



**Consultation on Potential
Methodology Enhancements to the
MSCI China A Index**

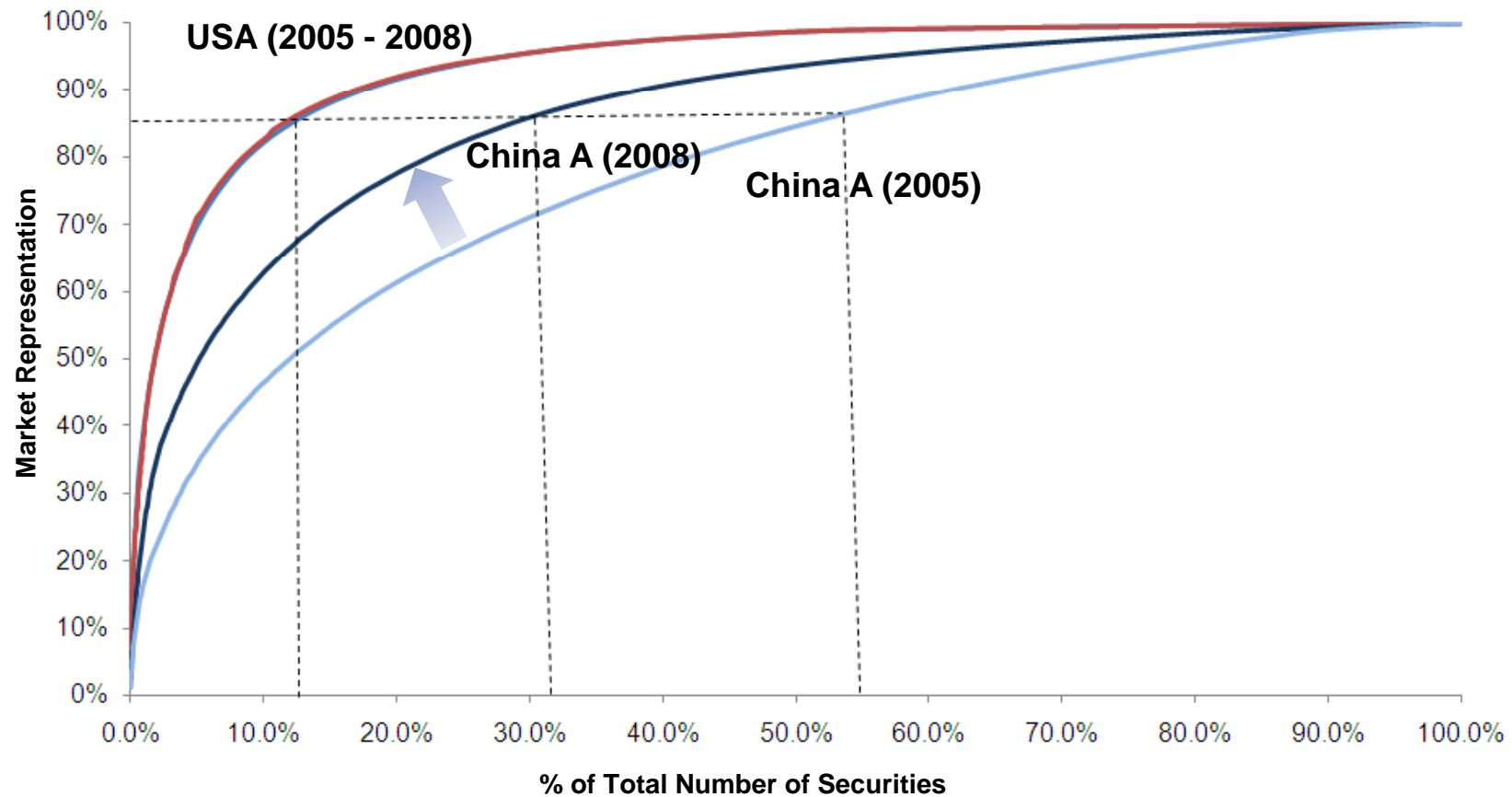
February 2009

Overview

- The MSCI China A Index is currently constructed based on a methodology similar to the previous MSCI Standard Index Series, targeting for index inclusion of 65% of the domestic free float-adjusted market capitalization in each industry group. In addition, the largest 25 securities based on free float-adjusted market capitalization are systematically included in the index
 - This sampling approach leads to non-exhaustive coverage, with some sizable companies not being included
 - In addition, the target 65% coverage in each industry group results in a multi-cap index composition
- MSCI Barra is currently consulting on a potential enhancement to the MSCI China A Index methodology which would target exhaustive representation and non-overlapping size segmentation of the investable universe
- The proposed enhancement would be built on a methodology similar to the MSCI Global Investable Market Index (GIMI)

Significant Market Changes in the A Shares Market

Comparison of Free Float Mcap Distribution of China A and US Equity Universe



IPOs of Sizeable China A Securities

- 11 out of the 15 largest China A share companies were not listed before 2006, which accounts for more than 44% of the total full market capitalization.

