

Stock Code: 2633

## Handbook for the 2017 Annual Shareholders' Meeting

DATE: May 24, 2017 at 9:00 a.m.

PLACE: Cathay Financial Conference Hall (1F., No. 9, Songren Rd., Xinyi Dist.,  
Taipei City)

# Procedure for Annual Shareholders' Meeting

## Taiwan High Speed Rail Corporation

### Procedure for the 2017 Annual Shareholders' Meeting

I	、 Call the Meeting to Order	
II	、 Chairperson Takes Chair	
III	、 Chairperson Remarks	
IV	、 Management Presentation(Company Reports)	2
	1、 Report on the Company execution of corporate governance.	2
	2、 Report on allocation of 2016 remuneration to board of directors and compensation to employees.	14
V	、 Proposals	16
	1、 Proposals of the 2016 Annual Business Report and financial statements of the Company.	16
	2、 Proposals of 2016 profit distribution of the Company.	32
VI	、 Discussion	35
	Early re-election of the 7th term board of directors' office of the Company.	35
VII	、 Election	36
	Election of the 8th term board of director's office of the Company.	36
VIII	、 Other Discussion	38
	Removal of non-competition restriction against the 8th term board of directors' office of the Company.	38
IX	、 Questions and Motions.	39
X	、 Adjournment	39
Attachment I	List of Nominated Directors (including Independent Directors)	40
Attachment II	List of Proposed Release of Prohibition on Directors from Participation in Competing Business	46
Appendix		48
Appendix I	Rules of Procedure for Shareholders' Meetings	48
Appendix II	Rules for the Election of Directors	61
Appendix III	Articles of Incorporation	65
Appendix IV	Current Shareholding of Directors	77

# Management Presentation

## **Report No. 1 : Report on the Company execution of corporate governance.**

### I. Background

For the purpose of sound corporate governance, as well as assurance of shareholders' equity, consolidation of the Board of Directors' function, promotion of information transparency, and fulfillment of social responsibility, our Corporate Governance Standards were formally passed with a resolution at the May 28, 2003 shareholders' general meeting. Additionally, independent directorship was introduced so as to establish an infrastructure for corporate governance. Accordingly, relevant corporate governance systems and measures have been initiated and executed in the last 14 years with considerable effectiveness.

### II. Corporate Governance Guidance

On the principle of enterprise autonomy, we comprehensively refer to important corporate governance principles both at home and abroad, as well as corporate governance experience of leading enterprises. Further, we comply with domestic applicable law and regulations when formulating our Corporate Governance Standards (hereinafter "CGSs"). These standards were established and amended at 2003, 2004, 2006, 2007, 2012, 2013 shareholders' general meetings and at the 2016 extraordinary general meeting, and serve as the guiding principles for corporate governance system and implementation of governance measures.

### III. Execution of Corporate Governance System

In addition to the stipulation of independent directorship in the articles of incorporation, our Board of Directors has established Corporate Governance & Nomination (formerly Corporate Governance), Audit (formerly Provisional Audit), Remuneration, Procurement, Finance, and Special Committees for functional purposes. It has formulated applicable by-laws and adopted specific corporate governance measures that, together, establish a robust corporate governance system.

# Management Presentation

## 1. Establishment of Independent Directorship

In light of the observable effectiveness of our corporate governance system, the ability of independent directorship to progressively bring the functions set out in CGSs into play, and for the purpose of alignment with legalization of independent directorship, we acted in concert with the amendment to the Securities and Exchange Act by adding provisions in the articles of incorporation for establishing independent directorship at the 2006 shareholders' general meeting. After considering the optimal size of the Board of Directors, stakeholder representation, business nature of BOT and company status, from the time directors and supervisors were elected to a fourth term of office at the 2007 shareholders' general meeting, two or more independent directors have been elected each year according to law and regulations and the articles of incorporation.

## 2. Institution of Functional Committee of Board of Directors

To engender efficient decision-making and robust supervision, the 5th term of office of Board of Directors acted on Article 5-1-01 of CGSs and formed four committees: Corporate Governance Committee, provisional Audit Committee, Procurement Committee, and Finance Committee. The committees preview relevant affairs and proposals, and form other functional committees if necessary. Additionally, the 25th meeting of the 5th term of office of Board of Directors approved the establishment of a Remuneration Committee on September 29, 2011, as well as the Organic Regulations thereof based on Article 14-6 of the Securities and Exchange Act. Since its inception, Remuneration Committee has reviewed the directors, supervisors, and senior managers' performance management and compensation system according to the Organic Regulations. The 24th meeting of the 6th term of office of Board of Directors on June 19, 2014 approved the establishment of a Special Committee in response to the potential dispute arbitration that arose from high speed rail construction projects in north and south Taiwan; the 13th meeting of the 7th Board of Directors further resolved on April 27, 2016 to adjust the responsibility of the same to include provision of consultation

# Management Presentation

advice with respect to major legal or contractual disputes and important system reforms, as well as to assist Board of Directors in supervising managers' execution of decisions. Besides, for the listing application of our stock, on February 19, 2016, the 11th meeting of the 7th term Board of Directors approved the amendment to establish an Audit Committee in place of supervisors and rename Corporate Governance Committee as Corporate Governance & Nomination Committee, followed by submission of amendment to Articles Of Incorporation and CGSs for discussion and approval at the extraordinary general meeting on March 18, 2016; the former provisional Audit Committee ceased to exist upon the amendment of the above by-law and standard. Among the aforementioned functional committees, Corporate Governance & Nomination Committee (formerly Corporate Governance Committee), Audit Committee (formerly provisional Audit Committee), Finance Committee, Project Committee, and Remuneration Committee are all convened by an independent director respectively.

### 3. Primary tasks and execution responsibilities for Board of Directors and functional committees (from January 2016 to March 2017)

#### (1) Board of Directors

① Composition: 15 directors, among which 1 independent director resigned in December 2016.

② Number of meetings: 19

③ Primary tasks:

Board of Directors takes charge of major decision-making for the Company's finance, business, and operation, and oversees the duties performed by the Management (see Schedule for details).

④ Execution:

Board of Directors applies applicable law and regulations, resolutions of shareholders' meeting, and the Company's by-laws to faithfully perform the foregoing primary tasks; Board duty is multifarious and is not enumerated accordingly; in the event of major resolutions, Board of Directors consistently announces and discloses on the Market Observation Post System

# Management Presentation

(<http://mops.twse.com.tw>) as required; functional committees do bring their respective preview function into play; independent directors also exert their independence and professionalism, contributing to the quality of Board of Directors discussion and promotion of professionalism.

## (2)Corporate Governance & Nomination Committee (formerly Corporate Governance Committee)

- ① Composition: 5 to 7 directors and convened by an independent director (note: the 11th meeting of the 7th term of office of Board of Directors on February 19, 2016 approved the renaming of Corporate Governance Committee as Corporate Governance & Nomination Committee and amending the composition from 3 to 5 to 5 to 7, and requested an extraordinary general meeting on March 18, 2016 to discuss and pass the revised CGSs).
- ② Number of meetings: 14.
- ③ Primary tasks: Responsible for the formation and planning of the Board of Directors and functional committees and nomination of independent directors and non-independent directors , research on corporate governance system, and review of effectiveness of corporate governance system and information disclosure implementation. (see Schedule for details).
- ④ Execution:
  - 1) Discuss functional committee composition proposal.
  - 2) Discuss proposals for execution evaluation of Board of Directors and functional committee and annual work plan.
  - 3) Discuss executive report on corporate governance.
  - 4) Discuss renewal of Directors and Officers Liability Insurance.
  - 5) Discuss corporate organizational structure adjustment procedural amendment.

## (3)Audit Committee (note: the 11th meeting of the 7th term of office of Board of Directors on February 19, 2016 approved the amendment of institution of Audit Committee in place of supervisors, and requested extraordinary general meeting on March 18, 2016 to discuss the revision of the Company's Articles Of Incorporation

# Management Presentation

and CGSs; former provisional Audit Committee no longer exists upon the amendment of the above by-law and standard).

- ① Composition: no less than 3 directors and must include all independent directors.
- ② Number of meetings: 15 (note: including 1 meeting of the former provisional Audit Committee).
- ③ Primary tasks: Review and oversee corporate financial statements and risk control/management affairs (see Schedule for details).
- ④ Execution:
  - 1) Review annual budget, budget implementation report and financial statements.
  - 2) Discuss amendments to the Company's Internal Control System, Regulation Governing Internal Control System Self-Examination, Procedures of Asset Acquisition and Disposal, and Regulation Governing Derivatives Transactions.
  - 3) Review results of annual self-examination of internal control system and statements of internal control system at all levels of the organization.
  - 4) Review transactions involving directors' conflict of interest and subject to recusal of exercise of voting rights, transactions with related parties, and transactions requiring prevention of conflict of interest.
  - 5) Review appointment of Certified Public Accountant.
  - 6) Review annual audit plans and executive reports thereof.

## (4) Procurement Committee

- ① Composition: 5 to 7 directors.
- ② Number of meetings: 12.
- ③ Primary tasks: Review of various procurement proposals, oversee the Management in execution of procurement strategies (see Schedule for details).
- ④ Execution:
  - 1) Discuss annual procurement of material for vehicle maintenance.

# Management Presentation

- 2) Discuss building project of long welded rail transportation equipment.
- 3) Discuss the Organic Regulations of Procurement Committee.
- 4) Discuss settlement of the completed construction project of HSR - Changhua Station.
- 5) Discuss HSR signal system thermometer frame project.

## (5) Finance Committee

- ① Composition: 5 to 9 directors, convened by an independent director.
- ② Number of meetings: 9.
- ③ Primary Tasks: Review the Company's financial planning proposals (see Schedule for details).
- ④ Execution:  
Finance Committee applies the foregoing primary tasks when considering revisions to the Company's syndicated loans and financial planning proposals.

## (6) Remuneration Committee

- ① Composition: 3 to 5 directors, convened by an independent director.
- ② Number of meetings: 12
- ③ Primary Tasks: to formulate and regularly review the evaluation of directors and managers' performance and salary and compensation (see Schedule for details).
- ④ Execution:  
Remuneration Committee applies the foregoing primary tasks when considering the Company's proposals for performance management and compensation.

## (7) Special Committee

- ① Composition: 5 to 7 directors, convened by an independent director.
- ② Number of meetings: 5.
- ③ Primary Tasks: Provide advice on the Company's major legal or contractual disputes and important system reforms, and assist the Board of Directors in supervising managers' execution of decisions (see Schedule for details).
- ④ Execution:



# Management Presentation

Special Committee applies the foregoing primary tasks when considering the settlement of work and labor disputes as well as other major legal or contractual disputes and important system reforms.

## 4. Measures Specific to Corporate Governance

### (1) Formulation and Revision of Relevant Corporate Governance Rules:

To ensure systemic corporate governance initiatives are solidly implemented, functional committees preview and formulate or revise rules and regulations and administrative codes for approval by the Board of Directors. Such systemic initiatives include Articles of Incorporation, CGSs, Rules of Procedure of Board of Directors, The Organic Regulations of Corporate Governance & Nomination Committee, and Internal Control System.

### (2) Demarcation of Authority between Board of Directors and Management

By reference to the spirit of the corporate governance initiatives, the demarcation of authority for business decision making is as follows: in principle, the Board of Directors is responsible for making decisions pertaining to the Company's major operations, its development, and major financial and business conduct; other affairs are delegated to the Management and the Board of Directors takes responsibility for supervision thereof. The table governing the foregoing principle of delegation of authorization and duties of the Company's business is revised accordingly.

### (3) Purchase of Directors and Officers Liability Insurance (D&O)

- ① Purchase of D&O is a part of implementation of corporate governance initiatives. From the company's perspective, D&O not only facilitates the acquisition of talent, but also encourages their dauntless service, hence contributing to corporate governance. As for directors and officers, D&O can help them avoid legal damage from fault or neglect related to performance of duties, especially from the legal risks attributable to fault or neglect of other directors or officers.
- ② The insured D&O amount is NTD 900,000,000.

# Management Presentation

## IV. Effectiveness of Corporate Governance System

### 1. Preliminary Review by Functional Committees

In accordance with the CGSs, functional committees discuss their respective proposals submitted by the Management, perform relevant duties, and actively fulfill their preview role for the Board of Directors.

### 2. Independence and Professionalism of Independent Directors

When discussing official business in the Board of Directors and functional committees, independent directors frequently express their opinions, exert their independence and professionalism, and contribute to agenda efficiency and quality of decision making.

### 3. Management Implementation

The Management fully understands the framework and spirit of corporate governance, and complies with applicable by-laws and regulations and resolutions of shareholders' meeting or Board of Directors when performing their duties and fulfilling their duty of care.

### 4. Step-Up Information Disclosure

For the convenience of shareholders and stakeholders, our information corporate governance is disclosed on the Market Observation Post System (<http://mops.twse.com.tw>). In addition, we release our corporate governance information on our corporate website (<http://www.thsrc.com.tw>) to further enhance transparency.

## V. Concluding Remarks

In view of the effectiveness of the implementation of our corporate governance system, we will focus on the ongoing influence of functional committees and independent directors going forward. Besides, we will uphold the principle of enterprise autonomy, consistently review the framework and mechanisms of corporate governance, and embrace corporate governance evaluation in order to build a sound corporate governance system, turning Taiwan High Speed Rail into a benchmark for corporate governance.

