

**STANDARD
& POOR'S**

S&P/HKEX LARGE CAP INDEX METHODOLOGY



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Introduction

Standard & Poor's indices are liquid, tradable, and easily replicated. The S&P/HKEx LargeCap index includes the largest and most liquid stocks in the Hong Kong equity markets. The 25-stock index is market-capitalization weighted, with each company's weight reflective of shares publicly available for trading, and is balanced across 10 Global Industry Classification Standard (GICS[®]) sectors. The S&P/HKEx LargeCap index constituents are selected for inclusion using Standard & Poor's guidelines for evaluating company capitalization, liquidity, and fundamentals. The index serves as the base for derivative products and exchange traded funds.

Partnership

Standard & Poor's and Hong Kong Exchanges and Clearing Limited (HKEx) together created the S&P/HKEx index series, which are real-time, float adjusted indices.

Highlights

The S&P/HKEx LargeCap index was launched on March 3rd, 2003, with history available back to December 31st, 1997. Index constituents consist of leading companies on the main board of the Stock Exchange of Hong Kong (SEHK).

Index Family

The S&P/HKEx index series includes the S&P/HKEx LargeCap index, measuring the SEHK main board, and the S&P/HKEx GEM index, which measures the SEHK Growth Enterprise Market (GEM).

Representation

The S&P/HKEx LargeCap index covers approximately 75% of the SEHK Main Board by market capitalization.

Eligibility Criteria

The S&P/HKEx LargeCap index offers investors exposure to the largest and most liquid stocks from one of Asia's most developed and investable markets. The index is designed to provide investors with a tradable and easily replicable snapshot of the Hong Kong market.

Standard & Poor's global indices are constructed with a fixed number of constituents. The aim is not to replicate a fixed percentage of the market capitalization, but to design a highly liquid and tradable index whose total market capitalization is large enough to approximate the market segment it is capturing while keeping the number of stocks at a minimum. This creates a cost-effective, easily replicable trading instrument that provides an appropriate barometer of the market's performance. The fixed number of stocks also ensures minimum turnover as changes are made due to corporate activity or a reduction in a stock's size or liquidity that makes it ineligible for inclusion.

Eligibility Factors

Market Capitalization. Larger companies, as measured by the float-adjusted market capitalization, are considered for inclusion in the S&P/HKEx LargeCap index. Float-adjusted market capitalization is measured by excluding the value of shares owned by any entity, including governments, government agencies, other companies or affiliated groups of shareholders. Index weights are determined using the float-adjusted market capitalization.

Please refer to the Investable Weight Factor section for details.

Liquidity. Only stocks that are actively and regularly traded are considered for inclusion in the S&P/HKEx LargeCap index. As a general guideline, only stocks with a float turnover exceeding 0.30 are considered for inclusion in the index (12-month volume traded divided by float shares).

Domicile. Only companies listed on the Stock Exchange of Hong Kong will be considered for inclusion in any of the S&P/HKEx indices. Companies domiciled in Mainland China and listed on the SEHK are eligible for inclusion in the S&P/HKEx indices.

Eligible Securities. All common and preferred shares (which are of an equity and not a of fixed income nature) are eligible for inclusion in the Standard & Poor's indices. Convertible stock, bonds, warrants, rights, and preferred stock that provide a guaranteed fixed return are not eligible.

Sector Classification. Stocks are classified by the Global Industry Classification Standard (GICS[®]). The Standard & Poor's global indices provide geographic and economic balance over the 10 GICS Sectors. These sectors, consistent throughout all the Standard & Poor's indices, are Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Telecommunication Services and Utilities.

Financial Viability. Only companies with established track records of both revenues and earnings will normally be considered for inclusion in the S&P/HKEx LargeCap index.

Timing of Changes

Additions. An index addition generally will be made only if an index vacancy is created by an index deletion. Index additions will be made according to their market size and liquidity, with a view to preserving sector representation.

An initial public offering will be added to the S&P/HKEx indices only if, in the view of the Index Committee, its size, fundamentals and projected trading volumes justify its inclusion.