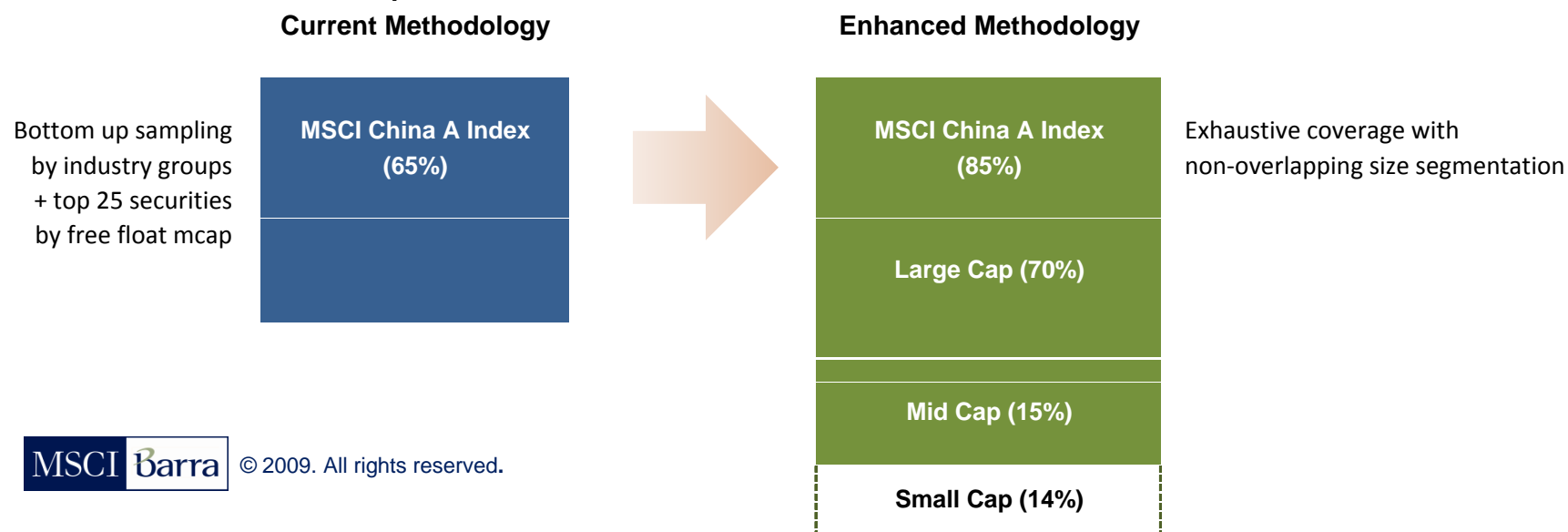
Top 15 Securities			
Name	Company Full Mcap (USD mn)	Full Mcap Weight	IPO Date
PETROCHINA CO A	278,611	12.9%	11/5/2007
ICBC A	173,932	8.1%	10/27/2006
CHINA CONSTRUCTION BK A	126,087	5.8%	9/25/2007
CHINA LIFE INSURANCE A	102,548	4.8%	1/9/2007
BANK OF CHINA A	98,198	4.6%	7/5/2006
CHINA PETRO & CHEM A *	92,464	4.3%	8/8/2001
CHINA SHENHUA ENERGY A	48,876	2.3%	10/9/2007
BANK OF COMMUNICATIONS A	34,016	1.6%	5/15/2007
PING AN INSURANCE A	31,033	1.4%	3/1/2007
CHINA MERCHANTS BANK A *	26,399	1.2%	4/9/2002
ALUMINUM CORP OF CHINA A	21,479	1.0%	4/30/2007
CHINA RAILWAY CONST A	21,283	1.0%	3/10/2008
CHINA YANGTZE POWER A *	20,209	0.9%	11/18/2003
CHINA CITIC BANK A	20,157	0.9%	4/27/2007
CITIC SECURITIES CO A *	17,463	0.8%	1/6/2003

