

GROUND RULES FOR THE

**ChiNext Index**



**Shenzhen Securities Information Co., Ltd.**

**February, 2019**

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## SECTION 1

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### 1.0 INTRODUCTION

**1.1** This paper sets out the Ground Rules for the management of the ChiNext Index. The index is developed by Shenzhen Securities Information Co., Ltd ('SSI'). Copies of the Ground Rules are available from SSI on the website [www.cnindex.com.cn](http://www.cnindex.com.cn).

**1.2** ChiNext Index is designed to represent the performance of top 100 ChiNext market A-share listed companies ranked by total market capitalization.

**1.3** Index Information:

Index Code	399006	399606
Bloomberg Ticker	SZ399006	SZ399606
Reuters RIC	.CHINEXTP	.CHINEXTTR
ISIN	CNM100002K13	CNM100002K21
Index Name	ChiNext Index	ChiNext TRN Index
Index Type	Price Index	Total Return Index
Base Date	May 31 <sup>st</sup> ,2010	May 31 <sup>st</sup> ,2010
Base Value	1000	1000
Launch Date	June 1 <sup>st</sup> ,2010	June 1 <sup>st</sup> ,2010
Number of Constituents	100	100

**1.4** The ChiNext Index includes both the price index and the total return index. Both price index and total return index are calculated on a real time basis (every 3 seconds) in Chinese Yuan, and disseminated through the real-time market quotation system of Shenzhen Stock Exchange. The data are also globally disseminated by those authorized market data vendors like Bloomberg, FactSet, Thomson Reuters, IDC, etc.

**1.5** ChiNext Index is the asset owned by Shenzhen Stock Exchange. Shenzhen Stock Exchange has appointed SSI to be its index business agency (including index research & development, maintenance & operation as well as marketing & sales). Without the authorization of Shenzhen Stock Exchange or SSI, the index shall not be tracked, traded or used as the benchmark for the investment evaluation by any institution or individual for commercial use.

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## **SECTION 2**

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### **2.0 INDEX MANAGEMENT**

#### **2.1 Shenzhen Securities Information Co., Ltd ('SSI')**

2.1.1 SSI is responsible for the operation of the ChiNext Index. SSI will maintain records of the total market capitalization of all constituents and will make changes to the constituents and their weightings in accordance with the Ground Rules. SSI will carry out reviews and implement the resulting constituent changes as required by the Ground Rules.

2.1.2 Changes to constituent weightings will be made by SSI in accordance with the Ground Rules. SSI is responsible for publicizing and keeping a record of all changes to constituent weightings. The weightings of constituents in the real time indices shall be used in the calculation of the end of day indices

#### **2.2 Status of these Ground Rules**

2.2.1 These Ground Rules provide information about the publication of the ChiNext Index and set out the methodology underlying ChiNext Index.

2.2.2 Investors who choose to follow ChiNext Index or to buy products that claim to follow ChiNext Index should assess the merits of the index's rules-based methodology and take independent investment advice before investing their own or client funds. No liability whether as a result of negligence or otherwise is accepted by SSI (or any person concerned with the preparation or publication of these Ground Rules) for any losses, damages, claims and expenses suffered by any person as a result of:

- any reliance on these Ground Rules, and/or
- any errors or inaccuracies in these Ground Rules, and/or
- any non-application or misapplication of the policies or procedures described in these Ground Rules, and/or
- any errors or inaccuracies in the compilation or any constituent data in the Index.

#### **2.3 Amendments and Exceptions**

2.3.1 Where an exception is granted to the Ground Rules, it shall not be deemed to create a precedent for future decisions of SSI.

2.3.2 Changes to the Ground Rules can only be made by SSI.

2.3.3 Changes to the Ground Rules are announced after being approved and will be announced to the market at the proper time prior to their implementation.

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## **SECTION 3**

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### **3.0 INDEX CONSTRUCTION**

#### **3.1 Eligible Securities**

3.1.1 A-Share listed companies on ChiNext markets of Shenzhen Stock Exchanges are eligible for inclusion in the ChiNext Index, subject to conforming to all other rules.

