

# **Taiwan High Speed Rail Corporation**

## **Minutes for 2017 Annual Shareholders' Meeting**

Meeting time: May 24, 2017 at 9:00 a.m.

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

Attending directors: Chiang Yao-Chung, Lin Chen-Kuo, Wu Yeong-Chyan, Ho I-Hsi, Huang Mao-Hsiung, Ho Chieh-Teng, Tsai Huang-Liang, Kao Shien-Quey

(A total of 8 directors were in attendance at the Annual Shareholders' Meeting, representing more than one-half of all 14 Company directors.)

Attendees: Deloitte & Touche: Ho Jui-Hsuan, Lai Kwan-Chung

Baker McKenzie: Lindy L. Y. Chern, Joseph C. S. Fu

Ministry of Transportation and Communications and Bureau of High Speed Rail guidance personnel:

Acting Chief Secretary Rau Kuo-Jeng, Deputy Director Tseng Fan-Chung, Chief Chen Wen-Mei, Executive Officer Liu Hsiu-Ching, Officer Lee Yang-Ying, Officer Weng I-Wen, Specialist Yang Chun-Hua

Chairman: Chiang Yao-Chung

Recorded by: Barret Wang

Attending shareholders: Total number of outstanding Company shares amounts to 5,628,293,058 shares. Of these, 4,497,445,747 common shareholders attended in person, 219,008,364 common shareholders attended electronically, 0 common shares were publicly solicited proxies, and 63,058,614 common shares were non-solicited proxies. The total number of participating common shares was 4,779,512,725 shares; the attendance rate was 84.91%.

Meeting commencement: The Chairman announced the commencement of the meeting as shares represented by attending shareholders had reached the number legally required for shareholders' meetings.

Chairman's opening speech: Omitted.

I. Management Presentation

Report No. 1: Report on the Company execution of corporate governance. (Please refer to Appendix 1.)

Report No. 2: Report on allocation of 2016 remuneration to board of directors and compensation to employees. (Please refer to Appendix 2.)

Additional explanation made by Chairman:

The “Taiwan Stock Exchange” and the “Securities and Futures Investors Protection Center” both dispatched letters expressing concern regarding the reasonableness of the Company’s director remuneration for the fiscal years 2016 and 2015. In accordance with these missives, the Company provided additional explanation regarding the “reasonableness of director remuneration for the fiscal year 2016” during the Remuneration Committee meeting held on May 3, 2016. The explanation, acknowledged without objection by all committee members, was set out in the meeting minutes for review.

The Company’s director remuneration for the fiscal year 2016 was calculated in accordance with the Company Act and the Company’s Articles of Incorporation; which was further resolved by the Board of Directors following recommendations made by the Remuneration Committee. We would like to hereby clarify the allocation process for distribution of director remuneration for the fiscal years 2015 and 2016 and the reasons behind the 16,723,532 thousand NTD decline in net profit after tax for 2016 (as compared with 2015). Here we ask the Master of Ceremonies to read out the following on behalf of the Company:

(A) Regarding director remuneration for the fiscal year 2016:

Net profit after tax for fiscal year 2016 was 4,149,098 thousand NTD. Pre-tax benefits before deduction of employee and director remuneration amounted to 5,099,566 thousand NTD, and there were no accumulated losses to offset. On March 21, 2017, the Board resolved to allocate 1% of pre-tax benefits, amounting to 50,996 thousand NTD, as director remuneration in accordance with relevant laws and regulations and the Company’s Articles of Incorporation.

(B) Regarding director remuneration for the fiscal year 2015:

- (1) Net profit after tax for fiscal year 2015 was approximately 20,872,630 thousand NTD, mainly due to the one-off financial impact of THSRC's implementation of relevant financial restructuring measures, including recognition of outstanding losses of 12,096,971 thousand NTD for services provided for priority tickets as required by law, rebate reductions of 22,613,234 thousand NTD from termination of station development contracts and return of surface rights, and allowance of 15,161,065 thousand NTD for compensation of preferred stocks. Relevant net financial benefits were used to cover accumulated losses in accordance with THSRC financial restructuring solutions.
- (2) In accordance with the Company's Articles of Incorporation, surplus after offsetting for accumulated losses for fiscal year 2015 was calculated as 2,112,405 thousand NTD; on March 29, 2016, the Board resolved to allocate 1% of the aforementioned surplus, amounting to 21,124 thousand NTD, as director remuneration in accordance with relevant laws and regulations and the Company's Articles of Incorporation.
- (3) Additionally, starting in October of 2015, the method of amortization used for operating concession assets was changed to straight-line amortization, with extension of concession period used as the amortization period. In future, the amortization of operating concession assets will no longer be calculated using the ridership percentage amortization method used prior to extension of concession period. Accordingly, it is planned that straight-line amortization, with extension of concession period used as the amortization period, will be used for amortization of operating concession assets (including rollover costs) starting January 1, 2015; after deducting the impact of one-off items, the pro forma income before tax for fiscal year 2015 was 5,283,332 thousand NTD.