* IPOed prior to 2005

Market caps are in USD million. Data as of December 31, 2008

Summary of Proposal

- The transition of the current MSCI China A Index to a methodology similar to the GIMI framework would provide exhaustive coverage of the large and mid-cap segments of the universe by targeting a coverage range around 85% of the free float-adjusted market capitalization
 - The minimum size reference cut-off will be similar to the MSCI Emerging Market (EM) cut-off
 - In balancing the size integrity and coverage representation, priority will be given to ensure a minimum free float market cap coverage of 80-90%
- We do not propose, but reserve the option to construct a non-overlapping China A Small Cap Index in the future



Transition Plan

- If adopted, the MSCI China A Index would be transitioned to the enhanced methodology in one single phase as of the close of May 29, 2009
- Please note that the potential enhancements discussed in this consultation may or may not be adopted in whole or in part and this consultation may or may not result in any changes to the MSCI China A Index

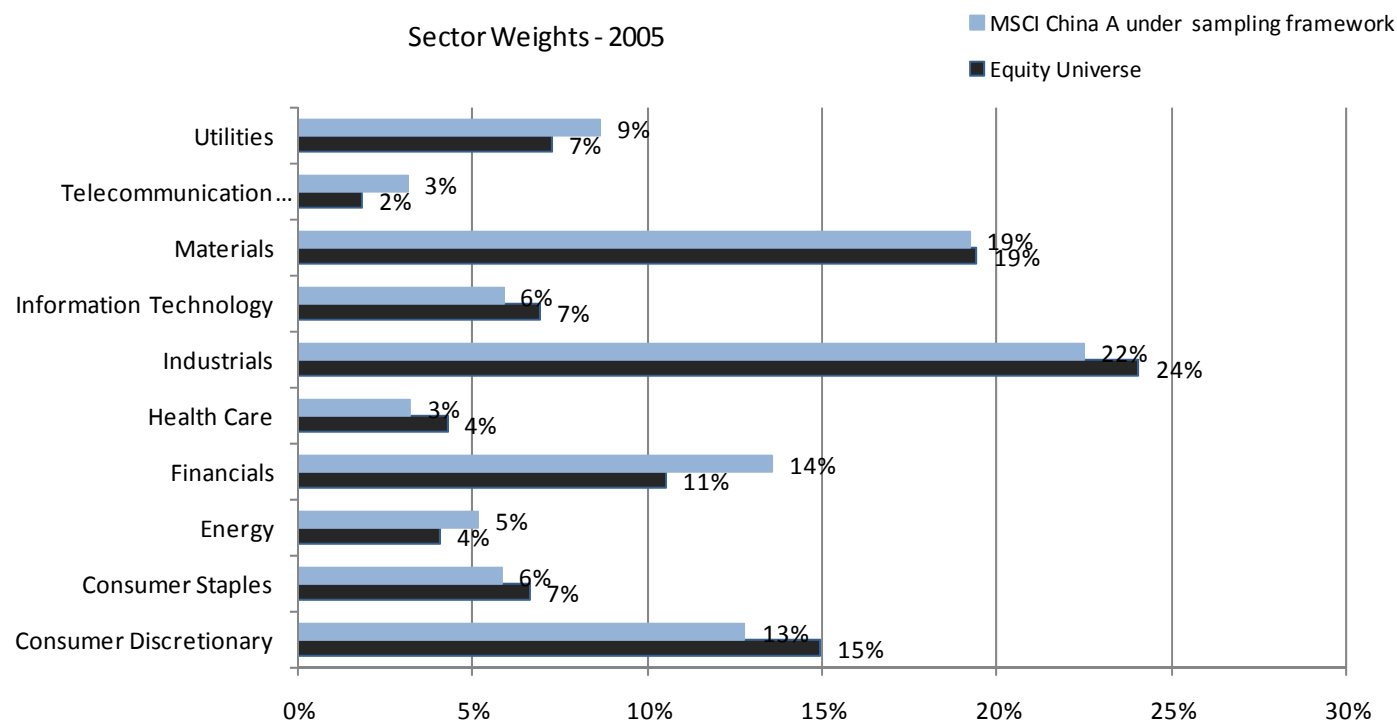
Proposed Enhancements

Key Summary between Current and Proposed Methodologies

	Current Methodology	Proposed Methodology
Index Construction		
Approach	Bottom up sampling approach targeting 65% free float mcap presentation at industry group + top 25 securities based on free float mcap	Exhaustive top down approach targeting a free float mcap coverage of 85%
Size Segmentation	-	Standard (Large + Mid), and Small Cap targeting respectively 85% and 99% of investable universe respectively
Style Segmentation	Value and Growth	
Min Size	RMB5.75b (USD 841m) free float mcap	Subject to a full mcap cutoff derived by the global EM min size reference (USD 1,190m) but with a priority for market coverage of 80%-90%
Liquidity Screen	Minimum Annualized Traded Value Ratio (ATVR) of 15%	ATVR of 15% for EM and Market Relative ATVR
Min Free Float	15% (except large companies with a free float market capitalization ranking at the top 25)	15% (except if a security's free float mcap > 1.8 times the Market Size Segment cutoff)
Index Maintenance		
Rebalancing Freq	Annual Index Review in May; Quarterly Index Review in February, August and November	Semi-annual Index Review in May and November; Quarterly Index Review in February and August
Ongoing	Corporate events implemented as they occur based on MSCI Corporate Event methodology	

