Methodology of SSE STAR Earnings Quality Strategy Index

SSE STAR Earnings Quality Strategy Index selects 50 securities with high profitability and abundant cash flow from STAR market as constituents. The index is to measure the performance of securities of listed companies with high earnings quality of STAR market.

1. Index Name and Index Code

- Index Name: SSE STAR Earnings Quality Strategy Index
- Shortened Name: STAR Earnings Quality
- Index Code: 950283

2. Base Date and Base Value

The base date is December 31, 2019. The base value is 1000.

3. Index Eligibility

3.1 Index Universe

The index universe includes stocks and CDRs issued by red-chip enterprises listed on SSE Science and Technology Innovation Board satisfying the following conditions.

(1) The listing time is more than six months. For securities with the daily average total market value since its initial listing ranked top 5 on SSE Science and Technology Innovation Board, the listing time is more than three months.

(2) Non -*ST securities.

3.2 Eligible Securities

Liquidity Criteria: securities ranked in the top 90% in the index universe in terms of average daily trading value over the past year in descending order are eligible for inclusion.

3.3 Constituents Selection

(1) Select the eligible securities in the universe as candidate securities,

calculate the profitability and the earnings quality of candidate securities. The following factors are calculated:

a) Profitability = ROE - standard deviation of ROE over the past 12 quarters

where, ROE = net profit TTM / net asset

b) ACCRUAL = (Operating Cash Flow – Operating Income) / Total Assets;

(2) Calculate the Z-score of the factor indicators in (1), calculate each security's total score:

Total score = 50% × z(Profitability) + 50% × z(ACCRUAL)

(3) Rank the rest securities by their total scores in descending order and select the top 50 as the index constituents.

4. Index Calculations

The index is calculated according to the following formula:

Current Index = Current Total Adjusted Market-Cap / Divisor × Base Value

Where Current Total Adjusted Market-Cap = Σ (Security Price × Number of Free Float Adjusted Shares × Weight Factor)

For the calculation of number of free float adjusted shares, please refer to CSI Index Calculation and Maintenance Methodology for further details. The value of Weight Factor is between 0 and 1, which is calculated at each rebalancing date, so that the weight by the free float market capitalization is adjusted by the total scores and each constituent is capped at 10%.

5. Constituents and Index Weights

5.1 Constituent's Periodical Review

The index is adjusted and rebalanced quarterly and the adjustment will be effective as of the next trading day after the 2nd Friday of March, June, September and December.

Weight Factor is assigned to each constituent at each rebalancing date. The effective date is the same as that of the constituent adjustment. The Weight Factor stays the same until next rebalancing date.

5.2 Ongoing Review

When special events occur, CSI will review the index accordingly. Delisted securities will be deleted from the constituents. Please refer to Index Calculation and Maintenance Methodology for further details.