



Procedures for the Acquisition or Disposal of Assets

Note: The original version of this regulation is published in Chinese. In case of discrepancy between the Chinese and English versions the Chinese version shall prevail.

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Procedures for the Acquisition or Disposal of Assets

1.0 Purpose

These Procedures are adopted to protect investment through acquisition or disposal of assets at fair prices, to effect public disclosure of information, to define asset acquisition and disposal procedures, and to avoid asset waste and malpractices.

2.0 Scope

The term "assets" in these Procedures shall apply to the following:

- a) Investments such as stocks, government bonds, corporate bonds, financial bonds, securities representing funds, depositary receipts, call (or put) warrants, beneficial interest securities, and asset-backed securities.
- b) Real property (including land, buildings, and structures and investment real property) and equipment.
- c) Intangible assets such as patents, copyrights, trademark rights, and concession rights.
- d) Derivatives.
- e) Right-to-use asset.
- f) Derivatives.
- g) Other material assets.

3.0 Applicable documentation

- a) Article 36-1 of the Securities and Exchange Act.
- b) Article 41 of the Securities and Exchange Act.
- c) Article 218 of the Company Act.
- d) The Regulations Governing the Acquisition and Disposal of Assets by Public Companies issued by the Financial Supervisory Commission.
- e) The Corporation's Operational Directions for Short-term Investments (THSRC-BE3-000-001).
- f) The Corporation's Procedures for the Handling of Derivative Transactions (THSRC-BE2-000-006).
- g) The Corporation's Directions for the Handling of Public Announcements and Reporting over the Market Observation Post System (THSRC-BE2-000-023).
- h) The Corporation's Regulation of Related Party Transaction(THSRC-AQ2-000-012).
- i) Article 42 of the Act for Encouragement of Private Participation in Transportation Infrastructure Projects.

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- j) Article 22 of the Enforcement Rules of the Act for Encouragement of Private Participation in Transportation Infrastructure Projects.
- k) The Taiwan North-South High Speed Rail Construction and Operation Agreement signed between the Corporation and the Ministry of Transportation and Communications (MOTC) (the "Construction and Operation Agreement").
- l) The Corporation's Rules Governing Rewards and Disciplinary Action (THSRC-BA2-000-003).
- m) The Regulations Governing the Preparation of Financial Reports by Securities Issuers issued by the Financial Supervisory Authority.

4.0 Definitions

a) Derivatives

Defined in accordance with 4.1 of the Corporation's Procedures for the Handling of Derivative Transactions (THSRC-BE2-000-006).

b) Related party

Shall be determined in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

c) Subsidiary

Shall be determined in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

d) Professional appraiser

Means a certified real property appraiser or other person duly authorized by law to engage in the value appraisal of real property and equipment.

e) Date of occurrence

With respect to a transaction, means the earliest of the date of signing of transaction contract, date of payment, date of order execution, date of transfer, date of Board of Directors ("Board") resolution, or other date from which the transaction counterparty and transaction amount can be determined, or, if the transaction is an investment requiring the approval of the competent authority, the earliest of the aforesaid dates or the date of receiving approval from the competent authority.

f) Total assets

The total assets stated in the latest parent company only financial report or individual financial report prepared under the Regulations Governing the Preparation of Financial Reports by Securities Issuers shall be used.

5.0 Authorities and responsibilities

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- a) The Finance Department under the Finance Division shall be responsible for the formulation, amendment, or repeal, and triennial review of these Procedures.
- b) These Procedures, and any amendments and elimination hereto, shall be implemented after adoption at a shareholders' meeting.
- c) All units and personnel involved in the execution of operations related to acquisition or disposal of assets shall comply with the provisions of these Procedures.

