



中華證券交易服務有限公司

CHINA EXCHANGES SERVICES  
COMPANY LIMITED

# **CES China Cross Border Index Methodology**

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## 1. Preface

China Exchanges Services Company Ltd. (CESC) has appointed China Securities Index Co., Ltd. (CSIC) for index calculation, maintenance and dissemination. The index methodology is developed by mutual agreement between CESC and CSIC.

CES China Cross Border Index series is a series of price return indices and includes CES CHINA 120 INDEX (CES 120), CES CHINA A80 INDEX (CES A80), CES CHINA HK MAINLAND INDEX (CES HKMI) and CES CHINA 280 INDEX (CES 280), the index series provides a measure of market performance for Chinese large and mid cap stocks listed on The Stock Exchange of Hong Kong Limited (SEHK), Shanghai Stock Exchange (SSE) and Shenzhen Stock Exchange (SZSE).

Cross Border Index series	Launch Date	Constituents
CES 120	10-12-2012	Combines the constituents of CES A80 and CES HKMI.
CES A80	18-3-2013	Consists of the 80 largest and liquid A Share listed on SSE or SZSE.
CES HKMI	18-3-2013	Consists of the 40 largest and liquid mainland securities listed on SEHK.
CES 280	7-7-2014	Consists of the 80 largest mainland securities ranked after the constituents of the CES HKMI and listed on SEHK, and the 200 largest A Share ranked after the constituents of the CES A80 and listed on SSE or SZSE.

## 2. Index Universe

**CES CHINA 120 INDEX.** The index universe for CES 120 is comprised of the constituents of CES A80 and CES HKMI.

**CES CHINA 280 INDEX.** The index universe for CES 280 is comprised of the “SEHK-listed Mainland Securities Segment” and the “A Share Segment”.

**CES CHINA A80 INDEX and CES 280 A SHARE SEGMENT.** The index universe of CES A80 and the CES 280 A Share Segment include the A Share listed on SSE and SZSE which satisfy the following conditions:

- As at the Review Cutoff Date, the stock listed on Main Board or SME Board must have a listing history for more than three months unless the daily average total market capitalisation of the stock from the fourth trading day to the Review Cutoff Date is ranked within the top 10 of all A Share listed on Main Board or SME Board; and
- As at the Review Cutoff Date, the stock listed on ChiNext of SZSE must have a listing history for more than three years; and
- Non-ST or \*ST Stocks; non-Listing Suspension stocks.

**CES CHINA HK MAINLAND INDEX and CES 280 SEHK-LISTED MAINLAND SECURITIES SEGMENT.** The index universe of CES HKMI and the CES 280 SEHK-listed Mainland Securities Segment include Hong Kong securities listed on SEHK which satisfy the following conditions:

- Common stocks and REITs with primary listing on SEHK (Main Board or GEM);
- The security has been listed for more than three months as at the Review Cutoff Date unless the daily average total market capitalisation of the security from the fourth trading day to the Review

Cutoff Date is ranked within the top 10 of all SEHK listed securities;

- Exclude securities of which the daily average closing price in the most recent year is less than 0.1 HKD;
- Exclude securities of which the daily average closing price in the most recent year is less than 0.5 HKD and EPS in the most recent annual report is negative;
- Exclude securities of which the daily average turnover ratio<sup>^</sup> in the most recent three months does not meet the requirement. Securities are ranked by daily average turnover ratio in descending order. The cumulative daily average market capitalisation coverage is then calculated for each security and the securities of which the cumulative daily average market capitalisation coverage is beyond 90% are excluded.

<sup>^</sup> Daily average turnover ratio = Average (Daily trading value / total market capitalisation)

### 3. Selection Criteria

**CES CHINA 120 INDEX.** CES 120 combines the constituents of CES A80 and CES HKMI.

**CES CHINA 280 INDEX.** The index universe for CES 280 is comprised of the “SEHK-listed Mainland Securities Segment” and the “A Share segment”.

