



恒生指數
HANG SENG INDEXES

Index Methodology

For Managing the
Hang Seng China Enterprise Index



Amendment History

	Date	Description
1.0	September 2011	First Issue
1.1	August 2012	Updated turnover requirement in Section 3 – Constituent Eligibility
1.2	February 2015	Updated description of universe in Section 3 - Constituent Eligibility
1.3	March 2015	Updated description of turnover requirement in Section 3- Constituent Eligibility



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1 Overview

- 1.1 The Hang Seng China Enterprises Index ("HSCEI") serves as a benchmark that reflects the overall performance of H-share companies listed in Hong Kong.
- 1.2 The HSCEI is freefloat-adjusted market-capitalisation weighted with a 10% cap on individual constituent weightings.
- 1.3 The HSCEI is calculated and disseminated real-time at 2-second intervals during the trading hours of the Stock Exchange of Hong Kong ("HKEx").



2 Management Responsibility

Hang Seng Indexes Company Ltd (“HSIL”)

- 2.1 HSIL is responsible for conducting regular reviews in accordance with the Index Methodology.
- 2.2 HSIL is responsible for monitoring company announcements and making ad hoc proposals – which must be approved by the Chairman of the HSI Advisory Committee – if constituent changes between the regular reviews are needed.
- 2.3 HSIL is responsible for seeking the HSI Advisory Committee’s endorsement of any special action in cases where, due to exceptional circumstances, an index review is not conducted according to the Index Methodology.
- 2.4 HSIL is responsible for seeking the HSI Advisory Committee’s endorsement of changes to the Index Methodology.

HSI Advisory Committee

- 2.5 The Committee is responsible for ensuring index reviews are undertaken in accordance with the Index Methodology.
- 2.6 The Committee is responsible for reviewing any actions proposed by HSIL in the event that, due to exceptional circumstances, an index review is not conducted according to the Index Methodology.
- 2.7 The Committee is responsible for reviewing and endorsing all changes to the Index Methodology as proposed by HSIL.
- 2.8 The Committee is responsible for giving advice on any issues related to the Index Methodology.



3 Constituent Eligibility

Universe

- 3.1 The universe of stocks (“Universe”) for the HSCEI includes all H-share companies primarily listed on the Main Board of the HKEx, excluding stocks that are secondary listings, preference shares, debt securities, mutual funds and other derivatives.

Eligible Stocks

- 3.2 A stock is eligible for constituent selection if it fulfils the following eligibility criteria.

Listing History Requirement

- 3.3 Stocks should have been listed for at least one month, starting from the listing date to the review cut-off date (both dates inclusive), in order to be considered in the index review.

Turnover Requirement

- 3.4 For each stock, its turnover velocity in each of the past 12 months is calculated using the following formula:

$$\text{Velocity} = \frac{\text{Median of Daily Traded Shares in Specific Calendar Month}}{\text{Freefloat Adjusted Issued Shares at Month End}}$$

- 3.5 For the denominator used in velocity calculation, freefloat-adjusted issued shares at the end of each month is used. The freefloat-adjusted factor (“FAF”) for each stock is calculated and reviewed at the end of March, June, September and December each year.
- 3.6 A stock is regarded as passing the monthly turnover test if it attains a minimum velocity of 0.1% in that month.

For New Constituents

- 3.7 In order to meet the turnover requirement, a stock should fulfil the following criteria:
- (a) velocity is a minimum of 0.1% for at least 10 out of the past 12 months, and
 - (b) for the latest three months, velocity is a minimum of 0.1% for all three months.



For Existing Constituents

- 3.8 In order to meet the turnover requirement, a stock should fulfil the following criteria:
- (a) velocity is a minimum of 0.1% for at least 10 out of the past 12 months.
 - (b) if a constituent fails to meet the turnover requirement as mentioned in 3.8 (a), a supplementary turnover test will be applied for those months in which velocity is less than 0.1%:
 - i. calculate the monthly aggregate turnover of the constituent;
 - ii. if the monthly aggregate turnover is among the top 90th percentile of the total market*, the constituent passes the monthly turnover test for that month.
 - (c) the constituent will be regarded as meeting the turnover requirement if 3.8 (a) is fulfilled after applying 3.8 (b) as a supplementary test.

* Total market includes securities primarily listed on the Main Board of the HKEx, excluding securities that are secondary listings, foreign companies, preference shares, debt securities, mutual funds and other derivatives.

- 3.9 For a stock with a trading history of less than 12 months or a stock that has transferred from Growth Enterprise Market[#] ("GEM") to the Main Board in the past 12 months before the data review cut-off date, the following requirements replace those in sections 3.7 and 3.8.

Trading Record	Measurements [^]
< 6 months	1) attain a minimum velocity of 0.1% for all trading months
≥ 6 months	1) cannot have more than one month in which stock has failed to attain a velocity of at least 0.1% AND 2) for the latest three months, stock needs to have attained 0.1% for all trading months if it is not an existing constituent.

[#] Stocks transferred from GEM to the Main Board will be treated as new issues

[^] For existing constituents, the supplementary turnover test as described in section 3.8 (b) also applies

- 3.10 For a stock which has been suspended for any complete month(s) during the past 12 months before the review cut-off date, the relevant month(s) will be excluded from the velocity calculation. The stock should meet the requirements as described in section 3.9.

Number of Constituents

- 3.11 The number of constituent stocks is fixed at 40.



Constituent Selection

Market Value ("MV")

- 3.12 The MV of an individual stock refers to the average of month-end H-share MVs for the past 12 months ("12-month-average MV") of any review period. For stocks with a listing history of less than 12 months, the MV will be the average of the past month-end MVs since listing.

