

# Review Report on Annual Reports of TWSE/TPEX Listed Companies to Shareholders

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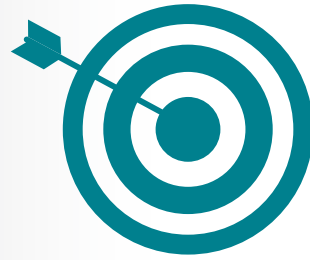
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# Summary



## 1. Review of Annual Reports to Shareholders

Enterprises are capitalized by shareholders and entrusted to the management to operate on their behalf. However, the management (agents) may use resources not based on the best interests of the principals due to information asymmetry, resulting in principal-agent problems. To minimize this, relevant laws and regulations for the disclosure of public company information have been enacted. As the competent authority, the Financial Supervisory Commission “FSC” has been promoting corporate governance practices in accordance with the OECD Principles of Corporate Governance. In particular, public companies shall prepare an annual report and distribute it to all shareholders prior to or at the Annual General Meeting of shareholders according to Paragraph 4, Article 36 of the “Securities and Exchange Act”. The annual report shall disclose the finances, operating results, and corporate governance practices of public companies for investors to assess and evaluate their past performances and prospects.

Every year, the Taiwan Stock Exchange Corporation “TWSE” and Taipei Exchange “TPEX” will review public companies annual reports to shareholders in accordance with the “Regulations Governing Information to be Published in Annual Reports of Public Companies” “the Regulations”, the “Taiwan Stock Exchange Corporation Procedures for the Review of Annual Reports of Listed Companies,” and the “Taipei Exchange Procedures for the Review of Annual Reports of Listed Companies.” If the TWSE and TPEX discover, in reviewing the annual reports to shareholders of listed companies, that the annual reports are not prepared in accordance with the Regulations, TWSE and the TPEX will guide and require the listed companies to correct the reports. The TWSE and the TPEX will do an annual review conclusion and common deficiencies found in the review are disclosed to TWSE/TPEX listed companies for correction on their websites to strengthen information transparency and the sound operation of corporate governance.

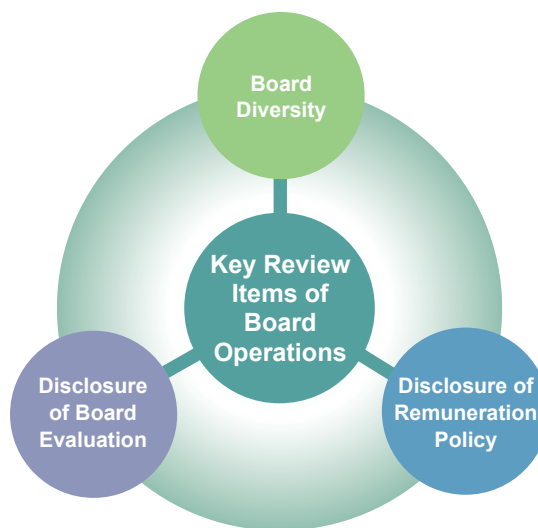
Each year, the TWSE and TPEX will also screen the financial statements attached to the annual reports to shareholders of TWSE/TPEX listed companies for review in accordance with the following laws and regulations: "Taiwan Stock Exchange Corporation Procedures for Review of Financial Reports of Listed Companies," "Taiwan Stock Exchange Corporation Procedures for Routine Regulation and Regulation by Exception Over Financial and Business Affairs of Listed Companies," "Taiwan Stock Exchange Corporation Rules for Regulating TWSE Primary Listed Companies and Taiwan Innovation Board Primary Listed Companies After Listing," "Taipei Exchange Procedures for the Review of Financial Reports of TPEX Listed Companies," and "Taipei Exchange Handling Procedures for Routine Regulation and Regulation by Exception of Financial and Business Affairs of TPEX Listed Companies." For omissions found in the review or recommendations, the TWSE and TPEX will issue a letter requiring the listed companies to take corrective action. The TWSE and TPEX will make the common deficiencies found in the annual review of financial statements available on their respective websites and inform TWSE/TPEX listed companies by letter to enhance the quality and transparency of their financial disclosures.



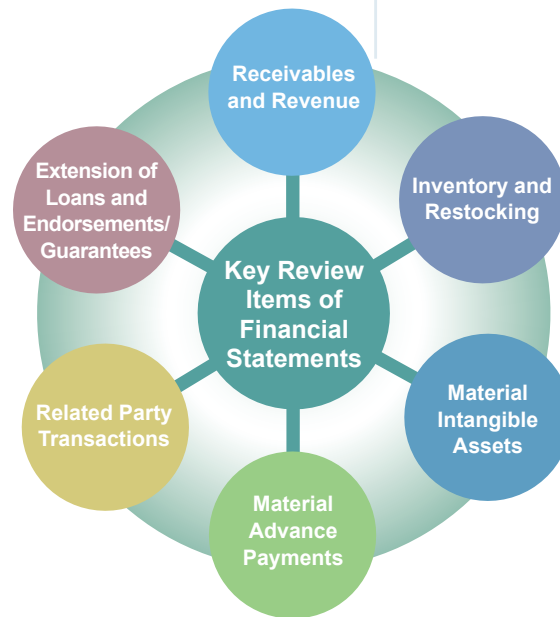
## 2.Key Review Items

The Regulations standardize the key financial operations, matters that have a material impact on shareholder equity, and financial statements for the most recent fiscal year to be published in the annual reports to shareholders of public companies. In response to international trends in corporate governance, the government of Taiwan has been taking measures to strengthen the board functions since the “Corporate Governance Roadmap 2013” as the board of directors is a company’s highest governance body and pivotal to the development of corporate governance. By the end of 2017, all TWSE/TPEX listed companies appointed independent directors. Since 2020, TWSE/TPEX listed companies have set up their audit committees based on the term of the board of directors. To enhance the disclosure of corporate governance in TWSE/TPEX listed companies, the TWSE and TPEX reviewed the annual reports of listed companies to shareholders for 2020 specifically, on the part of board operations.

The review of board operations covered the board diversity and qualifications, board evaluations, plus the remuneration policy and distribution. The TWSE and TPEX screened the Chinese and English annual reports to shareholders of 145 TWSE/TPEX listed companies (90 TWSE listed companies and 55 TPEX listed companies) (i.e., 290 reports in total). The review results were made available to TWSE/TPEX listed companies and the general public, with proposed measures for improvement.



According to laws and regulations plus taking financial and non-financial indicators into account, the TWSE and TPEX screened the 2020 financial statements of 202 TWSE/TPEX listed companies (115 TWSE and 87 TPEX listed companies) for review. The key review items covered receivables and revenue, inventory and restocking, material intangible assets, material advance payments, related party transactions, and extension of loans and endorsements/guarantees. Based on the review results of major account titles, the TWSE and the TPEX expected to assist TWSE/TPEX listed companies to improve the quality of their financial statements.



### 3. Review Results and Recommendations

To promote the detailed disclosure of the board operations, the TWSE and TPEX, in addition to implementing the corporate governance evaluation system, require that TWSE/TPEX listed companies should disclose relevant information in attached appendices and footnotes in accordance with the Regulations. However, in the review, the TWSE and TPEX found that only some TWSE/TPEX listed companies met the minimum requirements of the attached appendices and did not disclose the board operations in depth and breadth. For example, TWSE/TPEX listed companies only ticked off the items on the attached appendices without stating the qualifications and experience of board members, did not disclose the basis for board evaluation results or improvements, and failed to provide a specific explanation or description of the remuneration policy and distribution.

Based on these review results, the FSC amended the Regulations on November 30, 2021; it also had the TWSE and TPEX amend the "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies," review corporate governance evaluation indicators, and provide templates in order to enable TWSE/TPEX listed companies to review their board operations, enhance disclosures, and practice corporate governance as their corporate cultures.

In the review of the 2020 financial statements of TWSE/TPEX listed companies, the TWSE and TPEX identified extension of loans and endorsements/guarantees, related party transactions, plus receivables and revenue as the common omissions or recommendations, including incompleteness or absence of internal control systems, incomplete disclosure of transaction information, or non-compliance with the International Financial Reporting Standards "IFRS". The TWSE and TPEX have published the Related Party Transaction Guidelines, which TWSE/TPEX listed companies are required to comply with when engaging in related party transactions and extension of loans and endorsements/guarantees. When promoting related services in the future, the TWSE and TPEX will continue helping TWSE/TPEX listed companies comply with laws and regulations and improve on their finance and accounting personnel's competence. The TWSE and TPEX will also timely adjust the key review items according to the IFRS and the business activities or transactions of TWSE/TPEX listed companies to ensure the better disclosure of financial statements.

# 2



## Review of Board Operations and Disclosures in 2020



## 1.Objective of the Review

In line with the FSC's "Corporate Governance Roadmap (2018~2020)," which has been promoting the English disclosure of financial operations of TWSE/TPEX listed companies, the TWSE and TPEX have promulgated the amendments to the "Taiwan Stock Exchange Corporation Rules Governing Information Filing by Companies with TWSE Listed Securities and Offshore Fund Institutions with TWSE Listed Offshore Exchange-Traded Funds" and the "Taipei Exchange Rules Governing Information Reporting by Companies with TPEX Listed Securities," requiring that TWSE/TPEX listed companies whose paid-in capital of the end date of 2020 was a minimum of NT\$2 billion or in which the total shareholding of foreign investors and Mainland Chinese investors as recorded in the shareholders' register was 30% or more at the time a Annual General Meeting was convened in 2020 shall file the annual reports to shareholders in English from 2021. A total of 518 TWSE listed companies and 139 TPEX listed companies filed their 2021 annual reports to shareholders in English.

In the review, which targeted TWSE/TPEX listed companies that also prepared the English annual reports to shareholders, the TWSE and TPEX screened the Chinese and English annual reports to shareholders of 145 TWSE/TPEX listed companies (90 TWSE listed companies and 55 TPEX listed companies) for review. Since the attributes of TWSE/TPEX listed companies vary, the TWSE/TPEX listed companies were screened by industry, capital, and shareholding of overseas Chinese and foreign investors are described respectively below (Figure 1~Figure 3).

A total of 90 TWSE listed companies, or 9.5% of the 948<sup>1</sup> TWSE listed companies, were reviewed, including 80 domestic TWSE listed companies and 10 TWSE primary listed companies coming from 24 industries, of which 13 companies were in the semiconductor industry (15%), nine in the computer and peripherals industry (10%), nine in the electronic components industry (10%), and seven in the optoelectronics industry (8%). A total of 55 TPEX listed companies, or 7.0% of the 782<sup>2</sup> TPEX listed companies, were reviewed, including 48 domestic TPEX listed companies and seven TPEX primary listed companies coming from 14 industries, of which 16 companies were in the semiconductor industry (29%), 12 in the biotechnology and medicine industry (12%), five in the electronic components industry (9%), three in the optoelectronics industry (5%), and three in the computer and peripherals industry (5%).

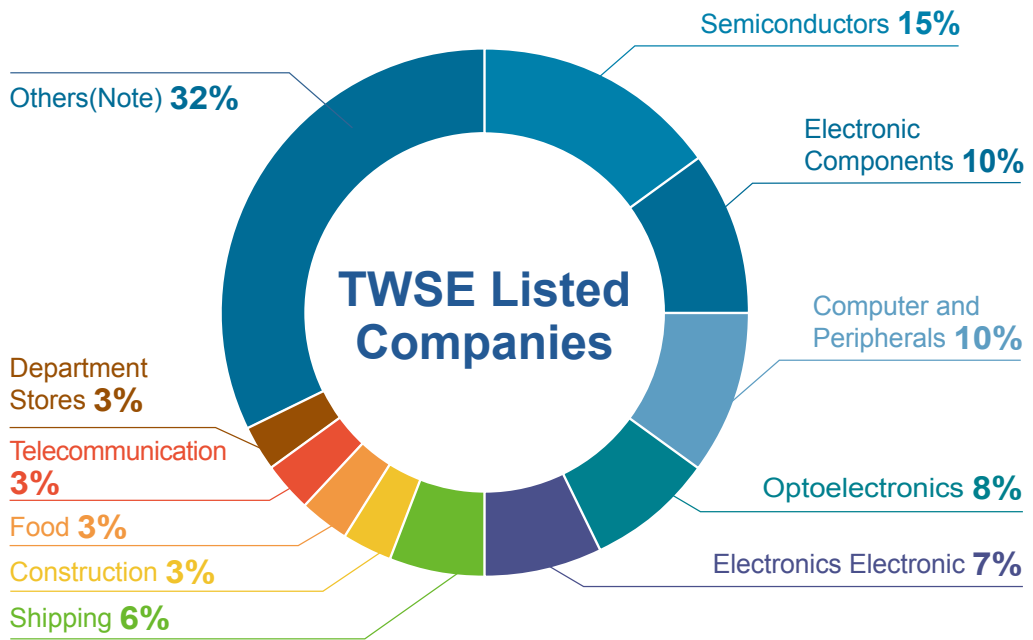


<sup>1</sup> Number of TWSE listed companies as of December 31, 2020.