**CES CHINA A80 INDEX and CES 280 A SHARE SEGMENT.** The constituents of CES A80 and CES 280 A Share Segment should have no serious financial problems, no contravention of securities laws and regulations and be free from price manipulation or insider trading. The

constituents are selected as follows:

- **Liquidity Screen.** Eligible stocks must be in the highest 50% of all A Share when ranked by daily average trading value. For existing constituents, the daily average trading value ranking must be in the highest 60% of all A Share. Daily average trading value is defined as follows:
  - ◆ The A Share daily average trading value during the most recent year or,
  - ◆ For newly listed stocks, the daily average trading value from the fourth trading day to the Review Cutoff Date;

#### CES CHINA A80 INDEX

- **Size Screen.** Following the liquidity screen above, the top 80 A Share ranked by daily average total market capitalisation<sup>^</sup> are chosen for inclusion in the index.

#### CES 280 A SHARE SEGMENT

- **Size Screen.** Following the liquidity screen above and excluding the constituents of CES A80, the next 200 A Share ranked by daily average total market capitalisation<sup>^</sup> are chosen for inclusion in the index.

<sup>^</sup>Daily average total market capitalisation is defined as follows:

- ◆ The A Share daily average total market capitalisation during the most recent year or,
- ◆ For newly listed stocks, the daily average total market capitalisation from the fourth trading day to the Review Cutoff Date;

**CES CHINA HK MAINLAND INDEX and CES 280 SEHK-LISTED MAINLAND SECURITIES SEGMENT.** The constituents of CES HKMI and the CES 280 SEHK-listed Mainland Securities Segment are selected as follows:

- **Liquidity Screen.** Eligible securities must be in the highest 50% of all securities when ranked by daily average trading value. For existing constituents, the daily average trading value ranking must be in the highest 60% of all securities. Daily average trading value is defined as follows:
  - ◆ The share's daily average trading value during the most recent year or,
  - ◆ For newly listed stocks, the daily average trading value from the fourth trading day to the Review Cutoff Date;
- **Mainland Business Screen.** From the most liquid securities as defined above, select the companies that meet any of the following three criteria:
  1. The listed entity is incorporated in Mainland China;
  2. The operation centre of the listed entity is in Mainland China;  
or
  3. At least 50% of the listed entity's revenue is originated from Mainland China.

#### CES CHINA HK MAINLAND INDEX

- **Size Screen.** Following the liquidity and mainland business screens above, the top 40 securities by daily average total market capitalisation<sup>^</sup> are chosen for inclusion in the index.

## CES 280 SEHK-LISTED MAINLAND SECURITIES SEGMENT

- **Size Screen.** Following the liquidity and mainland business screens above, and excluding the constituents of CES HKMI, the next 80 securities by daily average total market capitalisation<sup>^</sup> are chosen for inclusion in the index.

<sup>^</sup>Daily average total market capitalisation is defined as follows:

- ◆ The daily average total market capitalisation of the securities during the most recent year or,
- ◆ For newly listed securities, the daily average total market capitalisation from the fourth trading day to the Review Cutoff Date.

## 4. Index Calculation

CES 120, CES A80, CES HKMI and CES 280 are calculated to 4 decimal points.

### 4.1 Base Date and Base Level

The base date for CES 120, CES A80, CES HKMI and CES 280 is 31 December 2004. The base level is 2000.

### 4.2 Index Calculation Formula

CES 120, CES A80, CES HKMI and CES 280 are calculated according to the formula below:

$$\text{Current index} = \frac{\text{Current adjusted market capitalisation of constituents}}{\text{Divisor}} \times 2000$$

Adjusted market capitalisation =  $\sum(\text{Price} \times \text{Adjusted No. of shares} \times \text{Foreign Exchange Rate} \times \text{Weight Factor})$ .

The **Category-Weight Method** (see Rule 4.5) is used to adjust the number of issued shares for each constituent. Hence, the calculation of “adjusted number of shares” depends on two factors, 1) free float shares (see Rule 4.4) and 2) category weight.