Use of Sampling Approach at Initial Construction

- At the initial construction, a sampling approach allows the index to better capture the diversity of business activities in the China A shares market.



Data as of December 31, 2008

Issues with Sampling Approach in 2008

- With the significant structural changes following the market-wide shares unification program and IPOs of many large state-owned companies, some sizeable companies from certain industry groups have not been included from the index due to industry group over-representation under the current sampling approach
- 50 out of the top 300 securities are not represented under the current sampling methodology, accounting for 7.1% of the total free float market capitalization in the China A universe

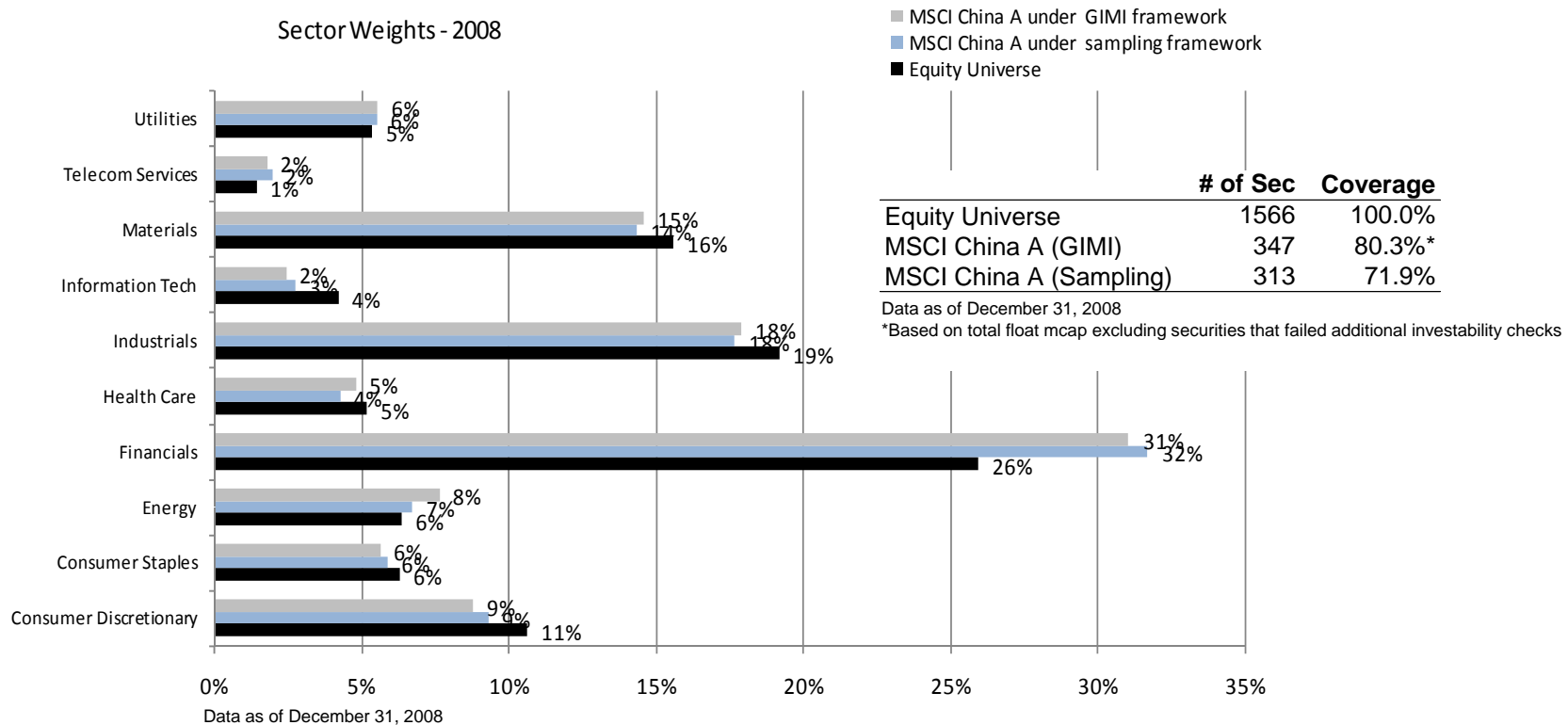
Top 10 Securities			
Name	Industry Group	Full Market Cap	Float Market Cap
CHINA PACIFIC INS GRP A	Insurance	12,549	1,631
CHINA COAL ENERGY A	Energy	11,948	1,128
DATANG INT'L POWER A	Utilities	9,752	561
BANK OF BEIJING CO LTD A	Banks	8,132	1,220
ZIJIN MINING GROUP CO-A	Materials	7,655	741
CHINA SOUTH LOCOMOTIVE -A	Capital Goods	7,315	1,554
CHINA OILFIELD SVCS A	Energy	6,397	1,032
AIR CHINA A	Transportation	6,079	943
SHANGHAI ELECTRIC GRP CO L-A	Capital Goods	4,818	565
JINDUICHENG MOLYBDENUM A	Materials	3,968	794

