

Methodology of TPEX Corporate Governance Index

I. Eligibility

Common stocks that are listed on the Taipei Exchange ("TPEX") are eligible for inclusion in the TPEX Corporate Governance Index, with the exception of managed stocks, emerging stocks, and stocks with an altered trading method as announced by TPEX.

II. Constituent Selection Process

1. The stock has passed the following liquidity test:
 - (1) Stocks ranked at bottom 20% by daily average turnover in the most recent year (from May in the previous year to April in the year) are excluded.
 - (2) The daily average turnover is calculated based on the actual number of trading days.
2. The constituent stock must be a company ranked in the top 20% in the corporate governance evaluation.
3. Basic criteria: Net worth per share of the constituent stock in the most recent fiscal year is above par value; in the case of a primary listed company that issues no-par stocks or stocks with a par value other than NT\$10, it must not have an accumulated deficit in the most recent fiscal year.
4. Non-quantified criteria: Constituent stocks which have any of the following situations may be excluded:
 - (1) The incumbent chairman or president of the constituent stock company has a situation stipulated under section 7.B.b.II of the "Standards for Determining Unsuitability for TPEX Listing under Article 10, Paragraph 1 of the Taipei Exchange Rules Governing the Review of Securities for Trading on the TPEX" in the most recent three years and has received a sentence of imprisonment of more than one year.

- (2) The constituent stock company has the occurrence of a significant event of internal control-related fraud, non arms-length transaction, or defalcation of company assets as stipulated in Article 4, Paragraph 1, Subparagraph 19 of the TPEX "Procedures for Verification and Disclosure of Material Information of Companies with TPEX Listed Securities."
5. Stocks that meet the aforementioned criteria are ranked by the combined ranking of "net profit for current period" and "revenue growth rate" in the most recent fiscal year in ascending order, and the top 60 stocks are selected as constituents. If two or more stocks have the same combined ranking, the stock with the highest net worth per share shall be given priority.
6. To maintain the stability of constituents, constituents will be added or deleted according to the following principles at the time of periodic review:
 - (1) Non-constituent stocks ranking in the top 48 (inclusive) by combined ranking of "net profit for the current period" and "revenue growth rate" will be selected for inclusion with the same order of ranking.
 - (2) Existing constituent stocks ranking in the top 72 (inclusive) by combined ranking of "net profit for the current period" and "revenue growth rate" will be given priority for retention with the same order of ranking.

III. Index Calculation

The TPEX Corporate Governance Index is calculated based on the latest transaction prices of constituents and published in real time every 5 seconds during the trading hours of TPEX. A closing index will be calculated after market closing each day. TPEX will also compile a total return index based on ex dividend adjustment of TPEX Corporate Governance Index to reflect 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:

$$\sum_{i=1}^{60} \frac{(p_i \times s_i)}{d} \times 100$$

Where

i= The number of stocks in the index, wherein $i \leq 60$

p= The latest trading price of the constituent

s= Shares in issue

d= Divisor, representing the base value of the index

IV. Changes to Constituents

1. Periodic review: An annual review of TPEX Corporate Governance Index takes place in May every year using the closing data on the last trading day in April of the same year for review. Any change to constituents will become effective on the first trading day in June.
2. Special review: In the event that a constituent is deleted during a special review, it will not be immediately replaced by another stock. It is therefore possible that the number of constituents could fall below 60 in between two periodic reviews.

A constituent stock having any of the following situations will be deleted from the constituent list:

- (1) The company is acquired.
- (2) The trading method of the stock is altered as announced by TPEX.
- (3) The trading of the stock is suspended as announced by TPEX; however, the stock may remain in the index until it can be reinstated 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 causes for which the TPEX deems it necessary.

V. 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 said corporate action takes effect.
2. If a change in shares outstanding does not arise from a corporate action, 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.