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PROXY PAPER™

GUIDELINES

AN OVERVIEW OF THE GLASS LEWIS APPROACH TO PROXY ADVICE

TAIWAN

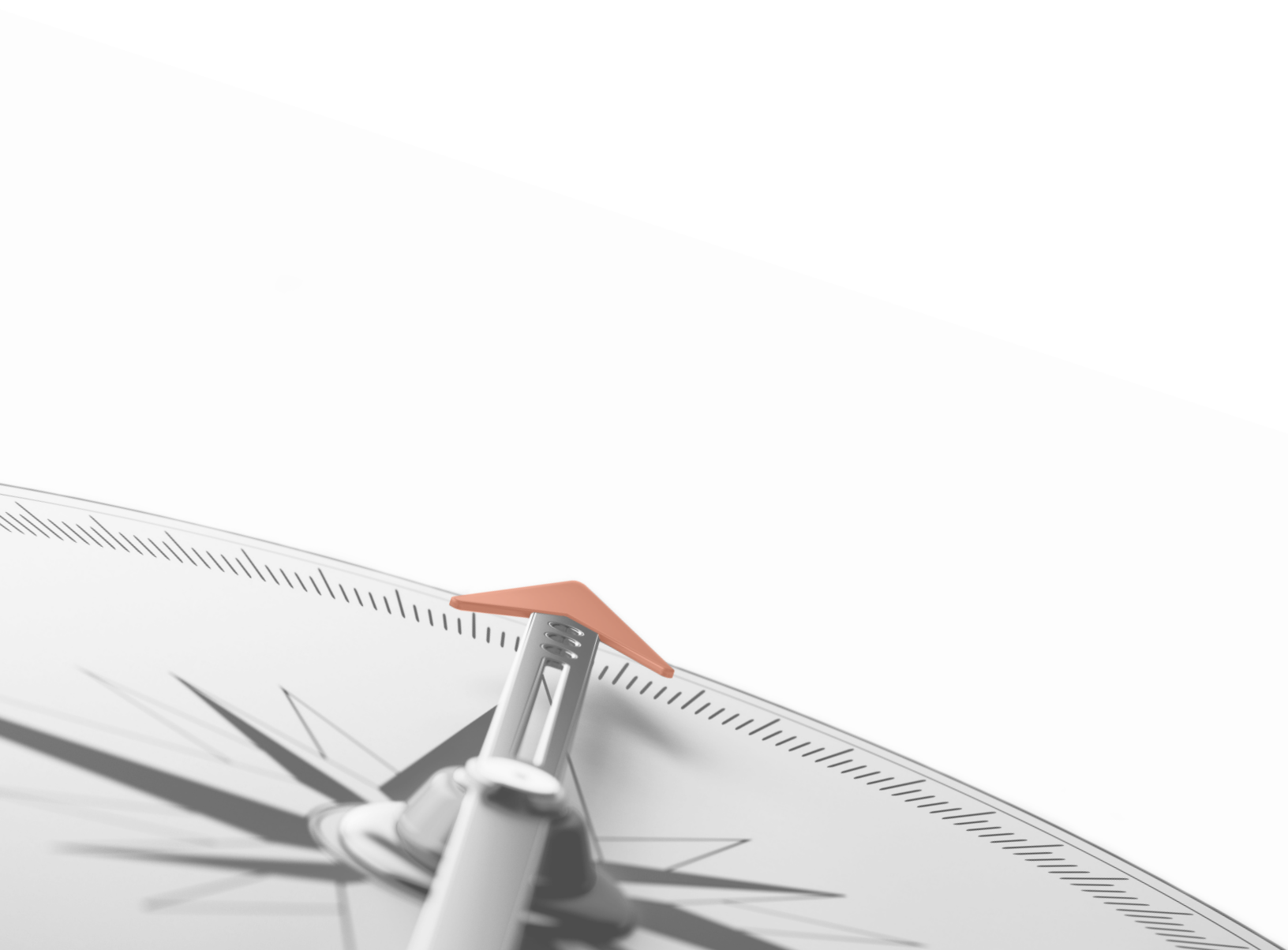


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Guidelines Introduction

Corporate governance in Taiwan is centered primarily around (i) the Company Act, (ii) the Securities and Exchange Act, (iii) Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies (the “Principles”), (iv) Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Company (the “Regulations”), (v) Regulations Governing the Exercise of Powers by Audit Committees of Public Companies, and (vi) Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter (“Remuneration Committee Regulations”). The principal regulatory agency for securities markets is the Financial Supervisory Commission, part of the Executive Yuan of the government of Taiwan.

A Board of Directors that Serves the Interests of Shareholders

REGULATORY FRAMEWORK

Most listed Taiwanese companies are governed by a two-tier board structure consisting of the board of directors and the supervisors. A board of directors typically comprises executive and non-executive directors with little or no independent representation. Supervisors in Taiwan provide an important internal mechanism for monitoring directors and management. Supervisors have the authority and duty to supervise the execution of business operations, investigate business and financial conditions, examine the accounting books and documents, audit various statements and reports and monitor the directors and the management of the company.¹ Supervisors of a company may attend meetings of the board of directors to state their opinion. Companies in Taiwan often have at least one independent supervisor and several other non-executive supervisors.

The Securities & Exchange Act (the “Act”) provides an alternative system that replaces supervisors with an audit committee system. Therefore, there are two types of corporate governance legal frameworks for public companies in Taiwan: (i) a supervisor system, consisting of a general meeting of shareholders and boards of directors and supervisors; and (ii) an audit committee system, consisting of a general meeting of shareholders, a board of directors and an audit committee. With limited exceptions, each firm may select its preferred governance framework.

ELECTION OF BOARDS OF DIRECTORS AND SUPERVISORS

The purpose of Glass Lewis’ proxy research and advice is to facilitate shareholder voting in favor of governance structures that will drive performance, create shareholder value and maintain a proper tone at the top. Glass Lewis looks for talented boards with a record of protecting shareholders and delivering value over the medium- and long-term. We believe that boards working to protect and enhance the best interests of shareholders are independent, have a record of positive performance and have members with a breadth and depth of experience.

Taiwan does not permit staggered election terms for board members. We note that the Company Act allows institutional or governmental shareholders to appoint representatives as directors and supervisors. Shareholders are often asked to approve the appointment of an undetermined representative of an institutional or governmental shareholder, rather than vote on the election of a specific individual. In this case, after the election, the institutional or governmental shareholders will appoint a specific representative to be a member of the board.

