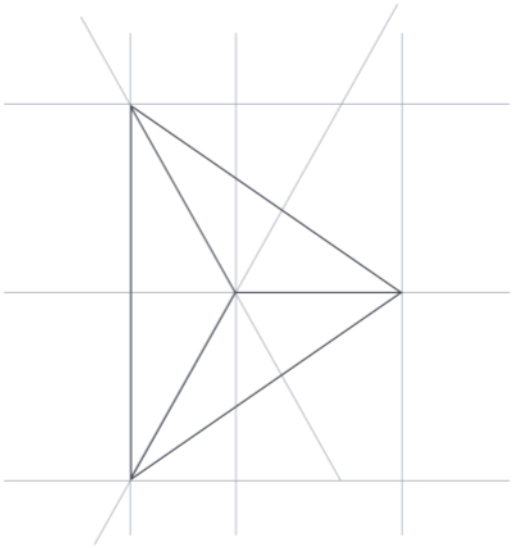
VOTING GUIDELINES AND ESSENTIAL ISSUES OF AGMS IN TAIWAN

Warren Chen, Head of Asia ex-Japan Research

March 5, 2018



AGENDA

- ISS Asia ex-Japan Research Overview
- Policy Development & Engagement
- ISS Taiwan Proxy Voting Guidelines
- 2017 Taiwan Proxy Season

ISS Asia ex-Japan Research Overview

ISS Overview

Leading proxy advisor and provider of corporate governance and SRI solutions to investment community

ISS Snapshot

17
Offices Worldwide

115
Markets Covered

Over 1600
Institutional Clients

About 38000
Companies Covered

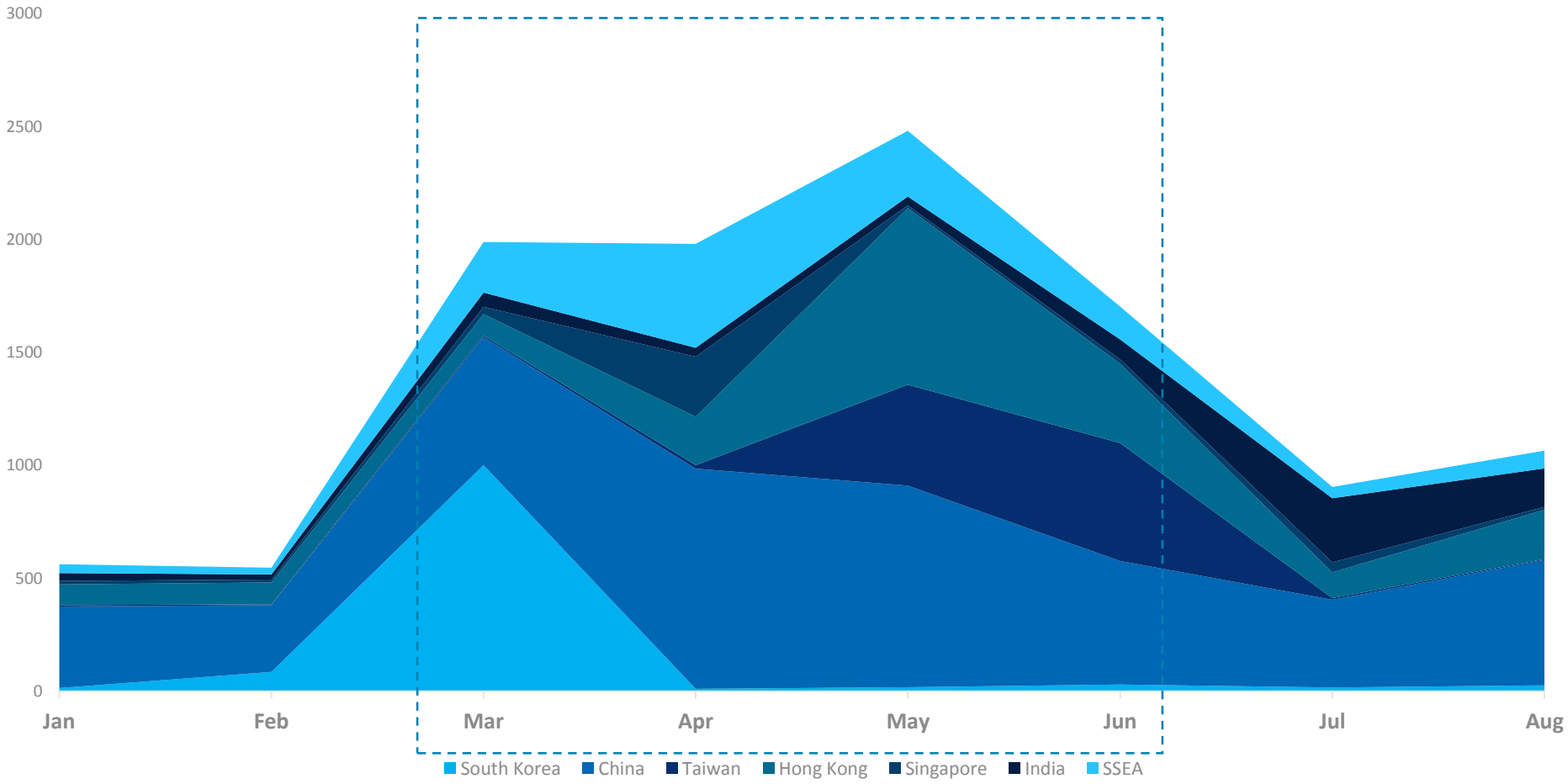
About 8.5M
Proxy Ballots Executed Annually

