

Transcript of the info session

A. Overview of freefloat-adjusted factor (FAF)

0:00 - 02:00 of the info session covers the overview of FAF.

For more details, please refer to the below and Hang Seng Indexes Company ("HSIL")'s index operation guide ([index_operation_guide_e.pdf \(hsi.com.hk\)](https://www.hsi.com.hk/index_operation_guide_e.pdf)) Pg. 21-24.

Definition of FAF:

- FAF represents the proportion of a stock that is freely tradable in the market.
- FAF is basically a percentage of tradable shares to the total issue share.
- "Free-float" refers to shares that can be readily bought and sold in the open market.
- Before classifying a stock as "freely tradable," we identify certain stocks or proportions of stocks that are considered unlikely to be actively traded. These are classified as non-free float.

Example 1:

- When an individual holds 5% or more of a particular stock, they are required to file a disclosure each time they trade. This transparency allows everyone to track their trading activity.
- However, in practice, such large shareholders may seldom trade. In these cases, we consider their holdings as non-free float due to the low likelihood of regular trading.

Example 2:

- When a company holds a significant number of shares in its subsidiaries, these holdings are typically considered strategic and long-term.
In such cases, we also classify these holdings as non-free float, as they are unlikely to be traded regularly in the market.

Importance of FAF

- FAF is crucial for accurate index calculation. FAF is a fundamental component in index calculation methodology. Its accuracy is critical, regardless of whether the resulting value is high or low, as it directly impacts the weighting of stocks within the index.
- When calculating an index, we consider only the tradable portion of shares.
- The FAF represents the percentage of a company's shares that are available for trading in the market.
- To determine the FAF, we analyze the ownership structure, including major shareholders and strategic holdings.

B. FAF 4-Step and target outcomes

02:00 - 05:31 of the info session covers the overview of FAF.

The FAF calculation process consists of four key steps.

Step 1: Data Extraction

- Access and compile relevant materials from the Hong Kong Stock Exchange.
- Gather various documents including financial reports, shareholder circulars, and ownership disclosures to build a comprehensive view of shareholding structures.

Step 2: Data mapping and updating

- Read the latest circulars and disclosures to ensure data accuracy.
- Consolidate the findings from multiple document types and formats to identify the recent changes on the shareholdings.
- For instance, while annual reports are issued yearly, significant ownership changes may occur in the interim and be reflected in other disclosures. In this case, the information on the change of shareholdings can be found from the circulars.
- Carefully examine all circulars to verify the accuracy of shareholding data.

Step 3: Text Reading and Judgement

- Perform in-depth analysis of the compiled information, focusing on identifying and grouping related shareholdings.
- Consolidate shareholdings of related parties, such as spouses, in the same group.
- For Hong Kong-listed companies, analyze family trees and complex ownership structures to accurately group related shareholdings.
- Conduct deduplication processes to eliminate redundancies in shareholding data, particularly when analyzing multiple report types.
- Given the diverse and innovative presentation styles in financial reports, it is significant to ensure consistent interpretation of shareholding information across different company disclosures.

Step 4: Free-float calculation

- After classifying the shareholdings into different groups – free-float and non-freefloat, the number of free-float shares can be calculated.

C. Demonstration on freefloat-adjusted factor (FAF) calculation

02:00 – 37:00 of the info session covers the demonstration on FAF calculation.

We recommend going through Hang Seng Indexes Company ("HSIL")'s index operation guide ([index_operation_guide_e.pdf \(hsi.com.hk\)](#) Pg. 21-24) for comprehensive understanding.

Ocumension (1477.HK) ([2024010302045.pdf \(hkexnews.hk\)](#)), a listed company is used as an example to demonstrate the calculation of FAF and the FAF as of 31 December 2023 is calculated below.

To begin, we determine the total number of issued shares (the denominator).

Access "HKEX news" and search for stock code 1477. Locate the monthly return from early 2024, which provides the total shares as of end-2023.

For the numerator, we need to use three documents for this calculation:

- i. **2023 interim report (IR)** ([2023092600881.pdf \(hkexnews.hk\)](#)): contains the shareholding structure as of 30 June, 2023.
- ii. **2022 annual report (AR)** ([2023042501560.pdf \(hkexnews.hk\)](#)): contains the relationship, between the shareholder and the board representative.
- iii. **Shareholding disclosure of interest (SDI)** ([Hong Kong Exchanges and Clearing Limited \(hkex.com.hk\)](#)): contains all shareholder information as of the end of 2023 for shareholdings more than 5%.