3.1.2 Stocks that have not been issued with a delisting-risk alert by the Shenzhen Stock Exchange.

3.1.3 Eligible stocks must have been listed for more than 6 months (unless its daily average total market capitalization ranks within the top 1% among all stocks in SZSE);

3.1.4 Eligible candidate companies shall not be penalized, either economically or administratively, by CSRC due to any violation of laws and regulations in the most recent year.

3.1.5 Convertible preference shares and loan stocks are excluded until converted.

3.1.6 Companies whose business is that of holding equity and other investments (e.g. Investment Trusts) which are assumed as equity investment instruments sector and non-equity investment instruments which are assumed as non-equity investment instruments sector will not be eligible for inclusion.

#### **3.2 Free Float**

3.2.1 The free float shares are the amount of tradable shares outstanding in the open stock market. It is defined as all negotiable shares of the company minus the negotiable shares held by the following 3 types of shareholders with holding proportion exceed 5% of the company's total shares, and persons acting with them in consort:

- a) the government holdings,
- b) strategic holdings, or
- c) long term holdings by founders, families or senior executives.

Actual number of free float shares is used in the calculation of ChiNext Index.

#### **3.3 Selection Methodology and Procedures for the ChiNext Index**

3.3.1 Eligible stocks as specified in section 3.1 are ranked on daily average turnover

in the last 6 months in descending order.

3.3.2 The bottom 10% of the stocks will then be excluded from index universe, according to the ranking in 3.3.1.

3.3.3 The remaining eligible stocks will be ranked again on their daily average total market capitalization in the last 6 months.

3.3.4 The stocks which rank in top 100 will be selected as constituents of ChiNext Index.

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## **SECTION 4**

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### **4.0 PERIODIC REVIEW OF CONSTITUENTS**

#### **4.1 Review Dates**

4.1.1 The ChiNext Index will be reviewed semi-annually in May and November using data as at the close of business on the last day in April (for May reviews) and October (for November reviews).

4.1.2 The periodic reviews are semi-annually implemented on the next trading day after the second Friday in June (for May reviews) and December (for November reviews) each year.

4.1.3 Announcements of the constituent reviews are usually published two weeks prior to the implementation of the reviews.

#### **4.2 Rules for Insertion and Deletion at the Periodic Review**

4.2.1 For ChiNext Index, the rules for inserting and deleting securities at the periodic review are designed to provide stability while ensuring that the indices continue to be representative of the market by including or excluding those securities which have risen or fallen significantly.

4.2.2 A company will be inserted at the periodic review if its ranking as specified in section 3.3.3 rises above the position stated below:

ChiNext Index - Risen to 70<sup>th</sup> or above

4.2.3 An original constituent company will be deleted from the periodic review if its ranking as specified in section 3.3.3 falls below the position stated below:

ChiNext Index - fallen to 130<sup>th</sup> or below

4.2.4 For the ChiNext Index, the number of constituent adjusted shall not exceed 10% of the sample size, or say, 10 constituents per time.

However, only securities subject to rule 3.1 are considered eligible for inclusion. Where this leads the proportion of constituent changes more than 10% of the sample size, rule 3.1 will take precedence over rule 4.2.4.

4.2.5 A constant number of 100 constituents will be maintained for the ChiNext Index after each periodic adjustment.

Where a greater number of companies qualify to be inserted in an index than

those qualifying to be deleted, the lowest ranking constituents presently included in the index will be deleted to ensure that an equal number of companies are inserted and deleted at the periodic review. Likewise, where a greater number of companies qualify to be deleted than those qualifying to be inserted, the securities of the highest ranking companies which are presently not included in the index will be inserted to match the number of companies being deleted at the periodic review.

### **4.3 Monitoring of Eligible Companies**

4.3.1 The total market capitalization and turnovers of companies eligible for inclusion in the ChiNext Index are monitored by SSI. All listed securities that fulfill the selection criteria of the index universe will be included in the periodic reviews.

### **4.4 Capping Methodology**

4.4.1 The ChiNext Index doesn't implement capping methodology.

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## **SECTION 5**

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### **5.0 CHANGES TO CONSTITUENT COMPANIES**

#### **5.1 New Issues**

5.1.1 SSI will be notified if there is any new company issue expected. When a new issued company's daily average total market capitalization for the first 5 trading days ranks within the top 10 in the SZSE market, it will be added into the index on 15th trading day to replace the constituent with the smallest total market capitalization.