INDEPENDENCE OF DIRECTORS AND SUPERVISORS

In Taiwan, the percentage of independent board members is low due to a high level of family and executives on boards and the requirement for board members in aggregate to own a certain percentage of the company’s equity interest under ratios regulated by the Securities and Futures Commission.

¹ Company Act, Article 218-219. The Company Act serves as the primary law governing stock corporations. Unless otherwise provided by these guidelines, any and all rules applicable to a company governed by only a board of directors will apply to a company that elects to be governed by a two-tier board structure.

The independence of directors, or lack thereof, is ultimately demonstrated through the decisions they make. In assessing the independence of directors, we will take into consideration, when appropriate, whether a director has a track record indicative of making objective decisions. Similarly, when a director sits on multiple boards and has a track record that indicates a lack of objective decision-making, that will also be considered when assessing his/her independence. Ultimately, the determination of a director's independence must take into consideration both his/her compliance with the applicable independence listing requirements and past judgments made.

We look at each director nominee to examine his/her relationships with the company, the company's executives and other directors. We do this to find personal, familial or financial relationships (not including director remuneration) that may impact the director's decisions. We believe that such relationships can make it difficult for a director to put shareholders' interests above those of the director or a related party. We also believe that a director who owns more than 1% of a company can exert disproportionate influence on the board and, in particular, the audit committee.

Though local market independence standards for supervisors are more loosely regulated, our analysis applies the same independence standards as for directors. Thus, we put directors and supervisors into three categories based on an examination of the type of relationship they have with the company:

Independent Director/Supervisor — An independent director/supervisor has no material,² financial, familial³ or other current relationships with the company,⁴ its executives or other board members, except for board service and standard fees paid for that service. An individual who has been employed by the company within the past five years⁵ is not considered to be independent. We apply a three-year look-back period for all past relationships other than employment.

Affiliated Director/Supervisor — An affiliated director/supervisor has a material financial, familial or other relationship with the company or its executives but is not an employee of the company.⁶ This includes directors/supervisors whose employers have a material financial relationship with the company, as well as any director/supervisor who owns or controls 1% or more of the company's voting stock.⁷

In accordance with the Taiwan Stock Exchange ("TSE") and GreTai Securities Market ("GTSM") listing rules (the "Listing Rules")⁸ and the Regulations, if any of the following conditions apply to a person acting as a director, s/he should not be regarded as being an independent director. We apply the same standards to independent supervisors:⁹

- i. The individual directly or indirectly holds 1% or more of the total outstanding shares of the company, or s/he is one of the top ten shareholders of the company.

2 A material relationship is one in which the dollar value exceeds 1% of either company's consolidated gross revenue for other business relationships (e.g., if the director is an executive officer of a company that provides services or products to or receives services or products from the company).

3 Familial relationships include a person's spouse, parents, children, siblings, grandparents, uncles, aunts, cousins, nieces, nephews, in-laws and anyone (other than domestic employees) who shares such person's home. A director is an affiliate if the director has a family member who is employed by the company.

4 A company includes any parent or subsidiary in a group with the company or any entity that merged with, was acquired by, or acquired the company.

5 Pursuant to Article 3 of the Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies ("the Regulations"), an independent director of a public company may not have been an employee of the company or any of its affiliate during the two years before being elected or during the term of office. In our view, however, a five year standard is appropriate because we believe that the unwinding of conflicting relationships between former management and board members is more likely to be complete and final after five years. However, Glass Lewis does not apply the five-year look back period to directors who have previously served as executives of the company on an interim basis for less than one year.

6 If a company classifies a director as non-independent, Glass Lewis will classify that director as an affiliate, unless there is a more suitable classification (e.g., shareholder representative or employee representative).

7 In accordance with the Regulations, we view 1% shareholders as affiliates because they typically have access to and involvement with the management of a company that is fundamentally different from that of an ordinary shareholder. More importantly, 1% holders may have interests that diverge from those of ordinary holders, for reasons such as the liquidity (or lack thereof) of their holdings, personal tax issues, etc.

8 The Listing Rules are mandatory and apply to all listed companies.

9 Pursuant to Article 6 of the Regulations, if an independent director is required to be dismissed during his/her term of office due to a change in his/her qualifications, he/she shall not be appointed to be a non-independent director. Similarly, a non-independent director shall not be appointed to be an independent director during his/her term of office.

- ii. The individual is a spouse or a relative of a major shareholder, as described above in (i).
- iii. The individual is a director, supervisor or employee of a shareholder that directly or indirectly holds 5% or more of the total outstanding shares of the company, or s/he is a director, supervisor, or employee of one of the top five shareholders.
- iv. The individual is a director, supervisor, manager or shareholder holding 5% or more of the shares of a specific company or institution that has financial or operational interactions with the company.
- v. The individual is a professional, an independent contributor, a partner, or an executive director, partner, director or manager of an institutional consortium, or the spouse of the same that provides financial, business, or legal or consulting services to the company or an affiliated enterprise of the company.
- vi. The individual is concurrently serving as an independent director or independent supervisor of three or more other public enterprises.

Insider — An inside director simultaneously serves as a director and an employee of the company. This category may include a board chair who acts as an employee of the company or is paid as an employee of the company. Supervisors may not be employees of companies where they are appointed to supervise.¹⁰

Voting Recommendations on the Basis of Independence

In 2002, the Listing Rules were amended to provide that every public company applying for a listing should have at least two independent directors. Also, at least one independent director must be an accounting or finance expert. In addition, as a result of the 2006 amendments to the Act, beginning in January 2007, publicly listed companies may appoint independent directors in accordance with the company's articles of incorporation. If a company voluntarily provides for the appointment of independent directors in its articles, no fewer than two of the board members and not less than one-fifth of the total number of directors shall be independent.¹¹ In addition, at least one of the elected independent directors should be a professional in accounting or finance.

In determining our recommendation as to who we may recommend shareholders vote against for board independence, we will reserve discretion to not recommend against a company's CEO or managing director. In particular, given the importance of the executive's role, if the executive has no other issues that would warrant a negative recommendation, we will exempt such directors from receiving an against recommendation. However, should the executive have additional issues that would warrant an against recommendation, we will generally oppose the reelection of such executives on the basis of the board being insufficiently independent.

