



中華證券交易服務有限公司
**CHINA EXCHANGES SERVICES
COMPANY LIMITED**

CES SCHK Value Index Methodology

Aug 2023



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Preface

The index is compiled by China Exchanges Services Company Ltd. (CESC) and jointly maintained by CESC and Shenzhen Securities Information Co., Ltd. (SSIC).

The CES SCHK High Yield Low Volatility Index (CES SCHK HYLV) is a price return index, aims to track the performance of high yield and low volatility stocks, using forecast dividend yield as an indicator.

| Index Name | Launch Date | Constituents |
|----------------|-------------------------|---|
| CES SCHK Value | 28-12-2018 ¹ | Selecting the 40 most profitable and most liquid stocks listed on the Main Board of SEHK and eligible for Southbound Trading under Stock Connect. |

¹ The CES SCHK Value is calculated on real-time basis starting from 22 Aug 2023.

1. Index Name and Code

| Index Name | Abbreviation | Index Currency | Index Code |
|-----------------------------------|-------------------|----------------|------------|
| CES SCHK Value Index | CES SCHK Value | HKD | CESVAL |
| CES SCHK Value Total Return Index | CES SCHK Value TR | HKD | VALHKDG |

2. Base Date and Base Value

The base date is December 30, 2011. The base value is 2000.

3. Index Eligibility

3.1 Index Universe

The index universe for CES SCHK HYL V is composed as follows:

- Stocks listed on the Main Board of SEHK and eligible for Southbound Trading under Stock Connect.
- Listing history more than 3 months.
- Average stock price per share in the past 12 months above \$1.

3.2 Selection Criteria

The constituents are selected as follows:

- **Liquidity Screen:** Any stocks with average daily turnover (ADT) less than HK\$10M in the past 12 months will be excluded.
- **Analyst Screen:** Yield ranking will be given only when 3 or more analysts covered the EPS figure.
- **Forecast PE Screen:** Following above screens, Remaining stocks will be ranked in ascending order in terms of Forecast Price-to-Earnings ratio. Top 40 securities are chosen for inclusion in the index.

4. Index Calculation

The indices are calculated according to the Paasche weighted method, real-time calculation is carried out daily according to the following formula:

real time index = last trading day closing index

$$\times \frac{\sum (\text{constituent's real time stock price} \times \text{No. of shares} \times \text{adjustment factor})}{\sum (\text{constituent's last trading day closing price} \times \text{No. of shares} \times \text{adjustment factor})}$$

For adjustment method of No. of shares, please refer to *Index Calculation and Maintenance Methodology*. For adjustment factor, please refer to “6. Adjustment for Constituents’ Weights”.

5. Periodic Review of Constituents

5.1 Periodic Review

The indices are reviewed semi-annually. Periodic reviews are implemented on the next trading day after market closing of the second Friday in June and December each year. Announcements of periodic reviews are published two weeks before implementation. The number of new constituents in each periodic review shall not exceed 20% of the total number of index constituents.

After new constituents are determined, remaining stocks will be ranked by factor weight in descending order and 5% of the total number of index constituents will be selected as reserved stocks.

5.2 Ongoing Adjustment

If a constituent is subject to delisting or no longer eligible for Trading under Stock Connect, it will be removal from the index, and the top-ranking stock in the reserve list shall be added into the index accordingly.

6. Adjustment for Constituents' Weights

The index is equal weighted.

In index calculation, the adjustment factor is designed to set the weight of individual constituent equal in each period review.

The adjustment factor is recalculated twice a year and implemented in periodic reviews. The adjustment factor generally remains constant before next periodic review.

7. Amendments and Supplements to Index Methodology

In response to market development and clients' feedback, CESC and SSIC will amend or supplement the Index Methodology from time to time as appropriate. Proposed changes will be announced to the market prior to implementation.

8. Information Disclosure

To maintain the objectiveness, independence and authority of the index, CESC has adopted a stringent information disclosure policy to ensure transparency, openness and fairness.

- Any personnel of CESC and SSIC are forbidden to divulge any information to any third party, including private media interviews before such information is disclosed to the public.
- Media used for information disclosure includes but not limited to website of CESC and SSIC.

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