5.1.2 If a non-constituent and eligible company's daily average total market capitalization for the first 5 trading days ranks within the top 10 in the SZSE market after merger or takeover or restructuring , it will be added into the index on 15th trading day to replace the constituent with the smallest total market capitalization.

#### **5.2 Deletions and Replacements**

5.2.1 If a constituent is de-listed, suspended from listing, ceases to have a firm quotation, is subject to a take-over or has, in the opinion of SSI, ceased to be a viable constituent as defined by the Ground Rules, it will be removed from the ChiNext Index.

5.2.2 In cases of delisting and suspension of listing, the constituent will be removed from the index at the end of the last trading day before the constituent is delisted or suspended from listing.

5.2.3 When a company is removed from the ChiNext Index, the vacancy will be filled by the non-constituent and eligible stock in the index universe with the highest ranking as specified in 3.3.3.

#### **5.3 Mergers, Restructuring and Complex Takeovers**

5.3.1 If the effect of a merger or takeover is that one constituent in the ChiNext Index is absorbed by another constituent in the same index, the resulting company will remain a constituent of the relevant Index, and a vacancy will be created. This vacancy will be filled by the non-constituent and eligible stock in the index universe with the highest ranking as specified in 3.3.3.

5.3.2 If the effect of a merger or takeover is that a non-constituent company is absorbed by a constituent in the index, the resulting company will remain a constituent of the ChiNext Index.

5.3.3 If a constituent company in the ChiNext Index is taken over by a non-constituent company, the original constituent will be removed and a vacancy will be created. If the ranking as specified in 3.3.3 of the new company after the merger's is still higher than any other non-constituent and eligible stock in the index universe, then the vacancy will be filled by the new company. Otherwise, the vacancy will be filled by the non-constituent and eligible stock in the index universe with the highest ranking.

5.3.4 If a constituent company is split to form two or more companies, a vacancy will be created. Whether the resulting companies will be included as index constituents depends on their ranking as specified in 3.3.3.

If the ranking of every resulting company is higher than the lowest constituent, then every resulting company will be added to the index, and the lowest constituent(s) will be removed to keep the number of the index constituents constant.

If the ranking of some resulting companies are higher than the lowest constituent, then those resulting companies will be added to the index, and the lowest constituent(s) will be removed to keep the number of the index constituents constant.

If the ranking of every resulting company is lower than the lowest constituent, but the ranking of every resulting company (or some resulting companies) is higher than the highest non-constituent in index universe, then the resulting company with the highest ranking will be added to the index.

If the ranking of every resulting company is lower than both the lowest constituent and the highest non-constituent in index universe, then the highest non-constituent in index universe will be added to the index.

5.3.5 Any changed pursuant to Rule 5.3 will be announced to the market prior to the implementation.

#### **5.4 Suspension of Trading**

5.4.1 If a constituent is suspended from trading it may remain in the indices at its suspension price until the next periodic review is applied.

#### **5.5 Changes to Prior Trading Day's Closing Price of Constituent**

5.5.1 For the total return index, when the company implements ex-right activities such as dividend payment, split and bonus, rights offerings, transfer of capital surplus reserve, then on the ex-right or ex-dividend date, the closing price of that stock on the date of record will be replaced by the ex-right reference price. The ex-right reference price is according to the data released by Shenzhen Stock Exchange.

5.5.2 For the price index, there is no adjustment in the circumstance of cash dividend payment on the ex-dividend date. The approaches applied for other ex-right activities are the same as the total return index.

## **5.6 Changes to Constituent's Free-Float Weight**

5.6.1 Changes to constituent's free-float weights due to corporate actions:

- a) When the constituent implements a rights and interests distribution, adjustment will be applied to the related constituent's weight according to the actual amount of shares it increased on the listing date of the split or the date of the transfer of capital surplus reserve.
- b) When the constituent implements an additional shares issuing or a right offering, adjustment will be applied to the related constituent's weight on the listing date of new shares.
- c) When the constituent implements a debt-to-equity swap, a share repurchase or a warrant exercising, adjustment will be applied on the next trading day after the date of announcement.
- d) When the constituent implements a non-tradable-share relisting, real-time adjustment is applied according to the free float market capitalization after paying for the consideration.