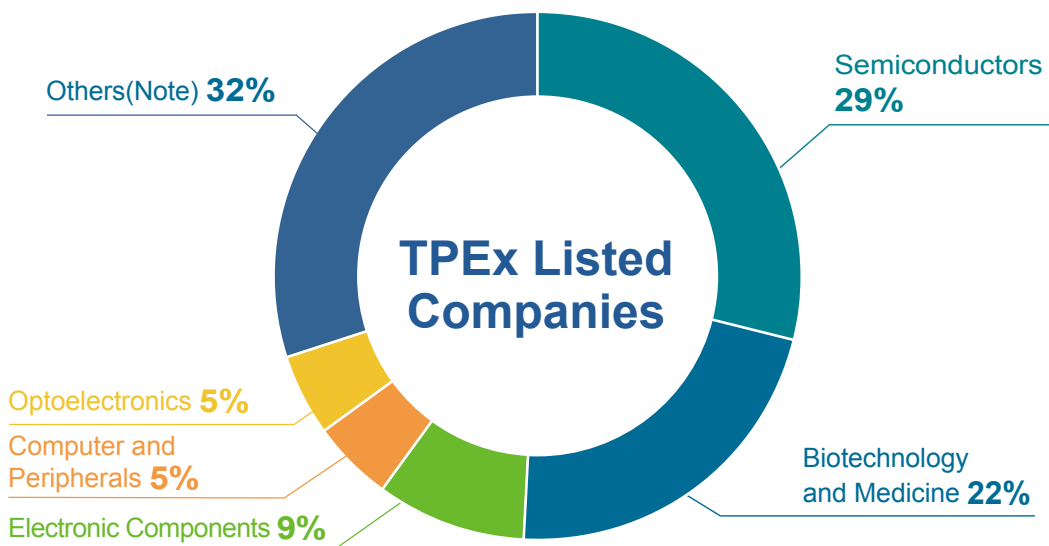
<sup>2</sup> Number of TPEX listed companies as of December 31, 2020.



**Figure 1 TWSE/TPEX Listed Companies Screened by Industry**



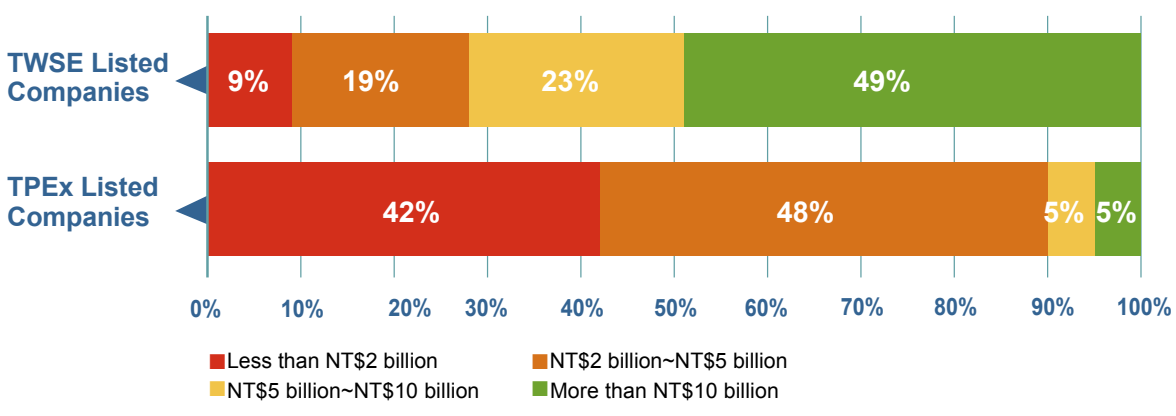
Note: Others include 14 industries, namely, chemicals, cement, automobile, oil and gas, banking and insurance, textiles, telecommunication, papermaking, plastics, electric machinery, rubber, steel, electronic components, and others.



Note: Others include 9 industries, namely, culturak-creative, other electronics, telecommunication, department stores, steel, oil and gas, electronic commerce, tourism, and others.

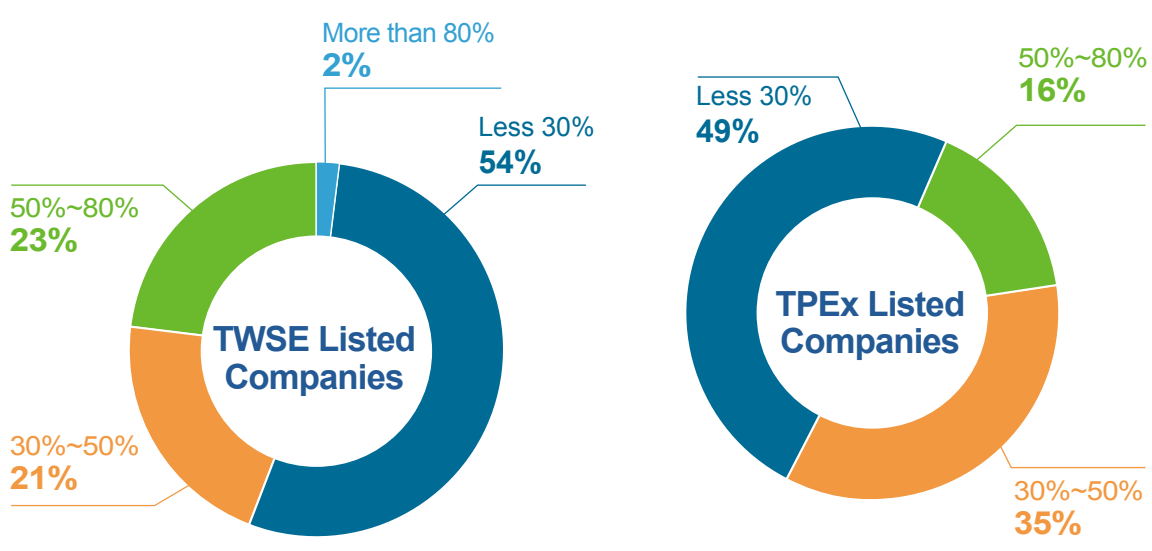
According to the capital analysis of the listed companies screened, there were 44 (49%) TWSE listed companies with a capital of more than NT\$10 billion, 21 (23%) with a capital of NT\$5 billion to NT\$10 billion, 17 (19%) with a capital of NT\$2 billion to NT\$5 billion, and 8 (9%) with a capital of less than NT\$2 billion by the end of 2020; there were 3 (5%) TPEX listed companies with a capital of more than NT\$10 billion, 3 (5%) with a capital of NT\$5 billion to NT\$10 billion, 26 (48%) with a capital of NT\$2 billion to NT\$5 billion, and 23 (42%) with a capital of less than NT\$2 billion by the end of 2020.

**Figure 2 TWSE/TPEX Listed Companies Screened by Capital**



According to the shareholder analysis of overseas Chinese and foreign investors in the listed companies screened, there were 42 (46%) TWSE listed companies in which the shareholding of overseas Chinese and foreign investors was more than 30%; there were 28 (51%) TPEX listed companies in the same category with more than 30%.

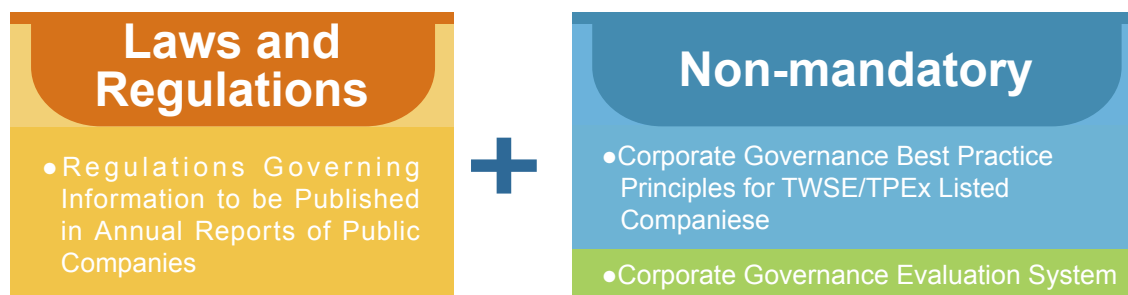
**Figure 3 TWSE/TPEX Listed Companies Screened by Shareholding of Overseas Chinese and Foreign Investors**



## 2. Review Items and Results

The TWSE and TPEX screened the Chinese and English annual reports to shareholders of 145 TWSE/TPEX listed companies (i.e., 290 reports in total). The review results showed few differences between the contents disclosed in the Chinese and English annual reports; in addition, the review did not center on certain industries or types of TWSE/TPEX listed companies as those listed companies screened came from 24 industries and 14 industries respectively and varied in terms of business scale and shareholding of overseas Chinese and foreign investors. In addition to the disclosure of annual reports in accordance with the Regulations, the TWSE and TPEX also perused the non-mandatory disclosures pursuant to the “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies” and corporate governance evaluation indicators to carry out the in-depth review. The following are the review results by mandatory and non-mandatory regulations.

**Figure 4 Basis for Review Items**



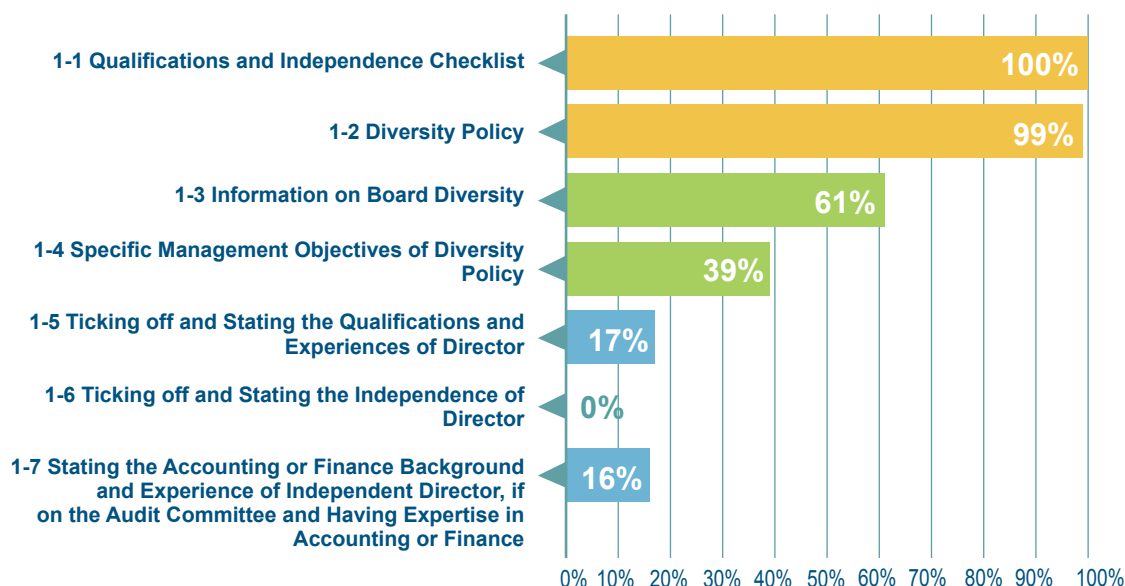
### (i). Board Diversity and Qualifications

The composition and functions of the board hinge on the board members' qualifications and experiences. Also, the independence of the board members is closely related to the execution of directors' responsibilities. To strengthen corporate governance and promote the sound board composition and structure, Article 20 of the “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies” stipulates that the composition of the board of directors shall be determined by taking diversity into consideration. It is advisable that an appropriate diversity policy on diversity be based on the company's business operations, operating dynamics, and development needs formulation; board diversity was also incorporated into the FSC's Major Action Plans for the Corporate Governance 3.0 - Sustainable Development Roadmap (2021~2023). In August 2021, the U.S. Securities and Exchange Commission “SEC” approved Nasdaq's Board Diversity Rule, requiring companies listed on Nasdaq to have at least two diverse board members or to explain the company's reasons for not meeting this diversity objective and to disclose board-level diversity statistics every year<sup>3</sup>. This reflected an increasing trend in corporate board diversity in countries around the world.

