

## **Methodology of TPEX Corporate Governance Index**

### **I. Eligibility**

Common stocks listed on TPEX mainboard are eligible to join the TPEX Corporate Governance Index, except TPEX primary listed companies, managed stocks and altered-trading-method stocks 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 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. 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.
5. To maintain the stability of constituents, constituents will be added or deleted according to the following principles at the time of periodic review:
  - (1) A company will be inserted at the annual review if its combined ranking of "net profit for the current period" and "revenue growth rate" rises at 48th or above among the eligible securities.
  - (2) Existing constituent stocks ranking at 73rd or below by combined ranking of "net profit for the current period" and "revenue growth rate" will be deleted.

### **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= Base value of the index

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

#### 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. 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 60 between two periodic reviews.

#### V. 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”.