(C) The 80% decline in net profit after tax in 2016 (compared to 2015) was mainly due to a lack of impact from the three one-off benefits (losses) relating to THSRC financial restructuring measures in 2016. If one-off benefits (losses) were excluded, fiscal years 2015 and 2016 showed a similar amount of net profits after tax, and hence its nexus to allocation of director remuneration is considered reasonable.

In summary, we wish to report to the shareholders that the allocation of director remuneration for fiscal years 2015 and 2016 were in accordance with the Company's Articles of Incorporation, were subject to recommendations from the Remuneration Committee prior to approval by the Board of Directors, and were in compliance with relevant laws and regulations for corporate governance.

Resolution: Following the first and second management presentations, the Chairman received no objections from all shareholders present, and the reports were acknowledged by the shareholders.

## II. Proposals

Proposal No. 1: Proposed by the Board

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

Explanation: The 2016 business report (please refer to Appendix 3) along with financial statements (please refer to Appendix 4) of the Company have been approved on February 22, 2017 by the 25th meeting of the 7th Board. The financial statements were audited by certified public accountants, and audit report thereto was issued on February 22, 2017 (please refer to Appendix 5), distributed to Audit Committee for review (please refer to Appendix 6), and is hereby submitted for adoption at shareholders' annual general meeting.

Chairman's decision: As objections were raised by a number of shareholders during the electronic voting process, the proposal shall be put to a vote.

Resolution: Voting results for this proposal was as follows:

(For this proposal, 4,518,738,091 common shareholders attended in person,

219,008,364 common shareholders attended electronically, 0 common shares were publicly solicited proxies, and 63,122,614 common shares were non-solicited proxies. The total number of participating common shares was 4,800,869,069 shares, amounting to 85.29% of all outstanding common shares.)

Total shareholder voting rights presented during vote: 4,800,869,069

Voting results	Proportion of shareholder voting rights presented during vote (%)
Voting rights in favor: 4,564,882,331 (Electronic voting rights included: 142,343,764)	95.08%
Voting rights not in favor: 1,849,639 (Electronic voting rights included: 1,849,639)	0.04%
Invalid voting rights: 201,353	0.00%
Waived/non-voted voting rights: 233,935,746 (Electronic voting rights included: 74,814,961)	4.88%
Attending shareholders represented more than one-half of the total number of outstanding Company shares, and voting rights in favor exceeded more than one-half of total voting rights. The proposal was approved.	

Proposal No. 2: Proposed by the Board

Proposal: Proposals of 2016 profit distribution of the Company.

Explanation:

1. As of end of 2016, the distributable earnings amounted to NTD 3,740,987,031.
2. In order to stabilize and balance payout policy and consideration for long-term corporate financial planning, the Company proposes cash dividends of NTD 0.60 per share for 2016 profit distribution, amounting to NTD 3,376,975,835 on a basis of 5,628,293,058 common shares outstanding.
3. The Company's profit distribution table has been approved at the 27th meeting of the 7th Board dated March 21, 2017, circulated to Audit Committee for review (please refer to Appendix 6), and is being submitted to shareholders' annual general meeting for adoption.

Taiwan High Speed Rail Corporation

PROFIT DISTRIBUTION TABLE

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

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

Chairman's decision: As objections were raised by a number of shareholders during the electronic voting process, the proposal shall be put to a vote.

Resolution: Voting results for this proposal was as follows:

(For this proposal, 4,518,738,091 common shareholders attended in person, 219,008,364 common shareholders attended electronically, 0 common shares were publicly solicited proxies, and 63,122,614 common shares were non-solicited proxies. The total number of participating common shares was 4,800,869,069 shares, amounting to 85.29% of all outstanding common shares.)

