary
- Consumer Staples
- Health Care
- Financials
- Information Technology
- Telecommunication Services

- Utilities.

Philosophy and Objectives of GICS

The way in which securities are classified into asset classes forms the basis of many important investment decisions. The relative merits of each security are judged primarily within these asset classes, and investment decisions are taken within this framework.

Approaches to Industry Classification Schemes

While grouping securities by country and regions is relatively straightforward, classifications by industries are more difficult. There are many approaches to developing industry classification schemes, some of which are discussed below.

At one extreme is the purely statistical approach, which is solely financial market-based and backward looking, using past returns. Aggregations are formed around correlation, often yielding non-intuitive groupings that are dissimilar across countries and regions. Another approach attempts to define a priori financial market-oriented groups or themes, such as cyclical, interest rate sensitive, etc. The difficulty, however, lies in finding widely accepted and relatively stable definitions for these themes.

Two other approaches begin with an economic perspective on companies. The first focuses on a production orientation while the other adopts a market or demand orientation in company analysis. The production-oriented approach was effective in the past in its analysis of the microstructure of industries from the producers' standpoint. For instance, it segregated goods and services on the premise that it was a different set of companies that provided each to consumers. As the structure of the global economy evolved, limitations of this approach became increasingly obvious. The ever-increasing share of discretionary income brought about by economic development, emergence of the service era, and the availability and accessibility of information with the advent of new communication technology has moved the emphasis from producers to consumers.

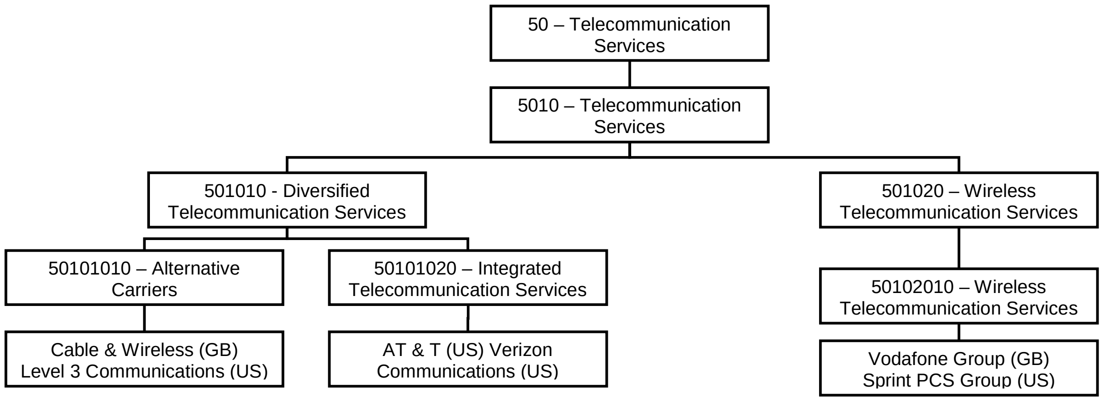
GICS: Market Demand-Oriented

The Global Industry Classification Standard (GICS) is designed to be market demand-oriented in its analysis and classification of companies. For example, drawing the line between goods and services is becoming increasingly arbitrary as they are now commonly sold together. This distinction between goods and services is replaced by adopting the more market-oriented sectors of "Consumer Discretionary" and "Consumer Staples", which group goods and services sub-industries. In addition, the creation of large stand-alone sectors such as Health Care, Information Technology and Telecommunication Services accurately represents industries that provide significant value to the consumer in today's global and integrated economy. This further contributes to a more uniform distribution of weights among the 10 sectors.

GICS Company Classification

The Global Industry Classification Standard (GICS) is used to assign each company to a sub-industry according to its principal business activity. Since the GICS is strictly hierarchical, a company can only belong to one grouping at each of the four levels.

<u>An Illustration of the GICS – Telecommunication Services Sector:</u>



Classification by Revenue

In order to provide an accurate, complete and long-term view of the global investment universe, a company's revenues often provide a more stable and precise reflection of its activities than earnings. Furthermore, industrial and geographical breakdowns of revenues are more commonly available than earnings broken down the same way for most companies. Nevertheless, company valuations are more closely related to earnings than revenues. Therefore, earnings remain an important secondary consideration in a company's industry classification.

General Guidelines for Classification

The primary source of information used to classify securities is a company's annual reports and accounts. Other sources include brokers' reports and other published research literature. As a general rule, a company is classified in the sub-industry whose definition most closely describes the business activities that generate at least 60% of the company's revenues.