# Management Presentation

Schedule

Item	Primary Tasks
Board of Directors	<p>As per Article 3-02 of the CGSs of the Company, the Board of Directors has the following primary tasks:</p> <ol style="list-style-type: none"> <li>1) Discuss internal control system.</li> <li>2) Discuss on important Articles and by-laws.</li> <li>3) Discuss the Company’s major financial plan, long-/short-term goals, business plan, budget and final report.</li> <li>4) Draft loss make-up and capital increase/decrease proposal.</li> <li>5) Discuss establishment, withdrawal, or change of branch.</li> <li>6) Discuss matters involving directors’ own interest.</li> <li>7) Discuss major asset or derivatives transactions, as well as major lending of capital, endorsement or provision of guarantee.</li> <li>8) Discuss offering, issuance or private placement of marketable securities.</li> <li>9) Discuss appointment, discharge, and compensation of Certified Public Accountant.</li> <li>10) Elect, discharge and supervise important officers and financial, accounting, internal audit directors.</li> <li>11) Discuss items proposed by Chair of the Board and/or noticed by functional committees, and/or items submitted by the Management for Chair of the Board’s perusal.</li> <li>12) Oversee company operational results and risks, and ensure compliance with applicable law and regulations.</li> <li>13) Devise future development direction.</li> <li>14) Promote corporate image and fulfillment of social responsibility.</li> <li>15) Discuss other major items subject to resolutions of Board of Directors, as required by law and regulations, articles of incorporation, resolutions of shareholders’ meeting, CGSs or other applicable by-laws.</li> </ol>

# Management Presentation

Item	Primary Tasks
<p>Corporate Governance &amp; Nomination Committee</p>	<p>As per Article 5-2-02 of the CGSs of the Company, the Corporate Governance &amp; Nomination Committee has the following tasks:</p> <ol style="list-style-type: none"> <li>1) Qualify independent directors and the composition of Board of Directors and the committees thereof.</li> <li>2) Nominate independent directors and non-independent directors.</li> <li>3) Identify and evaluate independent directors and potential independent director candidates.</li> <li>4) Devise and review overall execution of directorship.</li> <li>5) Review state of information disclosure.</li> <li>6) Draft, revise, and review CGSs and important corporate governance rules.</li> <li>7) Review the devising, suggestion and implementation effectiveness of corporate governance system.</li> <li>8) Other duties as required by articles of incorporation, CGSs, or resolutions of Board of Directors.</li> </ol>
<p>Audit Committee</p>	<p>As per Article 5-3-03 of the CGSs of the Company, Audit Committee is responsible for reviewing and overseeing corporate financial reporting procedures and risk control/management matters. Its primary tasks include:</p> <ol style="list-style-type: none"> <li>1) Formulate or revise internal control system as required by Article 14-1 of the Securities and Exchange Act.</li> <li>2) Evaluate the effectiveness of the Company's internal control system.</li> <li>3) Formulate or revise, as required by Article 36-1 of the Securities and Exchange Act, the procedures for major financial business conduct regarding acquisition or disposal of assets, undertaking of derivatives transactions, lending of capital, endorsement, or provision of guarantee for others.</li> <li>4) Approve items involving directors' own interest.</li> <li>5) Approve major asset and derivatives transactions.</li> </ol>

# Management Presentation

Item	Primary Tasks
	<p>6) Approve major lending of capital, endorsement, or provision of guarantee.</p> <p>7) Review marketable securities offering/issuance, or the private placement of securities of equity characteristics</p> <p>8) Assess appointment, discharge, or compensation of the Certified Public Accountant.</p> <p>9) Evaluate the Company's financial, accounting, or internal audit director's appointment, dismissal and performance.</p> <p>10) Review annual and semi-annual financial statements.</p> <p>11) Review Q1 and Q3 financial statements.</p> <p>12) Review the Company's accounting system/financial condition.</p> <p>13) Evaluate the Company's risk management policies and risk measurement standards.</p> <p>14) Approve procedures for major financial/business conduct.</p> <p>15) Assess, examine, and oversee existing or potential risks in the Company.</p> <p>16) Examine the company's compliance to law and regulations.</p> <p>17) Other major matters as required by competent authorities.</p> <p>18) Other duties as required by articles of incorporation or resolutions of Board of Directors.</p>
Procurement Committee	<p>Procurement Committee provides counsel on procurement-related proposals ahead of the submission schedule to Board of Directors by the Company's bidding committee or management; in case related parties are involved, procurement proposals are considered by the Audit Committee.</p>
Finance Committee	<p>1) Plan and review the Company's capital and debt structure.</p> <p>2) Review fundraising plans, e.g., capital, financing, and credit extension, etc.</p> <p>3) Review capital account adjustment programs, e.g., capital increase/decrease, buybacks, redemption, dividend policies, etc.</p>

# Management Presentation

Item	Primary Tasks
	<p>4) Review investment, merger and acquisition policies, and acquisition/disposal of assets and significant transactions.</p> <p>5) Review significant lending of capital, assumption of others' liability, or provision of endorsement/guarantee.</p> <p>6) Review working capital, major capital expenditure, financial risk management.</p> <p>7) Review taxation planning and compliance.</p> <p>8) Other duties as required by articles of incorporation, CGSs or resolutions of Board of Directors.</p>
Remuneration Committee	<p>1) Formulate and regularly review policies, systems, standards, and composition of performance evaluation and compensation of directors and officer.</p> <p>2) Regularly evaluate and formulate directors' and officers' compensation.</p>
Special Committee	<p>As per resolutions of Board of Directors, to provide counsel and suggestions on major legal or contractual disputes and important institutional changes, and to assist Board of Directors with supervising execution of relevant decisions by functional managers.</p>

# Management Presentation

## **Report No. 2: Report on allocation of 2016 remuneration to board of directors and compensation to employees.**

1. According to Article 235-1 of the Company Act and the Letter No. 10402413890 dated June 11, 2015 issued by Ministry of Economic Affairs, a fixed amount or ratio of profit of the current year distributable as employees' compensation as well as remuneration to directors and supervisors shall be definitely specified in the Articles of Incorporation. However, the Company's accumulated losses shall have been covered. Distribution of directors and employees' compensation shall be undertaken by a resolution adopted by a majority vote at a meeting of board of directors attended by at least two-thirds of the total number of directors, and a report of such distribution shall be submitted to the shareholders' meeting.
2. Furthermore, according to Article 35-1 of the Articles of Incorporation, "where the Company has profit upon final report, not less than 1% of such profit shall be allocated for the purpose of employees' compensation and no more than 1% of such shall be allocated for the purpose of directors' compensation; however, when the Company sustains accumulated losses, a reserve shall be set aside first to cover such losses".
3. The Company's profit for 2016 (i.e. pre-tax profit before distribution of directors and employees' compensation) amounts to NTD 5,099,565,947, a net of NTD 5,099,565,947 after offsetting against accumulated losses of NTD 0. In accordance with the 27th meeting of the 7th Board dated March 21, 2017, and provisions stipulated in the preceding regulations and Articles of Incorporation, a resolution is adopted on distribution of directors and employees' compensation and the percentage and amount to be allocated are as follows:
  - (1) For directors' compensation:
    1. Percentage allocated: 1%.
    2. Amount allocated: NTD 50,995,659.
  - (2) For employees' compensation

# Management Presentation

1. Percentage allocated: 1.6%.
2. Amount allocated: NTD 81,593,055.



# Proposals

## **Proposal No. 1: Proposed by the Board**

Proposal : Proposals of the 2016 Annual Business Report and financial statements of the Company.

Explanation : The 2016 business report (please refer to p.17-p.19 of Annual Meeting Handbook) along with financial statements (please refer to p.20-p.25 of Annual Meeting Handbook) of the Company have been approved on February 22, 2017 by the 25th meeting of the 7th Board. The financial statements were audited by certified public accountants, and audit report thereto was issued on February 22, 2017 (please refer to p.26-p.30 of Annual Meeting Handbook), distributed to Audit Committee for review (please refer to p.31 of Annual Meeting Handbook), and is hereby submitted for adoption at shareholders' annual general meeting.

Resolution :

# Proposals

## **The 2016 Business Report**

**Dear Fellow Shareholders,**

2016 was a breakthrough year for Taiwan High Speed Rail Corporation (THSRC). We welcomed our 400 millionth passenger in December, a decade after we opened our high-speed rail line. Reaching this milestone is a testament to the hard work and dedication of our employees. Throughout our history as a rail service provider, we have brought significant changes to people's lifestyles, connected urban and rural communities closer together, and catalyzed growth and employment opportunities. Another milestone we achieved last year was the inauguration of Nangang HSR Station, which increases connectivity between the Greater Taipei area and the eastern counties of Ilan and Hualien while easing the congestion at Taipei HSR Station during peak travel times. More importantly, this new station enhances service levels and quality by allowing more efficient and flexible fleet management to meet the projected capacity demand and providing much-needed space for maintenance facilities. We are excited about what the future holds as we continue to deliver on our promise of service excellence, customer satisfaction and corporate citizenship, with the principle of "Go Extra Mile" guiding every action we take.

### **2016 Results**

We have carried over 400 million passengers since we launched Taiwan High Speed Rail (THSR) connecting the western Taiwan in January 2007. Last year was our 10th anniversary, and we continued to increase ridership despite a difficult operating environment.

During 2016, our passenger volume increased to 56.59 million, we provided a total of 51,106 train services, up by 574 trains compared to a total of 50,532 train services in 2015. Daily northbound and southbound train services have reached a maximum at 158 trains, or 197 trains during the holiday season. Our loading factor was 63.52%, up by 3.87 percentage points compared to 59.65% in 2015. The total passenger-kilometers reached 10,488 million in 2016, up by 8.63% compared to the year before. The numbers of average daily passengers were the lowest in September at 147.4 thousands, and highest in February at 166.9 thousands. Even with this increase in volume, we achieved excellent on-time performance with 99.43% punctuality and 100.00% reliability, excluding delays due to force majeure events.

We are proud of our zero accident record over the past year – no accidents or injuries to passengers or the public on railway premises were caused by train service operations or malfunctions of railway equipment.

In 2016, we continued to offer Early Bird ticketing, discounts for college students, enhanced

# Proposals

business class offerings and vacation packages and deals under our T Holiday Program in order to promote train travel and attract new passengers. We worked to improve the way train tickets are purchased, including at convenience stores, via smartphone, and using a contactless EasyCard. We also improved accessibility to our HSR stations by providing free shuttle bus services to and from downtown areas.

As to our financial performance, we generated NT\$40.61 billion in revenue. Profit before and after tax was NT\$5 billion, and 4.15 billion, respectively.

## **Research & Development**

During 2016, we continued to enhance our maintenance capabilities and reduce the cost and risk of loss resulting from the delayed or failed delivery of spare parts. To meet these objectives, we secured local suppliers for spare parts and improved our maintenance facilities, in particular those for the repair of electronic equipment. Through extensive research, we developed solutions for maintaining and managing critical track and signaling assets.

## **Looking Ahead**

### (1) Management objective

The high-speed rail has become the most important means of travel along Taiwan's western corridor, serving as a catalyst for growth in the regional economies and enhancing the lives of those we serve.

In the year ahead, we plan to bring to passengers new service offerings as well as enhanced safety, reliability and comfort. We also will grow our affiliated businesses in order to drive revenue and profit growth. As part of our commitment to supporting local development, we will continue giving back to the communities in which we work and serve.

### (2) Growth target

We will continue to develop innovative services that meet customer needs and explore new opportunities for growth. We have set an annual ridership target of 57.8 million for 2017.

### (3) Main initiatives

Since the commencement of our operation, we have investigated all aspects of passenger behaviors and researched their needs and satisfaction levels. We have also tailored our services to anticipate and meet passenger expectations in order to remain competitive, gain market share and increase ridership.

In the year ahead, we will focus on seven major initiatives. They include:

- ensuring safe and stable transport
- planning new products and services

# Proposals

- broadening the breadth and depth of services to increase passenger revenues
- expanding cooperation with partners beyond the transportation industry
- improving the quality of service and enabling the sharing of information and knowledge through one common platform across the organization
- accelerating the development of affiliated businesses
- reiterating our vision of a smart, sustainable and competitive railway system in the spirit of four Ts – Transportation, Technology, Taiwan and Touch

# Proposals

## TAIWAN HIGH SPEED RAIL CORPORATION

### BALANCE SHEETS

(In Thousands of New Taiwan Dollars, Except Par Value)

	December 31			
	2016		2015	
	Amount	%	Amount	%
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Note 6)	\$ 237,457	-	\$ 2,146,396	-
Available-for-sale financial assets (Note 7)	311,693	-	602,555	-
Hedging derivative assets (Note 8)	225	-	-	-
Notes and accounts receivable	550,033	-	210,188	-
Inventories (Note 9)	2,005,154	1	2,154,760	1
Other financial assets (Notes 10 and 27)	24,714,305	5	54,473,519	11
Prepayments and other current assets (Note 13)	909,415	-	560,917	-
Total current assets	<u>28,728,282</u>	<u>6</u>	<u>60,148,335</u>	<u>12</u>
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment (Note 11)	65,305	-	70,928	-
Operating concession asset (Note 12)	426,020,379	92	439,626,852	87
Computer software, net (Note 12)	34,994	-	41,238	-
Deferred tax assets (Note 22)	4,285,765	1	4,641,768	1
Other financial assets (Notes 10 and 27)	2,060,388	1	2,070,863	-
Other non-current assets (Note 13)	12,259	-	4,232	-
Total non-current assets	<u>432,479,090</u>	<u>94</u>	<u>446,455,881</u>	<u>88</u>
<b>TOTAL</b>	<u>\$ 461,207,372</u>	<u>100</u>	<u>\$ 506,604,216</u>	<u>100</u>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Short-term borrowings (Note 14)	\$ 60,130	-	\$ 43,460	-
Accounts payable	247,519	-	442,218	-
Operating concession liability (Note 15)	3,180,612	1	1,883,383	-
Other payables (Notes 14 and 17)	2,755,992	1	15,294,592	3
Payable for construction	889,292	-	1,466,212	-
Provisions (Notes 16 and 26)	301,701	-	2,746,756	1
Current portion of long-term debt (Note 14)	10,944,843	2	13,508,778	3
Other current liabilities (Notes 17 and 22)	1,435,405	-	768,436	-
Total current liabilities	<u>19,815,494</u>	<u>4</u>	<u>36,153,835</u>	<u>7</u>
<b>NON-CURRENT LIABILITIES</b>				
Long-term debt (Note 14)	316,279,751	69	345,647,453	68
Provisions (Notes 16)	280,289	-	-	-
Long-term interest payable (Note 14)	9,582,166	2	8,472,455	2
Operating concession liabilities (Note 15)	53,990,329	12	55,994,730	11
Other non-current liabilities (Notes 17 and 22)	195,662	-	133,021	-
Total non-current liabilities	<u>380,328,197</u>	<u>83</u>	<u>410,247,659</u>	<u>81</u>
Total liabilities	<u>400,143,691</u>	<u>87</u>	<u>446,401,494</u>	<u>88</u>
<b>EQUITY (Note 19)</b>				
Capital stock - \$10 par value, authorized 12,000,000 thousand shares				
Common stock - issued 5,628,293 thousand shares in 2016 and issued 5,605,293 thousand shares in 2015	56,282,930	12	56,052,930	11
Capital surplus	172,981	-	-	-
Retained earnings				
Legal reserve	451,180	-	40,285	-
Unappropriated earnings	4,155,897	1	4,108,952	1
Total retained earnings	4,607,077	1	4,149,237	1
Unrealized gain on financial instruments	693	-	555	-
Total equity	<u>61,063,681</u>	<u>13</u>	<u>60,202,722</u>	<u>12</u>
<b>TOTAL</b>	<u>\$ 461,207,372</u>	<u>100</u>	<u>\$ 506,604,216</u>	<u>100</u>

The accompanying notes are an integral part of the financial statements.

