Methodology of the TPEx Compensation Index

I. Eligibility

Common stocks that are listed on the TPEx are eligible for inclusion in the TPEx Compensation Index, with the exception of TPEx Primary Stock, managed stocks, emerging stocks, and stocks with an altered trading method as announced by the TPEx.

II. Constituent Selection Process

1. Stocks that have passed the liquidity test (see III. Liquidity Test) and meet the fundamental criteria and are among the top 200 stocks ranked by market capitalization.

2. Fundamental criteria: TPEx listed companies with a negative compensation change rate[1] for the most recent three consecutive years and a decrease in the number of employees in the most recent year compared to the previous year are excluded.

3. Eligible candidates are then ranked by their average compensation[2] in descending order, and the top 66 are selected as constituents.

4. When periodic review is conducted, existing constituent stocks with average compensation (payroll expenses / average number of employees) ranking in the top 86 (inclusive) will be given priority consideration for retention, and non-constituent stocks will be considered for inclusion based on the order of their average compensation ranking.

5. To better ensure equal distribution of industry sectors, the weight of each respective sector in the index constituents shall not exceed 20%.

III. Liquidity Test

1. Prospective constituent stocks at the time of initial review and subsequent annual reviews: Stocks with monthly turnover reaching 1% of float-adjusted shares outstanding in at least ten out of the 12 months prior to the review will be qualified for inclusion in the index.
2. Existing constituents: Constituents with monthly turnover below 1% of float-adjusted shares outstanding in 4 or more out of the 12 months prior to the annual review will be deleted.
3. Stocks having a minimum trading record of at least 20 business days and with monthly turnover reaching 1% of float-adjusted shares outstanding prior to the annual review will also be qualified for inclusion in the index.
4. If a stock has not been traded for one month or longer, monthly turnover will be computed on a pro rata basis.
5. The aforementioned free float restrictions include the following:

[1] Compensation change rate refers to the percentage change of average compensation between two years.

[2] Average compensation = (payroll expenses / average number of employees). Payroll expenses refer to employee benefit expenses, including compensation expenses, labor and health insurance expenses, pension expenses, and other employee benefit expenses; average number of employees = (number of employees at period start + number of employees at period end) / 2; if number of employees at the beginning of the period is unavailable, average compensation will be calculated by dividing payroll expenses by the number of employees at the end of the period.

(1) Shares held by directors, supervisors, managerial officers, including those held by their spouses, minor children, and under the names of other parties;

(2) Shares held by shareholders holding more than ten percent of the total shares, including those held by their spouses, minor children, and under the names of other parties; and

(3) Shares with any trading restrictions imposed on them by the competent authority.

IV. Index Calculation

The TPEx Compensation Index is calculated and published in real time every 5 seconds during the trading hours of the TPEx based on the latest transaction prices of constituents. A closing index will be calculated after the market closes each day. The TPEx will also compile a total return index based on ex dividend adjustment of the TPEx Compensation Index to reflect the dividend-included return on the constituent stocks. The total return index is calculated and published at the end of each business day.

The index is calculated using the following algorithm:

$$\sum_{i=1}^{66} \frac{(p_i \times s_i)}{d} \times 100$$

Where:

i = The number of stocks in the index, wherein i $\leqq$ 66

p = The latest trading price of the constituent

s = Shares in issue

d = Divisor, representing the base value of index

V. Changes to Constituents

1. Periodic review: Annual review of the TPEx Compensation Index takes place in April every year. The closing data on the last business day in March the same year are used for review. Any change to constituents will be implemented on the first business day of May.
2. Special review: When a constituent is deleted during a special review, it will not be immediately replaced by another stock. Thus it is likely that the number of constituents may fall below 88 between two periodic reviews.

A constituent stock that satisfies any of the following conditions will be removed from the constituent list:

(1) The company is acquired.

(2) The stock is announced by the TPEx as placed under an alternate trading method.

(3) The stock has trading suspended as announced by the TPEx; the stock may remain in the index if trading suspension is due to issue of replacement shares as a result of capital decrease or consolidation.

(4) The stock is delisted.

(5) Other cause for which the TPEx deems removal necessary.

VI. Changes to Constituent Weightings

1. If a corporate action results in a change in the number of shares outstanding for a constituent, the change in shares will apply simultaneously on the date the corporation action takes effect.
2. If changes in shares outstanding did not arise from any corporate actions, weighting adjustment will take place on the ex-dividend day or the first business day of the following month (whichever comes first) to avoid frequent changes to constituent weightings.
3. Except where otherwise prevented by market conditions, all adjustments are made before the start of index calculation for the day.