

「Nikkei China Related Stock 50」

Index Guidebook

Nikkei Inc.

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(June 15, 2020 Version)

1 : Concept

Japanese firms have been expanding their operations in China as production bases or as markets to provide their products or services. “Nikkei China Related Stock 50” is a stock index based on free-float adjusted market capitalization, which comprises 50 China-related stocks selected from among major Japanese companies.

2 : Management of constituents

The constituents of the Nikkei China Related Stock 50 are 50 stocks selected from major Japanese companies, components of the Nikkei Stock Index 300 in principle. Nikkei shall implement the annual review on the last trading day of October every year. A constant number of the constituents shall be maintained for the index, 50 stocks as a general rule and replacement will be selected in each case if some component is deleted extraordinarily due to delisting etc until the subsequent annual review.

(1) Selection rule for the constituents (on launching the index)

Universe : Majors domestic common stocks listed on the Tokyo Stock Exchange, in principle, components of the Nikkei Stock Index 300.

3 gauges to use the selection for each company are as follows:

- ① The number of the China-related articles regarding a company for the past two years (published in 4 newspaper in Japanese such as the Nikkei) ,
- ② The ratio of the number of the China-related article (above ①) to the total number of the articles regarding the company as a whole for the past two years,
- ③ Score based on how actively the company is involved in business in China and how much China-related information the company discloses, using the information provided in financial reports by the company, i.e. Yuho; e.g. score from where its subsidiaries are established and how much its segment information is disclosed and so on.

Process for selection :

- ① Rank the above three gauges ①～③ each for the universe and rank the summation of the three orders of the gauges for each company and define the top 100 companies (the summation is smaller, the score is higher) as “Candidate stock

group”.

- ② Select fifty stocks with the high score above and large market capitalization from the “Candidate stock group”.

(2) Annual review of the constituents

Nikkei will implement the annual review of the constituents on the last trading day of October every year, and announces the change in the constituents as a result of the annual review a period of time prior to the review date.

Process of the annual review is as follows:

- ① Universe is major domestic common stocks listed on the Tokyo Stock Exchange, in principle, components of the Nikkei Stock Index 300.
- ② Calculate the three gauges (①~③) used in the above (1), rank the summation of the three orders of the gauges for each company and define the top 100 companies (the summation is smaller, the score is higher) as “Candidate stock group”.
- ③ If the current constituents are not included in the above “Candidate stock group”, these stocks become “Candidates to delete”.
- ④ Among non-constituents in the “Candidate stock group”, the stocks with the high score of the above ② and large market capitalization become “Candidates to select”.
- ⑤ If the number of the “Candidates to delete” is not equal to that of the “Candidates to select”, add non-constituents with large market capitalization to the “Candidates to select” or add current constituents with small market capitalization to the “Candidates to delete” in order to match the number of stocks to be excluded with that of stocks to be included.
- ⑥ The maximum number of stocks to change is ten, i.e. the number of excluded stocks or that of included stocks is ten at the most.
- ⑦ If a replacement stock has significant large free-float adjusted market capitalization and its weight to the full market value of the index exceeds a certain level, the stock may be included separately several times by escalating the Investable Weight Factor (IWF).

(3) Extraordinary Review of the constituents

- ① If some constituent is designated as a security to be delisted (assigned as “Seiri Meigara”), the stock shall be excluded and a new constituent shall be added after 5

market business days of such designation. A constant number of the constituents shall be maintained for the index, i.e. 50 stocks in principle.

- ② The replacement shall be selected from non-constituents among the “Candidate stock group” used for the previous annual review in principle.
- ③ In case of delisting of some constituent due to company reorganization, please see the next section (4) Succession of stocks.
- ④ If some constituent is designated as a security possible to be delisted (assigned as “Kanri Meigara”), the exclusion is determined based on the possibility of its business continuity etc for each case.
- ⑤ If a replacement stock based on the extraordinary review has significant large free-float adjusted market capitalization and its weight to the full market value of the index exceeds a certain level, the stock may be included separately several times by escalating the Investable Weight Factor (IWF) in accordance with the rule in the annual review.
- ⑥ In case of a particular kind of company reorganization other than the above case, or an unforeseen event regarding listing of some constituent etc, which would needs exceptional arrangement, Nikkei will announce the treatment corresponding to the each case.

(4) Succession of stocks

- ① If some constituent company is merged into an another constituent, the stock of the merging company shall be deleted and a replacement shall be included in accordance with the rule of (3) extraordinary review.
- ② If some constituent is delisted due to corporate organization and a newly formed company succeeding the related business is listed, e.g. holding company, the stock to be delisted will continue to be included in the index until the date when the new company is listed. The price used for the delisted stock after the delisting continues to be the adopted price one business day before the delisting. The new company shall be included on the next day of the listing.

