

Methodology of CSI Central-SOEs Innovation Driven Index

CSI Central-SOEs Innovation Driven Index selects 100 constituents based on comprehensive evaluations of the leading central-SOE candidates' progress in technology innovation and fundamentals. The index is to measure the performance of the Central-SOEs' innovation driven portfolio.

1. Index Name and Index Code

- Index Name: CSI Central-SOEs Innovation Driven Index
- Shortened Name: SOEs Innovation
- Index Code: 000861

2. Base Date and Base Value

The base date is December 31, 2012. The base value is 1000.

3. Index Eligibility

3.1 Index Universe

Same as the Universe of CSI All Share Index

3.2 Constituents Selection

(1) Rank the securities in the universe by the average daily trading value over the past year in descending order and delete the bottom 20% securities.

(2) Select the securities belong to central-SOEs' as candidates.

(3) Delete the securities whose cash flows from operating activities over the past year and net profits after irregular items over the past two years are both negative.

(4) Calculate the scores of R&D expenses to market value ratio, R&D personnel, patent quality and participation in the formulation of national or industrial technical standards for each candidate security in non-financial industry, calculate the scores of revenue, net profits, patent quality and participation in the formulation of national or industrial technical standards for each candidate security in financial industry, and these four scores are calculated with a weight of 40%, 10%, 40% and 10% to obtain the innovation

score of each security. Then rank the candidate securities by the innovation score in descending order and select the top ranked 50% securities.

(5) Calculate the scores of ROE, net profit growth rate, accrual indicator and financial leverage for each candidate security, and these four scores are calculated with a weight of 30%, 35%, 25% and 10% to obtain the quality score of each security in non-financial industry. Calculate the scores of ROE and net profit growth rate for each candidate security, and these two scores are calculated with a weight of 50% and 50% to obtain the quality score of each security in financial industry. Calculate the ascending percentage of the total daily average market value of the listed companies in the past year as the size score.

(6) The scale score and quality score are summed with a weight of 80% and 20% to obtain the overall score of innovation-themed securities. Rank the remaining candidate securities by the overall score in descending order and select the top 100 securities 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 = $\sum$ (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 and subject to the above weight allocation requirement, so that the weight of each constituent weighted by the product of free float adjusted market value, the innovation score and the quality score and the constituent which belongs to high and new technology enterprises weight is capped at 5% and others weight is capped at 3%.

5. Constituents and Index Weights Adjustment

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. In steps (4) and (6) of constituents selection, the index also adopts buffer-zone rules for the sake of limited turnover: with higher priorities, existing

constituents whose innovation scores are ranked out of top 55% will be deleted; with higher priorities, existing constituents ranked out of top 110 will be deleted.

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.