(With Deloitte & Touche auditors' report dated February 22, 2017)

# Proposals

## TAIWAN HIGH SPEED RAIL CORPORATION

### STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Years Ended December 31			
	2016		2015	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 20 and 26)	\$ 40,610,906	100	\$ 51,901,392	100
OPERATING COSTS (Notes 21 and 26)	<u>(25,973,173)</u>	<u>(64)</u>	<u>(30,499,460)</u>	<u>(59)</u>
GROSS PROFIT	14,637,733	36	21,401,932	41
OPERATING EXPENSES (Note 21)	<u>(938,237)</u>	<u>(2)</u>	<u>(845,436)</u>	<u>(2)</u>
INCOME FROM OPERATIONS	<u>13,699,496</u>	<u>34</u>	<u>20,556,496</u>	<u>39</u>
NON-OPERATING INCOME AND EXPENSES				
Interest income (Note 21)	115,448	-	234,488	1
Interest expense (Notes 21 and 26)	(8,375,559)	(21)	(9,256,852)	(18)
Other gains and losses (Notes 21 and 26)	<u>(441,810)</u>	<u>(1)</u>	<u>7,299,703</u>	<u>14</u>
Total non-operating income and expenses	<u>(8,701,921)</u>	<u>(22)</u>	<u>(1,722,661)</u>	<u>(3)</u>
INCOME BEFORE INCOME TAX	4,997,575	12	18,833,835	36
INCOME TAX BENEFIT (EXPENSE) (Note 22)	<u>(848,477)</u>	<u>(2)</u>	<u>2,038,795</u>	<u>4</u>
NET INCOME	<u>4,149,098</u>	<u>10</u>	<u>20,872,630</u>	<u>40</u>
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	(57,611)	-	(58,198)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 22)	<u>9,794</u>	<u>-</u>	<u>9,894</u>	<u>-</u>
	<u>(47,817)</u>	<u>-</u>	<u>(48,304)</u>	<u>-</u>
Items that may be reclassified subsequently to profit or loss:				
Unrealized gain (loss) on available-for-sale financial assets	<u>138</u>	<u>-</u>	<u>(1,005)</u>	<u>-</u>
Other comprehensive income (loss) for the year, net of income tax	<u>(47,679)</u>	<u>-</u>	<u>(49,309)</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 4,101,419</u>	<u>10</u>	<u>\$ 20,823,321</u>	<u>40</u>

(Continued)

# Proposals

## TAIWAN HIGH SPEED RAIL CORPORATION

### STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

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	For the Years Ended December 31			
	2016		2015	
	Amount	%	Amount	%
EARNINGS PER SHARE (Note 23)				
Basic earnings per share	\$ 0.74		\$ 7.19	
Diluted earnings per share	\$ 0.74		\$ 6.31	

The accompanying notes are an integral part of the financial statements.

(With Deloitte & Touche auditors' report dated February 22, 2017)

(Concluded)

# Proposals

## TAIWAN HIGH SPEED RAIL CORPORATION

### STATEMENTS OF CHANGES IN EQUITY (In Thousands of New Taiwan Dollars, Except Dividends Per Share)

	Capital Stock		Capital Surplus	Retained Earnings (Accumulated Losses)		Unrealized Gain/Loss on Available-for-sale Financial Assets	Prepaid Preferred Stock Dividends	Other Equity	Total Equity	
	Common Stock	Preferred Stock		Legal Reserve	Unappropriated Earnings (Deficit)					Total
BALANCE AT JANUARY 1, 2016	\$ 56,052,930	\$ -	\$ -	\$ 40,285	\$ 4,108,952	\$ 4,149,237	\$ 555	\$ -	\$ -	\$ 60,202,722
Appropriation of prior year's earnings										
Legal reserve	-	-	-	410,895	(410,895)	-	-	-	-	-
Cash dividends to shareholders - NT\$0.65 per share	-	-	-	-	(3,643,441)	(3,643,441)	-	-	-	(3,643,441)
	-	-	-	410,895	(4,054,336)	(3,643,441)	-	-	-	(3,643,441)
Net income for the year ended December 31, 2016	-	-	-	-	4,149,098	4,149,098	-	-	-	4,149,098
Other comprehensive income for the year ended December 31, 2016	-	-	-	-	(47,817)	(47,817)	138	-	-	(47,679)
Total comprehensive income for the year ended December 31, 2016	-	-	-	-	4,101,281	4,101,281	138	-	-	4,101,419
Issue of ordinary shares for cash (including employee share options)	230,000	-	172,981	-	-	-	-	-	-	402,981
BALANCE AT DECEMBER 31, 2016	<u>\$ 56,282,930</u>	<u>\$ -</u>	<u>\$ 172,981</u>	<u>\$ 451,180</u>	<u>\$ 4,155,897</u>	<u>\$ 4,607,077</u>	<u>\$ 693</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 61,063,681</u>
BALANCE AT JANUARY 1, 2015	\$ 65,132,326	\$ 40,189,917	\$ -	\$ 40,285	\$(46,699,030)	\$(46,658,745)	\$ 1,560	\$(10,064,499)	\$ (3,609,357)	\$ 44,991,202
Net income for the year ended December 31, 2015	-	-	-	-	20,872,630	20,872,630	-	-	-	20,872,630
Other comprehensive income for the year ended December 31, 2015	-	-	-	-	(48,304)	(48,304)	(1,005)	-	-	(49,309)
Total comprehensive income for the year ended December 31, 2015	-	-	-	-	20,824,326	20,824,326	(1,005)	-	-	20,823,321
Issue of ordinary shares for cash	30,000,000	-	-	-	-	-	-	-	-	30,000,000
Capital reduction to cover accumulated losses	(39,079,396)	-	-	-	39,079,396	39,079,396	-	-	-	-
Preferred stock redeemed and deficit adjustments	-	(40,189,917)	-	-	(9,095,740)	(9,095,740)	-	10,064,499	-	(39,221,158)
The adjustments of lawsuits in regard to preferred stock	-	-	-	-	-	-	-	-	3,609,357	3,609,357
BALANCE AT DECEMBER 31, 2015	<u>\$ 56,052,930</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 40,285</u>	<u>\$ 4,108,952</u>	<u>\$ 4,149,237</u>	<u>\$ 555</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 60,202,722</u>

The accompanying notes are an integral part of the financial statements.

(With Deloitte & Touche auditors' report dated February 22, 2017)



# Proposals

## TAIWAN HIGH SPEED RAIL CORPORATION

### STATEMENTS OF CASH FLOWS (In Thousands of New Taiwan Dollars)

	For the Years Ended December 31	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	\$ 4,997,575	\$ 18,833,835
Adjustments for:		
Depreciation	33,202	32,506
Amortization	15,683,785	20,590,168
Loss on inventories valuation and obsolescence	73,585	531,204
Interest expense	8,375,559	9,256,852
Interest income	(115,448)	(234,488)
Loss on foreign currency exchange, net	27,430	26,814
Stabilization reserve expenses	280,289	-
Shortfall charge revenue from statutory concession tickets	-	(12,096,971)
Gain on value of returned superficies for offset of profit sharing payable	-	(22,613,234)
Preferred stock compensation expenditure	-	15,161,065
Others	423	575,640
Changes in operating assets and liabilities		
Derivative financial assets for hedging	(225)	551
Notes and accounts receivable	(339,845)	17,045
Inventories	77,341	114,700
Prepayments and other current assets	(382,943)	21,063
Other non-current assets	(9,818)	(58,680)
Accounts payable	(193,077)	155,027
Other payable	556,079	(546,708)
Payable for provision for controversial overtime	(221,965)	-
Payable for preferred stock compensation	(15,155,212)	-
Other current liabilities	192,246	222,261
Other non-current liabilities	4,331	-
Cash generated from operations	13,883,312	29,988,650
Interest received	125,879	248,429
Interest paid	(6,206,724)	(6,992,540)
Operating concession liabilities' interest paid	(1,883,383)	(265,849)
Income tax refund (paid)	11,342	(25,138)
	<u>5,930,426</u>	<u>22,953,552</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of available-for-sale financial assets	(235,000)	(852,300)
Proceeds from disposal of available-for-sale financial assets	527,426	946,049
Decrease (increase) in other financial assets	29,736,684	(3,583,003)
Acquisition of property, plant and equipment	(27,759)	(23,170)
Proceeds from disposal of property, plant and equipment	457	-
Acquisition of intangible assets	(2,662,900)	(6,787,085)
Proceeds from disposal of intangible assets	1,610	311

(Continued)

# Proposals

## TAIWAN HIGH SPEED RAIL CORPORATION

### STATEMENTS OF CASH FLOWS (In Thousands of New Taiwan Dollars)

	For the Years Ended December 31	
	2016	2015
Net cash generated from (used in) investing activities	<u>27,340,518</u>	<u>(10,299,198)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net increase (decrease) in short-term debt	16,811	(90,884)
Repayment of long-term debt	(31,946,529)	(2,565,141)
Increase in other non-current liabilities	5,323	27,027
Cash dividends	(3,643,433)	-
Issuance of common stock for cash	390,801	30,000,000
Preferred stock redeemed	<u>-</u>	<u>(39,221,158)</u>
Net cash used in financing activities	<u>(35,177,027)</u>	<u>(11,850,156)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>(2,856)</u>	<u>10,047</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,908,939)	814,245
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>2,146,396</u>	<u>1,332,151</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 237,457</u>	<u>\$ 2,146,396</u>

The accompanying notes are an integral part of the financial statements.

(With Deloitte & Touche auditors' report dated February 22, 2017)

(Concluded)

# Proposals

## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Shareholders  
Taiwan High Speed Rail Corporation

### **Opinion**

We have audited the accompanying financial statements of Taiwan High Speed Rail Corporation, which comprise the balance sheets as of December 31, 2016 and 2015, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as of December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, Rule No. 10000322083 issued by the Financial Supervisory Commission ("FSC") and International Financial Reporting Standards ("IFRS"), International Accounting Standards ("IAS"), Interpretations of IFRS ("IFRIC"), and Interpretations of IAS ("SIC") endorsed by the FSC of the Republic of China (ROC).

### **Basis of Opinion**

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Corporation in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Emphasis of Matter**

The specific details and status of execution of the Financial Resolution Plan which is being implemented by the Corporation are provided in Note 31, c. and d.

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2016. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The descriptions of the key audit matters of 2016 financial statements are as follow:

#### The provision for controversial overtime and provision for stabilization reserve

Refer to Note 4, n. for further information on accounting policy of provisions; Note 5, b. and c. for further

# Proposals

information on the accounting uncertainty associated with the judgements, and estimates and assumptions about provision for controversial overtime and stabilization reserve. Please refer to Note 16 for the detail of provision.

For the discrepancies between the Corporation and Taiwan High Speed Rail Corporation Labor Union for the calculation of overtime pay related to employees working in shifts worked on national holidays and overtime hours within every two consecutive weeks; the Corporation recognized the aforementioned provision for controversial overtime and a related expense in the amount of \$596,542 thousand in accordance with the initial agreement in 2015. After further searches and discussion in July 2016, the formula of the calculation was confirmed. As of December 31, 2016, the Corporation recognized a provision for controversial overtime in the amount of \$ 293,566 thousand after the deduction from incentive bonus deduction.

The above mentioned controversial overtime expenses were calculated by both parties after discussion and the related provision was recognized based on the adjusted working hours, individual employee's annual salary level and overtime expenses after recalculation of overtime hours, thus, it may differ from the results of the amount decided through administrative judgment or the agreements signed by the employees. Since the provision for controversial overtime is subject to significant judgment of management, it is considered as one of the key audit matters.