Glass Lewis believes a board will be most effective in protecting shareholders' interests when at least two of the board members and one-fifth of all the directors are independent. In addition, while currently there is no legal requirement for the independence of the supervisors, we believe that at least one of the supervisors should be independent.¹² Thus, in the event that fewer than two directors are independent and/or there are no independent supervisors, we typically recommend shareholders vote against some of the insider and/or affiliated directors or supervisors in order to satisfy our recommended level of board independence. We note that the majority of Taiwanese companies elect their directors and supervisors as a slate. In a slate election, if we find any of the candidates to be unqualified or have significant concerns that would normally lead to a negative recommendation, such as insufficient board independence, we will recommend voting against the entire slate.

¹⁰ Company Act, Article 222.

¹¹ Pursuant to the regulations of the Financial Supervisory Commission, Executive Yuan R.O.C., a board of public financial holding companies and/or public companies with paid-in capital of no less than NT\$50 billion should contain at least two independent directors who comprise at least one-fifth of the board. In addition, pursuant to Article 8 of the Regulations, at least one of the managing directors, or one-fifth of all of the managing directors, should be independent.

¹² Under the Company Act (Article 222), a supervisor shall not concurrently serve as a director, manager or employee of the company. Affiliation exists between spouses or linear relatives by blood, within the second degree of kinship. A company shall have at least one or more supervisors, or one or more supervisors and directors, among whom no such relationship exists.

In addition where a board is insufficiently independent, Glass Lewis recommends shareholders vote against the chair of nomination committee. When the information regarding the chair of nomination committee is not disclosed, we recommend voting against the committee member with the longest tenure on the board. If the board does not have a nomination committee, we believe that the chair of the board should be responsible for the insufficient board independence.

Pursuant to the Regulations, a director shall not serve as an independent director of any public company while already serving as an independent director on more than three other public company boards.¹³

Independence standards for supervisors are less rigorous, requiring only at least one supervisor not have a spousal or other familial relationship within the second degree of kinship with another supervisor or director. However, the Principles recommend that companies refer to the provisions contained in the Regulations in order to appoint suitable supervisors.¹⁴ As such, we believe that it is appropriate for companies to have at least one supervisor that is independent according to requirements of the Regulations, and no less than one-fifth of the total number of supervisors.

BOARD SKILLS AND DIVERSITY

We believe companies should disclose sufficient information to allow a meaningful assessment of a board's skills and competencies. If a board has failed to address material concerns regarding the mix of skills and experience of the non-executive element of the board, we will consider recommending voting against the chair of the nominating committee or equivalent (e.g., board chair).

PERFORMANCE

The most crucial test of a board's commitment to a company and its shareholders lies in the actions of the board and its members. We look at the performance of these individuals as directors and executives of the company and of other companies where they have served. We also look at how directors voted while on the board.

Voting Recommendations on the Basis of Performance

We disfavor directors who have a record of not fulfilling their responsibilities to shareholders at any company where they have held a board or executive position. We typically recommend voting against:

1. **Poor Attendance** — A director (or supervisor) who fails to attend a minimum of 75% of the board meetings or 75% of the total of applicable committee meetings and board meetings.¹⁵ However, if a board member has served for less than a full year, we will not typically recommend voting against him/her for attendance issues. Rather, we will note the failure and track the situation going forward.
2. **Serious and Material Restatement** — A director who is also the CEO of a company where a serious and material restatement occurred after the CEO had previously certified the pre-restatement financial statements.
3. **Company Performance** — All members of a board if a company's performance has been consistently lower than its peers and the board has not taken reasonable steps to address the poor performance.

EXPERIENCE

We find that a director's past conduct is often indicative of future conduct and performance. We often find directors with a history of overpaying executives or of serving on boards where avoidable disasters have occurred appearing at companies that follow these same patterns. Glass Lewis has a proprietary database that tracks the performance of directors across companies worldwide.

¹³ Article 4 of the Regulations.

¹⁴ The Principles, Article 43.

¹⁵ The Principles recommends TSE/GTSM listed companies hold board meetings at least every two months.

In determining our recommendation as to who we may recommend shareholders vote against for board independence, we will reserve discretion to not recommend against a company's CEO or managing director. In particular, given the importance of the executive's role, if the executive has no other issues that would warrant a negative recommendation, we will exempt such directors from receiving an against recommendation. However, should the executive have additional issues that would warrant an against recommendation, we will generally oppose the reelection of such executives on the basis of the board being insufficiently independent.

Voting Recommendations on the Basis of Experience

We typically recommend that shareholders vote against directors who have served on boards or as executives of companies with records of poor performance, over-remuneration, audit- or accounting-related issues and/or other indicators of mismanagement or actions against the interests of shareholders.¹⁶

Similarly, we examine the backgrounds of those who serve on key board committees to ensure that they have the required skills and diverse backgrounds to make informed judgments about the relevant subject matter. Thus, we recommend the board include at least one non-executive director with core industry experience.

DIRECTOR COMMITMENTS

We believe that directors should have the necessary time to fulfill their duties to shareholders. In our view, an overcommitted director can pose a material risk to a company's shareholders, particularly during periods of crisis. In addition, recent research indicates that the time commitment associated with being a director has been on a significant upward trend in the past decade. As a result, we generally recommend that shareholders vote against a director who serves as an executive officer of any public company while serving on more than two public company boards and any other director who serves on more than five public company boards. We will count directors who serve as board chairs in select other non-Asian markets, per our global policies, as two board seats given the time commitment of directorship in those markets. Academic literature suggests that one board takes up approximately 248 hours¹⁷ per year of each member's time.

Because we believe that executives will primarily devote their attention to executive duties, we generally will not recommend that shareholders vote against overcommitted directors at the companies where they serve as an executive.

When determining whether a director's service on an excessive number of boards may limit the ability of the director to devote sufficient time to board duties, we may consider relevant factors such as the size and location of the other companies where the director serves on the board, the director's board roles at the companies in question, whether the director serves on the board of any large privately-held companies, the director's tenure on the boards in question, and the director's attendance record at all companies.

We may also refrain from recommending against certain directors if the company provides sufficient rationale for their continued board service. The rationale should allow shareholders to evaluate the scope of the directors' other commitments as well as their contributions to the board, including specialized knowledge of the company's industry, strategy or key markets, the diversity of skills, perspective and background they provide, and other relevant factors. We will also generally refrain from recommending to vote against a director who serves on an excessive number of boards within a consolidated group of companies or a director that represents a firm whose sole purpose is to manage a portfolio of investments which include the company. An exception to our maximum director commitments policy will be made for financial companies' independent directors which will, due to recent FSC regulatory changes, be held to a stricter standard of a maximum of four public company directorships.