Full market cap is in USD million. Data as of December 31, 2008

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Applying the GIMI Framework to MSCI China A Index

- The MSCI China A Index under the GIMI framework would produce a largely similar sector profile with greater coverage while the differences in terms of sector biases are negligible.

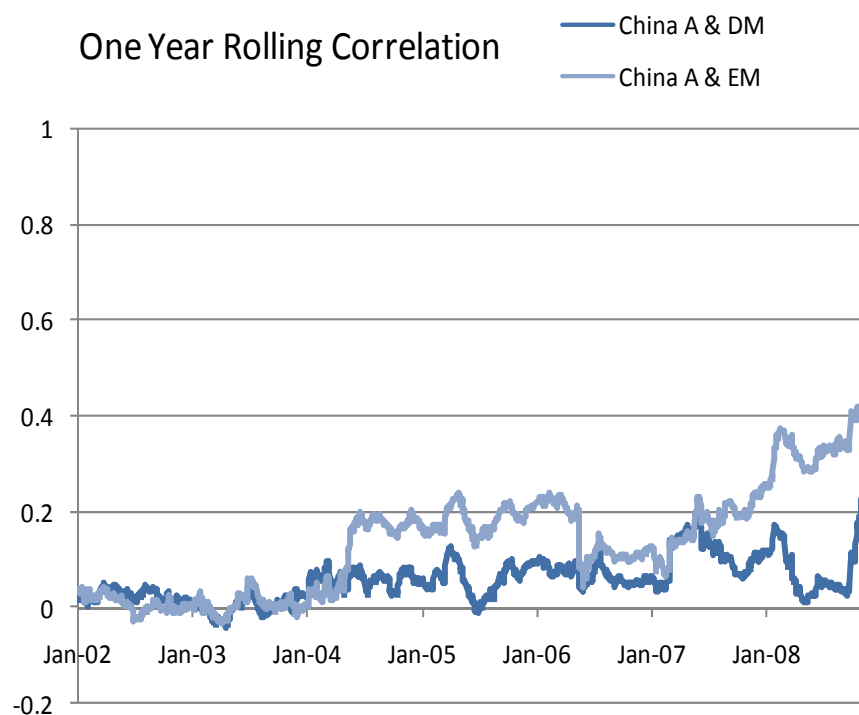


A Consistent Global Benchmark Family for QDII and QFII Investors

- The MSCI Standard Index Series was fully transitioned to the GIMI methodology in May 2008. The MSCI China A Index is currently the only stand-alone MSCI index still constructed under the sampling methodology
- With ongoing developments of the QDII & QFII programs, a consistent global benchmark family constructed under the same methodology would better facilitate the investment process of domestic investors investing overseas and international investors investing in the China A share market
 - Exhaustive coverage of the investable opportunity set along with non-overlapping size segmentation
 - Consistent investability and replicability requirements across investment universe
 - Improved index coverage of the current MSCI China A Index
 - Compatible with the MSCI Global Investable Market Indices

Methodology Adaptation to the A share Index

- The new methodology proposes to link the minimum size requirement to the global minimum size reference cut-off for EM in order to provide better global size consistency. Under the GIMI framework, size integrity is given a higher priority. However, as the correlation of the A share market with the global market remains low, applying such a link may potentially produce greater index instability and potentially result in coverage reduction
- **Our proposal is to ensure an index coverage between 80% and 90% even though some assets may not be in line with the global minimum size reference for EM. Is this desirable? Is a wider range of index coverage required?**



Comparing the Current MSCI China A Index to the Proposed Enhanced MSCI China A Index