In view of this, the review focused on, in addition to the disclosures prescribed by laws and regulations, the disclosure of board diversity and qualifications in the annual reports of TWSE/TPEX listed companies to shareholders. The results of the review items are described separately as follows.



<sup>3</sup>Source: Taiwan Stock Exchange Corporate Governance Center  
(<https://cgc.twse.com.tw/boardDiversity/chDoc/4132>)

**Figure 5 Disclosure of Board Diversity and Qualifications**

### 1. Item 1-1 Qualifications and Independence Checklist

- (1) TWSE/TPEX listed companies shall disclose the qualifications and independence of directors and supervisors according to Appendix 1 (Information on Directors and Supervisors (2)) to the Regulations.
- (2) All of the 145 TWSE/TPEX listed companies screened had disclosed the qualifications and independence of directors (including independent directors) and supervisors according to the appendix.

### 2. Item 1-2 Diversity Policy

- (1) TWSE/TPEX listed companies shall disclose “whether they have formulated and implemented a board diversity policy” according to Appendix 2-2 of the “Corporate Governance Practice and Its Deviation from the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies and Reason Thereof” to the Regulations.
- (2) Among the 145 TWSE/TPEX listed companies screened, 143 (99%) of them had disclosed the board diversity policy in the annual reports according to Appendix 2-2 to the Regulations, and only two (1%) of them had not. These two companies took corrective action to disclose such information and refiled the annual reports.

### 3. Item 1-3 Information on Board Diversity and Item 1-4 Specific Management Objectives of the Diversity Policy

- (1) Appendix 2-2 to the Regulations stipulates that TWSE/TPEX listed companies shall disclose whether they have formulated and implemented a board diversity policy. If a company only states in its annual report that it has established a board diversity policy, it is difficult for investors to understand board diversity content. According to Item 2.2 of the corporate



governance evaluation indicators, the TWSE and TPEX therefore reviewed whether TWSE/TPEX listed companies had disclosed board diversity pursuant to their board diversity policies, specific management objectives (e.g., qualifications and experiences, gender, age, nationality, and culture that the board members should meet a certain number of seats or ratios), and the implementation of the specific management objectives.

- (2) Among the 145 TWSE/TPEX listed companies screened, 89 (61%) of them stated the information on board diversity, in addition to the board diversity policy;
- (3) Only 56 (39%) of the TWSE/TPEX listed companies screened disclosed the specific management objectives of the board diversity policy and their implementation.

#### **4. Item 1-5 Ticking off and Stating the Qualifications and Experiences of Directors**

- (1) In Appendix 1 to the Regulations, TWSE/TPEX listed companies are required to tick off the qualifications, experiences and current positions of directors and supervisors in the form, with different areas of expertise presented in the same field. Thus, it is not difficult to know the specific expertise of every director and supervisor.
- (2) According to the “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies”, the board of directors shall possess the ability to make operational judgments, have knowledge of the industry, an international market perspective, and other abilities to achieve the ideal goal of corporate governance. TWSE/TPEX Listed companies are advised to state the qualifications and experiences of directors (including independent directors) in the "board composition and responsibilities" under Appendix 2-2 of the “Corporate Governance Practice and Its Deviation from the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies and Reason Thereof” to the Regulations. In view of this, the TWSE and TPEX reviewed whether TWSE/TPEX listed companies had ticked off and stated the required director qualifications and experiences (including independent directors) in the annual reports.
- (3) Among the 145 TWSE/TPEX listed companies screened, 25 (17%) of them had ticked off and stated the qualifications and experiences of directors (including independent directors).

#### **5. Item 1-6 Ticking off and Stating the Independence of Directors**

- (1) Appendix 1 to the Regulations stipulates that TWSE/TPEX listed companies should disclose the independence of directors and supervisors. In view of this, the TWSE and TPEX reviewed whether TWSE/TPEX listed companies had ticked off and stated the independence of directors (including independent directors) in the annual reports.
- (2) None of the 145 TWSE/TPEX listed companies screened had stated the independence of directors (including independent directors).

#### **6. Item 1-7 Stating the Accounting or Finance Background and Experience of**

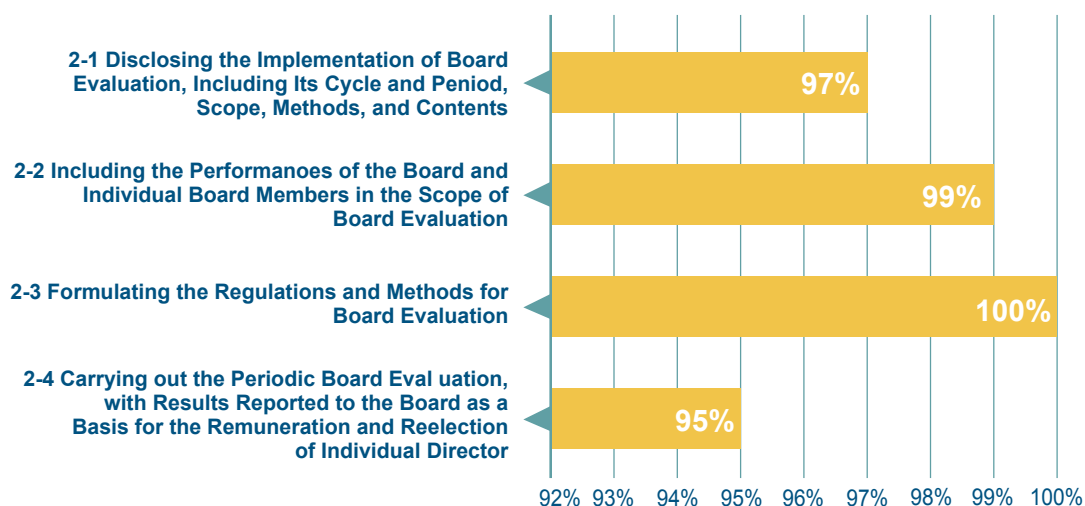
### Independent Directors, if on the Audit Committee and Having Expertise in Accounting or Finance

- (1) Article 20 of the “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies” stipulates that the board of directors shall possess the ability to perform accounting and financial analysis. In addition, Article 4 of the “Regulations Governing the Exercise of Powers by Audit Committees of Public Companies” stipulates that the audit committee shall be composed of all the independent directors, at least one of whom shall have accounting or financial expertise. Therefore, the TWSE and TPEX reviewed whether TWSE/TPEX listed companies had reported the necessary Regulations.
- (2) Among the 145 TWSE/TPEX listed companies screened, 23 (16%) of them had disclosed the accounting or finance background and experience of the audit committee members in Appendix 1 (Information on Directors and Supervisors) or in the “board composition and responsibilities” under Appendix 2-2 of the “Corporate Governance Practice and Its Deviation from the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies and Reason Thereof”.

### (ii).Board Evaluation

To help the board of directors understand the effect of its operations and functions and to connect the directors' remunerations with their performances, the TWSE and TPEX have required that TWSE/TPEX listed companies should conduct the board evaluation every year from 2020. Therefore, the Regulations stipulate that TWSE/TPEX listed companies shall disclose the self-evaluations (or peer evaluations) conducted by the board of directors in the status of the board operations. From 2021, TWSE/TPEX listed companies should disclose the aforesaid matters when preparing their annual reports for 2020. To understand the current disclosure of board evaluations by TWSE/TPEX listed companies, the review focused on, in addition to the disclosures prescribed by laws and regulations, the disclosure of board evaluations in the annual reports to shareholders of TWSE/TPEX listed companies for 2020.

**Figure 6 Disclosure of Board Evaluation by the Regulations**





The review results of Items 2-1~2-4 in accordance with the Regulations are described separately as follows.

**1. Item 2-1 Disclosing the Implementation of Board Evaluation, Including Its Cycle and Period, Scope, Methods, and Contents:**

Among the 145 TWSE/TPEX listed companies screened, 140 (97%) of them had disclosed their board evaluations in the annual reports according to Appendix 2(2) to the Regulations, and five (3%) of them had not. These five companies had taken corrective action to disclose such information and filed the annual reports again.

**2. Item 2-2 Including the Performances of the Board and Individual Board Members in the Scope of Board Evaluation:**

Among the 145 TWSE/TPEX listed companies screened, 143 (99%) of them had disclosed the evaluations on the performances of the board and individual board members in the annual reports according to Appendix 2 to the Regulations, and two (1%) of them had not. These two companies had taken corrective action to disclose such information and filed the annual reports again.

**3. Item 2-3 Formulating the Regulations and Methods for Board Evaluation:**

(1)According to Article 37 of the “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies”, it is advisable that TWSE/TPEX listed companies formulate rules and procedures, and that these assessments shall include the degree of participation in the company operations and other aspects. Therefore, the TWSE and TPEX reviewed whether TWSE/TPEX listed companies had stated such information in their annual reports according to Appendix 2-2 of the “Corporate Governance Practice and Its Deviation from the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies and Reason Thereof”.

(2)All of the 145 TWSE/TPEX listed companies screened had stated in their annual reports whether rules and procedures for board performance assessments had been in place according to Appendix 2-2 of the “Corporate Governance Practice and Its Deviation from the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies and Reason Thereof” to the Regulations.

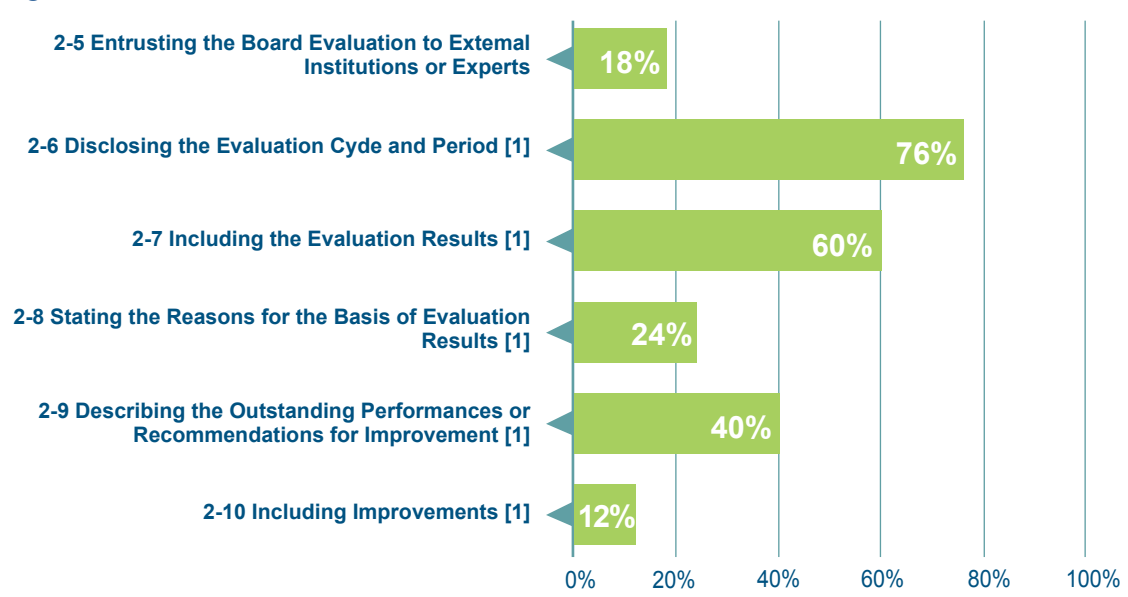
**4. Item 2-4 Carrying out a Periodic Board Evaluation, with Results Reported to the Board as a Basis for the Remuneration and Reelection of Individual Director:**


(1)According to Article 37 of the “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies”, TWSE/TPEX listed companies are advised to submit the results of performance assessments to the board of directors and use them as reference in determining compensation for individual directors, their nomination and additional office term. Therefore, the TWSE and TPEX reviewed whether TWSE/TPEX listed companies had stated such information in their annual reports according to Appendix 2-2 of the “Corporate Governance Practice and Its Deviation from the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies and Reason Thereof”.