¹⁶ We typically apply a three-year look-back period to such issues, and we also research to see whether the responsible directors have been up for election since the time of the failure

¹⁷ NACD Public Company Governance Survey 2015-2016. p. 22.

CONFLICT OF INTEREST

In addition to the three key characteristics – performance, director commitments and experience – that we use to evaluate board members, as described above, we also consider conflict-of-interest issues in making voting recommendations.

We believe that a board should be wholly free of people who have identifiable and substantial conflicts of interest, regardless of the overall presence of independent directors on the board. Accordingly, we recommend that shareholders vote against the following types of directors:

1. **Professional Services** — A director who has provided consulting or other material professional services to the company at any time during the past three years, or who has an immediate family member providing such services.¹⁸ Such professional services may include legal, consulting or financial services. We question the need for a company to have consulting relationships with its directors. We view such relationships as creating conflicts for directors, since they may be forced to weigh their own interests against shareholder interests when making board decisions. In addition, a company's decisions regarding where to turn for the best professional services may be compromised when doing business with the professional services firm of one of the company's directors.
2. **Business Relationship** — A director who engages in large-scale transactions with the Company, or who has an immediate family member engaging in such an arrangement.
3. **Interlocking Directorship** — A director who is involved in interlocking directorships: CEOs or other top executives who serve on each other's boards create an interlock that poses conflicts that should be avoided to ensure the promotion of shareholder interests above all else.¹⁹
4. **Representative Directorship** — The Company Act allows institutional or government shareholders or business affiliates to appoint their representatives as directors and supervisors, provided that such an entity's representatives do not concurrently serve as both directors and supervisors.²⁰ We believe that having the representatives of the same institutional shareholder or business affiliates acting concurrently as director and supervisor greatly weakens the fundamental function of supervisors.

BOARD SIZE

While we do not believe that there is a universally applicable optimum board size, we do believe that boards should have a minimum of five directors in order to ensure that there is sufficient diversity of views and breadth of experience in every decision the board makes. At the other end of the spectrum, we believe that boards with more than 20 members will typically suffer under the weight of “too many cooks in the kitchen” and have difficulty reaching consensus and making timely decisions. Sometimes the presence of too many voices makes it difficult to draw on the wisdom and experience in the room by virtue of the need to limit the discussion so that each voice may be heard.

Pursuant to the Securities and Exchange Act,²¹ the board of directors should comprise at least five members, while a Company should have at least two supervisors in accordance with the Company Act.²²

To that end, in the absence of a nominating committee, we typically recommend voting against the board chair with fewer than five directors. For boards consisting of more than 20 directors, we typically recommend shareholders vote against the members of the nominating committee or, if it is a slate election, abstain from voting. In addition, if a company has fewer than two supervisors we would note our concerns.

¹⁸ See our definition of “material” under Independence. The Regulations apply a two-year look-back period to most relationships.

¹⁹ There is no look-back period for this situation. This only applies to public companies and we only footnote it for the non-insider.

²⁰ Company Act, Article 27.

²¹ Securities and Exchange Act, Article 26-3.

²² Company Act, Article 216.

When the board has a nominating committee, we typically recommend voting against the nominating committee chair based on board size.

SEPARATION OF THE ROLES OF BOARD CHAIR AND CEO

The Corporate Governance Best-Practice Principles of the Listing Rules of Taiwan states that clear distinctions shall be drawn between the responsibilities and duties of the board chair of a TWSE/GTSM listed company and those of its general manager.²³ It would be inappropriate for the chair to also act as the general manager. If the chair also acts as the general manager or they are spouses or relatives within one degree of consanguinity, it would be advisable that the number of independent directors be increased.

Glass Lewis believes that separating the roles of corporate officer and chair creates a better governance structure than a combined executive/board chair position. An executive manages the business according to a course the board charts. Executives should report to the board regarding their performance in achieving goals set by the board. This process is needlessly complicated when a CEO sits on or chairs the board, since a CEO presumably will have a significant influence over the board.

It can become difficult for a board to fulfill its role of overseer and policy-setter when a CEO/chair controls the agenda and the boardroom discussion. Such power can allow a CEO to have an entrenched position, leading to longer-than-optimal terms, fewer checks on management, less scrutiny of the business operation and limitations on independent, shareholder-focused goal-setting by the board.

A CEO should set the strategic course for the company, with the board's approval, and the board should enable the CEO to carry out his/her vision for accomplishing its objectives. Failure to achieve the board's objectives should lead the board to replace that CEO with someone in whom it has more confidence.

Similarly, an independent chair can better oversee executives and set a pro-shareholder agenda without the management conflicts that a CEO or other executive insider often faces. Such oversight and concern for shareholders allows for a more proactive and effective board of directors that is better able to protect the interests of shareholders.

We do not recommend that shareholders vote against CEOs who serve on or chair a board. However, we typically encourage our clients to support the separation of the roles of board chair and CEO whenever that question is posed in a proxy (typically in the form of a shareholder proposal), as we believe that such a measure is in the long-term best interests of a company and its shareholders.

BOARD EVALUATION AND REFRESHMENT

Glass Lewis strongly supports routine director evaluation, including independent external reviews, and periodic board refreshment to foster the sharing of diverse perspectives in the boardroom and the generation of new ideas and business strategies. Further, we believe the board should evaluate the need for changes to board composition based on an analysis of skills and experience necessary for the company, as well as the results of the director evaluations, as opposed to relying solely on age or tenure limits. When necessary, shareholders can address concerns regarding proper board composition through director elections.

In our view, a director's experience can be a valuable asset to shareholders because of the complex, critical issues that boards face. This said, we recognize that in rare circumstances, a lack of refreshment can contribute to a lack of board responsiveness to poor company performance.

On occasion, age or term limits can be used as a means to remove a director for boards that are unwilling to police their membership and enforce turnover. Some shareholders support term limits as a way to force change in such circumstances.

²³ Article 23 of the Corporate Governance Best-Practice Principles of the Listing Rules.

While we understand that age limits can aid board succession planning, the long-term impact of age limits restricts experienced and potentially valuable board members from service through an arbitrary means. We believe that shareholders are better off monitoring the board's overall composition, including its diversity of skill sets, the alignment of the board's areas of expertise with a company's strategy, the board's approach to corporate governance, and its stewardship of company performance, rather than imposing inflexible rules that don't necessarily correlate with returns or benefits for shareholders.

