

Methodology of the TPEX Compensation Index

I. Eligibility

Common stocks listed on TPEX mainboard are eligible to join the TPEX Compensation Index, except TPEX primary listed companies, managed stocks and altered-trading-method stocks as announced by 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 rate¹ 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 compensation² in descending order, and the top 88 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 106 (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.

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 trading 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. As for the definition and maintenance of the free float, please refer to “TPEX Corporate Actions and Events Guide for Narrow-Band Stock Indices”.

IV. Index Calculation

The TPEX Compensation Index is calculated and published in real time every 5

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.

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 trading day.

The index is calculated using the following algorithm:

$$\sum_{i=1}^n \frac{(P_i \times S_i)}{d} \times 100$$

Where:

i = The number of stocks in the index, wherein i

≤ 88

p = The latest trading price of the constituent

s = Shares in issue

d = Divisor, representing the base value of index

The maintenance of index base value is in accordance with “TPEX Corporate Actions and Events Guide for Narrow-Band Stock Indices”.

V. Changes to Constituents

1. Periodic review: Annual review of the TPEX Compensation Index takes place in June every year. The closing data on the last trading day in May the same year are used for review. Any change to constituents will be implemented on the first trading day of July.
2. Non-periodic review: If a constituent has an event of merge/acquisition or changes status to altered-trading-method stocks, suspended or terminated TPEX trading, all treatments will be in accordance with “TPEX Corporate Actions and Events Guide for Narrow-Band Stock Indices”. The vacancy created will not be immediately filled by another stock. Thus, it is likely that the number of constituents may fall below 88 between two periodic reviews.

VI. Changes to Constituent Weightings

The maintenance of shares in issue and free float factor of constituents is in accordance with “TPEX Corporate Actions and Events Guide for Narrow-Band Stock Indices”.