

Free Float Rules for Equity Indices of China Securities Index Company Limited

V1.1

November 2024

Version Number	Change Time	Change Scope
1.0	2023-12	Creation of “Free Float Rules for Equity Indices of China Securities Index Company Limited”.
1.1	2024-11	1. Adjustment to “Scope of Free Float” and “Adjustment of Free Float” Chapter. 2. Minor adjustments to other parts.

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1. Introduction

The “Free Float Rules for Equity Indices of China Securities Index Company Limited” (hereinafter referred to as “Free Float Rules”) aims to explain the definition and calculation of the free float weighting methodology of equity indices managed by China Securities Index Company Limited (hereinafter referred to as “CSI”). A part of outstanding shares issued by listed companies are hardly tradable in a certain period of time due to sales restriction or shareholders strategic holding, etc. To accurately reflect the real investment opportunities of index constituents, CSI generally adopts free float to calculate index. For other special circumstances not covered by the “Free Float Rules”, CSI will determine the appropriate treatment methods according to the “Statement of Principles for Index Methodology and Management of China Securities Index Company Limited” (hereinafter referred to as “Statement of Principles for Index Methodology and Management”).

2. Scope of Free Float

CSI defines free float as shares outstanding and tradable in the security market. According to CSI’s definition, free float is the total shares of the security minus the restricted shares and the following non-free float shares, including but not limited to:

Long term holdings by founders, families, and senior executives: Including shares held by the company's founder or founder's family, and shares owned by senior managers or directors, supervisors, etc.;

State-owned shares: Shares held by the government or its branch institutions;

Strategic holdings: Shares held by strategic investors for long-term strategic interests;

Employee share plan: Shares held by employee share plans.

For other possible shareholding of shareholders, CSI will strictly follow the Statement of Principles for Index Methodology and Management and prudently determine the scope of free float.

3. Identification of Free Float

3.1 Restricted Shares

Shares restricted during the lock-up period shall be deemed as non-free float shares.

3.2 Non-restricted Shares

For non-restricted shares, if they fall into the above non-free float shares, and the holdings by shareholders or shareholders acting in concert are 5% or greater, they shall generally be deemed as non-free float shares, otherwise they shall generally be deemed as free float shares.

The treatment of restricted shares after the lock-up period is the same as that of non-restricted shares, but its effect on free float will generally be reflected in semi-annual periodical adjustment.

It is noted that the free float shares on the day of ban-lifting shall generally remain unchanged.

4. Information Source of Free Float

The identification and calculation of free float by CSI are based on objective information, including but not limited to:

Prospectus and listing notice: Information of the actual controllers, founders, strategic investors, holdings of senior executives and employees, etc. are available.

Periodical reports: Information of the actual controllers, founders, strategic investors, holdings of senior executives and employees, etc. are available.

Temporary reports: Shares change notice, acquisition notice, equity change notice, etc. are available.

Objective information provided by third parties.

5. Category-Weighted Method of Free Float

Unless otherwise stated, the calculation of free float use category-weighted method in which CSI will grant certain inclusion factor to the total shares of the security according to the percentage of free float shares in total shares of the security to ensure the stability of Adjusted Shares.

Free Float Ratio = Number of Shares Classified as Free Float / Total Number of Shares of Security

$$\text{Adjusted Shares} = \text{Total Number of Shares of Security} \times \text{Inclusion Factor}$$

Inclusion factor of securities shall be determined according to the chart below:

Free Float Ratio (%)	≤15	(15, 20]	(20, 30]	(30, 40]	(40, 50]	(50, 60]	(60, 70]	(70, 80]	>80
Inclusion Factor(%)	nearest higher percentage point	20	30	40	50	60	70	80	100

Examples of Category-Weighted Method of Free Float are as follows:

Security	Security A	Security B	Security C
Total Shares	100,000	8,000	5,000
Non-Free Float	91,000	4,500	900
Free Float	9,000	3,500	4,100
= Total Shares - Non-Free Float			
Free Float Ratio	9.0%	43.8%	82.0%
= Free Float / Total A Shares			
Inclusion Factor	9%	50%	100%
Adjusted Shares	9000	4000	5000

6. Adjustment of Free Float

CSI generally adjusts the changes in the free float of securities caused by shareholder's behavior semi-annually. The effective date of the periodical adjustment is the next trading day of the second Friday of June and December each year. Temporary adjustments are made for the changes in the free float of securities caused by the merger of listed companies, and the effective date of the adjustments are generally the same as the effective date of temporary adjustment of the merger of listed companies. CSI will strictly follow the Statement of Principles for Index Methodology and Management, and prudently determine the adjustment of free float.

Appendix A: CSI Index Glossary

Key Term	Definition
Effective Date of Temporary Adjustment	Usually, the effective date of temporary adjustment shall be two trading days later than the listing date of new shares disclosed in the announcement made by the listed company when the accumulated change of the total number of shares reaches or exceeds 5%. (If the announcement day is later than the listing date of new shares, the next trading day after the announcement date shall be regarded as the listing date of new shares.)
Expiry of Lock-up Period for Restricted Shares	Restricted shares may be freely traded on the secondary market when the lock-up period expires.
Securities	Stocks of listed companies, depositary receipts, and real estate investment trusts (REITs).
Shareholder's Behavior	Equity changes such as the increase, decrease, and transfer of shares by shareholders.

Appendix B: Summary of Free Float Rules Changes

Adjustments	Effective Date	Before the Adjustment	After the Adjustment
Creation of Free Float Rules	2023-12	“Equity Indices Calculation and Maintenance Methodology of China Securities Index Company Limited”	The new “Free Float Rules for Equity Indices of China Securities Index Company Limited” is established, and the original “Equity Indices Calculation and Maintenance Methodology of China Securities Index Company Limited” is no longer in use.
Adjustments of “Scope of Free Float”, “Adjustment of Free Float” Chapter	2024-11	3.2 Non-restricted Shares For non-restricted shares, if they fall into the above non-free float shares, and the holdings by shareholders or shareholders acting in concert are 5% or greater, they shall be deemed as non-free float shares, otherwise they shall be deemed as free float shares. The treatment of restricted shares after the lock-up period is the same as that of non-restricted shares, but its effect on free float will be reflected in semi-annual periodical adjustment. It is noted that the free float shares on the day of ban-lifting shall remain unchanged.	Adjustment of “Scope of Free Float”. Refine the treatment of other possible shareholdings: For other possible shareholding of shareholders, CSI will strictly follow the Statement of Principles for Index Methodology and Management and prudently determine the scope of free float. Adjustment of “Adjustment of Free Float”. Refine the principal of free float adjustment: CSI will strictly follow the Statement of Principles for Index Methodology and Management, and prudently determine the adjustment of free float. Minor adjustments to “Non-restricted Shares”. Add ‘general’ expressions: For non-restricted shares, if they fall into the above non-free float shares, and the holdings by

Adjustments	Effective Date	Before the Adjustment	After the Adjustment
			shareholders or shareholders acting in concert are 5% or greater, they shall generally be deemed as non-free float shares, otherwise they shall generally be deemed as free float shares. The treatment of restricted shares after the lock-up period is the same as that of non-restricted shares, but its effect on free float will generally be reflected in semi-annual periodical adjustment. It is noted that the free float shares on the day of ban-lifting shall generally remain unchanged.

Disclaimer

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