Asia (ex-Japan) Research

- **13 markets in East, South, and Southeast Asia**
- **Singapore**: China, Hong Kong, Singapore, Taiwan, South Korea
- **Manila:** India, Hong Kong, Singapore, Malaysia, Vietnam, Philippines, Pakistan, Sri Lanka, Bangladesh, Indonesia, Thailand
- **Over 5,000 companies**
- **About 15,000 meetings**

2017 AxJ Meetings

Peak volumes occur during Mar - Jun



Research Process

ISS collects and processes a broad range of information and make what investors need to make a vote decision, when they need them

Collect Public Filings

Aggregate relevant documents from various sources

Primary Information Source

- Proxy Filings
- Annual Report
- Regulatory Filings

News & Third-party Research

Secondary source of information
Collected only as reference

Compile Data

Extract relevant information and process them into format that can easily be analyzed

- Governance Data
- Compensation Data
- Financial Data
- Engagement

Engagement augment the research process

Analysis & Report

Analyze the data and summarize key issues and exceptional items

- Advisory Report

ISS vote recommendation and analysis are based solely on publicly available information.

Policy Development & Engagement

Policy-based Research and Policy Formulation Process

ISS adopts a policy-based approach and develops its policies in a transparent manner that includes ongoing market feedback, surveys, roundtables and an open industry comment period

Research Approach

- **Market-specific Policies** developed to cater to each market's unique practice and standards while taking into account international best practices.
- **Perspective of a Long-term Owner** through policy guidelines, seeking to maximize shareholder value through voting.
- **Balanced Viewpoints** that seeks to strike the right balance between shareholder interests and economic practicality.
- **In-depth Analysis** of meeting agendas applying market-specific policies.
- **Engagement with Issuers** to gain deeper understanding of the facts and enrich our analysis on contentious and unique issues.

Policy Formulation Process

Engagement with ISS

ISS routinely engage with companies to produce informed analysis for shareholders

- **Public Information Only** – Our research and recommendations are based on publicly available information only. We do not seek nor will we accept or use "inside" or non-public information.
- **Records Kept** – For meetings and phone calls, everything we discuss, therefore, is on-the-record. Please keep your non-public information confidential from us.
- **As-needed Basis** – We engage with issuers only when we identify the need for clarification on matters related to the meeting to ensure that we publish our meetings in a timely fashion
- **Vote Recs Not the Agenda** – We do not provide pre-publication guarantees of final recommendation, and we cannot advise or offer consultation on what it would take to garner a favorable recommendation
- **Level Playing-field** – In contested situations, we strive to maintain fairness over the number and format of engagement we offer to both sides of the argument to ensure objectivity in our research process

Proxy Voting Guideline: Taiwan

Proxy voting in Taiwan

SUBJECT MATTERS

- Financial results and business operations reports
- Allocation of income or loss offsetting proposals
- Capital reduction to offset losses or by distributing cash to shareholders
- Amendments to company bylaws
- Mergers & Acquisitions
- Transact other business
- Election of directors and supervisors
- Release of restrictions on competitive activities of directors
- Capital raising requests
- Equity-based compensation