6.0 Descriptions

6.1 Assessment of transaction terms and execution operations

6.1.1 Long-term investments

- a) The investment department shall, on a case-by-case basis, measure the operational risks of or associated with the investee entity based on the financial structure, asset and liability status, operational ability, internal and external environment, profitability, investment recovery period, and other relevant matters, and submit an investment proposal containing a feasibility assessment and specifying a proposed investment amount to and obtain approval from an officer having the corporate decision-making authority over the investment disbursement. It shall then submit the proposal to the Board for approval and then to the MOTC and proceed accordingly after approval.
- b) For a case involving a long-term investment not accounted for using the cost method, in addition to the assessment indicated above, the investment department shall also submit a return-on-investment analysis or financial forecasts for the recovery period to serve as a basis for measuring the impact of the investment on the Corporation's future development.
- c) Create and maintain a Schedule of Investments specifying relevant information such as the acquisition date, face value, acquisition cost, and payment date(s).
- d) Periodically track whether the returns on investment reach the assessment standards and conduct feasibility analysis on continuous holding or disposal of equity.

6.1.2 Short-term investments

- a) The main purpose of short-term investment is to generate profits from short-term extra funds. Therefore, investment securities must be both marketable and readily available for sale. Emphasis shall be put first on liquidity and then on profitability. Short-term investments have 2 features:
 - i) There is an open market on which the investments can be readily sold and liquidated, without having to pay substantial sale expenses or incur losses arising from the need to cut price to make a sale.
 - ii) The purpose of the investment is not to control the investee company or establish a business relationship with the investee company.
- b) The investment department shall collect and summarize information regarding the economic conditions of the market, capital, and market forecasts, propose an assessment

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report based on such information, and then submit the proposal to the accountable officer having the corporate decision-making authority over the investment to make a decision.

- c) Additionally, relevant investment risk assessments shall be made in accordance with the Corporation's Operational Directions for Short-term Investments (THSRC-BE3-000-001).
- d) Investment assessment principles:
 - i) For investment in a company listed on a stock exchange or listed on an over-the-counter market, assess financial structure, profitability, and future development potential.
 - ii) For investment in corporate bonds, convertible bonds, or likewise, assess the matters indicated above, with a particular emphasis on repayment ability, and only consider secured bonds.
 - iii) For investment in funds or likewise, assess operational performance and investment safety.
 - iv) For investment in government bonds, bills, or likewise, assess market capital conditions to determine the investment period.
- e) Provide a monthly balance and profit and loss statement of short-term investments for reference by decision makers.
- f) Short-term investments may be disposed of only after the investment department has made an assessment and submitted a completed application form or special internal approval request form, together with a performance assessment report stating the reason for disposal, method of disposal, and other relevant information, to and obtained approval from the accountable officer having the corporate decision-making authority over the subject matter.

6.1.3 Real property

When assessing a real property investment, the investment department shall conduct a market survey, profit analysis, investment recovery period analysis, and other relevant analyses. It shall then submit the results to the officer having the corporate decision-making authority over the investment for approval, and then to the Board for approval.

6.1.4 Equipment

- a) A department requesting to make a purchase for equipment it needs must accurately fill out a purchase request form, obtain approval from the accountable officer having the corporate decision-making authority over the subject matter, and then submit the purchase request to the procurement department.
- b) The procurement department shall carry out the price enquiry, comparison, and negotiation procedures in accordance with applicable requirements.
- c) The purchased equipment shall be inspected and accepted jointly with the purchase requesting department and then handed over to the purchase requesting unit.

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d) After inspection and acceptance, the purchase requesting department shall fill out a disbursement voucher and a new asset entry list, and submit them, together with supporting source documents, to the accountable officer for approval and then to the accounting department for posting of entries.

6.1.5 Membership certificates or intangible assets

Assessment of transaction terms and execution operations for acquisition or disposal of membership certificates or intangible assets shall be carried out in accordance with applicable government laws and regulations and relevant signed contracts.

6.1.6 Derivatives

Assessment of transaction terms and execution operations for acquisition or disposal of derivatives shall be carried out in accordance with the Corporation's Procedures for the Handling of Derivative Transactions (THSRC-BE2-000-006).

6.1.7 Right-to-use asset

If real estate, equipment or intangible assets leased in accordance with relevant regulations and contracts of the Corporation are determined to be right-to-use assets, the relevant procedures shall be handled in accordance with this processing procedure.

