Methodology of SSE Dividend Quality Index

The SSE Dividend Quality Index selects 50 securities with stable dividend payments, high dividend yields, and high quality. The index aims to reflect the overall performance of the securities with strong dividend and profitability characteristics.

1. Index Name and Index Code

- Index Name: SSE Dividend Quality Index
- Shortened Name: SSE Dividend Quality
- Index Code: 950258

2. Base Date and Base Value

The base date is December 31, 2013. The base value is 1000.

3. Index Eligibility

3.1 Index Universe

Universe of the SSE 180 Index

3.2 Eligible Securities

Securities ranked in the top 80% in the index universe in terms of both average daily trading value and average daily market value over the past year in descending order are eligible for inclusion.

3.3 Constituents Selection

(1) Select eligible securities that meet the following conditions:

➢ Continuously paid cash dividends in the past three years;
➢ Average dividend payout ratio between 10% and 100% over the past 3 years.

(2) Rank the selected securities from (1) by the average cash dividend rate over the past three years in descending order and select the top 50%.

(3) Rank the selected securities from (2) by the standard deviation of ROE over the past 12 quarters in ascending order and select the top 80% as the candidate constituents.

(4) Calculate the factors for the candidate constituents as follows:
- ROE = Net profit / Total equity
- ΔROE = Year-on-Year Change in ROE
- OPCFD = Net cash flow from operating activities in the past year / Total liabilities
- DP = Cash dividends in the most recent year / Total market value

(5) Calculate the standardized Z-values of the above factors, and then calculate the comprehensive scores for each security as follows:

Comprehensive Score (Non-financial industry) = (Z(ROE) + Z(ΔROE) + Z(OPCFD) + Z(DP)) / 4

Comprehensive Score (Financial industry) = (Z(ROE) + Z(ΔROE) + Z(DP)) / 3

(6) Select 50 securities with the highest comprehensive scores as constituents.

4. Index Calculations

The index is calculated according to the following formula:

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

Where Current Total Adjusted Market-Cap = Σ(Security Price $\times$ Number of Free Float Adjusted Shares $\times$ 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 each constituent is weighted by the free float market capitalization adjusted by standardized comprehensive scores, the weight of each constituent is capped at 10%, the weight of top 5 constituents is capped at 40%, and the weight of each sector is capped at 30%.

5. Constituents and Index Weights

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.