Total shareholder voting rights presented during vote: 4,800,869,069

Voting results	Proportion of shareholder voting rights presented during vote (%)
Voting rights in favor: 4,564,240,433 (Electronic voting rights included: 142,134,759)	95.07%
Voting rights not in favor: 2,187,843 (Electronic voting rights included: 2,056,643)	0.05%
Invalid voting rights: 159,483	0.00%

Waived/non-voted voting rights: 234,281,310 (Electronic voting rights included: 74,816,962)	4.88%
Attending shareholders represented more than one-half of the total number of outstanding Company shares, and voting rights in favor exceeded more than one-half of total voting rights. The proposal was approved.	

III. Discussion:

Proposed by the Board

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

Explanation:

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

Chairman’s decision: As objections were raised by a number of shareholders during the electronic voting process, the proposal shall be put to a vote.

Resolution: Voting results for this discussion was as follows:

(For this discussion, 4,518,738,091 common shareholders attended in person, 219,008,364 common shareholders attended electronically, 0 common shares were publicly solicited proxies, and 63,122,614 common shares were non-solicited proxies. The total number of participating common shares was 4,800,869,069 shares, amounting to 85.29% of all outstanding common shares.)

Total shareholder voting rights presented during vote: 4,800,869,069

Voting results	Proportion of shareholder voting rights presented during vote (%)
Voting rights in favor: 4,559,944,777 (Electronic voting rights included: 138,013,599)	94.98%
Voting rights not in favor: 1,974,745 (Electronic voting rights included: 1,974,745)	0.04%
Invalid voting rights: 155,000	0.00%
Waived/non-voted voting rights: 238,794,547 (Electronic voting rights included: 79,020,020)	4.98%
Attending shareholders represented more than one-half of the total number of outstanding Company shares, and voting rights in favor exceeded more than one-half of total voting rights. The proposal was approved.	

#### IV. Election:

Election of the 8th term board of director’s office of the Company.

1. According to Article 17 and 17-1 of Articles of Incorporation, the Company shall have 9 to 17 directors, with at least 2 among them being independent directors representing no less than one fifth of the Board. The total number of directors (including independent directors) is determined by the Board. Furthermore, the candidate nomination system stipulated in Article 192-1 of the Company Act is adopted for election of directors.



2. The quota of 13 directors (including 3 independent directors) to be elected was approved at the 26th meeting of the 7th Board directors dated March 7, 2017. The newly appointed directors are to assume office after re-election, with their three-year term starting on May 24, 2017 and ending on May 23, 2020.
3. Acceptance of the nominated director candidates, including independent directors, started from March 17 to March 29, 2017; Board and shareholders may submit to the company a roster of director candidates (including independent directors) and applicable documents during the foregoing period. In the wake of the review at the 28th meeting of the 7th Board directors dated April 11, 2017, all nominated director candidates have met the qualifications, and are included in the final roster of director candidates accordingly.
4. Candidate nomination system is adopted for election of directors (including independent directors) and the shareholders shall elect the directors from among the nominees listed in the roster of director candidates. Please refer to p.43-p.50 of Annual Meeting Handbook for education background, past work experience, and relevant information of the candidates.
5. Please refer to p.60-p.62 of Annual Meeting Handbook for rules for director elections.

Election results:

(For this election, 4,518,798,317 common shareholders attended in person, 219,008,364 common shareholders attended electronically, 0 common shares were publicly solicited proxies, and 63,122,614 common shares were non-solicited proxies. The total number of participating common shares was 4,800,929,295 shares, amounting to 85.29% of all outstanding common shares.)

Elected non-independent directors:

Account No.	Name of corporation or individual	Total voting rights received
51400	China Aviation Development Foundation Representative: Chiang Yao-Chung	6,613,033,066 (Electronic voting rights included: 13,672,866)
92268	Ministry of Transportation and Communications Representative: Ho I-Hsi	6,133,919,256 (Electronic voting rights included: 12,778,056)
11	TECO Electric & Machinery Co., Ltd. Representative: Huang Mao-Hsiung	5,979,206,761 (Electronic voting rights included: 13,491,007)
6	Taipei Fubon Commercial Bank Co., Ltd. Representative: Liu Kuo-Chih	5,866,092,227 (Electronic voting rights included: 10,391,437)
51400	China Aviation Development Foundation Representative: Tsai Huang-Liang	5,820,951,050 (Electronic voting rights included: 11,811,850)
43831	China Steel Corporation Representative: Liu Jih-Gang	5,590,625,156 (Electronic voting rights included: 11,759,956)
15	TSRC Corporation	5,329,152,985 (Electronic voting rights included: 13,540,725)
5762	Taiwan Sugar Corporation Representative: Kwan Tao-I	5,170,692,027 (Electronic voting rights included: 11,532,627)
38578	National Development Fund, Executive Yuan Representative: Kao Shien-Quey	5,138,626,610 (Electronic voting rights included: 12,490,410)
16	Evergreen Steel Corporation Representative: Ko Lee-Ching	4,765,459,202 (Electronic voting rights included: 3,884,231)

Elected independent directors:

ID Number	Name	Total voting rights received
F10214xxxx	Ding Kung-Wha	22,060,977 (Electronic voting rights included: 10,265,967)
E10058xxxx	Chiu Kenneth Huang-Chuan	21,603,108 (Electronic voting rights included: 11,561,908)
Y10098xxxx	Poo David Da-Wei	19,750,144 (Electronic voting rights included: 11,583,944)

V. Other Discussion:

Proposed by the Board

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

Explanation:

1. According to Article 209, Paragraph 1 of the Company Act, a director who does anything for himself/herself or on behalf of another person that is within the scope of the company's business, shall explain to the meeting of shareholders the essential contents of such an act and secure its approval.
2. In view of the fact that director candidates (including independent directors) nominated by the Board and shareholders hold concurrent positions in enterprises whose business is partly the same or similar with the Company, a list of directors to release from non-competition restrictions is prepared according to the foregoing stipulation of Article 209 of the Company Act (please refer to p.51-p.52 of Annual Meeting Handbook) and is being submitted to shareholders' annual general meeting for approval.
3. Based on election result of the directors of the 8th Board, the proposal will request on-the-spot approval regarding the directors and scope from the non-competition restrictions.

4. The proposal was approved at the 28th meeting of the 7th Board directors dated April 11, 2017 and is hereby submitted to shareholders' annual general meeting for approval.

Additional explanation made by Chairman:

In accordance with Article 209, Paragraph 1 of the Company Act, we put forward the proposal “Removal of non-competition restriction against directors and their representatives” for approval by the shareholders' meeting.

Here we wish to explain to the shareholders that as the scope of business prescribed in the Company's Articles of Incorporation include “all business items that are not prohibited or restricted by law, except those that are subject to special approval”, we therefore propose that restrictions against additional duties identical or similar to Company businesses that Company directors are responsible for in other companies should be fully lifted.

In accordance with the election results of the directors of the 8th Board, we put forward the following proposal to the shareholders' meeting: to approve and remove non-competition restrictions against the newly elected directors and their representatives, including China Aviation Development Foundation and its representatives, Director Chiang Yao-Chung and Director Tsai Huang-Liang; TECO Electric & Machinery Co., Ltd. and its representative, Director Huang Mao-Hsiung; China Steel Corporation and its representative, Director Liu Jih-Gang; Taiwan Sugar Corporation and its representative, Director Kwan Tao-I; Evergreen Steel Corporation and its representatives, Director Ko Lee-Ching and Independent Director Chiu Kenneth Huang-Chuan; we ask that our shareholders support this motion.

According to Article 178 and Article 180 of the Company Act, common shareholders present who are directors listed in the proposal for removal of non-competition restrictions shall not be allowed to vote on their own removal of non-competition restrictions, and their voting rights will not be counted towards the total number of voting rights present.

Additionally, we remind all shareholders that Tai Ho Investment Co., Ltd., which was originally present among the list for removal of non-competition restrictions, has been removed from the list as it has not been elected.

Chairman's decision: As objections were raised by a number of shareholders during the electronic voting process, the proposal shall be put to a vote.

Resolution: This proposal for the removal of non-competition restrictions based on election result of the directors of the 8th Board and their representatives, except for Tai Ho Investment Co., Ltd., which was not elected as an 8th term board director, was approved by attending shareholders representing more than two-thirds of the total number of outstanding Company shares, and voting rights in favor exceeded more than one-half of total voting rights. The proposal was approved. Voting results for this proposal was as follows:

(For this discussion, 4,518,798,317 common shareholders attended in person, 219,008,364 common shareholders attended electronically, 0 common shares were publicly solicited proxies, and 63,122,614 common shares were non-solicited proxies. The total number of participating common shares was 4,800,929,295 shares, 85.29% of all outstanding common shares.)