5.6.2 Changes to constituent's free-float weights due to non-corporate actions:

When constituent implements an original-restricted-share listing due to the reform of the non-tradable shares, releasing the public placing shares, releasing the private placement of additional shares owned by the major shareholders and the strategic investors, the major shareholders increasing or decreasing their holdings or other non-corporate actions which could incur the change in the free float market capitalization, adjustment will be applied collectively on the next trading day after the second Friday in June and December each year, according to the data announced in the latest periodic reports or interim report of the listed company.

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## SECTION 6

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### 6.0 INDEX ALGORITHM AND CALCULATION METHOD

#### 6.1 Prices

6.1.1 When the aggregate auction opens on each trading day, the opening price of the index is calculated by using the constituents' opening quotations; during the trading hours, the real time index is calculated by using the constituents' real time quotations; after the market is closed, the closing price of the index is calculated by using the constituents' closing quotations.

6.1.2 If no transaction of a constituent takes place on that day, the previous day's closing price is used for the calculation of the index; if the constituent is suspended from trading, the most recent price is used for the calculation of the index.

#### 6.2 Index Calculation

6.2.1 The price index is calculated using the Paasche-weighted formula:

$$\text{Index}_t = \text{Index}_{t-1} \times \frac{\sum(P_{i,t} \times \omega_{i,t})}{\sum(P_{i,t-1} \times \omega_{i,t})}$$

Where,

- $\text{index}_t$  is the latest index value on day t.
- $\text{Index}_{t-1}$  is the closing value of the index on previous business day.
- $p_{i,t}$  is the latest price of constituent  $i$  on day t.
- $\omega_{i,t}$  is the free float shares of constituent  $i$  on day t.
- $P_{i,t-1}$  is the closing price constituent  $i$  on previous business day t-1.
- $\sum$  means to aggregate.

6.2.2 The total return index is calculated using the Paasche-weighted formula:

$$\text{Index}_t = \text{Index}_{t-1} \times \frac{\sum(p_{i,t} \times \omega_{i,t})}{\sum \left[ \left( P_{i,t-1} - \frac{\text{Div}_i}{1 + \Delta F_i} \right) \times \omega_{i,t} \right]}$$

Where,

- $\text{Index}_t$  is the closing index value on day t.
- $\text{Index}_{t-1}$  is the closing value of the index on previous business day.
- $P_{i,t}$  is the closing price of constituent  $i$  on day t.
- $\omega_{i,t}$  is the free float shares of constituent  $i$  on day t.

- $P_{i,t-1}$  is the closing price constituent  $i$  on previous business day  $t-1$ . When companies implement ex-right/ex-dividend activities such as dividend payment, split and bonus, the closing price will be replaced by the ex-right/ex-dividend reference price offered by Shenzhen Stock Exchange.
- $Div_i$  is the cash dividend per share paid by constituent  $i$ .
- $\Delta F_i$  is the percentage of change in free float shares of constituent  $i$ .
- $P_{i,t-1} - \frac{Div_i}{1+\Delta F_i}$  is the ex-right/ex-dividend reference price offered by Shenzhen Stock Exchange when companies implement ex-right/ex-dividend activities such as dividend payment, split and bonus.
- $\Sigma$  means to aggregate.

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## APPENDIX A

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### A. INDEX OPENING AND CLOSING HOURS

Index		Open	Close
ChiNext Index	Morning	9:30	11:30
	Afternoon	13:00	15:00

Notes:

Timings are Beijing Hours.

## **APPENDIX B**

### **B. FURTHER INFORMATION**

The Ground Rules for Shenzhen and CNI Indices are also offered in Chinese versions on [www.cnindex.com.cn](http://www.cnindex.com.cn). In case of any discrepancies between Chinese and English versions, the Chinese versions shall prevail.

Further information on the ChiNext Index is available from SSI (website: [www.cnindex.com.cn](http://www.cnindex.com.cn)) who will also welcome comments on these Ground Rules and on the Index. Enquiries should be addressed in the first instance to:

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