(2)Among the 145 TWSE/TPEX listed companies screened, 138 (95%) of them had disclosed

such information in their annual reports according to Appendix 2-2 of the “Corporate Governance Practice and Its Deviation from the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies and Reason Thereof” to the Regulations, and seven (5%) of them had not. These seven companies had taken corrective action to disclose such information and filed the annual reports again.

**Figure 7 Board Evaluation-External**



 [1] 25 TWSE/TPEX listed companies (i.e., 16 TWSE listed companies and nine TPEX listed companies) having carried out the board evaluations through outside professional institutions as denominator

According to Article 37 of the “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies”, TWSE/TPEX listed companies shall conduct regularly scheduled performance assessments through outside professional institutions or in any other appropriate manner. The Sample Template of Self-Evaluation or Peer Evaluation of the Board of Directors and the Corporate Governance Evaluation indicators also stipulate that TWSE/TPEX listed companies shall conduct the board performance evaluation by an external independent professional institution at least once every three years to improve the operation of the board of directors. In view of this, the TWSE and TPEX reviewed the disclosure of board evaluations through external institutions or experts (e.g., implementation and evaluation results) according to Item 2.2 of the Corporate Governance Evaluation indicators. A total of six items, 2-5~2-10, were reviewed.

The board evaluation carried out through external institutions may be disclosed according to Appendix 2 of the “Implementation of Board Evaluation) or Appendix 2-2 (Corporate Governance Practice and Its Deviation from the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies and Reason Thereof”. The review results of Items 2-5~2-10 are described separately as follows.





**5. Item 2-5 Entrusting the Board Evaluation to External Institutions or Experts:**

Among the 145 TWSE/TPEX listed companies, 26 (18%) of them had entrusted the board evaluations to external institutions.

**6.Item 2-6 Disclosing the Evaluation Cycle and Period:**

(1)25 TWSE/TPEX listed companies (i.e., 16 TWSE listed companies and nine TPEX listed companies) had carried out the board evaluations through outside professional institutions.

(2)Among these 25 TWSE/TPEX listed companies, 19 (76%) of them had disclosed the cycle and scope of board evaluations carried out by outside professional institutions.

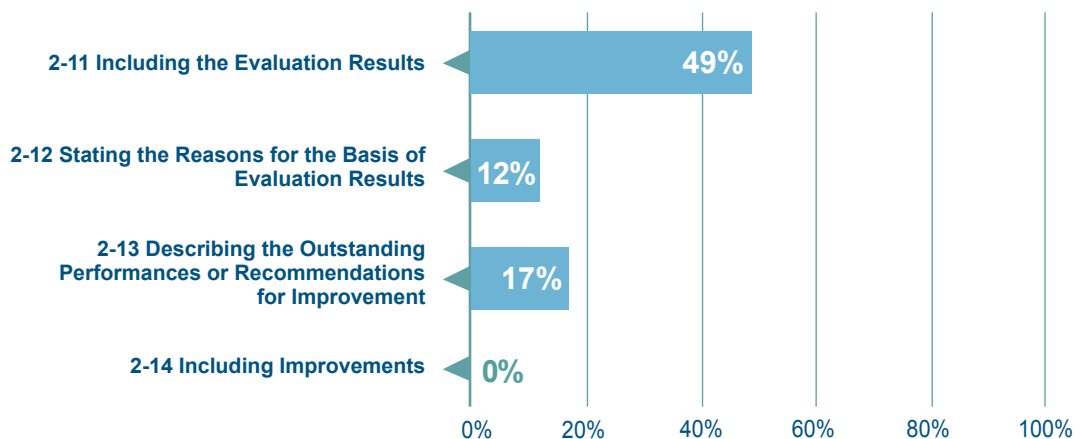
**7.Item 2-7 Including the Evaluation Results:** Among the 25 TWSE/TPEX listed companies having carried out the board evaluations through outside professional institutions, 15 (60%) of them had disclosed the results of board evaluations carried out by outside professional institutions in their annual reports.

**8.Item 2-8 Stating the Reasons for the Basis of Evaluation Results:** Among the 25 TWSE/TPEX listed companies having carried out the board evaluations through outside professional institutions, six (24%) of them had stated the reasons for the basis of the evaluation results.

**9.Item 2-9 Describing the Outstanding Performances or Recommendations for Improvement:** Among the 25 TWSE/TPEX listed companies having carried out the board evaluations through outside professional institutions, ten (40%) of them had disclosed the recommendations and improvement plans.

**10.Item 2-10 Including Improvements:** Among the 25 TWSE/TPEX listed companies having carried out the board evaluations through outside professional institutions, three (12%) of them had disclosed the improvements made according to the recommendations put forward by external institutions.

**Figure 8 Board Evaluation-Internal**



Items 2-11~2-14 were reviewed according to the review items of board evaluations carried out by external institutions to understand the internal board evaluations in the 145 TWSE/TPEX listed companies screened. The review focused on the disclosure of internal board evaluations in addition to disclosures prescribed in the Regulations. The review results of Items 2-11~2-14 are described separately as follows.

**11.Item 2-11 Including the Evaluation Results:** Among the 145 TWSE/TPEX listed companies screened, 71 (49%) of them had included the results of the internal board evaluations.

**12.Item 2-12 Stating the Reasons for the Basis of the Evaluation Results:** Among the 145 TWSE/TPEX listed companies screened, 17 (12%) of them had stated the reasons for the basis of evaluation results.

**13.Item 2-13 Describing the Outstanding Performances or Recommendations for Improvement:** Among the 145 TWSE/TPEX listed companies screened, 25 (17%) of them had described the outstanding performances or recommendations for improvement.

**14.Item 2-14 Including Improvements:** None of the 145 TWSE/TPEX listed companies screened had disclosed the improvements in the internal board evaluations.

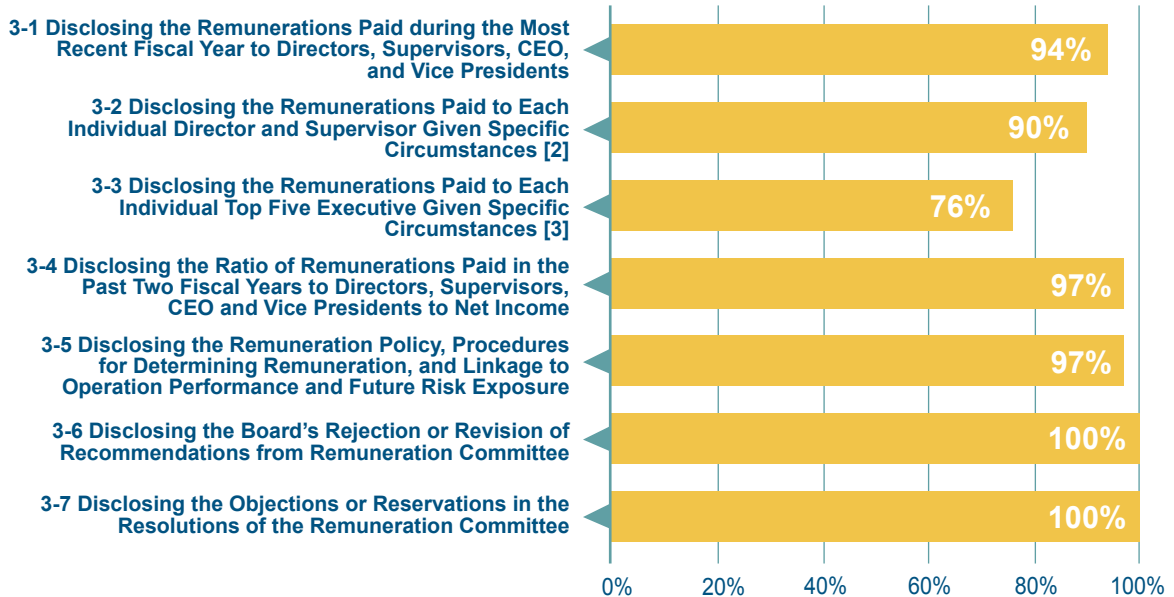
### **(iii).Disclosure of Remuneration Policy and Distribution**

The disclosure of directors' remuneration has become an international trend. The FSC has been promoting the disclosure of remunerations paid to directors, supervisors, and c-suite executives of TWSE/TPEX listed companies through the Corporate Governance Evaluation system and other means in order to improve the transparency and reasonableness of such remunerations. According to the Regulations, TWSE/TPEX listed companies having certain circumstances (e.g., having posted after-tax deficits in the parent company only financial statements or individual financial statements within the three most recent fiscal years, having poor corporate governance, etc.) shall disclose the remuneration paid to each individual director and supervisor or the remuneration paid to each of the top five executives. Step by step measures have been taken to improve the disclosure of remuneration paid to each individual board member or executive by TWSE/TPEX listed companies.

The review focused on, in addition to the disclosures prescribed by laws and regulations, the disclosure of remunerations paid to directors, supervisors, and c-suite executives and their linkage to operating performance and future risk exposure in the annual reports to shareholders of TWSE/TPEX listed companies.



**Figure 9 Disclosure of Remuneration Policy and Distribution by the Regulations**



[2] 30 TWSE/TPEX listed companies (i.e., eight TWSE listed companies and 22 TPEX listed companies) are required to disclose the remuneration paid to each individual director and supervisor as denominator

[3] 17 TWSE/TPEX listed companies (i.e., three TWSE listed companies and 14 TPEX listed companies) are required to disclose the remuneration paid to each individual top five executive as denominator

The review results of Items 3-1~3-7 in accordance with the Regulations are described separately as follows.

**1.Item 3-1 Disclosing the Remunerations Paid during the Most Recent Fiscal Year to Directors, Supervisors, CEO, and Vice Presidents:** Among the 145 TWSE/TPEX listed companies screened, 136 (94%) of them had disclosed the remunerations paid to directors, supervisors, and executives in the annual reports, and nine (6%) of them had not. These nine companies had taken corrective action to disclose such information and filed the annual reports again.

**2.Item 3-2 Disclosing the Remunerations Paid to Each Individual Director and Supervisor Given Specific Circumstances:** Among the 145 TWSE/TPEX listed companies screened, 30 of them (i.e., eight TWSE listed companies and 22 TPEX listed companies) had certain circumstances (e.g., having posted after-tax deficits in the parent company only financial statements or individual financial statements within the three most recent fiscal years, and other five circumstances) and thus were required to disclose the remuneration paid to each individual director and supervisor. Among these 30 TWSE/TPEX listed companies, 27 (90%) of them had disclosed the remuneration paid to each individual director and supervisor, and three (10%) of them had not. These three companies had taken corrective action to disclose such information and filed the annual reports again.

### 3. Item 3-3 Disclosing the Remunerations Paid to Each Individual Top Five

**Executive Given Specific Circumstances:** Among the 145 TWSE/TPEX listed companies screened, 17 of them (i.e., three TWSE listed companies and 14 TPEX listed companies) had certain circumstances (e.g., having posted after-tax deficits in the parent company only financial statements or individual financial statements within the three most recent fiscal years or having been ranked in the lowest tier in the Corporate Governance Evaluation) and thus were required to disclose the remuneration paid to each of the top five executives. Among these 17 TWSE/TPEX listed companies, 13 (76%) of them had disclosed such remuneration, and four (24%) of them had not. These four companies had taken corrective action to disclose such information and filed the annual reports again.

