

# NASDAQ Golden Dragon China Index<sup>SM</sup> Methodology

## Index Description

The Index is designed to provide insight and access to the unique economic opportunities taking place in China while still providing the transparency offered with U.S. listed securities.

## Index Calculation

The NASDAQ Golden Dragon China Index is a modified market capitalization weighted index. The value of the Index equals the aggregate value of the Index share weights, also known as the Index Shares, of each of the Index Securities multiplied by each security's Last Sale Price<sup>1</sup>, and divided by the divisor of the Index. The divisor serves the purpose of scaling such aggregate index value to a lower order of magnitude which is more desirable for Index reporting purposes. If trading in an Index Security is halted on its primary listing market, the most recent Last Sale Price for that security is used for all index computations until trading on such market resumes. Likewise, the most recent Last Sale Price is used if trading in a security is halted on its primary listing market before the market is open. The Index divisor was initially determined to yield a benchmark value of 2500.00 at the close of trading on September 30, 2003. The NASDAQ Golden Dragon China Index was previously known as the Halter USX China Index which was created by, and is a trademark of, Halter Financial Group.

The formula for index value is as follows:

$$\text{Aggregate Adjusted Market Value/Divisor}$$

The formula for the divisor is as follows:

$$(\text{Market Value after Adjustments/Market Value before Adjustments}) \times \text{Divisor before Adjustments}$$

Two versions of the Index are calculated – a price return index and a total return index.

- The price return index (NASDAQ: HXC) is ordinarily calculated without regard to cash dividends on Index Securities.
- The total return index (NASDAQ: HXCX) reinvests cash dividends on the ex-date.

Both Indexes reflect extraordinary cash distributions.

The Indexes are calculated and disseminated once per second from 9:30:01 to 17:16:00 Eastern Time (ET) in USD. The closing value of the Index(es) may change up until 17:15:00 ET due to corrections to the Last Sale Price of the Index Securities.

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<sup>1</sup> For purposes of this document, Last Sale Price refers to the following:

For a security listed on NASDAQ, it is the last sale price on NASDAQ, which normally would be the Nasdaq Official Closing Price (NOCP) when NASDAQ is closed. For any NYSE-listed or NYSE Amex-listed security, it is the last regular way trade reported on such security's primary U.S. listing market. If a security does not trade on its primary listing market on a given day, the most recent last sale price from the primary listing market (adjusted for corporate actions, if any) is used.

## **Eligibility**

Index eligibility is limited to specific security types only. The security types eligible for the Index include common stocks, ordinary shares, ADRs, shares of beneficial interest or limited partnership interests. Security types not included in the Index are closed-end funds, convertible debentures, exchange traded funds, preferred stocks, rights, warrants, units and other derivative securities.

## **Eligibility Criteria**

To be eligible for inclusion in the Index, a security must meet the following criteria:

- must be listed on The NASDAQ Stock Market<sup>®</sup> (NASDAQ<sup>®</sup>), the New York Stock Exchange, or NYSE Amex;
- the issuer of the security must be headquartered or incorporated in China (excluding Hong Kong) at the time of review;
- the security must have a minimum market capitalization of \$100 million;
- the security must have a minimum three-month average daily dollar trading volume of \$250 thousand; and
- the issuer of the security may not have entered into a definitive agreement or other arrangement which would likely result in the security no longer being Index eligible;
- the security may not be issued by an issuer currently in bankruptcy proceedings;
- the issuer of the security may not have annual financial statements with an audit opinion that is currently withdrawn;

For the purposes of Index eligibility criteria, if the security is a depositary receipt representing a security of a non-U.S. issuer, then references to the “issuer” are references to the issuer of the underlying security.

## **Index Evaluation**

The Index Securities are evaluated quarterly in March, June, September and December. The eligibility criteria are applied using market data through the end of January, April, July and October. Securities meeting the criteria are included in the Index. Security additions and deletions are made effective after the close of trading on the third Friday of March, June, September and December.

Additionally, if at any time during the year other than the Evaluation, an Index Security no longer meets the Eligibility Criteria, or is otherwise determined to have become ineligible for continued inclusion in the Index, the security is removed from the Index and is not replaced. Ordinarily, a security will be removed from the Index at its Last Sale Price. If, however, at the time of its removal the Index Security is halted from trading on its primary listing market and an official closing price cannot readily be determined, the Index Security may, in NASDAQ’s discretion, be removed at a zero price. The zero price will be applied to the Index Security after the close of the market but prior to the time the official closing value of the Index is disseminated, which is ordinarily 17:16:00 ET.

## **Index Maintenance**

Changes in the price and/or Index Shares driven by corporate events such as stock dividends, stock splits and certain spin-offs and rights issuances are adjusted on the ex-

date. If the change in total shares outstanding<sup>2</sup> arising from other corporate actions is greater than or equal to 10.0%, the change is made as soon as practicable. Otherwise, if the change in total shares outstanding is less than 10%, then all such changes are accumulated and made effective at one time on a quarterly basis after the close of trading on the third Friday in each of March, June, September and December. The Index Shares are derived from the security's total shares outstanding. The Index Shares are adjusted by the same percentage amount by which the total shares outstanding have changed.

A special cash dividend announced by the listing exchange, will result in an adjustment to the Last Sale Price of an Index Security prior to market open on the ex-date for the special amount distributed. A special dividend may also be referred to as unusual, extraordinary, one-time, non-recurring etc.

Ordinarily, whenever there is a change in Index Shares, a change in an Index Security, or a change to the price of an Index Security due to spin-offs, rights issuances or special cash dividends, the divisor is adjusted to ensure that there is no discontinuity in the value of the Index which might otherwise be caused by any such change. All changes are announced in advance and are reflected in the Index prior to market open on the Index effective date.

### **Index Rebalancing**

The Index employs a modified market capitalization-weighting methodology. At each quarter, the Index is rebalanced such that the maximum weight of any Index Security does not exceed 8% and no more than 5 securities are at that cap. The excess weight of any capped security is distributed proportionally across the remaining Index Securities. If after redistribution, any of the 5 highest ranked Index Securities are weighted below 8%, these securities are not capped. Next, any remaining Index Securities in excess of 4% are capped at 4% and the excess weight is redistributed proportionally across the remaining Index Securities. The process is repeated, if necessary, to derive the final weights.

The modified market capitalization weighting methodology is applied to the capitalization of each Index Security, using the Last Sale Price of the security at the close of trading on the last trading day in February, May, August and November and after applying quarterly changes to the total shares outstanding. Index Shares are then calculated multiplying the weight of the security derived above by the new market value of the Index and dividing the modified market capitalization for each Index Security by its corresponding Last Sale Price. The changes are effective after trading on the third Friday in March, June, September and December.

NASDAQ OMX may, from time to time, exercise reasonable discretion as it deems appropriate in order to ensure Index integrity.

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<sup>2</sup> If a security is a depositary receipt, the total shares outstanding is the actual depositary shares outstanding as reported by the depositary banks.