

SZSE ChiNext Momentum Growth Index Methodology

SZSE ChiNext Momentum Growth Index is designed to reflect overall performance of companies with good growth potential and significant momentum effect listed on the ChiNext Market, and to provide an index investment instrument.

1. Code and Name

Index Name: SZSE ChiNext Momentum Growth Index

Short Name: ChiNext Momentum Growth

Index Code: 399296

2. Base Date and Base Point

Base Date: December 31, 2012

Base Point: 1000

3. Index Universe

All A shares listed on the ChiNext Market of Shenzhen Stock Exchange satisfying the following criteria:

- 3.1 Not labelled as ‘special treatment’ (ST, *ST);
- 3.2 Listed for more than 6 months;
- 3.3 No major violations in laws and regulations, and no major problems in financial reports in the latest year;
- 3.4 No abnormal operation or substantial losses in the latest year;
- 3.5 No abnormal fluctuation in stock price during the review period.

4. Selection Criteria

SZSE ChiNext Momentum Growth Index comprehensively evaluates listed companies from growth and momentum dimensions. Specific steps are as follows:

- 4.1 Rank the stocks in the index universe by daily average free-float market cap in the latest 6 months in descending order and select top 30% stocks;
- 4.2 For the stocks selected in 4.1, calculate 6 indicator scores according to growth and momentum dimensions. The specific indicators are as follows:

- ① Growth Dimension

Revenue growth: growth rate of revenue in the latest quarter

on year-on-year basis;

Profit growth: growth rate of profit in the latest quarter on year-on-year basis;

Growth of earnings before interest and tax: growth rate of earnings before interest and tax (EBIT) in the latest quarter on year-on-year basis;

② Momentum Dimension

New peak of 52 weeks: proportion of the current price to the highest price in the past 52 weeks;

12M-1M momentum: cumulative return from the last 12 month to last month;

12M-1M excess return momentum: cumulative excess return (compared to market-cap-weighted portfolio of all A shares) from the last 12 month to last month;

4.3 Calculate Z-scores by normalizing indicator scores of each stock in 4.2 within the sector to which the stock belongs (except momentum dimension). Scores of 2 dimensions are calculated as the arithmetic mean of Z-scores of indicators within corresponding dimensions;

4.4 Calculate the combined weight of each stock based on the weight of free-float market cap and the score of each dimension (the higher the score and the larger the free-float

market cap, the greater the dimension weights), and select top 50 stocks as the index constituents. The formula for combined weight is as follows:

$$\begin{aligned} \text{combined weight } w_i^p = & \text{free - float market cap weight } w_i^c \\ & + \sum_{j=1}^2 \text{adjusted dimensional weight } \Delta w_i^j \end{aligned}$$

5. Index Calculation

The index is calculated according to the Paasche weighted method, real-time calculation is carried out daily according to the following formula:

$$\begin{aligned} \text{real time index} = & \text{last trading day closing index} \\ & \times \frac{\sum (\text{constituent's real time stock price} \times \text{No. of shares} \times \text{adjustment factor})}{\sum (\text{constituent's last trading day closing price} \times \text{No. of shares} \times \text{adjustment factor})} \end{aligned}$$

For adjustment method of No. of shares, please refer to Index Calculation and Maintenance Methodology; for adjustment factor, please refer to ‘7. Adjustment for Constituents’ Weights’.

6. Index Review

6.1 Periodic Review

The index is reviewed quarterly. Periodic reviews are implemented on the next trading day after market closing of the second Friday in March, June, September and December each year.

6.2 Non-periodic Review

If a constituent is subject to delisting, it will be replaced by the highest ranked reserved stock.

For constituents subject to risk alert, M&A and split, please refer to Shenzhen Component Index Methodology.

7. Adjustment for Constituents' Weights

In index calculation, normalize the combined weight, then calculate the adjustment factor. The adjustment factor is designed to set the weight of individual constituent no more than 15% in each periodic review.

The adjustment factor is recalculated 4 times a year and implemented in periodic reviews. The adjustment factor generally remains constant before next periodic review.

In case of non-periodic review, the new constituent inherits the weight of the replaced stock on its last trading day before the review. The adjustment factor for the new constituent is calculated accordingly.