

STANDARD
& POOR'S

S&P OVERSEAS CHINA 10 INDEX

INDEX METHODOLOGY

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Table of Contents

Introduction	3
Highlights	3
Index Family	3
Eligibility Criteria	4
Index Eligibility	4
Eligibility Factors	4
Index Construction	5
Approaches	5
Constituent Selection	5
Constituent Weightings	5
Index Calculations	6
Index Maintenance	7
Rebalancing	7
Corporate Actions	7
Base Date	7
Index Data	8
Total Return Index	8
Index Governance	9
Index Committee	9
Index Policy	10
Announcements	10
Holiday Schedule	10
Unscheduled Market Closures	10
Index Dissemination	11
Tickers	11

S&P Contact Information	12
Index Management	12
Media Relations	12
Index Operations & Business Development	12
Disclaimer	13

Introduction

The S&P Overseas China 10 Index provides tradable exposure to 10 leading Chinese stocks available to foreign investors only through overseas listings, excluding the Hong Kong Stock Exchange.

Highlights

Foreign investors usually access Chinese equities through H-share based baskets and indices. H-share refers to the shares of companies incorporated in Mainland China that are traded on the Hong Kong Stock Exchange. However, these strategies do not provide exposure to leading Chinese companies trading on overseas exchanges without H-share listings.

The S&P Overseas China 10 index serves as a complement to H-share based indices and baskets by providing exposure to 10 leading Chinese stocks available to foreign investors only through overseas listings.

The index includes 10 of the largest publicly-traded Chinese companies trading on developed market exchanges and not currently available through H-Shares.

The index is rebalanced semi-annually and constituent weights are driven by liquidity, subject to some maximum weight criteria at both the individual and aggregate stock level.

Index Family

S&P/CITIC China 30 Index. The S&P Overseas China 10 serves as a companion to the S&P/CITIC China 30 Index, which is comprised of the largest, most liquid stocks of Mainland Chinese companies with listings outside of Mainland China. The S&P/CITIC China 30 is representative of the listed blue chip Chinese enterprises and offers the potential for foreign investors to gain exposure to China's growing economy. Its constituents are drawn from the entire universe of listed H Shares, Red Chips, P Chips, N Shares and ADRs listed on the Hong Kong, Singapore, New York and NASDAQ stock exchanges.

Eligibility Criteria

Index Eligibility

The universe for the S&P Overseas China 10 Index includes any company domiciled in China that trades on a developed market exchange other than Hong Kong. ADRs and GDRs are eligible for inclusion in the index.

Eligibility Factors

After the initial selection of stocks as defined above, the universe is, then, narrowed down to an investable set of stocks based on the following criteria:

Liquidity. Each eligible stock must have three-month average daily trading value traded (ADTV) above US\$ 1 million as of each rebalancing reference date.

Trading History. Each eligible stock must have been trading for at least three months prior to the rebalancing reference date.

Stocks passing these criteria form the Selection Universe. The reference dates are the last trading date of June and December.

Index Construction

Approaches

The S&P Overseas China 10 index methodology employs a liquidity-driven weighting scheme, using the divisor methodology used in most Standard & Poor's equity indices.

There are two steps in the creation of the Index. The first is the selection of the 10 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 in decreasing order of their three-month average float-adjusted market capitalization.
2. The 10 largest stocks, then, form the index.

Constituent Weightings

The weight for each index constituent is set at each rebalancing, using an optimization algorithm that has the following constraints and goals:

Constraints

1. No stock has a weight of more than 15% at each rebalancing.
2. The sum of the weights of stocks with weight equal to 15% is less than or equal to 60% of the index.

Goals

1. Maximize basket liquidity.

$$\text{Basket Liquidity} = \frac{L_i}{W_i} \quad (1)$$

where:

L_i is the liquidity of the i^{th} stock, as defined by the six-month ADTV.

$$W_i = \frac{FloatAdjustedMarketCap_i}{\sum_{i=1}^{10} FloatAdjustedMarketCap_i} \quad (2)$$

2. Basket liquidity is based on historical value traded and represents the maximum size of the basket that can be traded if 100% of the market volume is demanded for the smallest volume stock in the index. Mathematically, it is defined as the minimum of (ADVT/Index Weight) for every constituent.