Proxy voting in Taiwan

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Proxy voting in Taiwan

RESOLUTIONS OF MAJOR CONCERNS

- Financial results and business operations reports
- Allocation of income or loss offsetting proposals
- Capital reduction to offset losses or by distributing cash to shareholders
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Election of Directors and Supervisors

NOMINATION SYSTEM AND NON-NOMINATION SYSTEM

- Nomination system is only mandatory for the election of independent directors.
- Many companies are still using non-nomination system for non-independent director and supervisor elections.

Nomination system

- The board of directors reviews the qualifications of each candidate nominated by the board itself or shareholders, then provides a final roster of the candidates prior to the meeting.
- Enables timely disclosure of candidates profiles and board composition.

Non-nomination system

- Any shareholder can nominate any person of legal age to the board.
- Companies are not obliged to provide a roster of candidates before the meeting.
- It is possible that other candidates could be nominated at the meeting.
- Poses a great challenge to investors, particularly overseas investors voting by proxy who must cast their votes well in advance of the meeting.
- Disenfranchises minority shareholders and greatly limits their ability to cast an informed vote.

Non-nomination System

TYPICAL DISCLOSURE

第五案　（董事會提）

案　由：改選本公司董事、監察人，提請選舉案。

說　明：一、本公司第十六屆董事、監察人任期於 102 年 6 月 17 日屆滿，為配合本次董監改選日期，依法延長其執行職務至改選董事、監察人就任時為止。

二、擬依法改選第十七屆董事、監察人。

三、本次改選，應選席次董事七席、監察人三席，新任董事及監察人之任期自 102 年 6 月 28 日起至 105 年 6 月 27 日止，任期三年。

四、敬請選舉。

TYPICAL DISCLOSURE

董事（含獨立董事）候選人名單

職稱	候　選　人	持股數(股)	學　　經　　歷	現　　任
董事	李焜耀	9,528,961	瑞士 IMD 企管碩士 台灣大學電機工程系 宏碁產品規劃室副總經理	佳世達科技股份有限公司董事長 友達光電股份有限公司董事長 明基電通股份有限公司董事長 達方電子股份有限公司董事 明基材料股份有限公司董事
董事	施振榮	10,451,382	美國桑德博管理研究所榮譽博士 英國威爾斯大學榮譽院士 香港理工大學榮譽科技博士 交通大學名譽工學博士 交通大學電子工程碩士 宏碁集團董事長	智融集團董事長 佳世達科技股份有限公司董事 宏碁股份有限公司董事 台灣積體電路股份有限公司獨立董事 緯創資通股份有限公司董事
董事	李錫華	4,680,372	政大企研所企家班 成功大學電機工程系 宏碁美國行銷部協理 佳世達科技總經理	達方電子股份有限公司董事長 達宙科技股份有限公司董事長 達新微電子股份有限公司董事長 佳世達科技股份有限公司董事 明基電通股份有限公司董事 友達晶材股份有限公司董事 建興電子科技股份有限公司董事
董事	財團法人明基友達文教基金會 代表人：熊暉	596,160	柏克萊加州大學物理博士 台灣大學物理學系 友達光電執行副總經理	佳世達科技股份有限公司董事暨總經理 佳世達電子股份有限公司董事長 佳世達系統股份有限公司董事長 達意科技股份有限公司董事長 友達光電股份有限公司董事
董事	友達光電股份有限公司 代表人：蔡國新	182,709,324	交通大學高階主管管理學程碩士 成功大學企業管理學系 友達光電資訊顯示器製造資深協理 友達光電採購處協理	佳世達科技股份有限公司董事 友達光電股份有限公司副總經理暨 資訊顯示器事業群總經理

Adoption of Nomination System

- Encouraged by FSC for better implementation of e-voting
- Mandatory provision in new Companies Act endorsed by FSC
- More companies are adopting nomination system.
  - 148 listed companies as of 2013 year end
  - 263 listed companies as of 2014 year end
  - 395 listed companies as of 2015 year end
  - 564 listed companies as of 2016 year end
  - 941 listed companies as of 2017 year end (over 57%)

Election of Directors and Supervisors

ISS POLICY

- ISS will recommend voting **AGAINST** all director and supervisor candidates where the company employs the **non-nomination system** for election.