We focus on the shareholding structure as of June 30, 2023, and analyze any significant changes between June and December 2023 using the SDI.

The 2023 annual report is not used as it won't be available in January 2024 when we perform these calculations. Most listed companies, including Ocumension, typically release annual reports in March or April.

This process ensures we have the most up-to-date and accurate information for calculating the FAF, considering the latest available reports and any changes in shareholding structure during the second half of 2023.

i. **2023 interim report (IR)**

The interim report (page 19) indicates the details the Director and Chief Executives' interests as of 30 June 2023.

There are two directors in Ocumension.

One of them is Mr. Ye Liu, with 11% of the shareholding. There is a footnote mentioning Mr. Ye Liu holds some options or share option schemes. These options or share option schemes need to be deducted from the overall calculations when determining the free float.

For more detailed information about Mr. Ye Liu's holdings, including the specifics of these options, we will need to check the Shareholding Disclosure of Interest (SDI) page at a later stage of our analysis.

ii. **Shareholding disclosure of interest (SDI)**

Input the stock code and end date on SDI then click “search”

We identified Liu Ye (Mr. Ye Liu) on this list and checked his shareholding details. The latest SDI document date is 3 October 2023, showing Liu Ye holds 76,112,990 shares, which is the same as reported in the interim report from 30 June 2023. This indicates Mr. Ye Liu didn't buy or sell any shares within these six months.

We need to deduct the underlying shares of derivatives from Liu Ye's total shares. The sum of all derivatives of Mr. Ye Liu is 51,252,135 shares.

Since the SDI data is most up to date as of the end of 2023, we will use the information from SDI instead of interim report.

Shareholding of Yeh Liu:

$76,112,990 \text{ (total shares)} - 51,252,135 \text{ (derivatives)} = 24,860,855 \text{ shares (3.60\%)}$

When we divide this 24 million by the total issue shares, we will see that Mr. Ye Liu is actually holding 3.6% of ordinary shares, which is below the 5% threshold for director and management holdings. Given Liu Ye's holding is less than the threshold of 5%, we will treat all these shares as free float.

Another director, Dr. Hu, holds 0.61% of shares, which is also below the threshold and will be classified as free float.

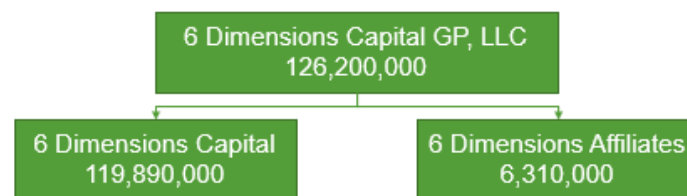
In the "substantial shareholders' interest" in the report, five groups of shareholders are identified:

- a. 6 Dimensions
- b. Suzhou and Ziqing Chen
- c. Boyu Capital
- d. Temasek
- e. Capital Group

Shareholders within the same group typically have the same footnote, which helps in identifying the groups. After reading the footnotes, we will be able to draw an organization chart.

a. For 6 Dimensions (footnote 1):

- It indicates 6 Dimensions Capital and the Group's affiliates, and 6 Dimension Capital GP LLC.



- By adding up the number of shares of 6 Dimensions Capital and its affiliates, the group holds a total of 126,200,000 shares.
- We then need to check the SDI for any transactions within the past six months.
- The relevant event date in the SDI is from 2021, which is outdated compared to the interim report.
- Given 6 Dimensions Capital is an investment company, we need to check the 2022 annual report to see if any directors or board representatives are from 6 Dimensions Capital.
- We need to map the entry from the SDI (Shareholding Disclosure of Interest) with the corresponding group in the interim report.
- When clicking into the disclosure, we observe that the date of the relevant event is from 2021, which is outdated compared to the interim report we are using as a reference.
- Due to the outdated information in the SDI, we will use the shareholding data from the interim report instead.
- To gather more information, we need to check the 2022 annual report to check if there are any directors or board representatives from the 6 Dimension Capital company. This helps ensure we have the most up-to-date and accurate information for calculating the Free float-adjusted factor (FAF).
- Dr. Chen is identified as a non-executive director of Ocumension and also the founding managing partner and CEO of 6 Dimensions Capital.
- Due to this connection, 6 Dimensions Capital is classified as director and management holdings.
- As such, all 126,000,000 shares held by 6 Dimensions will be treated as non-free float.

b. **Suzhou and Ziqing Chen** (footnote 2):