6.1.8 Other material assets

Assessment of transaction terms and executive operations for acquisition or disposal of material assets other than those indicated above shall be carried out in accordance with the Corporation's relevant operational rules and applicable government laws and regulations according to the type of the material assets.

6.2 Decision procedures for transaction terms

For acquisition or disposal of assets, the Corporation shall, according to asset type and in accordance with the following requirements, respectively engage an objective, impartial, detached, and independent expert to issue a report, wherein the engaged professional appraiser and its appraiser's officers, certified public accountant (CPA), lawyer, or securities underwriter whose qualification requirements and issuance of valuation reports or opinions shall be handled in accordance with the relevant provisions of the "Regulations Governing the Acquisition and Disposal of Assets by Public Companies" issued by the Financial Supervisory Commission.

6.2.1 Real property or other fixed assets

When the Corporation acquires or disposes of real property or equipment, and right-to-use asset, if the transaction amount reaches 20 percent or more of the Corporation's paid-in capital or NT\$300 million or more, then unless the transaction is made in accordance with the Construction and Operation Agreement, or unless the transaction is made with a government agency or involves commissioned construction on self-owned land, commissioned construction on rented land, or acquisition or disposal of equipment and right-to-use asset for business use, the Corporation shall obtain an appraisal report from a professional appraiser prior to the date of occurrence of the event and shall further comply with the following requirements:

a) Where due to special circumstances it is necessary to use a limited price, specified price, or special price as a reference basis for the transaction price, the transaction shall first be submitted

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for approval by resolution of the Board. the same procedure shall also be followed whenever there is any subsequent change to the terms and conditions of the transaction.

- b) Where the transaction amount reaches NT\$1 billion or more, two or more professional appraisers shall be engaged to provide appraisals.
- c) Where any of the following circumstances exists with respect to the results of a professional appraisal, unless all the appraisal results for the assets to be acquired are higher than the transaction amount, or all the appraisal results for the assets to be disposed of are lower than the transaction amount, a CPA shall be engaged to issue a specific opinion regarding the reason for the discrepancy and the appropriateness of the transaction price:
 - i) The discrepancy between an appraisal result and the transaction amount reaches 20 percent or more of the transaction amount.
 - ii) The discrepancy between the results of 2 or more professional appraisals reaches 10 percent or more of the transaction amount.
- d) The interval between the date of a professional appraisal report and the date of the transaction contract may not exceed 3 months. However, if the announced current value for the same period is used and the interval does not exceed 6 months, an opinion from the original professional appraiser may be used.

6.2.2 Securities

When acquiring or disposing of equity securities, the Corporation shall, prior to the date of occurrence of the event, obtain the latest financial statements of the issuing company attested or reviewed by a CPA, for reference in assessing the transaction price. If the transaction amount reaches 20 percent or more of the Corporation's paid-in capital or NT\$300 million or more, unless the securities are publicly quoted in an active market or unless otherwise prescribed by the competent authority, the Corporation shall engage a CPA prior to the date of occurrence of the event to provide an opinion regarding the reasonableness of the transaction price.

6.2.3 Membership certificates or intangible assets

When the Corporation acquires or disposes of intangible assets and, its right-to-use asset or membership certificates, if the transaction amount reaches 20 percent or more of the Corporation's paid-in capital or NT\$300 million or more, unless the transaction is made with a government agency, the Corporation shall engage a CPA prior to the date of occurrence of the event to provide an opinion regarding the reasonableness of the transaction price.

6.2.4 When the Corporation acquires or disposes of assets through court auction procedures, the evidentiary documentation issued by the court may be substituted for the appraisal report or CPA opinion.

6.3 Decision-making authority

6.3.1 For acquisition or disposal of assets, the hierarchy of decision-making authority and the discretionary amount within the authority shall be determined in accordance with the Corporation's relevant operational rules.