However, if a board adopts term/age limits, it should follow through and not waive such limits. If the board waives its term/age limits, Glass Lewis will consider recommending shareholders vote against the nominating and/or governance committees, unless the rule was waived with sufficient explanation, such as consummation of a corporate transaction like a merger.

BOARD COMMITTEES

COMMITTEE INDEPENDENCE

Pursuant the Act, companies that adopt audit committees in lieu of supervisors, such committees shall be composed *solely* of independent directors at least three in number. The members of the audit committee should designate a chair, and at least one member of the committee should be an accounting or finance expert.²⁴

Regarding companies that have formed additional board committees,²⁵ we are firmly committed to the belief that the membership of these committees should be composed of a *majority of* independent directors. We typically recommend that shareholders vote against any affiliated or inside director seeking appointment to an audit, remuneration or nominating committees when the committees are not sufficiently independent.

AUDIT COMMITTEE PERFORMANCE

We believe that audit committees should consist exclusively of independent directors.²⁶ Regardless of a company's ownership structure, the interests of all shareholders must be protected by ensuring the integrity and accuracy of a company's financial statements. Allowing insider or affiliated directors to oversee audits could create an insurmountable conflict of interest.

Audit committees play an integral role in overseeing the financial reporting process because "vibrant and stable capital markets depend on, among other things, reliable, transparent and objective financial information to support an efficient and effective capital market process. The vital oversight role audit committees play in the process of producing financial information has never been more important."²⁷

When assessing an audit committee's performance, we are aware that an audit committee performs a critical role by ensuring the provision of adequate information and explanation to the auditor, which is essential for it to be able to conduct a proper audit of the Company's accounts. The quality and integrity of the financial statements and earnings reports, the completeness of disclosures necessary for investors to make informed decisions, and the effectiveness of the internal controls should provide reasonable assurance that the financial statements are materially free from errors. The independence of the external auditors and the results of their work also provide useful information by which to assess the audit committee.

For an audit committee to function effectively, it must include members with sufficient knowledge and financial expertise to diligently carry out their responsibilities. We are skeptical of audit committees with members

²⁴ Article 14-4.

²⁵ Although the basic regulatory model for corporations in Taiwan is a two-tier structure that consists of a board of directors and supervisors, the Corporate Governance Best-Practice Principles for TSE/GTSM Listed Companies (the "Principles") recommends the establishment of independent board committees, such as audit, nominating and remuneration committees. The Principles serves as voluntary recommendations. As of December 2011, all public companies must establish a remuneration committee in accordance with Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter.

²⁶ Regulations Governing the Exercise of Powers by Audit Committees of Public Companies, Article 4.

²⁷ "Audit Committee Effectiveness - What Works Best." PricewaterhouseCoopers. The Institute of Internal Auditors Research Foundation. 2005.

that lack expertise as a Certified Public Accountant (CPA), Chief Financial Officer (CFO), corporate controller or other similar experience.

Thus, we would recommend voting against the following members under the following circumstances:²⁸

1. The audit committee chair if the audit committee: (i) did not meet at least four times during the year; or (ii) has fewer than three members.
2. All members of an audit committee in office when: (i) audit and audit-related fees total 50% or less of the overall fees billed by the auditor; (ii) material accounting fraud occurred at the company; (iii) financial statements had to be restated due to negligence or serious material fraud; (iv) the company has repeatedly failed to file its financial reports in a timely fashion for consecutive years²⁹; (v) the company has aggressive accounting policies and/or poor disclosure or a lack of sufficient transparency in its financial statements; (vi) an auditor was reappointed that we no longer consider to be independent for reasons unrelated to fee proportions; or (vii) the company has failed to report or to have its auditors report material weaknesses in internal controls.

In Taiwan, companies are not required to disclose auditor remuneration. Also, while the appointment or removal of independent auditors is subject to the approval of the board of directors, very few companies submit the appointment or removal of independent auditors for shareholder approval.

We are skeptical of audit committee reports that are boilerplate and provide little or no information or transparency to investors. When a problem such as a material weakness, restatement or late filing occurs, our evaluation of the audit committee takes into consideration the transparency of the audit committee report.

REMUNERATION COMMITTEE PERFORMANCE

Remuneration committees are responsible for evaluating and prescribing the remuneration of directors, supervisors and executives. Given the potential for conflicts of interests, executives and employees should not be members of the remuneration committee.³⁰ This oversight includes deciding the bases on which remuneration is determined, as well as the amounts and types of remuneration to be paid. It is important that remuneration be consistent with, and based on, the long-term economic performance of a business' and long-term shareholder returns.

Remuneration committees are also responsible for overseeing the transparency of remuneration. This oversight includes the disclosure of remuneration arrangements, the matrices used in assessing pay-for-performance and the use of remuneration consultants. It is important for investors to have clear and complete disclosure of all the significant terms of remuneration arrangements in order to reach informed opinions regarding the remuneration committee.

Finally, remuneration committees are responsible for overseeing internal controls in the executive remuneration process. This includes monitoring controls over gathering information used to determine remuneration, establishing equity award plans and granting equity awards. Lax controls can contribute to conflicting information through the use of nonobjective consultants, for example. Lax controls can also contribute to the granting of improper awards, such as backdated or spring-loaded options, or the granting of bonuses when triggers for such payments have not been met.

We evaluate remuneration committee members on the basis of their performance while serving on the remuneration committee in question, and not for actions taken solely by prior committee members who are not currently serving on the committee.

²⁸ Where the recommendation is to vote against the committee chair and the chair is not up for election, we do not recommend voting against any members of the committee who are up for election; rather, we will simply express our concern with regard to the committee chair. In the absence of an audit committee, we will recommend voting against the board chair.

²⁹ Pursuant to Article 228 of the Company Act, at the end of each fiscal year, the board of directors shall prepare the financial statements and records and shall forward them to supervisors for their auditing not later than 30 days before the date of a general meeting of shareholders.

³⁰ Remuneration Committee Regulations, Article 6.

When assessing the performance of remuneration committees, we will recommend voting against the following members under the following circumstances:³¹

1. The remuneration committee chair if the remuneration committee did not meet at least twice³² during the year or prior to the determination of significant remuneration related matters (e.g., before executive remuneration was restructured or a new executive was hired during the year).
2. All members of the remuneration committee (during the relevant time period) if: (i) the company entered into excessive employment agreements and/or severance agreements; (ii) performance goals were lowered when employees failed or were unlikely to meet original goals, or performance-based remuneration was paid despite goals not being attained; or (iii) excessive employee perquisites and benefits were allowed.

