

Stock Code: 2633

Handbook for the 2018 Annual Shareholders' Meeting

DATE: May 24, 2018 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 2018 Annual Shareholders' Meeting

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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 15 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. Furthermore, we complied 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 established Corporate Governance & Nomination, Audit, Remuneration, and Special Committees for functional purposes. The Board formulated applicable by-laws and adopted specific corporate governance measures to establish a robust corporate governance system.

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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. Accordingly, following election of the 4th directors and supervisors 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. Restructuring of Board of Directors according to shareholder structure

In consideration of appropriate Board scale, representation of shareholder interests, business nature of BOT, and corporate development, as well as shareholder structure and discussion efficiency, the number of directors serving on the 8th Board were reduced to 13 from the previous 15 directors serving on the 7th Board; Board members included 3 independent directors and 10 non-independent directors elected at the shareholders' general meeting held on May 24, 2017.

3. Institution of Functional Committee of Board of Directors

To implement efficient decision-making and robust supervision, the 4th Board of Directors established the Corporate Governance Committee and quasi Audit Committee in accordance with Article 5-1-01 of CGSs, and thereafter established other functional committees such as the Procurement Committee, Finance Committee, Remuneration Committee, and Special Committee in line with business and regulatory demands. These committees preview relevant affairs and proposals prior to discussion at Board meetings. Additionally, in compliance with public listing regulations, the shareholders' extraordinary general meeting held on March 18, 2016 discussed and approved revisions to our Articles of Incorporation and CGSs, wherein the Audit Committee was established to replace supervisors and the Corporate Governance Committee was renamed the

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Corporate Governance & Nomination Committee; the former quasi Audit Committee ceased to exist upon the amendment of the above by-law and standard.

Furthermore, the 13 directors (including 3 independent directors) comprising the 8th Board were elected for three years of office (May 24, 2017 to May 23, 2020) at the shareholders' general meeting held on May 24, 2017. The current Board oversees the Corporate Governance & Nomination Committee, Audit Committee, Remuneration Committee, and Special Committee; of these, the Audit Committee, Remuneration Committee, and Special Committee are convened by independent directors.

4. Primary tasks and execution responsibilities for Board of Directors and functional committees (from January 2017 to March 2018)

(1) Board of Directors

① Composition: 13 directors.

② Number of meetings: 18.

③ Primary tasks:

The Board of Directors are responsible for major Company finance, business, and operation decisions, and oversee the duties performed by the Management (see Schedule for details).

④ Execution:

The Board of Directors applies applicable laws and regulations, resolutions of shareholders' meetings, and the Company by-laws to faithfully perform the foregoing primary tasks. Board duties are diverse and therefore not enumerated here. In the event of major resolutions, the Board of Directors consistently announces and discloses these on the Market Observation Post System (<http://mops.twse.com.tw>) as required. Functional committees bring their respective preview function into play, and independent directors also exert their independence and professionalism, enhancing Board discussions and promoting professionalism.

(2) Corporate Governance & Nomination Committee

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- ① Composition: 5 to 7 directors, convened by the Chairman who is elected by all committee members.
 - ② Number of meetings: 17.
 - 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) Discussed the number of directors (including independent directors) serving on the 8th Board
 - 2) Nominated and reviewed independent and non-independent director candidates for the 8th Board of Directors.
 - 3) Discuss functional committee composition proposal.
 - 4) Discuss proposals for execution evaluation of Board of Directors and functional committee and annual work plan.
 - 5) Discuss executive report on corporate governance.
 - 6) Discuss renewal of Director and Key Officer Liability Insurance.
 - 7) Discuss corporate organizational structure adjustment procedural amendment.
 - 8) Discuss amendments or amendment proposals to Company CGSs.
- (3) Audit Committee
- ① Composition: composed of all independent directors, with 3 being the minimum number of directors on the committee. Convened by an independent director.
 - ② Number of meetings: 12.
 - 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 Audit Standards, Internal

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Control System, and Regulations Governing Internal Control System Self-Examination.

- 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' conflicts of interest, 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) Remuneration Committee

- ① Composition: 3 to 5 directors and external experts, convened by an independent director.
- ② Number of meetings: 13
- 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:

The Remuneration Committee applies the foregoing primary tasks when considering the Company's proposals for performance management and compensation.

(5) Special Committee

- ① Composition: 5 to 7 directors, convened by an independent director elected by committee members.
- ② Number of meetings: 11.
- ③ Primary Tasks: Provide advice on the Company's major legal or contractual disputes and important system reforms, assist the Board of Directors in supervising managers' execution of decisions, and review the Company's procurement-related proposals to be submitted to the Board of Directors as required by the by-laws (see Schedule for details).
- ④ Execution:

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The Special Committee applies the foregoing primary tasks when considering major legal or contractual disputes and procurement-related proposals.

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 the Procedures for Information Disclosure, Internal Audit Standards, Internal Control System, and Regulations Governing Internal Control System Self-Examination.

Additionally, in accordance with Company operations, revisions were made to the Articles of Incorporation and Rules for the Election of Directors. In accordance with updates made to the Regulations Governing Procedure for Board of Directors Meetings of Public Companies, we revised our Rules of Procedure for Board of Directors Meetings to include “effectiveness review of internal control systems” as a proposed discussion topic for Board meetings. To clarify the responsibilities of independent directors, Board meetings must be attended by a minimum of one independent director; when voting on matters where Board approval is required by law, all independent directors should be present at the Board meeting. In the event that an independent director is unable to attend the meeting, another independent director should be appointed as proxy.

Furthermore, the Company’s Code of Ethical Conduct has replaced supervisors and the quasi Audit Committee with an Audit Committee, and listed all relevant responsibilities; hence, there is no longer need to retain any texts referring to supervisors or the quasi Audit Committee, and we therefore plan to remove Article 26-2, “Revisions made to supervisor and quasi Audit Committee responsibilities will take effect once the Company establishes an Audit Committee in accordance with the Securities and Exchange Act.”

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(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 Director and Key Officer 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 key 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 key officers.
- ② The insured D&O amount is NTD 900,000,000.

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 discussion efficiency and quality of decision making.

3. Management Implementation

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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. Strengthen Information Disclosure

For the convenience of shareholders and stakeholders, our corporate governance information 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.

Furthermore, we not only communicate all issues of concern to our stakeholders through multiple channels, but also established a stakeholder section and stakeholder contacts on our corporate website. Appropriate communication allows us to understand the reasonable expectations and needs of our stakeholders and respond accordingly to major issues of concern.