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6.3.2 In any acquisition or disposal of assets that requires the approval of the Board pursuant to these Procedures or other provisions of law, during discussions at a Board meeting, the opinions of each Director shall be given full consideration. When a Director expresses dissent and such dissent is on record or in a written statement, the Corporation shall forward the materials containing the Director's dissent to Audit Committee.

When an acquisition or disposal of assets is submitted to and discussed at a Board meeting pursuant to the preceding paragraph, the opinions of each Independent Director shall be given full consideration, and any Independent Director's opinion expressing dissent or reservations shall be recorded in the Board meeting minutes.

Any material asset or derivative transaction shall be approved by one-half or more of the total number of audit committee members and shall be submitted for a resolution by the Board.

If approval from one-half or more of the total number of audit committee members has not been obtained under the preceding paragraph, the transaction may still be carried out with the approval of two-thirds or more of the total number of Directors, and the resolution of the audit committee shall be recorded in the Board meeting minutes.

The "total number of audit committee members" referred to in the preceding 2 paragraphs and the "total number of Directors" referred to in the preceding paragraph shall be calculated with respect to those actually currently serving in those positions.

6.4 Public announcement and reporting operations

6.4.1 Public announcement and reporting standards

When the Corporation acquires or disposes of assets, if any of the following circumstances exists, it shall publicly announce and report relevant information, according to the type of acquisition or disposal, on the competent authority's designated website in the appropriate format prescribed by regulations within 2 days from the date of occurrence of the event:

- a) Any acquisition or disposal of real property or its right-to-use asset from or to a related party, or any acquisition or disposal of assets other than real property or its right-to-use asset from or to a related party where the transaction amount reaches 20 percent or more of the Corporation's paid-in capital, 10 percent or more of its total assets, or NT\$300 million or more, provided that this shall not apply to trading of domestic government bonds or bonds under repurchase or resale agreements, or subscription or redemption of domestic money market funds issued by domestic securities investment trust enterprises.
- b) Any change, termination, or rescission of a contract signed in connection with an originally announced and reported transaction.
- c) Any change to any originally announced and reported information.
- d) Any asset transaction or disposal of claims or receivables other than those indicated in a) to c) above where the transaction amount reaches 20 percent or more of the Corporation's paid-in capital or NT\$300 million or more, provided that this shall not apply to the following transactions:
 - i) Trading of domestic government bonds or foreign bonds with credit ratings no lower than domestic sovereign ratings.

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- ii) Trading of bonds under repurchase or resale agreements, or subscription or redemption of domestic money market funds issued by domestic securities investment trust enterprises.
- iii) The acquired or disposed assets are equipment or its right to-use asset for business use, or are transactions in government bonds, ordinary corporate bonds, and general bank debentures without equity characteristics (excluding subordinated debt) traded on securities exchanges or OTC markets, where the transaction counterparty is not a related party, nor does the transaction amount reach 5 percent of paid-in capital or more.
- iv) Real property is acquired under an arrangement for commissioned construction on self-owned land, commissioned construction on rented land, joint construction and allocation of building units, joint construction and allocation of ownership percentages, or joint construction and separate sale, where the transaction counterparty is not a related party, nor does the transaction amount reach NT\$500 million or more (calculated according to the amount the Corporation expects to invest in the transaction).

6.4.2 The "transaction amount" shall be calculated as follows:

- a) As the amount of any individual transaction.
- b) As the cumulative transaction amount of acquisitions or disposals of the same type of assets with the same transaction counterparty within 1 year.
- c) As the cumulative transaction amount of real property or its right-to-use asset acquisitions or disposals (the cumulative amounts to be calculated separately for acquisitions and disposals) in the same development project within 1 year.
- d) As the cumulative transaction amount of acquisitions or disposals (the cumulative amount to be calculated separately for acquisitions and disposals) of the same securities within 1 year.

6.4.3 The expression "within 1 year" referred to in the preceding subparagraph means a preceding period of 1 year calculated from the date of occurrence of the current transaction. Items already duly publicly announced in accordance with these Procedures need not be counted toward the transaction amount.