The Weight Factor is set between 0 and 1, so that no constituent accounts for more than 10% of the index. The Weight Factor is assigned to each constituent at each rebalancing. The effective date is the same as that of the constituent adjustment. The Weight Factor remains constant until next rebalancing day.

When changes occur to the constituent list or share structure or any constituent’s market capitalisation changes due to non-trading factors, the divisor is adjusted to keep the index comparable over time. Based on the rules in Section 5: “Maintenance of Constituent Shares”, the “Divisor Adjustment Methodology” is used to adjust index. See Section 6: “Index Maintenance”.

### 4.3 Index Real-time Calculation

The real-time calculation of CES 120 and CES 280 are based on the traded price data issued by the trading systems of SEHK, SSE and SZSE via various channels. The real-time index is calculated during the trading hours of any of the exchanges on which an index constituent is listed.

The real-time calculation of CES A80 is based on the traded price data issued by the trading systems of SSE and SZSE via various channels. The real-time index is calculated during the trading hours of any of the exchanges on which an index constituent is listed.

The real-time calculation of the CES HKMI is based on the traded price data

issued by the trading systems of SEHK via various channels. The real-time index is calculated during the trading hours of SEHK.

- The opening index is calculated on the basis of the opening price (of the index constituents) obtained through the daily aggregate auction. If there is no transaction, the opening index is then calculated by using the reference opening price supplied by the quotation system.
- The index is calculated until the close of trading.

**Price of each constituent (X)** is defined on the following principle: If there is no transaction for the whole trading day, X means the reference opening price, otherwise, X means the last traded price.

#### 4.4 Free Float

To reflect the price fluctuation of the real negotiable shares in the market, CES 120, CES A80, CES HKMI and CES 280 adopt free float shares (Free Float) for index calculation and exclude non-negotiated shares caused by strategic holdings, government holdings, etc.

- (1) **Long term holdings by founders, their families and senior executives of the company**
- (2) **Government holdings**
- (3) **Strategic holdings**
- (4) **Frozen shares subject to lock-up period**
- (5) **Restricted employee shares**
- (6) **Cross holdings between/among listed companies**

##### 4.4.1 Identification of Free Float

- (1) Restricted shares subject to lock-up period are deemed as non-free float.

(2) For non-restricted shares, the shares are deemed as non-free float if the shareholding held by shareholders classified under any of the six categories above together with persons acting in concert exceeds 5%. Any shareholdings, including any of the above six categories of less than 5% is treated as free float.

(3) Restricted shares after the lock-up period are treated as non-restricted shares.

$$\text{Free Float} = \text{Total number of A shares (or HK shares)} - \text{Non-free float shares}$$

Further provisions on Free Float are set out in Appendix A.

#### 4.5 Category-Weight Method

A **Category-Weight** Method, which can minimize the variability of constituents shares adopted for index compilation, is used to weight number of shares of constituents of CES 120, CES A80, CES HKMI and CES 280. An Inclusion Factor is assigned to each A share (or HK share) based on the percentage of Negotiable Market Capitalisation Ratio over the total number of shares.

- *Negotiable Market Capitalisation Ratio = Free Float of A share (or HK share) / Total number of A shares (or HK shares)*
- *Adjusted Shares = Total number of A shares (or HK shares) × Inclusion Factor*

Inclusion factor is determined by the following table:

#### Category-Weight Table

Negotiable Market Cap Ratio (%)	≤15	(15, 20]	(20, 30]	(30, 40]	(40, 50]	(50, 60]	(60, 70]	(70, 80]	>80
Inclusion	Negotiable	20	30	40	50	60	70	80	100

Factor (%)	market cap ratio round up to the nearest percentage point								
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### Example of the Application of the Category-Weight Method

Stock	Stock A	Stock B	Stock C
Total A Shares	100,000	8,000	5,000
Non Free Float	88,800	4,500	900
Free Float			
= Total A Shares - Non Free Float	11,200	3,500	4,100
Negotiable Market Capitalisation Ratio			
= Free Float / Total A Shares	11.2%	43.8%	82.0%
Inclusion Factor	12%	50%	100%
Inclusion Shares	12,000	4000	5000

## 4.6 Total Return Index

CES 120, CES A80, CES HKMI and CES 280 are price return indices. Nonetheless, the daily total return index value of CES 120, CES A80, CES HKMI and CES 280 are calculated for investors' reference. The total return index, which offers investors a different angle to measure index performance, includes the reinvestment return of cash dividends.

