



**中華證券交易服務有限公司**

**CHINA EXCHANGES SERVICES  
COMPANY LIMITED**

# **CES China Cross Border Index Methodology**

**December 2020**

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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.

The CES China Cross Border Index series is a price return indices and includes CES CHINA 120 INDEX (CES 120), CES CHINA A80 INDEX (CES A80), CES CHINA HK MAINLAND INDEX (CESHKMI) and CES CHINA 280 INDEX (CES 280), the index series provides a measure of market performance for Chinese large and mid cap securities 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 SSE or SZSE listed share listed on SSE or SZSE.
CES HKMI	18-3-2013	Consists of the 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 SSE or SZSE listed 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 “SSE or SZSE listed share Segment”.

**CES CHINA A80 INDEX and CES 280 A SHARE SEGMENT.** The index universe of CES A80 and CES 280 SSE or SZSE listed share Segment includes the SSE or SZSE listed shares listed on SSE and SZSE that satisfy the following conditions:

- The security, which is listed on Shanghai and Shenzhen Main Board or Shenzhen Small & Medium Enterprise Board, has been listed for more than three months unless the security meets the following criteria: the average daily total market value of the security from the fourth day since its initial listing date to the review period is ranked within the top 10 of all SSE and SZSE listed securities; and
- As at the Review Cutoff Date, the Securities listed on ChiNext of SESE must have a listing history for more than three years; and
- As at the Review Cutoff Date, the securities listed on the Science and Technology Innovation Board must have a listing history for more than one year; and
- Non-ST or \*ST securities.

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

- Common securities and REITs with primary listing or secondary listing on SEHK

(main board or GEM);

- The security has been listed for more than 3 months as at the Review Cutoff Date unless the average daily total market value 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 average daily closing price in the most recent year is less than 0.1 HKD;
- Exclude securities of which the average daily 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 average daily turnover ratio<sup>^</sup> in the most recent three months does not meet the requirement. Securities are ranked by average daily turnover ratio in descending order. The cumulative average daily market value coverage is then calculated for each security and the securities of which the cumulative average daily market value coverage is beyond 90% are excluded. ^  
Average daily turnover ratio = Average (Daily trading value / total market value)

### 3. Selection Criteria

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

**CES CHINA 280 INDEX.** The index universe for CES 280 is comprised of the “SEHK-listed Mainland Securities Segment” and the “SSE or SZSE listed share Segment”.

**CES CHINA A80 INDEX and CES 280 SSE OR SZSE LISTED SHARE SEGMENT.** The constituents of CES A80 and CES 280 SSE or SZSE listed 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 securities must be in the highest 50% of all SSE or SZSE listed share when ranked by average daily trading value. For existing constituents, the average daily trading value ranking must be in the highest 60% of all SSE or SZSE listed share. Average daily trading value is defined as follows:
  - ◆ The SSE and SZSE listed security average daily trading value during the most recent year for securities or,
  - ◆ For newly listed securities, the average daily 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 SSE or SZSE listed share ranked by average daily total market value<sup>^</sup> are chosen for inclusion in the index.

#### CES CHINA A80 INDEX

- **Size Screen.** Following the liquidity screen above and excluding the

constituents of CES A80, the next 200 SSE or SZSE listed share ranked by average daily total market value<sup>^</sup> are chosen for inclusion in the index.

<sup>^</sup>Average daily total market value is defined as follows:

- ◆ The SSE or SZSE listed share average daily total market value during the most recent year or,
- ◆ For newly listed securities, the average daily total market value 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 average daily trading value. For existing constituents, the average daily trading value ranking must be in the highest 60% of all securities. Average daily trading value is defined as follows:
  - ◆ The share's average daily trading value during the most recent year or,
  - ◆ For newly listed securities, the average daily 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 one of the following three criteria:
  - ◆ The listed entity is incorporated in Mainland China; or
  - ◆ The operation centre of the listed entity is in Mainland China; or
  - ◆ 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 average daily total market value<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 average daily total market value<sup>^</sup> are chosen for inclusion in the index.

<sup>^</sup>Average daily total market value is defined as follows:

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

## 4. Index Calculation

The 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 the CES 120, CES A80, CES HKMI and CES 280 is December 31, 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 following formula:

Current Index = Current Total Adjusted Market-Cap / Divisor × Base Value

Where Current Total Adjusted Market-Cap =  $\sum(\text{Security Price} \times \text{Number of Free Float Adjusted Shares} \times \text{Weight Factor} \times \text{Foreign Exchange Rate})$

SSE and SZSE listed The **Category-Weighted 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 **Foreign Exchange Rate** is 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 value 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 the 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 the CES A80 is based on the 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 latest 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, & senior executives of the company**

**(2) Government holdings**

**(3) Strategic holdings**

**(4) Frozen shares during 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.

Free Float = Total number of SSE or SZSE listed shares (or Hong Kong listed shares) — Non-free float shares

Further provisions on Free Float are set in Appendix A.

4.5 Category-Weighted 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 SSE or SZSE listed share (or Hong Kong listed share) based on the percentage of Negotiable Market value Ratio over the total number of shares.