- (1) Removal of non-competition restriction against China Aviation Development Foundation and its representative, Director Chiang Yao-Chung:

Total eligible voting rights held by shareholders during vote: 4,540,889,295

Voting results	Proportion of shareholder voting rights presented during vote (%)
Voting rights in favor: 4,299,645,090 (Electronic voting rights included: 137,713,432)	94.69%
Voting rights not in favor: 2,266,195 (Electronic voting rights included: 2,177,795)	0.05%
Invalid voting rights: 155,000	0.00%
Waived/non-voted voting rights: 238,823,010 (Electronic voting rights included: 79,117,137)	5.26%
Attending shareholders represented more than two-thirds of the total number of outstanding Company shares, and voting rights in favor exceeded more than one-half of total voting rights.	

- (2) Removal of non-competition restriction against China Aviation Development Foundation and its representative, Director Tsai Huang-Liang:

Total eligible voting rights held by shareholders during vote: 4,540,889,295

Voting results	Proportion of shareholder voting rights presented during vote (%)
Voting rights in favor: 4,299,606,898 (Electronic voting rights included: 137,675,240)	94.69%
Voting rights not in favor: 2,359,787 (Electronic voting rights included: 2,211,387)	0.05%
Invalid voting rights: 155,000	0.00%
Waived/non-voted voting rights: 238,767,610 (Electronic voting rights included: 79,121,737)	5.26%
Attending shareholders represented more than two-thirds of the total number of outstanding Company shares, and voting rights in favor exceeded more than one-half of total voting rights.	

- (3) Removal of non-competition restriction against TECO Electric & Machinery Co., Ltd. and its representative, Director Huang Mao-Hsiung:

Total eligible voting rights held by shareholders during vote: 4,610,868,717

Voting results	Proportion of shareholder voting rights presented during vote (%)
Voting rights in favor: 4,369,628,115 (Electronic voting rights included: 137,717,035)	94.77%
Voting rights not in favor: 2,321,591 (Electronic voting rights included: 2,173,191)	0.05%
Invalid voting rights: 155,000	0.00%
Waived/non-voted voting rights: 238,764,011 (Electronic voting rights included: 79,118,138)	5.18%
Attending shareholders represented more than two-thirds of the total number of outstanding Company shares, and voting rights in favor exceeded more than one-half of total voting rights.	

- (4) Removal of non-competition restriction against China Steel Corporation and its representative, Director Liu Jih-Gang:

Total eligible voting rights held by shareholders during vote: 4,558,781,295

Voting results	Proportion of shareholder voting rights presented during vote (%)
Voting rights in favor: 4,317,497,105 (Electronic voting rights included: 137,733,447)	94.71%
Voting rights not in favor: 2,301,180 (Electronic voting rights included: 2,152,780)	0.05%
Invalid voting rights: 223,000	0.00%
Waived/non-voted voting rights: 238,760,010 (Electronic voting rights included: 79,122,137)	5.24%
Attending shareholders represented more than two-thirds of the total number of outstanding Company shares, and voting rights in favor exceeded more than one-half of total voting rights.	

- (5) Removal of non-competition restriction against Taiwan Sugar Corporation and its representative, Director Kwan Tao-I:

Total eligible voting rights held by shareholders during vote: 4,600,929,295

Voting results	Proportion of shareholder voting rights presented during vote (%)
Voting rights in favor: 4,359,683,504 (Electronic voting rights included: 137,711,846)	94.76%
Voting rights not in favor: 2,322,579 (Electronic voting rights included: 2,174,179)	0.05%
Invalid voting rights: 155,000	0.00%
Waived/non-voted voting rights: 238,768,212 (Electronic voting rights included: 79,122,339)	5.19%
Attending shareholders represented more than two-thirds of the total number of outstanding Company shares, and voting rights in favor exceeded more than one-half of total voting rights.	