The calculation formula of total return index is same as that of the price return index, except that the divisor is adjusted for dividends on the ex-dividend day.

## 5. Maintenance of Constituent Shares

To ensure that CES 120, CES A80, CES HKMI and CES 280 reflect the

trading status of related stocks, constituent shares are maintained based on the following rules:

- Constituents are maintained based on announcements published by listed companies.
- Free float shares adjustment resulting from non-corporate actions is reviewed semi-annually. The adjustment will be implemented after the market close on the second Friday of June and December.
- Share adjustment from corporate actions (such as bonus issues, rights issues, stock splits and stock consolidations) will be implemented on the ex-date.
- For other corporation events (such as secondary offering, share buyback, exercise of convertible bonds and warrants, etc.) share adjustment will be implemented immediately if accumulated share change adds up to 5% or more; Share adjustment will be deferred to next regular review if accumulated share change is less than 5%.
- When a corporate event causes the accumulated share changes to be 5% or more, the share adjustment will be implemented on the effective day of the corporate event as indicated in the published announcement. In the event that the announcement date is later than the effective date of corporate event, the effective date of share adjustment will then be the next trading date after the announcement date.

## **6. Index Maintenance**

When changes occur to constituent list or the share structure, or constituents' market capitalisation changes due to non-trading factors, the divisor is adjusted to keep the index comparable over time, that is, based on the rules

in Section 5: “Maintenance of Constituent Shares”, CES 120, CES A80, CES HKMI and CES 280 adopt the “Divisor Adjustment Methodology” to adjust the old divisor.

## 6.1 Formula of Divisor Adjustment Methodology

$$\frac{\text{Adjusted Market Cap before Adjustment}}{\text{Old Divisor}} = \frac{\text{Adjusted Market Cap after Adjustment}}{\text{New Divisor}}$$

*Adjusted Market Capitalisation after Adjustment = Adjusted Market Capitalisation before Adjustment + Adjusted Market Capitalisation increase (or decrease)*

The new divisor derived from this formula is used for future index calculation.

## 6.2 Circumstances for Index Maintenance

### 6.2.1 Corporate actions that may affect the price of constituents

- Dividend: No adjustment is made to CES 120, CES A80, CES HKMI and CES 280 for dividend payment. The return from dividend payment is accrued to CES 120 total return index , CES A80 total return index, CES HKMI total return index and CES 280 total return index on the ex-dividend date as described in 4.6 (Total Return Index).
- Bonus issues, rights issues, stock splits and stock consolidations: The index is adjusted on the day on the ex-right date.

*Market Capitalisation after the Adjustment = Ex-right Price × Adjusted No. of Shares + Market Capitalisation before the Adjustment (excluding shares under adjustment for bonus issues,*

rights issues, stock splits and stock consolidations)

### 6.2.2 Share changes caused by other corporate events

- For other corporation events (such as secondary offering, share buyback, exercise of convertible bonds and warrants, etc.) share adjustment will be implemented immediately if accumulated share change adds up to 5% or more.

$$\text{Adjusted Market Capitalisation after the Adjustment} = \text{closing price} \\ \times \text{adjusted shares after changes}$$

- Share adjustment will be deferred to the next regular review if the accumulated share change is less than 5%.

### 6.2.3 Share changes caused by shareholders' actions

- Share changes caused by shareholder actions are adjusted semi-annually. The share change is implemented after the market close on the second Friday of June and December.