3 : Index Calculation

Nikkei China Related Stock 50 is a stock index based on the market capitalization of fifty domestic common stocks which is closely related to China. The each market capitalization is adjusted by free-float shares and the constituents shall be capped at 10% i.e. set the upper limit of their weights in order to avoid making the weight of a stock excess, which shall be reviewed on the quarterly basis.

(1) Basic points

- ① Stock index based on market capitalization (free-float and capped adjustment)
- ② Index value on January 4, 2005 was 1000 points
- ③ Unit of points and two decimal places
- ④ Use stock prices of the Tokyo Stock Exchange (TSE) and calculate and publish the index every minute on the real-time basis while the TSE opens, start the calculation one minute after the opening.

(2) Formula

$$\text{Index Value} = \frac{\text{Current Market Value}}{\text{Base Market Value}} \times 1000$$

$$\begin{aligned} & \text{Current Market Value} \\ & \text{constituents} \\ & = \sum \{ \text{Stock Price} \times \text{Number of issued shares (ordinary share basis)} \\ & \quad \times \text{Investable Weight Factor} \times \text{Adjusted Factor for upper limit of weight} \} \end{aligned}$$

The base market value will be modified to maintain the continuity of the index in the event of any change in market value of some constituent for reasons other than fluctuation in the stock market (described in detail in (6) management of number of shares) .

(3) Stock Price

- ① Use prices of the Tokyo Stock Exchange.

② Priority in the usage of prices are as follows:

(A) Current special quote or sequential trade price, (B) Current price (last traded price) , (C) Standard price (defined as ex-rights theoretical price, special quote or sequential trade price on the previous day, or closing price on the previous day, in order of priority) .

(4) Investable Weight Factor (IWF)

Investable Weight Factor (IWF) used for the index is calculated and operated in the same way as and in line with “Investable Weight Factor” used for the Nikkei Japan 1000 (Nikkei J1000) calculated and published by Nikkei.

① Calculation of the IWFs

The number of free float shares is calculated by subtracting the shares owned by “fixed” share holders from the total number of ordinary shares. Then IWF is calculated as the ratio of free float shares to the total ordinary shares, i.e. 1 – fixed share holders ratio. The fixed share holders are stable holders for a long period, e.g. parent company or mutual share holder and they are obtained from the information on share holders (based on the Nikkei original research done twice a year corresponding to the annual accounting and the second quarter, i.e. interim accounting) and the information on share holdings by corporations in its financial reports by the companies, i.e. Yuho;

i . Unit of IWF 1% (0.01) , e.g. changed by one percentage points .

ii . Stable holders for a long period are defined below:

- Share holders who own 40% or more
- Government and related entities such as Industrial Revitalization Corp. etc.
- Banks and Trust Banks (excluding trusted funds but including employee pension trust)
- Insurance and securities companies
- Corporations
- Individuals such as founder, directors and stocks owned by the issuing company

② Review of the IWF

i . Annual review

The annual review of the IWFs shall be conducted once a year in principle, in line with the annual review of the constituents of the index. Comparing with the previous IWF of a stock, if its IWF obtained in the annual review is

changed by 10 percentage points (0.1) or more, the new IWF will be adopted (otherwise the IWF is unchanged).

ii . Extraordinary review

In any event that affects the IWF of some constituent significantly, e.g. change in government holding, increase allocation to a third party and takeover bid (TOB), the IWF may be changed for each event. Regarding events such as increase allocation to a third party that do not affect the investment linked to the index practically, i.e. neutral to track the index, the IWF will be changed at the timing of change in the base market value.

(5) Adjusted Factor for upper limit of weight

Adjusted Factor for upper limit of weight is used to avoid making the weight of a stock excess. It is reviewed on the quarterly basis and the each weight to the total market value of the index shall be within 10% at the review, i.e. the constituents shall be capped at 10%. Usually the Adjusted Factor is set to 1 and set to a figure below 1 for a stock whose weight needs to be adjusted. ($0 < \text{Adjusted Factor for upper limit of weight} \leq 1$, see the second formula in 3 - (2)) .

Periodic quarterly review of the Adjusted Factor for upper limit of weight :

- ① Every quarter (on the last trading day of January, April, July and October), the periodic review of the Adjusted Factor for upper limit of weight shall be conducted. The review in October shall be conducted in line with the annual review of the constituents, which indicates that the quarterly review shall be conducted for the constituents where the annual review shall be reflected.
- ② At the quarterly review of the Adjusted Factor for upper limit of weight, free-float adjusted market capitalization on the second Friday in each 4 month is used. The Adjusted Factor shall be determined so that the each weight of the constituent to the full market value of the index becomes within 10%.