- (6) Removal of non-competition restriction against Evergreen Steel Corporation and its representative, Director Ko Lee-Ching:

Total eligible voting rights held by shareholders during vote: 4,784,929,295

Voting results	Proportion of shareholder voting rights presented during vote (%)
Voting rights in favor: 4,539,402,403 (Electronic voting rights included: 133,430,745)	94.87%
Voting rights not in favor: 6,456,000 (Electronic voting rights included: 6,454,800)	0.13%
Invalid voting rights: 155,000	0.00%
Waived/non-voted voting rights: 238,915,892 (Electronic voting rights included: 79,122,819)	5.00%
Attending shareholders represented more than two-thirds of the total number of outstanding Company shares, and voting rights in favor exceeded more than one-half of total voting rights.	

- (7) Removal of non-competition restriction against Independent Director Chiu Kenneth Huang-Chuan:

Total eligible voting rights held by shareholders during vote: 4,800,929,295

Voting results	Proportion of shareholder voting rights presented during vote (%)
Voting rights in favor: 4,559,685,194 (Electronic voting rights included: 137,713,536)	94.98%
Voting rights not in favor: 2,321,609 (Electronic voting rights included: 2,173,209)	0.05%
Invalid voting rights: 155,000	0.00%
Waived/non-voted voting rights: 238,767,492 (Electronic voting rights included: 79,121,619)	4.97%
Attending shareholders represented more than two-thirds of the total number of outstanding Company shares, and voting rights in favor exceeded more than one-half of total voting rights.	



VI. Extempore motions: None.

VII. Meeting closed: May 24, 2017 at 12:28 p.m.

# Appendix 1

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

### I. Background

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

### II. Corporate Governance Guidance

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

### III. Execution of Corporate Governance System

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

# Appendix 1

## 1. Establishment of Independent Directorship

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

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

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

# Appendix 1

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

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

#### (1) Board of Directors

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

② Number of meetings: 19

③ Primary tasks:

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

④ Execution:

Board of Directors applies applicable law and regulations, resolutions of shareholders' meeting, and the Company's by-laws to faithfully perform the foregoing primary tasks; Board duty is multifarious and is not enumerated accordingly; in the event of major resolutions, Board of Directors consistently announces and discloses on the Market Observation Post System (<http://mops.twse.com.tw>) as required; functional committees do bring their respective preview function into play; independent directors also exert their independence and professionalism, contributing to the quality of Board of Directors discussion and promotion of professionalism.

# Appendix 1

- (2) Corporate Governance & Nomination Committee (formerly Corporate Governance Committee)
- ① Composition: 5 to 7 directors and convened by an independent director (note: the 11th meeting of the 7th term of office of Board of Directors on February 19, 2016 approved the renaming of Corporate Governance Committee as Corporate Governance & Nomination Committee and amending the composition from 3 to 5 to 5 to 7, and requested an extraordinary general meeting on March 18, 2016 to discuss and pass the revised CGSs).
  - ② Number of meetings: 14.
  - ③ Primary tasks: Responsible for the formation and planning of the Board of Directors and functional committees and nomination of independent directors and non-independent directors , research on corporate governance system, and review of effectiveness of corporate governance system and information disclosure implementation. (see Schedule for details).
  - ④ Execution:
    - 1) Discuss functional committee composition proposal.
    - 2) Discuss proposals for execution evaluation of Board of Directors and functional committee and annual work plan.
    - 3) Discuss executive report on corporate governance.
    - 4) Discuss renewal of Directors and Officers Liability Insurance.
    - 5) Discuss corporate organizational structure adjustment procedural amendment.
- (3) Audit Committee (note: the 11th meeting of the 7th term of office of Board of Directors on February 19, 2016 approved the amendment of institution of Audit Committee in place of supervisors, and requested extraordinary general meeting on March 18, 2016 to discuss the revision of the Company's Articles Of Incorporation and CGSs; former provisional Audit Committee no longer exists upon the amendment of the above by-law and standard).
- ① Composition: no less than 3 directors and must include all independent directors.

# Appendix 1

② Number of meetings: 15 (note: including 1 meeting of the former provisional Audit Committee).

③ Primary tasks: Review and oversee corporate financial statements and risk control/management affairs (see Schedule for details).