According to the Financial Resolution Plan, the financial stabilization mechanism was established by the Corporation in 2016 in order to serve the purpose to return main benefit of excess earnings to the country. Starting from 2017, the Corporation shall report the execution status to the Ministry of Transportation and Communications ("MOTC"), including provision, contribution, and accumulated balance of the stabilization reserve. Because the provision of the stabilization reserve is related to the profitability of the remaining of the concession period of the contract, and the amount varies depending on the expiration or termination of the contract, the management's judgment on the recognition of the provision is material and is deemed to be a key audit matter.

Since the profitability for the remaining concession period which ended in 2068 or for early termination is not predictable, the amount of stabilization reserve was \$280,289 thousand as of December 31, 2016, which was estimated based on the profitability in 2016 in accordance with Taiwan North-South High Speed Rail Construction and Operation Agreement.

We have evaluated whether the method of measurement used by the management to make the accounting estimate related to the abovementioned provisions was reasonable. Moreover, we performed the following audit procedures on a sample basis: (1) inspected contracts related to the additional, usage and reversing of provisions, (2) recalculated the amount of provisions to ensure the accuracy of the balance, and (3) inspected the movement of provisions subsequent to the balance sheet date to the report date to evaluate whether the balance of provisions at the balance sheet date was appropriate.

## Railroad transportation revenue

Refer to Note 4, o. for revenue recognition policies and Note 20 for detail of revenues.

The railroad transportation revenue is the main sources of revenue for the Corporation, and its related income amounted to \$39,433,807 thousand, representing 97% of its total operating income in 2016. The calculation of railroad transportation revenue is complex and highly relies on its ticketing systems, thus, railroad transportation revenue recognition is considered as one of the key audit matters.

We tested the information environment relevant to the Automatic Fare Collection System、Operating Income Management System and related internal control system. Moreover, we investigated information transfer process among above mentioned systems to ensure that the operating revenue and the cash flow was processed normally, obtained the understanding of how the reports of ticketing related systems were generated, and recalculated the accuracy of revenue recognition amount and the balance of unearned revenue.

# Proposals

## Income tax estimates

Refer to Note 4, r. for accounting policies. For significant accounting judgments and the uncertainty of estimates and assumption regarding about the income taxes please refer to Note 5, f., and for the detail of income taxes, refer to Note 22.

The taxable income increased since the Corporation implemented the Financial Resolution Plan in 2015, thus, part of unused deductible temporary differences and unused loss carryforwards should be used or recognized as deferred tax assets and resulting in an income tax benefits in amount of \$2,038,795 thousand in 2015. In comparison with that of 2015, income tax expenses was \$848,477 thousand in 2016, and the effective income tax rate was 16.98%, which was almost equal to statutory income tax rate 17%, after divided by income before tax of \$4,997,575 thousand. The income tax estimate pertains to the amount of differences of all assets and liabilities and their tax basis, the usage of tax losses, and the planning of tax incentives, which involve the significant judgment of managements and affect the reliability of deferred income tax asset assessment, Thus, the estimate of income tax was considered a key audit matter.

We have obtained the documents for income tax calculation by the management for assessing the reasonableness of its judgment and assumption to ensure that the calculation meets the tax law requirements. The amount of income tax was recalculated for the accuracy, the income tax asset fluctuation was assessed for appropriateness on cutoff date, and the reliability of the deferred income tax assets was assessed to ensure its appropriateness on balance sheet date.

## **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, Rule No. 10000322083 issued by the FSC and IFRS, IAS, IFRIC, and SIC endorsed and issued into effect by the FSC of the ROC, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including the audit committee, are responsible for overseeing the Corporation's financial reporting process.

## **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is

# Proposals

sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of 2016 financial statements and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Jui-Hsuan Ho and Kwan-Chung Lai.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

February 22, 2017

*Notice to Readers*

# Proposals

*The accompanying financial statements are intended only to present the financial position, financial performance and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.*

*For the convenience of readers, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.*

# Proposals

## **Audit Committee's Review Report on 2016 Financial Statements**

### **Audit Committee's Audit Report**

The Board of the Company has prepared and submitted the proposal of 2016 business report and financial statements. The financial statements have been audited by CPAs Ruske Ho and Casey K.C. Lai of Deloitte Taiwan. The Audit Committee reviewed the abovementioned business report and financial statements and has found no non-compliance hence present its audit report in accordance with Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act.

To

2017 shareholders' Annual General Meeting

Taiwan High Speed Rail Corporation

Chen-Kuo Lin, Covenor of Audit Committee

February 22, 2017



# Proposals

## Proposal No. 2: Proposed by the Board

Proposal : Proposals of 2016 profit distribution of the Company.

Explanation :

1. As of end of 2016, the distributable earnings amounted to NTD 3,740,987,031.
2. In order to stabilize and balance payout policy and consideration for long-term corporate financial planning, the Company proposes cash dividends of NTD 0.60 per share for 2016 profit distribution, amounting to NTD 3,376,975,835 on a basis of 5,628,293,058 common shares outstanding.
3. The Company's profit distribution table has been approved at the 27th meeting of the 7th Board dated March 21, 2017, circulated to Audit Committee for review (please refer to p.34 of Annual Meeting Handbook), and is being submitted to shareholders' annual general meeting for adoption.

### Taiwan High Speed Rail Corporation PROFIT DISTRIBUTION TABLE

Fiscal Year 2016	Unit: NTD
Retained earnings	54,615,999
Add: net profit after tax	4,149,097,958
Less: re-measurements of defined benefit plan	(47,817,130)
Undistributed earnings	4,155,896,827
Less: 10% legal reserve	(414,909,796)
2016 distributable earnings	3,740,987,031
Distributable items:	
Cash dividends (NTD 0.6 per share)	(3,376,975,835)
Current-year undistributed earnings	364,011,196

# Proposals

4. After the approval of the 2017 shareholders' annual general meeting, the cash dividends will be distributed on an ex-dividend date payment date to be determined by the Board.

Resolution :

# Proposals

## Audit Committee's Audit Report

The Audit Committee has reviewed the 2016 profit distribution prepared and submitted by the Board and has found no non-compliance and, with unanimous consent, present the report in accordance with Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act.

To

2017 Shareholders' Annual General Meeting

Taiwan High Speed Rail Corporation  
Chen-Kuo Lin, Chair of Audit Committee

March 21, 2017

# Discussion

## **Proposed by the Board**

Proposal : Early re-election of the 7th term board of directors' office of the Company.

Explanation: :

1. The 7th Board of Directors was elected at shareholders' meeting dated June 30, 2015. Their three-year term is to end on June 29, 2018. The praiseworthy achievement of financial restructuring and public listing of the Company are attributable to the incumbent Board. However, the composition of the incumbent Board does not fully represent the ownership structure for “state-owned, privately-operate” status, where substantial shareholders should actively engage in decision-making of the Board to exercise function, assume duties and fulfill the new style of business administration and corporate governance of government-led public-private partnership. For the purpose of enhanced corporate governance and sustainable development of THSRC, early re-election of the 7th Board directors is necessary.
2. All directors are re-elected in accordance with Article 199-1 of the Company Act; directors of the 7th Board being re-elected in the shareholders' annual general meeting are to be discharged ahead of schedule at the end of the current shareholders' annual general meeting after the directors of the 8th Board are elected. The 8th Board directors assume office upon such early discharge, with their three-year term to start on May 24, 2017 and end on May 23, 2020.
3. The proposal is approved at the 26th Board meeting of the 7th Board directors dated March 7, 2017, and is hereby submitted to shareholders' annual general meeting for approval.

Resolution :

# Election

## **Election of the 8th term board of director's office of the Company.**

1. According to Article 17 and 17-1 of Articles of Incorporation, the Company shall have 9 to 17 directors, with at least 2 among them being independent directors representing no less than one fifth of the Board. The total number of directors (including independent directors) is determined by the Board. Furthermore, the candidate nomination system stipulated in Article 192-1 of the Company Act is adopted for election of directors.
2. The quota of 13 directors (including 3 independent directors) to be elected was approved at the 26th meeting of the 7th Board directors dated March 7, 2017. The newly appointed directors are to assume office after re-election, with their three-year term starting on May 24, 2017 and ending on May 23, 2020.
3. Acceptance of the nominated director candidates, including independent directors, started from March 17 to March 29, 2017; Board and shareholders may submit to the company a roster of director candidates (including independent directors) and applicable documents during the foregoing period. In the wake of the review at the 28th meeting of the 7th Board directors dated April 11, 2017, all nominated director candidates have met the qualifications, and are included in the final roster of director candidates accordingly.
4. Candidate nomination system is adopted for election of directors (including independent directors) and the shareholders shall elect the directors from among the nominees listed in the roster of director candidates. Please refer to Attachment 1 for education background, past work experience, and relevant information of the candidates (p.40-p.45 of Annual Meeting Handbook).

# Election

5. Please refer to Attachment 2 for rules for director elections (p.61-p.64 of Annual Meeting Handbook).

Voting Results :

# Other Discussion

## **Proposed by the Board**

Proposal : Removal of non-competition restriction against the 8th term board of directors' office of the Company.

Explanation :

1. According to Article 209, Paragraph 1 of the Company Act, a director who does anything for himself/herself 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.
2. In view of the fact that director candidates (including independent directors) nominated by the Board and shareholders hold concurrent positions in enterprises whose business is partly the same or similar with the Company, a list of directors to release from non-competition restrictions is prepared according to the foregoing stipulation of Article 209 of the Company Act (please refer to Attachment 2 on p.46-p.47 of Annual Meeting Handbook) and is being submitted to shareholders' annual general meeting for approval.
3. Based on election result of the directors of the 8th Board, the proposal will request on-the-spot approval regarding the directors and scope from the non-competition restrictions.
4. The proposal was approved at the 28th meeting of the 7th Board directors dated April 11, 2017 and is hereby submitted to shareholders' annual general meeting for approval.

Resolution :

# Questions and Motions

## **Questions and Motions**

## **Adjournment**



# Attachment I

## List of Nominated Directors (including Independent Directors)

Candidate Category	Candidate Name	Organization	Shareholding (no. of shares)	Education	Experience	Present Position
Director	Chiang Yao-Chung	China Aviation Development Foundation (acct no.: 51400)	260,040,000	<ul style="list-style-type: none"> <li>PhD in Mechanical Engineering, University of Wisconsin-Madison</li> </ul>	<ul style="list-style-type: none"> <li>Board Director, Chinese Institute of Engineers</li> <li>Board Director, Chinese Society of Mechanical Engineering</li> <li>Chairperson, China Steel Chemical Corporation</li> <li>Chairperson, Kaohsiung Rapid Transit Corporation</li> <li>Chairperson, China Steel Corporation</li> <li>Chairperson, China Airlines, Ltd.</li> <li>Deputy Commissioner Chair, Public Construction Commission</li> <li>Chief Engineer, Deputy Director-General, Director-General, Department of Rapid Transit Systems, Taipei City Government</li> </ul>	<ul style="list-style-type: none"> <li>Chairperson, Taiwan High Speed Rail Corporation</li> <li>Director, China Aviation Development Foundation</li> <li>Independent Director, Radiant Opto-Electronics Corporation</li> <li>Independent Director, Tyntek Corporation</li> <li>Independent Director, Chin Fong Machine Industrial Co., Ltd.</li> <li>Independent Director, Tynsolar Technology Co., Ltd.</li> </ul>
Director	TSRC Corporation	TSRC Corporation (acct no. 15)	20,000,000	N/A	N/A	N/A
Director	Liu Kuo-Chih	Taipei Fubon Commercial Bank Co., Ltd. (acct no. 6)	20,277,600	<ul style="list-style-type: none"> <li>PhD in Physics, Massachusetts Institute of Technology</li> </ul>	<ul style="list-style-type: none"> <li>Chairperson, Fubon Land Co., Ltd.</li> <li>General Manager, Taiwan High Speed Rail Corporation</li> <li>General Manager, Taiwan Aerospace Corp.</li> </ul>	<ul style="list-style-type: none"> <li>Senior Adviser, Fubon Land Co., Ltd.</li> <li>Director, Taiwan High Speed Rail Corporation</li> </ul>

# Attachment I

Candidate Category	Candidate Name	Organization	Shareholding (no. of shares)	Education	Experience	Present Position
Director	Huang Mao-Hsiung	TECO Electric & Machinery Co., Ltd. (acct no. 11)	190,060,578	<ul style="list-style-type: none"> <li>● Master's degree, Wharton School, University of Pennsylvania</li> <li>● Bachelor degree, Dept. of Economics, Keio University</li> </ul>	<ul style="list-style-type: none"> <li>● Chairperson, TECO Electric &amp; Machinery Co., Ltd</li> </ul>	<ul style="list-style-type: none"> <li>● President, TECO Group</li> <li>● Director, Taiwan High Speed Rail Corporation</li> </ul>
Director	Tai Ho Investment Co., Ltd.	Tai Ho Investment Co., Ltd. (acct no. 39192)	18,410,676	N/A	N/A	N/A
Director	Ho I-hsi	Ministry of Transportation and Communications (acct no. 92268)	2,420,000,000	<ul style="list-style-type: none"> <li>● Master's degree, Transportation Division, Dept. of Civil Engineering, Virginia Polytechnic Institute and State University</li> <li>● Bachelor degree, Dept. of Economics, National Taiwan University</li> </ul>	<ul style="list-style-type: none"> <li>● Chief Accountant, Financial Supervisory Commission</li> <li>● Chief Accountant, Mongolian &amp; Tibetan Affairs Commission</li> <li>● Technical Specialist, Section Chief, Senior Specialist, Department of Accounting, Ministry of Transportation and Communications</li> <li>● Researcher, Institute of Transportation, Ministry of Transportation and Communications</li> </ul>	<ul style="list-style-type: none"> <li>● Deputy Director, Department of Accounting, Ministry of Transportation and Communications</li> <li>● Director, Taiwan High Speed Rail Corporation</li> </ul>
Director	Kao, Shien-Quey	National Development Fund, Executive Yuan (acct no. 38578)	120,000,000	<ul style="list-style-type: none"> <li>● Master's degree, Dept. of Economics, National Taiwan University</li> <li>● Bachelor degree, Dept. of Economics, National Taiwan University</li> </ul>	<ul style="list-style-type: none"> <li>● Chief Secretary, National Development Council</li> <li>● Chief Secretary, Council for Economic Planning and Development</li> <li>● Specialist, Officer, Staff, Senior Specialist &amp; Director, Deputy Director, Department of General Planning, Council for Economic Planning and Development</li> </ul>	<ul style="list-style-type: none"> <li>● Deputy Commissioner Chair, National Development Council</li> <li>● Director, Taiwan High Speed Rail Corporation</li> </ul>