V. Concluding Remarks

In view of the effectiveness of the implementation of our corporate governance system and following assessments of corporate governance conducted in 2017 after one year of public listing, we will focus on the ongoing influence of functional committees and independent directors going forward. Additionally, 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.

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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"> 1) Discuss internal control system. 2) Discuss on important Articles and by-laws. 3) Discuss the Company’s major financial plan, long-/short-term goals, business plan, budget and final report. 4) Draft loss make-up and capital increase/decrease proposal. 5) Discuss establishment, withdrawal, or change of branch. 6) Discuss matters involving directors’ own interest. 7) Discuss major asset or derivatives transactions, as well as major lending of capital, endorsement or provision of guarantee. 8) Discuss offering, issuance or private placement of marketable securities. 9) Discuss appointment, discharge, and compensation of Certified Public Accountant. 10) Elect, discharge and supervise important officers and financial, accounting, internal audit directors. 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. 12) Oversee company operational results and risks, and ensure compliance with applicable law and regulations. 13) Devise future development direction. 14) Promote corporate image and fulfillment of social responsibility. 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.

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Item	Primary Tasks
<p>Corporate Governance & Nomination Committee</p>	<p>As per Article 3 of the Corporate Governance & Nomination Committee Organizational Procedures, the Corporate Governance & Nomination Committee is responsible for the following tasks:</p> <ol style="list-style-type: none"> 1) Confirm qualifications of independent and non-independent directors considering varied measures such as professional and technical knowledge, experience, and gender as well as impartiality. 2) Plan composition of the Board and functional committees, and assess performance of the Board and functional committees. 3) Nominate independent directors and non-independent directors. 4) Identify and evaluate independent directors and potential independent director candidates. 5) Devise and review overall execution of directorship and functional committees 6) Devise and review liability insurance for directors and managers 7) Review status of information disclosure. 8) Review the devising, suggestion and implementation effectiveness of corporate governance system and review relevant by-laws. 9) Review the effectiveness of corporate governance implementation 10) Other duties as required by articles of incorporation, CGSs, or resolutions of Board of Directors.
<p>Audit Committee</p>	<p>As per Article 3 of the Audit Committee Organizational Procedures, the Audit Committee is responsible for the following tasks:</p> <ol style="list-style-type: none"> 1) Formulate or revise internal control system as required by Article 14-1 of the Securities and Exchange Act. 2) Evaluate the effectiveness of the Company’s internal control system. 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

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Item	Primary Tasks
	<p>for others.</p> <p>4) Approve items involving directors’ own interest.</p> <p>5) Approve major asset and derivatives transactions.</p> <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) Review Company capital, financing, and credit plans</p> <p>18) Assess Company tax planning and compliance with tax regulations</p> <p>19) Other major matters as required by competent authorities.</p> <p>20) Other duties as required by articles of incorporation or resolutions of Board of Directors.</p>
Remuneration Committee	<p>As per Article 3 of the Remuneration Committee Organizational Procedures, the Remuneration Committee is responsible for the following tasks:</p> <p>1) Formulate and regularly review policies, systems, standards, and composition of performance evaluation and compensation of directors</p>

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Item	Primary Tasks
	and officer. 2) Regularly evaluate and formulate directors' and officers' compensation.
Special Committee	As per Article 3 of the Special Committee Organizational Procedures, the Special Committee is responsible for the following tasks: 1) Provide counsel and suggestions on major legal or contractual disputes and important institutional changes approved by the Board of Directors 2) Supervise procurement proposals made to the Board of Directors by functional managers. 3) Other duties as required by articles of incorporation or resolutions of Board of Directors.

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Report No. 2: Report on allocation of 2017 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 2017 (i.e. pre-tax profit prior to deduction of distributable director and employee compensation) amounts to NTD 6,617,466,373 (no accumulated losses offset). In accordance with the 11th meeting of the 8th Board dated February 13, 2018, 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: 0.5%.
 2. Amount allocated: NTD 33,087,332.
 - (2) For employees' compensation

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1. Percentage allocated: 1.6%.
2. Amount allocated: NTD 105,879,462.

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Report No. 3: Report on changes in the estimated amortization of certain operating assets under concession

1. IAS 16 stipulates that corporations must review amortization methods, residual values, and useful lives of assets at the end of each financial year. In order to respond to changes in expected use and external economic environments, if the useful life of an asset differs from previous estimates, amortization periods for operating assets should be adjusted accordingly.
2. In consideration of the fact the Company has accumulated upwards of 10 years’ experience sufficient for development of in-house maintenance capabilities, the Company utilized relevant experience and capabilities to assess internal and external technological environment changes and expected useful lives of assets. Individual departments within the Company conducted reviews of useful lives of managed assets and found that expected useful lives for some assets differed from previous estimates. Amortization periods were adjusted accordingly.
3. Changes in amortization periods are shown below:

Changes in useful life of certain operating assets under concession	Pre-change Amortization period	Post-change Amortization period
Machinery equipment		
Auxiliary equipment of buildings	10 to 16 years	15 to 35 years
Maintenance equipment and tools	5 to 25 years	10 to 35 years
Power system	35 years	10 to 20 years
Information technology equipment	5 to 15 years	5 to 35 years
Transport equipment		
High-speed rail system	15 to 35 years	15 to 35 years
Signaling system	5 to 35 years	5 to 35 years
Communication system	5 to 35 years	5 to 25 years

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4. The Company convened the Assets Appraisal and Review Committee on September 15, 2017 and made adjustments to the useful lives of certain operating assets under concession according to review results. These adjustments were approved at the 7th meeting of the 8th Board held on October 19, 2017, and amortization changes for intangible assets and operating assets under concession were made effective on October 1, 2017.
5. These changes are estimated to increase amortization fees for 2017 by 0.308 billion NTD.

Proposals

Proposal No. 1: Proposed by the Board

Proposal: Proposals of the 2017 Annual Business Report and financial statements of the Company.

Explanation: The 2017 business report (please refer to p.19- p.27 of Annual Meeting Handbook) along with financial statements (please refer to p.28-p.33 of Annual Meeting Handbook) of the Company have been approved on February 13, 2018 by the 11th meeting of the 8th Board. The financial statements were audited by certified public accountants, and audit report thereto was issued on February 13, 2018 (please refer to p.34-p.37 of Annual Meeting Handbook), distributed to Audit Committee for review (please refer to p.38 of Annual Meeting Handbook), and is hereby submitted for adoption at shareholders' annual general meeting.

