

GROUND RULES FOR THE MANAGEMENT OF THE FTSE CHINA INTERNATIONAL INDEX



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SECTION 1

1.0 INTRODUCTION

- 1.1 This paper sets out the Ground Rules for the management of the FTSE China International Index. Copies of these Ground Rules are available from FTSE (see Appendix A) and www.ftse.com.
- 1.2 The FTSE China International Index is based on the FTSE All-World Index. The following eligible types of stocks are considered for index inclusion.
- H Shares
 - Red Chips
- 1.3 The FTSE China International Index is calculated daily on an end of day basis in Hong Kong dollars.
- 1.4 Capital and Total Net Return Indices are available. The Total Net Return Indices are calculated based on ex-dividend adjustments. Currencies provided for both indices will include Hong Kong dollars and US dollars.

SECTION 2

2.0 INDEX MANAGEMENT

- 2.1 The FTSE China International Index is managed by the FTSE Asia Pacific Regional Committee of the FTSE Equity Indices Committee.
- 2.2 The FTSE Asia Pacific Regional Committee is responsible for undertaking the review of the Index and for approving changes to the constituents. The FTSE Asia Pacific Regional Committee may also approve changes to the Ground Rules.
- 2.3 FTSE is responsible for the calculation of the Index. FTSE will maintain records of the market capitalisation of all constituents and will make changes to the constituents and their weightings in accordance with the Ground Rules. FTSE will implement the resulting constituent changes from the annual review or as otherwise required by the Ground Rules.

SECTION 3

3.0 ELIGIBLE SECURITIES

- 3.1 The eligible universe for the FTSE China International is any stocks in the FTSE All-World Index that are classified as H Shares or Red Chip companies.
- 3.2 Convertible preference shares and loan stocks are excluded until converted.
- 3.3 Companies whose business is that of holding equity and other investments (e.g. Investment Trusts) which are assumed by the Industry Classification Benchmark as Subsector equity investment instruments (8985) and Non-equity investment instruments which are assumed by the Industry Classification Benchmark as Subsector non-equity investment instruments (8995) will not be eligible for inclusion. For further details on the Industry Classification Benchmark (ICB), please visit the FTSE website.

SECTION 4

4.0 PERIODIC REVIEW OF CONSTITUENTS

- 4.1 The FTSE China International Index is reviewed annually in March in line with the FTSE Asia Pacific Regional Review.
- 4.2 Changes arising from the annual FTSE Asia Pacific Regional Review are implemented after the close of business on the third Friday in March.
- 4.3 The FTSE China International Index is subject to a 10 percent capping so that no constituent accounts for more than 10 percent of the index on a daily basis. Any constituent with a weight of over 10 percent using prices at the close of business will be capped at 10 percent.

SECTION 5

5.0 CHANGES TO CONSTITUENT COMPANIES

5.1 Removal

5.1.1 If a constituent ceases to be a constituent of the FTSE All-World Index it will be removed from the FTSE China International Index. The removal will be concurrent with its removal from the FTSE All-World Index.

5.2 Additions

5.2.1 If a constituent is added to the FTSE All-World Index it will be included in the FTSE China International Index. The inclusion will be concurrent with its inclusion in the FTSE All-World Index.

5.3 New Issues

5.3.1 All fast entries to the FTSE All-World Index will become members of the FTSE China International Index. The constituent will be added concurrent with its inclusion in the FTSE All-World Index.

SECTION 6

6.0 INDEX CALCULATION

6.1 Prices

6.1.1 The FTSE China International Index will use actual last trade prices, where available, for securities.

6.2 Calculation Frequency

6.2.1 The FTSE China International Index will be calculated on an end of day basis.

6.3 Index Calculation

6.3.1 The FTSE China International Index is calculated using the following formula:

$$IV = \frac{\sum_{i=1}^n ((p_i \cdot e) \cdot s_i \cdot c_i \cdot f_i)}{d} \text{ for } I = 1, 2, 3, \dots, n$$

n =	the number of securities in the Index.
p = Price	the latest trade price of the component security (or the price at the close of the Index on the previous day).
e = Exchange Rate	the exchange rate required to convert the security's currency into the index's base currency (if applicable).
s = Shares in Issue	the number of shares in issue used by FTSE for the security, as defined in these Ground Rules.
f = Investability Weighting	the factor to be applied to each security to allow amendments to its weighting, expressed as a number between 0 and 1, where 1 represents a 100% investability weighting. The investability weighting factor for each security is published by FTSE.
c = Capping Factor	the factor applied to each security to allow its weight within the Index to be capped, expressed as a number between 0 and 1 where 1 represents 100%, i.e. no cap. The capping factor is published by FTSE.
d = Divisor	a figure that represents the total issued share capital of the Index at the base date. The divisor can be adjusted to allow changes in the issued share capital of individual securities to be made without distorting the Index.

APPENDIX A: CONTACT DETAILS

Further information on the FTSE China International Index is available from FTSE, please visit www.ftse.com or contact FTSE via e-mail at info@ftse.com.

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