To respond quickly to events affecting index constituents, pre-screened prospective "add" candidates are maintained in a replacement pool, which is closely monitored by the Index Committee. This list is kept strictly confidential.

Deletions. A guiding principle of Standard & Poor's index management is the minimization of turnover among index constituents. The most common reason for deleting a stock from a Standard & Poor's index is its acquisition by another company. Additionally, stocks may be deleted for the following reasons:

- **Bankruptcy.** A company is removed from the index as soon as reasonably possible after, or in anticipation of, filing for bankruptcy.
- **Restructuring.** Company restructuring plans are analyzed in depth. The restructured company and any spin-offs are reviewed for index inclusion or exclusion.
- **Other Deletions.** A company may be removed from an index if it no longer meets current criteria for inclusion or is no longer representative of its industry group in terms of relative size and liquidity.

Index Construction

Approaches

The S&P/HKEx LargeCap index is calculated using a base-weighted aggregate methodology. That means the level of an index reflects the total market value of all the component stocks relative to a particular base period. The total market value of a company is determined by multiplying the price of its stock by the number of shares available after float adjustment. An index number is used to represent the result of this calculation in order to make the value easier to work with and track over time. It is much easier to graph a chart based on index values than one based on actual market values. The index is calculated in real time.

Index Calculations

Index calculations are based on stock prices taken from the Stock Exchange of Hong Kong (SEHK). The official daily index closes for both price and total return indices are based on closing prices on the Hong Kong Stock Exchange. Real-time quotes will be provided and updated every 15 seconds through SEHK and recognized international data vendors.

On any given day, the index value is the quotient of the total available market capitalization of the index's constituents and its divisor. Continuity in index values is maintained by adjusting the divisor for all changes in the constituents' share capital after the base date. This includes additions and deletions to the index, rights issues, share buybacks and issuances, spin-offs, and adjustments in availability. The divisor's time series is, in effect, a chronological summary of all changes affecting the base capital of the index. The divisor is adjusted such that the index value at an instant just prior to a change in base capital equals the index value at an instant immediately following that change.

Please refer to the Index Mathematics document for details on index-level calculations.

Restatements

The S&P/HKEx Index Committee's preference is to avoid index restatements. However, in situations where it is deemed necessary, the Index Committee may consider restating an index. Each situation will be considered as it may occur. All restatements will be announced via email to index data clients.

Index Maintenance

Changes in the index level reflect changes in the total market capitalization of the index that are caused by price movements in the market. They do not reflect changes in the market capitalization of the index or of the individual stocks, which are caused by corporate actions such as dividend payments, stock splits, distributions to shareholders, mergers, or acquisitions. When a corporate action affects the price of a security – such as when the price drops on a special distribution ex-date – the price of the security is adjusted to reflect the ex-date and the index divisor is adjusted to offset any change in the total market value of the index.

When a stock is replaced by another stock, the index divisor is adjusted so that the change in index market value that results from the addition or deletion does not change the index level.

Share Updates. Index share rebalancings occur quarterly after the close of trading on the third Friday of March, June, September and December.

5% Rule. Significant share changes will be implemented as soon practicable after they occur if the number of outstanding shares changes by 5% or more. Share changes of less than 5% will be implemented as stated above. Similarly, changes reflecting float adjustment are applied if they cause a capitalization change of 5% or over. Changes of less than this are applied at annual review.

Corporate Actions

Maintaining the S&P/HKEx LargeCap index includes monitoring and completing the adjustments for company additions and deletions, share changes, stock splits, stock dividends, and stock price adjustments due to restructurings or spin-offs. Some corporate actions, such as stock splits and stock dividends, require simple changes in the common shares outstanding and the stock prices of the companies in the index. Other corporate actions, such as share issuances, change the market value of an index and require an index divisor adjustment to prevent the value of the index from changing.

Adjusting the index divisor for a change in market value leaves the value of the index unaffected by the corporate action. This helps keep the value of the index accurate as a barometer of stock market performance, and ensures that the movement of the index does not reflect the corporate actions of the companies in it. Divisor adjustments are made after the close of trading and after the calculation of the closing value of the index. Any change in the index divisor also affects corresponding sub-indices and divisors. Each sub-index is maintained in the same manner as the headline index.