Extraordinary review of the Adjusted Factor for upper limit of weight :

- ① At the timing other than the above quarterly review of the Adjusted Factor, in case of events that result in significant change in a constituent's weight to the total market capitalization, the Adjusted Factor may be changed at the timing of the event.

(6) Management of number of shares

The number of the issued shares of the constituents shall be changed due to events, e.g. change in capital like increase in capital stock, conversion into common shares for convertible bond, retired shares and so on. Adjustment for the number of shares and base market value shall be conducted described below:

Adjustment for the number of shares :

- ① In any event that makes shock price change due to reasons other than fluctuations in the stock market, e.g. share splitting, reverse share splitting and paid-in capital increase, etc, the change in number of shares corresponding to such event shall be reflected on the ex-date.
- ② In any event that changes the number of shares not mentioned above e.g. capital increase through a public offering, capital allocation to a third party, conversion into common shares for convertible bond, retired shares and so on, and that came out for the period between two days before the last trading day of the previous month and three days before the last trading day of the month (both inclusive), the change in number of shares shall be reflected on the last trading day of the month.

Adjustment for the base market value :

In any event that changes market value due to reasons other than fluctuations in the stock market, the base market value shall be modified to maintain the continuity of the index in the following ways:

- ① Events which require adjustments
 - a . Change in the constituents (deleted / selected)
 - b . Change in the number of shares due to the following events
 - paid-in capital increase
 - capital increase through a public offering
 - merger
 - conversion into common shares for convertible bond and preferred shares
 - retired shares
 - change in IWF and Adjusted Factor for upper limit of weight
- ② Timing for adjustments
 - a . Date of change in case of change in the constituents

- b . Ex-date in case of paid-in capital increase
- c . Last business day of month in case of capital increase through a public offering and capital allocation to a third party (corresponding to the adjustment of the number of shares)
- d . Last business day of month in case of merger (however date of merger in case of merging some constituent into the other constituent)
- e . Last business day of month in case of conversion into common shares for convertible bond, preferred shares and retired shares
- f . Last business day of month in case of change in IWF and Adjusted Factor for upper limit of weight

(7) Modification of the index value

If any event occurs and comes out at a later date where it is necessary to modify the index value, as a general rule, Nikkei reflects the modified data into the index value on the index calculation date coming subsequently after the event comes out, as the date when the event occurs. Retroactive calculation for the modification will not be conducted in principle.

4 : Retroactive calculation in the past

Nikkei calculates the Nikkei China Related Stock 50 retroactively in the past on the end of day basis; to January 4th 2005, base date of the index (=1000 points). Points for the retroactive calculation are described below:

- (1) Calculate the index retroactively based on the constituents on launching it. If some constituents were not listed on the Exchange due to merger or formation of the holding company, the stock with the larger market capitalization on the date of merger among the holding company affiliates is used for the retroactive calculation.
- (2) Use stock prices of the Tokyo Stock Exchange.
- (3) Change the IWF or number of shares on the last trading day of month or the ex-date.
- (4) Review Adjusted Factor for upper limit of weight on the quarterly basis (on the last trading day of January, April, July and October).

5 : Others

(1) Licensing

Nikkei China Related Stock 50 is an intellectual property that belongs to Nikkei. All of the rights to the indices such as right to calculate, publicize, disseminate, and use these indices are reserved by Nikkei. Licensing agreement with Nikkei is necessary if companies intend to create Index - linked funds and passive funds, etc. It is also required to use this index for disseminating, providing, and showing, etc. to the third party in the way as Nikkei decides. Also in case of using the index for creation of Exchange Traded Fund listed on Japanese markets, a license to use the index shall not be granted for a certain period of time after the index is launched because a company that provides advices in developing the index makes an offer to use the index in advance for the purpose.

(2) Risk

Nikkei calculates and publishes the Nikkei China Related Stock 50 in accordance with the methods described in this document. In the event of circumstance not described in this document, or if Nikkei determines it is impossible to use the methods described in this document, Nikkei may use an alternative method of the index calculation as it deems valid. In case of a breakdown of computer system, natural disasters or any other unavoidable situations, Nikkei may postpone or cancel the calculation of the indices. Nikkei, under any circumstance, does not guarantee the accuracy of these indices. Should any error in the calculation of the index take place, Nikkei shall not be liable for any damages sustained by any person or organization.

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(Appendix)Change history of Index Guidebook

Issue Date	Changed contents
November 24, 2010 version	Initial Version
April 22, 2011 version	Change “Adjustment for the number of shares ②” in “3:Index Calculation (6)Management of number of shares”
June 15, 2020 version	Revise in “2:Management of constituents (3)Extraordinary Review of the constituents”