

**GROUND RULES FOR THE  
MANAGEMENT OF THE  
FTSE XINHUA CHINA INDEX**

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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 FTSE Xinhua China Index. Copies of the Ground Rules are available from FTSE Xinhua (see Appendix B) and [www.ftsexinhua.com](http://www.ftsexinhua.com).
- 1.2 The FTSE Xinhua China Index is based on the FTSE Global Equity Index Series, for instance the free float, the liquidity rules and the corporate event treatment. For more information, please read in conjunction with the FTSE Global Equity Index Series on the website [www.ftse.com](http://www.ftse.com).
- 1.3 The FTSE Xinhua China Index is designed to represent the performance of all the Large and Mid Cap stocks that are either a Red Chip or an H Share stock according to the FTSE Global Equity Index Series. Details of both stock types are described in Rule 4.1.
- 1.4 The FTSE Xinhua China Index will consist of an index that does not contain a fixed number of constituents and any buffers. The constituents will be ranked by full market capitalisation, but weighted by investability weighting.
- 1.4 The index is calculated and published in Hong Kong Dollars.
- 1.5 The FTSE Xinhua China Index is calculated in real-time and published every 15 seconds. End of day Index Values will be provided in HK Dollars, US Dollars, UK Pounds Sterling, Euro, Japanese Yen and Chinese Yuan (Ren Min Bi).
- 1.6 Total Return Indices are published at the end of each working day. The Total Return Indices are based on ex dividend adjustments.

## SECTION 2

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### 2.0 STATUS OF INDICES

2.1 The FTSE Xinhua China Index is calculated in real time and may exist in the following states:

(a) **Firm**

The index is being calculated using trade prices from the Hong Kong stock exchange for all constituents during the hours of the Official Index Period (see Appendix A). The message '**FIRM**' is displayed against the index value.

The Official Closing Index for FTSE Xinhua China Index is the last index value calculated at the end of the firm period.

(b) **Closed**

When the index has ceased all calculations for the day, the message '**CLOSE**' is displayed against the index value.

(c) **Held**

During the firm period, the index has exceeded pre-set operating parameters and calculation has been suspended pending resolution of the problem. The message '**HELD**' is displayed against the last index value calculated.

(d) **Indicative**

If there is a system problem or a situation in the market that is judged to be affecting the quality of the constituent prices at any time when the index is being calculated, the index will be declared indicative. The message '**IND**' will be displayed against the index value.

(e) **Part**

If the index is being calculated during the normal Official Index Period hours, but there are less than 75% of the constituents by capitalisation available with firm prices, then the index will be displayed with the message '**PART**' to indicate that only a proportion of the securities prices are included. With the exception of the message '**PART**', the index will continue to be calculated and displayed as if it were firm.

2.2 The official opening and closing hours of the FTSE Xinhua China Index are set out in Appendix A. Variations to the official hours of the indices are published by FTSE as appropriate.

2.3 The FTSE Xinhua China Index will not be calculated on Hong Kong Public Holidays.

## **SECTION 3**

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### **3.0 MANAGEMENT RESPONSIBILITIES**

#### **3.1 FTSE International Limited (FTSE)**

- 3.1.1 FTSE is responsible for the operation of the FTSE Xinhua China 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 carry out reviews and implement the resulting constituent changes as required by the Ground Rules.
- 3.1.2 Changes to constituent weightings will be made by FTSE in accordance with the Ground Rules. FTSE is responsible for publicising 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.
- 3.1.3 FTSE is also be responsible for monitoring the performance of the FTSE Xinhua China Index throughout the day and will determine whether the status of the Index should be Firm, Held, Indicative or Part (see Rule 2.1).

#### **3.2 Re-calculations**

- 3.2.1 The FTSE Xinhua China Index is recalculated whenever errors or distortions occur that are deemed to be significant. Users of the FTSE Xinhua China Index are notified through appropriate media.