# Attachment I

Candidate Category	Candidate Name	Organization	Shareholding (no. of shares)	Education	Experience	Present Position
Director	Tsai Huang-Liang	China Aviation Development Foundation (acct no. 51400)	260,040,000	<ul style="list-style-type: none"> <li>● Master of Commerce , National Taiwan University</li> </ul>	<ul style="list-style-type: none"> <li>● The 3rd, 4th, 5th, 6th, 7th, and 8th term of Legislator Office, Legislative Yuan</li> <li>● Advisory Counselor, Legislative Yuan</li> <li>● Deputy Committee Chair, Sports Administration, Executive Yuan</li> </ul>	<ul style="list-style-type: none"> <li>● Chairperson, Taiwan Rolling Stock Co., Ltd.</li> <li>● Director, Taiwan High Speed Rail Corporation</li> </ul>
Director	Liu Jih-Gang	China Steel Corporation (acct no. 43831)	242,148,000	<ul style="list-style-type: none"> <li>● Bachelor degree, Dept. of Mechanical Engineering, National Taiwan University</li> </ul>	<ul style="list-style-type: none"> <li>● Asst. Vice President, Vice President, Business Dept., China Steel Corporation</li> <li>● Vice President, General Manager, Chung Hung Steel Corporation</li> <li>● Deputy Director, The 2nd Steel Rolling Mill, China Steel Corporation</li> </ul>	<ul style="list-style-type: none"> <li>● General Manager, China Steel Corporation</li> <li>● Director, Taiwan High Speed Rail Corporation</li> </ul>
Director	Kwan, Tao-I	Taiwan Sugar Corporation (acct no. 5762)	200,000,000	<ul style="list-style-type: none"> <li>● Master's degree, Dept. of Transportation, National Chiao Tung University</li> </ul>	<ul style="list-style-type: none"> <li>● CEO, Director-General, Vice President, Taiwan Sugar Corporation</li> </ul>	<ul style="list-style-type: none"> <li>● General Manager, Taiwan Sugar Corporation</li> <li>● Director, Taiwan High Speed Rail Corporation</li> </ul>

# Attachment I

Candidate Category	Candidate Name	Organization	Shareholding (no. of shares)	Education	Experience	Present Position
Director	Ko Lee-Ching	Evergreen Steel Corp. (acct no. 16)	16,000,000	<ul style="list-style-type: none"> <li>National Keelung Girls' Senior High School</li> </ul>	<ul style="list-style-type: none"> <li>Supervisor, Evergreen International Corporation</li> <li>Supervisor, Evergreen International Storage &amp; Transport Corp.</li> <li>Supervisor, EVA Airways</li> <li>Director, Evergreen Marine Corp. (Taiwan) Ltd.</li> </ul>	<ul style="list-style-type: none"> <li>Chairperson, Evergreen International Corporation</li> <li>Director, Evergreen International Storage &amp; Transport Corp.</li> <li>Director, EVA Airways</li> <li>Supervisor, Evergreen Marine Corp. (Taiwan) Ltd.</li> <li>Director, Evergreen Steel Corp.</li> <li>Director, Taiwan High Speed Rail Corporation</li> </ul>
Independent Director	Chiu Kenneth Huang-Chuan	N/A	0	<ul style="list-style-type: none"> <li>LLM, Cambridge University</li> <li>Bachelor degree, College of Law, National Taiwan University</li> </ul>	<ul style="list-style-type: none"> <li>Partner, Taiwan Commercial Law Offices</li> <li>Lawyer, Baker McKenzie Taiwan</li> <li>Lawyer, Huang &amp; Partners</li> </ul>	<ul style="list-style-type: none"> <li>Managing Partner, Rosary Dominicans Law Office</li> <li>Member, Remuneration Committee, Taiwan High Speed Rail Corporation</li> </ul>

# Attachment I

Candidate Category	Candidate Name	Organization	Shareholding (no. of shares)	Education	Experience	Present Position
Independent Director	Poo David Da-Wei	N/A	0	<ul style="list-style-type: none"> <li>● Master's degree, Harvard Kennedy School</li> <li>● Master's degree, Dept. of Civil Engineering, University of Illinois</li> <li>● Bachelor degree, Dept. of Civil Engineering, University of Hawaii</li> </ul>	<ul style="list-style-type: none"> <li>● Adviser, Taipei Rapid Transit Corporation</li> <li>● Adviser, Kaohsiung Rapid Transit Corporation</li> <li>● Adviser, Espoir c2005 Taiwan Inc.</li> <li>● General Manager, Executive Director, THI Consultants Inc.</li> <li>● Chairperson, Taiwan Taxi Corp.</li> <li>● Director-General, Children's Museum of Traffic, Taipei City Government</li> <li>● Vice President-Regional, Parsons Group Asia</li> <li>● General Manager, China Engineering Consultants, Inc.</li> <li>● Director-General, Department of Transportation, Taipei City Government</li> <li>● Project Manager, Comsis U.S.</li> <li>● Technical Specialist, Director-General, Comprehensive Planning Section, Department of Rapid Transit Systems, Taipei City Government</li> <li>● Planner, Senior Engineer, Transportation Planning Committee, Ministry of Transportation and Communications</li> <li>● Staff, The Council for Economic Planning and Development</li> </ul>	<ul style="list-style-type: none"> <li>● Chairperson, Mega Trans International Corp.</li> </ul>

# Attachment I

<b>Candidate Category</b>	<b>Candidate Name</b>	<b>Organization</b>	<b>Shareholding (no. of shares)</b>	<b>Education</b>	<b>Experience</b>	<b>Present Position</b>
Independent Director	Ding Kung-wha	N/A	0	<ul style="list-style-type: none"> <li>● Master's degree, Dept. of Public Finance, National Chengchi University</li> </ul>	<ul style="list-style-type: none"> <li>● Commissioner Chair, Financial Supervisory Commission</li> <li>● Chairperson, Taipei Exchange</li> <li>● Chairperson, Taiwan Depository &amp; Clearing Corp.</li> <li>● Chairperson, Securities &amp; Futures Institute</li> <li>● Commissioner Chair, Securities &amp; Futures Commission, Ministry of Finance</li> </ul>	None

# Attachment II

## List of Proposed Release of Prohibition on Directors from Participation in Competing Business

Director	Concurrent Post(s) in Other Companies	
<b>China Aviation Development Foundation</b> <b>Representative: Chiang Yao-Chung</b>	China Aviation Development Foundation	Director
	Radiant Opto-Electronics Corporation	Independent Director
	Tyntek Corporation	Independent Director
	Chin Fong Machine Industrial Co., Ltd.	Independent Director
	Tynsolar Technology Co., Ltd.	Independent Director
<b>China Aviation Development Foundation</b> <b>Representative: Tsai Huang-Liang</b>	Taiwan Rolling Stock Co., Ltd.	Chairman
<b>TECO Electric &amp; Machinery Co., Ltd.</b> <b>Representative: Huang Mao-Hsiung</b>	TECO Electric and Machinery Co., Ltd.	Director
	Tung Pei Industrial Co., Ltd.	Supervisor
	TECO International Investment Co., Ltd.	Chairperson
	Tong An Investment Co., Ltd.	Chairperson
	Tong An Assets Management & Development Co., Ltd.	Chairperson
	Tecnos International Consultant Co., Ltd.	Director
	An Tai International Investment Co., Ltd.	Chairperson
	E-Joy International Co., Ltd.	Chairperson
	TECO Tour Travel Service Co., Ltd.	Chairperson
	MOS Burger An-Shin Food Services Co., Ltd.	Chairperson
	Royal Host Taiwan, Co., Ltd.	Chairperson
	Taiwan Pelican Express Co., Ltd.	Director
	TG TECO Vacuum Insulated Glass Corp. NSULATED GLASS CORP.	Vice Chairman
	Century Development Corporation	Chairperson
	United Development Corporation	Chairperson
	E&E Recycling Co., Ltd.	Director
Ericsson Taiwan Ltd.	Director	

## Attachment II

Director	Concurrent Post(s) in Other Companies	
	Ya-Zhe International Development Co., Ltd.	Director
	momo.com Inc.	Director
	Shin-Etsu Handotai Taiwan Co., Ltd	Director
	Mao Wang Technology Co., Ltd.	Chairperson
	Inotec Taiwan Co., Ltd.	Director
	Mos Food Industry Corp.	Director
	Fujidinos Multimedia Co., Ltd.	Director
	Fujio Food System Taiwan Co., Ltd.	Director
<b>China Steel Corporation Representative: Liu Jih-Gang</b>	China Prosperity Development Corporation	Chairperson
	China Ecotek Corporation	Director
	China Steel Machinery Corporation	Director
<b>Taiwan Sugar Corporation Representative: Kwan, Tao-I</b>	Taiwan Sugar Corporation	General Manager
<b>Tai Ho Investment Co., Ltd.</b>	Lian-Tai Venture Capital Co., Ltd.	Director
	Overseas Investment & Development Corp.	Director
	You-Ji Investment Co., Ltd.	Director
	Pacific Optoelectronic Co., Ltd.	Director
	Yang-Yi Investment Co., Ltd.	Supervisor
<b>Evergreen Steel Co. Representative: Ko Lee-Ching</b>	Evergreen Steel Co.	Director
<b>Independent Director: Chiu Kenneth Huang-Chuan</b>	Ju-Kao Engineering Co., Ltd.	Independent Director
	ShunSin Technology Holdings Limited	Independent Director



# Appendix I

## Taiwan High Speed Rail Corporation

### Rules of Procedure for Shareholders' Meetings

#### Article 1 (Legal Basis)

Unless otherwise provided by applicable laws, regulations, bylaws, or rules, the proceedings of the shareholders' meetings of the Corporation shall be conducted in accordance with these Rules.

#### Article 2 (Attendance Sign-ins and Calculation of Shares Present at Shareholders' Meetings)

The Corporation shall start to process meeting attendance sign-ins by shareholders at least 30 minutes before the start of a meeting.

For each shareholders' meeting, a shareholder may appoint one person as proxy to attend the meeting in the place of the shareholder by issuing a proxy form printed and issued by the Corporation, stating therein the scope of authorization granted to the proxy.

A shareholder may issue only one proxy form and appoint only one proxy for a meeting and shall serve it on the Corporation by 5 days before the meeting. In the event there are multiple proxy forms, the one first served on the Corporation shall prevail. The same, however, does not apply in the case of a proxy stating that it revokes a prior proxy appointment.

After the service of a proxy form on the Corporation, if the shareholder decides to attend the shareholders' meeting in person or to exercise voting rights by electronic means, the shareholder shall give a written notice of revocation of proxy to the Corporation by 2 days before the meeting. If the revocation is made after the time limit, the voting rights exercised by the appointed proxy present at the meeting shall prevail.

A shareholder or a proxy appointed by a shareholder (hereinafter, "shareholder") shall attend the relevant shareholders' meeting by presenting a meeting attendance card, an attendance sign-in card, or other attendance document. The shareholder attending the meeting shall surrender the

# Appendix I

attendance sign-in card in place of signing the attendance sheet.

A non-shareholder proxy or proxy solicitor shall also carry an identity document for verification.

The number of shares present shall be calculated based on the attendance sign-in cards received from shareholders in combination with the number of shares whose voting rights are exercised by electronic means.

The Corporation shall provide each shareholder attending a shareholders' meeting with a meeting agenda handbook, an annual report (except in the case of a special shareholders' meeting), a meeting attendance card, speaker's slips, voting ballot, other meeting materials, and, if directors are to be elected at the meeting, the election ballot.

When a government agency or juristic person is a shareholder, more than one person may attend a shareholders' meeting as its representative. When a juristic person is appointed to attend a shareholders' meeting as a proxy, it may appoint only one person to attend the meeting on its behalf.

No voting rights may be exercised with respect to shares falling in any of the following circumstances, and such shares may not be included in calculating the total issued shares and the number of shares present:

1. Shares of the Corporation held by itself in accordance with law.
2. Shares of the Corporation held by a subordinate company in which the Corporation holds more than half of the total issued voting shares or total capital.
3. Shares of the Corporation held by a company in which the Corporation and any subordinate company of the Corporation directly or indirectly hold a combined total of more than half of the total issued voting shares or total capital stock.

## Article 3 (Time and Place of Shareholders' Meetings)

Shareholders' meetings shall be held at the location of the Corporation or otherwise at a place convenient for the shareholders to attend and suitable for

# Appendix I

the holding of shareholders' meetings, and shall start at a time not earlier than 9 a.m. and not later than 3 p.m.

When determining the place and time of a shareholders' meeting, the Corporation shall take into full account the opinions of its independent Directors, if any.