Resolution:

Proposals

The 2017 Business Report

Business report and future prospects

Dear Fellow Shareholders,

THSRC celebrated 10 years of rail operations on January 5, 2017, and we are making strides to our second decade of operations. Our passenger volume surpassed 0.4 billion passengers in December 2016, and we broke daily passenger volume records during the Double-Ten Day vacation in 2017 and the New Year vacation in 2018. THSRC has now become an essential transportation tool, shortening the distance between north and south, realizing the concept of a “one-day living circle”, and thoroughly changing the lifestyles of all.

During this process, we have continually upheld the principle of “Go Extra Mile”, working to bring quality service to our customers, generate customer satisfaction, and fulfill our social responsibilities.

1. 2017 Business report

(1) Operational performance

A. Rail operations

2017 marked our 11th year of rail operations. Our passenger volume showed steady growth, and we ran a total of 51,751 trains, up by 645 trains compared to a total of 51,106 trains in 2016. Daily northbound and southbound trains have reached a maximum of 160 trains (198 trains during holiday season), amply fulfilling passenger needs. Our loading factor was 65.16%, up by 1.64% compared to 63.52% in 2016. Total passengers carried reached 60.57 million in 2017, up by 3.98 million (7.03%) compared to 56.59 million passengers in 2016. Total passenger-kilometers reached 11,103 million in 2017, up by 5.86% compared to 2016. The average number of daily passengers for 2017 was 166 thousand, up by 11 thousand compared to 155 thousand in 2016.

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In terms of operational safety, no accidents or injuries were caused in 2017. Average punctuality rate (number of trains arriving within 5 minutes of schedule/all trains) for 2017 was 99.72%, surpassing our target rate of 99.10%. Average reliability rate for 2017 (excluding delays due to force majeure) was 100%, surpassing our target rate of 99.60%.

B. Marketing and customer service

In 2017, we continued to offer off-peak promotion packages, expand collaborations with other industries, and provide a good variety of travel and hotel coupons. We also integrated new mobile payment functions and the THSRC TGo affiliate program to provide passengers with better and more varied services as detailed below:

- (a) Launched “HSR 10th anniversary commemorative ticket set”.
- (b) Established a “multi-card electronic ticket integration platform”; passengers are now able to travel on non-reserved HSR seats using automatic-deposit co-branded iPass credit cards.
- (c) Collaborated with the Taiwan Rail Company to offer a new railway package, “Double rail Jiji travel”.
- (d) Added USB charging ports to Cars 4 and 12 of all trains.
- (e) During the summer vacation, we offered two-day travel packages on our Magic Theater Parent-Child Train.
- (f) iTaiwan free WiFi was made available along the HSR line starting in August.
- (g) Our online store TShop launched collaboration with PChome24h Shopping. Customers can now buy commemorative HSR products by scanning QR codes with their phones or mobile devices.
- (h) Launched TGo affiliate program. Affiliate members accumulate points that can be exchanged for tickets or discounts when purchasing HSR tickets, and also enjoy birthday privileges and discounts on specified trains.
- (i) Launched THSRC App. Passengers can check train schedules, discounts, and transfer information at any time. The app also comes with travel information and

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planning tools so that travelers can customize their own travel.

(j) Participated in the Taipei International Travel Fair.

(k) In line with mobile payment trends, we integrated Apple Pay and Android Pay to make ticket purchases more convenient.

(2) Budget implementation performance

In 2017, our expected revenues were 41.9 billion NTD and actual revenues were 43.44 billion NTD, resulting in an achievement rate of 103.7%. Our after-tax profit for 2017 was 5.34 billion NTD.

(3) Financial revenue and profitability analysis

In 2017, we reaped the benefits of our employee efforts and marketing campaigns. Our annual revenues reached 43.44 billion NTD. Profit before and after tax was 6.48 billion NTD and 5.34 billion NTD respectively.

Compared with 2016, revenues and after-tax profits increased by 2.83 billion NTD and 1.19 billion NTD respectively. Our operations continued to be profitable, achieving growth rates of 7% and 29%.

All operational finances continue to show good operating performance on the part of the operating team.

(4) Research and development

Research and development items in 2017 were as follows:

A. Assessment of construction impacts: The Company continues to conduct research on “Impact assessments of Type I active faults on HSR structural safety” and “Impact assessments of seismic displacement on HSR operations in the Kaohsiung Yanchao region”.

B. Research on signaling systems: To improve and enhance signaling systems, the Company implemented the following items:

(a) Established TMS system.

(b) Established MES bypass device.

(c) Conducted research to improve reliability of TMS devices.

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- (d) Localized development of switch self-repair and switch parts.
 - (e) Completed development of Microswitch Electronic Cleaning Device.
 - (f) Localized system maintenance of TCS, CN and UC systems.
- C. Research on communication systems: To improve and enhance communication systems, the Company implemented the following items:
- (a) Self-testing and switching of BDA/RIU/MSIU device.
 - (b) Conducted research of alternative power equipment for CCTV systems in electrical rooms along HSR line.
 - (c) Development of alternative solutions for DLT PC Service Modules.
- D. Localization of maintenance items and equipment:
- To enhance localized development and the domestic rail industry, the Company established the Rail Industry Localization Task Force and hosted the Taiwan Rail Industry Localization Business Opportunities seminar on August 24, 2017 to invite business collaborations.
- The Company is committed to promotion of localized maintenance materials and equipment, and localized items are as follows:
- (a) 700T train air-conditioning diffusers.
 - (b) Train air-conditioning filters.
 - (c) Repair parts for train seats.
 - (d) Printed circuit boards.
 - (e) Signaling/communication system UPS Batteries.
 - (f) Rail base plates.
 - (g) Communication UPS capacitors and fans.
 - (h) Business class cabin carpets.
 - (i) 700T sockets for disabled-access seats.
 - (j) 700T vehicle maintenance equipment computers.
- E. Electronics factory: We established an electronics repair center/circuit board maintenance unit in mid-2008 and have since conducted circuit board and component

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repair for various systems to reduce dependence on original equipment and increase self-maintenance capabilities. The number of repairs have continued to increase year over year, and accumulated number of repairs have exceeded 12,000 as of 2017.

F. Industry-academia collaboration: We continue to collaborate with major academic institutes to develop materials and equipment, including:

- (a) Automatic train motion measurement system.
- (b) TPLC memory cards and B&C lightning-surge protection boards.
- (c) Research on train electromagnetic interference.
- (d) Wheel validation press computer system.
- (e) Train gearbox temperature monitoring system.
- (f) Train vibration testing equipment validation system.
- (g) Electrical control system for underground press equipment.
- (h) New relay testers.
- (i) Notch switch automatic monitoring system.