Given the non-smooth nature of the optimization problem, the optimization is done using a non-deterministic, evolutionary algorithm that switches over to a traditional method on an as-needed basis. Standard & Poor's uses publicly available commercial software to optimize the index basket (Premium Solver Platform™ Version 6.5 from Frontline Systems).

Index Calculations

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

$$Index\ Value = \frac{Index\ Market\ Value}{Index\ Divisor} \quad (3)$$

$$Index\ Market\ Value = \sum_{i=1}^N (Index\ Shares)_i * (Price)_i \quad (4)$$

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

$$Index\ Shares_i = (1,000,000 * W_i) / Price_{rebalancing\ day\ close, i} \quad (5)$$

where W_i is the weight for the i^{th} constituent at the rebalancing, as derived above, and $Price_{rebalancing\ day\ close, i}$ 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.

$$(Index\ Value)_{before\ rebalancing} = (Index\ Value)_{after\ rebalancing} \quad (6)$$

Therefore,

$$(Divisor)_{after\ rebalancing} = \frac{(Index\ Market\ Value)_{after\ rebalancing}}{(Index\ Value)_{before\ rebalancing}} \quad (7)$$

Index Maintenance

Rebalancing

Frequency. Index rebalancings occur after the closing on the third Friday of January and July of each year. The reference dates are the last trading day of December and June, respectively. The universe is sampled and constituents are selected and weighted at each semi-annual rebalancing.

Corporate Actions

Corporate Action	Adjustment made to the 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	The price is adjusted to the Price of the 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 or acquisition	The stock is dropped from the Index. No intra-rebalancing replacements are made.	Yes

Base Date

The index base date is January 21, 2005. The base value, for both the price return and total return series, is 1000. Daily returns are available from January 21, 2005.

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 :

$$\text{Total Return Multiplier}_t = \frac{[\text{Index Value}_t + \text{Index Dividend Points}_t]}{\text{Index Value}_{t-1}} \quad (8)$$

$$\text{Total Return Index Value}_t = (\text{Total Return Index Value}_{t-1}) * (\text{Total Return Multiplier}_t) \quad (9)$$

$$\text{Index Dividend Points}_t = \sum_{i=1}^N (\text{Index Shares})_{i,t} * (\text{Ex - dividends})_{i,t} / \text{Divisor}_t \quad (10)$$

Index Governance

Index Committee

An Index Committee maintains the S&P Overseas China 10 Index. The Committee meets regularly. At each meeting, the 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.

Standard & Poor's considers information about changes to its indices and related matters to be potentially market moving and material. Therefore, all Index Committee discussions are confidential.

Index Policy

Announcements

Index rebalancing announcements are made at 05:15 p.m. ET three-to-ten business days before the effective date on Standard & Poor's Web site at www.indices.standardandpoors.com. No separate announcements are made for routine corporate actions whose index implications are discussed in this document.

Holiday Schedule

The S&P Overseas China 10 Index is calculated daily, throughout the calendar year. The only days the index is not calculated are on days when all exchanges where the S&P Overseas China 10 index constituents are listed are officially closed or if WM Reuters' exchange rates are not published.

A complete holiday schedule for the year is available on Standard & Poor's Web site at www.indices.standardandpoors.com.

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

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

	Bloomberg	Reuters
S&P China Overseas 10 (USD)	STCH10UP	.STCH10UP
S&P China Overseas 10 (USD) TR	STCH10UT	.STCH10UT
S&P China Overseas 10 (USD) Net TR	STCH10UN	.STCH10UN
S&P China Overseas 10 (EUR)	STCH10EP	.STCH10EP
S&P China Overseas 10 (EUR) TR	STCH10ET	.STCH10ET
S&P China Overseas 10 (EUR) NTR	STCH10EN	.STCH10EN

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

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