## Article 3-1 (Recording of Shareholders' Meeting Proceedings by Audio or Video)

For each shareholders' meeting, the Corporation shall, beginning from the time it starts to process shareholder attendance sign-ins, make an uninterrupted audio or video recording of the shareholder attendance sign-in process, the proceedings of the meeting, and the voting and ballot counting process.

The recorded materials under the preceding paragraph shall be preserved for one year. Provided, however, that if any shareholder initiates litigation pursuant to Article 189 of the Company Act, they shall be preserved until the conclusion of the lawsuit.

## Article 4 (Chair and Non-Voting Participants of Shareholders' Meetings)

Unless otherwise provided by law, the Chairperson of the Board of Directors shall chair every shareholders' meeting. When the Chairperson by reason of leave or otherwise is unable to exercise such power of office, the Chairperson shall designate a Director as chair of the meeting, failing which the Directors shall select one of their number to chair the meeting.

To chair a shareholders' meeting in the place of the Chairperson under the preceding paragraph, a Director shall have been in office for at least 6 months and shall be conversant with the financial and operational conditions of the Corporation. The same shall also apply if the person to chair the meeting is a representative of a juristic person Director.

If a shareholders' meeting is convened by any person, other than the Board of Directors, entitled to convene such a meeting, the meeting shall be chaired by that person. If the meeting is convened by two or more such persons, they shall select one of their number to chair the meeting.

# Appendix I

The Corporation may appoint its attorneys at law or certified public accountants or other relevant persons to attend a shareholders' meeting as non-voting participants.

## Article 5 (Maintenance of Order at Meetings)

All staff members working at shareholders' meetings shall wear identification cards or arm badges.

The chair may direct proctors (or security guards) to assist in maintaining order at the meeting. When discharging such duty, a proctor or security guard shall wear an arm band or identification card bearing the words "Proctor."

When the venue of the meeting is installed with sound amplification equipment, if a shareholder attempts to speak by any means other than through a device provided by the Corporation for that use, the chair may stop the shareholder from speaking.

When during a meeting a shareholder violates any rule of meeting procedure and continues to do so despite the chair's direction to the contrary, or otherwise obstructs the proceeding of the meeting and continues to do so despite being requested to stop, the chair may direct a proctor (or security guard) to request the shareholder to leave the venue.

## Article 6 (Opening of Shareholders' Meetings)

The chair may declare the opening of a shareholders' meeting at the specified meeting time if the shareholders present reach a legal quorum of shares.

If there is not a legal quorum of shares present after the specified time of meeting, the chair may declare the meeting postponed, provided that no more than two postponements may be made and not for a combined total of more than one hour; if the meeting has been postponed twice and the shareholders present still do not represent at least one-third of the total issued shares, the chair shall declare the meeting aborted. If the meeting has been postponed twice and if, despite the absence of the legal quorum, shareholders representing at least one-third of the total issued shares are present, a tentative resolution may be adopted with the approval of a majority of the

# Appendix I

voting rights of the shareholders present in accordance with Article 175, paragraph 1 of the Company Act, in which case a notice of the tentative resolution shall be given to each shareholder and the shareholders' meeting shall be convened again within one month.

If during the process of adopting a tentative resolution under the preceding paragraph the number of shares represented by the shareholders present reaches the legal quorum, the chair may at any time declare the formal opening of the meeting, in which case the tentative resolution adopted or being adopted shall be re-submitted to the shareholders' meeting for voting in accordance with Article 174 of the Company Act.

## Article 7 (Discussion of Agenda Items)

If a shareholders' meeting is convened by the Board of Directors, the meeting agenda shall be determined by the Board of Directors; the meeting shall proceed in the determined order of the agenda, which may not be changed unless by resolution of the shareholders' meeting.

The provisions of the preceding paragraph shall apply *mutatis mutandis* when a shareholders' meeting is convened by any person, other than the Board of Directors, entitled to convene such a meeting.

Before the conclusion of the pre-determined agenda items (including any extraordinary motion) under the preceding two paragraphs, the chair may not declare the meeting dissolved unless by resolution of the shareholders' meeting; the same, however, does not apply to such question-and-answer matters of a general nature as may be involved in an extraordinary motion. In the event that the chair dissolves the meeting in violation of the rules of meeting procedure, a new chair may be selected to continue the meeting with the approval of a majority of the voting rights of the shareholders present.

The chair shall allow sufficient opportunity for the explanation and discussion of an agenda item or any amendment or extraordinary motion submitted by a shareholder, and when the chair thinks that any such item has been discussed sufficiently to put it to a vote, the chair may declare the

# Appendix I

discussion closed and call a vote.

## Article 8 (Shareholders Speaking at Meetings)

To speak at a shareholders' meeting, a shareholder shall submit a speaker's slip specifying thereon the shareholder account number (or meeting attendance card number), name of the shareholder, and the subject of speech. The chair shall determine the order of speaking for each such shareholder.

A shareholder who has not spoken at a meeting despite the submission of a speaker's slip shall be deemed to not have spoken. If the content of a shareholder's speech does not correspond to that specified on the speaker's slip, the spoken content shall prevail.

A shareholder present who has any question about a report item (non-voting item) listed on the agenda may speak only after all report items have been read out or reported by the chair or a person designated by the chair. A shareholder may not speak more than twice, and each time not more than five minutes, on the same agenda item except with the consent of the chair.

The latter part of the preceding paragraph shall apply *mutatis mutandis* to the frequency and time limit that a shareholder present is allowed to speak on any agenda item involving a matter for recognition or discussion at the meeting and on any item proposed during the extraordinary motion procedure.

The latter part of paragraph 3 shall apply *mutatis mutandis* to the frequency and time limit that a shareholder present is allowed to speak on any matter arising during the extraordinary motion procedure other than in the nature of an agenda item.

If a shareholder appoints a non-shareholder juristic person as proxy to attend a shareholders' meeting in the place of the shareholder, the juristic person may appoint only one person as representative to attend and speak at the meeting. If a shareholder that is a government agency or juristic person appoints two or more representatives to attend a shareholders' meeting, either on its behalf or in the place of another shareholder appointing it as proxy to

# Appendix I

attend the meeting, only one person selected by and from the representatives present may speak at the meeting.

If a shareholder speaking at a shareholders' meeting goes beyond the allocated time or beyond the relevant issue, the chair may stop the shareholder from speaking. If the shareholder continues to speak or otherwise obstructs the proceeding of the meeting, the chair may direct a proctor or (security guard) to take necessary action to maintain order at the meeting or otherwise to ensure the smooth running of the meeting.

During a shareholders' meeting, no shareholder may interrupt another shareholder by speaking at the same time unless with the consent of the chair and the speaker; the chair shall stop any such interrupter and take necessary action under the preceding paragraph as applied mutatis mutandis.

When a shareholder finishes speaking, the chair may respond to, or designate a relevant person to respond to, any issue raised by the shareholder.

## Article 9 (Shareholder Proposals)

Before a regular shareholders' meeting, a shareholder holding 1 percent or more of the total issued shares of the Corporation may submit a proposal in writing to the Corporation for inclusion as an agenda item, within the time period stated in the public notice of the Corporation regarding the receipt of such submissions, provided that only one proposal may be submitted by the same shareholder and that if more than one proposal is submitted, none of them shall be included on the agenda. The Board of Directors may decide not to include on the agenda any proposal submitted by a shareholder that falls under any of the circumstances set forth in the subparagraphs of Article 172-1, paragraph 4 of the Company Act.

Prior to the book closure date before a regular shareholders' meeting, the Corporation shall give public notice regarding the submission of proposals by shareholders and the place and time period for receiving such submissions, wherein the time period may not be less than 10 days.

A proposal submitted by a shareholder for inclusion as an agenda item of a

# Appendix I

regular shareholders' meeting shall not exceed 300 Chinese characters in length; otherwise, it shall not be included. The shareholder submitting the proposal shall, in person or by proxy, attend the meeting and participate in the discussion of the agenda item.

The Corporation shall, before the date of notice of a shareholders' meeting, inform each shareholder that has submitted a proposal of the status of the proposal (accepted or rejected) submitted by the shareholder, and shall include in the notice of the meeting a list of proposals that satisfy the requirements of this Article. For shareholder proposals not included on the agenda, the Board of Directors shall explain at the meeting the reasons why they are not included.

Unless otherwise provided by law or regulation, if a shareholder attending a shareholders' meeting intends to propose an extraordinary motion or to submit an amendment or alternative to a proposal not included on the agenda under the preceding paragraph, the proposal shall be submitted in writing by a shareholder with voting power who is attending the meeting, and the proposal shall be seconded by signature of another or other shareholders attending the meeting and the proposer and seconder(s) shall collectively hold shares representing at least 0.02 percent of the total voting rights of issued shares of the Corporation.

For the purpose of paragraph 2 above, a shareholder attending a meeting may only submit one proposal; if more than one proposal is submitted, none of them shall be included on the agenda.

## Article 9-1 (Processing of Proposals Submitted Before Shareholders' Meetings)

For shareholder proposals submitted before a regular shareholders' meeting but not included as agenda items of the meeting, the Board of Directors shall in the meeting agenda handbook state the reasons why they are not included, and these proposals shall neither be presented separately on the agenda nor be recorded in the meeting minutes. Notwithstanding the foregoing, the Board of Directors shall at the meeting explain the reasons why they are not included.



# Appendix I

Shareholder proposals that the Board of Directors reviews and decides to include on the agenda shall, if belonging to the same type, be consolidated by the chair into one case and the provisions of Article 9, paragraph 2 shall apply mutatis mutandis thereto.

## Article 10 (Putting to Vote)

When an agenda item is under discussion, the chair may at an appropriate time declare the discussion closed, or suspended if necessary, and put the matter to vote.

## Article 11 (Votes on Agenda Items)

The votes on an agenda item shall be calculated on the basis of shares and each shareholder is entitled to one vote for each share held, except for restricted shares or for non-voting shares under Article 179, paragraph 2 of the Company Act.

When convening a shareholders' meeting, the Corporation shall provide the option of exercising voting rights by electronic means and shall state the method of such voting in the notice of the meeting. A shareholder exercising voting rights by electronic means shall be deemed to be present in person at the shareholders' meeting. However, the shareholder exercising voting rights by electronic means shall be deemed to have waived the shareholder's rights to vote at that shareholders meeting on any extraordinary motion or any amendment or alternative to an original proposal at the meeting.

A shareholder intending to exercise voting rights by electronic means under the preceding paragraph shall serve a notice of intent on the Corporation by 2 days before the meeting, and if more than one notice is given, the first one served on the Corporation shall prevail. The same, however, does not apply in the case of a notice stating that it revokes a prior notice of intent.

A shareholder who, after exercising voting rights by electronic means, intends to attend the relevant shareholders' meeting in person shall revoke the notice of intent to exercise voting rights under the preceding paragraph by 2 days before the meeting, in the same manner as the shareholder did to

# Appendix I

exercise the voting rights. If the revocation is made after the time limit, the voting rights exercised by electronic means shall prevail. If the shareholder exercises voting rights by electronic means and also, by a proxy form, appoints a proxy to attend the shareholders' meeting, the voting rights exercised by the proxy present at the meeting shall prevail.

Unless otherwise provided by law or regulation, or by the Articles of Incorporation, an agenda item put to vote shall be passed with the approval of a majority of the voting rights of the shareholders present. Notwithstanding the foregoing, a vote on the election of Directors shall be subject to the Rules for the Election of Directors and the results of the vote, including a list of Directors elected and the numbers of votes they receive, shall be announced immediately at the voting place.

With respect to the pre-determined items on the agenda, a shareholder present shall be deemed to approve an item if the shareholder does not object orally to that item at the meeting when it is under discussion.

If an agenda item is neither objected to by any shareholder exercising voting rights by electronic means, nor by any shareholder present at the meeting upon being asked by the chair, it shall be deemed as passed, with the same validity as if it has been approved by a poll.

If there is any shareholder objecting to an agenda item, it shall be put to vote by a poll. The chair may direct a vote to be held on an item-by-item basis, or multiple polls or a single poll to be held on the various agenda items (including elections), with the ballots to be counted separately for each item.

When there is any amendment or alternative to a proposal on the agenda, the chair shall place the amended or alternative proposal together with the original one and determine the voting sequence. If any of these proposals is passed, the other(s) shall be deemed rejected, without the need of a separate vote.

The chair shall determine the order of discussion and voting for each proposal submitted as an extraordinary motion by a shareholder present. The

# Appendix I

result of the vote shall be announced immediately at the voting place and shall be recorded.

## Article 12 (Inspection and Counting of Ballots; Preservation of Voting Ballots; Dispute Resolution)

For agenda items put to vote by a poll, the chair shall designate two ballot inspectors and multiple ballot counters to discharge all relevant duties, provided that only shareholders may be appointed as ballot inspectors. The vote on agenda items, and the counting of ballots in an election listed on the agenda, shall be conducted in a publicly accessible place on the site of the relevant shareholders' meeting and the voting ballots shall not be read out loud while being counted. The results of polls and the tallied numbers of votes shall be announced immediately at the voting place and shall be recorded; the ballot inspectors shall then place the voting ballots under seal, and after affixing their signatures or personal seals thereon, hand over the same to the Corporation for preservation.

In the event of any dispute by a shareholder present as to the voting process, manner of ballot counting, validity or invalidity of a voting ballot, or any other relevant matters, the ballot inspectors shall put on record the shareholder account number of the disputer, the number of voting rights involved, and the cause of the dispute and, after affixing their signature or personal seal thereon, and place the record under seal.

With respect to any dispute under the preceding paragraph, the shareholder present shall pursue the dispute through due legal process, and may not obstruct or interrupt the proceedings of the meeting on the basis of such a dispute.