China A Market Structure

- Under the GIMI framework, the MSCI China A Index would cover more sizable companies and would capture their specific risks in the index

	China A Equity Universe	Current Methodology	Enhanced Methodology
Total Number of Companies	1566	313	347
Nb of Co between USD 1b and USD 5b Full Mcap	173	125	157
Nb of Co between USD 1b and USD 5b Float Mcap	71	63	71
Nb of Co above USD 5b Full Mcap	48	37	45
Nb of Co above USD 5b Float Mcap	11	11	11
Full Market Capitalization	2,157	1,664	1,799
Float Market Capitalization	451	324	354
Index Representation (Float Market Capitalization)	100.0%	71.9%	80.3%*
Market Size Segment Cutoff (in USD million)			549
Median Annualized Traded Value Ratio (ATVR)	738%	361%	364%
Average Annualized Traded Value Ratio (ATVR)	904%	399%	408%

Note: All market caps are in USD billion. Data as of December 31, 2008

*Based on total float mcap excluding securities that failed additional investability checks

Index Turnover

- Under the GIMI methodology, the number of constituents would be 347 with 62 additions and 28 deletions. 285 out of 313 current index constituents would remain in the index. The total one-way index turnover would be 11.1%

Industry Group	Current		Pro Forma		No of Sec		Indx Wgt	
	Nb of Sec	Index Wgt	Nb of Sec	Index Wgt	Add	Del	Add	Del
Automobiles & Components	10	1.4%	10	1.2%	1	1	0.1%	0.1%
Banks	10	17.8%	13	17.0%	3	-	0.8%	0.0%
Capital Goods	55	11.9%	54	11.5%	5	6	1.1%	0.4%
Commercial Services & Supplies	1	0.2%	1	0.2%	-	-	0.0%	0.0%
Consumer Durables & Apparel	15	2.9%	13	2.8%	2	4	0.4%	0.3%
Consumer Services	3	1.0%	3	0.9%	-	-	0.0%	0.0%
Diversified Financials	2	2.7%	5	2.8%	3	-	0.4%	0.0%
Energy	15	6.7%	21	7.6%	8	2	1.7%	0.1%
Food & Staples Retailing	3	0.4%	3	0.4%	-	-	0.0%	0.0%
Food, Beverage & Tobacco	15	5.3%	17	5.2%	3	1	0.4%	0.1%
Health Care Equipment & Services	2	0.2%	3	0.3%	1	-	0.1%	0.0%
Household & Personal Products	2	0.2%	1	0.1%	1	2	0.1%	0.2%
Insurance	2	3.8%	3	4.0%	1	-	0.5%	0.0%
Materials	71	14.3%	74	14.6%	9	6	2.0%	0.4%
Media	3	0.7%	4	0.8%	1	-	0.2%	0.0%
Pharmaceuticals, Biotechnology & Life Sciences	17	4.0%	22	4.5%	5	-	0.9%	0.0%
Real Estate	22	7.4%	27	7.3%	5	-	0.5%	0.0%
Retailing	12	3.4%	12	3.1%	-	-	0.0%	0.0%
Semiconductors & Semiconductor Equipment	1	0.1%	0	0.0%	-	1	0.0%	0.1%
Software & Services	3	0.8%	3	0.7%	-	-	0.0%	0.0%
Technology Hardware & Equipment	12	1.9%	10	1.7%	2	4	0.2%	0.2%
Telecommunication Services	1	1.9%	1	1.8%	-	-	0.0%	0.0%
Transportation	21	5.5%	29	6.1%	8	-	1.2%	0.0%
Utilities	15	5.5%	18	5.5%	4	1	0.6%	0.1%
Total	313	100.0%	347	100.0%	62	28	11.1%	2.0%

Data as of December 31, 2008
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Additions & Deletions

TOP 10 ADDITIONS

Name	Industry Group	DIF Market Cap
CHINA PACIFIC INS GRP A	Insurance	1,631
BANK OF BEIJING CO LTD A	Banks	1,220
XINJIANG DUSHANZI TIAN A	Materials	1,205
CHINA COAL ENERGY A	Energy	1,128
CHINA OILFIELD SVCS A	Energy	1,032
AIR CHINA A	Transportation	943
JINDUICHENG MOLYBDENUM A	Materials	794
BANK OF NANJING A	Banks	791
PINGDINGSHAN TIANAN CO A	Energy	786
ZIJIN MINING GROUP CO-A	Materials	741