2. Summary of 2018 operation plan

(1) Operation guidelines

We will not only continue to promote off-peak discounts, increase convenience of electronic ticket and payment methods, expand collaborations with other industries, shape rail experiences, and lead domestic travel trends, but will also enhance the convenience of HSR digital services and ticket purchases, as well as promote our affiliate program to establish a foundation for precise marketing, big data analysis, and bonus point usage.

(2) Expected sales

In consideration of stable domestic economic growth, enhanced digital services and convenience of ticket purchasing, and promotion of affiliate services and travel packages, we estimated that our passenger volume will reach 62.27 million in 2018.

(3) Major sales policies

In accordance with recent technological development trends, we continue to integrate innovative services, gradually establishing HSR as a smart rail transportation provider.

Proposals

We also utilize IoT and big data to understand customer and operational needs to maintain our competitiveness and increase revenues. Major sales policies in 2018 include:

- A. Plan appropriate train schedules and train runs to fulfill market transport needs according to passenger volume growth, peak times, and needs of vacations and special occasions.
- B. Launch multiple products and promotions in accordance with passenger needs to strengthen passenger loyalty and attract new customers, ensuring achievement of revenue targets.
- C. Continue to strengthen our brand image of “Take HSR, Visit Taiwan” and fulfill market needs through the promotion of travel packages, hotel coupons, travel coupons, and activity packages, thus integrating sales and expanding our customer base.
- D. Enhance services for our TGo affiliate program, using data analytics to understand customer behavior and increase purchase frequency and loyalty, expanding our member base and maintaining our customer relations.
- E. Utilize the advantages of HSR’ s passenger flow to develop businesses such as marketplaces, parking, advertising, and so on, thus expanding market segments and enhancing product originality. We will also continue to develop products and sales channels to enrich our passenger experience and increase our non-ticketing sales.

3. Future development strategies

Under our vision of “Leading progress and establishing a wonderful lifestyle platform”, THSRC is gradually implementing our four pillars of Transportation, Technology, Taiwan, and Touch in line with the following:

- (1) Transportation: establish a professional transport system to provide quality and convenient services and products.
 - A. Promote comprehensive safety and emergency response procedures.
 - B. Strengthen station operations and establish a disabled-access environment. Place customer service equipment on trains to enhance service quality for passengers.

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- C. Advance operating processes to ensure maximization of transportation capabilities.
 - D. Advance revenue management effectiveness. Provide multiple products and enhance off-peak values.
 - E. Enhance equipment maintenance (including self-repair capabilities) to ensure a stable, safe, and reliable system.
- (2) Technology: promote smart transportation and enhance the efficiency and quality of operations, services, safety, and response procedures.
- A. Digitalize ticketing channels.
 - B. Utilize big data to expand member base.
 - C. Utilize information technology to strengthen efficiency of operations, maintenance, and services.
 - D. Research, develop, and enhance core technological capabilities.
- (3) Taiwan: Integrate local cultures and sights to establish a varied and enhanced activity platform.
- A. Enhance localized development capabilities and proportion of localized equipment and materials.
 - B. Promote localization of rail industry.
 - C. Integrate localized cultures and activities for multi-faceted development and collaboration.
 - D. Invigorate subsidiary businesses and enhance service quality.
 - E. Integrate rail technology resources for reinvestment or technology exports.
- (4) Touch: establish brand culture, enhance talent capabilities and corporate efficiency, and be active in social participation and environmental protection.
- A. Establish a talent nurturing program.
 - B. Effectively enhance management capabilities of managers.
 - C. Integrate art and culture to enhance corporate brand image and expand scope and depth of art appreciation.
 - D. Optimize long-term finances.
 - E. Shape a culture of corporate governance to set an example and show commitment to

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social participation.

F. Promote environmental protection and carbon-reduction goals.

4. Impacts of external environments, legal environments, and macroeconomic operational environments

According to information released by the DGBAS on November 24, 2017, Taiwan has benefitted from stable global economic growth and increased international raw material prices, such that our trade figures are expected to hold steady for 2018, although US monetary policy and tax reform impacts on global financial markets, China economic reform and BRI impacts on Taiwan, and Korean Peninsula and Middle Eastern political impacts on global economy should be noted. Additionally, domestic economic growth is stabilized as the government continues to optimize domestic investment environments and implement industry innovation and prospective infrastructure initiatives; however, slowed growth leads us to estimate that economic growth for 2018 will be 2.29%, slightly lower than 2.58% in 2017. The Company will continue to develop appropriate products and quality services to achieve passenger volume and revenue growth targets.

In terms of regulatory environments, the MOTC has actively revised railway laws and regulations in recent years, amending the “Railway Construction Maintenance Standards”, the “Railway Transport Standards”, the “Implementation Procedures for Supervision of Local Privately Owned and Special Railways”, the “Management Procedures for Train Operator Certifications for Public and Privately Owned Railways”, the “Regulations on Construction Constraints Alongside Railways”, and the “Regulations for Delegation of Train Operator Certifications for Privately Owned Railways” according to the Railway Act. These amendments have had positive effects on ensuring operational safety and passenger interests. The company is optimistic about the success of these laws and complies with all relevant laws and regulations. In 2017, the MOTC also revised the “Act for the Development of Tourism”, the “Procedures for Establishment of Disabled Access on Public Transportation”, and “Implementation Procedures for Preferential Treatment for Disabled People on Domestic Public Transportation”. These amendments did not affect Company operations. Additionally,

Proposals

in terms of labor laws, the Legislative Yuan drafted amendments to the Labor Standards Act on January 10, 2018. The Company will continue to follow and assess these amendments and their impact upon Company operations.

In terms of macroeconomic environments, the Company was not only impacted by slowed growth of passenger volumes owing to overall economic climates, declining birthrates, and aging populations, but as also affected by increased operational costs owing to climate change and heightened needs for operating equipment. The Company will continue to promote smart transportation, enhance safety and efficiency of response procedures, develop self-maintenance capabilities and localized materials, and enhance our competencies through industrial cooperation. In terms of lifestyle services, we will also integrate local culture and provide quality transportation services to our passengers, strengthening the foundation for long-term business development.