- Negotiable Market Cap Ratio = Free Float of SSE and SZSE listed security (or Hong Kong listed shares) / Total number of SSE and SZSE listed security (or Hong Kong listed shares)
- Adjusted Shares = Total number of SSE or SZSE listed shares (or Hong Kong listed shares) × Inclusion Factor

Inclusion factor is determined by the following chart:

**[Category-Weight Chart]**

Negotiable Market Cap Ratio (%)	≤15	(15, 20]	(20, 30]	(30, 40]	(40, 50]	(50, 60]	(60, 70]	(70, 80]	>80
Inclusion Factor (%)	Negotiable Market Cap Ratio cap ratio round up to the nearest percentage point								
	20	30	40	50	60	70	80	100	

**[Example of the Application of the Category-Weight Method]**

Security	Security A	Security B	Security C
Total SSE or SZSE listed shares	100,000	8,000	5,000
Non Free Float	88,800	4,500	900
Free Float			
= Total SSE or SZSE listed shares - Non Free Float	11,200	3,500	4,100
Negotiable Market Cap Ratio			
= Free Float / Total SSE or SZSE listed 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 securities, 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, security splits and security 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 value 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

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

$$\text{Adjusted Market Cap after Adjustment} = \text{Adjusted Market value before adjustment} + \text{Adjusted Market value increase (or decrease)}$$

The new divisor derived from this formula is used for later 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 issue, rights issues, security splits and security consolidations: The index is adjusted on the day of the ex-right date.

$$\text{Market value after the Adjustment} = \text{Ex-right Price} \times \text{Adjusted No. of Shares} + \text{Market value before the Adjustment (excluding shares under adjustment for bonus issues, rights issues, security splits and security consolidations)}$$

#### 6.2.2 Share changes caused by other corporate actions

- 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.

Adjusted Market value after the Adjustment = closing price × 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 value (issue price x total number of SSE or SZSE listed share) of an IPO to the average daily market value of all other SSE or SZSE listed 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 security 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 average daily market value during the relevant period will be removed from the index.

For CES HKMI: Following comparison of the total market value (issue price x total number of securities) of an IPO to the average daily market value 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 average daily market value 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 security 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 security 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 security in the reserve list, then the new company will be added to the index. Otherwise, the highest ranking security 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 security 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 value of the resulting new company ranks among the top 10 in the SSE and SZSE listed security market or HK securities market, then fast entry rules will apply. Otherwise, these corporate events will be considered at 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 security 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 security 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 security 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 security 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 security in the reserve list, then the highest ranking security 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 Delisting

If a constituent company is delisted from the market, it will be removed from the index

and replaced by the highest ranking security in the reserve list.

## 7.6 Bankruptcy

If a constituent company enters into bankruptcy proceedings or is adjusted bankrupt, it will be removed from the index and the highest ranking security 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 Periodical 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 is employed during the reconstitution of the CES 120, CES A80, CES HKMI and CES 280.

- For CES A80, candidate securities 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 securities with the highest ranking will be added into the index.
- For the CES 280 SSE or SZSE listed share Segment, constituents of CES A80 are excluded; Candidate securities 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 securities with the highest ranking will be added into the index.
- For CES HKMI, candidate securities 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 securities 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 securities 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 securities with the highest ranking will be added into the index.

## 8.5 Reserve List Maintenance

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

## 8.6 Long Suspension Securities

**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 securities not included in the index.** Securities that are not index constituents and have been suspended during the review period:

- Securities 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.

- Securities that have been suspended for close to 3 months as of the Review Cutoff Date may be considered as candidate.
- Securities 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 Securities Experiencing Financial Losses

During regular review of constituents, securities that experiences losses as reported in financial statements will, in principle, be ineligible candidates for CES A80 and CES 280 SSE or SZSE listed share Segment unless the security exerts great impact on the representativeness of index. In that case, the candidate security for CES 120 and CES A80 will be changed accordingly.

## 9. Constituents 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 securities are included in the reserve list of CES A80, CES HKMI and the CES 280 SEHK-listed Mainland Securities Segment and 10 securities are included in the reserve list of CES 280 SSE or SZSE listed share Segment.
- If non-regular index reconstitution is required (due to delisting, merger etc.) leading to a vacancy in constituent securities, the highest ranking security on the reserve list will be added to the index.
- When the number of securities 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 securities 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 securities on the reserve list of the CES 280 SSE or SZSE listed share Segment is reduced to less than 5, candidate securities 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 Complements 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	Short Name	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

The 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 indexes 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/>.
- The total return indexes of the 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

The 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 value 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 security 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 SSE or SZSE listed share and HK securities:

- Long term holdings by founders, their families and senior executives of the company: Shares held by founders or founder families as well as shares held by board members, supervisors and members of the senior management team etc.
- Government holdings: Shares held by the government or agencies.
- Strategic holdings: Shares held by strategic investors for long-term strategic interests subject to lock-up investors.
- Restricted employee shares: Shares held by employees including employee pension plan, annuities for employees or management staff subject to lock up period.
- Cross holdings: Two or more listed companies holding shares of other listed company/companies 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-in 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:

- Prospectus and listing notice; and
- Periodic report; and
- 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. SSE or SZSE listed shares – 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 securities – ST securities refer to securities that are specially treated by regulators due to losses suffered for two consecutive years of other reasons.
3. \*ST securities – Securities that are specially treated by regulators and defined as securities with potential delisting risks.
4. 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.
5. 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 securities have been diluted due to dividend or rights offering.

a) Dividend

Ex-dividend price = Closing price before ex-dividend day – Dividend per share

b) Bonus issue

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

c) Rights issue

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

d) Security split and security consolidation

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

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