- Ziqing Chen holds all the Suzhou entities.
- The total shares held are also 126,000,000.
- Ziqing Chen is identified as the father-in-law of Dr. Chen, who is the chairman and non-executive director of Ocumension.
- Due to this relationship, the whole group (Suzhou and Ziqing Chen) is classified as directors and management holdings.
- The SDI is checked for any transactions by Suzhou or Ziqing Chen in the past six months, but the relevant event date is from 2021, which is outdated compared to the interim report.
- As a result, the shareholding information from the interim report is used, and the whole group of shares is classified as non-free float.



c. **Boyu Capital** (footnote 3 and 4):

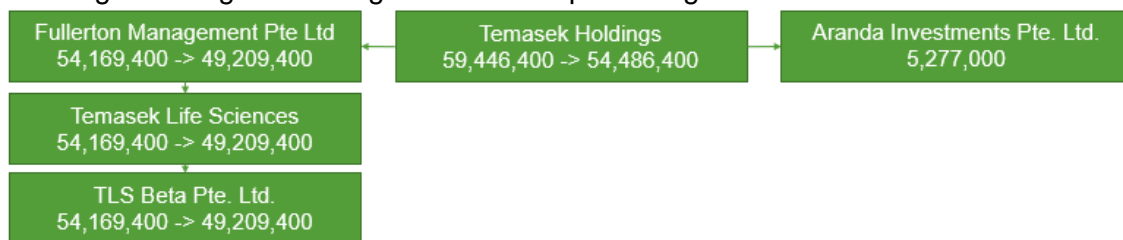
- Boyu Capital Group Holding Limited is identified as the ultimate owner of all these shares.
- The SDI for Boyu Capital shows a more recent event date of December 2023, which is more up-to-date than the interim report. As such, we will refer to the number of shares on SDI disclosure in this scenario.
- The SDI disclosure shows that Boyu Capital Group now holds 82,979,730 shares, an increase from the 81,629,730 shares reported in the interim report. The increase in shareholding (1 million shares) comes from Boyu Capital Opportunities, which bought these shares from the market within the past six months.
- Given Boyu Capital is an investment company in Asia, we should check the 2022 annual report to see if there are any connections to Ocumension's management.
- Mr. Yen-Ling Chow is identified as a director or senior management of Ocumension and one of the founding members of Boyu Capital. And he has been serving as a partner at Boyu Capital since March 2011.
- Due to this connection, the entire group of shares held by Boyu Capital is classified as non-free float, as it's considered director and management holdings.



d. Temasek Group

- The SDI (Shareholding Disclosure of Interest) for Temasek shows a relevant event date of November 2023, which is more updated than the interim report.
- The latest shareholding of Temasek is 54 million shares, down from 59 million reported in the interim report. It shows that TLS Beta Limited (likely a Temasek subsidiary) reduced its holdings from 54 million to 49 million shares.

Temasek is identified as a famous investment firm owned by the government of Singapore. Given Temasek's status is a government-owned entity, its holdings are classified as non-free float. This is because government holdings are defined as strategic holdings according to the index operation guide.



e. Capital Research Group

- The Capital Group companies hold Capital Research.
- When checking the SDI (Shareholding Disclosure of Interest), Capital Group cannot be found. Two possible reasons are suggested for this:
 - Capital Group sold a significant portion of its shares, causing its percentage to drop below 5%. The consolidated list of substantial shareholders only shows information for shareholders with 5% or more holdings.
 - Capital Group didn't conduct any transactions throughout the history
- Due to the absence of Capital Group in the SDI, further investigation is needed to determine the actual cause.
- To find out more, we need to check the list of all notices.
- The notices indicate Capital Group sold its shares three times within six months:
 - Initially held 6.93% of shares
 - In October, sold some shares, reducing to 5.96%
 - In December, sold more shares, reducing to 4.97%
- This reflects Capital Group now holds less than 5% of shareholding, which is below the threshold stated in the index operation guide.
- Due to falling below the 5% threshold, Capital Group's shares are now classified as free float.



After categorising the freefloat and non-freefloat shares, the final step is to calculate the free float adjusted factor.

After deducting all non-free float shares, the free float of Ocumension as of the end of 2023 is 43.57%.

Shareholder	Shares	%	Investor Class
Total Issued Shares	690,903,850	100.000%	
Minus non-freefloat investor class			
1. 6 Dimensions	126,200,000	18.266%	Directors' and management holdings
2. Suzhou / Ziqing CHEN	126,200,000	18.266%	Directors' and management holdings
3. Boyu Capital	82,979,730	12.010%	Directors' and management holdings
4. Temasek	54,486,400	7.886%	Strategic holdings
Freefloat	= 301,037,720	= 43.57%	