Ground Rules for FTSE Xinhua Insurance Investment Index

1.0 INTRODUCTION

1.1 FTSE Xinhua Insurance Investment Index has been designed for the Chinese insurance industry. The index is a fixed number index with 200 constituents.

1.2 The index is calculated real-time and published every 60 seconds in CNY and on an end of day basis in CNY and USD.

1.3 Total Return Indices are published at the end of each working day. The Total Return Indices are based on ex dividend adjustments.

2.0 REVIEW OF CONSTITUENTS

2.1 The index is reviewed quarterly. The quarterly review of the Index constituents takes place in January, April, July and October using data from the close of business on the next trading day following the third Friday in December, March, June and September. Any constituent changes will be implemented after the close of business on the third Friday in January, April, July and October.

2.2 The review will be carried in the following steps:

a. After completing the FTSE Xinhua indices quarterly review. The FTSE Xinhua 200 Index constituents are the basis for the index review.

b. Based on the China Insurance Regulatory Commission's (CIRC) "Rules regarding Insurance Company Investing in the Stock market";

  I. Special Treat (ST) stocks should be removed from the index.
  II. Companies with unfavorable auditor report (qualified opinions or refused opinion) on their most recently annual report will be removed from the index;
  III. Companies are under the investigation by regulatory government agencies or condemned by CIRC or punished by regulatory government agencies within one year will be removed from the index.
  IV. According to the most recent interim or annual report, the stocks that have the main revenue falling more than 50% comparing to the same interim/annual report in the previous year substantially or the performance have a substantial falling in the past three months (substantial performance falling means the main revenue 50% comparing to the same period of the previous year) or severe profit loss or predicted severe profit loss (include all kinds of profit loss) are removed from the index.

c. After the above, if there are less than 200 stocks in the index, the index will need to be rebalanced to 200 constituents. According to the full market capitalisation ranking, the highest ranking constituents in FTSE Xinhua 400 index will be selected, subject to b. above, until the index is balanced to 200 constituents.

d. The resulting 200 stocks from rule c. will form the proposed index after the review.

2.3 It is possible that between the review cut off date and the review date, there will be an unfavorable market action (Definition as 2.2b, for this monitor the price cut off date of rule 2.2b(II) will be the close of first Friday in April, July, October and January) for a proposed constituent company. The proposed constituent will then be taken out from the index and replaced by the top ranking company in the reserve list.

2.4 The reserve list is composed of the 10 highest ranking stocks by full market capitalisation that are not the constituents of the proposed index at the time of the review, subject to all eligibility screens. The reserve list will only be used at the review time in case any proposed constituent company is taken out of the index.

2.5 The index is implemented after the close of third Friday in April, July, October and January.

2.6 If there is a constituent company that has an unfavorable market announcement (see rule 2.2b(IV)) within one week of the implementation date, the stock will be deleted from the index as a fast deletion (see rule 3.2.1).

3.0 CHANGES TO CONSTITUENT COMPANIES

3.1 New Issues

3.1.1 If a new issue is qualified to be included in the FTSE Xinhua 200 index as an early entry, it will be included in the FTSE Xinhua Insurance Investment Index on the same day, i.e. after the close of business on the fifth day of official trading. The index will not be balanced to 200 stocks after the early entry until next quarterly review. This may result in a situation in wich more than 200 constituents exist in the index until the next review.

3.1.2 New issues of companies which do not qualify for early entry will be examined for inclusion in the next quarterly review subject to Rule 2.2.

3.2 Removal of constituents

3.2.1 Fast Deletions

If there is a constituent company that has an unfavorable market announcement (see rule 2.2b(IV)), the stock will be deleted from the index as a fast deletion. A technical notice will be sent out and the implementation will be on the close of the fifth day.

3.2.2 The other deletions resulting from corporate events will be treated the same as in all other FTSE Xinhua domestic family indices.

3.2.3 After the deletion of any constituent stock in the FTSE Xinhua Insurance Investment Index, the index will not be balanced to 200 constituents until next review. This means there may be the situation that less than 200 constituents exist in the index until next review.

4.0 OTHER ISSUES

4.1 If there is a constituent company with an unfavorable market announcement (see rule 2.2b(IV)), the impact of such issue on index calculation will last for at least three months. That means if the company is deleted due to rule 2.2b(IV), the company will not be included in the FTSE Xinhua Insurance Investment Index constituents review universe until the second quarterly review after the announcement.

4.2 A company with an unfavorable auditor report (qualified opinions or refused opinion) on their most recently annual report will not be included in the FTSE Xinhua Insurance Investment Index constituents review universe until the next annual report is published.

4.3 All other issues that are not mentioned in the Rules will follow the Ground Rules for FTSE Xinhua Domestic Index Series. Please refer to http://www.ftse.com/xinhua/Indices/Domestic_Investors/Downloads/FXI_Insurance_Investment_Index_Rules_CH.pdf

APPENDIX 1

INDICES ALGORITHM AND CALCULATION METHOD

The indices are calculated using the algorithm described below.

$$\sum \frac{((p^n_1 \bullet e^n_1) \bullet s^n_1 \bullet f^n_1}{D}$$

$$n = 1,2,3..........,N$$

N	=	Number	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 home currency into the index's base currency.
s	=	Shares in Issue	The number of shares in issue used by FTSE Xinhua for the security, as defined in these Ground Rules.
f	=	Free Float Factor	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% free float. The free float factor for each security is published by FTSE Xinhua.
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.

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