

**STANDARD
& POOR'S**

S&P/CITIC CHINA A-SHARE DIVIDEND OPPORTUNITIES INDEX METHODOLOGY



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中信标普指数服务

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Introduction

The S&P/CITIC China A-Share Dividend Opportunities Index is designed to serve as a benchmark for income seeking investors investing in China. The index seeks to provide exposure to high yielding common stocks traded in China while meeting diversification, stability and tradability requirements.

Highlights

Index constituents must meet minimum size and liquidity requirements to ensure investability and tradability.

Constituents also must meet stability requirements related to profitability and earnings growth.

Turnover is mitigated through buffers implemented at each semi-annual rebalancing.

To ensure diversified exposure, no single sector has more than 33% weight in the index at each semi-annual rebalancing.

Constituent weights are driven by yield, with no single stock having a weight of more than 3% in the index.

Eligibility Criteria

Universe

The universe from which the S&P/CITIC China A-Share Dividend Opportunities Index is drawn is all dividend paying common stocks (A Shares) listed on the Shanghai or Shenzhen Stock Exchanges. Derivatives, structured products, over-the-counter listings, mutual funds and exchange-traded funds (ETFs) are not eligible.

Investability Criteria

The universe is narrowed down to an investable set of stocks based on the following criteria:

Market Capitalization. Stocks must have a float-adjusted market capitalization above the market cap threshold of 1 billion RMB, as of the rebalancing reference date.

Value Traded. Stocks must have six-month average daily value traded above the liquidity threshold of 10 million RMB, as of the rebalancing reference date.

Stocks passing these criteria form the Investable Universe.

Stability Criteria

Stocks in the Investable Universe are, then, screened for two stability factors:

Earnings Growth. Stocks must have a positive, cumulative 3-year earnings growth. It is measured as:

$$((\text{Earnings Per Share}_t / \text{Earnings Per Share}_{t-3})^{1/3} - 1) * 100$$

where t is the current year.

Profitability. Stocks must be profitable, as measured by positive net income over the latest 12-month period, as of the reference date. The figure is calculated by adding the four quarters of net income reported for the company.

Stocks meeting the Stability Criteria form the Selection Universe.

The rebalancing reference dates are the first trading dates after 14th of May and November. Semi-annual index rebalancings occur after the close of the third Friday of June and December, respectively. The market cap and liquidity thresholds are subject to change according to market conditions.

Index Construction

Approaches

The methodology employs a yield driven-weighting scheme, using the divisor methodology used in Standard & Poor's equity indices.

There are two steps in the creation of the index. The first is the selection of the 100 companies; the second is the weighting of the index constituents.

Constituent Selection

The selection of index constituents is done as follows:

1. All stocks in the Selection Universe are sorted on the basis of annual dividend yield. This is calculated as a percentage of the total dividends (excluding special and extraordinary dividends) declared during the prior four quarters divided by the total market capitalization of the company on the last trading date of the previous June for the December rebalance or the last trading date of the previous December for the June rebalance.
2. The 100 highest yielding stocks form the index, subject to a 30 stock buffer for index constituents. If a current index constituent is among the top 130 at the rebalancing, it remains in the index. If not, the stock is deleted and the next largest stock, that is not an index constituent, is added.

Constituent Weightings

The weighting scheme of the index addresses two objectives:

- The index should attempt to maximize its yield.
- The index should be diversified among individual stock and sectors.

To achieve these two objectives, the weight for each index constituent is set at each rebalancing such that the yield of the index is maximized while the following constraints are met:

1. Every stock has a weight no greater than 3%.
2. Every stock has a weight no less than 0.25%.
3. No single sector, as defined by the Global Industry Classification Standard (GICS[®]), has a weight of greater than 33%.

Standard & Poor's uses an optimization algorithm to meet these requirements. Given the non-smooth nature of the optimization problem, it is done using a non-deterministic

evolutionary algorithm that switches over to traditional methods on an as-needed basis. Standard & Poor's uses publicly available commercial software (Premium Solver Platform™ Version 6.5 from Frontline Systems).

Index Calculations

The index is calculated by means of the divisor methodology used in all Standard & Poor's equity indices. The index value is simply the index market value divided by the index divisor:

$$\text{Index Value} = \frac{\text{Index Market Value}}{\text{Index Divisor}} \quad (1)$$

$$\text{Index Market Value} = \sum_{i=1}^N (\text{Shares})_i * (\text{IWF})_i * (\text{Price})_i * (\text{AWF})_i \quad (2)$$

AWFs are set at the time of rebalancing in the following manner, such that for the i^{th} constituent:

$$\text{AWF}_i = Z * W_i / [\text{Shares}_{\text{rebalancing day close, } i} * \text{IWF}_{\text{rebalancing day close, } i} * \text{Price}_{\text{rebalancing day close, } i}] \quad (3)$$

where Z is an index specific constant set for the purpose of deriving the AWF and W_i is the index weight for the i^{th} constituent at the rebalancing as derived from the previous section, and $\text{Price}_{\text{rebalancing day close, } i}$ is its price at the close of the rebalancing date.