Corporate actions such as splits, stock dividends, spin-offs, rights offerings, and share changes are applied on the ex-date.

Currency of Calculation

The S&P/HKEx index series is calculated in Hong Kong dollars.

Base Date

The S&P/HKEx LargeCap index is based at February 23rd, 2003 with a base value of 10,000. The index, however, has a history back to December 31st, 1997, which was calculated retrospectively from the base date.

Investable Weight Factor

The market capitalization of each stock is adjusted to exclude the value of shares held by other index constituents or by other shareholders when any such holding is 5% or more. The proportion of total shares outstanding included for index calculation purposes is called the float shares. The coefficient used to determine float shares is called the Investable Weight Factor (IWF). The IWF will be reviewed and updated annually, except in the situation whereby the IWF changes by five percentage points or more in one single movement. In this situation, the timing of the change will be made as close as practicable to the actual change.

Other Adjustments

Capping. For the S&P/HKEx LargeCap index, stocks with a relative weight in excess of 15% will be capped at 15% on a quarterly basis by adjusting the stock's investable weight factor. Capped stocks will be allowed to move as high as 20% or as low as 10% during the quarter. If a stock exceeds these thresholds intra-quarter, the weight will be adjusted back to 15%. Any uncapped stock that exceeds a weight of 20% intra-quarter will be capped at 15% at the first practical date. This capping methodology is applied at the discretion of the Index Committee.

Index Data

Total Return Indices

Total return indices are published daily and are available from Standard & Poor's. Standard & Poor's methodology for calculating total return indices assumes that daily cash dividends are reinvested in an index on the ex-date of the dividend.

Index Governance

Index Committee

The S&P/HKEx Index Committee governs the S&P/HKEX indices. The Index Committee, comprised of five members representing both Standard & Poor's and Hong Kong Exchanges and Clearing Ltd. (HKEx), is responsible for setting policy and determining index composition. A representative appointed by Standard & Poor's chairs the Index Committee. Meetings are held on an as-needed basis should unusual corporate events warrant.

Subject to the index policies and guidelines outlined in this document, the Index Committee in its sole and absolute discretion may add or remove any company from any index as part of its index maintenance responsibilities. Deliberations of the Index Committee are kept strictly confidential. This methodology document is reviewed with the advice of, and in consultation with, the Index Committee and may be subject to change at any time.

Index Policy

Announcements

Index announcements will generally be made five days in advance of implementation of anticipated corporate events whenever practical, bearing in mind that the timing of such events is occasionally uncertain.

Announcements will be made after the daily close of trading by way of a news release. The news release will be distributed to local Hong Kong media outlets, posted on international wire services and on the Standard & Poor's Index Services Web site at www.indices.standardandpoors.com

Holiday Schedule

The S&P/HKEx index series is calculated on every SEHK trading day.

Real-Time Calculation

For the S&P/HKEx index series, the opening price is the first trade of any stock. In the event that a stock does not open, the previous closing price or adjusted price is used. The closing index value is calculated using the closing price of each stock that traded during the day, and adjusted closing prices of the previous trading day for those stocks that did not trade during the day.

Index Precision

The level of precision for index calculation is as follows:

- Index values are published rounded to two decimal places.
- Share prices are rounded to six decimal places.
- Shares outstanding are expressed in units.
- Investable Weight Factors are rounded to four decimal places.
- Exchange rates are stated to 14 decimal places.
- Market capitalization is stated to four decimal places.
- Index values are calculated to 14 decimal places.

Index Dissemination

Index information is available directly from Standard & Poor's or via major information vendors. At the close of each trading day, Standard & Poor's produces daily files that contain all of the information about the index.

Tickers

Index information and data for the S&P/HKEx LargeCap index can be found using the following identifiers on the following vendors.

Bloomberg: HKSP25

Reuters: .SPHCLC

FTP

End of day index data for the S&P/HKEx index series is available via FTP on subscription.

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

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