6.4.4 When an item that the Corporation is required to publicly announce and has publicly announced is found to contain an error or omission and correction is required, all items of the public announcement shall be again publicly announced and reported in their entirety within 2 days from the date of notification.

6.4.5 Retention period for public announcement and reporting materials

The Corporation shall keep at its headquarters all contracts, meeting minutes, the log book, appraisal reports, and opinions from CPAs, lawyers, or securities underwriters relevant to its acquisition or disposal of assets, to be retained for at least 5 years unless otherwise provided by law.

6.4.6 Public announcement and reporting of subsidiaries

- a) The Corporation shall publicly announce and report on behalf of any of its subsidiaries that is not a domestic public company, any acquisition or disposal of assets by the subsidiary that reaches any public announcement and reporting standard set out in these

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- b) The public announcement and reporting standard applicable to a subsidiary with respect to reaching "20 percent or more of the Corporation's paid-in capital" or "10 percent or more of the Corporation's total assets" shall be based on the paid-in capital or total assets of the Corporation itself.

6.4.7 Public announcement and reporting procedure

Any public announcement or reporting that the Corporation is required to make with respect to its acquisition or disposal of assets shall be made pursuant to the public announcement format requirements and appraisal report content requirements prescribed by the competent authority and in accordance with the Corporation's Directions for the Handling of Public Announcements and Reporting over the Market Observation Post System (THSRC-BE2-000-023).

6.5 Limits on asset acquisitions

6.5.1 The total amount of real property acquired by the Corporation for non-business use may not exceed one-fourth of the Corporation's equity.

6.5.2 The amount of an individual security acquired by the Corporation may not exceed one-fourth of the Corporation's equity, and the total amount of securities acquired may not exceed the Corporation's equity.

6.6 Related party transactions

6.6.1 When the Corporation acquires or disposes of assets from or to a related party, it shall carry out the relevant decision/resolution procedures, assessment of the reasonableness of the transaction terms, and other relevant matters in accordance with 6.2 and 6.6. In judging whether a transaction counterparty is a related party, consideration shall be given to the substantive nature of the relationship in addition to its legal form. If the transaction amount reaches 10 percent or more of the Corporation's total assets, the Corporation shall also obtain an appraisal report(s) from a professional appraiser(s) or a CPA's opinion in accordance with 6.2.1 to 6.2.3.

For the purposes of the preceding paragraph, the "transaction amount" shall be determined in accordance with 6.4.2 and 6.4.3, and the expression "within 1 year" means a preceding period of 1 year calculated from the date of occurrence of the current transaction. Items for which an appraisal report(s) from a professional appraiser(s) or a CPA's opinion has been obtained in accordance with these Procedures need not be counted toward the transaction amount.

6.6.2 When the Corporation acquires or disposes of real property or its right-to-use asset from or to a related party, or when it acquires or disposes of other material assets other than real property or its right-to-use asset from or to a related party where the transaction amount reaches 20 percent or more of the Corporation's paid-in capital, 10 percent or more of the Corporation's total assets, or NT\$300 million or more, except with respect to trading of domestic government bonds or bonds under repurchase or resale agreements, or subscription or redemption of domestic money market funds issued by domestic securities investment trust enterprises, the Corporation may not sign a transaction contract or make or receive a payment in connection therewith until a proposal containing or accompanied by the following information has been passed by the Audit Committee and the Board:

- a) The purpose, necessity, and anticipated returns of the acquisition or disposal of assets.

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- b) The reason for choosing the related party as the transaction counterparty.
- c) In the case of acquiring real property from a related party, information regarding assessment of the reasonableness of the proposed transaction terms in accordance with 6.6.3, 6.6.4, and 6.6.7.
- d) The date and price at which the related party originally acquired the asset, the original transaction counterparty, that transaction counterparty's relationship to the Corporation and the related party, and other relevant matters.
- e) Monthly forecast report of cash receipts and expenditures for the year commencing from the anticipated month of signing the contract and an assessment of the necessity of the transaction and the reasonableness of funds utilization.
- f) An appraisal report(s) from a professional appraiser(s) or a CPA's opinion obtained in accordance with 6.6.1.
- g) Any restrictive conditions or other material covenants with respect to the current transaction.