### 4. Item 3-4 Disclosing the Ratio of Remunerations Paid in the Past Two Fiscal Years to Directors, Supervisors, CEO, and Vice Presidents to Net Income:

**Executive Given Specific Circumstances:** Among the 145 TWSE/TPEX listed companies screened, 141 (97%) of them had compared and described the total remuneration, as a percentage of net income stated in the parent company only financial statements or individual financial statements, as paid by the company and by each other company included in the consolidated financial statements during the past two fiscal years to directors, supervisors, CEO, and Vice presidents, and four (3%) of them had not. These four companies had taken corrective action to disclose such information and filed the annual reports again.

### 5. Item 3-5 Disclosing the Remuneration Policy, Procedures for Determining Remuneration, and Linkage to Operating Performance and Future Risk

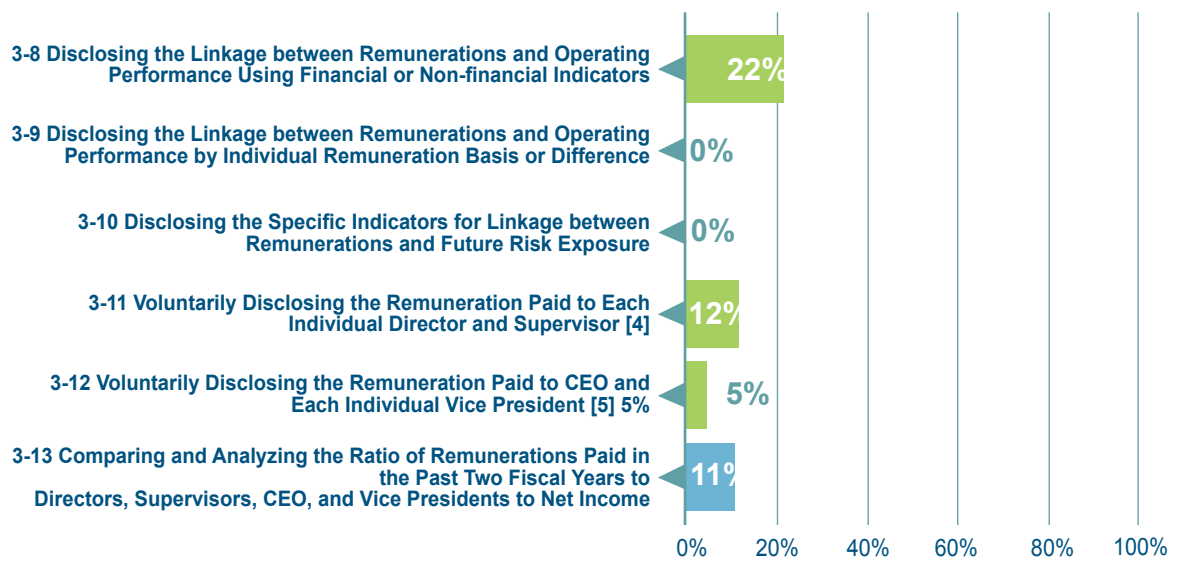
**Exposure:** Among the 145 TWSE/TPEX listed companies screened, 140 (97%) of them had disclosed the remuneration policies, standards, and packages, the procedure for determining remuneration, and its linkage to operating performance and future risk exposure, and 5 (3%) of them had not. These five companies had taken corrective action to disclose such information and filed the annual reports again.

### 6. Item 3-6 Disclosing the Board's Rejection or Revision of Recommendations from the Remuneration Committee and Item 3-7 Disclosing the Objections or Reservations in the Resolutions of the Remuneration Committee:

(1) The Remuneration Committee also plays a role in strengthening the reasonable distribution of remuneration. According to Articles 2 and 7 of the "Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Taiwan Stock Exchange or the Taipei Exchange", TWSE/TPEX listed companies and TPEX emerging stock board registered companies shall each establish a remuneration committee responsible for prescribing and periodically reviewing the performance review and remuneration policy, system, standards, and structure for directors, supervisors and managerial officers, This includes periodically evaluating and prescribing the remuneration of directors, supervisors, and managerial officers, and submitting recommendations for deliberation by the board of directors. The operations of the remuneration committee were reviewed in Items 3-6 and 3-7.

(2) All of the 145 TWSE/TPEX listed companies screened had disclosed related information according to Appendix 2-2-1. Among them, five TWSE listed companies had disclosed the board's rejection or revision of recommendations from the remuneration committee, four TWSE listed companies had disclosed the objections or reservations in the resolutions of the remuneration committee that were on record or stated in a written statement, and the rest of the companies had neither of the disclosures to be stated.

**Figure 10 Disclosure of Remuneration Policy and Distribution**



[4] 117 TWSE/TPEX listed companies (i.e., 84 TWSE listed companies and 33 TPEX listed companies) are not required to disclose the remuneration paid to each individual director and supervisor as denominator

[5] 128 TWSE/TPEX listed companies (i.e., 87 TWSE listed companies and 41 TPEX listed companies) are not required to disclose the remuneration paid to each individual top five executive as denominator

The purpose of the corporate governance evaluation system is to promote healthy competition among enterprises and strengthen corporate governance. In view of this, Items 3.13, 3.14, and 3.21 of the Corporate Governance Evaluation system have been set to review the disclosure of linkage between the directors and executives' performances (specifying key performances rather than words such as personal performances/results/contributions) and their remuneration and the voluntary disclosure of remuneration paid to individual director, supervisor, and executive. The review results of Items 3-8~3-13 regarding remuneration information are described separately as follows.

**7.Item 3-8 Disclosing the Linkage between Remuneration and Operating Performance Using Financial or Non-financial Indicators**

(1) The Regulations stipulate that TWSE/TPEX listed companies shall disclose the linkage between remuneration paid to directors and operating performance. If a company only states in its annual report that there is such linkage, it is difficult for investors to

understand the basis of remuneration distribution. Based on the Corporate Governance Evaluation indicators, the TWSE and TPEX further reviewed whether TWSE/TPEX listed companies had disclosed the specific indicators for linkage between remuneration paid to directors, supervisors, and executives and operating performance, including the remuneration policy using such measures in various aspects as financial (e.g., revenue, income before tax, and earnings per share) and non-financial (e.g., realization of core values, business administration, and participation in sustainable development) indicators.

(2) Among the 145 TWSE/TPEX listed companies screened, 32 (22%) of them had disclosed the financial or non-financial indicators for linkage between remuneration and operating performance.

#### **8. Item 3-9 Disclosing the Linkage between Remuneration and Operating Performance by Individual Remuneration Basis or Difference and Item 3-10 Disclosing the Specific Indicators for Linkage between Remuneration and Future Risk Exposure:**

All of the 145 TWSE/TPEX listed companies screened had disclosed in their annual reports neither the difference in the remuneration paid to each individual director and supervisor or executive nor the specific indicators for linkage between remuneration and future risk exposure.

#### **9. Item 3-11 Voluntarily Disclosing the Remuneration Paid to Each Individual**

**Directors and Supervisors:** Among the 145 TWSE/TPEX listed companies screened, 115 of them (i.e., 84 TWSE listed companies and 33 TPEX listed companies) were not required to disclose the remuneration paid to each individual director and supervisor. Among these 115 TWSE/TPEX listed companies, 14 (12%) of them had voluntarily disclosed this information.

#### **10. Item 3-12 Voluntarily Disclosing the Remuneration Paid to CEO and Each**

**Individual Vice President:** Among the 145 TWSE/TPEX listed companies screened, 128 of them (i.e., 87 TWSE listed companies and 41 TPEX listed companies) were not required to disclose the remuneration paid to each of the top five executives. Among these 128 TWSE/TPEX listed companies, seven (5%) of them had voluntarily disclosed this information.

#### **11. Item 3-13 Comparing and Analyzing the Ratio of Remunerations Paid in the Past Two Fiscal Years to Directors, Supervisors, CEO, and Vice Presidents to Net Income**

(1) According to the Regulations, TWSE/TPEX listed companies shall disclose the ratio of remunerations paid in the past two fiscal years to directors, supervisors, CEO, and vice presidents to net income. Most of the TWSE/TPEX listed companies had disclosed such information (see Item 3-4).

(2) Among the 145 TWSE/TPEX listed companies screened, 16 (11%) of them had also explained the reasons for the difference in the ratio of remuneration to net income in the past two fiscal years.

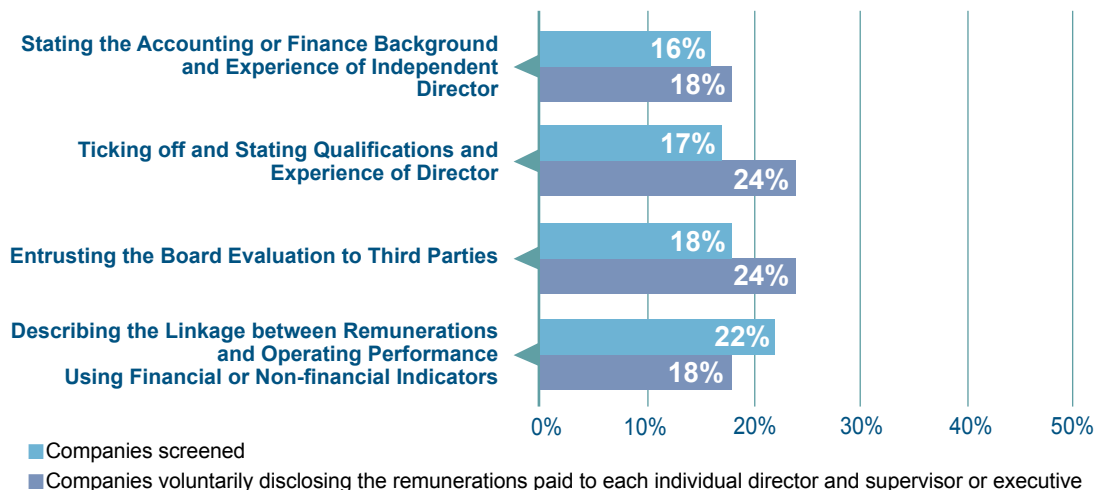
**(iv).Interaction between Director Qualifications, Remuneration Policy, and Board Evaluation**

To further understand the interaction between director qualifications, remuneration policies, and board evaluations of TWSE/TPEX listed companies, the following used representative indicators to compare the TWSE/TPEX listed companies screened and TWSE/TPEX listed companies voluntarily disclosing the remuneration paid to each individual director and supervisor or executive in terms of remuneration policy and distribution and board evaluation.

**1.Disclosure of Board Composition and Evaluation by Companies Voluntarily Disclosing the Remuneration Paid to Each Individual Director and Supervisor or Executive**

Among the 145 TWSE/TPEX listed companies screened, 115 of them were not required to disclose the remuneration paid to each individual director and supervisor or executive; 17 (12%) of these 115 TWSE/TPEX listed companies had voluntarily disclosed such information. In the review of their disclosures of the board composition and evaluation and linkage between remuneration and operating performance, the TWSE and the TPEX found through cross-references that companies voluntarily disclosing the remuneration paid to each individual director and supervisor or executive had a disclosure rate slightly higher than that of the companies screened in all review items except for Item 3-8 (disclosing the linkage between remuneration and operating performance using financial or non-financial indicators).