#### **3.3 Status of these Ground Rules**

- 3.3.1 These Ground Rules are a guide to the policies and procedures applying at the date of publication to the operation and maintenance to the FTSE Xinhua China Index. They have been prepared and approved by FTSE and Xinhua. However, these policies and procedures, and their precise application, are subject to variation and periodic review.
- 3.3.2 The purpose of publishing this guide is to provide information about the general basis on which decisions relating to the calculation and publication of the FTSE Xinhua China Index are currently made.
- 3.3.3 In light of the intended purpose of this guide, and the likely variation and periodic review of the policies and procedures it contains, no liability whether as a result of negligence or otherwise is accepted by FTSE (or any person concerned with the preparation or publication of this guide) for any losses, damages, claims and expenses suffered by any person as a result of:
- a) any reliance on this guide, and/or
  - b) any errors or inaccuracies in this guide, and/or
  - c) any non-application or misapplication of the policies or procedures described in this guide, and/or
  - d) any errors or inaccuracies in the compilation or any constituent data.

#### **3.4 Industry Classification Committee**

- 3.4.1 The Industry Classification Committee is responsible for the industry classification of constituents in the FTSE Xinhua China Index within the Industry Classification Benchmark. Any changes approved will be in line with the FTSE Global Equity Index Series.

## **SECTION 3**

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### **3.5 FTSE Xinhua Index Committee**

3.5.1 The FTSE Xinhua Index Committee will be notified about the changes from the periodic review or any events that happen once FTSE have approved any forthcoming changes.

### **3.6 Amendments and Exceptions to the Ground Rules**

3.6.1 In the event that any of those responsible for the operation and administration of the FTSE Xinhua China Index consider that an exception should be made to any of the Ground Rules, the issue must be brought to the attention of FTSE.

3.6.2 Where an exception is granted to the Ground Rules under Rule 3.6.1, it shall not be deemed to create a precedent for future decisions of FTSE.

3.6.3 Changes to the Ground Rules can only be made by FTSE.

3.6.4 Material changes to the Ground Rules are announced after the periodic meeting at which they are agreed, but they will not come into effect until after they have been confirmed at the following periodic meeting in order to allow for comments from index users and the market in general.

## SECTION 4

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### 4.0 INDEX CONSTRUCTION

#### 4.1 Eligible Securities

4.1.1 The FTSE Xinhua China Index consists of companies in the FTSE China Index and the FTSE Hong Kong Index based on the FTSE Global Equity Index Series. All share classes are included, while only the eligible share classes are included in the index weighting. All classes of equity in issue are eligible for inclusion in the FTSE Xinhua China Index subject to conforming to Section 4.

4.1.2 Only Large and Mid Cap companies that are 'H' Shares in the FTSE China Index and 'Red Chip' Shares in the FTSE Hong Kong Index will be eligible for inclusion in the FTSE Xinhua China Index.

a) 'H' Shares are securities of companies incorporated in the People's Republic of China and nominated by the Central Government for listing and trading on the Hong Kong stock exchange. They are quoted and traded in Hong Kong dollars. Like other securities trading on the Hong Kong stock exchange, there are no restrictions for trading.

b) 'Red Chip' Shares are securities incorporated outside the People's Republic of China that trade on the Hong Kong stock exchange. They are quoted in Hong Kong dollars. Red Chips are companies that are substantially owned directly or indirectly by the Chinese Government and have the majority of their business interests in mainland China. The Red Chip status of a stock would only change if:

- An existing index constituent classified as Red Chip will lose its Red Chip status if its ownership by the Mainland Chinese Government or Hong Kong companies which are controlled by the Mainland Government has fallen below 25% at the time of review.
- A company not classified as Red Chip for the purposes of the FTSE Xinhua China Index inclusion must have over 35% of its share capital owned by the Mainland Chinese Government, or Hong Kong companies which are controlled by the Mainland Government at the time of review to be classified as a Red Chip.

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

4.1.4 Companies whose business is that of holding equity and other investments (e.g. Investment Trusts) are not eligible for inclusion in the Index. These have been assumed by the Industry Classification Benchmark as Subsector equity investment instruments (8985) which are excluded.

4.1.5 Exchange Traded Funds (ETFs) and funds whose prices are a direct derivation of underlying holdings (e.g. Unit Trusts, Mutual Funds) are not eligible for inclusion. These have been assumed by the Industry Classification Benchmark as Subsector non-equity investment instruments (8995) which are excluded.