### 6.2.4 Constituents adjustment

- Index is adjusted before the effective day of regular review or non-regular adjustment.

## 7. Index Constituent Adjustments

When special events occur affecting the representativeness and investability of the indices, requisite non-regular adjustments will be made to the index constituents of CES 120, CES A80, CES HKMI and CES 280. Whenever there is non-regular constituent adjustment to CES 120, CES 280 will make corresponding change(s).

## 7.1 Treatment of IPOs

For CES A80: Following comparison of the total market capitalisation (issue price x total number of A share) of an IPO to the daily average market capitalisation of all other A Share of the year ended on the listing announcement date, if an IPO ranks among the top 10, then fast entry rule will apply. (The fast entry rule will not be applicable for the stock listed on ChiNext of SZSE) The IPO will be added to CES A80 after the market close on its tenth trading day. Simultaneously, the constituent with the lowest ranking by daily average market capitalisation during the relevant period will be removed from the index.

For CES HKMI: Following comparison of the total market capitalisation (issue price x total number of securities) of an IPO to the daily average market capitalisation of other HK securities of the year ended on the listing announcement date, if an IPO ranks among the top 10 and satisfies the Mainland Business Screen, then fast entry rule will apply. The IPO will be added to CES HKMI after the market close on its tenth trading day. Simultaneously, the constituent with the lowest ranking by daily average market capitalisation during the relevant period will be removed from the index.

When the fast entry rule applies to CES A80 or CES HKMI, CES 120 will make corresponding change. Constituent removed from CES 120 will be included in CES 280 Index.

If an IPO meets the criteria of fast entry but the time gap between its date of listing and the next Review Effective Date is less than 20 trading days, then the fast entry rule will not apply. The IPO will be added to the index on the next Review Effective Date.

## 7.2 Merger and Acquisition

- Two constituent companies merge: The resulting new company will remain qualified as constituent. The vacancy created will be filled up by the highest ranking stock in the reserve list.
- One constituent company and one non-constituent company merge: The resulting new company will remain qualified as constituent. For CES HKMI and CES 280 SEHK-listed Mainland Securities Segment, if the new company fails the Mainland Business Screen test, then the highest ranking stock in the reserve list will replace the new company as constituent in the index.
- One non-constituent company acquires or takes over another constituent company: If the resulting new company ranks higher than the highest ranking stock in the reserve list, then the new company will be added to the index. Otherwise, the highest ranking stock in the reserve list will be added to the index. For CES HKMI and CES 280 SEHK-listed Mainland Securities Segment, if the new company fails the Mainland Business Screen test, then the highest ranking stock in the reserve list will be added to the index (notwithstanding the new company has a higher ranking).
- Merger, spin-off, acquisition and restructuring of non-constituents: If the total market capitalisation of the resulting new company ranks among the top 10 in the A Share market or HK securities market, then fast entry rule will apply. Otherwise, these corporate events will be considered at the regular review.

### 7.3 Spin-off

If a constituent company is spun off to form two or more companies, whether the resulting companies are eligible for inclusion in the index will depend on their rankings.

- If the resulting companies rank higher than the lowest ranking constituents, then the resulting companies will replace the lowest ranking constituents in the index. Constituent removed from CES 120 will be included in CES 280. For CES HKMI and CES 280 SEHK-listed Mainland Securities Segment, if the resulting companies fail the Mainland Business Screen test, the highest ranking stock in the reserve list will be added to the index.
- If some of the resulting companies rank higher than the lowest ranking constituent, then those resulting companies will replace the lowest ranking constituent in the index. Constituent removed from CES 120 will be included in CES 280. For CES HKMI and CES 280 SEHK-listed Mainland Securities Segment if that resulting company fails the Mainland Business Screen test, the highest ranking stock in the reserve list will be added to the index.
- If all of the resulting companies rank lower than the lowest ranking constituent, but some or all of the resulting companies rank higher than the highest ranking stock in the reserve list, then the highest ranking resulting company will replace the original constituent company in the index. For CES HKMI and CES 280 SEHK-listed Mainland Securities Segment, if the highest ranking resulting company fails the Mainland Business Screen test, the highest ranking stock in the reserve list will be added to the index.
- If all of the resulting companies rank lower than the lowest ranking constituent and the highest ranking stock in the reserve list, then the highest ranking stock in the reserve list will be added to the index.