**Figure 11 Disclosure of Companies Voluntarily Disclosing the Remunerations Paid to Each Individual Director and Supervisor or Executive**

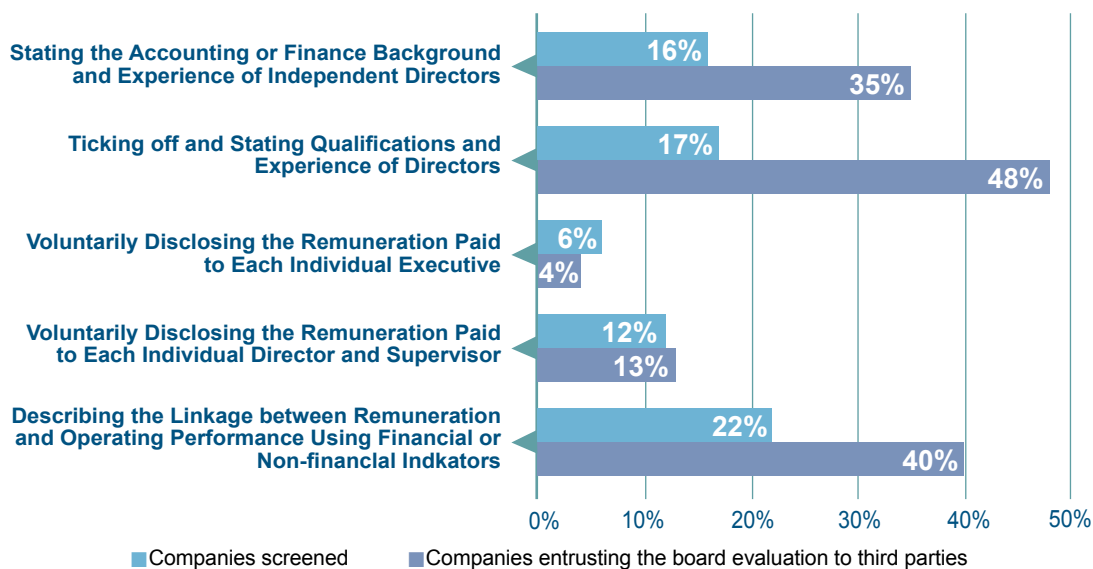


**2.Disclosure of Board Composition and Remuneration by Companies Entrusting the Board Evaluation to Third Parties**

Among the 145 TWSE/TPEX listed companies screened, 25 (17%) of them had carried out the board evaluations through outside professional institutions or experts. In the review of their disclosures of the board composition and remuneration, the TWSE and TPEX found through cross-references that companies entrusting the board evaluations to outside professional institutions had a disclosure rate significantly higher than that of the companies screened in

all review items except for Item 3-11 (voluntarily disclosing the remuneration paid to each individual director and supervisor) and Item 3-12 (voluntarily disclosing the remuneration paid to each individual executive), of which companies entrusting the board evaluations to outside professional institutions had a disclosure rate similar to that of the companies screened, as shown in the figure below.

**Figure 12 Disclosure of Board Composition and Remuneration by Companies Entrusting the Board Evaluation to Third Parties**



In sum, TWSE/TPEX listed companies voluntarily disclosing the remuneration paid to each individual director and supervisor or executive had a disclosure rate higher than that of the TWSE/TPEX listed companies screened in terms of accounting or finance background of independent directors, director qualifications, and board evaluations carried out by outside professional institutions; TWSE/TPEX listed companies entrusting the board evaluations to outside professional institutions also had a disclosure rate higher than that of the TWSE/TPEX listed companies screened in terms of accounting or finance background of independent directors, director qualifications and experiences, and linkage between remunerations and operating performances. It showed that these two types of companies might be more willing to enhance corporate governance. However, these two types of companies accounted for a relatively low percentage of the 145 TWSE/TPEX listed companies screened for review. It is advisable to make observations on such disclosures after more samples are collected for review.

### 3. Conclusion and Recommendations

#### (i). Findings of the Thematic Review and Improvements to Be Made

##### 1. Board Diversity and Qualifications:

###### (1) Review Findings

All of the TWSE/TPEX listed companies screened had ticked off the qualifications and



independence of board members in accordance with the Regulations; most of them had checked their board diversity using the table, while only 20% of them had further stated the qualifications and experiences of directors and independent directors. None of the TWSE/TPEX listed companies screened had stated the independence of board members. All of the TWSE/TPEX listed companies screened had disclosed their board diversity policies; however, 61% of them had stated the information on board diversity and only 39% of them had disclosed the specific management objectives and their implementation.

### **(2)Improvements to Be Made**

The TWSE and the TPEX found in the review that the TWSE/TPEX listed companies screened had mostly filled in the appendices to the Regulations according to the minimum requirements. Despite the efforts made to promote the specific disclosure of board diversity by TWSE/TPEX listed companies in accordance with the “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies” and the Corporate Governance Evaluation system, there is still room for improvement. Besides, the current Corporate Governance Evaluation system does not require that TWSE/TPEX listed companies should state the qualifications and independence of their board members, making it difficult for investors to evaluate board effectiveness based on insufficient information.

Currently, TWSE/TPEX listed companies are required to tick off the qualifications and experiences and independent of board members in the appendices to the Regulations, making it hard for readers to understand the qualifications and independence of committee members objectively. TWSE/TPEX listed companies are advised to specify the qualifications and independence of board members, as well as the board diversity policy, its specific management objectives, and implementation in writing, so that stakeholders can evaluate the companies’ management and growth potential.

## **2.Board Evaluation:**

### **(1)Review Findings**

The TWSE and TPEX found in the review that the TWSE/TPEX listed companies screened had disclosed the board evaluations according to the basic requirements. Despite the “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies”, which stipulate that TWSE/TPEX listed companies may conduct performance assessments through outside professional institutions, and the Corporate Governance Evaluation system, which also encourages TWSE/TPEX listed companies to conduct the board evaluation by an external independent professional institution at least once every three years for better board effectiveness; only 26 (18%) of the TWSE/TPEX listed companies screened had entrusted the board evaluations to outside professional institutions or experts. Among the 25 TWSE/TPEX listed companies having carried out the board evaluations through outside professional institutions, only 15 (60%) of them had stated the evaluation results, six (24%) had stated the reasons for the basis of evaluation results, ten (40%) had described the outstanding performances or recommendations for improvement, and only three (12%) had disclosed the improvements made according to the recommendations put forward by external institutions.

On the part of the disclosure of internal board evaluations, only 49% of the TWSE/TPEX

listed companies screened had stated the results of internal board evaluations and less than 20% had stated the reasons for the basis of evaluation results or had described the outstanding performances or recommendations for improvement; none had disclosed the improvements made, making it difficult for investors to understand the effectiveness of internal board evaluations.

### **(2)Improvements to Be Made**

The TWSE and TPEX have required that TWSE/TPEX listed companies should conduct board evaluations every year and disclose their implementation in the annual reports to shareholders from 2020. In the review, however, the disclosure of board evaluations and their implementation was found immature; besides, only a few TWSE/TPEX listed companies had carried out board evaluations through external institutions since TWSE/TPEX listed companies were not required by law to do so.

The purpose of a board evaluation is to enable the board and its members to progress in the operations of the board, board members, and functional committees. In view of this, TWSE/TPEX listed companies are advised to entrust board evaluations to outside professional institutions and to specify the internal and external board evaluations (e.g., implementation and results of board evaluations, recommendations for improvement, and improvements made) in their annual reports, so that investors can have a better understanding of the companies' board evaluations and corporate governance. If TWSE/TPEX listed companies use the results of individual director evaluations as a basis for determining their remuneration and reelection, the decision-making process may also be disclosed in their annual reports.

If TWSE/TPEX listed companies are unable to disclose board evaluations in detail due to the length of the annual report, they are advised to make the full disclosure of board evaluations available on the website or otherwise and indicate the reference in the annual report.

## **3.Disclosure of Remuneration Policy and Distribution:**

### **(1)Review Findings**

The TWSE and the TPEX found in the review that, among the TWSE/TPEX listed companies screened and not required to disclose the remuneration paid to each individual director and supervisor, 12% of them had voluntarily disclosed such information; among the TWSE/TPEX listed companies screened and not required to disclose the remuneration paid to CEO and each vice president, 5% of them had voluntarily disclosed such information.

In the further review of the remuneration policies, standards, and packages, the procedure for determining remuneration, and its linkage to operating performance and future risk exposure, 22% of the TWSE/TPEX listed companies screened had disclosed the specific indicators for linkage between remuneration and operating performances, and 11% of them had explained the reasons for the difference in the ratio of remuneration to net income in the past two fiscal years. All of the TWSE/TPEX listed companies screened had disclosed neither the difference in the remuneration paid to each individual director, supervisor, CEO, or vice president nor the specific indicators for linkage between remunerations and future risk exposure.



## **(2)Improvements to Be Made**

Considering the national conditions, where remuneration is considered sensitive information, and concerns about personal safety or talent poaching, it is advisable to promote the disclosure of remuneration paid to each individual director and supervisor step by step. Also, to improve the disclosure of reasonable remuneration distribution, the FSC has urged the TWSE to set up a section on the Market Observation Post System “MOPS” for the disclosure of remuneration paid to directors and supervisors and their reasonableness. The FSC has also asked the Securities and Futures Investors Protection Center to actively participate in shareholders' meetings of TWSE/TPEX listed companies. It is suggested that directors' remuneration be reported in the shareholders' meetings to improve the reasonableness of remuneration distribution, in addition to an ongoing effort to encourage the disclosure of remuneration paid to each individual director and supervisor.

As to the disclosure of the remuneration policy, TWSE/TPEX listed companies are advised to specify in their annual reports the remuneration policy, specific standards for determining remuneration, and whether remuneration is distributed in compliance with the standards in order to increase transparency and investors' trust in the companies.

## **(ii). Specific Measures Taken**

To further strengthen corporate governance and enhance disclosure of company information, the FSC amended the Regulations on November 30, 2021; it also had the TWSE and TPEX amend the "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies," review Corporate Governance Evaluation indicators, and provide templates in order to progressively enhance the disclosures of TWSE/TPEX listed companies. Specific measures taken are as follows:

### **1.Board Diversity and Qualifications:**

**(1)Defining what the company should describe in detail:** To strengthen the board functions, the FSC has amended the Regulations, stipulating that TWSE/TPEX listed companies shall specify the board diversity policy and the qualifications and experiences of individual directors and supervisors, that TWSE/TPEX listed companies shall specify, instead of ticking off, the independence of board members, and that the objections, reservations, or major recommendations provided by independent directors shall be disclosed in the operations of the audit committee.

**(2)Providing best practice templates for companies to enhance disclosure:** In line with the amendments to the Regulations, the Corporate Governance Center has published the annual report best practice templates on the website, allowing TWSE/TPEX listed companies to refer to the exemplary disclosure of board diversity and independence at home and abroad.

**(3)Amending laws and regulations to strengthen the board functions and independence:** On December 8, 2021, the TWSE and the TPEX amended Article 20 of the “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies”, stipulating that it is advisable that female directors exceed one-third of the total number

of the board members, that independent directors be no less than one-third of the total number of the board members, and that independent directors not serve for three consecutive terms. The Corporate Governance Evaluation (2021) has also included the disclosure of qualifications and experiences of audit committee members in Indicator 2.10.

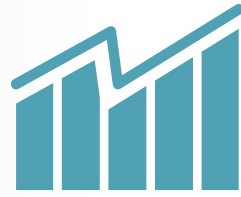
## 2.Board Evaluation:

The TWSE and TPEX have required that TWSE/TPEX listed companies should conduct the board evaluation every year from 2020. The amendment has also been made to the Corporate Governance Evaluation indicator 2.23, encouraging TWSE/TPEX listed companies to carry out the board evaluation in the most recent year or in the past two years through outside professional institutions and disclose the implementation and results of the board evaluation on their websites or in annual reports. The new corporate governance evaluation indicator (2.18) also encourages TWSE/TPEX listed companies to carry out the internal evaluations of the audit committee and the remuneration committee on a regular basis every year and disclose the implementation and results of the board evaluations. The TWSE and TPEX will continue promoting the corporate governance evaluation system to improve the disclosure of internal and external board evaluations (e.g., implementation and results of board evaluations, recommendations for improvement, and improvements made) by TWSE/TPEX listed companies. Adjustments may be made in the future based on the implementation of the Corporate Governance Evaluation system.

## 3.Disclosure of Remuneration Policy and Distribution:

- (1)Encouraging the disclosure of remuneration paid to each individual director and supervisor:** The Corporate Governance Evaluation indicator (3.13) for the voluntary disclosure of remuneration paid to each individual director and supervisor has been changed to an extra credit indicator (total score = points awarded in each category plus additional one point) to encourage TWSE/TPEX listed companies to voluntarily disclose the remuneration paid to each individual director and supervisor.
- (2)Promoting the formulation of a reasonable remuneration policy through the shareholder monitoring mechanism:** To promote the reasonableness of directors' remuneration, the TWSE has added Article 10-1 of the "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies" according to the say-on-pay model under the European Shareholders Rights Directive II, stipulating that the directors' remuneration shall be reported in the shareholders' meeting. The new Corporate Governance Evaluation indicator (1.1) has also been created to encourage TWSE/TPEX listed companies to formulate reasonable directors' remuneration and report it in the shareholders' meeting through the investor and shareholder monitoring mechanism.
- (3)Providing best practice templates for companies to enhance disclosure:** As of the end of 2021, the Corporate Governance Center has published the annual report best practice templates on the website, allowing TWSE/TPEX listed companies to refer to the exemplary disclosure of remuneration policies and disclose linkage between their remuneration policies and operating performances, so that investors can have a better understanding of the basis for remuneration distribution.