<u>Example: Nokia (FI)</u>

2006 Results	Mobile Phones	Multimedia	Enterprise Solutions	Networks
Revenues	60%	19%	3%	18%
Earnings	75%	24%	0%	15%

Classified as:

GICS Level	GICS Code	Code Description
Sector	45	Information Technology
Industry Group	4520	Technology Hardware & Equipment
Industry	452010	Communications Equipment
Sub-Industry	45201020	Communications Equipment

However, a company engaged in two or more substantially different business activities, none of which contribute 60% or more of revenues, is classified in the sub-industry that provides the majority of both the company's revenues and earnings. When no sub-industry provides the majority of both the company's revenues and earnings, the classification will be determined based on further MSCI research and analysis. In addition, a company significantly diversified across three or more sectors, none of which contributes the majority of revenues or earnings, is classified either in the Industrial Conglomerates sub-industry (Industrial Sector) or in the Multi-Sector Holdings sub-industry (Financials Sector).

<u>Example: General Electric (US)</u>

2006 Results	Infrastructure	Industrial	Healthcare	NBC Universal	Commercial Finance	Consumer Finance
Revenues	30%	21%	10%	10%	15%	14%
Earnings	34%	10%	12%	11%	19%	13%

Classified as:

GICS Level	GICS Code	Code Description
Sector	20	Industrials
Industry Group	2010	Capital Goods
Industry	201050	Industrial Conglomerates
Sub-Industry	20105010	Industrial Conglomerates

In the case of a new issue, the classification will be determined based primarily on the description of the company's activities and pro forma results as given in the prospectus.

Review of Sub-Industry Classification

A company's sub-industry classification will be reviewed either when a significant corporate restructuring occurs or when a new annual report is available. In order to provide a stable sub-industry classification, when reviewing a company's classification, changes will be minimized in the sub-industry classification to the extent possible by disregarding temporary fluctuations in the results of a company's different activities.

In the event that the above guidelines should not appropriately capture a particular company's business activity, its classification will be determined based on more extensive analysis.

GICS Structure Review Frequency

MSCI and Standard & Poor's are committed to ensuring that the GICS structure remains relevant and up-to-date. This is accomplished through an annual review of the structure. This review includes a detailed internal analysis to develop a proposal for potential structural changes and public request for comments and in-depth client consultations with various market participants as a means of obtaining feedback on proposed structural changes.

Appendix III: Minimum Size Guidelines

Objective

One of MSCI's guiding principles in the construction and maintenance of benchmark indices is to ensure that they can be replicated in institutional portfolios of reasonable size in a sensibly cost effective manner. The replicability of indices requires that constituents in MSCI Indices be represented at their free float-adjusted, investable weight and that existing constituents or new securities that are considered for inclusion be of reasonable size and liquidity. In many industries, in the absence of an eligible minimum size requirement for inclusion, achieving the 65% target market representation could well result in the inclusion of many small securities, which institutional investors may find difficult to reflect in their portfolios in a cost-effective fashion.

Framework for Determining Minimum Size Guideline

In order to develop guidelines for minimum size for inclusion for various countries and/or country groupings, MSCI has designed a framework for analyzing this issue. This framework requires a careful analysis and interpretation of different factors, such as:

- The overall free float-adjusted market capitalization of the market.
- The distribution of free float-adjusted market capitalization in the country.
- The level of market concentration.
- The marginal contribution of securities, belonging to different percentiles of the free float-adjusted market capitalization distribution, to the country index.
- Other relevant characteristics of the underlying market at the time of decision.

Based on this framework a minimum size threshold, expressed in RMB of free-float adjusted market capitalization, is determined and applied for the inclusion of new constituents in the MSCI China A Index. MSCI has a policy of periodically reviewing the minimum size thresholds, at the time of its regularly scheduled annual full country index review.

Current Minimum Size Guideline for Inclusion

Based on the framework described above, the minimum size threshold for inclusion in the MSCI China A Index is RMB 5.75 billion free float adjusted market capitalization.

Minimum Size Guidelines for Early Inclusion of new securities outside a Quarterly Index Review (please refer to section 3.4.3.1)

In order to qualify for other early inclusions, a security must meet the index constituent eligibility rules and guidelines described in Section 2.4.1 and have a free float-adjusted market capitalization of at least 4 times the minimum size guideline for inclusion or rank within the top 25 largest securities.

Minimum Size Guidelines for inclusion of new securities during a Quarterly Index Review

As mentioned in Section 3.2.1, securities may be added to the China A Index during a quarterly index review for a variety of reasons, including under-representation of one or more industry groups following mergers, acquisitions, restructuring and other major market events affecting that industry group and changes in industry classification.

In addition to these reasons, MSCI takes into account other factors such as the free float-adjusted market capitalization of the security in order to decide if the security can be added to the indices. In general, MSCI considers for inclusion at a quarterly index review, those securities that represent at least two times the minimum size guidelines for inclusion. The minimum size guideline for inclusion is detailed earlier in this Appendix. The objective of this guideline is to minimize the number of additions and to reflect only significant changes in quarterly index reviews.