④ Execution:

- 1) Review annual budget, budget implementation report and financial statements.
- 2) Discuss amendments to the Company's Internal Control System, Regulation Governing Internal Control System Self-Examination, Procedures of Asset Acquisition and Disposal, and Regulation Governing Derivatives Transactions.
- 3) Review results of annual self-examination of internal control system and statements of internal control system at all levels of the organization.
- 4) Review transactions involving directors' conflict of interest and subject to recusal of exercise of voting rights, transactions with related parties, and transactions requiring prevention of conflict of interest.
  - 5) Review appointment of Certified Public Accountant.
  - 6) Review annual audit plans and executive reports thereof.

(4) Procurement Committee

① Composition: 5 to 7 directors.

② Number of meetings: 12.

③ Primary tasks: Review of various procurement proposals, oversee the Management in execution of procurement strategies (see Schedule for details).

④ Execution:

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

(5) Finance Committee

# Appendix 1

- ① Composition: 5 to 9 directors, convened by an independent director.
- ② Number of meetings: 9.
- ③ Primary Tasks: Review the Company's financial planning proposals (see Schedule for details).
- ④ Execution:

Finance Committee applies the foregoing primary tasks when considering revisions to the Company's syndicated loans and financial planning proposals.

## (6) Remuneration Committee

- ① Composition: 3 to 5 directors, convened by an independent director.
- ② Number of meetings: 12
- ③ Primary Tasks: to formulate and regularly review the evaluation of directors and managers' performance and salary and compensation (see Schedule for details).
- ④ Execution:

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

## (7) Special Committee

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

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

## 4. Measures Specific to Corporate Governance

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

To ensure systemic corporate governance initiatives are solidly implemented, functional

# Appendix 1

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

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

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

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

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

② The insured D&O amount is NTD 900,000,000.

## 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,



# Appendix 1

independent directors frequently express their opinions, exert their independence and professionalism, and contribute to agenda efficiency and quality of decision making.

## 3.Management Implementation

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

## 4.Step-Up Information Disclosure

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

## V. Concluding Remarks

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

# Appendix 1

Schedule

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

# Appendix 1

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

# Appendix 1

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

# Appendix 1

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

# Appendix 2

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

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

# Appendix 2

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

# Appendix 3

## The 2016 Business Report

**Dear Fellow Shareholders,**

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

### **2016 Results**

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

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

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



# Appendix 3

In 2016, we continued to offer Early Bird ticketing, discounts for college students, enhanced business class offerings and vacation packages and deals under our T Holiday Program in order to promote train travel and attract new passengers. We worked to improve the way train tickets are purchased, including at convenience stores, via smartphone, and using a contactless EasyCard. We also improved accessibility to our HSR stations by providing free shuttle bus services to and from downtown areas.

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

## **Research & Development**

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

## **Looking Ahead**

### (1) Management objective

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

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

### (2) Growth target

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

### (3) Main initiatives

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

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

# Appendix 3

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

# Appendix 4

## TAIWAN HIGH SPEED RAIL CORPORATION

### BALANCE SHEETS

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

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

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

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

# Appendix 4

## TAIWAN HIGH SPEED RAIL CORPORATION

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

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

(Continued)

# Appendix 4

## TAIWAN HIGH SPEED RAIL CORPORATION

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

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

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

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

(Concluded)

# Appendix 4

## TAIWAN HIGH SPEED RAIL CORPORATION

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

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

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

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

# Appendix 4

## TAIWAN HIGH SPEED RAIL CORPORATION

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

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

(Continued)

# Appendix 4

## TAIWAN HIGH SPEED RAIL CORPORATION

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

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

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

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

(Concluded)



# Appendix 5

## INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders  
Taiwan High Speed Rail Corporation

### Opinion

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

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

### Basis of Opinion

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

### Emphasis of Matter

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

### Key Audit Matters

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

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

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

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

# Appendix 5

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

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

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

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

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

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

## Railroad transportation revenue

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

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

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

# Appendix 5

## Income tax estimates

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

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

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

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

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

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

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

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

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

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

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

# Appendix 5

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

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

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

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

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

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

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

February 22, 2017

*Notice to Readers*

# Appendix 5

*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.*

# Appendix 6

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

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

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

To

2017 shareholders' Annual General Meeting

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

February 22, 2017

# Appendix 6

## Audit Committee's Audit Report

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

To

2017 Shareholders' Annual General Meeting

Taiwan High Speed Rail Corporation

Chen-Kuo Lin, Chair of Audit Committee

March 21, 2017