TAIWAN HIGH SPEED RAIL CORPORATION

BALANCE SHEETS

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

ASSETS	December 31			
	2017		2016	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents	\$ 7,187,917	2	\$ 237,457	-
Available-for-sale financial assets	319,985	-	311,693	-
Hedging derivative assets	5	-	225	-
Notes and accounts receivable	347,275	-	550,033	-
Inventories	1,927,723	1	2,005,154	1
Other financial assets	9,365,363	2	24,714,305	5
Prepayments and other current assets	942,548	-	909,415	-
Total current assets	<u>20,090,816</u>	<u>5</u>	<u>28,728,282</u>	<u>6</u>
NON-CURRENT ASSETS				
Property, plant and equipment	107,354	-	65,305	-
Operating concession asset	413,166,373	94	426,020,379	92
Computer software, net	54,167	-	34,994	-
Deferred tax assets	4,504,698	1	4,285,765	1
Other financial assets	2,122,265	-	2,060,388	1
Other non-current assets	14,784	-	12,259	-
Total non-current assets	<u>419,969,641</u>	<u>95</u>	<u>432,479,090</u>	<u>94</u>
TOTAL	<u>\$ 440,060,457</u>	<u>100</u>	<u>\$ 461,207,372</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings	\$ 39,888	-	\$ 60,130	-
Accounts payable	248,017	-	247,519	-
Operating concession liability	647,850	-	3,180,612	1
Other payables	2,950,253	1	2,755,992	1
Payable for construction	605,926	-	889,292	-
Current tax liabilities	1,102,942	1	474,723	-
Provisions	292,515	-	301,701	-
Current portion of long-term debt	-	-	10,944,843	2
Other current liabilities	662,017	-	960,682	-
Total current liabilities	<u>6,549,408</u>	<u>2</u>	<u>19,815,494</u>	<u>4</u>
NON-CURRENT LIABILITIES				
Long-term debt	286,082,766	65	316,279,751	69
Long-term bills payable	15,963,546	4	-	-
Provisions	4,145,851	1	280,289	-
Long-term interest payable	9,531,465	2	9,582,166	2
Operating concession liabilities	54,542,215	12	53,990,329	12
Other non-current liabilities	226,857	-	195,662	-
Total non-current liabilities	<u>370,492,700</u>	<u>84</u>	<u>380,328,197</u>	<u>83</u>
Total liabilities	<u>377,042,108</u>	<u>86</u>	<u>400,143,691</u>	<u>87</u>
EQUITY				
Capital stock				
Common stock	56,282,930	13	56,282,930	12
Capital surplus	172,981	-	172,981	-
Retained earnings				
Legal reserve	866,090	-	451,180	-
Unappropriated earnings	5,695,863	1	4,155,897	1
Total retained earnings	6,561,953	1	4,607,077	1
Unrealized gain on available-for-sale financial assets	485	-	693	-
Total equity	<u>63,018,349</u>	<u>14</u>	<u>61,063,681</u>	<u>13</u>
TOTAL	<u>\$ 440,060,457</u>	<u>100</u>	<u>\$ 461,207,372</u>	<u>100</u>

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

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			
	2017		2016	
	Amount	%	Amount	%
OPERATING REVENUES	\$ 43,435,042	100	\$ 40,610,906	100
OPERATING COSTS	<u>(24,613,645)</u>	<u>(57)</u>	<u>(25,973,173)</u>	<u>(64)</u>
GROSS PROFIT	18,821,397	43	14,637,733	36
OPERATING EXPENSES	<u>(1,066,413)</u>	<u>(2)</u>	<u>(938,237)</u>	<u>(2)</u>
INCOME FROM OPERATIONS	<u>17,754,984</u>	<u>41</u>	<u>13,699,496</u>	<u>34</u>
NON-OPERATING INCOME AND EXPENSES				
Interest income	96,076	-	115,448	-
Interest expense	(7,463,329)	(17)	(8,375,559)	(21)
Stabilization reserve expense	(3,865,562)	(9)	(280,289)	(1)
Other gains and losses	<u>(43,669)</u>	<u>-</u>	<u>(161,521)</u>	<u>-</u>
Total non-operating income and expenses	<u>(11,276,484)</u>	<u>(26)</u>	<u>(8,701,921)</u>	<u>(22)</u>
INCOME BEFORE INCOME TAX	6,478,500	15	4,997,575	12
INCOME TAX EXPENSE	<u>(1,138,595)</u>	<u>(3)</u>	<u>(848,477)</u>	<u>(2)</u>
NET INCOME	<u>5,339,905</u>	<u>12</u>	<u>4,149,098</u>	<u>10</u>
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plan	(9,702)	-	(57,611)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss	<u>1,649</u>	<u>-</u>	<u>9,794</u>	<u>-</u>
	<u>(8,053)</u>	<u>-</u>	<u>(47,817)</u>	<u>-</u>
Items that may be reclassified subsequently to profit or loss:				
Unrealized gain (loss) on available-for-sale financial assets	<u>(208)</u>	<u>-</u>	<u>138</u>	<u>-</u>
Other comprehensive income (loss) for the year, net of income tax	<u>(8,261)</u>	<u>-</u>	<u>(47,679)</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 5,331,644</u>	<u>12</u>	<u>\$ 4,101,419</u>	<u>10</u>

(Continued)

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			
	2017		2016	
	Amount	%	Amount	%
EARNINGS PER SHARE				
Basic earnings per share	<u>\$ 0.95</u>		<u>\$ 0.74</u>	

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

(Concluded)

TAIWAN HIGH SPEED RAIL CORPORATION

STATEMENTS OF CHANGES IN EQUITY

(In Thousands of New Taiwan Dollars, Except Dividends Per Share)

	Capital Stock Common Stock	Capital Surplus	Retained Earnings			Unrealized Gain/Loss on Available-for-sale Financial Assets	Total Equity
			Legal Reserve	Unappropriated Earnings	Total		
BALANCE AT JANUARY 1, 2017	\$ 56,282,930	\$ 172,981	\$ 451,180	\$ 4,155,897	\$ 4,607,077	\$ 693	\$ 61,063,681
Appropriation of prior year's earnings							
Legal reserve	-	-	414,910	(414,910)	-	-	-
Cash dividends to shareholders - NT\$0.6 per share	-	-	-	(3,376,976)	(3,376,976)	-	(3,376,976)
	-	-	414,910	(3,791,886)	(3,376,976)	-	(3,376,976)
Net income for the year ended December 31, 2017	-	-	-	5,339,905	5,339,905	-	5,339,905
Other comprehensive income (loss) for the year ended December 31, 2017	-	-	-	(8,053)	(8,053)	(208)	(8,261)
Total comprehensive income for the year ended December 31, 2017	-	-	-	5,331,852	5,331,852	(208)	5,331,644
BALANCE AT DECEMBER 31, 2017	\$ 56,282,930	\$ 172,981	\$ 866,090	\$ 5,695,863	\$ 6,561,953	\$ 485	\$ 63,018,349
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 (loss) 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 common shares for cash (including employee share options)	230,000	172,981	-	-	-	-	402,981
BALANCE AT DECEMBER 31, 2016	\$ 56,282,930	\$ 172,981	\$ 451,180	\$ 4,155,897	\$ 4,607,077	\$ 693	\$ 61,063,681