- In cases where non-independent director and supervisor elections are conducted using the **nomination system**, ISS will generally recommend voting **FOR** the election of a board-nominated candidate unless there are known negative issues involving the candidate.

- ISS will support the candidates under the non-nomination system, if the company proposes to amend its Articles of Association to adopt nomination system and also provides full disclosure of the candidate information.

Policy on Election of Independent Directors

ISS

WHAT ISS BENCHMARK POLICY IS LOOKING AT…

Yes	Not yet
Independence (ISS' classification)	Board independence level
Attendance (at least 75%)	Key committee composition
Public boards (max. 6)	Combined chairman/CEO
Former audit partner (3 years)	--

ISS Classification
Tenure exceeding 9 years
Cross-directorships with executive directors or chairman
Former executive (5 years, incl. relatives) / Founder family
Employee or executive of significant shareholder
Contractual relationship or representative of stakeholders
Material connection to company or dissenting significant shareholder

Release of Restrictions on Competitive Activities

DISCLOSURE REQUIREMENT FOR RELEASE OF RESTRICTIONS

- Article 209 of the Company Act states that “a director who does anything for himself or on behalf of another person that is within the scope of the company’s business, shall explain to the meeting of shareholders the essential contents of such an act and secure its approval”.

- At minimum, a **disclosure of the directors in question** and the **outside directorships** is necessary for shareholders to make an informed decision.

Release of Restrictions on Competitive Activities

SAMPLE DISCLOSURE – NOMINATION SYSTEM

職稱	姓　　名	擔任他公司職務
董事	億光電子工業(股)公司	泰谷光電科技(股)公司：董事 晶美應用材料(股)公司：董事 億光固態照明(股)公司：董事、監察人
董事	葉寅夫 (億光電子工業(股)公司代表人)	泰谷光電科技(股)公司：董事代表人暨董事長 晶美應用材料(股)公司：董事代表人 億光固態照明(股)公司：董事代表人暨董事長 福聚太陽能(股)公司：董事代表人
董事	劉邦言 (億光電子工業(股)公司代表人)	億光固態照明(股)公司：董事代表人
董事	陳致遠 (楓丹白露(股)公司代表人)	誼揚科技(股)公司：董事長 南亞光電(股)公司：董事代表人

Release of Restrictions on Competitive Activities

SAMPLE DISCLOSURE – NON-NOMINATION SYSTEM

- The non-nomination system makes a meaningful disclosure practically impossible.
- Example of typical disclosure

第 四 案：　　提案人：董事會

案　　由：解除新任董事競業禁止，謹提請　討論。

說　　明：一、依公司法第 209 條第 1 項規定，「董事爲自己或他人爲屬於公司營業範圍內之行爲，應對股東會說明其行爲之重要內容，並取得其許可」。

二、本公司爲考量業務上之需要，借助董事之專才與相關經驗，擬提請股東會同意解除新選任之董事及其代表人競業禁止之限制。新任董事競業行爲之重要內容，請主席說明。

三、謹提請　討論。

決　　議：

For existing directors

- ISS will recommend voting **FOR** a release of restrictions request for existing directors with **full disclosure**.
  - Disclose **all outside directorships** held by a director in question; **or**
  - Disclose those **outside directorships that are being waived** from the non-compete requirement.
- ISS will recommend an **AGAINST** vote if **insufficient information** is disclosed.

ISS POLICY

For newly elected directors

- ISS will recommend voting **FOR** a release of restrictions request for newly elected directors with **full disclosure** and the **nomination election system** is employed.
- ISS will recommend voting **AGAINST** a release of restrictions request for newly elected directors if the company is using the **non-nomination election system**.
- ISS will support a release of restriction request for newly elected directors elected using the non-nomination system if the company is adopting the nomination system and has provided full disclosure.