NOMINATING COMMITTEE PERFORMANCE

The nominating committee, as an agency for the shareholders, is responsible and accountable for the selection of objective and competent board members.

Regarding the nominating committee, we will recommend voting against the following members under the following circumstances:³³

1. The nominating committee chair if: (i) the committee did not meet during the previous year; (ii) the board has fewer than two independent directors; (iii) there are more than 20 members on the board; (iv) there are fewer than five members on the board; or (v) if a director with 0% attendance of board meetings held during the last fiscal year is re-nominated and the company has not provided any reasons for the nominee's absence and its re-nominating despite the complete absences.
2. All members of the nominating committee when the committee nominated or renominated an individual who had a significant conflict of interest, or whose past actions demonstrated a lack of integrity or inability to represent shareholder interests.

ENVIRONMENTAL AND SOCIAL RISK OVERSIGHT

Glass Lewis understands the importance of ensuring the sustainability of companies' operations. We believe that an inattention to material environmental and social issues can present direct legal, financial, regulatory and reputational risks for companies that could serve to harm shareholder interests. Therefore, we believe that these issues should be carefully monitored and managed by companies and that companies should have an appropriate oversight structure in place to ensure that they are mitigating attendant risks and capitalizing on related opportunities to the best extent possible.

Where it is clear that a company has not properly managed or mitigated environmental or social risks to the detriment of shareholder value, or when such mismanagement has threatened shareholder value, Glass Lewis may consider recommending that shareholders vote against members of the board who are responsible for oversight of environmental and social issues. In the absence of explicit board oversight of environmental and social issues, Glass Lewis may recommend that shareholders vote against members of the relevant committee. In making these determinations, Glass Lewis will carefully review the situation at hand, its effect on shareholder value, as well as any corrective action or other response made by the company.

³¹ If our recommendation would be to vote against the committee chair and the chair is not up for election because the board is staggered or due to a by-election, we do not recommend voting against any members of the committee who are up for election; rather, we will express our concern regarding the committee chair. In the absence of a remuneration committee, we will recommend voting against the board chair.

³² Remuneration Committee Regulations, Article 8.

³³ If our recommendation would be to vote against the committee chair and the chair is not up for election because the board is staggered, we do not recommend voting against any members of the committee who are up for election; rather, we will simply express our concern regarding the committee chair. In the absence of a nominating committee, we will recommend voting against the board chair.

Transparency and Integrity in Financial Reporting

ACCOUNTS AND REPORTS

As a routine matter, the Company Act requires that shareholders approve a company's annual and consolidated financial statements and directors' and auditors' reports. Director and supervisors may be discharged from their liabilities only after all of the statements and records of accounts have been approved by a meeting of shareholders, unless there has been any unlawful conduct by the directors or supervisors.

Unless there are concerns about the integrity of the statements/reports, we will recommend voting for these proposals. However, if all of the necessary documents (i.e., annual financial statements and directors' and auditors' reports) have not been made available, we do not believe shareholders will have sufficient information to make an informed judgment regarding this matter.³⁴ As such, we will recommend that shareholders abstain from voting on this agenda item.

ALLOCATION OF PROFITS/DIVIDENDS

In Taiwan, companies must submit the allocation of income for shareholder approval. We will generally recommend shareholders vote for such a proposal.

In accordance with the Company Act, prior to the distribution of dividends, companies are required to allocate at least 10% of their after-tax profits to a legal reserve. Additional allocations to legal reserves are no longer required when the reserve reaches 100% of a company's registered capital.³⁵ After the statutory requirement for allocation to the legal reserve has been met, the board may decide to declare a dividend payable to shareholders (in cash or shares), allocate a portion to a specific reserve and/or carry the profits forward in retained earnings.

Glass Lewis generally supports a company's policy when it comes to the payment of dividends including decisions not to pay them. In most cases, we believe the board is in the best position to determine whether a company has sufficient resources to distribute a dividend or if shareholders would be better served by forgoing a dividend to conserve resources for future opportunities or needs. As such, we will only recommend that shareholders refrain from supporting dividend proposals in exceptional cases.

It is common for Taiwanese companies to allocate a stock dividend together with a cash dividend. In general, Glass Lewis believes that stock dividend plans are beneficial to shareholders, as they offer a less expensive way for shareholders to acquire additional shares by avoiding paying brokers' commissions or taxes applicable to normal stock transactions. For the company, a stock dividend typically offers a tax benefit and allows it to keep more of its earnings.

³⁴ Under Article 36 of the Act, within three months following the close of each fiscal year, the company shall disclose financial reports that have been duly audited and certified by a certified public accountant, approved by the board of directors and recognized by the supervisors.

³⁵ Company Act Article 112, Article 237.

The Link Between Remuneration and Performance

DIRECTOR REMUNERATION

Glass Lewis believes that non-employee directors should receive remuneration for the time and effort they spend serving on the board and its committees. In particular, we support remuneration plans that include option grants or other equity-based awards that help to align the interests of outside directors with those of shareholders. Director fees should be competitive in order to retain and attract qualified individuals, but excessive fees can represent a financial cost to the company and threaten to compromise the objectivity and independence of non-employee directors. Therefore, a balance is required.

Most listed companies in Taiwan employ a system of remuneration for management that includes a fixed base salary and an annual bonus system. Applicable regulations require that companies disclose the remuneration of directors, supervisors, president and vice presidents in their annual reports. Companies may either disclose the aggregate or individual remuneration for members of this group, though individual disclosure is necessary under certain circumstances. However, the quality of the disclosure is undermined by the fact that companies in Taiwan seldom disclose their annual reports in time to be useful to shareholders voting by proxy.³⁶

We support remuneration plans that include option grants or other equity-based awards, which help to align the interests of outside directors with those of shareholders. We compare the costs of these plans to those of peer companies with similar market capitalizations to help inform our judgments on this issue. In addition, companies tend to have better disclosure surrounding these plans than for their fixed fees and bonuses.

EXECUTIVE REMUNERATION

As a general rule, Glass Lewis believes that shareholders should not be involved in setting executive remuneration, as such matters should be left to the board's remuneration committee. We view the election of directors, specifically the election of remuneration committee members — as the appropriate mechanism for shareholders to express their disapproval or support of board policy on this issue. Further, we believe that companies whose pay-for-performance practices are in line with their peers should be granted the flexibility to compensate their executives in a manner that drives growth and profit.