Data as of December 31, 2008

TOP 10 DELETIONS

Name	Industry Group	DIF Market Cap
FEILO ACOUSTICS A	Household & Personal Products	326
SUNDIRO HOLDING CO A	Automobiles & Components	291
HUBEI SHUANGHUAN SCI A	Materials	287
JONJEE HIGH & NEW TECH A	Capital Goods	266
JIANGSU SIHUAN BIOENGR A	Consumer Durables & Apparel	262
SHANGHAI FEILO A	Technology Hardware & Equipment	261
FUJIAN QINGSHAN PAPER A	Materials	256
JIANGSU CHANGJIANG ELE A	Semiconductors & Semiconductor Equipment	253
SHANGHAI JINLING CO A	Capital Goods	248
LIUZHOU LIANGMIANZHEN A	Household & Personal Products	248

Data as of December 31, 2008

Discussion Points

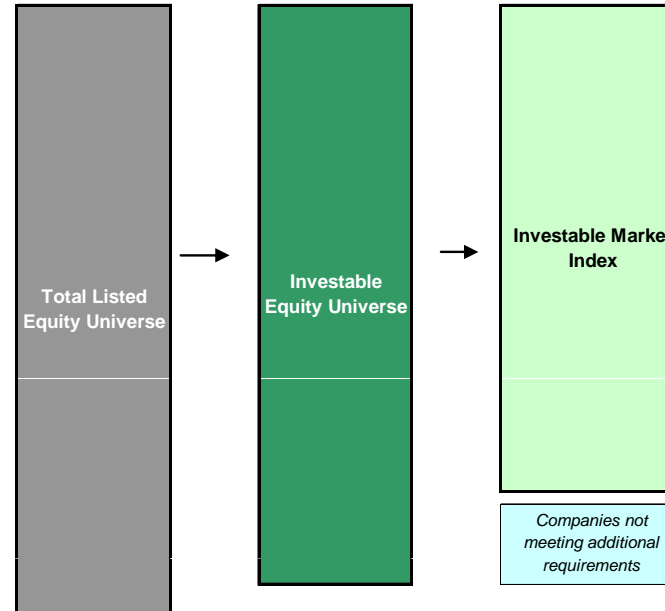
- Transition to the GIMI framework
 - Is it appropriate to transition the current MSCI China A Indices under the GIMI framework?
- The MSCI China A Small Cap Index under the GIMI framework would have approximately 600 index constituents
 - Is there demand for benchmark covering the small cap companies in the China A shares market?

Appendix

Methodology Proposal: Deriving the Investable Universe

Investability screens are used to arrive at an investable universe and the Investable Market Index to ensure replicability of constituents.

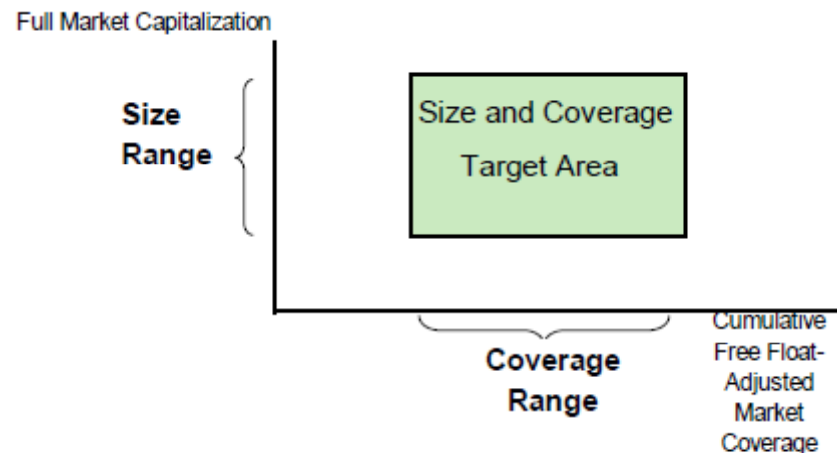
- *Equity Universe Minimum Size Requirement:*
99% of free float DM equity universe
- *Minimum Free Float:*
50% of Equity Universe Minimum Size Requirement
- *Liquidity Screen:*
Annualized Traded Value Ratio (ATVR) of 15%
- *Global Minimum FIF Requirement:*
0.15 in general
- *Minimum Trading length:*
Three months in general



