

Methodology of SSE STAR Innovation Value Strategy

Custom Index

SSE STAR Innovation Value Strategy Custom Index is customized by China Construction Bank. The index selects 100 securities with relatively high technology innovation ability, low valuation and good profit quality from the companies listed on the STAR Market as the index constituents, to reflect the overall performance of securities related to innovation theme in the STAR Market.

1. Index Name and Index Code

- Index Name: SSE STAR Innovation Value Strategy Custom Index
- Shortened Name: Innovation Value Strategy Custom
- Index Code: 950333

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

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) For the eligible securities, select listed securities related to the science and technology theme as the candidate securities.

(2) Within the above candidate securities, eliminate the securities that satisfies any one of the following conditions:

- The annual aggregate R&D expenditure declines over the past three consecutive years.
- The average volatility of security return over the past one year ranks among the top 20%.

(3) For the remaining candidate securities, select the securities of listed companies whose scientific and technological innovation score¹ rank in the top 2/3 of each industry group as the candidate sample.

(4) Within the candidates, calculate the indicator ranking score with respect to two variables: the price-to-book ratio and the accrual, and then calculate the equal-weighted average of indicator ranking scores to obtain the comprehensive score. 100 securities with the highest comprehensive score are selected as the index constituents, where accrual is calculated as: (Operating Cash Flow - Operating Income)/Total Assets.

4. Index Calculations

The index is calculated according to the following formula:

$$\text{Current Index} = \text{Current Total Adjusted Market-Cap} / \text{Divisor} \times \text{Base Value}$$

Where Current Total Adjusted Market-Cap = $\sum (\text{Security Price} \times \text{Number of Free Float Adjusted Shares} \times \text{Weight Factor})$

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, so that each constituent is weighted by the free float Market Capitalization adjusted by the scientific and technological innovation score and is capped at 10%, the total weight of each industry group is capped at 20%.

5. Constituents and Index Weights

¹ The scientific and technological innovation score is the score that represents the scientific and technological innovation strength of a technology enterprise, which is calculated based on five indicators: "total amount of scientific and technological innovation patents, quality of scientific and technological innovation, talent of scientific and technological innovation, growth of scientific and technological innovation, and stability of scientific and technological innovation". The score ranges from 0 to 150, and the higher the score, the stronger the scientific and technological innovation strength of the enterprise.

5.1 Constituent's Periodical Review

The index is adjusted and rebalanced semi-annually and the adjustment will be effective as of the next trading day after the 2nd Friday in June 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.