3



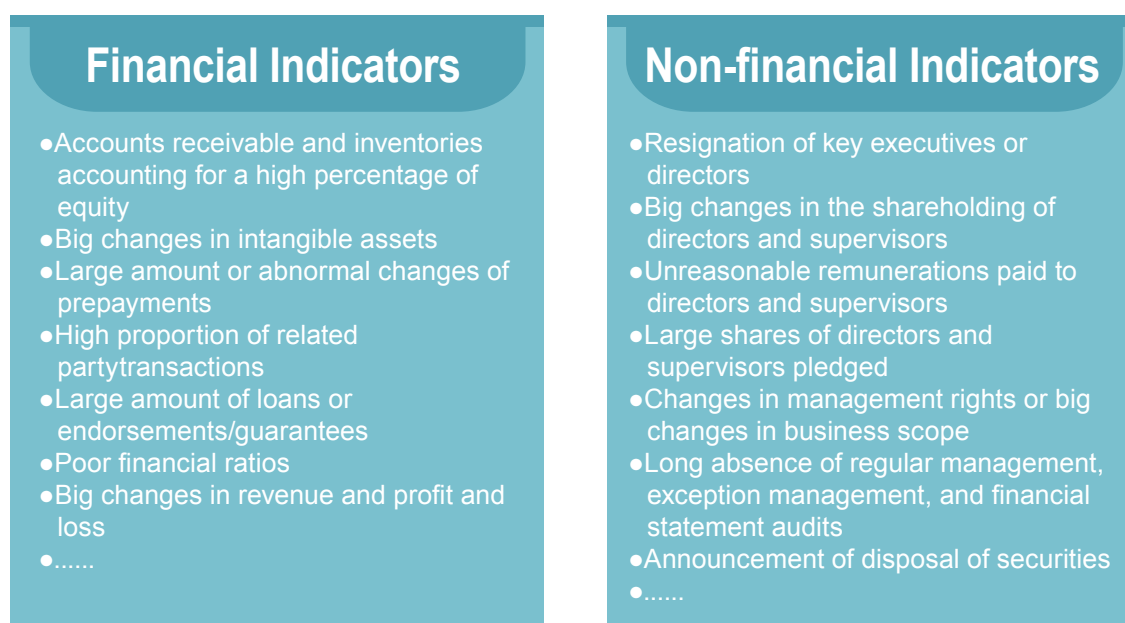
# Review of Financial Statements for 2020



## 1.Objective of the Review

According to laws and regulations, the TWSE and TPEX screened TWSE/TPEX listed companies to review their financial statements for 2020. As shown in Figure 13, the indicators, including financial and non-financial indicators (including mandatory indicators), were used to screen TWSE/TPEX listed companies (excluding those in the banking industry).

**Figure 13 Description of Financial and Non-financial Indicators**



A total of 202 TWSE/TPEX listed companies (i.e., 115 TWSE listed companies and 87 TPEX listed companies) were screened to review their financial statements for 2020. Since the attributes of TWSE/TPEX listed companies vary, the TWSE and TPEX listed companies screened by industry are described respectively below (Figure 14).

A total of 115 TWSE listed companies, or 12.6% of the 915<sup>4</sup> TWSE listed companies (excluding the banking industry), were reviewed, including 85 domestic TWSE listed companies and 30 TWSE primary listed companies coming from 22 industries, of which 15 companies were in the semiconductor industry (13%), 14 in the electronic components industry (12%), ten in the electric machinery industry (9%), seven in the optoelectronics industry and the automotive industry each (6%), and six in the department stores industry (5%). A total of 87 TPEX listed companies, or 11.2% of the 777<sup>5</sup> TPEX listed companies (excluding the banking industry), were reviewed, including 75 domestic TPEX listed companies and 12 TPEX primary listed companies coming from 21 industries, of which 11 companies were in the biotechnology and medicine industry and the electronic components industry each (13%), ten in the semiconductor industry and the telecommunication industry each (11%), and six in the optoelectronics industry (7%).

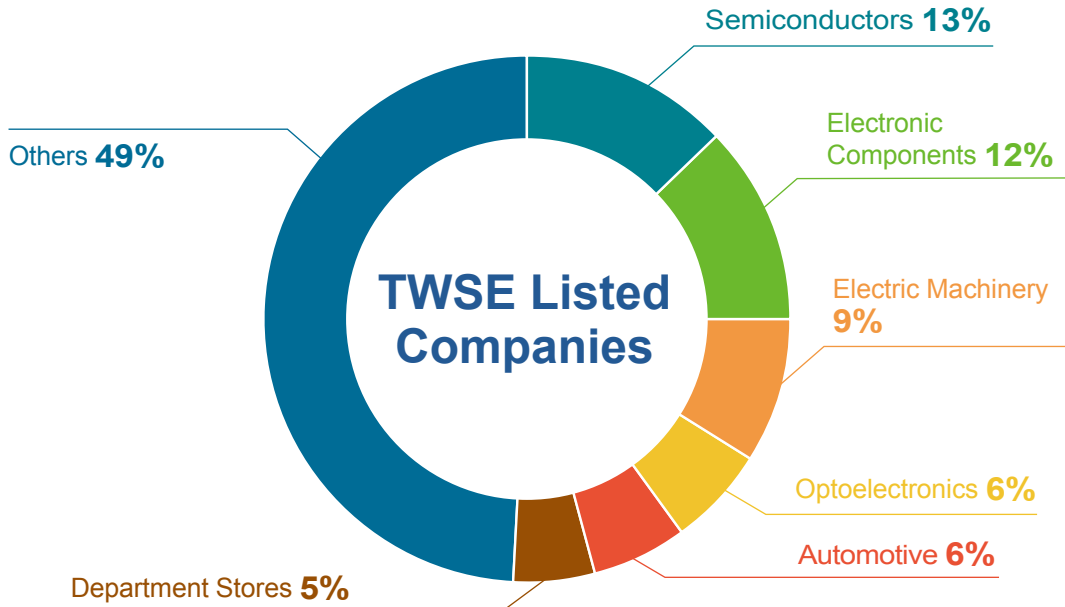


<sup>4</sup>Number of TWSE listed companies (excluding the banking industry) as of March 31, 2021.

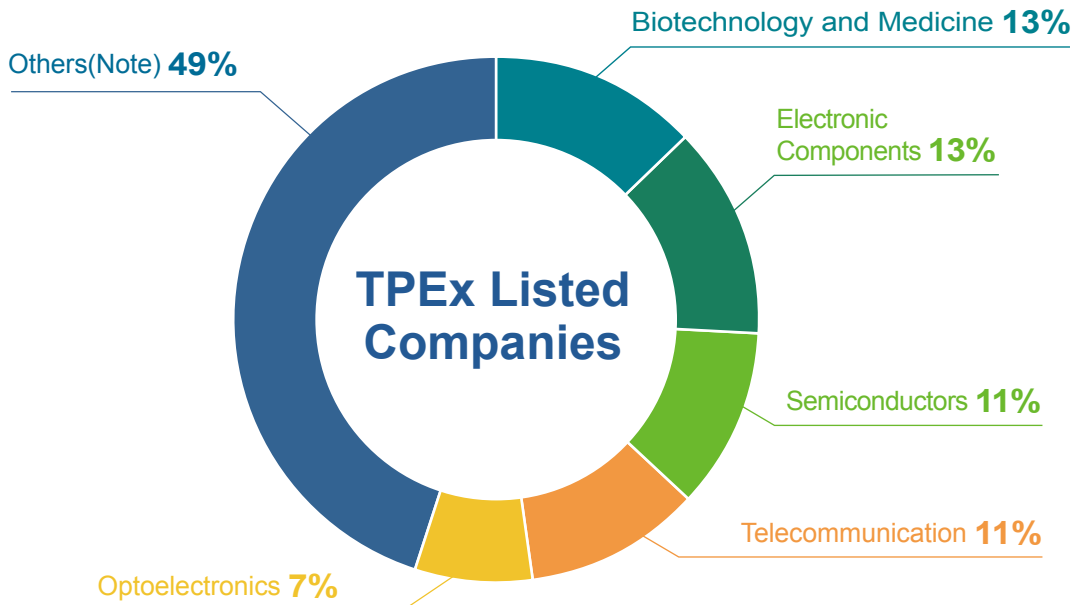
<sup>5</sup>Number of TPEX listed companies (excluding the banking industry) as of March 31, 2021.



**Figure 14 TWSE/TPEX Listed Companies Screened by Industry**



Note: Others include 16 industries, namely, textiles, electronics distribution, computer and peripherals, chemicals, other electronics, construction, telecommunication, steel, plastics, cement, papermaking, biotechnology and medicine, glass ceramics, shipping, electrical cables, and others.



Note: Others include 16 industries, namely, culturalcreative, computer and peripherals, electric machinery, other electronics, textiles, tourism, oil and gas, construction, food, department stores, plastics, information services, agricultural technology, electronic commerce, electrical cables, and others.

## 2.Key Review Items

Considering the operating activities and financial operations of TWSE/TPEX listed companies, the impact on the fairness of financial statements of material asset transactions (e.g., intangible assets), the impact of the industrial environment or economic events (e.g., COVID-19 pandemic) on asset impairment, and the most common deficiencies found in the review of financial statements in the past years, TWSE and the TPEX centered the review of financial statements for 2020 on six items, namely, accounts receivables and revenue, inventory and purchases, material intangible assets, material prepayments, related party transactions, and extension of loans and endorsements/guarantees. However, the review items and procedures could vary depending on the financial operations of TWSE/TPEX listed companies screened.

### (i).Accounts Receivables and Revenue

In terms of accounts receivables, the TWSE and TPEX reviewed the reasons and rationality for changes in accounts receivables, the collection of accounts receivables, the appropriateness of the lending policy and the loss allowance policy, and compliance of expected credit losses and provision for credit losses with IFRS 9 Financial Instruments.

On the part of revenue, the TWSE and TPEX reviewed the sales and counterparts and related transactions, the reasons for transaction changes and their rationality, and transaction vouchers, if necessary, as well as the compliance of revenue recognition with IFRS 15 Revenue from Contracts with Customers.

The findings in the review of the financial statements for 2020 are as follows:

- 1.Some of the companies screened had disclosed a provision matrix in their financial statements, applying loss rates by days overdue (e.g., 0 day overdue, less than 90 days past due, between 91 and 210 days past due, later than 210 days past due); some of the companies had further measured expected credit losses by grouping customers according to their credit characteristics.
- 2.Some of the companies had a relatively large overdue amount of receivables. The TWSE and TPEX had sent a letter requesting these companies to have strict control over the collection of overdue receivables and assess the adequacy of expected credit losses.
- 3.Some of the companies did not establish an effective internal control system for timely revenue recognition, resulting in revenue recognition later than the time of performance obligations satisfied, or the accounts receivable at the end of the period exceeding the line of credit.
- 4.Some of the companies had disclosed the revenue breakdown in more than one category (e.g., geographic locations, products, or services) according to their business characteristics.

### (ii). Inventory and Purchases

On the part of inventory, the TWSE and TPEX reviewed the reasons and rationality for changes in inventories, inventory components, accounting policies adopted and cost estimation methods, and whether the allowance to reduce inventory to market had been valued at the lower



of cost and net realizable value in compliance with International Accounting Standards (IAS) 2 Inventories, as well as destocking.

On the part of purchases, the TWSE and TPEX reviewed the purchases and counterparts and related transactions, the reasons for transaction changes and their rationality, and transaction vouchers, if necessary, as well as the appropriateness of accounting methods for purchases.