4.2 Free float for each company will be based in accordance with the FTSE Global Equity Index Series.

4.3 Where a company's shares are issued partly, or nil, paid and the call dates are already determined and known, the market price will, for the purposes of calculating its market capitalisation, be adjusted so as to include all such calls (i.e. the fully paid price).

4.4 Liquidity for each will be based in accordance with the FTSE Global Equity Index Series.

## **SECTION 5**

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### **5.0 FTSE XINHUA CHINA INDEX REVIEW OF CONSTITUENTS**

#### **5.1 Review Dates**

- 5.1.1 The FTSE Xinhua China Index is reviewed at the same time as the FTSE Global Equity Index Series regional review in March using data as at the close of business on the last working day in December.
- 5.1.2 All the relevant changes arising from the review of the FTSE Global Equity Index Series will be applied to the FTSE Xinhua China Index. The review implementation date is the same as FTSE Global Equity Index Series.
- 5.1.3 Details of the outcome of the review and the dates on which any changes are to be implemented, will be published as soon as possible.

#### **5.2 Responsibilities and Reporting**

- 5.2.1 FTSE is responsible for conducting the annual review of constituents for the FTSE Xinhua China Index. Any constituents to be inserted or deleted as part of the annual review will follow the procedure shown in Rule 5.3.
- 5.2.2 FTSE will decide whether to approve the recommendation presented to it or will determine what other action should be taken in consequence of the outcome of the review of constituents.
- 5.2.3 FTSE is responsible for publicising the outcome of the annual review.

#### **5.3 Rules for Insertion and Deletion at the Annual Review**

- 5.3.1 At review, all constituents of the FTSE Xinhua China Index must be existing or pending constituents to the FTSE Global Equity Index Series, i.e. the review will take into consideration any constituent changes to the FTSE Global Equity Index Series as announced by FTSE at the periodic meetings and will therefore be conducted before the implementation date of these changes. Exceptionally, other significant companies may be included in the Index at the discretion of FTSE.

#### **5.4 Monitoring of Eligible Companies**

- 5.4.1 The market capitalisation of companies eligible for inclusion in the FTSE Xinhua China Index are monitored by FTSE. The constituents of the FTSE Global Equity Index Series will be used to conduct the periodic reviews, but see also Rule 5.3.1.

## **SECTION 6**

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### **6.0 CHANGES TO CONSTITUENT COMPANIES**

- 6.1 All corporate actions including New Issues, Deletions, Mergers, Splits, Suspensions and Constituent Weight Changes in the FTSE Xinhua China Index will be applied in the same consistent manner as in the FTSE Global Equity Index Series. For further information, please refer to the FTSE Global Equity Index Series Ground Rules.

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## SECTION 7

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### 7.0 INDICES ALGORITHM AND CALCULATION METHOD

#### 7.1 Prices

7.1.1 The FTSE Xinhua China Index uses actual trade prices for securities with local stock exchange quotations. Reuters real-time spot currency rates are used in the index calculation.

7.1.2 The FTSE Xinhua China Index receives share prices and currency spot rates in real time.

#### 7.2 Calculation Frequency

7.2.1 The FTSE Xinhua China Index is published every 15 seconds during the Official Index Period, using last trade prices.

#### 7.3 Algorithm

7.3.1 The index is calculated using the algorithm described below.

$$\sum \frac{((p_1^n \cdot e_1^n) \cdot s_1^n \cdot f_1^n)}{d}$$

$$n = 1, 2, 3, \dots, n$$

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 the FTSE Global Equity Index Series for the security, as defined in these Ground Rules.
f	=	Investability Weight	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 investability weight for each security 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.

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**INDEX & MARKET OPENING AND CLOSING HOURS**

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**APPENDIX A**

	<b>OPEN</b>	<b>CLOSE</b>
FTSE Xinhua China Index	10:00 (02:00)	16:00 (08:00)
Hong Kong Stock Market Trading Times	10:00 (02:00) 14:30 (06:30)	12:30 (04:30) 16:00 (08:00)

All times are Local Hong Kong Hours (GMT Hours in brackets)

The FTSE Xinhua China Index will not be calculated on Hong Kong Public Holidays.

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**FURTHER INFORMATION****APPENDIX B**

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Further information on the FTSE Xinhua China Index Series are available from FTSE Xinhua Index Limited, who will also welcome comments on these Ground Rules.

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