However, Glass Lewis favors performance-based remuneration as an effective means of motivating executives to act in the best interests of shareholders. Performance-based remuneration may be limited if a chief executive's pay is capped at a low level, rather than flexibly tied to the performance of the company.

DIRECTOR AND SUPERVISOR BONUSES

Approval of bonuses for directors and supervisors is typically bundled with allocation of profits and dividends proposals. A company will propose an aggregate bonus based on a fixed percentage of distributable profits prescribed by the articles of association. In general, no breakdown of the bonuses payable to individual directors and supervisors is available in the meeting handbook, though it may be offered in the annual report. While we believe that the prevailing disclosure practices leave much to be desired, we usually recommend shareholder support of these proposals due to their bundling with shareholder dividends.

³⁶ Regulations Governing Information to be Published in Annual Reports of Public Companies, Article 10.

EQUITY-BASED REMUNERATION PLANS

Glass Lewis believes that equity remuneration awards are a useful tool, when not abused, for retaining and incentivizing employees to engage in conduct that will improve the performance of the company. We generally evaluate restricted stock, warrant, and option plans by taking into account the overall cost of the plan, potential dilution to current shareholders, the size of the company and its performance.

Due to the limited disclosure common to companies in Taiwan, Glass Lewis evaluates equity-based remuneration plans using a modified version of its multi-part model. In general, our model seeks to determine whether the value delivered to employees — as a percentage of market capitalization — and the potential dilution to shareholders are within a reasonable range. We believe that equity can be a useful remuneration tool, when not abused, for attracting, retaining and motivating employees to engage in conduct that will improve the company's stock performance.

When evaluating equity-based compensation proposals, we will look for companies to provide complete disclosure surrounding the proposed equity grants. In the absence of complete disclosure, we may recommend shareholders oppose either the adoption of an equity-based compensation plan or the granting of equity grants where:

- The exercise price of stock options is determined at the discretion of the plan administrator.
- The totality of the vesting period is less than two years.
- The equity-based compensation plans include the acceleration of vesting of awards upon an offer being made on a company's shares without the transaction needing to be completed, along with a further event such as termination of employment of the grantee.
- The number of share options or shares to be granted has not been disclosed by the company.

Performance-Based Options

Glass Lewis believes in performance-based equity remuneration plans for senior executives which may include options with exercise prices linked to an industry peer group's stock-performance index.

We feel that executives should be compensated with equity when their performance and the company's performance warrant such rewards. While we do not believe that equity-based pay plans for all employees should be based on overall company performance, we do support such limitations for equity grants to senior executives. However, some level of equity-based remuneration of senior executives without performance criteria is acceptable, such as in the case of moderate incentive grants made in an initial offer of employment or in emerging industries.

Boards often argue that basing option grants on performance would hinder their ability to attract talent. We believe that boards can develop a consistent, reliable approach to attract executives with the ability to guide the company toward its targets.

Governance Structure and the Shareholder Franchise

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

We will evaluate proposed amendments to a company's articles of association on a case-by-case basis. We are opposed to the practice of bundling several amendments under a single proposal because it prevents shareholders from judging each amendment on its own merits and is a practice which we believe negatively limits shareholder rights. In such cases, we will analyze each proposed change individually. We will recommend voting for the proposal only when, on balance, we believe that the amendments are in the best interests of shareholders.

AMENDMENTS TO PROCEDURAL RULES

Companies in Taiwan frequently request approval of procedural rules for board meetings and shareholder meetings and for financial matters related to capital loans, external guarantees and acquisition and disposal of assets. These rules typically contain more granular provisions related to a company's operations and corporate governance. We usually support amendments to the procedural rules that are made to comply with changes in applicable laws and regulations, or those that accord with reasonable changes to a company's articles of association. This generally applies to our recommendations on financial procedural rules as well, though we may recommend that shareholders vote against these proposals if they propose to increase a company's financial authorities to an unreasonable level.

INCREASES IN CAPITAL

Glass Lewis believes that adequate capital stock is important to a company's operation. Taiwanese companies are authorized to increase share capital through several methods that may or may not involve the issuance of shares.

ISSUANCE OF SHARES AND/OR CONVERTIBLE SECURITIES

In general, the issuance of an excessive amount of additional shares and/or convertible securities can dilute existing holders. Accordingly, if we find that a company has not detailed a plan for its use of the proposed shares, or if the number of proposed shares far exceeds those needed to accomplish a detailed plan, we will typically recommend shareholders vote against the authorization of additional shares.

While we think it is critical for management to have access to an adequate amount of shares in order to allow them to make quick decisions and effectively operate the business, we prefer that, for significant transactions, management come to shareholders to justify their use of additional shares, rather than seeking a blank check in the form of a large pool of unallocated shares available for any purpose.

WITHOUT PREEMPTIVE RIGHTS

In our view, unless a board provides any compelling reason, in general any authorization to issue shares and/or convertible securities without preemptive rights should not exceed 20% of the company's total share capital. Likewise, we believe the discount rate for the new issue should not exceed 15% of the average market price.

PRIVATE PLACEMENT

In Taiwan, it is common for companies to increase their share capital through private placements. However, many companies issue new shares to specific investors without preemptive rights and at an excessive discount. As such, we would usually apply tighter rules on dilutive private placements that allow for share price discounts. Given poor disclosures regarding the recipients of private placements, we generally apply the same standards to the analysis of these placements as we do to a conventional issuance of shares with or without preemptive rights. We may allow for exceptions in the case of companies who are financially distressed and unlikely to secure financing through other means.

STOCK SPLIT

We typically consider three metrics when evaluating whether we think a stock split is likely or necessary: (i) the historical stock pre-split price, if any; (ii) the current price relative to the company's most common trading price over the past 52 weeks; and (iii) some absolute limits on stock price that, in our view, either always make a stock split appropriate if desired by management, or would almost never be a reasonable price at which to split a stock.

AUTHORITY TO TRADE IN COMPANY STOCK

A company may want to repurchase or trade in its own shares for a variety of reasons. A repurchase plan is often used to increase a company's stock price, distribute excess cash to shareholders or provide shares for employees' equity-based remuneration plans. In addition, a company might repurchase shares in order to offset a dilution of earnings caused by the exercise of stock options.