The findings in the review of the financial statements for 2020 are as follows:

1. Most of the companies had disclosed the inventory-related expenses and losses recognized in the current period such as cost of goods sold, unamortized manufacturing cost, inventory write-down (or gain from price recovery), and inventory surplus (or inventory loss).
2. Some of the companies had neither measured the net realizable value of finished goods nor disclosed the book value of each category of inventories in accordance with IAS 2 Inventories.

### **(iii). Material Intangible Assets**

The TWSE and TPEX reviewed whether the TWSE/TPEX listed companies had assessed the impairment of intangible assets on the balance sheet date (e.g., testing goodwill for impairment on a regular basis every year) and recognized and measured intangible assets in accordance with IAS 38 Intangible Assets and IAS 36 Impairment of Assets, the reasonableness of the impairment amount and time of recognition, and, if necessary, the rationality of valuation methods, assumptions, and parameters used in expert opinions.

The findings in the review of the financial statements for 2020 are as follows:

1. The balance sheets of some of the companies included goodwill and other intangible assets (e.g., computer software, patents, trademarks, and technology licensing). In addition to conducting impairment testing in case of an indication of impairment, these companies had conducted impairment testing annually for goodwill and intangible assets with uncertain useful life or not yet available for use.
2. Among the TWSE/TPEX listed companies screened, eight TWSE listed companies (7%) and 11 TPEX listed companies (13%) had recognized impairment losses on intangible assets in their financial statements for 2020. Some of the companies had disclosed the factors for the recognition of impairment losses, including the COVID-19 pandemic, increasingly fierce competition, and a continued decline in product operations.
3. A small number of the companies had invested in subsidiaries that had nothing to do with their own business and recognized goodwill impairment every year, failing to carefully assess the purpose, necessity, and expected benefits of investing in cross-sector businesses.

### **(iv). Material Prepayments**

The TWSE and TPEX reviewed the nature of prepayments, counterparts and the reasonableness of transactions, and the appropriateness of accounting methods, as well as the

terms and conditions, rights and obligations of both parties, and subsequent performance of the contracts, if necessary.

The findings in the review of the financial statements for 2020 are as follows:

1. In most of the companies screened, prepayments were usually prepayment for goods, prepayment for equipment, prepayment for investment, and prepaid expenses in nature. Some of the companies had listed prepayments separately in the balance sheet, while others had included them in other current or non-current assets and disclosed the amount of prepayments in the notes.
2. Some of the companies often had large prepayments due to their industrial characteristics, but they had no internal control systems in place to control their prepayment risks.

#### **(v). Related Party Transactions**

In addition to reviewing the rationality of the procedure for identifying related parties, the TWSE and TPEX took the following measures to review major related party transactions:

1. Checked the transactions and their rationality and necessity and whether there was any significant abnormality between these transactions and general transactions in terms of prices and conditions.
2. Checked whether the transactions (including evaluation and decision-making processes) had been carried out in compliance with the "Regulations Governing the Acquisition and Disposal of Assets by Public Companies" and the internal control system and disclosed according to regulations.
3. Confirmed whether the accounting methods adopted and the presentation and disclosure of financial statements had complied with IAS 24 Related Party Disclosures and Article 18 of the "Regulations Governing the Preparation of Financial Reports by Securities Issuers."
4. Checked the recoverability of considerable receivables from and advance payments to related parties, and whether such receivables and advance payments were disguised financing in nature if having not been recovered after the average collection period.

The findings in the review of the financial statements for 2020 are as follows:

1. In most of the companies screened, related party transactions were mainly purchase and sale. Some of the companies had material asset transactions with related parties and had disclosed these related parties and their relationships in the notes.
2. Some of the companies did not take the substantive relationship into account or fully disclose the transactions with related parties (e.g., incomplete disclosure of related parties or related party transactions) when determining whether counterparts were related parties, had failed to carry out related party transactions according to the internal control system (e.g., failure to obtain appropriate approval), or had not reported material receivables from related parties having not been recovered after the average collection period (i.e., three months) in the board meetings to resolve on their nature as disguised financing.



### (vi).Extension of Loans and Endorsements/Guarantees

The TWSE and TPEX reviewed whether TWSE/TPEX listed companies had carried out the extension of loans and endorsements/guarantees, in terms of counterparts, amount, periods, and evaluation and approval process, in accordance with the "Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies" and the internal control system and made such information available in their financial statements and in public. If necessary, the TWSE and TPEX also reviewed the adequacy of security for loans or endorsements/guarantees and the rationality of accrual of loss contingencies.

The findings in the review of the financial statements for 2020 are as follows:

1. Most of the companies screened had carried out the extension of loans and endorsements/guarantees and disclosed such information in their financial statements. However, the omission of such information was found in the financial statements of some of the companies.
2. Some of the companies had not established the internal control systems for the extension of loans and endorsements/guarantees in accordance with the "Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies" (e.g., determining the amount of endorsements/guarantees provided for a subsidiary based on the net worth of the parent company) or had failed to carry out the extension of loans and endorsements/guarantees in accordance with the aforesaid regulations and their internal control systems (e.g., extending loans beyond the lending period or amount specified in their own procedures for the extension of loans or the aforesaid regulations).

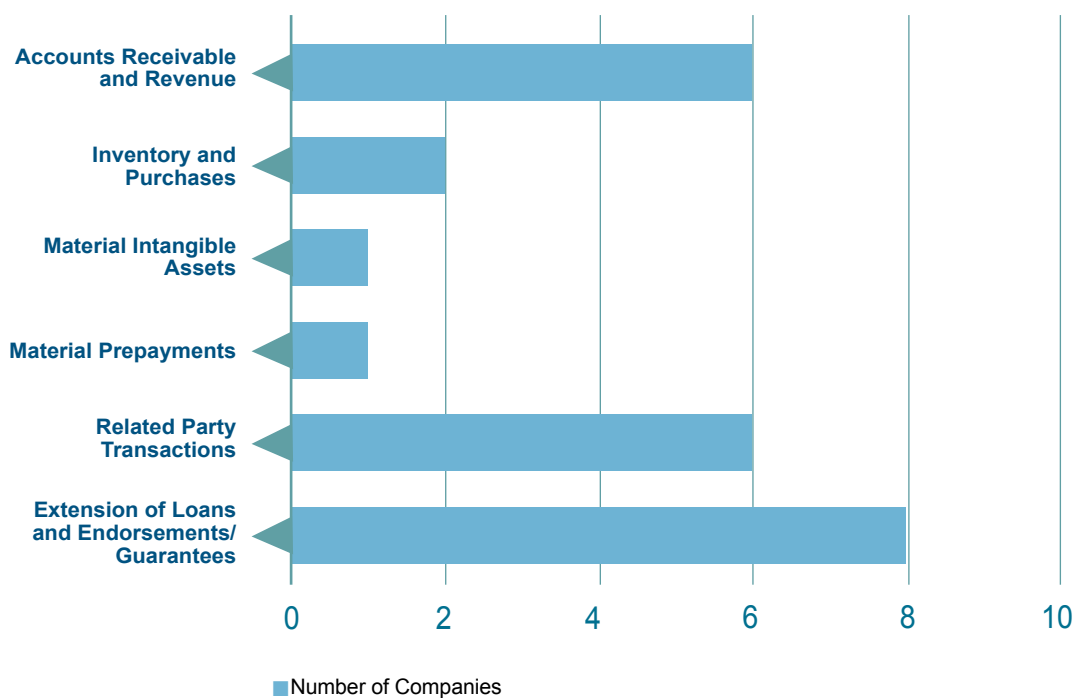


## 3.Review Results and Recommendations

### (i).Summary of Review Results

Among the 115 TWSE listed companies and 87 TPEX listed companies screened, the TWSE and TPEX found deficiencies or recommendations for improvement in 16 (14%) of the TWSE listed companies and 17 (20%) of the TPEX listed companies. Six of them had deficiencies in accounts receivables and revenue, two in inventory and purchases, one in material intangible assets, one in material prepayments, six in related party transactions, and eight in extension of loans and endorsements/guarantees (refer to Figure 15).

**Figure 15 Types of Deficiencies**



In the review of financial statements for 2020, the TWSE and TPEX found deficiencies or recommendations for improvement in 33 TWSE/TPEX listed companies and took corresponding measures according to the impacts of these deficiencies on financial statements (e.g., sending a letter requesting TWSE/TPEX listed companies to correct financial statements or take heed). In particular, one listed company was required to restate its financial statements, which was already referred to the competent authority for handling.



The deficiencies found or recommendations thereof in the review of financial statements for 2020 are summarized as follows:

Review Item	Deficiencies/Recommendations
<b>Accounts Receivables and Revenue</b>	<ol style="list-style-type: none"> <li>1.Failure to recognize sales revenue at the time of performance obligations satisfied</li> <li>2.Accounts receivable at the end of the period exceeding the line of credit</li> <li>3.Overdue accounts receivable in a serious manner</li> </ol>
<b>Inventory and Purchases</b>	<ol style="list-style-type: none"> <li>1.Failure to disclose the book value of each category of inventories in accordance with IAS 2 Inventories</li> <li>2.Failure to measure the net realizable value of finished goods in accordance with IAS 2 Inventories</li> </ol>
<b>Material Intangible Assets</b>	Investment in subsidiaries irrelevant to main business and recognition of goodwill impairment every year
<b>Material Prepayments</b>	Failure to establish internal control systems for recurring large prepayments
<b>Related Party Transactions</b>	<ol style="list-style-type: none"> <li>1.Failure to take the substantive relationship into account when determining whether counterparts were related parties</li> <li>2.Failure to fully disclose related parties and related party transactions</li> <li>3.Failure to carry out related party transactions according to the internal control system</li> <li>4.Failure to report material receivables from related parties having not been recovered after the average collection period (i.e., three months) in the board meetings to resolve on their nature as disguised financing</li> </ol>
<b>Extension of Loans and Endorsements/ Guarantees</b>	<ol style="list-style-type: none"> <li>1.Failure to extend loans or endorsements/guarantees according to the regulations in terms of lending period or amount</li> <li>2.Failure to establish sound internal control systems for the extension of loans and endorsements/guarantees</li> </ol>

## (ii). Improvements to Be Made

The TWSE and TPEX found in the review that TWSE/TPEX listed companies had more deficiencies in accounts receivables and revenue, related party transactions, and extension of loans and endorsements/guarantees, showing the TWSE/TPEX listed companies' insufficient knowledge of laws and accounting standards and lack of internal controls. When promoting related services in the future, the TWSE and TPEX will continue helping TWSE/TPEX listed companies comply with laws and regulations. To increase TWSE/TPEX listed companies' understanding of related party transactions, the TWSE and TPEX have published the "Related Party Transaction Guidelines", which gather laws and regulations on all types of related party transactions (e.g., acquisition or disposal of assets, extension of loans, and endorsements/guarantees) together and include cases on the identification of substantive related parties.

From time to time, the TWSE and TPEX will make the common deficiencies found in the annual review of financial statements available on their respective websites and for TWSE/TPEX listed companies by letter. In IFRS seminars, the TWSE and TPEX will also walk the finance and accounting personnel of TWSE/TPEX listed companies through common deficiencies found in the financial statements to improve their expertise and avoid the same deficiencies.

To keep the review process up to date, the TWSE and TPEX will also timely adjust the key review items according to the latest IFRS and new amendments and the new business models or transactions of TWSE/TPEX listed companies. Internal training will also be provided for the review officers to improve their review skills and the depth of review. All of these efforts are made to equip TWSE/TPEX listed companies to prepare the financial statements in accordance with the latest IFRS and regulations and fully disclose financial information, so as to facilitate capital market enhancements.

4



**Conclusion**



The securities market enhancements hinges on the timely and accurate disclosure of a company's financial operations for investors. The disclosures of annual reports to shareholders are of the utmost importance as they cover a company's key financial operations, corporate governance, and matters that have a material impact on shareholder equity. In 2021, based on the review results, the FSC has taken measures to enhance the disclosure of financial statements while making the review items and common deficiencies found in the financial statements for 2020 available to TWSE/TPEX listed companies, so as to increase the depth and breadth of disclosures. In the future, the TWSE and TPEX will continue to glean any concerns about shareholder equity and carefully plan the review items, so as to facilitate the FSC's rolling review of relevant mechanisms.