If the Corporation or its non-domestic public subsidiaries engage in the transactions of the preceding paragraph with transaction amounts exceeding 10% of total Corporation assets, the Corporation may not sign a transaction contract or make a payment in connection therewith until a proposal containing the information of the preceding paragraph has been passed by the shareholders' meeting, except in the cases of transactions with subsidiaries or between subsidiaries.

For the purposes of the preceding paragraphs, the "transaction amount" shall be determined in accordance with 6.4.2, and the expression "within 1 year" means a preceding period of 1 year calculated from the date of occurrence of the current transaction; items that have been approved by the Audit Committee, the Board, and the shareholders' meeting in accordance with these Procedures need not be counted toward the transaction amount.

For acquisition or disposal of equipment or its right-to-use asset and real property or its right-to-use asset for business use between the Corporation and any of its subsidiaries or between the subsidiaries that are directly or indirectly holding a certain percentage of the issued shares or total capital, the Board may grant discretionary authority to the Chairman of the Board to decide on such transactions within a certain amount and subsequently submit the matter to the next Board meeting for retroactive recognition.

In accordance with the Securities and Exchange Act, when an acquisition or disposal of assets is submitted to and discussed at a Board meeting pursuant to paragraph 1, the opinions of each Independent Director shall be given full consideration, and any Independent Director's opinion expressing dissent or reservations shall be recorded in the Board meeting minutes.

In accordance with the Securities and Exchange Act, any material asset or derivative transaction shall be approved by one-half or more of the total number of Audit Committee members and shall be submitted for a resolution by the Board.

If approval from one-half or more of the total number of audit committee members has not been obtained under the preceding paragraph, the transaction may still be carried out with the approval of two-thirds or more of the total number of Directors, and the resolution of the audit committee shall be recorded in the Board meeting minutes.

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The "total number of audit committee members" referred to in the preceding 2 paragraphs and the "total number of Directors" referred to in the preceding paragraph shall be calculated with respect to those actually currently serving in those positions.

- 6.6.3 When acquiring real property or its right-to-use asset from a related party, the Corporation shall assess the reasonableness of the transaction costs by the following methods.etc:
- a) Based on the related party transaction price plus necessary interest on funding and the costs to be borne by the buyer in accordance with the law. "Necessary interest on funding" is the imputed weighted average interest rate on the Corporation's borrowing of funds in the year the Corporation purchases the property. That interest rate, however, may not be higher than the maximum interest rate on borrowing of funds from non-financial enterprises announced by the Ministry of Finance (MOF).
 - b) Where the related party has previously created a mortgage on the property as security for a loan from a financial institution, based on the appraised loan value of the property from the financial institution, provided that the financial institution's actual cumulative loan value against the property shall have reached 70 percent or more of the appraised loan value of the property and the loan period shall have been 1 year or more. This shall not apply, however, if the financial institution and one of the transaction counterparties are related parties.
- 6.6.4 When land and buildings thereon are combined as a single property purchase or lease, separate assessments of the transaction costs for the land and the buildings may be carried out in accordance with either of the methods listed in 6.6.3.
- 6.6.5 When the Corporation acquires real property or its right-to-use asset from a related party and assesses the cost of the real property in accordance with 6.6.3~6.6.4, it shall also engage a CPA to conduct a secondary review and provide a specific opinion.
- 6.6.6 When the Corporation acquires real property or its right-to-use asset from a related party, if one of the following circumstances exists, the acquisition shall be carried out in accordance with 6.6.2 and the provisions of 6.6.3~6.6.5 shall not apply:
- a) The related party acquired the real property or its right-to-use asset through inheritance or as a gift.
 - b) More than 5 years will have elapsed from the time the related party signed the contract to acquire the real property or its right-to-use asset to the signing date for the current transaction.
 - c) The real property is acquired as a result of or in connection with signing a joint construction contract with the related party or commissioning the related party to construct real property on the Corporation's own land or rented land.
 - d) For acquisition or disposal of real property or its right-to-use asset for business use between the Corporation and any of its subsidiaries or between the subsidiaries that are directly or indirectly holding 100% of issued shares or total capital.
- 6.6.7 When the assessment results under 6.6.3 and 6.6.4 are all lower than the transaction price, the matter shall be handled in accordance with 6.6.9 to 6.6.10. This does not apply, however, if the following circumstances exist and the Corporation puts forward objective evidence and obtains specific opinions on reasonableness from a professional real property appraiser and a