Minimum Size Guideline for Deletions and for Spin-Offs

Deletions due to small size can be carried out at the time of the annual full country index review and the quarterly index reviews. As a matter of policy, the minimum size guideline for deletions at the time of the annual full country index review is set at 65% of the eligible minimum size threshold for inclusion. Outside of the annual full country index review, such as the quarterly index review, a security will be deleted if its free floated-adjusted market capitalization is less than 40% of the minimum size guideline for addition. This threshold can be subject to review should there be significant market movements after the annual full country index review. These deletion thresholds correspond approximately to the ranking of the 600^{th} and 900^{th} company respectively.

A security spun-off from an existing index constituent may be considered for early inclusion at the time of the event if the security spun-off has an estimated free float-adjusted market capitalization representing at least 50% of the minimum size threshold for inclusion.

Historical Minimum Sizes

The history of the MSCI China A Index was calculated as if the on-going methodology had been applied throughout the period covered by the history. Only data available at the time was used to build the simulated China A Index in order to avoid any forward-looking bias. Note that for the history, the tradable number of shares was used as a proxy for the free float-adjusted number of shares.

The minimum size guidelines used for the history are as follows:

- RMB 1.6 billion for the November 30, 2000 initial construction
- RMB 1.7 billion for the May 31, 2001 annual review,
- RMB 1.3 billion for the May 31, 2002 annual review,
- RMB 1.3 billion for the May 31, 2003 annual review,
- RMB 1.1 billion for the May 31, 2004 annual review,
- RMB 1.0 billion for the May 31, 2005 annual review,
- RMB 1.0 billion for the May 31, 2006 annual review,
- RMB 2.3 billion for the May 31, 2007 annual review,
- RMB 5.75 billion for the May 31, 2008 annual review.

The minimum size for deletion used for the annual review and the quarterly review is 65% and 40% respectively of the prevailing minimum size at the time.

Appendix IV: Quarterly and Annual Full Country Index Review Changes in DIFs

Quarterly Index Review changes in DIF

As stated in section 3.2.2 "Quarterly Index Review Changes in DIFs", significant changes in free float estimates and corresponding changes in the DIFs for constituents related to relatively large events are reflected in the index at the quarterly index reviews.

DIF changes resulting from large market transactions involving strategic shareholders that are publicly announced (for example transactions made by way of immediate bookbuilding and other processes, or secondary offerings that were not implemented immediately) will be implemented during a quarterly index review provided they satisfy one of the following conditions:

The absolute size of the DIF change is 0.15 or more, or the change in free float-adjusted market capitalization resulting from the DIF change represents at least RMB 500 million.

The thresholds above only apply to changes in DIFs at quarterly index reviews.

Buffer rule for DIF Changes at Quarterly and Annual Full Index Reviews

DIF changes resulting from a change in free float of less than 1% will not be implemented, except in cases of corrections.

Appendix V: Policy Regarding Market Closures During Index Reviews

For both quarterly index reviews and the annual full country index review, the following principles apply in case of market closures on the day of implementation. As a reminder, the effective implementation date for quarterly index review is as of the close of the last business day of February, August and November. The effective implementation date for the annual full country index review is as of the close of the last business day of May.

Market Closures Due to Scheduled Stock Market Holidays

When Shenzhen or Shanghai stock market is closed on the "as of the close of" date due to stock market holiday, the change will be effective on the next day, using the price of the previous day's close.

Unexpected Market Closures

In the event that the Shenzhen or Shanghai stock market fails to open for trading and remains closed for the entire trading day on the effective implementation date of the review due to an unexpected market closure, MSCI will, in principle, postpone the review of the MSCI China A Index. MSCI will implement the index review as of the close of the first business day (Monday to Friday) that the market reopens for trading and closing prices are available.

Market Outage during the Trading Day

In the event that Shenzhen or Shanghai stock market is affected by an outage during the trading day on the effective implementation date, MSCI will determine its pricing policy on a case by case basis. In making its decision, MSCI will take into consideration a number of factors, including the time and duration of the outage, information on the outage provided by the specific stock exchange, and other relevant market information.

MSCI will communicate all decisions taken with respect to market outages during the day through the regular client communication channels as well as via Reuters (Pages MSCIA and following) and Bloomberg (MSCN).

In some exceptional cases, such that stock market holidays in many countries coincide with the "as of the close of" date, MSCI may decide to move the "as of the close of" date to a more appropriate date. In such cases, MSCI would announce such a change in advance.

List of Updates to the Methodology Book

The following sections have been modified in the Methodology Book published in August 2008: