台灣高鐵
TAIWAN HIGH SPEED RAIL

www.thsrc.com.tw

Taiwan High Speed Rail Corporation

2009 Annual Report

Stock Code: 2633

台灣高鐵
TAIWAN HIGH SPEED RAIL

# 2009 ANNUAL REPORT

## THSRC Milestones

Commencement Date: **May 1998**

Construction Stage: **From March 2000 to December 2006**

Operation Stage: **Started in January 2007**

Capitalization: **NT$105.3 billion**

## Business Summary for 2009:

Train Services: **45,286 train services**

Punctuality (defined as delay not exceeding 5 minutes from timetable): **99.25%**

Annual Patronage: **32,349 thousand passengers**

Annual Revenue: **NT$ 23.32 billion**

Loading Factor: **46.31%**

Passenger Kilometers: **6,863 million km**

Length of Operation Routes: **345 km**

Number of Cities/Counties Passed Through: **14 cities/counties**

Maximum Operating Speed: **300 km/hr**

Number of Seats: **989 seats** (923 seats in standard and 66 in business class carriages)

Stations in Service: **8** (Taipei, Banciao, Taoyuan, Hsinchu, Taichung, Chiayi, Tainan and Zuoying)

Maintenance Depots in Service: **5** (Hsinchu Lioujia, Taichung Wurih, Chiayi Taibao, Kaohsiung Zuoying and Kaohsiung Yanchao Main Workshop)

Note:

$$\text{Loading Factor} = \frac{\text{Passenger Kilometers}}{\text{Seat Kilometers}} \times 100\%$$

Passenger Kilometers=∑(Number of passengers per train * journeys taken per passenger)

Seat Kilometers=∑(Number of seats per train * journeys taken per train)

## Taiwan High Speed Rail Corporation

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# 1. Letter to Shareholders

## Dear Shareholders,

In fulfillment of THSRC's plans and commitments, a high-speed train service began operating along the western corridor of Taiwan on January 5, 2007, marking the beginning of a new era for Taiwan's transportation system. Revenue operations, throughout 2007 and 2008, served to meet THSRC's contracted obligations, with high standards of reliability and punctuality established and maintained in these first years of service. There was also a sustained commitment, to ensure that train schedules matched an increasing demand for travel, to diversify the products offered by THSRC, to improv the efficiency and attractiveness of ticketing systems, and to supply a range of goods and services, generally required by rail travelers on both long and short journeys.

## 1. 2009 Operation Report

In the face of the financial crisis and its severe recessionary effects, on both domestic and international economies, THSRC strived to manage its rail operations, in 2009, to safeguard shareholders interests. Earnings before Interest, Tax, Depreciation, and Amortization in 2009 (the "EBITDA") was NT$13.88 billion, a growth rate of 8.1% compared to 2008. After considering interest and tax, Earnings before Depreciation and Amortization (the "EBDA") reached NT$3.12 billion, a growth rate of 171% compared to the loss of EBDA in 2008, amounting to NT$4.4 billion.

Operating revenue in 2009 increased NT$0.27 billion or 1.2% to NT$23.32 billion, compared to NT$23.05 billion in 2008. The net loss for 2009 was NT$4.79 billion, or NT$1.03 per share. However, the commitments to covering depreciation and interest costs, which in 2009 reached NT$22 billion and $10.78 billion respectively, proved to be a critical burden, in representing 66.1% of total costs and expenses. The operating review for 2009 is as follows:

### (1) Operating Review

A. Rail Operation

Due to the impact of the global and domestic recession, operation of the high speed rail grew slowly, from the fourth quarter of 2008. Since March 16, 2009, in order to increase revenue and lower costs, THSRC reduced the number of train services, from 942 to 816 train services per week, as well as broadening the scope of ticket fare discounts. Responding to higher passenger demand, over the summer vacation, and incipient signs of economic recovery, train services per week were increased to 863, giving a final total of 45,286 train services in 2009, a decrease of 1.34% compared to the 45,900 train services in 2008. However, the loading factor in 2009 was 46.31%, compared to 43.51% in 2008, as a result of the amended train schedules. The annual patronage was 32.349 million passengers, a growth rate of 5.8% compared to 30.581 million in 2008. 6,860 million Passenger Kilometers were provided, a growth rate of 4.52% compared to 6,570 million in 2008. The highest and lowest daily average patronage was 96 thousand in December and 81 thousand in June with a range of service frequencies operated, in one direction, of 6 per hour at peak and 3 per hour in off peak periods.

During 2009, there were no accidents or injuries, to passengers or members of the public on railway premises, caused by train service operation or malfunction of station equipment. The target for punctuality, set at 98% of services incurring delays of less than 5 minutes, was achieved with a figure of 99.25% and the reliability target of 99.5%, for all services excluding those affected by extreme climatic conditions, was exceeded, with 99.92% recorded.

B. Marketing and Passenger Services

In 2009, THSRC sought to increase ridership with a number of fare initiatives and improvements to service, offering, inter alia, off peak fare discounts, enhanced shuttle bus services and introducing an internet reservation system. Details are as follows:

a. From March 16, 2009, the scope of the HSR Dual-Color fares was broadened and non-reserved seats given a 15% discount introduced, together with a variety of ticket discounts to attract different classes and economic groups of passengers .

b. From April 1, 2009, the number of free shuttle bus lines at stations was increased to 10, to improve connectivity between stations and downtowns.

c. Between July 1 and August 31, 2009, a “buy 3 get 1 free” promotion was launched to attract tourists over the summer vacation with more favorable ticket fare discounts.

d. From July 20, 2009, on line tickets reservations were encouraged by introducing a 5% discount.

e. Between October 6 and November 30, 2009, college students were offered a 35% discount, to attract them to experience the convenience of high speed rail travel.

f. From December 1, 2009, a project to offer free upgrades to business class, for specific credit card users, was implemented.

### (2) Budget Implementation

Compared with the NT$24.09 billion forecast, operating revenue for 2009 totaled NT$23.32 billion, 97% of the budget estimate. Net loss, which was forecast to be NT$9.07 billion, was held at a figure of NT$4.97 billion.

### (3) Financial Position and Profitability Analysis

Despite the global and domestic recession in 2009, THSRC implemented projects to increase revenue and lower costs and expenses. Operating revenue in 2009 reached NT$23.32 billion, a 1.2% increase from 2008. Total operating costs and expenses (excluding depreciation and amortization) decreased by 770 million, a 7.5% drop over 2009.

In order to render the depreciation method for fixed assets more reasonable and appropriate, THSRC communicated with the authorities to change the depreciation method, and this was approved, by the Financial Supervisory Commission, in December 2008. Commencing from January 1, 2009, the depreciation method was changed from the "straight line method" to the "unit of throughput method" based on ridership, and the Company reported gross profit and operating profit performance for the first time since commencing revenue operations in 2007. Compared to 2008, the gross profit and operating profit increased by 237% and 189% to NT$6.55 billion and NT$5.56 billion, respectively, in 2009. In addition, after various negotiations with the syndicate banks, the 1st bank syndicate agreed to lower the interest rate of funds from banks, effective January 1, 2009, and with the benefits from low market interest rates, the interest expenses in 2009 decreased by NT$6.69 billion compared to the previous year.

### (4) Research and Development

With annual patronage increases still anticipated to be at a stage of rapid growth and the need to anticipate such increases by provision of capacity to match demand, the focus of research and development, in 2009, was directed at improving the efficiency of THSRC's operating systems and maintenance activities. For examples:

i. Ticketing is an area of constant research to improve the quality and efficiency of services provided. In 2009 THSRC introduced text message notification after online bookings and payment, renewed touch screen ticket vending machines, to improve quality and speed of service and upgraded its internet reservation service.

ii. In the fields of maintenance engineering a transition programme was followed to improve the quality and efficiency throughout all maintenance activities with the objective of reducing costs whilst maintaining and enhancing Reliability, Maintainability, and Safety Standards. A Contractual Strategy was developed to ensure that as warranty obligations from Suppliers ended, in-house maintenance capacity was geared to take on added responsibilities but with access to expert help whenever needed, Electronic workshop facilities were established, to undertake repairs in a more cost effective and efficient manner, local sources were developed for supply of spares and appropriate items of equipment and THSRC's inventory management system was improved, to allow rapid response to emergencies whilst maintaining cyclic demand stock levels at cost effective and efficient levels .

## 2. 2010 Operation Outline

### (1) Operating Guideline

With three successful years of operation, the high-speed rail service has become a main transportation provider for the Western corridor of Taiwan, bringing a new life style and added value to society. Building on the achievements of the first 3 years of operation, Management will concentrate its efforts in 2010 to:

A. Strengthen the marketing channels, improve the quality of services, broaden the market share, and provide comfortable and convenient transport to passengers.

B. Enhance management skills to increase operating efficiency and emergency response.

C. Strengthen maintenance techniques and establish an independent maintenance ability to assure the safety and reliability of operations maintained at optimum cost levels.

### (2) Revenue Forecast

In accordance with the domestic economic outlook, published in February by the Directorate-General of Budget, Accounting and Statistics of the Executive Yuan, economic growth in 2010 will be 4.72%, a more stable trend compared to 2009. Consequently, in order to achieve the goal of stable growth in operating revenue, THSRC plans an effective marketing strategy to attract a wider variety of passengers. Estimated annual ridership in 2010 is 35 million passengers.

### (3) Important Marketing Initiatives

Capitalizing on its advantage of speed over other transport modes, THSRC has focused on the availability of efficient transfer services at its stations and reducing the time and trouble to obtain tickets to a minimum, by introducing sales at convenience stores throughout the urban areas. By these means travel costs can be kept at competitive and attractive levels, and any inconvenience in station arrival and boarding trains or completing journeys after traveling by high-speed rail is reduced to a minimum. After commencing the high-speed rail service, THSRC investigated all aspects of passenger behaviour, monitored the effectiveness and value of its services and allied products, researched passenger needs and satisfaction levels; in a continuing programme of developing its services and products to fulfill passenger expectations and to maintain its competitiveness, broaden market share and increase operating revenue. Marketing initiatives planned for 2010 includes:

A. Maintenance of stable transport services

Adjustment of train schedules to increase loading factors, by continuing to respond to market demand forecasts.

B. Enhancement of customer service quality

Based on the current operation performance, passengers' opinions, and service quality investigations, reviewing the content of various products, hardware facilities and service processes. These will become the basis for improvement in our service and training of new staff and on-job employees. In this way, passengers will have continued confidence in the reliability of THSRC's service and should experience increased satisfaction when traveling on high-speed trains.

C. Planning appropriate products and services

Development of reasonable products and services to meet passengers' different needs. With the promotion of different products and services, and the comprehensiveness of marketing strategies; more passengers will be attracted to take the high-speed rail.

D. Promoting trips and cooperating with other market sectors

Ensuring the correctness and integrity of THSRC's travel information, cooperating with business and other agencies and working closely with ticketing agents to provide a wide variety of seasonal and vocational travel opportunities that will broaden market share. Continuing with the strategic alliances formed with China Airlines and EVA Airways, setting up check-in counters at Taoyuan Station(Since Dec. 16, 2009) and further developed in 2010 to includes UNI Airways, thus providing an invaluable service to air travelers checking in unaccompanied luggage, in a milestone initiative for Taiwan's international airline industry.

E. Enhancing the convenience of ticket verification

In 2010, THSRC focuses on the efficiency of ticket verification and the various marketing channels to improve the convenience of ticket-buying. These include the expansion of service scope to purchase tickets in convenience stores, developing the planned booking of tickets via mobile phones, the upgrading of automatic vending machines, and an increase in the process speed of ticketing systems; the objective being that passengers can buy tickets with ease, and take a train with comfort.

F. Establishing available and efficient transfer services

Planning transfer services based on the characteristics of different stations, including the provision of shuttle buses, improving connections between Taiwan railway and rapid transit systems, and encouraging shared taxis. In addition, improving the availability and integrity of information in stations and station management; to enable passengers to find the best way to transfer to other transports.

## 3. Development Perspectives

We pursue five core values, Discipline, Integrity, Efficiency, Innovation, and Sensibility, with an emphasis on the details of each operation and passenger service striving to deliver quality services with four attributes - Real, Progressive, Passionate, and Premium. In future, we will hold our core values and attributes to put the following strategies into effect:

(1) Ensure safety management to achieve a zero-accident target.

(2) Enhance service quality to establish better customer relationship.

(3) Establish a fully integrated regional transportation network in Taiwan to create optimum living and travel facilities in a sustainable environment.

(4) Reinforce employees' professional skills to establish self-sustaining maintenance ability.

(5) Complete the extension to Nangang and construction of three new stations to enhance the transportation network of the Western corridor of Taiwan.

(6) Assume corporate social responsibility to fulfill the vision for sustainable development.

## 4. The Impacts of Competition and Macro-Economic Environment

### (1) Macro-economic environment

With the impact of the global financial crisis on domestic economics in 2009, transportation activities between cities and suburbs slowed down. However, after 2007, high-speed rail has improved the efficiency of transportation in the Western corridor, enhanced economic growth and promoted a balance between rural and urban areas. Furthermore, with its efficient travel time characteristics, industries are able to contemplate movement into new development areas and expand their service scope, which would be helpful to upgrade industrial sectors along Taiwan's western corridor. On the other hand, there are also impacts on the Taiwan macro-economy. With the integration of the transportation network and associated development of land, there will be more passenger trips for business, travel and communication purposes, thus promoting further Taiwan's economic development.

For the legal environment, the amended "Railway Act" and "Regulation for Noise Control" are closely related to THSRC's business:

A. The amendment to "Railway Act" provided by the Executive Yuan is under the process of the Legislative Yuan. Some amendments, such as serve to limit or ban construction near the railway, will assure the safety of railway operations. We look forward to the passing of the regulations.

B. The Legislative Yuan has passed the "Regulation for Noise Control Act" in November 2008, which stipulated methods for improvement. THSRC conforms to the regulation standards, and there should be no significant impact on our business.

### (2) Business environment

When we started our business, THSRC faced domestic and international economic pressures, lasting recession, unexpectedly low loading factors, and high interest, depreciation and amortization costs, which brought severe challenges to our business and financial condition. The government has obtained the right to run the business from the middle of 2009, but has enjoined THSRC to continue to manage its affairs in accordance with prudent commercial principles, with the objective of returning a profit on the investment and rewarding its shareholders. With the assistance of the government, THSRC can solve its financial problems, and is devoted to improving service quality and efficiency of operations. With complete cooperation between Government and the Company, there is a win-win situation amongst the people, the government and THSRC.

In addition, any disputes about the contracts, between THSRC and Government, will find reasonable solutions through "HSR Negotiation Committee", in compliance with agreed contract mechanisms.

**Chin-Der Ou**

Chairman & CEO

# 2. Company Profile

## 1. Business Strategy and Vision

THSRC not only identifies itself as a major participant in Taiwan's transport industry, but looks forward to being a positive agent for change in the development of Taiwan's commercial and manufacturing industries in the areas served by high-speed rail, whilst playing a significant role in the improvement of quality of life, for all the Island's population.

Dedicated to continually researching and meeting all reasonable needs of those traveling in Taiwan's western corridor, THSRC strives to improve the quality and standards of its services, in accessing stations, traveling by high speed rail and connecting with other transport modes at destination stations.

Forming long term partnership with those electing to travel by high speed rail is a firm objective, which THSRC pursues through adherence to its five core values – Discipline, Integrity, Efficiency, Innovation and Sensitivity. In adhering to the 5 core values, the four attributes which characterize the high speed rail service are: Real, Progressive, Passionate and Premium. THSRC's corporate culture, founded on its core values and attributes, can best be exemplified by the guiding principle "Go the Extra Mile" which aptly describes its quest for continuous improvement in all activities and dedication to meeting passengers' needs.

The vision for the future is therefore that the high speed rail service will continuously be developed and improved, to respond to the demands and needs of industry, business and the citizens of the towns and cities it serves. Holding true to its core values and actively employing each of its 4 attributes in all its activities whilst contributing to integrate land development in the neighborhood of its stations and playing a key role in the transport network, THSRC is dedicated to providing reasonable reward to its shareholder and employees.

## Our Core Values

### Discipline

Discipline defines our ways of carrying out tasks. We demand the highest standards of ourselves. This is the foundation of safety, punctuality and service reliability.

### Integrity

Carrying out our duties in accordance with all relevant Codes and Standards, we are dedicated, in hearts and minds, to meeting the highest standards of probity, in order to deserve the trust of shareholders and customers.

### Efficiency

We seek to carry out each task efficiently, through regular review and assessment of the most effective approach to our daily activities.

### Innovation

Constantly exploring innovative methods and ways to improve our services, we aim to achieve continuous improvement in all areas of our business.

### Sensibility

We strive to understand our customers' needs, through research and systematic assessments, developing standards and facilities accordingly, in our quest for service excellence.

## Our Attributes

### Real

We encourage all employee to be realistic in their approach to life, identifying that which is substantive when addressing the facts in each encounter with problems or adverse circumstances.

### Progressive

By following a measured and progressive advance to achieving improvement in all our activities we aim to meet customer's needs and provide a railway of world class standards.

### Passionate

To all endeavours we bring a passionate desire to be successful in making each passenger experience – memorable and encouraging commitment to regular use of high speed rail.

### Premium

In pursuing the highest standards of Quality in all our activities and provision of rail services we are determined to demonstrate true "Value for Money" for each journey by high-speed rail.

## 2. Company History

Commencement Date: May 11, 1998

### Development Stage

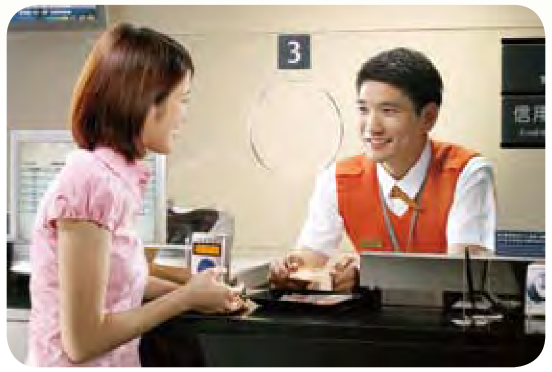
| | |
|---|---|
| November 1996 | The Taiwan High Speed Rail Consortium was established. |
| September 1997 | The Ministry of Transportation and Communications (the "MOTC") selected the Taiwan High Speed Rail Consortium as the best applicant to be awarded the concession. |
| May 1998 | Taiwan High Speed Rail Corporation was established. |
| July 1998 | THSRC and MOTC signed the "Taiwan North-South High Speed Rail Construction and Operation Agreement" (the "C&OA"), "Taiwan North-South High Speed Rail Station Zone Development Agreement" (the "SZDA") and memorandums for the Government obligations and executions. |
| February 2000 | THSRC entered into the syndicated loan agreement with 25 banks, under which THSRC obtained the credit facilities totaling NT$323.3 billion. In addition, THSRC, syndicated banks and MOTC signed the Tripartite Agreement at the same time. |

### Construction Stage

| | |
|---|---|
| March 2000 | THSRC began the construction of the high speed rail project. |
| December 2000 | THSRC entered into the "Core System Supply Contract" and "Core System Integration and Installation Contract" with Taiwan Shinkansen Corporation and Taiwan Shinkansen International Engineering Corporation. |
| April 2001 | Securities and Futures Bureau authorized THSRC as a public company. |
| September 2003 | THSRC applied to the Gre Tai Securities Market for permission to list on the Emerging Stock Market. |
| January 2004 | The ceremony for the first unveiling of train model "THSR 700T" was held in the Kawasaki Plant in Kobe, Japan. |
| October 2005 | THSRC test run train reached a speed of 315 km/hr. |
| July 2006 | THSRC entered into the second syndicated loan agreement with 7 domestic banks, under which THSRC obtained the credit facilities totaling NT$40.7 billion. |
| October 2006 | THSRC announced the new Corporate Identity System. |

### Operation Stage

| | |
|---|---|
| January 2007 | THSRC started commercial operations from Banciao Station to Zuoying Station with 38 train services daily. |
| March 2007 | THSRC started the entire-line operations from Taipei Station to Zuoying Station with 50 train services daily. |
| May 2007 | THSRC entered into the second updated syndicated loan agreement with Lehman Brothers Asia Limited and the second syndicate banks, under which THSRC obtained the credit facilities totaling NT$65.5 billion. |
| June 2007 | THSRC expanded the operation into 62 train services daily. |
| July 2007 | THSRC expanded the operation into 74 train services daily. |
| September 2007 | THSRC expanded the operation into 91 train services daily.<br>THSRC provided a 24-hour online reservation system.<br>The cumulative patronage was over 10 million. |
| November 2007 | THSRC expanded the operation into 113 train services daily.<br>THSRC launched the non-reserved class. |
| January 2008 | THSRC introduced a flexible timetable, under which there were 114 train services daily on off-peak days (from Tuesday to Thursday), 120 train services daily on sub-peak days (Monday and Friday), and 126 train services daily on peak days (Saturday and Sunday). |
| July 2008 | THSRC expanded the operation to between 128 and 140 services daily. (Based on peak or off-peak days to allow a flexible timetable) |
| November 2008 | THSRC introduced the HSR Dual-Color Fares, under which the Standard reserved seat "Orange Fare" is 35% off the regular ticket price, and the "Blue Fare" is 15% off. |
| December 2008 | THSRC expanded the operation to between 130 and 142 services daily. (Based on peak or off-peak days to allow a flexible timetable) |
| January 2009 | THSRC has started commercial operations for 2 years and the cumulative patronage was over 46.5 million. |
| March 2009 | Due to the recession, THSRC froze or shrank the payments to senior management, expanded the coverage of the Blue & Orange Fare Premiums, reduced the consumption of energy, and adjusted operations to 816 services per week. |
| January 2010 | THSRC entered into the syndicated loan agreement with 8 banks, under which THSRC obtained the credit facilities totaling NT$382 billion for refinancing 1st syndicated loan and 2nd syndicated loan excluding Tranche D. In addition, THSRC, syndicated banks and MOTC renewed the Tripartite Agreement at the same time. |





# 3. Organization

## 1. Organization Structure

- Board of Directors
  - Chairman
    - Corporate Audit Office
    - Chief Executive Officer
      - Safety Committee
      - OSH Committee
      - OSH Office
      - Quality Assurance Office
      - Corporate Planning Office
      - Legal Office
      - Public Affairs Office
      - Station Area Development Div.
      - Finance Division
        - Accounting Dept.
        - Finance Dept.
      - Human Resource Division
        - Cormpensation & Benefit Office
        - Training Dept.
        - Staffing & Employee Relations Dept.
      - Employee Service Dept
      - Information Tech. Division
        - IT Planning & QA Office
        - System Operation Dept
        - Application System Dept.
      - Marketing Division
        - Strategy Planning Office
        - Brand & Communication Dept.
        - Customer Contact Mgt Dept.
        - Affiliated Business Development Dept.
        - Transportation Business Dev Dept.
      - Railway Operation Division
        - O&M Planning Office
        - Operation Sub-Div.
          - Operation Support Office
          - Station Operation Dept.
          - Transportation Dept.
        - Emergency Mgt. & Security Office
        - Operation Safety Office
        - Maintenance Sub-Div.
          - Signaling & Communication Dept.
          - Maintenance Technical Support Dept
          - Permanent Way Maintenance Dept
          - Rolling Stock Maintenance Dept
      - Construction Mgt & Procurement Div.
        - Procurement Dept
        - Contract Adm. Dept
        - Ststem Engineering Dept.
        - Infrastructure Maintenance Dept.
        - Engineering Dept.

## 2. Directors and Supervisors

### (1) Directors and Supervisors

Unit: thousand shares (As of 04/25/2010)

| Title | Name | Date Elected | Term (Years) | Date First Elected | Shareholding when Elected | | Current Shareholding | | Spouse & Minor Shareholding | | Shareholding by Nominee Arrangement | | Experience（Education） | Other Position | Executives, Directors or Supervisors who are spouses or within two degrees of kinship | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Shares | % | Shares | % | Shares | % | Shares | % | | | Title | Name | Relation |
| Chairman | China Aviation Development Foundation<br>Representative：<br>Chin-Der Ou | 2009/11/10 | 3 | 2006/01/20 | 483,920 | 4.59 | 483,920 | 4.59 | - | - | - | - | Ph. D. in Soil Mechanics, Case Western Reserve University<br>Chairman, Taipei Smart Card Corporation<br>Deputy Mayor, Taipei City Government, Taiwan, R.O.C.<br>Minister, Public Construction Commission, Executive Yuan | CEO, Taiwan High Speed Rail Corporation<br>Director, Asia Cement Corporation | - | - | - |
| | Chin-Der Ou | 2009/11/10 | 3 | 2009/09/22 | - | - | 326 | 0.00 | - | - | - | - | | | | | |
| Director | Continental Engineering Corporation<br>Representative：<br>Arthur Chiang | 2009/11/10 | 3 | 1998/04/13 | 752,370 | 7.14 | 752,370 | 7.14 | - | - | - | - | Master in Public Administration , National Cheng-Chi University<br>Executive VP, China Development Financial Holding Corporation / China Development Industrial Bank<br>VP, Taiwan High Speed Rail Corporation<br>VP, Shanghai World Trade City<br>AVP, Continental Engineering Corporation | Senior Advisor, Han-Te Estate Development Co.,Ltd. | - | - | - |
| | Arthur Chiang | 2009/11/10 | 3 | 2009/10/09 | 109 | 0.00 | 109 | 0.00 | 20 | 0.00 | - | - | | | | | |
| Director | Teco Electric & Machinery Co., Ltd.<br>Representative：<br>Chun-Chi Chiu | 2009/11/10 | 3 | 1998/04/13 | 475,151 | 4.51 | 475,151 | 4.51 | - | - | - | - | MBA, Michigan University<br>Master in Accounting, National Cheng Chi University<br>B.A. degree in Business Administration , National Taiwan University<br>Deputy CEO, Teco Electric & Machinery Co., Ltd.<br>Spokesperson and President, Teco Electric & Machinery Co., Ltd.<br>Spokesperson and CFO, Teco Electric & Machinery Co., Ltd.<br>Spokesperson and Assistant Vice President, Teco Electric & Machinery Co., Ltd.<br>Vice President and Assistant Vice President, Abnamro Taipei Branch | President and spokesperson, Teco Electric & Machinery Co., Ltd.<br>CEO, Investment Business of Teco Electric & Machinery Co., Ltd. | - | - | - |
| Director | Evergreen International Corporation<br>Representative：<br>Li-Ching Ko | 2009/11/10 | 3 | 2007/08/16 | 133,660 | 1.27 | 133,660 | 1.27 | - | - | - | - | Second Vice Group Chairman, Evergreen Group | Supervisor, EVA Airways Corporation<br>Supervisor, Evergreen Marine Corp. (Taiwan) Ltd.<br>Supervisor, Evergreen International Storage & Transport Corporation<br>Supervisor, Evergreen International Corporation | - | - | - |

| Title | Name | Date Elected | Term (Years) | Date First Elected | Shareholding when Elected | | Current Shareholding | | Spouse & Minor Shareholding | | Shareholding by Nominee Arrangement | | Experience（Education） | Other Position | Executives, Directors or Supervisors who are spouses or within two degrees of kinship | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Shares | % | Shares | % | Shares | % | Shares | % | | | Title | Name | Relation |
| Director | Pacific Electric Wire & Cable Co., Ltd. Representative：Sharon Fong | 2009/11/10 | 3 | 1998/04/13 | 343,364 | 3.26 | 343,364 | 3.26 | - | - | - | - | Bachelor in International Finance ,Kent State University, Kent, Ohio<br>Special Assistant to Chairman, Pacific Electric Wire & Cable Co., Ltd.<br>Country General Manager, Deutsche Bank, Taiwan<br>Toronto Dominion Bank<br>Canadian Imperial Bank of Canada, Toronto<br>Bank of Montreal, Toronto | Special Assistant to Chairman, Pacific Electric Wire & Cable Co., Ltd. | - | - | - |
| | Sharon Fong | 2009/11/10 | 3 | 2009/10/09 | 30 | 0.00 | 30 | 0.00 | - | - | - | - | | | | | |
| Director | Taipei Fubon Commercial Bank Co., Ltd. Representative ：George Liu | 2009/11/10 | 3 | 1998/04/13 | 50,694 | 0.48 | 50694 | 0.48 | - | - | - | - | Ph. D. in Physics, Massachusetts Institute of Technology<br>President, Taiwan High Speed Rail Corporation<br>President, Taiwan Aerospace Corporation | Chairman, Fubon Land Development Co., Ltd.<br>Chairman, Taipei New Horizons Co., Ltd.<br>Chairman, Fubon Real Estate Co., Ltd. | - | - | - |
| | George Liu (Note 6) | 2009/11/10 | 3 | 2010/05/24 | 114 | 0.00 | 114 | 0.00 | - | - | - | - | | | | | |
| Director | Taiwan Sugar Corporation Representative：Mao-Lin Hu | 2009/11/10 | 3 | 2000/06/27 | 500,000 | 4.75 | 500,000 | 4.75 | - | - | - | - | Ph. D. in Institute of Agronomy, Washington State University<br>B.S. in Agronomy, National Taiwan University<br>Principal, National Chia-Yi Institute of Technology<br>Vice Chairman, Council of Agriculture, Executive Yuan<br>Principal, Hwa-Hsia Institute of Technology | Chairman, Taiwan Sugar Corporation | - | - | - |
| Director | Tung Ho Steel Enterprise Corporation Representative：Earle Jen-Shyong Ho | 2009/11/10 | 3 | 2001/06/22 | 112,763 | 1.07 | 123,763 | 1.18 | - | - | - | - | Master degree in Economics, Indiana University<br>B.A. degree in Economics, National Taiwan University<br>Chairman, Taiwan Steel & Iron Industries Association<br>Chairman, the Chinese National Federation of Industries | Chairman, Tung Ho Steel Enterprise Corporation<br>Chairman, Far East Steel Enterprise Corporation<br>Chairman, Scandinavia-Asia Corporation | - | - | - |
| Director | China Steel Corporation Representative：Chung-Yi Lin | 2009/11/10 | 3 | 2009/11/10 | 605,370 | 5.75 | 605,370 | 5.75 | - | - | - | - | Bachelor in Economics, Soochow University<br>Manager in Accounting Department, Assistant General Manager in Finance Department and Chief Auditor, China Steel Corporation | Assistant Vice President, Finance Division, China Steel Corporation<br>Supervisor, Aerospace Industrial Development Corporation<br>Supervisor, CSC's Subsidiaries (including Chung-Hung Steel Corp., China Steel Machinery Corp., China Steel Sumikin Vietnam Corp.) and Kaohsiung Rapid Transit Corporation | - | - | - |
| Director | CTCI Foundation Representative：Wenent P. Pan | 2009/11/10 | 3 | 2006/01/20 | 322,580 | 3.06 | 322,580 | 3.06 | - | - | - | - | Ph. D. in Chemical Engineering, the University of Wyoming<br>Chairman, Chinese Petroleum Corporation<br>Chairman, Kuo Kuang Power Co., Ltd.<br>President, Chinese Petroleum Corporation<br>Senior Research Engineer, Monsanto Co., | Chairman, CTCI Foundation<br>Chairman, Gintech Energy Corporation | - | - | - |

| Title | Name | Date Elected | Term (Years) | Date First Elected | Shareholding when Elected | | Current Shareholding | | Spouse & Minor Shareholding | | Shareholding by Nominee Arrangement | | Experience（Education） | Other Position | Executives, Directors or Supervisors who are spouses or within two degrees of kinship | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Shares | % | Shares | % | Shares | % | Shares | % | | | Title | Name | Relation |
| Director | Development Fund of Executive Yuan Representative：Mao-Wei Hung (Note 2) | 2009/11/10 | 3 | 2009/11/10 | 300,000 | 2.85 | 300,000 | 2.85 | - | - | - | - | Ph. D in Finance, Northwestern University<br>Founding Dean, College of Social Science and Management, National Chung Hsing University<br>Assistant Professor in Finance, McGill University | Dean, College of Management, National Taiwan University<br>Joint-Appointment Research Fellow, Institute of Economics, Academia Sinica<br>National Professorship, Ministry of Education | - | - | - |
| Director | Development Fund of Executive Yuan Representative：Yu-Hern Chang (Note 2) | 2009/11/10 | 3 | 2009/11/10 | 300,000 | 2.85 | 300,000 | 2.85 | - | - | - | - | Ph. D in Transportation Management, University of Pennsylvania<br>Master in Institute of Traffic and Transportation, National Chiao Tung University<br>Bachelor in Mechanical Engineering, National Cheng Kung University<br>Deputy Superintendent, National Cheng Kung University Hospital, National Cheng Kung University<br>Director General, Civil Aeronautics Administration, Ministry of Transportation and Communications<br>Director General, Institute of Transportation, Ministry of Transportation and Communications | Dean, College of Management, National Cheng Kung University<br>Distinguished Professor, Transportation and Communications Management Science, National Cheng Kung University<br>Chairman, Aviation Safety Council | - | - | - |
| Independent Director | Chen-Kuo Lin (Note 3) | 2009/11/10 | 3 | 2003/05/28 | - | - | - | - | - | - | - | - | B.A. degree in Economics, National Taiwan University<br>Director, Waterland Financial Holdings<br>Chairman, Taiwan Asset Management Corporation<br>Chairman, Taiwan External Trade Development Council<br>Minister without Portfolio, Executive Yuan<br>Minister, Ministry of Finance of R. O. C.<br>Professor in Economics, National Taiwan University | Chairman, Tunghai University<br>Chairman, Angel Heart Family Social Welfare Foundation<br>Independent Director, High Tech Computer Corporation<br>Chairman, Taiwan-Hong Kong Economic and Cultural Co-operation Council | - | - | - |
| Independent Director | George S.Y. Chen | 2009/11/10 | 3 | 2007/08/16 | - | - | - | - | - | - | - | - | Research, Study and co-author a book with Professor Krowne at Graduate School of System Management, University of Southern California. USA<br>M.S. in Transportation Engineering, Asian Institute of Technology (AIT)<br>B.S. in Civil Engineering, Chung Yuan University, Taiwan, R. O. C.<br>The Acting Minister and Executive Vice-Minister, Ministry of Transportation and Communications of R. O. C. | Division Convener, Sustainable Development Division, Nation Policy Foundation<br>Chairman, Taiwan Engineering Earthquake Relief Association<br>Director, the China Road Federation<br>Executive Director, The Arbitration Association of the Republic of China | - | - | - |

| Title | Name | Date Elected | Term (Years) | Date First Elected | Shareholding when Elected | | Current Shareholding | | Spouse & Minor Shareholding | | Shareholding by Nominee Arrangement | | Experience（Education） | Other Position | Executives, Directors or Supervisors who are spouses or within two degrees of kinship | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Shares | % | Shares | % | Shares | % | Shares | % | | | Title | Name | Relation |
| Independent Director | Victor W. Liu | 2009/11/10 | 3 | 2009/11/10 | - | - | - | - | - | - | - | - | Ph. D. and Master in Kellogg Graduate School of Management, Northwestern University<br>B.A. from National Cheng Kung University<br>Chairman, Waterland Financial Holdings Co., Ltd.<br>Chairman, International Bills Finance Corporation<br>Chairman, Bowa Bank<br>Chairman, Aviation Safety Council of the Executive Yuan<br>President, National Sun Yat-sen University | Honorary Chair Professor, College of Management, National Sun Yat-Sen University<br>Chairman, Higher Education Evaluation & Accreditation Council of Taiwan<br>Chairman, Taiwan Assessment and Evaluation Association | - | - | - |
| Supervisor | Walsin Lihwa Corporation Representative：<br>Ji-Ming Lu Tang<br>(Note 4) | 2009/11/10 | 3 | 2009/11/10 | 50,000 | 0.47 | 50,000 | 0.47 | - | - | - | - | MBA, Indiana University<br>Director, Auditing Office of Walsin Lihwa Corporation<br>Assistant Vice President, Manager in Accountant and Financial Department, Walsin Lihwa Corporation<br>Vice President, Yung Shin Securities<br>Assistant Vice President, J.P. Morgan Taipei Branch | Special Assistant to Chairman of Walsin Lihwa Corporation | - | - | - |
| Supervisor | C.I. Wang<br>(Note 5) | 2009/11/10 | 3 | 2009/11/10 | - | - | - | - | - | - | - | - | Master of Science in Accountancy from Business School, University of Illinois<br>Bachelor in Accounting & Statistics, National Cheng Kung University | Managing Partner, Eli C Wang & Co CPAs.<br>Director, Yentz University<br>Director, T N Soong Foundation | - | - | - |

Note 1：Institutional shareholders and its representative's names should be listed separately in the following form.

Note 2：Institutional director Development Fund of Executive Yuan was first elected as THSRC director on 2001/6/22, first elected as supervisor on 2003/5/28, and assumed 2 director positions on 2009/11/10 for the second time.

Note 3：Independent director Chen-Kuo Lin was first elected as THSRC director on 2003/5/28, and elected as independent director on 2007/8/16.

Note 4：Institutional director Walsin Lihwa Corporation was first elected as THSRC director on 2006/1/20, and elected as supervisor on 2009/11/10.

Note 5：Supervisor C.I. Wang was first elected as THSRC supervisor on 2003/5/28, and elected as supervisor on 2009/11/10 for the second time.

Note 6：Daniel Tsai, representative of Taipei Fubon Commercial Bank, resigned on 2010/05/24. George Liu was appointed as the new representative.

(2) **Directors' and Supervisors' Professional Qualifications and Independence Analysis**

| Name | Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience | | | Independence Criteria(Note) | | | | | | | | | | Number of Other Public Companies in Which the Individual is Concurrently Serving as an Independent Director |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University | A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist Who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company | Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | |
| Chin-Der Ou | | | V | | | V | V | | V | V | V | V | | |
| George Liu | | | V | V | | V | V | V | V | | V | V | | |
| Li-Ching Ko | | | V | V | | V | V | V | V | V | V | V | | |
| Chun-Chi Chiu | | | V | V | | V | V | | V | | V | V | | |
| Sharon Fong | | | V | V | | V | V | V | V | | V | V | | |
| Earle Jen-Shyong Ho | | | V | V | | V | V | V | V | V | V | V | | |
| Mao-Lin Hu | V | | V | V | | V | V | | V | V | V | V | | |
| Chung-Yi Lin | | | V | V | | V | V | | V | V | V | V | | |
| Arthur Chiang | | | V | V | | V | V | | V | | V | V | | |
| Mao-Wei Hung | V | | V | V | | V | V | V | V | V | V | V | | |
| Yu-Hern Chang | V | | V | V | | V | V | V | V | V | V | V | | |
| Wenent P. Pan | | | V | V | | V | V | V | V | V | V | V | | |
| Chen-Kuo Lin | V | | V | V | V | V | V | V | V | V | V | V | V | 1 |
| George S. Y. Chen | V | V | V | V | V | V | V | V | V | V | V | V | V | |
| Victor W. Liu | V | | V | V | V | V | V | V | V | V | V | V | V | |
| Ji-Ming Lu Tang | | | V | V | | V | V | V | V | V | V | V | | |
| C. I. Wang | V | V | V | V | V | V | V | V | V | V | V | V | V | |

Note: Please tick the corresponding boxes if directors or supervisors have been any of the following during the two years prior to being elected or during the term of office.

1. Not an employee of the Company or any of its affiliates.
2. Not a director or supervisor of the Company or any of its affiliates. The same does not apply, however, in cases where the person is an independent director of the Company, its parent company, or any subsidiary in which the Company holds, directly or indirectly, more than 50% of the voting shares.
3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top 10 in holdings.
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the fifth degree of kinship, of any of the persons in the preceding three subparagraphs.
5. Not a director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the total number of outstanding shares of the Company or that holds shares ranking in the top five in holdings.
6. Not a director, supervisor, officer, or shareholder holding 5% or more of the share, of a specified company or institution that has a financial or business relationship with the Company.
7. Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof.
8. Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company.
9. Not been a person of any conditions defined in Article 30 of the Company Law.
10. Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

## 3. Management Team

| Title | Name | Date Effective | Shareholding | | Spouse & Minor Shareholding | | Shareholding by Nominee Arrangement | | Experience（Education） | Other Position | Managers who are Spouses or Within Two Degrees of Kinship | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Shares | % | Shares | % | Shares | % | | | Title | Name | Relation |
| Chief Executive Officer | Chin-Der Ou | 2006/10/01 | 326 | - | - | - | - | - | Ph.D in Soil Mechanics, Case Western Reserve University, USA.<br>Chairman, Taipei Smart Card Corporation<br>Deputy Mayor, Taipei City Government, Taiwan, R.O.C.<br>Minister, Public Construction Commission, Executive Yuan | Director, Asia Cement Corporation | — | — | — |
| Executive Vice President<br>Construction Management & Procurement Division | Kwok-Hung Lee<br>(2010.2.1 resigned) | 1999/01/01 | - | - | - | - | - | - | Bachelor of Science in Engineering, The University of Hong Kong<br>Fellow, Institution of Civil Engineers (U.K.) | NA | — | — | — |
| Senior Vice President<br>Corporate Planning Office | Ricardo Tan | 1999/12/01 | 65 | - | - | - | - | - | Diploma of Science degree in Aviation Mechanical Engineering, Air Force College of Mechanical Engineering, R.O.C.<br>Supervising Engineer, RSEA Engineering Corporation | — | — | — | — |
| Executive Vice President<br>Railway Operation Division | William Roger Donald | 2008/01/23 | - | - | - | - | - | - | Bachelor in Engineering, University of Sheffield, U.K.<br>Operations Director, MTR Corporation, Hong Kong | — | — | — | — |
| Chief Operation Officer Railway Operation Division | Alex Chang | 2006/08/31 | - | - | - | - | - | - | MS in Management Science, National Chiao Tung University.<br>EMBA, National Taiwan University of Science and Technology.<br>Vice President, Taipei Rapid Transit Corporation | — | — | — | — |
| Vice President Maintenance Sub-Division, Railway Operation Division | Karl- Ulrich Dobler | 2000/10/02 | - | - | - | - | - | - | Ph.D. in Control Systems, Technical University Stuttgart, Germany<br>Daimler Chrysler Rail Systems Managing Director, Adtranz Signal GmbH, Germany | — | — | — | — |
| Vice President<br>O&M Planning Office, Railway Operation Division | Robert Hsu<br>(2009.7.1 resigned) | 2006/08/31 | - | - | - | - | - | - | Master in Transportation Engineering, National Chiao Tung University<br>EMBA, National Chengchi University<br>Audit Manager, IT Manager, Operations Manager, Taipei Rapid Transit Corporation | NA | — | — | — |
| Secretariat-General Secretariat Division of Board of Directors | Samuel P. Lin | 2001/11/29 | 500 | - | 10 | - | - | - | EMBA, The Chinese University of Hong Kong<br>EMBA, National Sun Yat-Sen University<br>BA in English Language & Literature, Soochow University<br>Assistant Vice President, Evergreen International Corporation | — | — | — | — |
| Secretariat-General Secretariat Division of Board of Directors | Tsai-Der Chen<br>(2010.4.8 resigned) | 1998/08/15 | 25 | - | - | - | - | - | BA in Accounting and Statistics, National Cheng Kung University<br>Vice President, Taiwan Synthetic Rubber Corporation | NA | — | — | — |
| Vice President<br>Legal Office | Klaus Liu<br>(2010.4.8 resigned) | 2002/08/01 | - | - | - | - | - | - | Ph.D. candidate in Law, Ludwig Maximilian University of Munich, Germany<br>Legal Director, Taiwan Synthetic Rubber Corporation | NA | — | — | — |

| Title | Name | Date Effective | Shareholding | | Spouse & Minor Shareholding | | Shareholding by Nominee Arrangement | | Experience（Education） | Other Position | Managers who are Spouses or Within Two Degrees of Kinship | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Shares | % | Shares | % | Shares | % | | | Title | Name | Relation |
| Assistant Vice President Legal Office (Director of Legal Office) | Barret Wang | 2006/12/01 | 25 | - | - | - | - | - | BA in Law, National Taiwan University<br>Lawyer, Chun He Law Firm | — | — | — | — |
| Chief Auditor<br>Corporate Audit Office | John Huang (2009.12.1 resigned) | 2001/05/15 | - | - | - | - | - | - | BA in Accounting, National Cheng Kung University.<br>President, Quaker Oats Company, Soochow, China | NA | — | — | — |
| Vice President<br>Finance Division | Eleanore New | 2006/06/01 | - | - | - | - | - | - | MBA, New York Institute of Technology, USA<br>Vice President, Taishin International Bank | — | — | — | — |
| Vice President<br>Public Affairs Office | Ted Chia | 2003/09/01 | 80 | - | - | - | - | - | MA in Politics, Institute of Interdisciplinary Studies for Social Sciences, National Sun Yat-Sen University.<br>News Interview Manager, Editor-in-Chief, Super Television Corporation | — | — | — | — |
| Vice President Information Technology Division | Min Chen | 2006/02/15 | - | - | - | - | - | - | MS in Computer Sciences, Ohio University, USA<br>IT Director, Chinatrust Commercial Bank | — | — | — | — |
| Vice President<br>Marketing Division | Rae-Fang Chung | 2005/06/06 | - | - | - | - | - | - | BA in Economics, Tamkang University<br>Marketing Manager, Anchor, Taiwan | — | — | — | — |
| Vice President Resources Management Division | Douglas Tseng | 2009/09/01 | - | - | - | - | - | - | MS in Management Science, Cornell University, USA<br>Senior Vice President, McDonalds Taiwan | — | — | — | — |
| Vice President Resources Management Division | Linda Chao (2009.1.9 resigned) | 2007/12/17 | - | - | - | - | - | - | MBA, Tulane University, USA<br>Vice President, Sino Card Company, SinoPac Holdings Group | NA | — | — | — |
| Vice President<br>System Engineering Department, Construction Management & Procurement Division | John Popoff | 2000/10/01 | - | - | - | - | - | - | BS in Applied Science (Electrical Engineering), University of British Columbia, Canada<br>Program Director, Amtrak-High Speed Rail | — | — | — | — |
| Vice President Engineering Department, Construction Management & Procurement Division | Jeder Hseih | 2004/06/01 | 40 | - | - | - | - | - | Ph.D. in Civil Engineering, University of Houston, USA<br>Director, Join Engineering Consultants | — | — | — | — |

| Title | Name | Date Effective | Shareholding | | Spouse & Minor Shareholding | | Shareholding by Nominee Arrangement | | Experience（Education） | Other Position | Managers who are Spouses or Within Two Degrees of Kinship | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Shares | % | Shares | % | Shares | % | | | Title | Name | Relation |
| Vice President<br>System Assurance Department, Construction Management & Procurement Division | Konrad Tzeng<br>(2009.10.1 resigned) | 2004/08/30 | - | - | - | - | - | - | Ph.D. in Mechanical Engineering, University of Texas at Austin, USA<br>President, Taipei Smart Card Corporation | NA | — | — | — |
| Vice President<br>Contract Administration Department, Construction Management & Procurement Division | Bernard Michael Fleming<br>(2009.12.1 resigned) | 2000/11/01 | - | - | - | - | - | - | Law Department, University of Canterbury, New Zealand<br>Assistant Royal Attorney General, Hong Kong<br>Partner, Hong Kong Law Firms | NA | — | — | — |
| Assistant Vice President Transportation Business Development Department, Marketing Division | Simon Chen | 2008/09/01 | 39 | - | - | - | - | - | Ph.D. in Civil Engineering (Transportation Engineering), National Taiwan University | — | — | — | — |
| Assistant Vice President Strategy Planning Office, Marketing Division | Wilson Ting | 2008/02/25 | - | - | - | - | - | - | MS in Finance, Golden Gate University, USA<br>Director of Sales Division, Far Eastone Telecommunications Corporation | — | — | — | — |
| Assistant Vice President Transportation Business Development Department, Marketing Division | Belinda Chen<br>(2010.3.1 resigned) | 2008/02/25 | - | - | - | - | - | - | MS in Advertising, University of Illinois at Urbana-Champaign, USA<br>Assistant Vice President of Marketing Division, Far Eastone Telecommunications Corporation | NA | — | — | — |
| Assistant Vice President<br>Brand & Communication Department, Marketing Division | Jessie Teng<br>(2010.3.1 resigned) | 2008/03/03 | - | - | - | - | - | - | MBA, Southern Methodist University, USA<br>Assistant Vice President of Marketing Division, Assistant Vice President of Sales Division, Far Eastone Telecommunications Corporation | NA | — | — | — |
| Assistant Vice President<br>Training Department, Resources Management Division | Paul Hwang | 2006/11/06 | - | - | - | - | - | - | MBA, Graduate School of Transportation and Communication Management Science, National Cheng Kung University<br>Training Director, Operation Control Center Manager, Taipei Rapid Transit Corporation<br>Vice President, Figaro Philippine Holdings Inc. | — | — | — | — |
| Assistant Vice President District Relations Department, Public Affairs Office | Yan-Ping Tien | 2008/09/01 | 270 | - | - | - | - | - | BA in Politics, Fu Hsing Kang College, National Security Studies<br>Director of South District, National Security Bureau, R.O.C. | — | — | — | — |
| Assistant Vice President Employee Service Department | Max Liu | 2008/06/16 | 30 | - | - | - | - | - | BS in Mechanical Engineering, National Chiao Tung University<br>Special Assistant to Chairman, DJ Auto Components Corporation | — | — | — | — |
| Assistant Vice President Accounting Department, Finance Division | Shirley Lai | 2003/09/16 | 10 | - | - | - | - | - | MA in Management, University of Southern Queensland, Australia<br>Company Supervisor, Enfield Medical Co.<br>Certified Public Accountant, Deloitte & Touche Taiwan | — | — | — | — |

| Title | Name | Date Effective | Shareholding | | Spouse & Minor Shareholding | | Shareholding by Nominee Arrangement | | Experience（Education） | Other Position | Managers who are Spouses or Within Two Degrees of Kinship | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Shares | % | Shares | % | Shares | % | | | Title | Name | Relation |
| Assistant Vice President IT Planning & Quality Assurance Office, Information Technology Division | William Chen | 2001/01/01 | - | - | - | - | - | - | BS in Geography, National Taiwan University<br>Manager, Eva Airways Corporation | — | — | — | — |
| Assistant Vice President Secretariat Division, Board of Directors | Eric Huang (2009.10.13 resigned) | 2008/09/01 | 21 | - | - | - | - | - | MS in Operations Research & Management Science, University of Southern California, USA<br>Special Assistant to President, Far Eastone Telecommunications Corporation | NA | — | — | — |
| Assistant Vice President Operation Sub-Division, Railway Operation Division | John Chen | 2007/03/12 | - | - | - | - | - | - | MS in Computer Science, Alabama A&M University, USA<br>BS in Civil Engineering, National Central University<br>Muzha Division Director, Taipei Rapid Transit Corporation | — | — | — | — |
| Assistant Vice President Station Operation Department, Operation Sub-Division, Railway Operation Division | Andy Lu | 2006/12/01 | - | - | - | - | - | - | EMBA, National Sun Yet-Sen University<br>MBA (Asia-Pacific), The Chinese University of Hong Kong<br>Assistant Manager, Eva Airways Corporation | — | — | — | — |
| Chief Director Transportation Department, Operation Sub-Division, Railway Operation Division | Noel James Laliberte (2010.5.1 resigned) | 2007/06/13 | - | - | - | - | - | - | Courses in Economics and Business Management, University of Manitoba, Canada<br>Executive Management Courses, University of London, Ontario, Canada<br>Director, Railway Operations in Canarail Consultants Inc. | NA | — | — | — |
| Deputy Chief Director Transportation Department, Operation Sub-Division, Railway Operation Division | Alpha Lin | 2006/11/06 | - | - | - | - | - | - | MS in Management Sciences (System Analysis), Tamkang University<br>Operation Control Manager, Vehicle Control Manager, Taipei Rapid Transit Corporation | — | — | — | — |
| Assistant Vice President Maintenance Technical Support Department, Maintenance Sub-Division, Railway Operation Division | James Shi | 2007/01/02 | - | - | - | - | - | - | MS in Electrical Engineering, Northeastern University, USA<br>Assistant Manager, Taipei Rapid Transit Corporation | — | — | — | — |
| Chief Director Rolling Stock Maintenance Department, Maintenance Sub-Division, Railway Operation Division | Bryan Chou | 1998/10/01 | 144 | - | - | - | - | - | Diploma in Marine Engineering, China College of Maritime Technology and Commerce<br>Assistant Director, Eva Airways Corporation | — | — | — | — |
| Assistant Vice President Permanent Way Maintenance Department, Maintenance Sub-Division, Railway Operation Division | Eric Cheng | 2006/11/06 | - | - | - | - | - | - | MS in Electrical Engineering, National Taiwan University of Science and Technology<br>Electrical Plant Manager, Power Supply Plant Manager, Taipei Rapid Transit Corporation | — | — | — | — |
| Assistant Vice President Signaling & Communication Department, Maintenance Sub-Division, Railway Operation Division | Gavin Tsou | 2006/05/15 | - | - | - | - | - | - | Electronic Engineering, National Taiwan University of Science and Technology<br>Electronic Plant Manager, Taipei Rapid Transit Corporation | — | — | — | — |

| Title | Name | Date Effective | Shareholding | | Spouse & Minor Shareholding | | Shareholding by Nominee Arrangement | | Experience（Education） | Other Position | Managers who are Spouses or Within Two Degrees of Kinship | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Shares | % | Shares | % | Shares | % | | | Title | Name | Relation |
| Chief Director Transportation Planning Section, O&M Planning Office, Railway Operation Division | Ronald Ian Bruce (2009.8.25 resigned) | 2004/08/02 | - | - | - | - | - | - | University of New South Wales, BS in Electrical Engineering, Diploma in Business Administration, Diploma in Systems Engineering MIEA.<br>Senior Asset Manager and Program Director Capital Works, State Rail Authority of NSW. | NA | — | — | — |
| Assistant Vice President Emergency Management & Security Office, Railway Operation Division | James K.P. Chen (2009.7.1 resigned) | 2006/10/16 | - | - | - | - | - | - | MS in Industrial Engineering & Management, Asia Institute of Technology<br>BS in Marine Engineering, National Taiwan Ocean University<br>Transportation Maintenance Supervisor of Muzha Division, Industrial Safety Manager, Taipei Rapid Transit Corporation<br>Assistant Supervisor of Jian-an Project, RSEA Engineering Corporation | NA | — | — | — |
| Assistant Vice President Contract Administration Department, Construction Management & Procurement Division | Jackson Tzeng | 2006/12/01 | 170 | - | - | - | - | - | Master of Laws, Cornell Law School<br>Attorney at Laws, New York State | — | — | — | — |
| Assistant Vice President<br>Procurement Department, Construction Management & Procurement Division | Wendy Yu | 2008/09/01 | - | - | - | - | - | - | Cultural Anthropology and Civil Engineering, University of Massachusetts, USA<br>Transportation System Manager, Siemens Limited | — | — | — | — |
| Assistant Vice President<br>Engineering Department, Construction Management & Procurement Division | Daniel Chu | 2007/04/16 | - | - | - | - | - | - | MS in Civil Engineering, Chung Hua University<br>President, Chung Chu Co.<br>Chief Assistant to Chairman, BES Engineering Corporation | Part-time member of auditing committee, member of review committee, dispute consultant, and lecturer of quality control engineer training at Public Construction Commission, Executive Yuan | — | — | — |
| Assistant Vice President<br>Infrastructure Maintenance Department, Construction Management & Procurement Division | Karl Wang | 2004/07/01 | - | - | - | - | - | - | Master in Management, Asian Institute of Management<br>Senior Engineer and Manager, RSEA Engineering Corporation | — | — | — | — |
| Assistant Vice President Quality Assurance Office | Song Wu (2009.11.1 resigned) | 2000/08/01 | - | - | - | - | - | - | Ph.D. in Civil Engineering, North Carolina State University, USA<br>Engineering Advisor, Chevron Corporation<br>Senior Advisor, Bureau of High Speed Rail | NA | — | — | — |

## 4. Human Resources

### (1) Status of Number of Employees, Average Ages, Average Employment Years and Education in 2008, 2009 and the date Ending on 04/30/2010

| Year | | 2008 (Ending on 12/31/2008) | 2009 (Ending on 12/31/2009) | Ending on 04/30/2010 |
|---|---|---|---|---|
| Number of Employees | General Employees | 3,151 | 2,977 | 2,986 |
| | Contracted Employees | 140 | 58 | 37 |
| | Contracted Expatriate Employees | 37 | 25 | 20 |
| | Total | 3,328 | 3,060 | 3,043 |
| Average Age | | 33.85 | 34.50 | 34.50 |
| Average Employment Years | | 3.48 | 4.34 | 4.60 |
| Education | Ph.D | 13 | 9 | 8 |
| | Master | 411 | 378 | 370 |
| | Bachelor | 2,695 | 2,478 | 2,471 |
| | High School | 199 | 178 | 177 |
| | Under High School | 10 | 17 | 7 |

### (2) Relationship between THSRC and Employees

A. Negotiations between THSRC and Employees: None.

B. Laws and Regulations:

(A) Hold Labor-Management Conference:

The first labor-management conference was convened on December 24, 2003. After that, THSRC convenes regular labor-management conferences and announces the findings of the conferences. The changes in labor and management representatives are reported to labor authorities.

(B) Establishment of Grievance System:

In order to effectively enforce corporate policies and uphold a good and open relationships, THSRC executed the "Rules Governing Employee Grievance" on December 13, 2005.

(C) Sexual Harassment Prevention and Grievance Procedures:

Based on "Gender Equality in the Employment Act," along with "Regulations for Establishing Measures of Prevention, Complaint and Punishment of Sexual Harassment in the Workplace" as a reference, THSRC executed the Regulations for "Prevention and Management of Sexual Harassment" on March 21, 2006. The regulation applies to THSRC employees, which prevents employees from sexual harassment incidents in the Company and employees' other workplaces, THSRC posts information on how to report grievances, in workplaces and public areas. Moreover, we further illustrate our sexual harassment prevention policy in education training courses for new employees and reinforce the importance of sexual harassment prevention to employees.

(D) Gender Equality in Employment Act

Since June, 2005, THSRC has provided Nursery Rooms, for passengers and employees, to provide the facilities that they need.

(E) To provide emergency medical assistance to employees, THSRC has placed first aid kits in headquarters, operation buildings and maintenance buildings of THSRC based on the "Labor Health Protection Rules". As for passengers, we provide health centers that are superior to regulation requirements, in every station.

C. Countermeasures against Latest Labor-Management Conflicts:

THSRC is currently undergoing three litigations, of labor-management conflicts, all related to employee dismissals conducted in accordance with legal provisions. In case of a legal severance, THSRC will comply with any court's adjudication as required.

# 4. Corporate Governance

## 1. Corporate Governance Execution Status

### (1) Taiwan Corporate Governance Implementation as Required by the Taiwan Financial Supervisory Commission

| Item | Implementation Status | Reason for Non-Implementation |
|---|---|---|
| 1. Stockholders' structure and stockholders' rights<br>■ Method of handling stockholder suggestions or complaints<br>■ The company's possession of a list of major stockholders and a list of ultimate owners of the major stockholders<br>■ Risk management mechanism and "firewall" between the company and its affiliates | ■ THSRC has designed the stockholder unit to handle stockholder suggestions or complaints.<br>■ THSRC's major stockholders are the members of the board of directors or the financial institutions, and therefore THSRC possesses a list of major stockholders and a list of ultimate owners of the major stockholders to stabilize the business operations.<br>■ THSRC does not own any affiliate right now. However, in order to prevent conflict of interest, THSRC not only stipulates "Procedures Governing the Transactions with Affiliates, Specific Companies and Related Parties" based on the related regulations, but also establishes the Quasi-Audit Committee, under the board of directors, to examine the transactions which are related with the directors and related parties. | ■ THSRC's stocks do not trade in an Exchange or OTC market, so that it is not necessary to obey "Corporate Governance Best-Practice Principles for TSEC/GTSM Listed Companies". However, THSRC has stipulated the corporate governance guidance based on the related principles.<br>■ There is no discrepancy between the policies and their implementation. |
| 2. Composition and responsibilities of the board of directors<br>■ Independent directors<br>■ Regular evaluation of CPAs' independence | ■ THSRC has appointed three independent directors, they are also the chairman of functional committees, such as Corporate Governance Committee and Quasi-Audit Committee.<br>■ Quasi-Audit Committee evaluates periodically CPAs' professionalism and independence. | ■ THSRC's stocks do not trade in an Exchange or OTC market, so that it is not necessary to obey "Corporate Governance Best-Practice Principles for TSEC/GTSM Listed Companies". However, THSRC has stipulated the corporate governance guidance based on the related principles.<br>■ There is no discrepancy between the policies and their implementation. |
| 3. Communication channels with stakeholders | ■ THSRC has good communication channels with stakeholders, and is going to create email accounts for each supervisor to enhance this further. | ■ THSRC's stocks do not trade in an Exchange or OTC market, so that it is not necessary to obey "Corporate Governance Best-Practice Principles for TSEC/GTSM Listed Companies". However, THSRC has stipulated the corporate governance guidance based on the related principles.<br>■ There is no discrepancy between the policies and their implementation. |
| 4. Information disclosure<br>■ Establishment of a corporate website to disclose information regarding the Company's financial, business and corporate governance status<br>■ Other information disclosure channels (e.g., maintaining an English-language website, appointing responsible people to handle information collection and disclosure, appointing spokespersons, webcasting investors conference) | ■ According to the corporate governance guidance approved by the shareholders' meeting, THSRC has disclosed information regarding financial, business and corporate governance status, and updated the contents of the website periodically or when necessary.<br>■ THSRC's policies on information disclosure are not only written on the annual report and prospectus, but also announced or filed on the website "Market Observation Post System". Some contents are disclosed in THSRC's website using Chinese and English. | ■ THSRC's stocks do not trade in an Exchange or OTC market, so that it is not necessary to obey "Corporate Governance Best-Practice Principles for TSEC/GTSM Listed Companies". However, THSRC has stipulated the corporate governance guidance based on the related principles.<br>■ There is no discrepancy between the policies and their implementation. |
| 5. Operations of the Company's nomination committee, compensation committee, or other functional committees | ■ According to the corporate governance guidance approved by the shareholders' meeting, THSRC has established Quasi-Audit Committee, Corporate Governance Committee, Finance Committee and Procurement Committee. Independent directors are the convener of Quasi-Audit Committee and Corporate Governance Committee.<br>■ The board of directors has stipulated the rules governing the duties for each committee so that each committee can act individually. Corporate Governance Committee is responsible for the nomination and examination of independent directors and remuneration for all directors and supervisors.<br>■ All committees operate smoothly and actively to supervise accordingly to enhance the management mechanism and establish a sound corporate governance system. | ■ THSRC's stocks do not trade in an Exchange or OTC market, so that it is not necessary to obey "Corporate Governance Best-Practice Principles for TSEC/GTSM Listed Companies". However, THSRC has stipulated the corporate governance guidance based on the related principles.<br>■ There is no discrepancy between the policies and their implementation. |
| 6. If the company has established corporate governance policies based on "Corporate Governance Best-Practice Principles for TSEC/GTSM Listed Companies", please describe any discrepancy between the policies and their implementation:<br>■ THSRC's "Guidelines for Corporate Governance", which was approved by the shareholders' meeting, is based upon OECD Principles of Corporate Governance, S&P Corporate Governance Score-Criteria, Methodology and Definitions, NYSE Listed Company Manual Sec303A, Infosys Corporate Governance Report, the international and/or domestic companies' guidance governing corporate governance, the related regulations in Taiwan, rules issued by Taiwan Stock Exchange, and the Corporate Governance Best-Practice Principles for TSEC/GTSM Listed Companies. The main purposes are to construct a better corporate governance system, protect stockholders' rights and interests, strengthen the structure of the board of directors, build up the supervisors' function and fulfill social obligations. | | |

| Item | Implementation Status | Reason for Non-Implementation |
|---|---|---|
| 7. Other important information to facilitate better understanding of the company's corporate governance practices (e.g., employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors and supervisors' trainings, the implementation of risk policies and risk evaluations, the implementation of customer policies, and liability insurance of directors and supervisors):<br>■ THSRC has stipulated "Guidelines for Corporate Governance" approved by the shareholders' meeting. The main purposes are to protect shareholders' right and interests, strengthen the structure of the board of directors, bring supervisors' function into action and fulfill social obligations, so that THSRC builds up a sound corporate governance system.<br>■ "Guidelines for Corporate Governance" states that THSRC should take care of public policies, economic development, consumer rights, community care, environment hygiene, public safety and the publics' welfare so that THSRC promotes the company's image and acts in a socially responsible manner. THSRC has taken many actions in this regard, such as the protection of jacanas and other wild animals, consideration of and care for communities along its routes and support for healthcare systems and public policies.<br>■ In order to guide employees to meet high moral standards, let stakeholders understand the moral standards with which THSRC's employees follow whilst working, and reveal that THSRC's operations are not harmful to social public welfare. THSRC stipulates "Code of Conduct & Ethics" and "Code of Conduct" to protect THSRC and its stockholders' rights and act in a socially responsible manner.<br>■ According to THSRC's "Guidelines for Corporate Governance", which was approved by the shareholders' meeting on November 1, 2004, THSRC has taken out liabilities insurance to indemnify its directors, supervisors and executive managers against liability while acting for THSRC, and the coverage every year is US$ 10 million. | | |
| 8. If the company has a self corporate governance evaluation or has authorized any other professional organization to conduct such an evaluation, the evaluation results, major deficiencies or suggestions , and improvements are stated as follows:<br>■ THSRC's corporate governance guidance and rules governing the duties of each committee state the procedures for implementation and reviews of the corporate governance system. For example, Corporate Governance Committee should examine periodically the operation of the board of directors, the implementation of supervisors and each committee function, the performance evaluation of management, and the execution of information disclosure. THSRC follows the related guidances and procedures, implements the corporate governance system, and reports the execution of corporate governance to stockholders during the annual shareholders' meeting so that every stockholder is able to understand THSRC's operations and its implementation of corporate governance. | | |

Note 1：Directors and supervisors' training refers to "Rules Governing the Training for Directors and Supervisors of TSEC/GTSM Listed Companies" issued by Taiwan Stock Exchange Corporation.

Note 2：If the companies are securities corporations, securities investment consulting corporations and futures corporations, the disclosures should include the risk management policies, risk measurement standards, and the protection to consumers or the execution of consumer policies.

Note 3：A self corporate governance evaluation means that a company evaluates or explains by itself, based on self corporate governance items, the operations and implementation of corporate governance.

### (2) Corporate Governance Guidance and the Way to Query

THSRC's "Guidelines for Corporate Governance", which was approved by the stockholders' meeting, is based upon OECD Principles of Corporate Governance, S&P Corporate Governance Score-Criteria, Methodology and Definitions, NYSE Listed Company Manual Sec303A, Infosys Corporate Governance Report, the international and/or domestic companies' guidance governing corporate governance, the related regulations in Taiwan, rules issued by Taiwan Stock Exchange, and the Corporate Governance Best-Practice Principles for TSEC/GTSM Listed Companies. The main purposes are to construct the best corporate governance system, protect stockholders' rights and interests, strengthen the structure of the board of directors, build up the supervisors' function and fulfill social obligations.

In addition to "Guidelines for Corporate Governance", THSRC also stipulated "Rules for Proceedings of Board Meetings", "Charter of Corporate Governance Committee", "Charter of Quasi-Audit Committee", "Enforcement Rules of the Quasi-Audit Committee Charter", "Charter of Procurement Committee", "Information Disclosure Rules", "Code of Conduct & Ethics", etc. These have become the basis for THSRC's corporate governance.

All related regulations and rules governing corporate governance (Chinese version only) are disclosed in the "About Us" section of THSRC's website, and the address is http://www.thsrc.com.tw.

### (3) Other Important Information Disclosures

According to THSRC's "Guidelines for Corporate Governance", which was approved by the stockholders' meeting on November 1, 2004, THSRC has taken liability insurance to indemnify its directors, supervisors and executive managers against liability while acting for THSRC, and the coverage is US$ 10 million each year.



## 2. Internal Control System Execution Status

### (1) Statement of Internal Control System

Taiwan High Speed Rail Corporation
Statement of Internal Control System

Date: April 20, 2010

Based on the findings of a self-assessment, Taiwan High Speed Rail Corporation (THSRC) states the following with regard to its internal control system during the period from January 1 to December 31, 2009:

1. THSRC is fully aware that establishing, operating, and maintaining an internal control system are the responsibility of its Board of Directors and management. THSRC has established such a system aimed at providing reasonable assurance regarding the achievement of objectives in the following categories: (1) effectiveness and efficiency of operations (including profitability, performance, and safeguarding of assets), (2) reliability of financial reporting, and (3) compliance with applicable laws and regulations.
2. An internal control system has its inherent limitations. No matter how perfectly designed, an effective internal control system can only provide reasonable assurance of accomplishing the three objectives mentioned above. Moreover, the effectiveness of an internal control system may be subject to changes of environment or circumstances. Nevertheless, the internal control system of THSRC contains self monitoring mechanisms, and THSRC takes corrective actions whenever a deficiency is identified.
3. THSRC evaluates the design and operating effectiveness of its internal control system based on the criteria provided in the Regulations Governing the Establishment of Internal Control Systems by Public Companies (herein below, the "Regulations"). The criteria adopted by the Regulations identify five components of internal control based on the process of management control: (1) control environment, (2) risk assessment and response, (3) control activities, (4) information and communication, and (5) monitoring. Each component further contains several items. Please refer to the Regulations for details.
4. THSRC has evaluated the design and operating effectiveness of its internal control system according to the aforementioned criteria.
5. Based on the findings of the evaluation mentioned in the preceding paragraph, TSHRC believes that, during the year 2009, its internal control system (including its supervision and management of subsidiaries), as well as its internal controls to monitor the achievement of its objectives concerning operational effectiveness and efficiency, reliability of financial reporting, and compliance with applicable laws and regulations, were effective in design and operation, and reasonably assured the achievement of the above-stated objectives.
6. This Statement will be an integral part of THSRC's Annual Report for the year 2009 and Prospectus, and will be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171, and 174 of the Securities and Exchange Law.
7. This Statement has been passed by the Board of Directors meeting held on April 15, 2010, with ten of the attending directors all affirming the content of this Statement.

Taiwan High Speed Rail Corporation
Chairman of the Board of Directors：
CEO：

### (2) The Disclosure of the external auditors' opinion on THSRC's Internal Control: None

## 3. Important Information Regarding Corporate Governance in 2009 and up to the Date the Annual Report Is Issued

(1) Major Issues of Record or Written Statements Made by Any Director or Supervisor Dissenting to Important Resolutions Passed by the Board of Directors: None.

(2) Resignation or Dismissal of Personnel Involved in Preparation of Financial Reports:

| Title | Name | Date of Appointment | Date of Resignation | Reasons for Resignation or Dismissal |
|---|---|---|---|---|
| Chairman | Nita Ing | 1998/05/11 | 2009/09/22 | Personal Career Planning |
| Chief Auditor | John Huang | 2001/05/15 | 2009/12/01 | Personal Career Planning |

## 4. Status of Net Changes in Stockholdings and in Stocks Pledged

Information regarding the status of net changes in stockholdings and in stocks pledged by directors, supervisors, managers and the stockholders over 10% stockholdings during 2009 and the date before this annual report is issued should be disclosed. If stocks are traded or pledged with the related parties, the related parties' name, the relationship with the company, directors, supervisors, managers and the stockholders over 10% stockholdings and the number of traded or pledged stocks should be disclosed.

(1) Changes in Shareholding of Directors, Supervisors, Managers and Major Shareholders

Unit: thousand shares

| Title | Name | 2009 | | 01/01/2010~04/30/2010 | |
|---|---|---|---|---|---|
| | | Holding Increase (Decrease) | Pledged Holding Increase (Decrease) | Holding Increase (Decrease) | Pledged Holding Increase (Decrease) |
| Director | Pacific Electric Wire & Cable Co., Ltd. | — | 6,806<br>(1,000)<br>(1,000)<br>(1,000) | — | (1,000)<br>4,000<br>(1,000) |
| Director | Development Fund of Executive Yuan | — | 300,000 | — | — |
| Director | Tung Ho Steel Enterprise Corporation | 9,260<br>1,740 | — | — | — |
| Chairman | Chin-Der Ou | — | — | 326 | — |

(2) Stock Trade with Related Parties

| Name | Reasons for Stock Trade | Transaction Date | Related Parties | The Relationship with the Company, Directors, Supervisors and the Stockholders with 10% Stockholdings | Shares | Price |
|---|---|---|---|---|---|---|
| — | — | — | — | — | — | — |

Note: The persons with whom stocks were traded were not the related parties, and therefore it was not applicable.



(3) Stock Pledge with Related Parties

| Name | Reasons for Stock Pledge | Date | Related Parties | The Relationship with the Company, Directors, Supervisors and the Stockholders with 10% Stockholdings | Shares | Percentage of Stockholdings | Percentage of Pledges | Pledge Amounts |
|---|---|---|---|---|---|---|---|---|
| — | — | — | — | — | — | — | — | — |

Note: The persons with whom stocks were pledged were not the related parties, and therefore it was not applicable.

## 5. Information on 10 Largest Stockholders who are Related Parties in Compliance to the Statement of Financial Accounting Standard No. 6

Unit: thousand Shares; %

| Name | Shareholding | | Spouse & Minor | | Shareholding by Nominee Arrangement | | The relationship between any of the Company's Top Ten Share holders | | Remarks % |
|---|---|---|---|---|---|---|---|---|---|
| | Shares | % | Shares | % | Shares | % | Name | Relation | |
| Continental Engineering Corporation | 752,370 | 7.14 | - | - | - | - | - | - | THSRC Director |
| Arthur Chiang | 109 | 0.00 | 20 | 0.00 | - | - | - | - | Representative of Continental Engineering Corporation |
| China Steel Corporation | 605,370 | 5.75 | - | - | - | - | - | - | THSRC Director |
| Chung-Yi Lin | - | - | - | - | - | - | - | - | Representative of China Steel Corporation |
| Taiwan Sugar Corporation | 500,000 | 4.75 | - | - | - | - | - | - | THSRC Director |
| Mao-Lin Hu | - | - | - | - | - | - | - | - | Representative of Taiwan Sugar Corporation |
| China Aviation Development Foundation | 483,920 | 4.59 | - | - | - | - | - | - | THSRC Director |
| Chin-Der Ou | 326 | 0.00 | - | - | - | - | - | - | THSRC Chairman |
| Teco Electric & Machinery Co., Ltd. | 475,151 | 4.51 | - | - | - | - | - | - | THSRC Director |
| Chun-Chi Chiu | - | - | - | - | - | - | - | - | Representative of Teco Electric & Machinery Co., Ltd. |
| Mega International Commercial Bank | 400,000 | 3.80 | - | - | - | - | - | - | - |
| Rong-Jou Wang | - | - | - | - | - | - | - | - | Chairman of Mega International Commercial Bank |

| Name | Shareholding | | Spouse & Minor | | Shareholding by Nominee Arrangement | | The relationship between any of the Company's Top Ten Share holders | | Remarks % |
|---|---|---|---|---|---|---|---|---|---|
| | Shares | % | Shares | % | Shares | % | Name | Relation | |
| Pacific Electric Wire & Cable Co., Ltd. | 343,364 | 3.26 | - | - | - | - | - | - | THSRC Director |
| Sharon Fong | 30 | 0.00 | - | - | - | - | - | - | Representative of Pacific Electric Wire & Cable Co., Ltd. |
| CTCI Foundation | 322,580 | 3.06 | - | - | - | - | - | - | THSRC Director |
| Wenent P. Pan | - | - | - | - | - | - | - | - | Representative of CTCI Foundation |
| Development Fund of Executive Yuan | 300,000 | 2.85 | - | - | - | - | - | - | THSRC Director |
| Mao-Wei Hung and Yu-Hern Chang | - | - | - | - | - | - | - | - | Representatives of Development Fund of Executive Yuan |
| Fubon Life Insurance Co., Ltd. | 253,376 | 2.41 | - | - | - | - | - | - | - |
| Richard Tsai | - | - | - | - | - | - | - | - | Chairman of Fubon Life Insurance Co., Ltd. |

Note 1: Shareholders' names should be separate. (If shares were held by other corporations, the names of corporations and their representatives should be disclosed separately.)

Note 2: The percentage of stockholdings should be calculated based on the total shares held by oneself, spouse, minors and nominee arrangements.

## 6. Manager's Investments in THSRC's Affiliated Companies

The number of affiliates' shares held by THSRC, directors, supervisors, managers and THSRC's subsidiaries which THSRC holds directly or indirectly is combined to calculate the total percentage of stockholdings: None

# 5. Capital and Shares

# 1. Capital and Shares

## (1) Source of Capital

Unit: thousand Shares; NT$ thousand dollars

| Month/Year | Price | Authorized | | Paid-In | | Remark | | |
|---|---|---|---|---|---|---|---|---|
| | | Shares | Amount | Shares | Amount | Sources of Capital | Capital Increase by Assets other than Cash | Other |
| 05/1998 | 10 | 5,000,000 | 50,000,000 | 1,250,000 | 12,500,000 | Cash to set up a company 12,500,000 | - | - |
| 04/1999 | 10 | 5,000,000 | 50,000,000 | 2,000,000 | 20,000,000 | Capitalization from cash 7,500,000 | - | - |
| 08/1999 | 10 | 5,000,000 | 50,000,000 | 2,017,350 | 20,173,500 | Capitalization from retained earnings 173,500 | - | - |
| 05/2000 | 10 | 5,000,000 | 50,000,000 | 3,017,350 | 30,173,500 | Capitalization from cash 10,000,000 | - | - |
| 07/2000 | 10 | 5,000,000 | 50,000,000 | 4,072,100 | 40,721,000 | Capitalization from cash 10,547,500 | - | - |
| 09/2001 | 10 | 5,000,000 | 50,000,000 | 4,999,900 | 49,999,000 | Capitalization from cash 9,278,000 | - | - |
| 01/2003 | 10 | 10,000,000 | 100,000,000 | 7,689,900 | 76,899,000 | Capitalization from cash 26,900,000 (Class A Convertible Preferred Stock ) | - | - |
| 09/2003 | 10 | 10,000,000 | 100,000,000 | 7,824,149.5 | 78,241,495 | Capitalization from cash 1,342,495 (Class B Convertible Preferred Stock ) | - | - |
| 01/2004 | 9.3 | 10,000,000 | 100,000,000 | 7,985,449.5 | 79,854,495 | Capitalization from cash 1,613,000 (Class C1 Convertible Preferred Stock) | - | - |
| 02/2004 | 9.3 | 10,000,000 | 100,000,000 | 8,136,849.5 | 81,368,495 | Capitalization from cash 1,514,000 (Class C2 Convertible Preferred Stock) | - | - |
| 03/2004 | 9.3 | 10,000,000 | 100,000,000 | 8,211,449.5 | 82,114,495 | Capitalization from cash 746,000 (Class C3 Convertible Preferred Stock) | - | - |
| 04/2004 | 9.3 | 10,000,000 | 100,000,000 | 8,319,069.5 | 83,190,695 | Capitalization from cash 1,076,200 (Class C4 Convertible Preferred Stock ) | - | - |
| 08/2004 | 9.3 | 10,000,000 | 100,000,000 | 8,956,146.5 | 89,561,465 | Capitalization from cash 6,370,770 (Class C5 Convertible Preferred Stock) | - | - |
| 09/2004 | 9.3 | 10,000,000 | 100,000,000 | 9,020,646.5 | 90,206,465 | Capitalization from cash 645,000 (Class C6 Convertible Preferred Stock) | - | - |
| 11/2004 | 9.3 | 10,000,000 | 100,000,000 | 9,057,656.5 | 90,576,565 | Capitalization from cash 370,100 (Class C7 Convertible Preferred Stock) | - | - |
| 04/2005 | 9.3 | 11,500,000 | 115,000,000 | 9,703,556.5 | 97,035,565 | Capitalization from cash 6,459,000 (Class C8 Convertible Preferred Stock) | - | - |
| 09/2005 | 9.3 | 12,000,000 | 120,000,000 | 10,510,056.5 | 105,100,565 | Capitalization from cash 8,065,000 (Class C9 Convertible Preferred Stock) | - | - |
| 04/2008 | 10 | 12,000,000 | 120,000,000 | 10,510,089.8 | 105,100,898 | 332.85 ECB Conversion | - | - |
| 06/2008 | 10 | 12,000,000 | 120,000,000 | 10,532,224 | 105,322,243 | 221,345 ECB Conversion | - | - |

Note: 1. On April 30, 2001, the Company got the approval from the Security and Futures Trading Committee with No. 120792, (90) Tai Cai Zheng (1), to become a public company.
2. n September 2001, the Company increased the capital from cash with No. 144286, (90) Tai Cai Zheng (1) of July 6, 2001.
3. The Company issued 10,532,224,307 outstanding shares, including 6,505,232,647 shares for common stocks, 5,000,000 shares for certificates of preferred stock-to-common stock conversion and 4,021,991,660 shares for preferred stocks.

## (2) Type of Stock

Unit：thousand shares (As of 04/25/2010)

| Stock | Authorized Share Capital | | | Note |
|---|---|---|---|---|
| | Issued Shares | Unissued Shares | Total | |
| Common Stock | 6,505,232 | 1,467,776 | 12,000,000 | Public Offering |
| Certificates of Preferred Stock-to-Common Stock Conversion | 5,000 | | | Public Offering |
| Convertible Preferred Stock | 4,021,992 | | | Public Offering |

Note：(1) THSRC applied to the Gre Tai Securities Market for permission to list on the Emerging Stock Market on September 5, 2003.
(2) Unissued shares could be issued as both common and preferred shares.

Shelf Registration: None

## (3) Status of Shareholders

Common Stock

Unit：thousand shares; person(s)(As of 04/25/2010)

| Type of Shareholders | Government Agencies | Government-Owned Institutions | Financial Institutions | Other Institutions | Domestic Individual Persons | Foreign Institutions & Individual Persons | Total |
|---|---|---|---|---|---|---|---|
| Number of Shareholders | 2 | 1 | 14 | 111 | 58,398 | 19 | 58,545 |
| Shareholding | 300,100 | 500,000 | 404,158 | 3,181,523 | 1,870,419 | 249,032 | 6,505,232 |
| Holding Percentage | 4.61% | 7.69% | 6.21% | 48.91% | 28.75% | 3.83% | 100.00% |

Certificates of Preferred Stock-to-Common Stock Conversion

Unit：thousand shares; person(s)(As of 04/25/2010)

| Type of Shareholders | Government Agencies | Government-Owned Institutions | Financial Institutions | Other Juridical Person | Domestic Natural Persons | Foreign Institutions & Natural Persons | Total |
|---|---|---|---|---|---|---|---|
| Number of Shareholders | 0 | 0 | 0 | 0 | 1 | 0 | 1 |
| Shareholding | 0 | 0 | 0 | 0 | 5,000 | 0 | 5,000 |
| Holding Percentage | 0.00% | 0.00% | 0.00% | 0.00% | 100.00% | 0.00% | 100.00% |

Preferred Stock

Unit：thousand shares; person(s)(As of 04/25/2010)

| Type of Shareholders | Government Agencies | Financial Institution | | Other Institutions | Domestic Individual Persons | Foreign Institutions & Individual Persons | Total |
|---|---|---|---|---|---|---|---|
| | | Government-Owned Institutions | Other Institutions | | | | |
| Number of Shareholders | 0 | 2 | 29 | 16 | 17 | 28 | 92 |
| Shareholding | 0 | 450,000 | 2,064,426 | 1,376,502 | 35,600 | 95,464 | 4,021,992 |
| Holding Percentage | 0.00% | 11.19% | 51.33% | 34.22% | 0.89% | 2.37% | 100.00% |

Note： Article 47 of Law of Audit：(Definition of public enterprises)
The following public enterprises and institution should be audited by an auditing agency：
A. Sole government ownership
B. Joint government and private ownership with the government holding over 50 percent of stock
C. Reinvestment by the enterprises described in A and B above which accounts for over 50 percent of the total capital of the reinvested enterprise.

### (4) Market Price, Net Worth, Earnings, and Dividends per Share

Unit: share; NT$

| Item | | | 2008 | 2009 | For the Three Months Ended March 31, 2010（Note 2） |
|---|---|---|---|---|---|
| Market Price Per Share（Note 1） | Highest Market Price | | - | - | - |
| | Lowest Market Price | | - | - | - |
| | Average Market Price | | - | - | - |
| Net Worth Per Common Share | Before Distribution | | (2.84) | (2.38) | - |
| | After Distribution | | (2.84) | (Note 3) | - |
| Earnings Per Common Share | Weighted Average Shares | | 5,787,713,000 | 6,212,987,000 | - |
| | Earnings Per Common Share | | (4.58) | (1.03) | - |
| Dividends Per Share | Cash Dividends | | - | - | - |
| | Stock Dividends | Dividends from Retained Earnings | - | - | - |
| | | Dividends from Capital Surplus | - | - | - |
| | Accumulated Undistributed Dividend | | - | - | - |
| Return on Investment | Price/Earnings Ratio | | - | - | - |
| | Price/Dividend Ratio | | - | - | - |
| | Cash Dividend Yield | | - | - | - |

Note 1: The Company is an unlisted company, and therefore no market price information was provided.
Note 2: It is not necessary to disclose quarterly financial information for an unlisted company.
Note 3: Pending shareholders' approval.

### (5) Dividend Policy and Implementation Status:

The Company's annual net profits, if any, are appropriated and used in the following order:

1. To pay all taxes and duties;
2. To cover any losses;
3. To set aside 10% of the profits as legal reserve;
4. To set aside special reserve in addition to the legal reserve where necessary;
5. To pay dividends on preferred shares.

Thereafter, 1% of the remaining profits is set aside as remuneration to directors and supervisors, and at least 1% of the remaining profits as bonus to employees. Any remaining profits and undistributed retained earnings are distributed as dividends to common shareholders based on the resolution drawn up by the board of directors and approved by the shareholders' meeting.

After obtaining prior government approval, the Company is allowed to declare dividends to preferred shareholders during the construction stage regardless of the restrictions outlined above. However, the Company is required to account for the prepayment of dividends to preferred shareholders in its balance sheet under the shareholders' equity; where the annual appropriations for dividends and bonuses exceed 6% of the Company's paid-in capital, the excess is offset against prepaid dividends to preferred shareholders.

The Company's policy on dividend and bonus appropriation is based on the principles of stability and equity, balancing shareholder value, and the Company's long-term financial plans and impact thereof on the business operations of the Company.

The net loss in 2009 was NT$4,789,455 thousand, the previous accumulated deficits were NT$67,570,527 thousand, and the accumulated deficits as of December 31, 2009, amounted to NT$72,359,982 thousand. Therefore, there were no retained earnings to be distributed. The dividends for preferred stocks in 2009 and 2008 estimated NT$1,636,373 thousand and NT$1,483,023 thousand, respectively, which will be accrued when the shareholders make a resolution to distribute earnings in the future. The accumulated preferred stock dividends as of December 31, 2009 amounted to NT$4,952,229 thousand.

### (6) Impact to 2009 Business Performance Resulting from Stock Dividend Distribution which will be Proposed at the Shareholders' Meeting: None

### (7) Employee Bonus and Directors' and Supervisors' Remuneration: None

### (8) Buyback of Treasury Stock: None

## 2. Issuance of Corporate Bonds

### (1) Secured Domestic Corporate Bonds Payable

| Issuance | The First Secured Domestic Corporate Bond in 2007 | The Second Secured Domestic Corporate Bond in 2008 | The Third Secured Domestic Corporate Bond in 2008 |
|---|---|---|---|
| Issued Date | A Bonds：Issued date was May 7, 2007<br>B Bonds：Issued date was April 25, 2007<br>C Bonds：Issued date was April 23, 2007 | Issued date was October 7, 2008 | Issued date was December 19, 2008 |
| Denomination (in thousands) | NT$10,000 | NT$10,000 | NT$10,000 |
| Issued Price | At Par Value | At Par Value | At Par Value |
| Issued Amount (in thousands) | NT$9,760,000 | NT$6,800,000 | NT$6,000,000 |
| Interest Rate | A Bonds：annual interest rate 2.07%，simple interest per year<br>B Bonds：annual interest rate 2.12%，simple interest per year<br>C Bonds：annual interest rate 2.17%，simple interest per year | annual interest rate 2.7%，simple interest per year | annual interest rate 2.7%，simple interest per year |
| Duration Time | A Bonds：5 years<br>B Bonds：6 years<br>C Bonds：7 years | 3 years | 3 years |
| Guaranty Bank | Bank of Taiwan and other 7 banks (Note 1) | Bank of Taiwan and other 7 banks (Note 1) | Bank of Taiwan and other 7 banks (Note 1) |
| Consignee | Yuanta Commercial Bank Ltd. | Yuanta Commercial Bank Ltd. | Yuanta Commercial Bank Ltd. |

| Issuance | The First Secured Domestic Corporate Bond in 2007 | The Second Secured Domestic Corporate Bond in 2008 | The Third Secured Domestic Corporate Bond in 2008 |
|---|---|---|---|
| Underwriter | None | None | None |
| Certification Organization | None(Note 2) | None(Note 2) | None(Note 2) |
| Service Agency | Business Department, Mega International Commercial Bank Ltd. | Business Department, Mega International Commercial Bank Ltd. | Business Department, Mega International Commercial Bank Ltd. |
| Legal Counsel | Baker & McKenzie | Baker & McKenzie | Baker & McKenzie |
| Auditor | KPMG | KPMG | KPMG |
| Repayment | Repayment at maturity | Unless put or call option exercised, the bonds will be repaid at maturity | Repayment at maturity |
| Outstanding Bonds (in thousands) | NT$9,760,000 | NT$6,700,000 | NT$6,000,000 |
| Redemption Term | None | 1.Call option：From issuing date to June 30, 2009, the company could exercise Call option; the bond holders can't object.<br>2.Put option：The bond holders could exercise Put option before September 30, 2009; the Company can't object. | None |
| Term Limitation | None | None | None |
| Credit Rating Agency、Rating Date、Rating Results | None | None | None |
| Others: Amount of Converted or Exchange of Common Shares, ADRs, or Other Securities as of March 31,2010 | None | None | None |
| Dilution Effect and Other Adverse Effects on Existing Shareholders | In sequence of distribution, the shareholders were allocated dividends only after redemption to interests and principals of the corporate bonds. As to liquidation, bondholders had higher priority to shareholders. | In sequence of distribution, the shareholders were allocated dividends only after redemption to interests and principals of the corporate bonds. As to liquidation, bondholders had higher priority to shareholders. | In sequence of distribution, the shareholders were allocated dividends only after redemption to interests and principals of the corporate bonds. As to liquidation, bondholders had higher priority to shareholders. |
| Custodian Bank | None | None | None |

Note 1：From May 4, 2010, the guaranty banks changed from Mega International Commercial Bank Ltd. and other 19 banks to Bank of Taiwan and other 7 banks.

Note 2：No Certification organization due to issuing dematerialized corporate bonds.

| Issuance | The First Secured Domestic Corporate Bond in 2009 |
|---|---|
| Issued Date | Issued date was January 12, 2010 |
| Denomination (in thousands) | NT$10,000 |
| Issued Price | At Par Value |
| Issued Amount (in thousands) | NT$3,500,000 |
| Interest Rate | annual interest rate 1.65%，simple interest per year |
| Duration Time | 3 years |
| Guaranty Bank | Bank of Taiwan and other 7 banks (Note 1) |
| Consignee | Yuanta Commercial Bank Ltd. |
| Underwriter | None |
| Certification Organization | None(Note 2) |
| Service Agency | Business Department, Mega International Commercial Bank Ltd. |
| Legal Counsel | Baker & McKenzie |
| Auditor | KPMG |
| Repayment | Repayment at maturity |
| Outstanding Bonds (in thousands) | NT$3,500,000 |
| Redemption Term | None |
| Term Limitation | None |
| Credit Rating Agency、Rating Date、Rating Results | None |
| Others: Amount of Converted or exchange of common shares, ADRs, or Other Securities as of March 31,2010 | None |
| Dilution Effect and Other Adverse Effects on Existing Shareholders | In sequence of distribution, the shareholders were allocated dividends only after redemption to interests and principals of the corporate bonds. As to liquidation, bondholders had higher priority to shareholders. |
| Custodian Bank | None |

Note 1：From May 4, 2010, the guaranty banks changed from Mega International Commercial Bank Ltd. and other 19 banks to Bank of Taiwan and other 7 banks.

Note 2：No Certification organization due to issuing dematerialized corporate bonds.

### (2) Unsecured Overseas Convertible Bonds Payable

| Issuance | The First Unsecured Overseas Convertible Bond in 2007 |
|---|---|
| Issued Date | May 15, 2007 |
| Denomination | USD 1,000 |
| Issuing & Listing (Note 1) | The Singapore Stock Exchange |
| Issued Price | At par value |
| Issued Amount | USD 300,000,000 |
| Interest Rate | Coupon Rate 0% |
| Maturity Date | 5 years from Issued Date |
| Guaranty Bank | None |
| Consignee | The Bank of New York Mellon |
| Underwriter | Deutsche Bank |
| Certification Organization | None |
| Service Agency | The Bank of New York Mellon |
| Legal Counsel | Overseas：Simpson Thacher & Bartlett LLP<br>Domestic：Lee and Li Law Office |
| Auditor | KPMG |
| Repayment | Unless the bonds were redeemed, purchased, cancelled, or converted, the Company could redeem the bonds at a gross yield of 6.5% per annum if a Qualifying Public Offering (QPO) has occurred during the period from three year after issuing date through maturity date or 7.5% per annum if a QPO has not occurred during the period from three year after issuing date through maturity date. |
| Outstanding Bonds | USD 26,318,000 |
| Redemption Term | ■ Unless the bonds were redeemed, purchased, cancelled, or converted, the bondholders could redeem the bonds in whole or in part to the Company at a gross yield of 6.5% per annum if a Qualifying Public Offering (QPO) has occurred during the period from three year after issuing date through maturity date or 7.5% per annum if a QPO has not occurred during the period from three year after issuing date through maturity date.<br>■ Redemption<br>1. Effective after a year of issuance, the Company may redeem the bonds in whole or in part if the closing price (translated into U.S. dollars at the current rates) of its common shares is at least 125% of the conversion price for 20 consecutive trading days, the last of which occurs not more than 10 days prior to the date upon which notice of such redemption is published.<br>2. If at least 90% in principal amount of the bonds have already been redeemed, purchased, cancelled or converted, the Company may redeem all, but not some only, of the bonds.<br>3. In the event of certain changes in taxation in the R.O.C. resulting in the Company becoming required to pay additional amounts, the Company may redeem all, but not in part, of the bonds at their principal amount. |
| Term Limitation | None |
| Credit Rating Agency、Rating Date、Rating Results | TW-B (Taiwan Ratings Corporation, January 31, 2007) |
| Others: Amount of Converted or Exchange of Common Shares, ADRs, or Other Securities as of March 31,2010 | 1. An amount of conversion was USD 6,660,000<br>2. An amount of exercising put options was USD 267,022,000 |

| Issuance | The First Unsecured Overseas Convertible Bond in 2007 |
|---|---|
| Dilution Effect and Other Adverse Effects on Existing Shareholders | Coupon rate of the first unsecured overseas convertible bond is 0 %. The bond can get lower cost of capital and its conversion price issued at premium is based on market value of common stock. Therefore, the issuance of the overseas convertible bond should have no adverse effects on existing shareholders |
| Custodian Bank | The Bank of New York Mellon |

Note 1：For overseas corporate bond

Note 2：Convertible bonds, exchangeable bonds, shelf registration for issuing corporate bonds, or corporate bonds with warrants should be disclosed by character as following：

Convertible Bond

| Issuance | | The First Unsecured Overseas Convertible Bond in 2007 | | |
|---|---|---|---|---|
| Item / Year | | 2008 | 2009 | For the Three Months Ended Mar 31,2010 |
| Market Value of Convertible Bond | Maximum | 105.25 | 112.99 | 122.74 |
| | Minimum | 69.50 | 75.83 | 110.71 |
| | Average | 92.79 | 94.49 | 119.39 |
| Conversion Price | | NT$10 | NT$10 | NT$10 |
| Issued Date and Conversion Price | | Issued date：May 15,2007<br>Conversion price：NT$10 | Issued date：May 15,2007<br>Conversion price：NT$10 | Issued date：May 15,2007<br>Conversion price：NT$10 |
| Conversion Method | | New shares | New shares | New shares |

### (3) Corporate Bonds in Process of Issuance: None

## 3. Issuance of Preferred Stocks

### (1) Listed Preferred Stoc

| Items \ Issued Date | | January 27, 2003<br>Class A Convertible Preferred Stock |
|---|---|---|
| Denomination | | NT$10 per share |
| Issued Price | | NT$10 per share |
| Issued Shares (in thousands) | | 2,690,000 |
| Issued Amount (in thousands) | | NT$26,900,000 |
| The Rights and Obligations | Dividends Allocation | Dividend yield ratio: annual interest 5% of par value |
| | Residual Assets Allocation | Prior to common stock, yet, the amount of allocation shall not exceed the issuance amount of Class A preferred stock. |
| | Voting Right | None |
| | Others | 1. Other than the dividends on Preferred Stock, Preferred Stockholders are not normally entitled to receive any dividends on common stock accrued from allocation of profits and capital reserve. The Preferred Stockholders are not entitled to receive Preferred Stock dividends in the year when the conversion takes place (the dividends for that particular year which are allocated in the following year). However, they may receive the dividends on common stock appropriated from profits and capital reserve (the dividends for that particular year which are approved by the stockholders during their meeting in the following year).<br>2. Preferred Stockholders are not entitled to cast votes during the common stockholders' meeting and are not granted the right to vote for directors and supervisors. However, the Preferred Stockholders may be elected as directors or supervisors.<br>3. When the Company issues new shares, both the Preferred Stockholders and common stockholders have the same preemptive rights to the subscription thereof. |
| Listed Preferred Stock | Balance of Unredeemed or Unconverted Share (in thousands) | 2,604,000 |
| | Size of Redeemed or Converted Share (in thousands) | 86,000 |
| | Terms of Redemption or Conversion | See measures of issuance and conversion |
| Market Price Per Share | | Not applicable |
| Others: Right of Shareholders | | None |
| Dilution Effect and Other Adverse Effects on Existing Shareholders | | Distribution of preferred stock dividends takes precedence over common stock dividends. When preferred stock converts into common stock, earnings per share and voting rights of common stock shareholders will be diluted depending on the size of conversion. |

| Items \ Issued Date | | September 9, 2003<br>Class B Convertible Preferred Stock |
|---|---|---|
| Denomination | | NT$10 per share |
| Issued Price | | NT$10 per share |
| Issued Shares (in thousands) | | 134,249.5 |
| Issued Amount (in thousands) | | NT$1,342,495 |
| The Rights and Obligations | Dividends Allocation | Dividend yield ratio: annual interest 5% of par value |
| | Residual Assets Allocation | Prior to common stock, yet, the amount of allocation shall not exceed the issuance amount of Class B preferred stock |
| | Voting Right | No voting right |
| | Others | 1. Other than the dividends on Preferred Stock, Preferred Stockholders are not normally entitled to receive any dividends on common stock accrued from allocation of profits and capital reserve. The Preferred Stockholders are not entitled to receive Preferred Stock dividends in the year when the conversion takes place (the dividends for that particular year which are allocated in the following year). However, they may receive the dividends on common stock appropriated from profits and capital reserve (the dividends for that particular year which are approved by the stockholders during their meeting in the following year).<br>2. Preferred Stockholders are not entitled to cast votes during the common stockholders' meeting and are not granted the right to vote for directors and supervisors. However, the Preferred Stockholders may be elected as directors or supervisors.<br>3. When the Company issues new shares, both the Preferred Stockholders and common stockholders have the same preemptive rights to the subscription thereof. |
| Listed Preferred Stock | Balance of Unredeemed or Unconverted Share (in thousands) | 34,049.5 |
| | Size of Redeemed or Converted Share (in thousands) | 100,200 |
| | Terms of Redemption or Conversion | See measures of issuance and conversion |
| Market Price Per Share | | Not applicable |
| Others: Right of Shareholders | | None |
| Dilution Effect and Other Adverse Effects on Existing Shareholders | | Distribution of preferred stock dividends takes precedence over common stock dividends. When preferred stock converts into common stock, earnings per share and voting rights of common stock shareholders will be diluted depending on the size of conversion. |

| Item | | Class C Convertible Preferred Stock | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | C1 | C2 | C3 | C4 | C5 | C6 | C7 |
| Issued Date | | January 20,2004 | February 27,2004 | March 24, 2004 | April 23,2004 | August 18, 2004 | September 7, 2004 | November 17, 2004 |
| Issued Shares (in thousands) | | 161,300 | 151,400 | 74,600 | 107,620 | 637,077 | 64,500 | 37,010 |
| Issued Amount | | 1,613,000 | 1,514,000 | 746,000 | 1,076,200 | 6,370,770 | 645,000 | 370,100 |
| Denomination | | NT$10 per share | | | | | | |
| Issue Price | | NT$9.3 per share | | | | | | |
| The Rights and Obligations | Dividends Allocation | 9.5% per annum for the initial two years, and 0 % per annum for the next two years | | | | | | |
| | Residual Assets Allocation | Prior to common stock, yet, the amount of allocation shall not exceed the issuance amount of Class C preferred stock | | | | | | |
| | Voting Right | No voting right | | | | | | |
| | Others | 1. Other than the dividends on Preferred Stock, Preferred Stockholders are not normally entitled to receive any dividends on common stock accrued from allocation of profits and capital reserve. The Preferred Stockholders are not entitled to receive Preferred Stock dividends in the year when the conversion takes place (the dividends for that particular year which are allocated in the following year). However, they may receive the dividends on common stock appropriated from profits and capital reserve (the dividends for that particular year which are approved by the stockholders during their meeting in the following year).<br>2. Preferred Stockholders are not entitled to cast votes during the common stockholders' meeting and are not granted the right to vote for directors and supervisors. However, the Preferred Stockholders may be elected as directors or supervisors.<br>3. When the Company issues new shares, both the Preferred Stockholders and common stockholders have the same preemptive rights to the subscription thereof. | | | | | | |
| Listed Preferred Stock | | C1 | C2 | C3 | C4 | C5 | C6 | C7 |
| | Balance of Unredeemed or Unconverted Share (in thousands) | 35,400 | 47,300 | 4,600 | 35,700 | 248,466 | - | 930 |
| | Size of Redeemed or Converted Share (in thousands) | 125,900 | 104,100 | 70,000 | 71,920 | 388,611 | 64,500 | 36,080 |
| | Terms of Redemption or Conversion | See measures of issuance and conversion | | | | | | |
| Market Price Per Share | | Not applicable | | | | | | |
| Others: Right of Shareholders | | None | | | | | | |
| Dilution Effect and Other Adverse Effects on Existing Shareholders | | Distribution of preferred stock dividends takes precedence over common stock dividends. When preferred stock converts into common stock, earnings per share and voting rights of common stock shareholders will be diluted depending on the size of conversion. | | | | | | |

| Items | | Class C Convertible Preferred Stock | |
|---|---|---|---|
| | | C8 | C9 |
| Issued Date | | April 28, 2005 | September 30, 2005 |
| Issued Share (in thousands) | | 645,900 | 806,500 |
| Issued Amount (in thousands) | | NT$6,459,000 | NT$8,065,000 |
| Par Value | | NT$10 per share | |
| Issued Price | | NT$9.3 per share | |
| The Rights and Obligations | Dividends Allocation | 9.5% per annum for the initial two years, and 0 % per annum for the next two years | |
| | Residual Assets Allocation | Prior to common stock, yet, the amount of allocation shall not exceed the issuance amount of Class C preferred stock. | |
| | Voting Right | No voting right | |
| | Others | 1. Other than the dividends on Preferred Stock, Preferred Stockholders are not normally entitled to receive any dividends on common stock accrued from allocation of profits and capital reserve. The Preferred Stockholders are not entitled to receive Preferred Stock dividends in the year when the conversion takes place (the dividends for that particular year which are allocated in the following year). However, they may receive the dividends on common stock appropriated from profits and capital reserve (the dividends for that particular year which are approved by the stockholders during their meeting in the following year).<br>2. Preferred Stockholders are not entitled to cast votes during the common stockholders' meeting and are not granted the right to vote for directors and supervisors. However, the Preferred Stockholders may be elected as directors or supervisors.<br>3. When the Company issues new shares, both the Preferred Stockholders and common stockholders have the same preemptive rights to the subscription thereof. | |
| Listed Preferred Stock | | C8 | C9 |
| | Balance of Unredeemed or Unconverted Share (in thousands) | 205,047 | 806,500 |
| | Size of Redeemed or Converted Share (in thousands) | 440,853 | - |
| | Terms of Redemption or Conversion | See measures of issuance and conversion | |
| Market Price Per Share | | Not applicable | |
| Others: Right of Shareholders | | None | |
| Dilution Effect and Other Adverse Effects on Existing Shareholders | | Distribution of preferred stock dividend takes precedence over common stock dividend before conversion. When preferred stock is converted into common stock, earnings per share and voting rights of common stock shareholders will be diluted depending on the size of conversion. | |

(2) Preferred Stocks in Process of Issuance: None

## 4. Issuance of Global Depositary Receipts: None

## 5. Status of Employee Stock Option Plan: None

## 6. Status of New Shares Issuance in Connection with Mergers or Acquisitions: None

## 7. Financing Plans and Implementation: None



# 6. Operational Highlights

## 1. Business Activities

### (1) Business Scope

THSRC's business scope covers the operation of the high speed railway and affiliated businesses, and the development of Station Development Areas (SDA).

A. High Speed Rail Service

THSRC provides a high-speed rail operation, serving the cities along the western corridor of Taiwan, with eight stations, namely: Taipei, Banciao, Taoyuan, Hsinchu, Taichung, Chiayi, Tainan and Zuoying. Approval to commence operations, between Banciao and Zuoying, was given on 25th December 2006 and THSRC began revenue services on 5th January 2007. A further approval, to extend operations north to Taipei Station, was gained on 1st February 2007 and, from 2nd March 2007, revenue services have been operated along the entire line, from Taipei to Zuoying Stations.

B. Affiliated Business

To serve the needs of the traveling public, various commercial outlets providing services and goods have been opened at high speed rail stations, supplying travel requisites and other necessities, such as food, beverages, newspapers, and reading materials, souvenirs, car rental and travel agency services, car parking facilities etc.. Advertising, both on station sites and on-board trains, makes a significant contribution to the revenue from affiliated business sources, bringing its brand of distinctive artwork and information to passengers within the rail system. All these commercial outlets and facilities are designed to add value to a passenger's experience of using high speed rail and demonstrate THSRC's commitment to providing high class services in stations that are an essential component of the communities that the high speed railway serves.

C. Station Development Areas

THSRC possesses development rights, for commercial usage, of substantial areas of land, adjacent to 5 of its stations, namely: Taoyuan, Hsinchu, Taichung, Chiayi and Tainan. The total area of the SDA is 30.14 hectares providing 1,200,380 square meters for commercial use. Detailed plans and agreements for development of these sites have been put on hold, to a large extent, through the effects of the economic recession, but, planning concepts are being considered for development of the SDA that may include facilities such as hotels, conference/exhibition centers, restaurants, entertainment, shopping malls, tourist agencies, and other commercial ventures. The sites will be developed to secure optimum returns providing developments that are complementary to the architectural standards and quality of service provided by the adjacent high speed rail stations and meet the market demands of each area designated as on SDA.

### (2) Review of Current Operation/

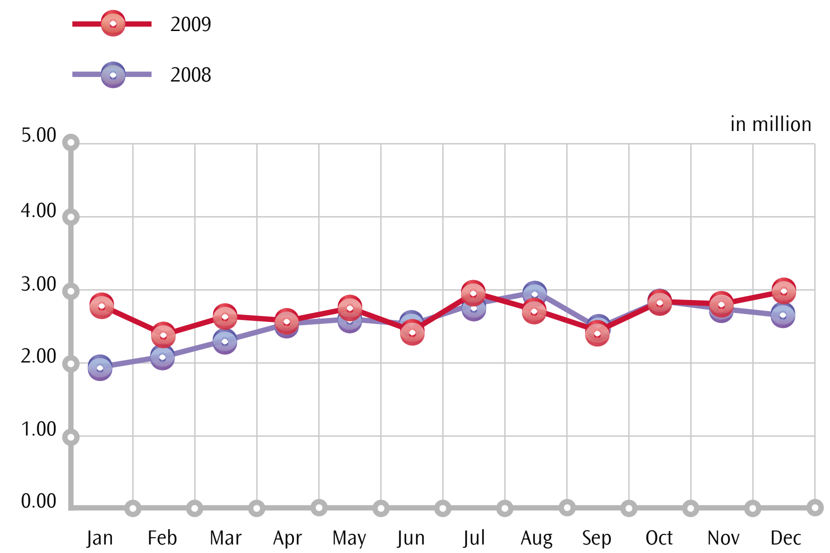
A. Operation Profile

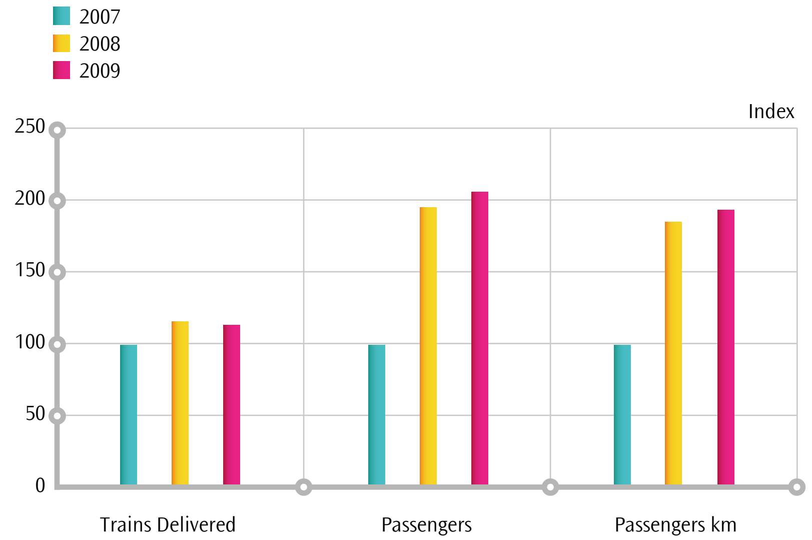
(1) HSR Service

Commencing revenue service on 5th January 2007, patronage grew strongly and steadily in the first 18 months of operation with accumulated total ridership at 10 million by mid September 2007; 20 million by March 2008, and 30 million on 5th July 2008. Despite the growth rate then experiencing a hiatus, as a result of the adverse economic pressures affecting all public transport modes, year on year growth was recorded through March of 2009, with an accumulated total ridership figure exceeding 78 million by the end of the year.

In 2009, 45,286 train services were run, providing 14,821 million passenger seat km, and a total patronage in the year of 32,35 million. The average loading factor over the year was 46.31%, 6,863 million passenger km were recorded and punctuality for the services provided was 99.25%.

Monthly Patronage Statistics



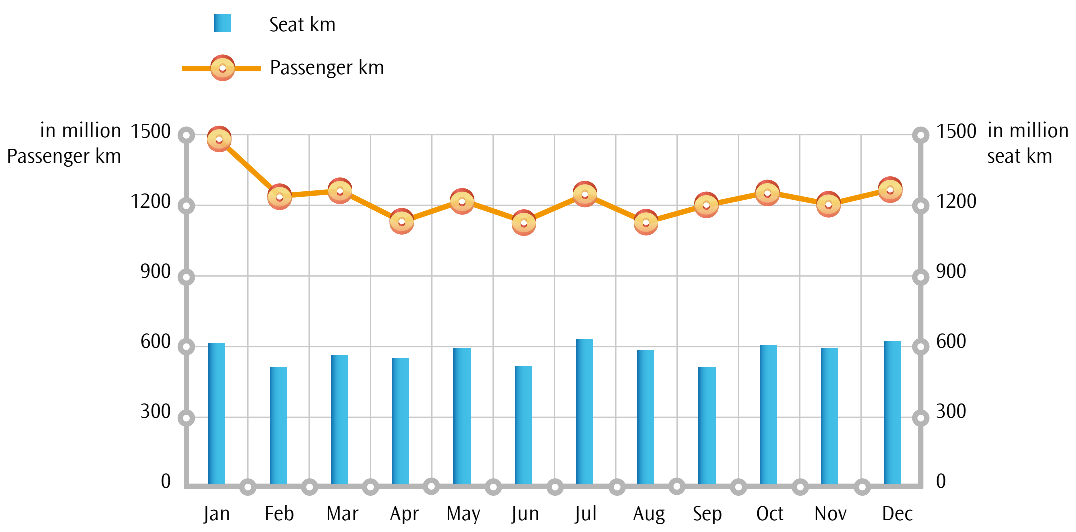



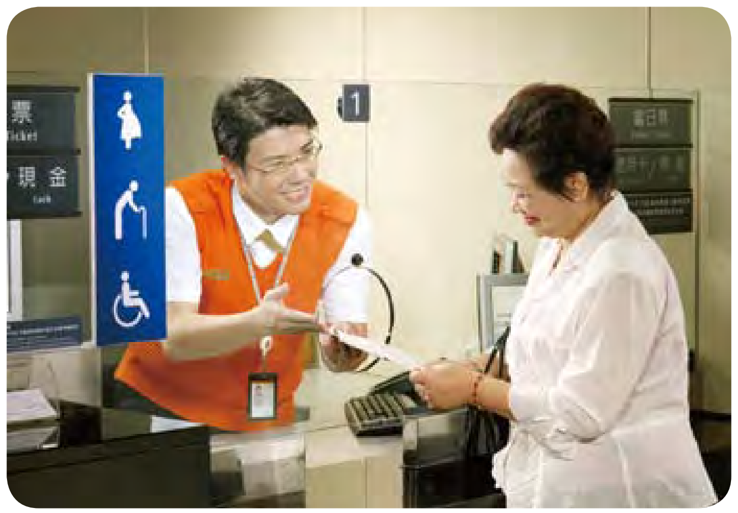
HSR Patronage Index

Operation Statistics

| Description | 2008 | 2009 | Compare |
|---|---|---|---|
| 1. Train Service Delivered (Trains) | 45,900 | 45,286 | -1.34% |
| 2. Passengers (in ten thousand) | 3,058.1 | 3,234.9 | 5.80% |
| 3. Seat km (in million) | 15,089 | 14,821 | -1.78% |
| 4. Passenger km (in million) | 6,566 | 6,863 | 4.52% |
| 5. Punctuality (delay<5 Mins) | 99.19 % | 99.25 % | 0.06% |
| 6. Loading Factor (Passenger km/Seat km) | 43.51 % | 46.31 % | 2.80% |

2009 Monthly Seat km and Passenger km Statistics

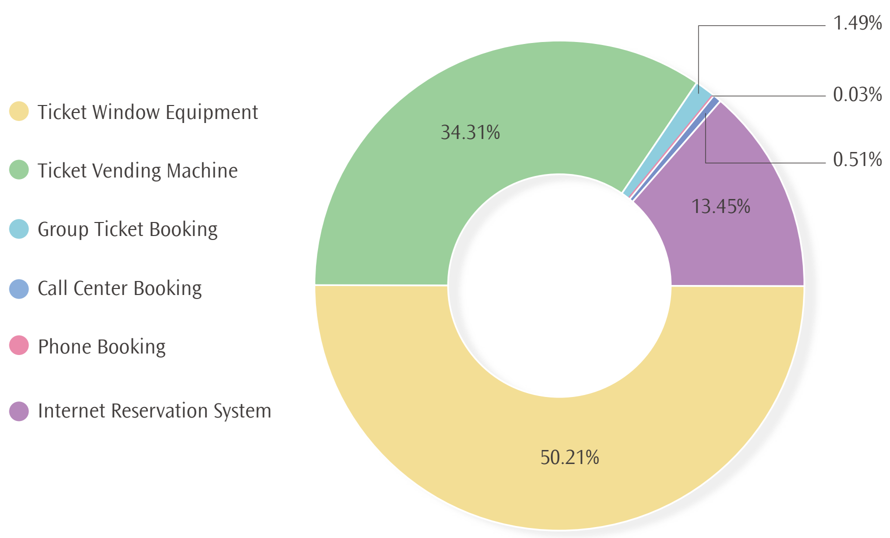


### (2) Ticketing Services and Channels

To provide passengers with choice and convenience when booking and obtaining tickets, they could be purchased across the counter, from a station concourse (TVM), via Group Ticket Booking arrangement(RSSW), Call Center Booking(RCC), by a telephone facility(IVR) or Internet Reservation System(IRS)B2B Joint Promotion. These various facilities are being expanded further, in 2010, to provide a significant increase in ticketing outlets through the medium of ubiquitous (BJP)Convenient Stores, widely dispersed through Taiwan communities and urban areas (CVS).

2009 Ticketing Channels Usage Percentage



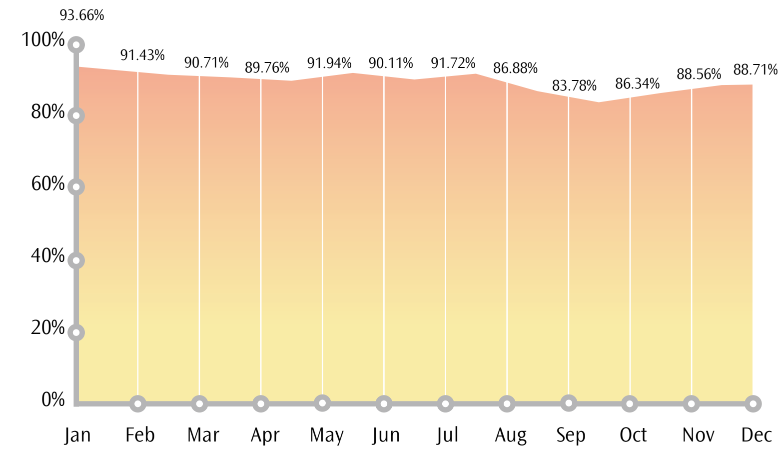

(C) Maintenance

THSRC operates and maintains thirty (12 car) trainsets, which provide the revenue service along 345 km of track between Taipei and Zuoying. The 700T Shinkansen 12 car trainsets were manufactured in Japan and are now maintained at a Main Workshop in Yanchao and depots at Wurih and Zuoying. In addition, THSRC's maintenance activities cover: permanent way, 25 kv power, overhead catenary system, Signaling and Communications, depot equipment and all the civil and building works necessary to maintain station and depot structures, tunnels, viaducts, cuttings and embarkments along the route of the railway.

Maintenance of the trainsets follows a regime established by the train manufacturers and is conducted to satisfy all statutory requirements for inspection and replacement of items of equipment, to closely controlled schedules based on the distance traveled or time in service.

Throughout 2009 THSRC's Maintenance Department responsible for rolling stock continued to carry out daily and monthly Depot inspections on each trainset, inspecting power, control and auxiliary equipment in the cars, roof, internal and underfloor of the trainsets. In addition heavy overhaul tasks were performed at the Main Workshop including some 720 bogie inspections and 360 general inspections, involving disassembly and reassembly, after tests and examinations of wheels, axles, motors and underfloor mounted equipment together with all other items of equipment providing power, braking, control and train information systems.

Trainset Availability in 2009




Trainset Maintenance Schedule:

Daily Inspection (First Level)：After 2 days in service.

Monthly Inspection (Second Level)：After 30 operating days, or on reaching 30,000 operating km.

Bogie Inspection (Third Level)：After 18 operating months, or on reaching 600,000 operating km.

General Inspection (Fourth Level)：After 3 operating years, or on reaching 1.2 million operating km.

(Note: Scheduled Inspection dates are determined by the km's run or time in service, which ever occurs first.)

System Maintenance Execution in 2009

| System | Preventive Maintenance | | |
|---|---|---|---|
| | Planned | Actual | Fulfill Rate |
| Rolling Stock | 8,852 | 8,852 | 100% |
| Power System | 2,255 | 2,255 | 100 % |
| Overhead Contact System | 1,392 | 1,392 | 100 % |
| Track System | 1,245 | 1,245 | 100 % |
| Signaling System | 5,984 | 5,984 | 100 % |
| Communications System | 3,884 | 3,884 | 100 % |
| Operation Control System | 5,388 | 5,388 | 100 % |
| Total | 29,000 | 29,000 | 100 % |

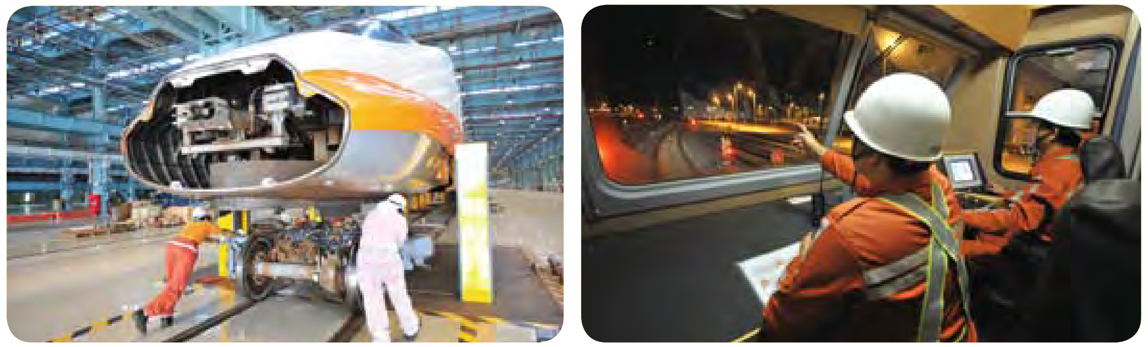
Signal Maintenance Skill Competition


Rolling Stock Maintenance Skill Competition

Overhead Catenary System Maintenance Skill Competition

(D) Operation, Maintenance, and Safety Training

To meet 2009 operating and maintenance needs, THSRC continued with its comprehensive range of practical and classroom training courses, in all aspects of safety, operating and maintenance on the high speed railway. Such training, designed to impart all skills and knowledge required for safe railway practice, included basic instruction and testing in the Rules and Regulations (8,178 attendees), courses to qualify the locally engaged applicants for posts as high speed rail Train Drivers (139 qualified since initial operations commenced and receiving, after final examinations are passed, an MOTC Rail Driving Licence) and particular training sessions (6,026 attendees) designed for operating control staff, train crew, station staff, maintenance technicians and supervisors, and professional courses for managers. Basic Training courses are followed up with regular refresher courses, examinations and skill tests(640 attendees in 2009); such that the pool of skills and rail expertise is maintained and individual employees are not allowed to fall behind in the knowledge and application of Rules and Regulations, necessary for performance of their duties.



(E) Safety Management

The company carried out prevention and protection training and rescue practice according to "The Integrated Disaster Prevention and Rescue Plan of THSR" approved by the National Prevention and Protection Commission to promote the capabilities for emergency reaction, instant salvage, and reduce potential physical or property loss, resulting from emergencies or disasters.

In 2009, 2 training sessions for Site Commander (SC) / Incident Engineer (IE) were carried out, involving 54 employees. Also, lectures were given by emergency rescue organizations, such as fire fighters, police, health and environmental protection agencies, along with holding 56 emergency drills at stations, depots and mainline.

Emergency Drills in 2009

| Locations | Station | Depot | Mainline | Operation Management Center | Total |
|---|---|---|---|---|---|
| Times | 30 | 18 | 6 | 2 | 56 |

The Company held large-scale drills such as a disposal drill for a suspect package at Zuoying Station, from April 24 to 25, Toxicant incident drill at Taichung Station from October 23 to 24, Trainset derailment & OCS damage due to earthquake in TRUPO Tunnel on November 27 and Derailment and OCS damage recovery drill on September 8.

In addition, the Company held exercises with Government authorities, such as a BOHSR Typhoon/Flood Emergency Handling drill on May 19 and Combat Readiness Training of the Army on June 5。

Taichung Station Toxicant Incident Drill

B. Marketing

(A) Product Planning

THSRC's 2009 marketing strategies focused on simplifying ticket pricing and offering fare discounts on specific targets. For example, in the middle of March 2009, the Company expanded the implementation of HSR dual color fares promotion and introduced a 15% fare discount for non-reserved seats on weekdays. In July 2009, the company simplified its concession period for HSR dual color fares promotion in over 80% of train services each week, in order to attract more passengers to use high speed rail.

(B) Promotion Activities

a. THSRC held a "50% Discount Coupon by Using NT$ 500 Consumer Coupon" activity to help government promote its consumer coupon usage.

b. In the summer vacation, THSRC provided a "buy 4 and get 1 free" offer, focusing on small groups. This attracted over 621 thousand passengers to take advantage of the promotion.

c. In the middle of July, 5% fare discount, by paying online, led to an increase in the percentage of passengers booking tickets online, increasing from 6% to 16%. It proved to be an effective campaign.

d. In October and November, the Company launched "Short-term Promotions for Students" to encourage students to take HSR.

e. At the beginning of December, the Company launched "Upgrade to Business Class for Specific Credit Card holders" with Chinatrust Commercial Bank and Taipei Fubon Bank card holders given an opportunity to experience business class travel.

(C) Traveling activities and cooperating with different industries

a. In its release of "Have Fun with THSRC" project: THSRC recommended seasonal trips to provide a unique premium for HSR passengers. Besides, the Company's travel guide, published seasonally, was posted on THSRC's website to identify attractions near each station. In addition, the Company designed its own traveling products and developed special programs with the Tourism Bureau.

b. Other global and local tourism activities were promoted to raise THSRC's patronage, such as: 2009 Hakka Tung Blossom Festival, 2009 World Games, and 2009 Taipei International Travel Fair. In addition, the Company launched "Wonderful Travel in Taiwan" with the Tourism Bureau in order to raise visibility and introduce its quality of service to tourists.

C. Ticket Service and Channels

Besides its ticket window equipment service and ticket vending machines, THSRC also provided for booking tickets, by internet and phone, in order to facilitate easier customer access, in September 2007 and June 2008, respectively. In 2009, THSRC focused on customer service improvements, such as, text confirmation messages, instantly after reserving, paying, and refunding tickets; advance purchase a day earlier than before and shortening the deadline for ticket reservation, by internet and phone, from two hours before train departure to one hour.

During 2009 THSRC negotiated agreements with two companies responsible for Taiwan’s major convenience store chains. The objective being to bring much easier and less time consuming ticket purchasing to passengers and to reduce the negative impression and hindrance presented by weekend queues at station ticketing facilities in peak periods. (The Convenience Stores sale of high speed rail tickets was finally launched on 23rd Feb. 2010 at Family Mart Store and 21st April 2010 at Seven-Eleven.)

D. Station Accessibility

THSRC established convenient connecting networks, before initial operations commenced for taxis, car rentals, parking lots, shuttle bus services, station area traffic management, transfer information enquiries and schedule planning websites. The government also integrated bus, railway and MRT system, in accordance with the Construction and Operation Agreement, and in the knowledge that well-integrated connecting networks, were essential to the success of HSR. Market surveys held regularly to gauge passengers opinions, on the adequacy of transfer services at Stations, have in general shown results that have been favorable. Free shuttle bus services introduced in 2008, at all stations from Taoyuan to Tainan, were welcomed by THSRC passengers and in order to enlarge the scope of these service and increase bus resources, THSRC negotiated with Government to introduce open bidding for shuttle services and this was followed by marketing initiatives with 10 express bus firms, in April 2009, that resulted in enhanced shuttle bus connectivity range and standards of transfer services.

E. Station/Onboard services

In addition to Station concourse waiting areas, nursery rooms, barrier free environment, and wireless internet services, THSRC set up check-in counters with airlines providing check-in services in Taoyuan station in December 2009.

In its onboard services, which provide for purchase of; light meals and snacks and beverages from a trolley service, the Company keeps its passengers informed with its publication "T-Life", containing details of THSRC services, traffic and tourist information, together with articles on local culture in the neighborhood of the HSR stations. In business class, there is a complementary service providing drinks, snacks, newspapers and magazines without charge.

F. Affiliated Business

a. Media Business

7 HSR stations (except Taipei station) provide multiple media channels, such as illuminated display stands, banner and exhibition areas for products and multimedia TVs. In addition, timetable, transfer, and ticketing information are important elements of the communications media. In train coaches, there are other media channels, such as posters, magazines and leaflets in seat pocket.

As the HSR connects with each of the major cities in the western corridor of Taiwan, its passengers are drawn in significant numbers from higher income groups that are a target of advertisers and the media. The HSR media facilities are quite flexible and can accommodate a wide range of media market needs.

b. Retail Business

The HSR retail goods currently include key chains, cell phone charms, pens, cups, and train models, all with HSR representative patterns giving authorization, such as Teddy Bears with HSR uniforms sold since December 2009. HSR retail outlets mainly focus on various HSR peripheral goods to enrich traveling experience.

In the future, the Company will create new products to enhance consumers' satisfaction and meet demands for travel goods and souvenirs, onboard and at Station outlets.

c. Leasing Business

THSRC's market place concept, for the HSR stations, has brought in bookstores, convenience stores, fast food outlets, coffee shops, restaurants, car rentals, travel agencies and check-in counters of airlines. In outdoor spaces, the Company has built parking lots and selected well known firms to provide related services for travelers. The objective is to provide customers with all the travel requisites, dining and diversionary needs they may have in a welcoming, safe environment.

The Company will proceed with a public bidding process in future, to achieve leasing of all its commercial areas and to attract a greater range of appropriate businesses offering more consumer choice, increased revenue and higher earnings from its affiliated enterprises.



## 2. Industry Outlook

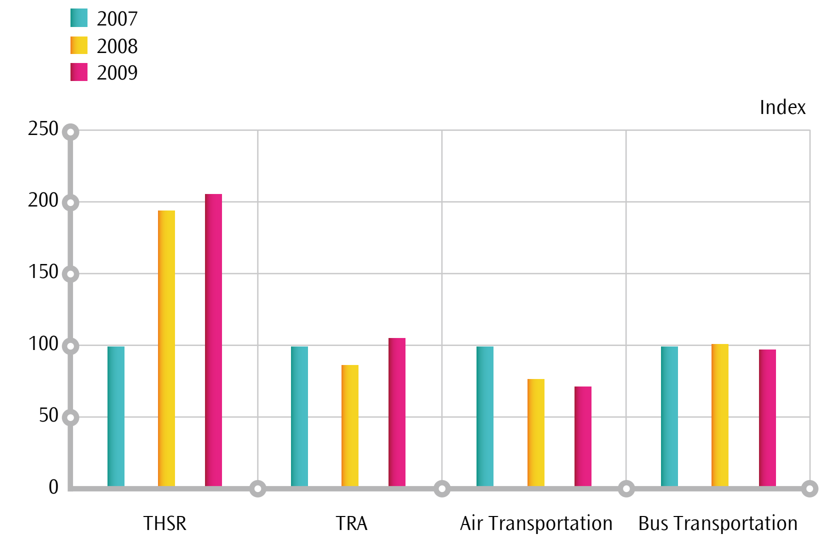
### (1) Industry overview

A. Status Quo and Development of Industry

The intercity public transportation in Taiwan is composed of high-speed railway, traditional railway, bus transportation and air transportation. Among these four methods, the HSR is provided by THSRC, and the traditional railway is conducted by the Taiwan Railways Administration (TRA). In addition, while bus transportation includes more than 50 firms, air transportation services are provided by four domestic airlines (Transasia Airways, Uni Air, Mandarin Airlines and Daily Air).

Comparing the number of passengers of the four transportation types, the number of HSR passengers in 2009 increased by 5.8% from 2008, reaching approximately 32.35 million passengers. As for TRA passengers, the increase rate in 2009 was 0.4% from 2008, reaching 179.37 million passengers. The number of passengers using air transportation in 2009 decreased by 7.02% from 2008, down to 4.57 million passengers. Bus transportation decreased by 3.5% from 2008, down to 237.81 million passengers. However the number of individual-owned vehicles increased by 0.5% from 2008, reaching 5.704 million vehicles. Nevertheless the individual vehicles traveling by highway decreased by 0.7% from 2008, down to approximately 539.57 million vehicles.

Public Transportation Patronage Index



B. Relevance of Chains in Industry

THSRC provides its transportation service in collaboration with and at the end of a chain that involves many other industries. What may be termed "upstream industries" include manufacturing, construction and maintenance based companies providing services in construction, trackwork, rolling stock and railway plant and equipment. The "middle stream industries" which includes THSRC itself with its investment in maintenance and all the other functions to support its ability to provide a HSR services; also includes the power supply industry, and all those industries and agencies which provide for transfer services and connectivity of HSR passengers to access HSR Stations and on completing their train journeys, get to their final destinations. In the "downstream industries" the passengers are supplied by THSRC and all its affiliated businesses with tickets, services and such other needs as they might have in stations and onboard trains where THSRC delivers its transportation service.


| Upstream Industries | Middle-Stream Industries THSRC | Downstream Industries |
|---|---|---|
| Electrical Industry | Power Supply Industry | Passengers |
| Railway Industry | Sanitary Service Industry | Travel Agency |
| Civil Construction Industry | Bus Transportation Industry | |
| Train Manufacture Industry | Parking Administration Industry | |
| | Car Rental Industry | |
| | Taxi Transportation Industry | |

## (2) Market Analysis

A. Market Scale and Market Share Rate

According to the Ministry of Transportation and Communications, the daily patronage of public land transportation reached 4.812 million passengers in 2009 (2.195 million passengers in urban bus transportation, 1.386 million in MRT, 0.652 million in highway bus transportation, 0.491 million on TRA and 89 thousand on the high-speed railway). Total HSR ridership increased by 0.77% compared with 2008. Domestic air transportation passengers decreased over the last 12 years, to approximately 12.5 thousand daily passengers in 2009, 7.02% less than 2008. Moreover, the 1.478 million vehicles passing through freeway toll stations on a daily average reached a third year downturn, since peaking in 2006, decreasing by 0.7% from the 2008 figure.

In 2009 THSRC had 1.4% of passengers of the total number using public transportation. If transportation services, such as city bus transportation and MRT subway were excluded, THSRC had 7.1% of passengers. According to research carried out by the Institute of Transportation, MOTC, in September 2007, THSRC had over 20% of passengers on the routes between Taipei-Taichung, Taipei-Chiayi and Taipei-Tainan, and 44% of passengers on the Taipei-Kaohsiung route. From the above statistics, THSRC is confident of maintaining its advantage and market share for the long-distance trips in the western corridor.

B. Demands and Supplies of Market Future Growth

Although economic predictions indicate that the adverse influences of the global economic recession are receding and recovery will be evident in 2010, the effects of the unemployment rate, limited salary rises, and reduced domestic population growth may lead to only a moderate growth in intercity travel.

From the supply aspect, operators of public transportation service comply with national policies and modify business focus accordingly. For example, TRA concentrates on short and middle-distance intercity trips on its West route, intercity on the East route, route intercity between the East route and the West route, and tourism. For air operators, business focus is on the East routes, international routes, cross-strait charter flights and direct charter flights to Mainland China. The bus transportation companies focus on integrity of operating routes, bidding new routes (such as shuttle buses service from HSR stations), and cooperation with travel agencies and home delivery industries. The bus transportation companies and THSRC are not only competitors but also copartners on specific projects. The majority of the transportation market is however still taken by individual vehicles, nowwithstanding the operation of HSR, with the convenience of individual vehicles being difficult to be replaced by public transportation. However, THSRC still anticipates acquiring more customers from private vehicle users, by enhancing ticketing and transfer services, and further promoting the convenience of the high-speed railway.

## (3) Influential Factors and Countermeasures to Corporation Vision and Competitiveness

The Company and its stations are currently stimulating the development of the Western coast of Taiwan. THSRC is not only in the center of regional transportation, but also favored by factors influenced by the politics, economy, culture and recreation. The Western corridor has become a united economic circle as well as a connected inter-region with the convenience for residents in the Western corridor to travel from the North to the South speedily throughout daytime and evening hours.

Through supplying convenient and efficient transportation and the diverse cultures in different counties, THSRC offers a great deal of time saving, in transportation for commercial affairs and tourism. With more time for business and also to experience the beauty of each scenic area, the Company brings benefit to city development and economic activities in Taiwan, as well as connecting urban and rural areas. The corresponding transfer services including taxis and rental vehicles together with hotel accomodation will bring more passengers and enhance attitudes towards providing a better quality of service throughout the transportation and allied tourist industries. According to the Tourism Bureau, the number of visitors arrived in Taiwan in 2009 increased by 14.30% from 2008, giving a total of 4.395 million passengers which included 2.298 million passengers for tourism, an increase of 29.47% over the 2008 figure. In addition, Taiwan had 130 million travelers in the domestic tourism market. With THSRC's characteristics of speed, comfort and safety, HSR adds to the quality of tours, by saving transportation time to an extent that will encourage change in people's traveling style and stimulate the travel industry.

HSR stations overseas are constructed mostly in metropolitan areas where their operations are supported by people of a higher consuming ability. However, in Taiwan, with the government's mission to exploit and to encourage growth in rural areas, and also to avoid demolishing existing buildings and facilities, HSR station locations are mostly in the suburbs, which has been a detrimental factor patronage in the the Company's early operations. The government has however completed the construction of access roads and negotiated with the Metro and bus transportation operators to improve connectivity and offer shuttle services. THSRC also intensified its competitiveness by providing free shuttle services, ticketing initiatives, and booking access improvements to enhance patronage.

### (4) Function and Manufacture Process of Major Products

Whilst THSRC is not directly involved in manufacturing processes, it will be involved in further construction projects to complete the railway and is dependent on maintaining effective contractual relationship with manufacturers and suppliers for the maintenance of its service to meet quality standards and capacity demands in future. For operating, the main energy source, relied on each day of operation, is electricity.

### (5) Supplement Process of Major Raw Materials

The electricity provider is the Taiwan Power Company. The Company mainly applies a dual circuit power supply, divided into normal circuit feedback power supply and redundant circuit feedback power supply. Wurih and Zuoying Depots use the single circuit feedback power supply for maintenance use only. The supply of the resource we rely on is very stable.

### (6) Customers Exceeding 10% of THSRC Total Transaction in 2008-2009

As the Company is part of the transportation industry, direct purchase of raw materials, as in the manufacturing industry do not apply to THSRC. Maintenance costs and merchandise occupy the highest proportion of our operation costs.

In 2009, the operation enjoyed modest growth with the majority of THSRC customers being the general public.

### (7) Annual Production from 2008-2009:

| | Available Seat Kilometers (thousand kilometers) | Passenger-Kilometers (thousand kilometers) | Loading Factor | Total Patronage (thousand people) |
|---|---|---|---|---|
| 2008 | 15,089,499 | 6,566,120 | 43.51% | 30,581 |
| 2009 | 14,821,653 | 6,863,960 | 46.31% | 32,349 |

### (8) Sales Volume and Value of 2008-2009:

| Item / Year | 2008 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | Sales Volume (thousand passenger-kilometers) | Sales Value (thousand dollars NTD) | Proportion of Operating Revenue | Sales Volume (thousand passenger-kilometers) | Sales Value (thousand dollars NTD) | Proportion of Operating Revenue |
| HSR Transportation | 6,566,120 | 22,441,012 | 97.37% | 6,863,960 | 22,800,753 | 97.76% |
| Sales Revenue | — | 127,215 | 0.55% | — | 114,326 | 0.49% |
| Rental, etc | — | 479,356 | 2.08% | — | 408,633 | 1.75% |
| Total | 6,566,120 | 23,047,583 | 100.00% | 6,863,960 | 23,323,712 | 100.00% |

## 3. Macro-Economic Analysis

The domestic economy is now showing signs of sustained recovery with increasing export and domestic production resulting from recovery of the global economy. However, a slow decline in the unemployment rate and fluctuation of oil prices still presents the transportation market with a challenge unless the present trends are established and continue with greater strength.

One of the advantages of THSRC is that in providing a safe, comfortable, reliable transportation and innovative service mode, it can alter passengers' decisions in choosing preferred transportation means and also help development of the region's economy. In addition, to offering a superior means of travel, the environment benefits from energy saving, carbon reduction and a decrease in pollution levels. All these benefits have been created by the operation of the high-speed rail.

In the case of individual economic activities, HSR rail conveniently carries its passengers swiftly along their chosen routes whilst efficiently contributing to increased business development in western urban and rural areas, offering and creating job opportunities that promote the expansion of local industry.

## 4. Long-Term and Short-Term Business Development Plan

### (1) Short-Term Business Development Plan

A. Offer Safe and Reliable Transportation Service

Up to the end of 2009, the Company has delivered 45,286 train services with 99.25% punctuality. Making speed, reliablity and safety as its key service concepts, THSRC has set a constant objective in providing high efficiency, high quality, and a high standard transportation service from the first day of operation.

B. Build Corporate Image

In order to convey the value of its service into the realms of public awareness, THSRC sets out its key service concepts and the content of all its products and services, via the internet, print and electronic media.

C. Design Transportation Service

Considering structural changes in the transportation market of Taiwan's cities (for instance, car services have a high proportion of transportation between cities), market acceptance (eg HSR Dual-Color Fares), and market competition (fare promotion of highway bus and TRA), THSRC designs appropriate service products and "value for money" pricing in order to meet passengers' needs whilst growing its business.

### (2) Long-Term Business Development Plan

A. Promote Multiple Ticketing Channels

In order to save time when purchasing tickets in stations and avoid the inconvenience of purchasing tickets in stations in advance, THSRC not only provides ticket window equipment, ticket vending machines, and booking tickets by internet and phone but also has cooperated with convenience stores to provide ticket subs outlets since February 23, 2010. In the future, the Company will continue planning several other purchase channels and upgrading its service to enhance passengers' willingness to take HSR.

B. Integrate Transportation Net Between HSR and Peripherals

Complementing its improvement of transfer services, THSRC has issued "Manuals for HSR transfer services" and a "Shuttle Bus Handbook" since 2008. These include information for routes and timetables of shuttles bus services, TRA, MRT, and city buses. In 2009, XML system started online which provides latest HSR timetable to facilitate passengers.

In future, THSRC will launch taxi carpool and taxi reservation services, and improve the readability, practicability, and completeness of transfer information through revision of website pages to facilitate passengers' use.

C. Environment Emphasis and Pollution Diminution

In order to respond to international trends in energy saving and carbon reduction, THSRC offers a high-speed rail service to encourage the public to reduce as far as possible use of private cars for journeys that could be taken by HSR.



# 7. Core Values

## 1. Premium Service

### (1) HSR Service

The total length of the Taiwan North-South HSR is 345 km. HSR passes through 14 counties and 77 towns, connects 3 metropolises, namely, Taipei, Taichung, and Kaohsiung, and provides services to 94% of Taiwan's population, concentrated along the Western corridor of the island.

Currently, eight stations are in operation, namely, Taipei, Banciao, Taoyuan (Chingpu), Hsinchu (Lioujia), Taichung (Wurih), Chiayi (Taibao), Tainan (Shaluen), and Zuoying while four more stations are to be opened, i.e., Nangang, Miaoli (Fungfu), Changhua (Tianjung) and Yunlin (Huwei) in the future.

THSRC provides a fast and efficient transport service for passengers, at a max speed of 300 km/hr, with a range of multiple train-stop modes meeting different customers traveling needs.

Train-stop Modes

| Taipei | Banciao | Taoyuan | Hsinchu | Taichung | Chiayi | Tainan | Zuoying | Total Travel Time |
|---|---|---|---|---|---|---|---|---|
| ● | ● | | | ● | | | ● | 96 mins |
| ● | ● | | | ● | ● | ● | ● | 108 mins |
| ● | ● | ● | ● | ● | ● | ● | ● | 120 mins |
| ● | ● | ● | ● | ● | | | | 60 mins |
| | | | | ● | ● | ● | ● | 57 mins |

### (2) Extensive, Convenient, Punctual and Reliable Train Service

THSRC provides two-way train services, mostly up to 137 per day, following a gradually increasing train services plan whilst maintaining high standards of punctuality and reliability (with up to 143 services per day since January 8, 2010). To meet transport demand over holiday periods, THSRC increases train service frequency, providing passengers with extensive and convenient transportation services that match demand. In 2009, the total number of train services delivered was 45,286 with 99.25% on time or incurring delays of less than 5 minutes.

### (3) Multiple and Convenient Ticketing Services

To provide passengers with more choice and convenient ways of booking and obtaining tickets, THSRC provides various booking ticket channels, including Ticket Window Equipment(TWE), Ticket Vending Machines(TVM), Internet Reservation System(IRS), Phone Booking(IVR) and Group Ticket Booking(RSSW). Beginning on February 23, 2010, the Company cooperated with convenience stores to facilitate passengers buying tickets at their numerous outlets.

### (4) Convenient Station Services

THSRC provides a wide range of services at its stations, which have been designed to facilitate ease of travel in surroundings that have both high aesthetic and utilitarian merit. These services include counter and automated ticketing sales facilities, passenger information systems, customer service desks, disabled facilities, restrooms, book stores, coffee shops, convenience store and restaurants. Wireless network service for passengers seeking "on line" communications and comfortable seating is available in waiting areas.

To enhance station accessibility; parking lots, rental car services, park and ride sites, taxis and interfacing railroad services, together with bus transfer services are provided for passengers. In addition, THSRC collaborated with express bus firms to provide free shuttle bus services. In, 2009, "Free shuttle bus services" totaled 311,297 services and carried 4,072,930 passengers. These services are allocated as below：

Free shuttle bus routes allocation

| Station | Taoyuan | Hsinchu | Taichung | Chiayi | Tainan |
|---|---|---|---|---|---|
| Route | 2 | 1 | 3 | 1 | 3 |

Note： New free shuttle bus services between HSR Hsinchu Station and TRA Zhubei Station commenced operation on February 12, 2010.

### (5) Comfortable Carriage Services

The Company is equipped with business carriage and standard carriage services (including reserved seats and non-reserved seats) for passengers with different travel requirements. Train attendants deploying on each train to see passengers needs are attended, to throughout their journeys, serve snacks and beverages, administer to the needs of the disabled, ensure safe boarding and alighting and deal with any unexpected situation requiring prompt action. Each train, consisting of 12 rail car carriages, has:

Carriage Information

| Type of Carriage | Business Class | Standard Class | |
|---|---|---|---|
| | Reserved Seat | Reserved Seat | Non-Reserved Seat |
| Carriage | 1 | 9 | 2 |
| Seats | 66 | 753 | 170 |

Moreover, to serve disabled passengers, an area equipped with specially designed seats is provided in the 7th carriage with 4 seats reserved for those who are accompanying them.

### (6) Pursue Outstanding Service

In its pursuit of excellence THSRC is committed to providing a train service of the highest standards, focusing attention, each day, on quality and taking pride in meeting its goals and objectives, in the spirit expressed by its "Core Values". It seeks to attain high standards through:

A. Service training

Based on a firm grounding in THSRC's Rules and Regulations, training is directed at strengthening the concepts of value of service, professional image and communication skills, with particular attention to those in the first line dealing with passengers on stations and on-board trains.

B. Establishment of service culture

Motivating employees to develop and sustain a passion for service, seeking continuous improvement in quality and efficiency, through commitment to learning, acquiring skills and judicious use of initiative, including：

(i) Top-down consensus：

Seeking consensus of service strategies and establishment a base for service culture in Service Culture Seminars, Service Case Studies and experience sharing activities.


(ii) Raise initiative of service：

Rewarding outstanding performance of service and affirming commitment to service by Outstanding Service Announcements, and Service Model Recognition, to intensify the value of services.

(iii) Encourage "Discover problems / Solving problems"：

In "Problem Free Workshops", first-line attendants address service problems and provide solutions positively to enhance the process of service and to instil confidence.

(iv) Continuing improvements and maintenance of service culture：

Service training including case studies, group discussions, and situational exercises to give all employees' confidence and consistency in the execution of their duties.

A. Service audit and service competition

(i) THSRC undertakes service performance auditing through the agency of a professional consulting firm. Based on the results, the service "realization rate" is monitored and of service improvements to improve the quality of service introduced.

(ii) Through service competitions and service audits, attitude and efficiency of service is reviewed together with the spirit of teamwork to safeguard and improve service standards.

(iii) 2009 first-line service competition ceremony was held in January 2010. Cardinal Paul Shan Kuo-Hsi, S.J. gave a speech about "Swimming into life with passion", he explaining how love, care, pride and respect for others can inspire and be put into practice in daily tasks and routine.



## 2. Corporate Social Responsibility

The Company actively participates in promoting the social common good, emphasizing environmental protection and giving support to all members of the communities served by HS Rail, with the objective of being be positive and improving influence.

### Social Common Good

**(1) When the south of Taiwan was devastated by Typhoon Morakot, THSRC reserved seats, without charge, on each train for those engaged in rescue and support to the communities affected. Rescue teams, civil agencies, religious groups, military and government agencies together with academic and student representatives were carried to and from the ruined areas, with totaling over 56,000 passenger trips which represented a discounted figure exceeding NT$64 million in unlevied fares. THSRC's motto "Go Extra Mile" was truly put into effect and exemplifies its determination to express its Corporate Social Responsibilities in its continuing contribution to Society.**


**(2) "Deliver Love with HSR to Poor Children"**

At the end of 2009, the Company promoted "Deliver Love with HSR to Poor Children" project, joining with World Vision Taiwan to invite passengers to support public welfare. The fundraising of this activity amounted to over NT$7.8 million and was used to assist 3,121 poor students with their tuition fees.

## Environmental Protection

The Company welcomes all passengers to keep taking the most environmentally friendly form of public transportation:

### (1) Jacana Recovery

For more than 10 years, the Company has been devoted to Jacana preservation. With 40 million dollars invested, the first artificial habitat recovery project was completed in collaboration with the Government, development organizations and non-governmental organizations. The quantity of Jacana has increased from the 10's into almost 300. In 2008, to display our effort in the Jacana recovery, we officially renamed the Jacana recovery habitat as Jacana Park and opened the park for public visitors.

To educate students in matters concerning environmental protection, THSRC has arranged junior and elementary school students participating in visits to Jacana Park, where students learn of the beauty of nature in Taiwan.

### (2) The Hsinchu Old Camphor and the Land God

During the construction period, the Hsinchu old Camphor Tree and the Temple of Land God faced removal, as it was unfortunately located on the main route of HSR right-of-way. Under the joint effort of our management team and local celebrities, THSRC's construction team managed to conserve the old Camphor tree in its original place, through an adjustment in the construction design. Afterwards the Company drafted the Hsinchu old Camphor Tree Medical Plan, with the government, Environment and Resources Protection Committee, culture and history workers; to repair decayed branches as well as maintain the growth of the old Camphor. Long-term care is required to preserve the complete features of its branches and leaves.

| Stage | Period | Content |
|---|---|---|
| Preservation | 1996～1999 | Removal of old Camphor Tree was government's first idea, but we chose to preserve it because of respect for history. |
| Design | 1999～2000 | To preserve the old Camphor Tree and the Temple of Land God, THSRC changed its construction design. |
| Sick and Healing | 2001～2002 | The old Camphor Tree was affected by changes to its environment and Mr. Yang, a qualified tree doctor, was invited to attend to it. |
| Change of Position | 2003～2004 | After construction of HSR, believers of the Temple of Land God suggested changing the position of the temple. The Company and contractors bore the related expenses. |
| Management and Maintenance | After 2006 | The branches of old Camphor Tree were trimmed carefully to stop it encroaching on the HSR. |

### (3) Taiwan's 319 Townships－Share the Spirit


A series of "Taiwan's 319 Townships－Share the Spirit" activities hosted by the Common Wealth Magazine, aroused tremendous response since its launch in 2001. To highlight THSRC objectives, in caring for local communities, promote tourism and encouraging high-speed railway transportation in the rural areas, the Company has sponsored this activity for 4 years.

In the 2009 event, the Common Wealth Magazine had a topic "25 Surprises in Taiwan Tour" in which postcards were produced representing images of Taiwan. Hsinchu Station was chosen as a one of the Taiwan images. The Company set up mailboxes in each stations and offered free postcards to visitors, to mail postcards to themselves or relatives, during the tour.

### (4) "Roots and Shoots" Program

To express its belief in the value of caring for the environment and the community, THSRC has sponsored the Jane Goodall Institute Taiwan, to promote a "Roots and Shoots" program, since 2001. In this project support is given to "Roots and Shoots" teams in their studies of the ecology of Taiwan and promotion of environmental conservation. There are presently 587 teams active in Taiwan.

### (5) Environmental Labor Day

Beginning in July, 2009, the Company set "Environmental Labor Day" on 22nd of each month. Whilst THSRC has a policy to promote energy saving programs and other sound environmental protection practices in all its activities, special attention is paid on "Environmental Labor Days", throughout the Company's offices, workshops, stations and ancillary buildings; recycling office materials, extinguishing lights when not required for safety or work purposes, transmitting data by internet and any other measures that support environmental protection.

## 3. Promotions and Events

### (1) Ride HSR Free to Enjoy Book Exhibition

In order to encourage reading, in February 2009, THSRC jointly promoted "Ride HSR Free to Enjoy Book Exhibition" project, with the Taipei Book Fair Foundation 8,594 passengers were given tickets to travel to the Book Exhibition. In addition, THSRC sponsored 213 students, from Min Tzu, Min Chuan and Min Sheng elementary schools in Namaxia Township, Kaohsiung County, Chang Shan and Hsing Chung elementary schools in Taoyuan Township, Kaohsiung County, and Kuo Kou junior high school in Budai Township, Chiayi County to travel by HSR to visit the book fair.

### (2) THSRC Camp

To raise awareness of THSRC's range of services, the company invited Railway Culture Society Taiwan, National Chiao Tung University Railway Research Club and China Youth Corps, to develop a series of activities for students of different age groups attending THSRC Camps. 18 Camps were sponsored by THSRC, in 2008 and 2009, with participation of students from elementary to high school levels. Lectures were given at these gatherings to impart information about HSR.

### (3) THSRC Smile Program

From 2008, in cooperation with non-profit groups, THSRC organized the "THSRC Smile Program" to offer minority groups and families the chance to experience the comfort and convenience of high-speed rail. In 2009, THSRC continued this program to cooperate with education and charity groups to assist minority families. Up to the end of 2009, 67 minorities and families, 4,608 people in total, have participated in THSRC Smile Program. Besides providing free high-speed rail trips, we entertained our guests by arranging visits to Exhibitions related to HSR and places of interest along the Line, leaving them with memories of the part THSRC now plays in supporting the communities served by the railway and of an agreeably sociable occasion.



# 8. Financial Highlights

## 1. Condensed Balance Sheet and Income Statement from 2005 to 2009

### Condensed Balance Sheet

In thousands of NT

| Item | | 2005 | 2006 | 2007 | 2008 | 2009 | Financial Information for the Three Months Ending March 31, 2010 (Note 4) |
|---|---|---|---|---|---|---|---|
| | Year | Financial Information from 2005 to 2009 (Note 1and Note 2) | | | | | |
| Current Assets | | 2,002,352 | 2,260,264 | 6,214,525 | 11,765,224 | 6,564,074 | – |
| Funds and Investments | | - | - | - | - | - | – |
| Fixed Assets | | 363,712,286 | 421,481,395 | 426,835,550 | 411,414,846 | 404,102,618 | – |
| Intangible Assets | | - | 37,077 | - | - | - | – |
| Other Assets | | 10,895,918 | 3,729,543 | 6,793,115 | 1,845,701 | 3,409,788 | – |
| Total Assets | | 376,610,556 | 427,508,279 | 439,843,190 | 425,025,771 | 414,076,480 | – |
| Current Liabilities | Before Distribution | 23,246,895 | 42,592,407 | 31,452,468 | 25,686,228 | 36,641,073 | – |
| | After Distribution | 23,246,895 | 42,592,407 | 31,452,468 | 25,686,228 | (Note3) | – |
| Long Term Liabilities | | 264,050,845 | 302,414,563 | 353,599,666 | 367,798,676 | 350,349,043 | – |
| Other Liabilities | | 243,505 | 84,974 | 384,585 | 1,965,471 | 2,299,964 | – |
| Total Liabilities | Before Distribution | 287,541,245 | 345,091,944 | 385,436,719 | 395,450,375 | 389,290,080 | – |
| | After Distribution | 287,541,245 | 345,091,944 | 385,436,719 | 395,450,375 | (Note3) | – |
| Capital Stock | | 105,100,565 | 105,100,565 | 105,100,565 | 105,322,243 | 105,322,243 | – |
| Capital Surplus | | - | - | 1,324,788 | 1,295,378 | 1,295,378 | – |
| Retained Earnings (Accumulated Deficits) | Before Distribution | (9,681,801) | (13,108,226) | (42,506,974) | (67,530,242) | (72,319,697) | – |
| | After Distribution | (9,681,801) | (13,108,226) | (42,506,974) | (67,530,242) | (Note 3) | – |
| Unrealized Gains on Financial Instruments | | - | (63,764) | 332 | 257 | 716 | – |
| Prepaid Dividends During the Development Stage – Preferred Stock | | (6,349,453) | (9,512,240) | (9,512,240) | (9,512,240) | (9,512,240) | – |
| Cumulative Translation Adjustments | | - | - | - | - | - | – |
| Net Loss of Unrecognized Pension Cost | | - | - | - | - | - | – |
| Total Stockholders' Equity | Before Distribution | 89,069,311 | 82,416,335 | 54,406,471 | 29,575,396 | 24,786,400 | – |
| | After Distribution | 89,069,311 | 82,416,335 | 54,406,471 | 29,575,396 | (Note 3) | – |

Note 1: Audited financial data
Note 2: Development stage prior to January 4, 2007
Note 3: Pending shareholders' approval
Note 4: No need to disclose quarterly financial information for an unlisted company

### Condensed Income Statements

In thousands of NT

| Item | 2005 | 2006 | 2007 | 2008 | 2009 | Financial Information for the Three Months Ended March 31, 2010 (Note 3) |
|---|---|---|---|---|---|---|
| Year | Financial Information from 2005 to 2009（Note 1and Note 2） | | | | | |
| Operating Revenue | - | - | 13,502,788 | 23,047,583 | 23,323,712 | – |
| Gross Profit (Loss) from Operations | - | - | (13,279,903) | (4,770,428) | 6,545,967 | – |
| Income (Loss) from Operations | (1,853,807) | (3,129,999) | (14,909,057) | (6,238,553) | 5,564,846 | – |
| Non-Operating Income and Gains | 146,808 | 134,902 | 315,187 | 644,500 | 639,869 | – |
| Non-Operating Expenses and Losses | 368,448 | 406,632 | 14,804,824 | 19,415,644 | 10,995,840 | – |
| Earnings (Loss) from Continuing Operations Before Income Taxes | (2,075,447) | (3,401,729) | (29,398,694) | (25,009,697) | (4,791,125) | – |
| Net Income (Loss) from Continuing Operation | (2,075,447) | (3,401,729) | (29,398,748) | (25,009,697) | (4,789,455) | – |
| Net Income (Loss) from Discontinued Operation | - | - | - | - | - | – |
| Net Income (Loss) from Extraordinary Items | - | - | - | - | - | – |
| Cumulative Effect of Changes in Accounting Principle | - | (24,696) | - | - | - | – |
| Net Income (Loss) | (2,075,447) | (3,426,425) | (29,398,748) | (25,009,697) | (4,789,455) | – |
| Basic and Diluted Loss Per Share | (1.03) | (1.32) | (6.10) | (4.58) | (1.03) | – |

Note 1: Audited financial data
Note 2: Development stage prior to January 4, 2007
Note 3: No need to disclose quarterly financial information for an unlisted company

### Auditors Opinions from 2005 to 2009

| Year | CPA firm | CPA | Opinion |
|---|---|---|---|
| 2005 | KPMG | Albert Lo、Agnes Yang | Modified Unqualified Opinion |
| 2006 | KPMG | Albert Lo、Agnes Yang | Modified Unqualified Opinion |
| 2007 | KPMG | Agnes Yang、Fion Chen | Unqualified Opinion |
| 2008 | KPMG | Agnes Yang、Fion Chen | Modified Unqualified Opinion |
| 2009 | KPMG | Agnes Yang、Fion Chen | Modified Unqualified Opinion |

## 2. Financial Ratios from 2005 to 2009

| Financial Analysis | Year | Financial Analysis from 2005 to 2009（Note 1）2005 | 2006 | 2007 | 2008 | 2009 | Financial Analysis for the Three Months Ended March 31, 2010 (Note 4) |
|---|---|---|---|---|---|---|---|
| Financial Structure | Debts Ratio(%) | 76.35 | 80.72 | 87.63 | 93.04 | 94.01 | — |
| | Long-term Fund to Fixed Assets Ratio(%) | 97.09 | 91.30 | 95.59 | 96.59 | 92.83 | — |
| Liquidity | Current Ratio (%) | 8.61 | 5.31 | 19.75 | 45.80 | 17.91 | — |
| | Quick Ratio (%) | 8.26 | 4.28 | 14.26 | 37.18 | 10.39 | — |
| | Time Interest Earned (Times) | - | - | - | - | 0.56 | — |
| Operating Performance | Average Collection Turnover (Times) | - | - | 306.18 | 308.69 | 218.74 | — |
| | Average Collection Days | - | - | 1.19 | 1.18 | 1.67 | — |
| | Average Inventory Turnover (Times) | - | - | - | - | - | — |
| | Average Payment Turnover (Times) | - | - | - | - | - | — |
| | Days Sales Outstanding | - | - | - | - | - | — |
| | Fixed Assets Turnover (Times) | - | - | 0.03 | 0.06 | 0.06 | — |
| | Total Assets Turnover (Times) | - | - | 0.03 | 0.05 | 0.06 | — |
| Profitability | Return on Total Assets(%) | - | - | (3.45) | (1.74) | 1.43 | — |
| | Return on Equity(%) | (2.44) | (4.00) | (42.97) | (59.56) | (17.62) | — |
| | Ratio to Paid-in Capital (%) — Operating Income | (1.76) | (2.98) | (14.19) | (5.92) | 5.28 | — |
| | Ratio to Paid-in Capital (%) — Pre-Tax Income | (1.97) | (3.24) | (27.97) | (23.75) | (4.55) | — |
| | Net Margin(%) | - | - | (217.72) | (108.51) | (20.53) | — |
| | Earning Per Share (NT$) | - | - | (6.10) | (4.58) | (1.03) | — |
| Cash Flow | Cash Flow Ratio(%) | - | - | - | - | 11.31 | — |
| | Cash Flow Adequacy Ratio(%) | - | - | - | - | - | — |
| | Cash Flow Reinvestment Ratio(%) | - | - | - | - | 0.98 | — |
| Leverage | Operating Leverage | - | - | - | - | 3.75 | — |
| | Financial Leverage | - | - | - | - | - | — |

The variance analysis in recent two years:

1. Liquidity
   The decrease in current ratio and quick ratio in 2009 was mainly due to the increase in current portion of long-term debts and the decrease in cash and cash equivalents. In addition, the increase in time interest earned ratio in 2009 was mainly due to the decrease in interest expenses and net loss.
2. Profitability
   The improvement of profitability in 2009 was primarily due to the decreases in interest expenses and depreciation expenses resulting from the change of depreciation method, and cost savings.
3. Cash Flow
   The improvement of cash flow ratio and cash flow reinvestment ratio in 2009 was primarily due to the decrease in interest expenses resulting in net cash inflow from operating activities.
4. Leverage
   The increase in leverage in 2009 was mainly due to the improvement of operation income.

Note 1: Development stage prior to January 4, 2007
Note 2: No need to disclose quarterly financial information for an unlisted company
Note 3: Audited financial data
Note 4: Glossary:

1. Financial Structure
   (1) Debts Ratio ＝ Total Liabilities ／ Total Assets
   (2) Long-term Fund to Fixed Assets ＝(Total Stockholders' Equity＋Total Long-term Liabilities) / Net Fixed Assets
2. Liquidity
   (1) Current Ratio＝ Total Current Assets / Total Current Liabilities
   (2) Quick Ratio＝（Total Current Assets－ Inventories－Prepaid Expenses）／Total Current Liabilities
   (3) Time Interest Earned＝ Earnings before Interest and Taxes ／Interest Expenses
3. Operating Performance
   (1) Average Collection Turnover ＝ Net Sales / Average Accounts Receivables
   Due to operation commenced Jan 5, 2007, the ending balance of accounts receivable is applied as average one.
   (2) Average Collection Days ＝ 365 / Average Collection Turnover
   (3) Average Inventory Turnover ＝ Cost of Sales / Average Inventory
   (4) Average Payment Turnover ＝ Cost of Sales / Average Accounts Payables
   (5) Days Sales Outstanding ＝365 / Average Inventory Turnover
   (6) Fixed Assets Turnover＝ Net Sales ／ Net Fixed Assets
   (7) Total Assets Turnover＝Net Sales / Total Assets
4. Profitability
   (1) Return on Total Assets ＝( Net Income ＋ Interest Expenses ×(1－Effective Tax Rate)) ／ Average Total Assets
   (2) Return on Equity＝Net Income / Average Shareholders' Equity
   (3) Net Margin＝Net Income / Net Sales
   (4) Earning Per Share＝（Net Income－Preferred Stock Dividend）／ Weighted Average Number of Shares Outstanding
5. Cash Flow
   (1) Cash Flow Ratio ＝ Net Cash provided by Operating Activities / Total Current Liabilities
   (2) Cash Flow Adequacy Ratio ＝ Five-Year Sum of Cash from Operations / Five-Year Sum of Capital Expenditures, Inventory Additions, and Cash Dividends
   (3) Cash Flow Reinvestment Ratio ＝ (Cash provided by Operating Activities－Cash Dividends) / (Gross Fixed Assets cost＋Long-Term Investments＋Other Assets＋Working Capital)
6. Leverage
   (1) Operating Leverage＝(Net Sales－Variable Cost) / Income from Operations
   (2) Financial Leverage＝Income from Operations ／ (Income from Operations－Interest Expenses)

## 3. 2009 Supervisor's Report

The Board of Directors has prepared (1) the Company's 2009 Financial Statements. The CPA firm of KPMG was retained to audit THSRC's Financial Statements and has issued an audit report on March 17, 2010 relating to the Financial Statements. (2) The Business Report and proposal for loss reimbursement have been reviewed and determined to be correct and accurate by the Supervisor of the Taiwan High Speed Rail Corporation. According to Article 219 of the Company Law, we hereby submit this report.

To

2010 Shareholders' Meeting of Taiwan High Speed Rail Corporation

Taiwan High Speed Rail Corporation

C.I. Wang

Supervisor Walsin Lihwa Corporation

Ji-Ming Lu Tang

April 20, 2010

## 4. Financial Statements for Current Year

**(1) Financial Statements for the years ended December 31, 2009 and 2008**

**(English Translation of Financial Report Originally Issued in Chinese)**

### Independent Auditors' Report

The Board of Directors

Taiwan High Speed Rail Corporation

We have audited the accompanying balance sheets of Taiwan High Speed Rail Corporation (the Company) as of December 31, 2009 and 2008, and the related statements of operations, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the Republic of China "Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants" and generally accepted auditing standards. Those standards and regulations require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Taiwan High Speed Rail Corporation as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended, in conformity with the ROC "Guidelines Governing the Preparation of Financial Reports by Securities Issuers", the related financial accounting standards of the "Business Entity Accounting Act" and of the "Regulation on Business Entity Accounting Handling", and generally accepted accounting principles.

Commencing from January 1, 2009, in order to make the depreciation method be used on a reasonably systematic basis over the useful lives, the Company changed the depreciation method from the straight-line method to the units of throughput method based on ridership with the approval of the Financial Supervisory Commission, Executive Yuan. , as discussed in note 3(b) to the financial statements.

The strategy to improve the financial status and decrease deficit which will be taken by the management, as discussed in note 10(b) to the financial statements.

KPMG

March 17, 2010

**Note to Readers**

The accompanying financial statements are intended only to present the financial position, results of operations, 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.

(English Translation of Financial Report Originally Issued in Chinese)
**TAIWAN HIGH SPEED RAIL CORPORATION**
**BALANCE SHEETS**
**DECEMBER 31, 2009 and 2008**
(Amounts expressed in thousands of New Taiwan dollars)

| Assets | 2009.12.31 | 2008.12.31 |
|---|---|---|
| **Current Assets:** | | |
| Cash and cash equivalents (notes 4(a) and 4(o)) | $ 3,055,252 | 8,932,581 |
| Notes and accounts receivable (note 4(o)) | 108,031 | 105,227 |
| Inventories (note 4(b)) | 2,349,660 | 1,806,560 |
| Prepayments and other current assets (notes 4(p) and 7) | 502,489 | 531,760 |
| Restricted assets-current (notes 4(o) and 6) | 9,947 | 43,093 |
| Financial assets stated at fair value through profit or loss-current (notes 4(h) and 4(o)) | - | 69,142 |
| Available-for-sale financial assets-current (notes 4(c) and 4(o)) | 538,695 | 275,257 |
| Hedging derivative financial assets-current (notes 4(n) and 4(o)) | - | 1,604 |
| **Total current assets** | 6,564,074 | 11,765,224 |
| **Fixed Assets (Notes 4(d), 4(n), 5, 6 and 7):** | | |
| Cost: | | |
| Land improvements | 217,072,805 | 217,006,252 |
| Buildings | 30,543,497 | 29,912,856 |
| Machinery and equipment | 55,001,898 | 54,787,672 |
| Transportation equipment | 146,499,826 | 145,771,840 |
| Office equipment | 112,579 | 110,805 |
| Leasehold improvements | 77,933 | 117,459 |
| Other equipment | 361,970 | 348,638 |
| | 449,670,508 | 448,055,522 |
| Less: accumulated depreciation | (46,423,050) | (38,314,058) |
| Construction in progress and prepayments | 855,160 | 1,673,382 |
| **Fixed assets-net** | 404,102,618 | 411,414,846 |
| **Other Assets:** | | |
| Refundable deposits (note 4(o)) | 7,902 | 34,330 |
| Deferred charges (note 4(e)) | 673,964 | 784,104 |
| Restricted assets-non-current (notes 4(o), 6 and 7) | 2,708,115 | 1,027,267 |
| Prepayment of pension (note 4(j)) | 19,807 | - |
| **Total other assets** | 3,409,788 | 1,845,701 |
| **Total Assets** | **$ 414,076,480** | **425,025,771** |

| Liabilities and Stockholders' Equity | 2009.12.31 | 2008.12.31 |
|---|---|---|
| **Current Liabilities:** | | |
| Short-term debts (notes 4(f) and 4(o)) | $ 556,786 | 1,002,420 |
| Commercial paper payable (notes 4(g) and 4(o)) | - | 499,525 |
| Accounts payable (note 4(o)) | 1,415,124 | 1,379,815 |
| Financial liabilities stated at fair value through profit or loss-current (notes 4(h) and 4(o)) | 30,442 | 55,907 |
| Construction payables to related parties-current (notes 4(d), 4(o) and 5) | 11,252 | 54,325 |
| Hedging derivative financial liabilities-current (notes 4(n) and 4(o)) | 1,688 | - |
| Construction payables (notes 4(d) and 4(o)) | 4,839,914 | 6,404,164 |
| Current portion of long-term debts (notes 4(h), 4(i), 4(o) and 6) | 26,952,982 | 13,102,875 |
| Accrued expenses and other current liabilities | 2,832,885 | 3,187,197 |
| **Total current liabilities** | 36,641,073 | 25,686,228 |
| **Long-Term Liabilities:** | | |
| Bonds payable (notes 4(h) and 4(o)) | 22,431,955 | 25,441,995 |
| Long-term debts (notes 4(i), 4(o), 5 and 6) | 327,758,723 | 342,238,101 |
| Accrued interest-non-current | 158,365 | 118,580 |
| **Total long-term liabilities** | 350,349,043 | 367,798,676 |
| **Other Liabilities:** | | |
| Accrued pension liability (note 4(j)) | - | 12,660 |
| Other liabilities (notes 4(o) and 7) | 2,299,964 | 1,952,811 |
| **Total other liabilities** | 2,299,964 | 1,965,471 |
| **Total liabilities** | 389,290,080 | 395,450,375 |
| **Stockholders' Equity (Notes 4(h), 4(k), 4(l), and 4(o)):** | | |
| Capital stock: | | |
| Common stock | 65,032,326 | 58,978,626 |
| Preferred stock-convertible | 40,289,917 | 46,343,617 |
| | 105,322,243 | 105,322,243 |
| Capital surplus-equity conversion option of convertible bonds | 1,295,378 | 1,295,378 |
| Retained earnings (accumulated deficits): | | |
| Legal reserve | 40,285 | 40,285 |
| Accumulated deficits | (72,359,982) | (67,570,527) |
| | (72,319,697) | (67,530,242) |
| Unrealized gains on financial instruments | 716 | 257 |
| Prepaid dividends during the development stage-preferred stock | (9,512,240) | (9,512,240) |
| **Total stockholders' equity** | 24,786,400 | 29,575,396 |
| **Significant Commitments and Contingencies (Notes 4(i), 4(n), 4(o), and 7)** | | |
| **Total Liabilities and Stockholders' Equity** | **$ 414,076,480** | **425,025,771** |

(English Translation of Financial Report Originally Issued in Chinese)
TAIWAN HIGH SPEED RAIL CORPORATION
STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2009 and 2008
(Amounts expressed in thousands of New Taiwan dollars, except for per share data)

| | 2009 | 2008 |
|---|---|---|
| **Operating revenue (note 5)** | $ 23,323,712 | 23,047,583 |
| **Operating cost (notes 4(b), 4(j), 5, 7, and 10)** | (16,777,745) | (27,818,011) |
| **Gross profit(loss) from operations** | 6,545,967 | (4,770,428) |
| **Operating expenses (notes 4(j) and 10)** | (981,121) | (1,468,125) |
| **Gain(Loss) from operations** | 5,564,846 | (6,238,553) |
| **Non-operating income and gains:** | | |
| Interest income | 17,049 | 228,229 |
| Gains on disposal of financial instruments | 891 | 9,891 |
| Foreign exchange gain, net (note 4(n)) | 614,532 | - |
| Valuation gains on financial instruments, net (note 4(h)) | - | 397,015 |
| Others | 7,397 | 9,365 |
| | 639,869 | 644,500 |
| **Non-operating expenses and losses (note 10):** | | |
| Interest expenses (notes 4(d) and 5) | (10,778,335) | (17,464,896) |
| Foreign exchange loss, net (note 4(n)) | - | (1,812,757) |
| Valuation losses on financial instruments, net | (43,677) | - |
| Others (note 4(h)) | (173,828) | (137,991) |
| | (10,995,840) | (19,415,644) |
| **Loss before income tax** | (4,791,125) | (25,009,697) |
| **Income tax benefit (note 4(k))** | 1,670 | - |
| **Net loss** | $ (4,789,455) | (25,009,697) |

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Loss before income tax | Net loss | Loss before income tax | Net loss |
| **Basic and diluted loss per share (expressed in NT dollars) (note 4(m))** | $ (1.03) | (1.03) | (4.58) | (4.58) |

(English Translation of Financial Report Originally Issued in Chinese)
TAIWAN HIGH SPEED RAIL CORPORATION
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2009 and 2008
(Amounts expressed in thousands of New Taiwan dollars)

| | Capital Stock | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Common stock | Preferred stock | Capital surplus | Legal reserve | Accumulated deficits | Unrealized gains on financial instruments | Prepaid dividends on preferred stock during the development stage | Total |
| **Balance as of January 1, 2009** | $ 58,978,626 | 46,343,617 | 1,295,378 | 40,285 | (67,570,527) | 257 | (9,512,240) | 29,575,396 |
| Convertible preferred stock converted into common stock | 6,053,700 | (6,053,700) | - | - | - | - | - | - |
| Net loss for the year ended December 31, 2009 | - | - | - | - | (4,789,455) | - | - | (4,789,455) |
| Changes in unrealized losses on financial instruments | - | - | - | - | - | 459 | - | 459 |
| **Balance as of December 31, 2009** | **$ 65,032,326** | **40,289,917** | **1,295,378** | **40,285** | **(72,359,982)** | **716** | **(9,512,240)** | **24,786,400** |
| **Balance as of January 1, 2008** | $ 56,724,834 | 48,375,731 | 1,324,788 | 40,285 | (42,547,259) | 332 | (9,512,240) | 54,406,471 |
| Convertible preferred stock converted into common stock | 2,032,114 | (2,032,114) | - | - | - | - | - | - |
| Convertible bonds payable converted into common stock | 221,678 | - | (29,410) | - | (13,571) | - | - | 178,697 |
| Net loss for the year ended December 31, 2008 | - | - | - | - | (25,009,697) | - | - | (25,009,697) |
| Changes in unrealized losses on financial instruments | - | - | - | - | - | (75) | - | (75) |
| **Balance as of December 31, 2008** | **$ 58,978,626** | **46,343,617** | **1,295,378** | **40,285** | **(67,570,527)** | **257** | **(9,512,240)** | **29,575,396** |

(English Translation of Financial Report Originally Issued in Chinese)
TAIWAN HIGH SPEED RAIL CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 and 2008
(Amounts expressed in thousands of New Taiwan dollars)

| | 2009 | 2008 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net loss | $ (4,789,455) | (25,009,697) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation | 8,222,634 | 18,994,251 |
| Amortization | 152,561 | 166,559 |
| Losses on disposal of fixed assets and other expenses transferred from fixed assets | 3,425 | 18,980 |
| Gain on disposal of investments | (891) | (9,891) |
| Exchange losses (gains) on non-derivative liability component of convertible bonds | (228,409) | 88,680 |
| Losses (gains) on valuation of call/put option component of convertible bonds | 43,677 | (397,015) |
| Accrued interest expenses on convertible bonds | 1,091,723 | 1,538,498 |
| Amortization of cost of issuing corporate bonds | 37,747 | 33,207 |
| Other losses | 246 | 44,592 |
| Change in operating assets and liabilities | | |
| Notes and accounts receivable | (2,804) | (61,127) |
| Inventories | (536,596) | (445,652) |
| Prepayments and other current assets | 29,271 | 28,449 |
| Prepayments of pension | (19,807) | - |
| Accounts payable | 63,430 | 518,234 |
| Accrued expenses and other current liabilities | (354,312) | 293,754 |
| Provision for profit sharing with the government | 400,000 | 400,000 |
| Accrued pension liability | (12,660) | (13,020) |
| Accrued interest-non-current | 39,785 | 109,417 |
| Hedging derivative financial instruments | 3,292 | 24,861 |
| **Net cash provided by operating activities** | 4,142,857 | 3,676,920 |
| **Cash flows from investing activities:** | | |
| Purchases of available-for-sale financial assets-current | (1,492,096) | (4,307,645) |
| Proceeds from sales of available-for-sale financial assets-current | 1,230,008 | 4,655,753 |
| Additions to fixed assets | (2,637,129) | (6,419,857) |
| Proceeds from disposal of fixed assets | 6,683 | 62 |
| Decrease (increase) in restricted assets (including current and non-current) | (1,647,702) | 4,821,031 |
| Decrease (increase) in refundable deposits | 26,428 | (745) |
| Increase in deferred charge | (26,440) | (55,441) |
| **Net cash used in investing activities** | (4,540,248) | (1,306,842) |

| | 2009 | 2008 |
|---|---|---|
| **Cash flows from financing activities:** | | |
| Decrease in short-term debts | (445,634) | (3,193,002) |
| Increase (decrease) in commercial paper payable | (499,525) | 499,525 |
| Increase in long-term debts | - | 12,953,000 |
| Issuance of corporate bonds | - | 18,773,836 |
| Redemption of bonds payable | (4,100,000) | (18,800,000) |
| Redemption of long-term debts | (440,619) | - |
| Increase in other liabilities | 5,840 | 7,568 |
| **Net cash provided by (used in) financing activities** | (5,479,938) | 10,240,927 |
| **Net increase (decrease) in cash and cash equivalents** | (5,877,329) | 5,257,165 |
| **Cash and cash equivalents at beginning of period** | 8,932,581 | 3,675,416 |
| **Cash and cash equivalents at end of period** | **$ 3,055,252** | **8,932,581** |
| **Supplemental disclosures of cash flow information:** | | |
| Interest paid (excluding capitalized interest) | **$ 10,103,109** | **15,923,628** |
| Income tax paid | **$ 3,849** | **21,364** |
| **Supplemental disclosures of investing activities affecting both cash and non-cash items:** | | |
| Additions to fixed assets by paying cash and recognizing liabilities: | | |
| Additions to fixed assets | $ 943,466 | 3,687,142 |
| Decrease in construction payables (including related parties) | 1,607,323 | 3,858,376 |
| Decrease (increase) in other liabilities | 86,807 | (1,124,313) |
| Amortization capitalized as construction in progress | (150) | (476) |
| Depreciation capitalized as construction in progress | (317) | (872) |
| Cash paid | **$ 2,637,129** | **6,419,857** |
| **Supplemental disclosures of non-cash investing and financing activities:** | | |
| Unrealized valuation (losses) gains on financial instruments | **$ 459** | **(75)** |
| Reclassification to current liabilities of portion of long-term debts maturing within one year | **$ 26,952,982** | **13,102,875** |

(English Translation of Financial Report Originally Issued in Chinese)
**TAIWAN HIGH SPEED RAIL CORPORATION**
**NOTES TO FINANCIAL STATEMENTS**
**DECEMBER 31, 2009 and 2008**

## 1. Organization and Principal Activities

Taiwan High Speed Rail Corporation ("the Company") commenced preparation for incorporation on May 3, 1997, and obtained its company license, which was issued by the Taipei City Government on May 11, 1998. On July 23, 1998, the Company signed both the "Taiwan North-South High Speed Rail Construction and Operation Agreement" (the "C&O Agreement") and "Taiwan North-South High Speed Rail Station Zone Development Agreement" (the "SZD Agreement") with the Ministry of Transportation and Communications (the "MOTC") (refer to note 7), under which the Company entered into a concession agreement for the construction and operation of the Taiwan North-South High Speed Rail and related facilities. On January 5, 2007, the Company started its commercial operations from the Banciao Station to the Zuoying Station. When the railway service at the Taipei Station began on March 2, 2007, the Company started its service for the entire line from the Taipei Station to the Zuoying Station.

