

Methodology of the TPEX Labor Employment 88 Index

I. Eligibility

Common stocks listed on TPEX mainboard are eligible to join the TEPx Labor Employment 88 Index, except managed stocks and altered-trading-method stocks as announced by TPEX.

II. Constituent Selection Criteria

1. The stock has passed the liquidity test.
2. Stocks that have passed the liquidity test but report accumulated deficit for the last fiscal year are excluded.
3. Employee contribution (operating profit/number of employees): Stocks are ranked from high to low based on the result of operating profit for the last fiscal year divided by "the number of all local employees hired in Taiwan by parent company and subsidiaries included in the consolidated financial statements" in the last year, and stocks ranked in the bottom 20% and stocks having negative result are excluded.
4. Stocks with the number of employees reduced by 50% or more as compared to the previous year in the last two years are excluded.

III. Constituent Selection Process

1. Stocks that have passed the liquidity test and other fundamental criteria are selected as candidates. The candidates are then ranked by "the number of all local employees hired in Taiwan by the parent company and subsidiaries included in the consolidated financial statements" in the most recent year in descending order, and the top 88 stocks are selected as constituents. When two stocks have the same number of employees, they are ranked by capitalization.
2. To ensure the representation of the index and maintain the stability of constituents, constituents will be added or deleted according to the following principles at the time of selection:
 - (1) A company will be inserted at the annual review if its ranking of the number of employees rises at 70th or above among the eligible securities.
 - (2) Existing constituent stocks that are ranked at or below 107th by the number of employees will be deleted.

IV. 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”.

V. Index Calculation

The TPEX Labor Employment 88 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 Labor Employment 88 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 $n \leq 88$
- 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”.

VI. Changes to Constituents

1. **Periodic review:** Annual review of the TPEX Labor Employment 88 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.

VII. 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”.