Methodology Proposal: Constructing Appropriate Size Segments

Deriving the Size and Coverage Target Area

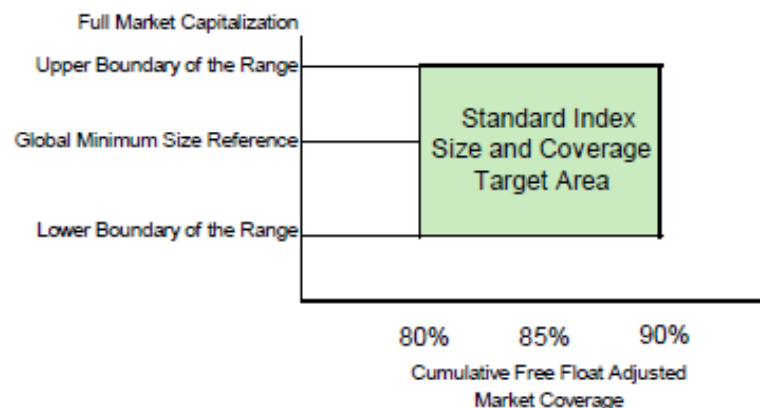
- The distribution of company market capitalizations varies from market to market. Therefore, the use of the same company size cut-offs and the same market coverage targets to create size segments is not feasible
- Striking balance between size integrity and market coverage requires the use of
 - Global minimum company size ranges, and
 - Market coverage target ranges
- The intersection of the minimum size range with the coverage range describes a Size and Coverage Target Area which will be used to find a balance between size integrity and market coverage



Methodology Proposal: Constructing Appropriate Size Segments (cont'd)

Defining Coverage and Size Ranges

- The market coverage range proposed for various segments is defined as coverage of:
 - 65% to 75% in each market for the Large Cap Index
 - 80% to 90% in each market for the Standard Index and
 - 98.5% to 100% in each market for the Investable Market Index
- The global minimum company size range for each segment is defined by:
 - First determining a global minimum size reference and
 - Then specifying a range around the global minimum size reference

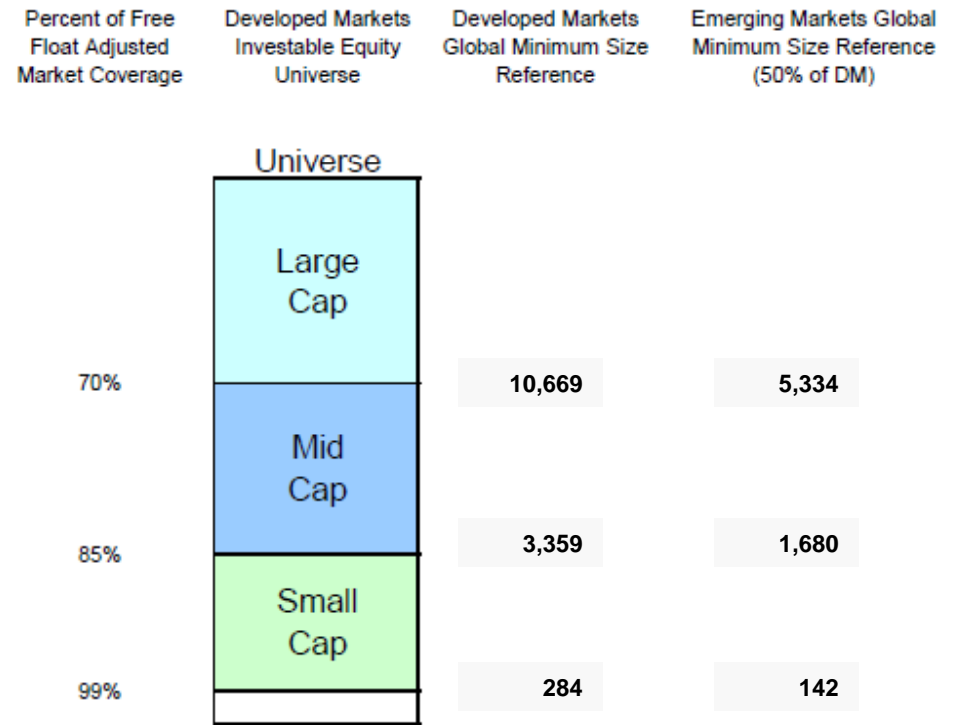


Methodology Proposal: Global Minimum Size Reference

- The global minimum size references for the size segment indices are derived by:

- First, aggregating the individual Developed Market countries investable universes to create a global investable universe
- Then Choosing the full market capitalization at:
 - The 70th percentile as the cut-off between the Large Cap and Mid Cap Index
 - The 85th percentile as the cut-off for the Standard Index, i.e. between the Mid Cap and Small Cap Index
 - The 99th percentile as the cut-off at the bottom for the Investable Market Index

- For Emerging Markets, the global minimum size reference is set at ½ the level of the Developed Markets. This minimum size reference will be applied to China A



All the market caps are in USD millions. Data as of July 23, 2008

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