此外，根據現有章程細則第104(A)條之規定，雷霆先生、李家祥博士、梁高美懿女士、胡寶星爵士、鄺準先生及陳國威先生將於股東週年大會上輪值告退。如本公司於二〇一五年十月七日所公布，陳國威先生最近知會本公司，彼將不會在股東週年大會上尋求膺選連任為本公司董事。另外五名退任董事則符合資格及已願意在股東週年大會上膺選連任。

以上建議重選之六名董事的資料載於本通函附錄二。

李家祥博士

獨立非執行董事(62歲)

李博士自二〇〇五年五月起出任本公司非執行董事。他現為本公司獨立非執行董事、審核委員會主席及薪酬委員會成員。他亦是數碼通電訊集團有限公司之獨立非執行董事以及其審核委員會及薪酬委員會之主席。

李博士為李湯陳會計師事務所首席合夥人。同時，他是載通國際控股有限公司、王氏國際集團有限公司、恒生銀行有限公司、華潤創業有限公司及路訊通控股有限公司之獨立非執行董事。他曾任交通銀行股份有限公司之獨立非執行董事。

李博士為中國人民政治協商會議第十二屆全國委員會委員。他亦為前香港立法會議員兼任立法會政府帳目委員會主席、前香港會計師公會會長及前財務匯報檢討委員團召集人兼成員。

Capital Raising Request

- Taiwanese companies normally seek authority to raise capital through channels such as private placement/ public issuance of new shares, convertible bonds issuance, or participation in GDRs issuance.
- This is, in essence, a **general issuance mandate** allowing companies to issue shares, convertible bonds or GDRs up to a preapproved limit.
- **Potential dilution** and **method of issuance** are the key factors for consideration.

Capital Raising Request

ISS POLICY

- ISS generally recommends voting FOR a general share issuance mandate that include a **private placement** as one of the financing channels if the resulting dilution is limited to no more than **10 percent**.
- ISS generally recommends voting FOR a general mandate for **public share issuance or GDR issuance** if the issue size is limited to no more than **20 percent** of the existing issued share capital.
- Requests to issue shares for a **specific purpose** such as the financing of a particular project, an acquisition, or a merger, will be reviewed on a **case-by-case** basis.

PRIVATE PLACEMENT FOR A SPECIFIC PURPOSE

Other factors:

- Issue Price, Rationale, Purchasers

本次私募價格以：

1. 定價日前一、三或五個營業日擇一計算普通股收盤價簡單算數平均數扣除無償配股除權及配息，並加回減資反除權後之股價。
2. 定價日前三十個營業日普通股收盤價簡單算數平均數扣除無償配股除權及配息，並加回減資反除權後之股價。

二基準計算價格較高者訂定之。

惟實際定價日及實際發行價格以不低於參考價格之八成為訂定私募價格之依據，在不違反上開原則下，擬提請股東常會授權董事會視當時

(1)應募人之名單與公司之關係

姓　　名	應募人為內部人或關係人	姓　　名	應募人為內部人或關係人
張峯豪	董　事	張國榮	獨立董事
邱梅芬	董　事	韓榮裕	監 察 人
梁育立	獨立董事	楊淑艷	監 察 人

Restricted Stock Award

- First seen in 2012, following the new regulatory amendments.
- Mandatory disclosure by relevant regulations:
  - Issue amount
  - Issue conditions (including issue price, vesting conditions, type of shares, arrangement when employees fail to meet the vesting conditions)
  - Qualifications of eligible employees
  - Rationale
  - Estimated accounting cost and dilution effect

Restricted Stock Award

Main purpose:
Long-term incentives for employees

Vesting period

Grant price:
Free or at a deep discount

Performance criteria

Restricted Stock Award

ISS POLICY

- Evaluate on a **case-by-case** basis
- Factors that may be taken into consideration

Vesting period	Minimum two years
Performance criteria	Challenging performance hurdles if restricted stocks are issued for free or at a deep discount
Eligible participants	Existing substantial shareholders are restricted in participation

Restricted Stock Award

RSA PROPOSALS

- 31 RSA proposals in 2015
  - None supported by ISS
- 47 RSA proposal in 2016
- 9 supported by ISS
- 38 RSA proposal in 2017
  - 16 supported by ISS