## Article 13 (Cause and Determination of Invalidity of Voting Ballots)

A voting ballot shall be invalid if determined by all ballot inspectors to fall in any of the following circumstances:

1. The ballot cast is not a ballot prepared and issued by the Board of Directors.

# Appendix I

2. The ballot is not a ballot designated by the chair.
3. The ballot inserted into the ballot box is a blank ballot.
4. The handwriting on the ballot is unclear or indecipherable.
5. The ballot is altered or any text or mark other than allowed is placed on it.
6. Both "FOR" and "AGAINST" are marked on the ballot.
7. The ballot is torn such that it is incomplete.

When in doubt a ballot counter shall first request a ballot inspector to verify whether a ballot is invalid. Ballots determined to be invalid shall be placed in a separate place. After all the ballots have been counted, the number of invalid ballots shall be tallied by the ballot counters, and delivered to the ballot inspectors, who shall mark them as invalid and affix them with their signature or personal seal.

## Article 14 (Break and Resumption of Meetings)

During a shareholders' meeting the chair may announce a break at such time as the chair thinks fit. If a force majeure event occurs, the chair may decide to suspend the meeting and, having regard to the circumstances, announce the time for the resumption of the meeting.

If the venue of a shareholder's meeting becomes unavailable for use before the conclusion of all agenda items (including extraordinary motions), the shareholders at the meeting may resolve to continue the meeting at another venue.

A shareholders' meeting may, by a resolution made under Article 182 of the Company Act, be adjourned to or resumed on a date within the next five days.

## Article 15 (Matters Not Covered)

All matters not covered by these Rules shall be subject to the direction of the chair, unless otherwise expressly provided by the Company Act, the Securities and Exchange Act, other applicable laws or regulations, or the

# Appendix I

Corporation's Articles of Incorporation, Rules of Procedure for Shareholders' Meetings, or Principles of Corporate Governance.

Article 16 (Supplementary Provisions)

These Rules, and any amendment hereto, shall take force after approval at a shareholders' meeting.

# Appendix II

## Taiwan High Speed Rail Corporation

### Rules for the Election of Directors

Article 1 The election of Directors of the Corporation shall be conducted in accordance with these Rules.

Article 2 The Directors of the Corporation shall be elected by recorded cumulative voting. The recording of the name of the voter shall be replaced with the voter's shareholder account number or meeting attendance card number appearing on the ballot.

The number of votes exercisable in each share is equal to the number of Directors to be elected, with the total number of votes exercisable equally spread over the number of ballots equal to the number of Directors to be elected. A voter may cast all the voter's ballots for a single candidate or split them among multiple candidates. The candidates who receive ballots representing a prevailing number of votes shall be elected as Directors.

Article 3 Based on the number of Directors fixed pursuant to the Corporation's Articles of Incorporation, the candidates who receive ballots representing a prevailing number of votes shall be elected. If two or more candidates receive ballots representing an equal number of votes and the election of all of them would exceed the fixed number of Directors, the candidates to be elected shall be determined by drawing of lots, and the lots of the candidates who are not present at the draw shall be drawn by the chair on their behalf.

To cast votes to elect Directors of the Corporation, a shareholder may opt to vote either by electronic means or on site.

A shareholder opting to cast votes by electronic means under the preceding paragraph shall vote on an electronic voting platform designated by the Corporation.

The qualifications of the Directors elected under paragraph 1 shall meet the requirements prescribed by the competent authority.

Article 4 The procedure for the candidate nomination system under Article 192-1 of the Company Act shall be adopted for the election of the Directors of the

# Appendix II

Corporation. Shareholders shall elect the Directors from the roster of nominated candidates.

Independent Directors and non-independent Directors of the Corporation shall be elected in accordance with these Rules and in the same election, with the numbers of Directors to be elected calculated separately for each group, and the candidates receiving a prevailing number of ballots in each group shall be elected.

For the election purposes under the preceding paragraph, the number of votes shall be calculated by adding the number of votes cast on site at a shareholders' meeting plus the number of votes cast by electronic voting.

Before the shareholders' meeting, with respect to the results of the electronic voting under the preceding paragraph, procedures shall have been conducted by an institution meeting the requirement of Article 44-6 of the Regulations Governing the Administration of Shareholder Services of Public Companies to ascertain the identities and numbers of voting rights of the shareholders and to verify the final statistical tallying.

Article 5        At the start of an election, the chair shall announce the voting time and appoint two ballot inspectors and multiple ballot counters to discharge all relevant duties.

Article 6        A ballot to be cast on site at a shareholders' meeting ("on-site ballot") shall be numbered according to the meeting attendance card number and the corresponding number of votes shall be noted on the ballot. Such ballots shall be prepared and issued by the Board of Directors in printed form; only these printed ballots are valid and the voter may not make any addition, deletion, or alteration to the format of the ballot or to the content that is allowed to be filled in.

Article 7        Only one candidate's name may be filled in on each ballot. To vote for a candidate who is a shareholder, a voter shall clearly fill in the candidate's account name and shareholder account number in the "Candidate" space on the ballot; for a candidate who is not a shareholder, the voter shall clearly fill in the

# Appendix II

candidate's name and ID number or passport number. However, if a candidate is a government agency or juristic person shareholder, the name of the government agency or juristic person shareholder, or the name of the government agency or juristic person shareholder together with the name of its representative, shall be clearly filled in in the "Candidate" space on the ballot.

Article 8 An on-site ballot shall be invalid if determined by all ballot inspectors to fall in any of the following circumstances:

- (1) The ballot cast is not a ballot as prescribed in these Rules.
- (2) The ballot inserted into the ballot box is a blank ballot.
- (3) The handwriting on the ballot is unclear, indecipherable, or has been altered.
- (4) Any text or mark is written on the ballot other than the candidate's account name (or personal name) or shareholder account number (or identity document number) and the allocated number of votes.
- (5) The ballot is not filled in in accordance with Article 6 or 7.
- (6) If the selected candidate is a shareholder, the candidate's account name or shareholder account number filled in on the ballot does not conform to the corresponding entry of the register of shareholders.
- (7) If the selected candidate is not a shareholder, the candidate's name or ID number (or passport number) is not filled in on the ballot, or the candidate's name or ID number (or passport number) filled in on the ballot cannot be verified or is verified as incorrect.
- (8) The names of two or more candidates are filled in on the same ballot.
- (9) The number of selected candidates exceeds the allowed number.
- (10) The name of the selected candidate is the same as that of another shareholder, and neither shareholder account number nor identity document number is provided to distinguish between them.
- (11) The ballot is not inserted into the ballot box designated by the chair.

When in doubt a ballot counter shall first request a ballot inspector to verify whether an on-site ballot is invalid. Ballots determined to be invalid shall be placed in a separate place. After all the ballots have been counted, the number of invalid ballots shall be tallied by the ballot counters and delivered to the



## Appendix II

ballot inspectors, who shall mark them as invalid and affix them with their signature or personal seal.

- Article 9 With respect to the results of the voting, the ballot inspectors shall verify the sums of the valid ballots and invalid ballots, and then make separate entries in the voting log of the number of valid ballots and the corresponding number of votes and the number of invalid ballots.
- Article 10 The result of the voting shall be announced by the chair on site by indicating the names of the candidates elected and their shareholder account numbers or, if not shareholders, their ID numbers (or passport numbers).
- Article 11 The Corporation shall issue a certificate of election to each elected Director.
- Article 12 All matters not covered by these Rules shall be subject to the direction of the chair, unless otherwise expressly provided by the Company Act, the Securities and Exchange Act, any other applicable laws or regulations, and the Corporation's Articles of Incorporation, Rules of Procedure for Shareholders' Meetings, and Principles of Corporate Governance.
- Article 13 These Rules, and any amendment hereto, shall take force after approval at a shareholders' meeting.

# Appendix III

## Taiwan High Speed Rail Corporation

### Articles of Incorporation

#### Chapter 1 General Provisions

Article 1 The Corporation is organized in accordance with the Company Act and its name is Taiwan High Speed Rail Corporation.

Article 2 The Corporation shall be established in Taipei City and may set up branches domestically or overseas when necessary and by resolution of the Board of Directors.

Article 3 The Corporation may, based on its business needs, provide guarantees for outside parties.

The Corporation may, based on its business needs, be a limited liability shareholder of other companies, without being subject to the restriction imposed by the Company Act that the total amount of its investments in such companies may not exceed 40 percent of the paid-in capital of the Corporation.

Article 4 Public announcements by the Corporation shall be made by a method in accordance with the Company Act and other applicable laws and regulations.

#### Chapter 2 Scope of Business

Article 5 The scope of business of the Corporation shall be as follows:

1. G104011 High Speed Railroad Business.
2. H701050 Public Works Investment and Construction.
3. CD01020 Tramway Cars Manufacturing.
4. CB01990 Other Machinery Manufacturing Not Elsewhere Classified.
5. E604010 Machinery Installation Construction.
6. I401010 General Advertising Services.
7. JE01010 Rental and Leasing Business.
8. H701010 Residence and Buildings Construction and Development, Lease, and Sale.

# Appendix III

9. H701020 Industrial Factory Buildings Construction and Development, Lease, and Sale.
10. H701040 Specialized Field Construction and Development.
11. J303010 Magazine and Periodical Publication.
12. F601010 Intellectual Property Rights.
13. F204110 Retail Sale of Cloths, Clothes, Shoes, Hats, Umbrellas, Apparel, Clothing Accessories, and Other Textile Products.
14. F215010 Retail Sale of Jewelry and Precious Metals.
15. ZZ99999 All business items that are not prohibited or restricted by law, except those that are subject to special approval.

## Chapter 3 Shares

Article 6 The total capital of the Corporation shall be NT\$120,000,000,000, divided into 12,000,000,000 shares with a par value of NT\$10 each, and the Board of Directors is empowered to issue them in installments, and as common shares or preferred shares.

Article 7 The share certificates of the Corporation shall all be registered share certificates, affixed with the signature or seal of at least three Directors and assigned with serial numbers, and may be issued only after having been duly certified or authenticated by the competent authority or by a registrar authorized by the competent authority.

Any transfer, inheritance, gift or donation, creation or release of pledge, registration or deregistration of loss, or damage, destruction, or loss of possession of or on share certificates shall be handled in accordance with the Company Act and other applicable laws and regulations.

The Corporation may issue shares without physical printed certificates, or may in a new issue prepare a printed consolidated certificate representing the total number of shares of that issue, provided that it shall arrange for book-entry registration or custody with a central securities depository.

# Appendix III

The preceding three paragraphs shall apply mutatis mutandis to the preparing and issuing of corporate bonds.

Article 7-1 (deleted)

Article 7-2 (deleted)

Article 8 Each shareholder of the Corporation shall complete and submit a specimen seal card to be kept on file with the shareholder services agent of the Corporation, and only that seal on file may be used to receive dividends or bonuses or otherwise to exercise shareholder rights in writing.

Transfer of shares shall be suspended during the 60 days before the date of a regular shareholders' meeting, during the 30 days before the date of a special shareholders' meeting, or during the 5 days before the record date decided by the Corporation for distribution of dividends, bonuses, or other interests.

Chapter 4 Shareholders' Meetings

Article 9 Shareholders' meetings of the Corporation are classified into two kinds: regular meetings and special meetings. Regular meetings shall be convened annually by the Board of Directors within 6 months after the close of each fiscal year, and special meetings, unless otherwise provided by the Company Act, shall be called by the Board of Directors when necessary and in accordance with law.

Article 10 Matters to be resolved at a shareholders' meeting shall be as follows:

1. Adoption of and amendment to these Articles of Incorporation.
2. Election of Directors.
3. Audit and recognition of financial statements and documents prepared by the Board of Directors under Article 228 of the Company Act.
4. Resolution on the distribution of profits or offsetting of losses.
5. Adoption of or amendment to the Corporation's Principles of Corporate Governance, Rules of Procedure for Shareholders' Meetings, and Rules for the Election of Directors.
6. Resolution on any other matter required by law or regulation.

# Appendix III

- Article 11 To convene a shareholders' meeting, a notice of the meeting shall be given to each shareholder by 30 days before a regular meeting, or by 15 days before a special meeting, stating the date and place of and the proposals to be considered at the meeting. Notwithstanding the foregoing, a public notice may be made in lieu of separate notice in the case of shareholders with less than 1,000 registered shares.
- Article 12 A shareholder appointing a person as proxy to attend a shareholders' meeting in the place of the shareholder shall issue a proxy form printed and issued by the Corporation and serve it on the Corporation by 5 days before the meeting. A shareholder may issue only one proxy form and appoint only one proxy for a meeting. In the event there are multiple proxy forms, the one first served on the Corporation shall be valid; the same, however, does not apply in the case of a proxy stating that it revokes a prior proxy appointment.
- Except in the case of a trust enterprise or of a shareholder services agent authorized by the competent authority in charge of the securities industry, if a person is appointed by two or more shareholders to attend a shareholders' meeting as proxy, the voting rights represented by the proxy may not exceed 3 percent of the number of voting rights of the total issued shares, and any portion exceeding such limit may not be included in the counting of voting rights.
- Article 13 Unless otherwise provided by laws, regulations, bylaws, or rules, each shareholder of the Corporation is entitled to one vote for each share held.
- Article 14 Unless otherwise provided by law, the Chairperson of the Board of Directors ("Chairperson") shall chair every shareholders' meeting. When the Chairperson by reason of leave or otherwise is unable to exercise such power of office, the Chairperson shall designate a Director as deputy to chair the meeting, failing which the Directors shall select one from among themselves to chair the meeting.
- Article 15 Unless otherwise provided by the Company Act or other applicable laws or regulations, a resolution of a shareholders' meeting shall be made with the approval of a majority of the voting rights of the shareholders present at a meeting at which shareholders representing a majority of the total issued shares are present.