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CPA:

- a) Where the related party has acquired undeveloped land or rented land for further development or construction, the Corporation may provide evidence that the transaction complies with one of the following conditions:
 - i) The undeveloped land has been assessed in accordance with the means provided in 6.6.3 to 6.6.6, while the buildings have been assessed based on the related party's construction costs plus a reasonable construction profit margin, and the total assessed value of the land and buildings exceeds the actual transaction price. "Reasonable construction profit margin" shall be the lower of the average gross operating profit margin of the related party's construction division over the most recent 3 fiscal years or the gross profit margin for the construction industry for the most recent period as announced by the MOF.
 - ii) There are cases of purchase or leasing transactions completed by unrelated parties within the preceding year for other floors of the same property or property in an adjacent location, in which the properties are similar in area and the transaction terms in the current and in the cited cases are found to be similar after an assessment taking account of reasonable discrepancies in the prices of the different floors or locations in accordance with customary real property market practices.
- b) The Corporation provides evidence that, for the real property it purchases or the right-to-use asset it leases from the related party, the transaction terms are similar to those of cases of purchase transactions completed by unrelated parties within the preceding year in an adjacent location and the properties are also similar in area.

6.6.8 For the purposes of 6.6.7, "cases of purchase transactions completed in an adjacent location" in principle refers to property on the same or an adjacent block and furthermore within a circumference of no more than 500 meters from the property in the current transaction or of a similar publicly announced current value; "similar in area" in principle refers to cases of purchase transactions completed by unrelated parties for property with an area of no less than 50 percent of the property in the current transaction; "within the preceding year" refers to a preceding period of 1 year calculated from the date of occurrence of the current real property or its right-to-use asset acquisition.

6.6.9 When the Corporation acquires real property or its right-to-use asset from a related party, if the assessment results under 6.6.3~6.6.8 are all lower than the transaction price, the following actions shall be taken:

- a) A special reserve shall be set aside in accordance with Article 41, paragraph 1 of the Securities and Exchange Act against the difference between the real property or its right-to-use asset transaction price and assessed cost, and the reserve may not be distributed or used for a capitalization issue.
- b) The Audit Committee shall proceed in accordance with Article 218 of the Company Act.
- c) Actions taken pursuant to the items a) & b) shall be reported at a shareholders' meeting, and the details of the transaction shall be disclosed in the annual report and prospectus.

6.6.10 When the Corporation sets aside a special reserve under 6.6.9 a), it may not utilize the special reserve until it has recognized a loss on decline in market value of the assets it purchased or leased at a premium, or has disposed of, or terminated lease for, or made adequate compensation for, or restored the *status quo ante* of such assets, or there is other evidence to confirm there was nothing unreasonable in the transaction, and the competent authority has given its approval.

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6.6.11 When the Corporation acquires real property or its right-to-use asset from a related party, if other evidence indicates that the acquisition was a non-arms length transaction, the Corporation shall also proceed in accordance with 6.6.9~6.6.10.

6.6.12 When acquiring real property or its right-to-use asset from related parties, the Corporation shall comply with the provisions of these Regulations of Related Party Transactions (THSRC-AQ2-000-012).

6.7 Other legal, regulatory, or contractual provisions

The Corporation's transfer or disposal of assets shall be conducted in accordance with Article 42 of the Act for Encouragement of Private Participation in Transportation Infrastructure Projects, Article 22 of the Enforcement Rules of the Act for Encouragement of Private Participation in Transportation Infrastructure Projects, and relevant provisions of the Construction and Operation Agreement.