Company Name	Performance hurdles
Pegatron Corp.	1. The company's earning per shares (EPS) in the past three years is higher than that of its peers^; and 2. The company's return on equity (ROE) in the past three years is higher than that of its peers^. *^peers include Hon Hai Precision Industry Co., Ltd. (2317.TT), Quanta Computer Inc. (2382.TT), Compal Electronics Inc. (2324.TT), Wistron Corp. (3231.TT) and Inventec Corp. (2356.TT)*
Merry Electronics Co., Ltd.	**Year under review** / **Performance indicator** / **Benchmark** First year / Revenue growth* / 8 percent Second year / Net profit growth* / 10 percent Third year / Net profit growth* / 10 percent **as compared to the previous year*
TCI Co., Ltd.	The restricted shares will be vested by the end of each year if the following company performance indicators are satisfied: **Revenue growth** / **30 percent p.a.** Net profit margin / 10 percent EPS / TWD 3.00
Wistron NeWeb Corp.	**The company's overall performance indicators** / **Vesting ratio** EPS ranks among the top 1/3 of the peer companies / 100% EPS ranks below the top 1/3 but above the bottom 1/3 of the peer companies / 75% EPS ranks among the bottom 1/3 of the peer companies# / 0% *#peer companies refer to those in the network-communications industry: Sercomm Corporation, Gemtek Technology Co., Ltd., Microelectronics Technology Inc., Prime Electronics and Satellitics Inc., Zinwell Corporation, Alpha Networks Inc., CyberTAN Technology, Inc., Accton Technology*

Performance-related Components

VARIABLE BONUS

Variable Bonus comprises the Performance Bonus and the Value Sharing Bonus. It provides a variable level of remuneration dependent on short-term performance against the annual plan, as well as relevant market remuneration benchmarks.

Policy

Performance Bonus

Performance Bonus (PB) is designed to support the Group's business strategy and the ongoing enhancement of shareholder value through the delivery of annual financial strategy and operational objectives. On an individual level, the PB will vary according to the actual achievement against Group, business unit and individual performance objectives.

Value Sharing Bonus

A portion of Senior Management's annual remuneration is tied to the Economic Profit (EP) performance of the Group in the form of the Value Sharing Bonus (VSB). VSB is used to defer their bonuses over a time horizon to ensure alignment with sustainable value creation for the shareholders over the longer term. VSB is also extended to Top Management executives, who are senior executives below the Senior Management level, holding positions equivalent to Vice President in the organisation.

Performance Linkage

Performance Bonus

The objectives are aligned to the Annual Operating Plan and are different for each executive. They are assessed on the same principles across two broad categories of targets: Business and People. Business targets comprise financials, strategy, customer and business processes. People targets comprise leadership competencies, core values, people development and staff engagement. In addition, the executives are assessed on teamwork and collaboration across the Group.

Value Sharing Bonus

A "VSB bank" is created for each executive to hold the VSB allocated to him or her in any year. One-third of the "bank" balance would be paid out in cash provided it is positive. The remaining balance will be carried forward and at risk as it is subject to performance-related clawback and could be reduced in the event of EP underperformance in the future years.

LONG-TERM INCENTIVES

Long-term incentives reinforce the delivery of long-term growth and shareholder value to drive an ownership culture and retain key talent. These are equity awards provisionally granted to Senior Management based on performance for the year ended 31 March 2015.

From 1 April 2012, [redacted] ceased to grant General Awards (GA) and Senior Management Awards (SMA) under the [redacted] Performance Share Plan (see description of GA and SMA in previous annual reports). Two new types of awards were introduced in 2012 – the Restricted Share Award (RSA) and the Performance Share Award (PSA) – with grants made at the discretion of the ERCC. The RSA is granted to a broader group of executives while the PSA is granted to Senior and Top Management.

Policy

The number of performance shares (RSA and PSA) awarded is determined using the valuation of the shares based on a Monte-Carlo simulation. The share awards are conditional upon the achievement of predetermined performance targets over the performance period. The performance conditions were chosen as they are key drivers of shareholder value creation and aligned to the Group's business objectives. These performance conditions and targets are approved by the ERCC at the beginning of the performance period. The final number of performance shares vested to the recipient will depend on the level of achievement of these targets over the performance period, subject to the approval of the ERCC.

A significant portion of the remuneration package for our Senior Management is delivered in [redacted] shares to ensure that their interests are aligned with shareholders. This is further supported by significant shareholding requirements in which they are required to retain at least the equivalent of their annual base salary in shares.