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

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TAIWAN HIGH SPEED RAIL CORPORATION

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

	For the Years Ended December 31	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 6,478,500	\$ 4,997,575
Adjustments for:		
Depreciation	37,137	33,202
Amortization	13,865,570	15,683,785
Loss on inventories valuation and obsolescence	14,322	73,585
Interest expense	7,463,329	8,375,559
Interest income	(96,076)	(115,448)
Loss on foreign currency exchange, net	8,096	27,430
Stabilization reserve expenses	3,865,562	280,289
Others	9,405	423
Changes in operating assets and liabilities		
Derivative financial assets for hedging	220	(225)
Notes and accounts receivable	202,758	(339,845)
Inventories	65,719	77,341
Prepayments and other current assets	(29,152)	(382,943)
Other non-current assets	(6,455)	(9,818)
Accounts payable	1,677	(193,077)
Other payable	234,236	556,079
Payment for provisions - controversial overtime	(9,971)	(221,965)
Payment for provisions - preferred stock compensation	-	(15,155,212)
Other current liabilities	(298,665)	192,246
Other non-current liabilities	(924)	4,331
Cash generated from operations	31,805,288	13,883,312
Interest received	92,008	125,879
Interest paid	(6,381,962)	(6,206,724)
Interest paid with respect to operating concession liabilities	(3,180,612)	(1,883,383)
Income tax refund (paid)	(728,768)	11,342
Net cash generated from operating activities	<u>21,605,954</u>	<u>5,930,426</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of available-for-sale financial assets	(372,500)	(235,000)
Proceeds from disposal of available-for-sale financial assets	365,430	527,426
Decrease in other financial assets	15,274,999	29,736,684
Acquisition of property, plant and equipment	(36,279)	(27,759)
Proceeds from disposal of property, plant and equipment	-	457
Acquisition of intangible assets	(1,354,079)	(2,662,900)
Proceeds from disposal of intangible assets	530	1,610
Net cash generated from investing activities	<u>13,878,101</u>	<u>27,340,518</u>

(Continued)

Proposals

TAIWAN HIGH SPEED RAIL CORPORATION

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

	For the Years Ended December 31	
	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in short-term borrowings	\$ (19,580)	\$ 16,811
Issuance of long-term bills payable	16,000,000	-
Repayment of long-term debt	(41,160,564)	(31,946,529)
Increase in other non-current liabilities	23,525	5,323
Cash dividends	(3,376,976)	(3,643,433)
Issue of common shares for cash	<u>-</u>	<u>390,801</u>
Net cash used in financing activities	<u>(28,533,595)</u>	<u>(35,177,027)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>-</u>	<u>(2,856)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,950,460	(1,908,939)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>237,457</u>	<u>2,146,396</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 7,187,917</u>	<u>\$ 237,457</u>

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

(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, 2017 and 2016, 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, 2017 and 2016, 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 and International Financial Reporting Standards (“IFRS”), International Accounting Standards (“IAS”), Interpretations of IFRS (“IFRIC”), and Interpretations of IAS (“SIC”) endorsed by the Financial Supervisory Commission (“FSC”) of the Republic of China.

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.

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, 2017. 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 2017 financial statements are as follows:

The Provision for Stabilization Reserve

Refer to Note 4, n. for further information on accounting policy of provisions; Note 5, b. for further information on the accounting uncertainty associated with the judgements, and estimates and assumptions about provision for stabilization reserve. Please refer to Note 16 for the detail of provision.

Proposals

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 reports the execution status to the Ministry of Transportation and Communications (“MOTC”), including provision, contribution, and accumulated balance of the stabilization reserve in accordance with Taiwan North-South High Speed Rail Construction and Operation Agreement. Because the provision of the stabilization reserve is related to the profitability of the remaining concession period of the contract, and the amount is material and can vary depending on the expiration or termination of the contract, and involves critical accounting judgments and estimates, the recognition of provision for stabilization reserve is deemed a key audit matter.

Since the remaining concession period is expected to end in the year 2068 or still many years in the future and an early termination is not anticipated, the profitability is not reliably predictable; nevertheless, the stabilization reserve amounted to NT\$4,145,851 thousand as of December 31, 2017 based on the estimated profitability in 2017 in accordance with Taiwan North-South High Speed Rail Construction and Operation Agreement.

We evaluated whether the method of measurement used by the management to make the accounting estimate related to the abovementioned provisions was reasonable. Moreover, on a sample basis, we: (1) inspected contracts related to the movement 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 related revenue amounted to NT\$42,221,888 thousand, representing 97% of total operating revenues in 2017. The calculation of railroad transportation revenue is complex; 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 Revenue Management System and related internal control system. Moreover, we investigated information transfer process among abovementioned systems to ensure that the operating revenue and the cash flow were processed normally, obtained the understanding of how the reports of ticketing related systems were generated, and recalculated amounts to check the accuracy of recognized revenue and the balance of unearned revenue.

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 and IFRS, IAS, IFRIC, and SIC endorsed and issued into effect by the FSC of the Republic of China, 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.

Proposals

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 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.

Proposals

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of 2017 financial statements and are therefore the key audit matters. We describe these matters in our auditors' 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 13, 2018

Notice to Readers

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 2017 Financial Statements

Audit Committee's Audit Report

The Board of the Company has prepared and submitted the proposal of 2017 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

2018 shareholders' Annual General Meeting

Taiwan High Speed Rail Corporation

Ding Kung-Wha, Convenor of Audit Committee

February 13, 2018

Proposals

Proposal No. 2: Proposed by the Board

Proposal: Proposals of 2017 profit distribution of the Company.