6.7.1 Transfer of assets at or before expiration of the concession period

Any transfer of the Corporation's assets at or before expiration of the concession period shall be made in accordance with relevant provisions of Chapters 10 and 11 of the Construction and Operation Agreement with respect to the subject matter of transfer, transfer procedures, transfer terms and evaluation, and rights and obligations at and after transfer.

6.7.2 Disposal of assets

Any disposal of the Corporation's assets shall be made in accordance with Article 42 of the Act for Encouragement of Private Participation in Transportation Infrastructure Projects and Article 22 of the Enforcement Rules of the Act for Encouragement of Private Participation in Transportation Infrastructure Projects. The Corporation may on its own initiative dispose of any asset or equipment acquired in its operations of affiliated businesses that do not need to be transferred to the MOTC.

6.7.3 The terms "assets," "transfer," and "disposal" as used in the Construction and Operation Agreement shall have the following meanings:

- a) "Assets" means any and all existing "operating assets" acquired by the Corporation for purposes related to the construction and operation of the high speed rail, and other assets necessary for maintaining the operation of the high speed rail, during the concession period in accordance with the Construction and Operation Agreement. Excluded are lands acquired by the Corporation for its own purposes.
- b) "Operating assets" includes all buildings and structures, transportation facilities, and their ancillary facilities on lands along the high speed rail route, on maintenance bases, and on station lands.
- c) "Transfer" means the transfer made between the Corporation and the MOTC at expiration of the concession period in accordance with Article 45 of the Act for Encouragement of Private Participation in Transportation Infrastructure Projects.
- d) "Disposal" includes assignment, leasing out, and encumbrance.

6.8 Supplementary provisions

Taiwan High Speed Rail Corporation
Procedures for the Acquisition or Disposal of Assets

- 6.8.1 The operational procedures of the Corporation's subsidiaries for the acquisition or disposal of assets shall comply with the provisions of the Corporation.
- 6.8.2 When an in-charge person or management member violates these Procedures or applicable requirements of the competent authority, the violation shall be handled in accordance with the Corporation's Rules Governing Rewards and Disciplinary Action (THSRC-BA2-000-003).
- 6.8.3 The Corporation shall acquire or dispose of assets in accordance with these Procedures, provided that where a law, regulation, or contract provides otherwise, the provisions of such law, regulation, or contract shall prevail.
- 6.8.4 These Procedures shall be approved by one-half or more of the total number of Audit Committee members and passed by the Board, and submitted to a shareholders' meeting for approval. When these Procedures are submitted to and discussed at a Board meeting pursuant to the preceding paragraph, the opinions of each Independent Director shall be given full consideration, and any Independent Director's opinion expressing dissent or reservations shall be recorded in the Board meeting minutes. The same procedures shall also apply to any amendments to these Procedures.

If approval from one-half or more of the total number of audit committee members has not been obtained under the preceding paragraph, the amendment may still be adopted with the approval of two-thirds or more of the total number of Directors, and the resolution of the audit committee shall be recorded in the Board meeting minutes.

The "total number of audit committee members" referred to in the preceding 2 paragraphs and the "total number of Directors" referred to in the preceding paragraph shall be calculated with respect to those actually currently serving in those positions.

7.0 Records

- a) Shareholders' meeting minutes (retention period: permanently)
- b) Board meeting minutes (retention period: permanently)
- c) Relevant contracts (retention period: permanently)
- d) Log book (retention period: permanently)
- e) Internal request and approval documents (retention period: permanently)
- f) Assessment reports (retention period: permanently)
- g) Seal request forms (retention period: as provided in the the Rules Governing Official Documents and Files)
- h) Appraisal reports (retention period: permanently)
- i) Opinions from CPAs, lawyers, or securities underwriters (retention period: permanently)
- j) Reporting lists of public announcements and reporting over the Market Observation Post System (retention period: 5 years)

8.0 Attachments

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None