In order to maintain basket series continuity, it is also necessary to adjust the divisor at the rebalancing.

$$(\text{Index Value})_{\text{before rebalancing}} = (\text{Index Value})_{\text{after rebalancing}} \quad (4)$$

Therefore,

$$(\text{Divisor})_{\text{after rebalancing}} = \frac{(\text{Index Market Value})_{\text{after rebalancing}}}{(\text{Index Value})_{\text{before rebalancing}}} \quad (5)$$

For more information on the index calculation methodology, please refer to the Modified Market Capitalization Weighted Indices section of Standard & Poor's Index Mathematics Methodology.

Index Maintenance

Rebalancing

Frequency. The index is rebalanced semi-annually. Index rebalancings occur after the closing on the third Friday of June and December.

Corporate Actions

Corporate Action	Adjustment made to index	Divisor adjustment?
Spin-off	No weight change. The price is adjusted to the Price of the Parent Company minus (the Price of the Spun-off company/Share Exchange Ratio). Index Shares change so that the company's weight remains the same as its weight before the spin-off.	No
Rights Offering	No weight change. The price is adjusted to the Price of Parent Company minus (the Price of the Rights Offering/Rights Ratio). Index Shares change so that the company's weight remains the same as its weight before the rights offering.	No
Stock Split	Index Shares are multiplied by and the price is divided by the split factor.	No
Share Issuance or Share Repurchase	None. Actual shares outstanding of the company play no role in the daily index calculation.	No
Special Dividends	The price of the stock making the special dividend payment is reduced by the per share special dividend amount after the close of trading on the day before the dividend ex-date.	Yes
Delisting, acquisition or any other corporate action resulting in the deletion of the stock from the Index	The stock is dropped from the Index. No intra-year replacements are made.	Yes

Base Date

The indices base dates are June 18, 2004. Daily returns are available from that date. The base value, for both the price return and total return series, is 1000.

Index Data

Total Return Index

The index has a total return counterpart, which assumes dividends are reinvested in the index after the close on the ex-date. On any given date t ,

$$\text{Total Return Multiplier}_t = \frac{[\text{Index Value}_t + \text{Index Dividend Points}_t]}{\text{Index Value}_{t-1}} \quad (6)$$

$$\text{Total Return Index Value}_t = (\text{Total Return Index Value}_{t-1}) * (\text{Total Return Multiplier}_t) \quad (7)$$

$$\text{Index Dividend Points}_t = \sum_{i=1}^N (\text{Index Shares})_{i,t} * (\text{Ex - dividends})_{i,t} / \text{Index Divisor}_t \quad (8)$$

Index Dividend Points are zero on those dates in which no index constituents are going ex-dividends, while on other dates it is a positive number. Therefore, returns calculated from Total Return Index Value will always be greater than or equal to the Index Value.

Please refer to the Index Mathematics Methodology document for more information on total return calculations.

Index Governance

Index Committee

The S&P/CITIC China A-Share Dividend Opportunities Index is governed by the S&P/CITIC Index Committee, comprised of five members representing both Standard & Poor's and CITIC Securities. A representative appointed by Standard & Poor's chairs the Index Committee. Meetings are held on a regular basis, as well as on an as-needed basis should unusual corporate events warrant. At each regular meeting, the Index Committee reviews pending corporate actions that may affect index constituents, statistics comparing the composition of the indices to the market, companies that are being considered as candidates for addition to an index, and any significant market events. In addition, the Index Committee may revise index policy covering rules for selecting companies, treatment of dividends, share counts or other matters.

Index Policy

Announcements

Announcements of semiannual index additions and deletions and GICS changes are made 10 working days in advance of the effective date.

Holiday Schedule

The S&P/CITIC China A-Share Dividend Opportunities Index follows national holidays in China as recognized by the Shanghai and Shenzhen Stock Exchanges.

For more details, please refer to the Shanghai Stock Exchange's Web site at www.sse.com.cn and Shenzhen Stock Exchange's Web site at www.szse.cn.

Unscheduled Market Closures

In situations where an exchange is forced to close early due to unforeseen events, such as computer or electric power failures, weather conditions or other events, Standard & Poor's will calculate the closing price of the indices based on (1) the closing prices published by the exchange, or (2) if no closing price is available, the last regular trade reported for each stock before the exchange closed. In all cases, the prices will be from the primary exchange for each stock in the index. If an exchange fails to open due to unforeseen circumstances, the index will use the prior day's closing prices. If all exchanges fail to open, Standard & Poor's may determine not to publish the index for that day.

Index Dissemination

Index Data

Complete data for index replication (including share counts, tickers and data on index levels and returns) are available through Standard & Poor's index data group for subscription via FTP.

Tickers

Index	Bloomberg	Reuters
S&P/CITIC China A-Share Dividend Opportunities Price Return (RMB)	CSPSADRP	.CSPSADRP
S&P/CITIC China A-Share Dividend Opportunities Total Return (RMB)	CSPSADRT	.CSPSADRT

For further information, please refer to Standard & Poor's Web site at www.indices.standardandpoors.com.

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