## 7.4 Suspension

If a constituent is suspended from trading, the decision to remove it from the

index will base on the reasons for suspension.

## 7.5 Listing Suspension and Delisting

If a constituent company is suspended from listing or delisted from the market, it will be removed from the index and replaced by the highest ranking stock in the reserve list.

## 7.6 Bankruptcy

If a constituent company enters into bankruptcy proceedings or is adjudged bankrupt, it will be removed from the index and the highest ranking stock in the reserve list will be added to the index.

## **8. Regular Review and Periodic Share Adjustments of Indices**

Constituents of CES 120, CES A80, CES HKMI and CES 280 are reviewed every 6 months. Constituents and constituent weights are adjusted following to the regular review.

### **8.1 Review Period**

Constituents of CES 120, CES A80, CES HKMI and CES 280 are reviewed in June and December every year and index reconstitution and float share adjustments are implemented after the market close on the second Friday of each June and December (“Review Effective Date”).

### **8.2 Data Used for Regular Review**

Data used for June review includes trading data and financial data from 1<sup>st</sup> May of the previous year to 30<sup>th</sup> April of the review year (in case of an IPO, data since its fourth trading day are used). Data used for December review includes trading data and financial data from 1<sup>st</sup> November of the previous year to 31<sup>st</sup> October of the review year (in case of an IPO, data since its fourth trading day are used).

### **8.3 Float Share Adjustments**

Free float shares adjustment for CES 120, CES A80, CES HKMI and CES 280 is reviewed semi-annually. The adjustment will be implemented after the market close on the second Friday of June and December. See Rule 4.4: “Free Float”, Rule 4.5: “Category-Weight Method” and Section 5: “Maintenance of Constituent Shares”

### **8.4 Index Reconstitution**

The indices are reconstituted based on the selection criteria in Section 3 together with the following additional rules:

#### 8.4.1 Buffer Zone

To minimize index turnover, a buffer zone rule is employed during the reconstitution of CES 120, CES A80, CES HKMI and CES 280.

- For CES A80, candidate stocks rank within the top 64 will have the priority to be added into the index and the existing constituents ranking within the top 96 will also have the priority to be retained in the index. If the application of the buffer zone rule has resulted in having more than 80 constituents, then the existing constituents with the lowest ranking will be removed from the index. On the contrary, if the application of the buffer zone rule has resulted in having less than 80 constituents, the candidate stocks with the highest ranking will be added into the index.
- For the CES 280 A Share Segment, constituents of CES A80 are excluded; Candidate stocks rank within the top 160 will have the priority to be added into the index and the existing constituents ranking within the top 240 will also have the priority to be retained in the index. If the application of the buffer zone rule has resulted in having more than 200 constituents, then the existing constituents with the lowest ranking will be removed from the index. On the contrary, if the application of the buffer zone rule has resulted in having less than 200 constituents, the candidate stocks with the highest ranking will be added into the index.
- For CES HKMI, candidate stocks rank within the top 32 will have the priority to be added into the index and the existing constituents ranking within the top 48 will also have the priority to be retained in the index. If

the application of the buffer zone rule has resulted in having more than 40 constituents, then the existing constituents with the lowest ranking will be removed from the index. On the contrary, if the application of the buffer zone rule has resulted in having less than 40 constituents, the candidate stocks with the highest ranking will be added into the index.

- For CES 280 SEHK-listed Mainland Securities Segment, constituents of CES HKMI are excluded; Candidate stocks rank within the top 64 will have the priority to be added into the index and the existing constituents ranking within the top 96 will also have the priority to be retained in the index. If the application of the buffer zone rule has resulted in having more than 80 constituents, then the existing constituents with the lowest ranking will be removed from the index. On the contrary, if the application of the buffer zone rule has resulted in having less than 80 constituents, the candidate stocks with the highest ranking will be added into the index.