Explanation:

1. As of end of 2017, the distributable earnings amounted to NTD 5,161,872,402.
2. In order to stabilize and balance payout policy and consideration for long-term corporate financial planning, the Company proposes cash dividends of NTD 0.75 per share for 2017 profit distribution, amounting to NTD 4,221,219,794 on a basis of 5,628,293,058 common shares outstanding.
3. The Company's profit distribution table has been approved at the 12th meeting of the 8th Board dated March 13, 2018, circulated to Audit Committee for review (please refer to p.42 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 2017	Unit: NTD
Retained earnings	364,011,196
Add: net profit after tax	5,339,904,296
Less: re-measurements of defined benefit plan	(8,052,660)
Undistributed earnings	5,695,862,832
Less: 10% legal reserve	(533,990,430)
2017 distributable earnings	5,161,872,402
Distributable items:	
Cash dividends (NTD 0.75 per share)	(4,221,219,794)
Current-year undistributed earnings	940,652,608

Proposals

4. After the approval of the 2018 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 2017 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

2018 Shareholders' Annual General Meeting

Taiwan High Speed Rail Corporation

Ding Kung-Wha, Convenor of Audit Committee

March 13, 2018

Discussion

Discussion No. 1: Proposed by the Board

Proposal: Revision of Articles of Incorporation

Explanation:

1. In order to comply with current regulatory requirements and the operating needs of the Company, we have adopted the nomination system for director candidates, established an Audit Committee, and made changes to management position titles. Amendments have been made to Articles 17-1, 27-2, 33, 34, and 39 of the Articles of Incorporation.
2. A comparison of amended articles in the Articles of Incorporation is shown in Attachment I (please refer to p.45-p.48 of Annual Meeting Handbook)
3. The proposal was approved at the 12th Board meeting of the 8th Board directors dated March 13, 2018, and is hereby submitted to the shareholders' annual general meeting for approval.

Resolution:

Discussion

Discussion No. 2: Proposed by the Board

Proposal: Revision of Rules for the Election of Directors

Explanation:

4. In order to comply with the operating needs of the shareholders' meeting and the nomination system adopted for director candidates, amendments have been made to Articles 3, 5, 7, 8, and 10 of the Rules for the Election of Directors.
5. A comparison of amended articles in the Rules for the Election of Directors is shown in Attachment II (please refer to p.49-p.54 of Annual Meeting Handbook)
6. The proposal was approved at the 12th Board meeting of the 8th Board directors dated March 13, 2018, and is hereby submitted to the shareholders' annual general meeting for approval.

Resolution:

Questions and Motions

Adjournment

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Taiwan High Speed Rail Corporation

Comparative Table for the current and amended Articles of Incorporation

After The Revision	Before The Revision	Description
<p>Article 17-1</p> <p>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.</p> <p>Independent Directors and non-independent Directors shall be elected in the same election, with the numbers of elected Directors calculated separately for each group.</p>	<p>Article 17-1</p> <p>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.</p> <p><u>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.</u></p> <p>Independent Directors and non-independent Directors shall be elected in the same election, with the numbers of elected Directors calculated separately for each group.</p>	<ol style="list-style-type: none"> 1. Delete the second paragraph of Article 17-1 due to repetition, as second paragraph of Article 17 has already specified the director candidate nomination system adopted pursuant to Article 192-1 of the Company Act. 2. Paragraphs 3 and 4 of this article have therefore changed to paragraphs 2 and 3.

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After The Revision	Before The Revision	Description
<p>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 independent Directors shall be subject to the requirements of the Securities and Exchange Act and other applicable laws and regulations.</p>	<p>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 independent Directors shall be subject to the requirements of the Securities and Exchange Act and other applicable laws and regulations.</p>	
<p>Article 27-2</p> <p>The Corporation shall set up an audit committee in accordance with Article 14-4 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.</p>	<p>Article 27-2</p> <p>The Corporation shall set up an audit committee in accordance with Article 14-4 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.</p> <p><u>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</u></p>	<p>Delete the second paragraph of Article 27-2, due to that the Corporation has already established the Audit Committee in pursuant to Article 14-4 of the Securities and Exchange Act, and that the term “Supervisor” has been deleted in all the internal bylaws and rules since the role of Supervisors has being replaced</p>

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After The Revision	Before The Revision	Description
	<p><u>in the internal bylaws and rules of the Corporation shall be taken over by the audit committee.</u></p>	<p>by the Audit Committee.</p>
<p>Article 33</p> <p>The Corporation shall have one <u>General Manager</u> and several other Managerial Officers. The <u>General Manager</u> 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 <u>General Manager</u>, but may not sign on behalf of the Corporation unless with the written authorization of the Corporation.</p>	<p>Article 33</p> <p>The Corporation shall have one <u>Chief Executive Officer</u> and several other Managerial Officers. The <u>Chief Executive Officer</u> 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 <u>Chief Executive officer</u>, but may not sign on behalf of the Corporation unless with the written authorization of the Corporation.</p>	<p>Considering the needs of actual operation of the Corporation, the title of the manager of the Corporation has been revised from "Chief Executive Officer" to "General Manager".</p>
<p>Article 34</p> <p>The appointment and removal of the <u>General Manager</u> and significant Managerial Officers shall be determined by resolution of the Board of Directors.</p>	<p>Article 34</p> <p>The appointment and removal of the <u>Chief Executive Officer</u> and significant Managerial Officers shall be determined by resolution of the Board of Directors.</p>	<p>In line with Article 33, "Chief Executive Officer" is amended to "General Manager".</p>

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After The Revision	Before The Revision	Description
<p>Article 39</p> <p>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; <u>the twentieth on 24 May</u>; and took effect after approval at a <u>regular</u> shareholders' meeting.</p>	<p>Article 39</p> <p>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 <u>special</u> shareholders' meeting.</p>	<p>Update the list of amendment dates.</p>

Attachment II

Taiwan High Speed Rail Corporation Comparative Table for the current and amended Rules for the Election of Directors

After The Revision	Before The Revision	Description
<p>Article 3</p> <p><u>The number of Directors for the election is determined by the Board of Director in accordance with the rule of Corporation's Articles of Incorporation,</u> 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.</p> <p>To cast votes to elect Directors of the Corporation, a shareholder may opt to vote either by electronic means or on site.</p> <p>A shareholder opting to cast votes by electronic means under the preceding paragraph shall vote on an electronic voting platform designated by the</p>	<p>Article 3</p> <p><u>Based on the number of Directors fixed pursuant to the Corporation's Articles of Incorporation,</u> 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.</p> <p>To cast votes to elect Directors of the Corporation, a shareholder may opt to vote either by electronic means or on site.</p> <p>A shareholder opting to cast votes by electronic means under the preceding paragraph shall vote on an electronic voting platform designated by the</p>	<p>Revise the wording in accordance with the Article 17 of Corporation's Articles of Incorporation.</p>

