

CNI HK Connect Technology Index Methodology

CNI HK Connect Technology Index is designed to reflect the performance of leading tech companies listed on Hong Kong Stock Exchange and eligible for the Stock Connect, and to provide an index investment instrument.

1. Code and Name

Index Name: CNI HK Connect Technology Index

Short Name: HKCTECH

Index Code: 987008

Index Name: CNI HK Connect Technology Index (CNY)

Short Name: HKCTECH (CNY)

Index Code: 987009

2. Base Date and Base Point

Base Date: December 31, 2014

Base Point: 1000

3. Index Universe

All stocks listed on Hong Kong Stock Exchange satisfying the following criteria:

- 3.1 Eligible for Southbound Trading under Stock Connect;
- 3.2 No major violations in laws and regulations, and no major problems in financial reports in the latest year;
- 3.3 No abnormal operation or substantial losses in the latest year;
- 3.4 No abnormal fluctuation in stock price during the review period;
- 3.5 Main business classified as technology-related, including internet, electronics, telecommunication equipment, biotechnology, medical equipment, big data, cloud services, intelligent cars, artificial intelligence;
- 3.6 2-year compound growth rate of revenue larger than 10%, or ratio of R&D over revenue larger than 5% for the latest year.

4. Selection Criteria

- 4.1 Rank stocks in the index universe by daily average trading value within the latest 12 months in descending order and remove the bottom 10% stocks;

4.2 Rank remaining stocks by daily average total market cap within the latest 12 months in descending order and select the top 30 stocks as index constituents.

5. Index Calculation

The index is calculated according to the Paasche weighted method according to the following formula:

$$\begin{aligned} & \text{real time index} \\ &= \text{last trading day closing index} \\ & \times \frac{\sum (\text{constituent's real time stock price} \times \text{No. of shares} \times \text{adjustment factor})}{\sum (\text{constituent's last trading day closing price} \times \text{No. of shares} \times \text{adjustment factor})} \end{aligned}$$

For adjustment method of No. of shares, please refer to ‘Index Calculation and Maintenance Methodology’. For adjustment factor, please refer to ‘7. Adjustment for Constituents’ Weights’.

6. Index Review

6.1 Periodic Review

The index is reviewed quarterly. Periodic reviews are implemented on the next trading day after market closing of the second Friday in March, June, September and December each year.

The number of new constituents in each periodic review shall

not exceed 10% of the total number of index constituents. New candidate securities ranked top 70% of the total number of index constituents are selected in order; existing constituents ranked top 130% are remained in the index with priority.

After new constituents are determined, remaining stocks will be ranked by selection indicator in descending order and 5% of the total number of index constituents will be selected as reserved stocks.

6.2 Non-periodic Review

If a constituent is subject to delisting or removal from the list of eligible stocks for Southbound Trading under Stock Connect, it will be replaced by the highest ranked reserved stock.

7. Adjustment for Constituents' Weights

In index calculation, the adjustment factor is designed to set the weight of individual constituent no more than 15% and the total weight of top 5 constituents no more than 60% in each periodic review.

The adjustment factor is recalculated four times a year and implemented in periodic reviews. The adjustment factor

generally remains constant before next periodic review.

In case of non-periodic review, the new constituent inherits the weight of the replaced stock on its last trading day before the review. The adjustment factor for the new constituent is calculated accordingly.