## 8.5 Reserve List Maintenance

A reserve list of index constituents is established in each regular review for CES 120, CES A80, CES HKMI and CES 280 to implement non-regular adjustment. (See Section 9)

## 8.6 Long Suspension Stocks

**Existing index constituents.** Index constituents that have been suspended during the review period:

- Constituents that have been suspended for 3 months or more and have not resumed trading as of the Review Cutoff Date will be classified as candidate for removal.

- ❑ Constituents that have been suspended for close to 3 months as of the Review Cutoff Date may be considered as candidate for removal.
- ❑ Constituents that had been suspended for 3 months during the review period but have resumed trading will be retained in the index in principle if they meet the criteria.

**For stocks not included in the index.** Stocks that are not index constituents and have been suspended during the review period:

- ❑ Stocks that have been suspended for 3 months or more and have not resumed trading as of the Review Cutoff Date will not be selected as candidate.
- ❑ Stocks that have been suspended for close to 3 months as of the Review Cutoff Date may be considered as candidate.
- ❑ Stocks that have been suspended for 3 months or more during the review period can be included in the index only if trading has been resumed for 3 months.

## 8.7 Stocks Experienced Financial Losses

During regular review of constituents, stocks that experiences losses as reported in financial statements will, in principle, be ineligible candidates for CES A80 and CES 280 A Share Segment unless the stock exerts great impact on the representativeness of index. In that case, the candidate stock for CES 120 and CES A80 will be changed accordingly.

## 9. Constituent Reserve List

In order to enhance the predictability and transparency of non-regular index reconstitution, CES 120, CES A80, CES HKMI and CES 280 adopt a reserve list policy which is used to implement non-regular index reconstitution between regular reviews.

- The reserve list is created for each regular review of index constituents. Five stocks are included in the reserve list of CES A80, CES HKMI and the CES 280 SEHK-listed Mainland Securities Segment and 10 stocks are included in the reserve list of CES 280 A Share Segment.
- If non-regular index reconstitution is required (due to delisting, merger etc.) leading to a vacancy in constituent stocks, the highest ranking stock on the reserve list will be added to the index.
- When the number of stocks on the reserve list of CES A80, CES HKMI and the CES 280 SEHK-listed Mainland Securities Segment is reduced to less than 3, candidate stocks will be added to the respective reserve list. CESC and CSIC will then publish the new reserve list in a timely manner.
- When the number of stocks on the reserve list of the CES 280 A Share Segment is reduced to less than 5, candidate stocks will be added to the respective reserve list. CESC and CSIC will then publish the new reserve list in a timely manner.

## **10. Amendments and Supplements to Index Methodology**

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

## **11. Information Disclosure**

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

- Any personnel of CESC and CSIC 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 CSIC.
- In general, result of the regular index review is published two weeks before the effective date. Non-regular adjustment in constituents will be published as soon as practicable. Changes in index methodology and index maintenance rules are usually published two weeks before the effective date.

## 12. Index Dissemination

### 12.1 Index Code

Index Name	Abbreviation	Index Currency (Real Time)	Index Code (Real Time)
CES CHINA 120 INDEX	CES120	CNY	CES120
CES CHINA A80 INDEX	CESA80	CNY	CESA80
CES CHINA HK MAINLAND INDEX	CES HKMI	HKD	CESHKM
CES CHINA 280 INDEX	CES 280	CNY	CES280

### 12.2 Dissemination Channels

CES 120, CES A80, CES HKMI and CES 280 are disseminated via various channels to onshore and offshore markets:

- Broadcasted via HKEx's and CSIC's real time broadcast systems;
- Released real time globally via global information vendors;
- Published daily through the Internet at CESC's website:  
<http://www.cesc.com/>.
- Published daily through the Internet at CSIC's website:  
<http://www.csindex.com.cn/>.
- The total return indices of CES 120, CES A80, CES HKMI and CES 280 are published daily after the close of trading through the Internet at CESC's website: <http://www.cesc.com/> and CSIC's website: <http://www.csindex.com.cn/>

### 12.3 Dissemination Frequencies

CES 120, CES A80, CES HKMI and CES 280 are calculated every one second and disseminated every five seconds.