# Appendix III

A shareholder of the Corporation may exercise voting rights by electronic means and, if so voting, shall be deemed to be present at the meeting in person; the method of such voting shall in all respects be subject to the provisions of applicable laws and regulations.

If the shareholders present at a meeting do not reach the quorum under paragraph 1 but still represent at least one-third of the total issued shares, a tentative resolution may be adopted with the approval of a majority of the voting rights of the shareholders present, in which case a notice of the tentative resolution shall be given to each shareholder and the shareholders' meeting shall be convened again within one month.

A tentative resolution under the preceding paragraph shall be deemed a resolution adopted under paragraph 1 if it is approved by a majority of the voting rights of the shareholders present at the shareholders' meeting subsequently convened in accordance with the preceding paragraph and at which shareholders representing at least one-third of the total issued shares are present.

Article 16 All resolutions adopted at a shareholders' meeting shall be recorded in the meeting minutes, and signed or sealed by the chair of the meeting and distributed to each shareholder within 20 days after the meeting. The meeting minutes shall state the year, month, day, place, name of the chair, method of resolution, number of shares represented by the shareholders present, a digest of the proceedings and discussions, and the results of the meeting.

The meeting minutes under the preceding paragraph may be made and distributed by electronic means.

The distribution of the meeting minutes under paragraph 1 may be made by means of public notice.

Chapter 5 Board of Directors

Article 17 The Board of Directors of the Corporation shall consist of not less than 9 and not more than 17 Directors, and the Board of Directors is empowered to determine the number of Directors. The Directors shall serve a term of office of 3 years and are eligible for re-election and re-appointment, and shall be elected at a

# Appendix III

shareholders' meeting from candidates with disposing capacity. The total percentage of shares held by the Directors shall be subject to the requirements of the competent authority in charge of the securities industry.

In an election of Directors at a shareholders' meeting, the number of votes exercisable in each share is equal to the number of Directors to be elected, with the total number of votes exercisable equally spread over the number of ballots equal to the number of Directors to be elected. A voter may cast all the voter's ballots for a single candidate or split them among multiple candidates. The candidate nomination system under Article 192-1 of the Company Act shall be adopted for the election of the Directors. The procedure, public notice, and other matters relating to the nomination of Director candidates shall be subject to the Company Act, the Securities and Exchange Act, and other applicable laws and regulations. The candidates who receive ballots representing the highest numbers of votes shall be elected separately as independent Directors or non-independent Directors, as the case may be, according to the respective numbers of independent Directors and non-independent Directors to be elected.

Article 17-1 Given the requirement of Article 183 of the Securities and Exchange Act, starting from the fourth term of office of Directors, the Corporation shall have independent Directors, whose number, to be included in the number of Directors under the preceding Article, shall be determined by the Board of Directors as empowered by the Corporation for that purpose, but in any event shall neither be less than two nor less than one-fifth of the number of Directors.

A candidate nomination system shall be adopted for the election of independent Directors; shareholders shall elect the independent Directors from the roster of nominated candidates.

Independent Directors and non-independent Directors shall be elected in the same election, with the numbers of elected Directors calculated separately for each group.

The professional qualifications, restrictions on shareholding and concurrent holding of office, determination of independence, method of nomination and election, exercise of power, and other compliance matters with respect to

# Appendix III

independent Directors shall be subject to the requirements of the Securities and Exchange Act and other applicable laws and regulations.

Article 18 When vacancies on the Board of Directors reach one-third of the total number of Directors or when all independent Directors are removed from office, the Board of Directors shall within 60 days conduct a shareholders' meeting to elect new Directors to serve the remainder of the unexpired term.

Article 19 The Directors shall elect one of their number as the Chairperson with the approval of a majority of the Directors present at a meeting of the Board of Directors at which at least two-thirds of the Directors are present.

Article 20 The Board of Directors is vested with the power to make significant financial, business, and operational decisions of the Corporation and to oversee the performance of functions by Managerial Officers, and is charged with the following duties:

1. Deliberation of all significant bylaws and rules.
2. Deliberation of business plans.
3. Deliberation of budgets and final accounts.
4. Drawing up proposals for the distribution of profits and offsetting of losses.
5. Drawing up proposals for increases or decreases in capital.
6. Deliberation of the setting up, closing down, or change of branches.
7. Deliberation of significant property transactions and investments.
8. Deliberation of significant business operations.
9. Deliberation of the appointment and removal of significant Managerial Officers.
10. Deliberation of all significant contracts.
11. Deliberation of any matter presented by the Chairperson, or submitted by a functional committee, or submitted by a Managerial Officer and then presented by the Chairperson.



# Appendix III

12. Discharge of the powers and tasks of the Board of Directors specified in the Corporation's Principles of Corporate Governance.

13. Discharge of any other powers conferred on it by law or regulation or at a shareholders' meeting.

Article 21 Except for the first meeting of each term of office of the Board of Directors, which shall be convened by the Director receiving ballots representing the highest numbers of votes, or except as otherwise provided by the Company Act, meetings of the Board of Directors shall be convened and chaired by the Chairperson. When the Chairperson by reason of leave or otherwise is unable to exercise such power of office, the Chairperson shall designate a Director as deputy to chair the meeting, failing which the Directors shall select one of their number to convene and chair the meeting in the place of the Chairperson.

Article 22 Directors shall be present in person at the meetings of the Board of Directors. If a meeting is conducted by means of video conference, Directors participating in the meeting by such means shall be deemed to be present in person at the meeting. Unless otherwise provided by law or regulation, a Director unable to be present at a meeting may appoint another Director to act at the meeting on behalf of such absent Director, but shall in each instance issue a proxy form specifying the scope of authorization with respect to the reasons of the meeting.

For the purpose of the preceding paragraph, a Director may accept only one appointment per meeting.

Article 23 Unless otherwise provided by law or regulation, a resolution of the Board of Directors shall be made with the approval of a majority of the Directors present at a meeting at which a majority of the Directors is present.

Article 24 (deleted)

Article 25 The proceedings of a meeting of the Board of Directors shall be recorded in the meeting minutes, to be signed or sealed by the chair of the meeting and distributed to each Director within 20 days after the meeting. The meeting minutes shall state the year, month, day, place, name of the chair, method of resolution, a digest of proceedings and discussions, and the results of the

# Appendix III

meeting.

The meeting minutes under the preceding paragraph may be made and distributed by electronic means.

Article 26 To convene a meeting of the Board of Directors, a notice of the meeting shall state the reasons of the meeting and shall be given to each Director by 7 days before the meeting, provided that a meeting may be convened at any time in case of emergency.

The notice of a meeting under the preceding paragraph may be made by means of e-mail or facsimile in lieu of notice in hardcopy form.

Article 27 The Board of Directors may, based upon the operational status of the Corporation's corporate governance system, gradually establish various functional committees to strengthen the active involvement of the Directors and to enhance the effectiveness and quality of the oversight and decision-making functions of the Board of Directors.

The organization, functions, and operations of the functional committees under the preceding paragraph shall be subject to the Corporation's Principles of Corporate Governance and associated rules.

Article 27-1 All relevant laws, articles, bylaws, and rules, shareholders' meeting resolutions, Board of Directors resolutions, and the Corporation's Principles of Corporate Governance and associated provisions shall constitute the rights and obligations arising from the mandate relationship between the Directors and the Corporation, and the Directors shall have the obligation to fully comply and exercise fiduciary duty in the execution thereof.

The pay to the Directors for their services as Directors, apart from for the profit-sharing compensation to Directors paid out of annual profits in accordance with Article 35-1 below, shall be discussed and determined by the Board of Directors separately for each Director, considering the level of involvement and value of contribution of each Director and by reference to the usual level of such pay in the industry.

Article 27-2 The Corporation shall set up an audit committee in accordance with Article 14-4

# Appendix III

of the Securities and Exchange Act, and all provisions of the Company Act, the Securities and Exchange Act, and any other law in relation to Supervisors shall apply mutatis mutandis to the audit committee.

Pursuant to Articles 14-4 and 181-2 of the Securities and Exchange Act, upon establishment of the audit committee the position of the Supervisors of the Corporation shall cease to exist, and all powers of Supervisors set forth in the internal bylaws and rules of the Corporation shall be taken over by the audit committee.

Chapter 6 (deleted)

Article 28 (deleted)

Article 29 (deleted)

Article 30 (deleted)

Article 31 (deleted)

Article 32 (deleted)

Chapter 7 Managerial Officers

Article 33 The Corporation shall have one Chief Executive Officer and several other Managerial Officers. The Chief Executive Officer shall follow the resolutions of the Board of Directors, preside over the affairs of the Corporation pursuant to law, and is empowered to manage affairs and sign on behalf of the Corporation. Other Managerial Officers shall provide assistance to the Chief Executive officer, but may not sign on behalf of the Corporation unless with the written authorization of the Corporation.

Article 34 The appointment and removal of the Chief Executive Officer and significant Managerial Officers shall be determined by resolution of the Board of Directors.

Chapter 8 Accounting

Article 35 The fiscal year of the Corporation shall begin on January 1 of each year and end on December 31 of the same year. After the end of each fiscal year, the Board of Directors shall prepare the following documents, have them audited and certified

# Appendix III

by a certified public accountant, and submit them to a regular shareholders' meeting for recognition:

1. A business report.
2. Financial statements.
3. A proposal for the distribution of profits or offsetting of losses.

Article 35-1 If the final annual accounts of the Corporation show a net profit for a given year, it shall allocate not less than 1 percent of the net profit as profit-sharing compensation to employees and not more than 1 percent as profit-sharing compensation to Directors; provided, however, that if the Corporation still has any accumulated loss, it shall first set aside the amount to offset the loss before such allocation.

Article 36 If the final annual accounts of the Corporation show a net profit for a given year, the profit-sharing compensation to employees and Directors shall first be allocated from the net profit pursuant to Article 35-1 above. If the Board of Directors then resolves to make distributions, it shall prepare an earnings distribution proposal, including therein the amount of any accumulated undistributed earnings and the amount equaling to the remainder of the net profit for the given year after further deduction for the payment of all taxes required by law, the allocation of the 10 percent legal reserve (no such allocation is necessary if the legal reserve is maintained at the level of the paid-in capital of the Corporation), and the provision or reversal for the special reserve pursuant to law or regulation, and submit the proposal to a shareholders' meeting for resolution on the distribution of dividends to shareholders.

When forming its dividend policy, the Corporation considers various factors such as its plans relating to current and future development, the overall investment environment, its financial needs, competition in the domestic and foreign markets, as well as the interest of shareholders and the principles of stability and balance in the distribution of dividends. Each year it will set aside as shareholder dividends an amount of not less than 60 percent of the earnings available for distribution. Such distribution, however, is not obligatory if the earnings

# Appendix III

cumulatively available for distribution is less than 0.5 percent of its paid-in capital. Dividends to shareholders may be distributed in cash or shares, but in any event the amount of cash dividends may not be less than 50 percent of the total dividends.

## Chapter 9 Supplementary Provisions

Article 37 The organizational rules of the Corporation shall be adopted separately by the Board of Directors.

Article 38 All matters not covered by these Articles of Incorporation shall be governed by the Company Act, the Securities and Exchange Act, and other applicable laws and regulations.

Article 39 These Articles of Incorporation were adopted on 13 April 1998. The first amendment was made on 25 May 1999; the second on 27 June 2000; the third on 20 May 2002; the fourth on 10 September 2002; the fifth on 10 September 2002; the sixth on 28 May 2003; the seventh on 30 December 2003; the eighth on 28 May 2004; the ninth on 4 March 2005; the tenth on 4 March 2005; the eleventh on 25 June 2005; the twelfth on 25 June 2005; the thirteenth on 9 June 2006; the fourteenth on 16 August 2007; the fifteenth on 3 June 2009; the sixteenth on 23 June 2010; the seventeenth on 22 June 2012; the eighteenth on 10 September 2015; the nineteenth on 18 March 2016; and took effect after approval at a special shareholders' meeting.

# Appendix IV

Taiwan High Speed Rail Corporation Shareholding of All Directors		
All directors	Minimum required shareholding (number of common shares)	Shareholding as of March 26, 2017 (number of common shares)
Director	120,000,000	1,152,402,230
Title	Name	Shareholding as of March 26, 2017 (number of common shares)
Director	China Aviation Development Foundation	260,040,000
	Representative: Chiang Yao-Chung	
Director	China Aviation Development Foundation	20,000,000
	Representative: Tsai Huang-Liang	
Director	TSRC Corporation	190,060,578
	Representative: Chiang Chin-Shan	
Director	TECO Electric & Machinery Co., Ltd.	20,277,600
	Representative: Huang Mao-Hsiung	
Director	Taipei Fubon Commercial Bank Co., Ltd.	18,410,676
	Representative: Liu Kuo-Chih	
Director	Tai Ho Investment Co., Ltd.	242,148,000
	Representative: Fong Hsiao-Jung	
Director	China Steel Corporation	31,960,000
	Representative: Liu Jih-Gang	
Director	Evergreen International Corporation	200,000,000
	Representative: Ko Lee-Ching	
Director	Taiwan Sugar Corporation	120,000,000
	Representative: Kwan Tao-I	
Director	Management Committee of National Development Fund, Executive Yuan	49,505,376
	Representative: Ho I-Hsi	
Director	Management Committee of National Development Fund, Executive Yuan	—
	Representative: Kao Shien-Quey	
Director	Tung Ho Steel Enterprise Corp.	—
	Representative: Henry Chieh-Teng Ho	
Independent Director	Lin Chen-Kuo	—
Independent Director	Wu Yeong-Chyan	—
Shares held by all directors		1,152,402,230