Attachment II

After The Revision	Before The Revision	Description
<p>Corporation.</p> <p>The qualifications of the Directors elected under paragraph 1 shall meet the requirements prescribed by the competent authority.</p>	<p>Corporation.</p> <p>The qualifications of the Directors elected under paragraph 1 shall meet the requirements prescribed by the competent authority.</p>	
<p>Article 5</p> <p>At the start of an election, the chair shall announce the voting time and appoint <u>multiple ballot inspectors and ballot counters</u> to discharge all relevant duties, <u>and only shareholders may be appointed as ballot inspectors.</u></p>	<p>Article 5</p> <p>At the start of an election, the chair shall announce the voting time and appoint <u>two ballot inspectors and multiple ballot counters</u> to discharge all relevant duties.</p>	<p>Considering the needs of actual operation of Shareholders' Meeting, revise the number of ballot inspectors and ballot counters, and identify that only shareholders may be appointed as ballot inspector.</p>
<p>Article 7</p> <p>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 candidate's name and <u>national ID number</u> or passport number.</p>	<p>Article 7</p> <p>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 candidate's name and <u>ID number</u> or passport number. However, if</p>	<p>Revise the article 7 and 8 as the Article 17 of Corporation's Articles of Incorporation has already specified the director candidate nomination system adopted pursuant to Article 192-1 of the Company Act.</p>

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After The Revision	Before The Revision	Description
<p>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. <u>When there are multiple representatives, the names of each respective representative shall be filled.</u></p>	<p>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.</p>	
<p>Article 8</p> <p>An on-site ballot shall be invalid if determined by all ballot inspectors to fall in any of the following circumstances:</p> <ol style="list-style-type: none"> (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 	<p>Article 8</p> <p>An on-site ballot shall be invalid if determined by all ballot inspectors to fall in any of the following circumstances:</p> <ol style="list-style-type: none"> (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 	<p>Same as above.</p>

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After The Revision	Before The Revision	Description
<p>shareholder account number, <u>national ID number, passport number</u> and the allocated number of votes.</p> <p>(5) The ballot is not filled in in accordance with Article 6 or 7.</p> <p>(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.</p> <p>(7) If the selected candidate is not a shareholder, <u>the candidate's name and national ID number or passport number filled in on the ballot</u> is verified as incorrect.</p> <p>(8) The names of two or more candidates are filled in on the same ballot.</p> <p>(9) The number of selected candidates exceeds the allowed number.</p>	<p>shareholder account number (or <u>identity document number</u>) and the allocated number of votes.</p> <p>(5) The ballot is not filled in in accordance with Article 6 or 7.</p> <p>(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.</p> <p>(7) If the selected candidate is not a shareholder, <u>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.</u></p> <p>(8) The names of two or more candidates are filled in on the same ballot.</p> <p>(9) The number of selected candidates exceeds the allowed number.</p>	

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After The Revision	Before The Revision	Description
<p>(10) <u>The name of the selected candidate filled in on the ballot does not conform to the roster of nominated candidate.</u></p> <p>(11) <u>There are over two candidates' name are same, neither shareholder account number, national ID number, passport number or other identity document is filled in on the ballot.</u></p> <p>(12) <u>The ballot is not inserted into the ballot box designated by the chair.</u></p> <p>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 ballot inspectors, who shall mark them as invalid and affix them with their signature or personal seal.</p>	<p>(10) <u>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.</u></p> <p>(11) <u>The ballot is not inserted into the ballot box designated by the chair.</u></p> <p>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 ballot inspectors, who shall mark them as invalid and affix them with their signature or personal seal.</p>	

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After The Revision	Before The Revision	Description
<p>Article 10</p> <p>The result of the voting shall be announced by the chair on site by indicating the <u>list of candidates elected as Directors and the numbers of votes with which they were elected.</u></p>	<p>Article 10</p> <p>The result of the voting shall be announced by the chair on site by indicating the <u>names of the candidates elected and their shareholder account numbers or, if not shareholders, their ID numbers (or passport numbers).</u></p>	<p>Considering the needs of actual operation of Shareholders' Meeting, revise the wording for announcing of result of the voting</p>

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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

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other attendance document. The shareholder attending the meeting shall surrender the 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.

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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 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.

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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.

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.

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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 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

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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 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

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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 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.

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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 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

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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.

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

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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 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

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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 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

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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.
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.

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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 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

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.

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8. H701010 Residence and Buildings Construction and Development, Lease, and Sale.
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

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the total number of shares of that issue, provided that it shall arrange for book-entry registration or custody with a central securities depository.

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.

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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.

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

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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.

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

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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 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

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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 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.

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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.
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

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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 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

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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 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)

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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 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

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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 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

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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 III

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 III

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

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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

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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 IV

Taiwan High Speed Rail Corporation Shareholding of All Directors		
All directors	Minimum required shareholding (number of common shares)	Shareholding as of March 26, 2018 (number of common shares)
Director	120,000,000	3,478,527,178
Title	Name	Shareholding as of March 26, 2018 (number of common shares)
Director	China Aviation Development Foundation	260,040,000
	Representative: Chiang Yao-Chung	
Director	China Aviation Development Foundation	2,420,000,000
	Representative: Tsai Huang-Liang	
Director	Ministry of Transportation and Communications, R.O.C.	190,060,578
	Representative: Liu Ming-Ching	
Director	TECO Electric & Machinery Co., Ltd.	20,277,600
	Representative: Huang Mao-Hsiung	
Director	Taipei Fubon Commercial Bank Co., Ltd.	242,148,000
	Representative: Liu Kuo-Chih	
Director	China Steel Corporation	10,001,000
	Representative: Wong Chao-Tung	
Director	TSRC Corporation	200,000,000
	Representative: Chiang Chin-Shan	
Director	Taiwan Sugar Corporation	120,000,000
	Representative: Kwan Tao-I	
Director	Management Committee of National Development Fund, Executive Yuan	16,000,000
	Representative: Kao Shien-Quey	
Director	Evergreen Steel Corporation	—
	Representative: Ko Lee-Ching	
Independent Director	Ding Kung-Wha	—
Independent Director	Chiu Kenneth Huang-Chuan	—
Independent Director	Poo David Da-Wei	—
Shares held by all directors		3,478,527,178