Special provisions for vesting and lapsing of awards apply for events such as the termination of employment, misconduct, retirement and any other events approved by the ERCC. Upon occurrence of any of the events, the ERCC will consider, at its discretion, whether or not to release any award, and will take into account circumstances on a case-by-case basis, including (but not limited to) the contributions made by the employee.

[redacted] employees are prohibited from entering into transactions in associated products which limit the economic risk of participating in unvested entitlements under [redacted] equity-based remuneration schemes.

Performance Linkage

Restricted Share Award (RSA)

The RSA has a two-year performance period from 1 April 2015 to 31 March 2017. Vesting of shares is dependent on the following performance conditions:

- 50% based on [redacted] Group's Net Profit After Tax (NPAT) – [redacted] Group NPAT achieved against predetermined targets; and
- 50% based on [redacted] Group's Free Cash Flow (FCF) – [redacted] Group FCF achieved against predetermined targets

Performance Share Award (PSA)

The PSA has a three-year performance period from 1 April 2015 to 31 March 2018. Vesting of shares is dependent on the following performance conditions:

- 50% based on [redacted] Group's Relative Total Shareholder Return (Relative TSR) – TSR relative to the MSCI Asia Pacific Telecommunications Index; and
- 50% based on [redacted] Group's Absolute Total Shareholder Return (Absolute TSR) – Absolute TSR achieved against predetermined targets.

The details of the vesting schedule for RSA and PSA granted in June 2015 are shown in Figure A and Figure B respectively.

Figure A: Restricted Share Award (RSA) Vesting Schedule

Group NPAT (50%)		Group FCF (50%)	
Performance	Vesting Level [1]	Performance	Vesting Level [1]
Stretch	130%	Stretch	130%
Target	100%	Target	100%
Threshold	50%	Threshold	50%
Below Threshold	0%	Below Threshold	0%

Note:

[1] For achievement between these performance levels, the percentage of shares that will vest under this tranche would vary accordingly.

Figure B: Performance Share Award (PSA) Vesting Schedule

Relative TSR (50%)		Absolute TSR (50%)	
Performance [2]	Vesting Level [3]	Performance	Vesting Level [3]
–	–	Stretch	200%
≥ +7.00%	100%	Target	100%
+2.00%	50%	Threshold	30%
< +2.00%	0%	Below Threshold	0%

Notes:

[2] Percentage outperformance against the MSCI Asia Pacific Telecommunications Index.

[3] For achievement between these performance levels, the percentage of shares that will vest under this tranche would vary accordingly.

2017 TAIWAN SEASON NOTABLE PROPOSAL TYPES

Top 5 AGAINST Recommendations, 2017

Resolution	% of Resolutions with Negative Recs
Approve Release of Restrictions of Competitive Activities of Directors	22.1
Other Business	21.9
Election of Directors	14.2
Election of Supervisors	7.5
Amend Procedures Governing the Acquisition or Disposal of Assets	4.2

Approve Release of Restrictions of Competitive Activities of Directors

- Insufficient disclosure

Other Business

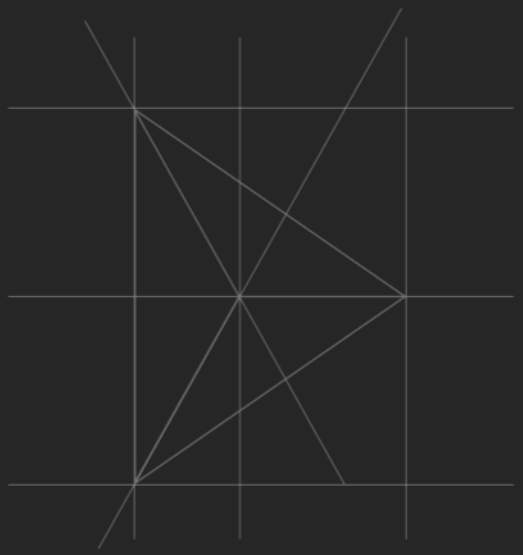
- Issues of concerns to be raised at the meeting without giving shareholders ample time to review
- Opportunities to pass resolutions not in the best interest of shareholders

Election of Directors/Supervisors

- Non-nomination system, insufficient disclosure

Amend Procedures Governing the Acquisition or Disposal of Assets

- Eliminating checks and balances
- Exposing companies to unnecessary risk



THANK YOU

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