Freefloat-adjusted MV ("FFMV")

- 3.13 The FFMV of an individual stock refers to the 12-month-average MV after freefloat adjustment, i.e. 12-month-average MV multiplied by FAF, calculated as at the review data cut-off date.

Selection Criteria

- 3.14 All individual H-share stocks are ranked in terms of Combined MV Score, calculated from MV Rank and FFMV Rank using the following formula:
- (a) $0.5 \text{ MV Rank} + 0.5 \text{ FFMV Rank} = \text{Combined MV Score}$
 - (b) $\text{rank of the Combined MV Score} = \text{Combined MV Rank}$
 - (c) in cases where two stocks have the same Combined MV Score, a higher rank will be assigned to the stock with the higher MV Rank
- 3.15 The top 40 eligible H-share stocks with the highest Combined MV Rank as described in 3.14 will be selected as constituents of the HSCEI, subject to the buffer zone rule (as described in 4.5-4.6) in each review.



4 Index Review and Constituent Changes

Regular Quarterly Review

- 4.1 HSIL undertakes regular quarterly reviews of HSCEI constituents with data cut-off dates of the end of March, June, September and December each year.
- 4.2 A quarterly review is normally completed within eight weeks after the end of each calendar quarter.
- 4.3 Eligible candidates will be selected as constituents of the HSCEI if they satisfy the requirements of 3.14-3.15.
- 4.4 Constituents failing to meet the turnover requirements as described in 3.4-3.10 will be removed from the HSCEI.

Buffer Zone

- 4.5 Existing constituents ranked 49th or lower will be removed from the HSCEI, while non-constituent stocks ranked 32nd or above will be included. If the number of incoming stocks is greater than the number of outgoing constituents, constituents with the lowest Combined MV Rank will be removed from the index in order to maintain the number of constituents at 40.
- 4.6 If the number of incoming stocks is smaller than the number of outgoing constituents, stocks with the highest Combined MV Rank will be added to the index in order to maintain the number of constituents at 40.

Reserve List

- 4.7 The five non-constituent stocks with the highest Combined MV Rank will fall into a Reserve List. The purpose of the Reserve List is to facilitate the replacement of any outgoing constituent between regular reviews in cases where a constituent may be removed due to trading suspension or delisting.

Effective Date

- 4.8 Effective dates of constituent changes will be the next trading day after the first Friday of March, June, September and December. If that Friday falls on a public holiday, it will be postponed to the next Friday, subject to the final decision made by HSIL. Under normal circumstances, at least seven trading days' notice will be given for any constituent changes before the effective dates.



Trading Suspension

- 4.9 Any constituent that has been suspended from trading for one month will be removed from the HSCEI and replaced by the stock with the highest Combined MV Rank on the latest Reserve List. Such constituent may be retained in the index only in exceptional circumstances if it is believed that its shares are highly likely to resume trading in the near future.



5 Index Calculation

5.1 The HSCEI is freefloat-adjusted MV weighted with a 10% cap on individual stocks.

5.2 The formula of the HSCEI is set out below:

$$\text{Current Index} = \frac{\sum (P_t \times IS \times FAF \times CF)}{\sum (P_{t-1} \times IS \times FAF \times CF)} \times \text{Yesterday's Closing Index}$$

P_t : Current Price at Day t

P_{t-1} : Closing Price at Day $(t-1)$

IS : Issued Shares

FAF : Freefloat-adjusted Factor, which is between 0 and 1

CF : Capping Factor, which is between 0 and 1

5.3 The HSCEI is a price index without adjustments for cash dividends or warrant bonuses.



6 Index Rebalancing

- 6.1 The following provides the general principles on index rebalancing. Please refer to the Index Operation Guide for details about corporate actions adjustments and index rebalancing.

Frequency and Schedule

- 6.2 The adjustment of the freefloat-adjusted factors (“FAFs”), the calculation of the Cap Factors (“CFs”) and the update of issued shares (“IS”) will be undertaken quarterly.
- 6.3 The regular rebalancing is usually implemented after market close on the first Friday in March, June, September and December, and comes into effect on the next trading day.
- 6.4 The schedule for regular index rebalancing is available at HSIL’s website: http://www.hsi.com.hk/HSI-Net/static/revamp/contents/en/products/is_update.pdf.

Ad Hoc Changes

- 6.5 IS will be updated simultaneously with the index adjustment for corporate actions such as bonus issue, rights issue, stock split and stock consolidation.
- 6.6 Ad hoc rebalancing will be conducted if a constituent’s IS and/ or FAF is substantially different from the production data.
- 6.7 The index will also be recapped in the event of constituent changes if the newly added component weighting is higher than the index cap level.
- 6.8 A minimum notice period of two trading days will be given to subscribers of data products issued by HSIL for any ad hoc rebalance.



7 Dissemination

- 7.1 The HSCEI is calculated and disseminated real-time every 2 seconds during trading hours on each trading day of the Hong Kong stock market, based on the calendar of the HKEx.
- 7.2 Please refer to the index dissemination timetable provided on HSIL's website for further details. (http://www.hsi.com.hk/HSI-Net/static/revamp/contents/en/products/timetable_e.pdf)
- 7.3 The HSCEI is calculated and published in Hong Kong dollars.
- 7.4 Vendor codes for the HSCEI

Vendor	Code for Price Index	Code for Total Return Index
Thomson Reuters	.HSCE	.HSCEDV
Bloomberg	HSCEI	HSI 21



8 Contact Information

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9 Disclaimer

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