## Appendix A: Free Float

Some of the issued shares are almost illiquid within a specific period of time owing to sales restriction or strategic holding and so on. The investment opportunity of the index will not be truly reflected if these non-negotiable shares are included in compilation of the index. Hence, a free float market capitalisation weighted method is used to calculate the index.

### 1. Scope of Free Float

Free float is defined as the issued shares tradable in the open stock market. The restricted shares and any holdings of shares classified under the six categories listed below will be deemed as non-free float shares for A Share and HK securities:

- (1) Long term holdings by founders, their families and senior executives of the company: Shares held by founders or founders' families as well as shares held by board members, supervisors and members of the senior management team etc.
- (2) Government holdings: Shares held by the government or agencies.
- (3) Strategic holdings: Shares held by strategic investors for long-term strategic interests subject to lock-up period.
- (4) Frozen shares: Frozen shares held by investors.
- (5) Restricted employee shares: Shares held by employees including employee pension plan, annuities for employees or management staff subject to lock up period.
- (6) Cross holdings: Two or more listed companies holding shares of other listed company(ies) which results in cross holdings.

## **2. Identification of Free Float**

(1) Restricted shares subject to lock-up period are deemed as non-free float.

(2) For non-restricted shares, the shares are deemed as non-free float if the shareholding held by shareholders classified under the six categories above together with persons acting in concert exceeds 5%. For the avoidance of doubt, any shareholdings, including any of the above six categories of less than 5% is treated as free float.

(3) Restricted shares after the lock-up period are treated the same way as non-restricted shares.

## **3. Information Source**

Free float is determined using all public information that is required to be disclosed by existing laws and regulations, which includes:

- (1) Prospectus and listing notice;
- (2) Financial report; and
- (3) Company announcement.

## **4. Adjustment of Free Float**

Free float changes resulting from shareholder actions are implemented in the semi-annual index regular review. The adjustment will take effect after the market close on the second Friday of June and December.

## Appendix B: Definition

1. A Share – Securities of Chinese incorporated companies that trade on the SSE (Main Board) or SZSE (Main Board, SME Board and ChiNext), quoted in Renminbi (RMB).
2. ST Stocks – ST Stocks refer to stocks that are specially treated by regulators due to losses suffered for two consecutive years or other reasons.
3. \*ST Stocks – Stocks that are specially treated by regulators and defined as stocks with potential delisting risks.
4. Listing Suspension – Shares of company have been suspended from listing by SSE and SZSE.
5. Review Data Cutoff Date (“Review Cutoff Date”) – the cutoff date for June and December review on 30<sup>th</sup> April or 31<sup>st</sup> October as the case may be.
6. Adjusted price of ex-dividend and ex-right – The reference price published by the exchanges on the ex-right (dividend) day which is used to notify investors that the intrinsic value of the stocks have been diluted due to dividend or rights offering.

a) Dividend

$$\text{Ex-dividend price} = \text{Closing price before ex-dividend day} - \text{Dividend per share}$$

b) Bonus issue

$$\text{Ex-bonus price} = \frac{\text{Closing price before ex-bonus day}}{1 + \text{Bonus issue ratio}}$$

c) Rights issue

$$\text{Ex-right price} = \frac{\text{Closing price before ex-right day} + \text{Rights issue price} \times \text{Rights issue ratio}}{1 + \text{Rights issue ratio}}$$



d) Stock split and stock consolidation

$$\text{Ex-right price} = \text{Closing price before ex-right} \times \frac{\text{Total number of shares before ex-right day}}{\text{Total number of shares on ex-right day}}$$

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