In general, we will recommend voting in favor of a proposal to repurchase and trade in company stock when the following conditions are met: (i) a maximum number of shares which may be purchased has been set; (ii) a maximum price which may be paid for each share – as a percentage of the market price – has been set; and (iii) the authorization expires after 18 months. Further, the Securities and Exchange Act limits the number of shares that may be repurchased to no more than 10% of a company's issued capital.³⁷

In Taiwan, shares may only be repurchased only under a limited set of circumstances, such as (i) when a buyback will be used to transfer shares to employees; (ii) when the buyback is for equity conversion for use in the issuance of corporate bonds with warrants, preferred shares with warrants, convertible corporate bonds, convertible preferred shares or share subscription warrants; or (iii) when the buyback is required to maintain the company's credit or protect shareholder value and rights.

AUTHORITY TO CANCEL SHARES AND REDUCE CAPITAL

Pursuant to the Company Act, a company shall not cancel its shares unless a resolution on capital reduction has been adopted at a shareholders' meeting. A capital reduction shall be effected based on the percentage of shareholding of the investors pro rata, unless otherwise provided for in the Company Act or any other governing laws. It is relatively common for distressed companies in Taiwan to cancel shares in order to offset significant accumulated deficits. We will generally recommend support of such proposals provided that there is no reasonable alternative, such as capital reserves or other ready sources of cash.

ANTI-TAKEOVER DEVICES

Glass Lewis generally believes that authorities that are intended to prevent or thwart a potential takeover of a company are not conducive to good corporate governance and can reduce management accountability by substantially limiting opportunities for shareholders.

Taiwanese law is silent as to whether anti-takeover measures are permitted.

³⁷ Securities and Exchange Act, Article 28-2.

SUPERMAJORITY VOTE REQUIREMENTS

Glass Lewis believes that supermajority vote requirements act as impediments to shareholder action on ballot items that are critical to shareholder interests. One key example is in the takeover context, where supermajority vote requirements can strongly limit the voice of shareholders in making decisions on such crucial matters as selling the business.

RIGHT OF SHAREHOLDERS TO CALL A SPECIAL MEETING

Pursuant to the Company Act, shareholders holding 3% or more of a company's issued share capital may, after obtaining an approval from the competent authority, call a general meeting. In addition, any number of shareholders of a company who have continuously held more than one-third of the total number of outstanding shares for a period of one year or longer may, by filing a written proposal setting forth therein the subjects for discussion and reasons, request that the board of directors call a special meeting of shareholders.

Routine Items

DIRECTOR INSURANCE AND INDEMNIFICATION

Under the Principles,³⁸ with the consenting resolution of a shareholders' meeting, a TSE/GTSM listed company may take out liability insurance for directors in order to reduce and spread the risk of material harm to the company and shareholders arising from any illegal conduct. However, we believe directors' liability insurance should not cover liabilities arising in connection with a director's violation of laws, regulations or the company's articles of association.

NON-COMPETE RESTRICTIONS

Pursuant to the Company Act,³⁹ shareholders must approve of the essential contents of any acts committed by a director, for himself or on behalf of another person, that fall within the scope of a company's business. Releasing directors from these restrictions, which prohibit board members from conducting any activities that can be considered to be competitive with the business affairs of the company, may lead to potential conflicts of interest.

Accordingly, we typically recommend shareholders vote for releasing directors from non-compete restrictions only when the competitive entities in question are wholly-owned and controlled subsidiaries, joint ventures or substantial shareholders. We will also recommend an exemption when directors represent the same legal entity on other boards or if they are employed by subsidiaries of such an entity. In the event that a company proposes releasing directors as a "slate," rather than allowing a vote on restrictions for individuals directors, we will recommend voting against the entire proposal if any of the competitive businesses do not comply with the above standard.

TRANSACTION OF OTHER BUSINESS

It is common for companies in Taiwan to include "extraordinary motions" among their agenda items for shareholder meetings. Under local laws and regulations, shareholders voting remotely may not cast their votes on such items in advance, though proxies in attendance at a meeting may vote on their behalf. If included on the ballot, we provide our voting recommendation for extraordinary motions as a technical matter and for the benefit of shareholders who will attend in person. Despite the inability of shareholders attending via proxy to properly exercise their votes on these items, we believe that these shareholders should seize any opportunity provided by the proxy voting process to express their opposition to the transaction of any business for which there was not complete and timely disclosure in advance of the meeting.

AUTHORITY TO CARRY OUT FORMALITIES

In Taiwan, as a routine matter, shareholders are usually asked to grant management the authority to complete any and all formalities, such as required filings and registrations, needed to carry out decisions made at the meeting. In general, we recommend voting for these proposals in order to help management complete the formalities necessary to validate the decisions made at the annual meeting.

³⁸ The Principles, Article 42.

³⁹ The Company Act, Article 209.

DIVIDEND REINVESTMENT (OR SCRIP DIVIDEND) PLAN

We support plans that provide shareholders with the choice of receiving dividends in stock instead of cash. For the company, a stock dividend typically offers a tax benefit and allows it to keep more of its earnings. For shareholders, a dividend reinvestment plan offers a less expensive way to acquire additional shares, as they avoid paying brokers' commissions or the taxes on normal stock transactions. The stock price is usually equal to an average, middle-market price, which is often lower than the price available on the stock exchange.

Shareholder Initiatives

Pursuant to the Company Act, shareholders are entitled to submit a proposed matter for consideration during the annual general meeting of shareholders, provided that the proponent has been a shareholder of record of at least 1% of the total shares of the company, and that the matter is one that can be resolved by a meeting of the shareholders.⁴⁰ We have seen an increase in shareholder proposals in Taiwan in recent years, which typically deal with concerns related to corporate governance, dividend allocation, and environmental or social concerns.

Glass Lewis evaluates shareholder proposals on a case-by-case basis. We generally favour proposals that are likely to increase shareholder value and/or promote and protect shareholder rights. We typically prefer to leave decisions regarding day-to-day management of the business and policy decisions such as those related to political, social or environmental issues to management and the board except when there is a clear and direct link between the proposal and an economic or financial risk for the company. We feel strongly that shareholders should not attempt to micromanage the business or its executives through the initiative process. Rather, shareholders should use their influence to push for governance structures that protect shareholders, including through director elections, and promote the composition of a board they can trust to make informed and careful decisions that are in the best interests of the business and its owners. We believe that shareholders should hold directors accountable for management and policy decisions through the election of directors.

ENVIRONMENTAL, SOCIAL & GOVERNANCE INITIATIVES

For a detailed review of our policies concerning compensation, environmental, social and governance shareholder initiatives, please refer to our comprehensive *Proxy Paper Guidelines for Shareholder Initiatives*, available at www.glasslewis.com.

⁴⁰ Article 172-1 of the Company Act.

DISCLAIMER

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