On September 5, 2003, the Company applied to the Gre Tai Securities Market (the "GTSM") for permission to list on the Emerging Stock Market.

As of December 31, 2009 and 2008, the headcounts of employees were 3,060 and 3,328, respectively.

## 2. Summary of Significant Accounting Policies and Basis of Measurement

The financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language financial statements, the Chinese version shall prevail.

The accompanying financial statements have been prepared in accordance with the Republic of China "Guidelines Governing the Preparation of Financial Reports by Securities Issuers", the "Business Entity Accounting Act", the "Regulation on Business Entity Accounting Handling", and generally accepted accounting principles. The significant accounting policies and bases of measurement used in preparing the accompanying financial statements are as follows:

(a) Use of estimates

The preparation of the accompanying financial statements involves management's estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting periods. Actual results could differ from the results of these estimates and assumptions.

(b) Foreign currency transactions

The Company maintains its books of account in New Taiwan dollars. Foreign currency transactions during the year are translated at the exchange rates on the transaction dates. Foreign currency-denominated assets and liabilities are translated into New Taiwan dollars at the exchange rate prevailing on the balance sheet date, and the resulting translation gains or losses are recognized as non-operating income or expenses. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the reporting currency at the foreign exchange rates at the date the fair value was determined. If the non-monetary assets or liabilities are measured at fair value through profit or loss, the resulting unrealized exchange gains or losses from such translation are reflected in the accompanying statements of income. If the non-monetary assets or liabilities are measured at fair value through stockholders' equity, the resulting unrealized exchange gains or losses from such translation are recorded as a separate component of stockholders' equity. If the non-monetary assets or liabilities are not measured at fair value, they are recorded at the historic foreign exchange rates of the transaction dates.

(c) Basis for classifying assets and liabilities as current or non-current

Cash or cash equivalents, assets held for trading, and other assets that are to be converted into cash, sold, or consumed within one year after the date of the financial statements are classified as current assets, otherwise as non-current assets. Debts due within one year are classified as current liabilities, otherwise as long-term liabilities.

(d) Asset impairment

The Company assesses at each balance sheet date whether there is any indication that an asset (individual asset or cash-generating unit) other than goodwill may have been impaired. If any such indication exists, the recoverable amount asset is estimated. An impairment loss is recognized whenever the carrying value of an asset exceeds its recoverable amount.

The Company reverses an impairment loss recognized in prior periods for assets other than goodwill if there is any indication that the impairment loss recognized no longer exists or has decreased. However, the carrying value after the reversal should not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods.

(e) Cash and cash equivalents and restricted time deposits

Cash includes cash on hand, savings and checking deposits, and certificates of deposit. Cash equivalents consist of highly liquid short-term investments that are readily convertible to known amounts of cash and present insignificant risks from changes in interest rates. Certificates of deposit that are pledged as collateral for short-term and long-term debts are recognized as restricted assets–current and restricted assets–non–current, respectively.

(f) Financial instruments

The Company adopted trade-date accounting for financial instrument transactions. At initial recognition, financial instruments are evaluated at fair value. Except for financial instruments held for trading, acquisition cost or issuance cost is included in the cost of financial instruments at initial recognition.

Subsequent to the initial recognition, the financial instruments that the Company held or issued are classified into the following accounts in accordance with the purpose of holding or issuing.

i. Financial instruments reported at fair value through profit or loss: These include financial instruments acquired for the purpose of short-term profit taking and that, upon initial recognition, are designated as financial instruments reported at fair value through profit or loss. The financial instruments are remeasured at fair value subsequently, with changes in fair value recognized in current income. Except for derivatives that the Company held for hedging purposes and are considered to be effective, all derivatives are classified into this account. Derivatives with a positive fair value are recorded as financial assets, while those with a negative fair value are recorded as financial liabilities.

ii. Available-for-sale financial assets: These are evaluated at fair value, and changes in fair value are recorded as a separate component of stockholders' equity. If there is objective evidence that indicates a financial asset is impaired, a loss is recognized. If the impairment loss on investments in equity decreases subsequently, the decline is adjusted against the stockholders' equity. If the impairment loss on investments in debt decreases and is apparently related to events that occurred after the impairment, the decline is reversed and recognized in the accompanying statements of operations.

iii. Financial assets carried at cost: Investments in equity which cannot be reliable evaluated at fair value are carried at original cost. If there is objective evidence that indicates a financial asset is impaired, a loss is recognized. A subsequent reversal of such impairment loss is not allowed.

iv. Financial liabilities measured at amortized cost using the effective interest method: Except for the liabilities that are held for hedging or trading, all liabilities are classified into this account.

(g) Derivative financial instruments held for hedging and hedge accounting

Derivative financial instruments held by the Company are intended to hedge foreign exchange rate and interest rate risk exposure on foreign-currency-denominated assets and liabilities. Derivative financial instruments that do not meet the criteria for hedge accounting are treated as financial instruments held for trading.

Hedge accounting recognizes the offsetting effect on profit or loss of the change in fair values of the hedging instrument and the hedged item. If hedging relationships meet the criteria for hedge accounting, these derivative financial instruments are accounted for as follows:

i. Fair value hedges

Changes in the fair value of a hedging instrument designated as a fair value hedge are recognized in profit or loss. The hedged item also is stated at fair value in respect of the risk being hedged, with any gain or loss being recognized in profit or loss.

ii. Cash flow hedges

Changes in the fair value of a hedging instrument designated as a cash flow hedge are recognized directly in equity. If a hedge of a forecasted transaction subsequently results in the recognition of an asset or a liability, then the amount recognized in equity is reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss. Otherwise, the associated cumulative gain or loss is removed from equity and recognized in profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss.

(h) Inventories

Inventories consist of spare parts and supplies for the maintenance of trains and merchandise for sale to passengers during travel. Merchandise is stated at the lower of cost or net realizable value, while spare parts and supplies are stated at cost less allowance for obsolete items. Cost is calculated by the weighted-average method.

(i) Fixed assets

Fixed assets are stated at acquisition cost. Interest expenses related to the construction of the assets are capitalized prior to commencement of the intended use of those assets. Major additions, improvements and replacements are capitalized, while maintenance and repairs are recognized as current expenses. Gains or losses on the disposal of fixed assets are classified as non-operating income and gains or non-operating expenses and losses.

The Company accrues the removal and recovery obligation as costs of fixed assets in accordance with Interpretation (97) 340 issued by the Accounting Research and Development Foundation. Each part of an item of fixed assets with a cost that is significant in relation to the total cost of the items is depreciated separately. The Company evaluates the residual useful lives, the depreciation method, and the residual value annually. Any changes are accounted for as changes in accounting estimates.

Before January 1, 2009, depreciation of fixed assets was provided using the straight-line method over the lower of the estimated useful lives of assets or the remaining period of the concession agreement; depreciation of leasehold improvements was provided over the lower of the estimated useful lives of assets or the period of the lease contract. Property, plant and equipment were depreciated over their estimated useful lives using the straight-line method.

With the approval of the Financial Supervisory Commission, Executive Yuan, on December 24, 2008, commencing from January 1, 2009, the Company changed the depreciation method from the straight-line method to the units of throughput method based on ridership for land improvements, buildings, parts of machinery and equipment, parts of transportation equipment, and parts of other equipment directly related to transport volume, which more closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Depreciation under the units of throughput method based on ridership was calculated by the proportion of the higher of estimated number of passengers or actual number of passengers to the total estimated number of passengers of the remaining period of the concession agreement. When there is a significant gap between estimated number of passengers and actual number of passenger, the Company will adjust its depreciation over the remaining period of the concession agreement in accordance with a new transport volume study. According of passenger to the transport volume report prepared by an external expert in July 2009, the estimated number of passenger in 2009 and from January 1, 2009, to the end of the concession period was 32 million and 2,074 million, respectively.

In 2009, the statistic of passengers was 32,349 thousands are extracted as follows:

| | 2009 | 2009.1.1~2033.7.22 |
|---|---|---|
| Estimated number of passengers | 32 million | 2,074 million |

The useful lives, depreciation methods, and estimated number of passengers of major fixed assets are as follows:

| | | Depreciation Methods | | |
|---|---|---|---|---|
| | **Useful Lives** | **Through December 31, 2008** | **Since January 1, 2009** | **Estimated number of passengers (million)** |
| Land improvement | 15~26.5 years (Note) | Straight-line method | The units of throughput method based on ridership | 834~2,074 |
| Buildings | 26.5 years (Note) | 〃 | 〃 | 2,074 |
| Machinery and equipment | 4~26.5 years (Note) | 〃 | The units of throughput method based on ridership and straight-line method | 106~2,074 |
| Transportation equipment | 4~26.5 years (Note) | 〃 | 〃 | 106~2,074 |
| Office equipment | 6~11 years | 〃 | Straight-line method | - |
| Leasehold improvements | 1.6~5 years | 〃 | 〃 | - |
| Other equipment | 4~15 years | 〃 | The units of throughput method based on ridership and straight-line method | 106~1,104 |

Note: The useful lives were based on the remaining period (26.5 years since Jan 5, 2007) of the concession.

(j) Deferred charges

i. Consulting fees for syndicated loans

Consulting fees incurred on syndicated loans, which are obtained to finance the construction of the high speed rail systems and stations, are deferred and amortized over the term of the syndicated loans.

ii. Bank charges for syndicated loans

Bank charges incurred in securing the credit line approval for the syndicated loans, which are obtained to finance the construction of the high speed rail systems and stations, are deferred and amortized over the terms of the syndicated loans.

iii. Costs of computer software, issuance cost of corporate bonds, and other deferred charges are deferred and amortized using the straight-line method over 5 years. Commencing from January 1, 2006, the Company adopted SFAS No. 34 "Financial Instruments: Recognition and Measurement", and the issuance cost of corporate bonds is recognized as a deduction from bonds payable.

(k) Convertible bonds

Convertible bonds issued by the Company comprise financial liabilities (liability component) and convertible options that can be converted into share capital at the option of the holder (equity component). The Company determines the fair value of the liability component, including any embedded derivatives. The amount allocated to the equity component is the residual amount after deducting the fair value of the liability component from the fair value of the entire convertible bond. The embedded derivative component of a convertible bond is recognized initially as financial liabilities stated at fair value through profit or loss-current. The equity component is recognized initially as capital surplus-equity conversion option of convertible bonds. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of a convertible bond is measured at amortized cost using the effective interest method, unless it is designated at fair value through profit or loss. The equity component of a convertible bond is not re-measured subsequent to initial recognition. When bondholders exercise the conversion right, the carrying value of convertible bonds payable and related accounts on the conversion date are transferred to common stock. If the net carrying value exceeds the par value of common stock, the excess is recorded as capital surplus; if vice versa, the excess is debited to retained earnings.

(l) Employee retirement plan

The Company has established an employee noncontributory defined benefit retirement plan (the "Plan"). Under this Plan, the Company recognizes a minimum pension liability equal to the amount by which the actuarial present value of the accumulated benefit obligation exceeds the fair value of the Plan's assets. The Company also recognizes the net periodic pension cost in accordance with the actuarial report. The amortization of transition obligation, and prior service cost, are calculated by the straight-line method over the remaining years of service using actuarial techniques. When curtailment and/or settlement occur, the Company should recognize curtailment and/or settlement gains or losses as part of the net pension cost for the period.

Starting from July 1, 2005, the enforcement rules of the newly enacted Labor Pension Act (the "New Act") require the following categories of employees to adopt a defined contribution plan:

i. Employees who were covered by the Plan and opted to be subject to the pension mechanism under the New Act; and

ii. Employees who commenced working after the enforcement date of the New Act.

In accordance with the New Act, the Company provides monthly contributions at the rate of 6% of the worker's monthly wages. The amount of contributions is recognized as expense of the current period.

(m) Employee bonuses and directors' and supervisors' remuneration

Employee bonuses and directors' and supervisors' remuneration appropriated after January 1, 2008, are accounted for by Interpretation (96) 052 issued by the Accounting Research and Development Foundation in the Republic of China. The Company estimates the amount of employee bonuses and directors' and supervisors' remuneration according to the Interpretation and recognizes it as expenses. Differences between the amount approved in the stockholders' meeting and recognized in the financial statements, if any, are accounted for as changes in accounting estimates and recognized as profit or loss.

(n) Preferred stock

In accordance with the regulations of the Accounting Research and Development Foundation in the Republic of China, the discount and the essential external costs from issuing preferred stock are debited to accumulated deficits, and the Company recognizes dividends in the operating stage when the stockholders approve a resolution to appropriate dividends to preferred stockholders.

In addition, in accordance with the Company Act in the Republic of China, the Company appropriates dividends to preferred stockholders during the development stage subject to approval of the authority. The dividends on preferred stock in the development stage are charged to prepaid dividends with the approval of stockholders.

(o) Revenue recognition

The Company's major activity is the provision of transportation services between Taipei and Kaohsiung. Passenger ticket sales are initially recorded as unearned revenue, included in current liabilities, and recognized as revenue when the services are rendered.

(p) Income tax

Deferred income taxes are determined based on the temporary differences between the financial statements and tax basis of assets and liabilities, using the enacted tax rates in effect during the years in which the differences are expected to be realized or settled. A valuation allowance is recognized if it is more likely than not that deferred tax assets will not be realized in the future.

Deferred tax assets and liabilities are classified as current or noncurrent according to the classification of the related assets and liabilities, otherwise they are classified according to the expected period of realization or settlement.

The Company adopted ROC SFAS No. 12 "Accounting for Income Tax Credits", and income tax is reduced by investments tax credits in the year when the credit arises.

The 10% surtax on undistributed earnings is recorded as income tax expense in the year when the stockholders approve a resolution to retain such earnings.

When a change in the tax laws is enacted, any deferred tax liability or asset should be recomputed accordingly in the period of change. The difference between the new amount and the original amount, that is, the effect of changes in the deferred tax liability or asset, should be reported as an adjustment to income tax expense (benefit) for income from continuing operations currently.

(q) Earnings (losses) per common share

The basic earnings (losses) per share (the "basic EPS") are computed by dividing the amount of net income (losses) attributable to common stock outstanding for the period by the weighted-average number of common shares (including the converted shares from preferred stock) outstanding during the period.

The calculation of diluted EPS is consistent with the calculation of basic EPS while giving the effects of all dilutive common stock equivalents that were outstanding during the reporting period. When calculating the diluted EPS, the net income (losses) attributable to common stockholders and the weighted-average number of shares outstanding are adjusted for the effects of all dilutive common stock equivalents. Commencing from January 1, 2008, for calculation of diluted EPS, the employees' bonuses in stock are included in the calculation of the weighted-average number of shares at market price on the balance sheet date.

## 3. Reason for and Effect of Accounting Changes

(a) Adoption of new accounting principle

Commencing from January 1, 2009, the Company adopted the SFAS No. 10 "Inventories". The adoption of this new accounting principle had no significant effect on the Company's financial statements as of and for the year ended December 31, 2009.

Commencing from January 1, 2008, the Company adopted Interpretation (96) 052 "Accounting for Compensation to Employees, Directors and Supervisors" issued by the Accounting Research and Development Foundation in the Republic of China. The adoption of this new Interpretation had no effect on the Company's financial statements as of and for the year ended December 31, 2008.

(b) Changes in accounting estimates

Commencing from January 1, 2009, in order to make the depreciation method be used on a reasonably systematic basis over the useful lives, the Company changed the depreciation method from the straight-line method to the units of throughput method based on ridership with the approval of the Financial Supervisory Commission, Executive Yuan. The change in accounting estimates resulted from this change, the Company's net loss and loss per share were decreased by NT$10,871,512 thousand and NT$1.75, respectively, for the year ended December 31, 2009.

## 4. Significant Accounts

(a) Cash and cash equivalents

| (in thousands of dollars) | 2009.12.31 NT$ | 2008.12.31 NT$ |
|---|---|---|
| Cash on hand | 84,345 | 142,832 |
| Cash in banks | 2,970,907 | 6,800,749 |
| Cash equivalents - short-term notes | - | 1,989,000 |
| | 3,055,252 | 8,932,581 |

(b) Inventories

i The components of inventory as of December 31, 2009 and 2008, were as follows:

| (in thousands of dollars) | 2009.12.31 NT$ | 2008.12.31 NT$ |
|---|---|---|
| Consumables for use | 2,341,953 | 1,796,291 |
| Merchandise for sale | 7,975 | 10,602 |
| | 2,349,928 | 1,806,893 |
| Less: allowance for obsolete inventories | (268) | (333) |
| | 2,349,660 | 1,806,560 |

ii The inventory-related losses (gains) for the years ended December 31, 2009 and 2008, were as follows:

| (in thousands of dollars) | 2009 NT$ | 2008 NT$ |
|---|---|---|
| Losses on inventory valuation and obsolescence | (65) | (85) |
| Loss on physical inventory | 30 | 107 |
| Loss on inventory scrapped | 89 | 137 |
| | 54 | 159 |

(c) Available-for-sale financial assets-current

| (in thousands of dollars) | 2009.12.31 NT$ | 2008.12.31 NT$ |
|---|---|---|
| Open-end bond funds | 538,695 | 275,257 |

(d) Fixed assets

i. Accumulated depreciation

| (in thousands of dollars) | 2009.12.31 NT$ | 2008.12.31 NT$ |
|---|---|---|
| Land improvements | 19,529,016 | 16,392,261 |
| Buildings | 2,872,392 | 2,439,738 |
| Machinery and equipment | 7,953,526 | 6,241,949 |
| Transportation equipment | 15,665,017 | 12,795,241 |
| Office equipment | 81,760 | 72,923 |
| Leasehold improvements | 29,862 | 113,346 |
| Other equipment | 291,477 | 258,600 |
| | 46,423,050 | 38,314,058 |

ii. For the years ended December 31, 2009 and 2008, interest expenses were capitalized on construction in progress amounting to NT$3,160 thousand and NT$28,003 thousand, respectively. The annual interest rates for the above capitalization for the years ended December 31, 2009 and 2008, ranged from 2.5800% to 3.1740% and 3.9900% to 4.4268%, respectively.

For the C&O Agreement, the Company provided a portion of fixed assets, amounting to NT$13 billion, as a guarantee, and such guarantee was removed in February 2008.

As of December 31, 2009 and 2008, the related payables arising from the high speed rail construction were as follows:

| (in thousands of dollars) | 2009.12.31 NT$ | 2008.12.31 NT$ |
|---|---|---|
| Construction payables | 4,839,914 | 6,404,164 |
| Construction payables to related parties - current | 11,252 | 54,325 |
| | 4,851,166 | 6,458,489 |

(e) Deferred charges

| (in thousands of dollars) | 2009.12.31 NT$ | 2008.12.31 NT$ |
|---|---|---|
| Bank charges for syndicated loans | 399,411 | 452,057 |
| Decoration costs | 78,410 | 105,281 |
| Computer software | 62,854 | 79,247 |
| Consulting fees for syndicated loans | 60,488 | 65,240 |
| Other | 72,801 | 82,279 |
| | 673,964 | 784,104 |

(f) Short-term debts

The Company had applied to several banks for credit lines in the form of usance letters of credit (usance L/C).

As of December 31, 2009 and 2008, total credit lines amounted to NT$2,877,870 thousand and NT$8,975,960 thousand, respectively.

For the years ended December 31, 2009 and 2008, the annual interest rates for borrowings were as follows:

| | 2009 | 2008 |
|---|---|---|
| Borrowings in Japanese yen | 1.05%~2.09% | 1.55%~2.24% |
| Borrowings in US dollars | 1.73% | 2.07%~3.51% |
| Borrowings in EURO | 2.56%~4.69% | 4.69% |

(g) Commercial paper payable

As of December 31, 2008, commercial paper payable amounted to NT$499,525 thousand after deducting discount amounting to NT$475 thousand. As of December 31, 2008, the effective interest rate for the commercial paper payable was 2.669%.

(h) Bonds payable

| (in thousands of dollars) | 2009.12.31 NT$ | 2008.12.31 NT$ |
|---|---|---|
| Secured domestic corporate bonds payable | 22,431,955 | 26,517,673 |
| Unsecured overseas convertible bonds payable | 10,588,529 | 9,701,503 |
| Total | 33,020,484 | 36,219,176 |
| Less: current portion | (10,588,529) | (10,777,181) |
| | **22,431,955** | **25,441,995** |

i. Secured domestic corporate bonds payable

As of December 31, 2009 and 2008, the Company had issued secured domestic corporate bonds, within the Tranche C Facility credit line of the first syndicated loan agreement, to finance the construction costs and operating expenses of the high speed rail system and stations as follows:

| Name | | Guarantee bank | Annual interest rate | Issued date | Payment schedule (in thousands of dollars) | 2009.12.31 NT$ | 2008.12.31 NT$ |
|---|---|---|---|---|---|---|---|
| The third issuance in 2008 | | Syndicate (consisting of 20 banks) | 2.70% | December 2008 | Interest is calculated and paid according to the simple interest rate per year, and the bonds are redeemable in December 2011. | 6,000,000 | 6,000,000 |
| Less: Cost of issuing corporate bonds | | | | | | (7,806) | (11,878) |
| Subtotal | | | | | | 5,992,194 | 5,988,122 |
| The second issuance in 2008 | | Syndicate (consisting of 20 banks) | 2.70% | October 2008 | Interest is calculated and paid according to the simple interest rate per year. The bonds are redeemable in October 2011 if the redemption options are not exercised. The bondholders have an option to require the Company to redeem the bonds on September 30, 2009. | 6,790,693 | 6,785,420 |
| Less: Redeeming the bonds | | | | | | (100,000) | - |
| Less: Cost of issuing corporate bonds | | | | | | (5,166) | (8,239) |
| Subtotal | | | | | | 6,685,527 | 6,777,181 |
| The first issuance in 2007 | A Bonds | Syndicate (consisting of 20 banks) | 2.07% | May 2007 | Interest is calculated and paid according to the simple interest rate per year, and the bonds are redeemable in May 2012. | 4,000,000 | 4,000,000 |
| | B Bonds | 〃 | 2.12% | April 2007 | Interest is calculated and paid according to the simple interest rate per year, and the bonds are redeemable in April 2013. | 3,000,000 | 3,000,000 |
| | C Bonds | 〃 | 2.17% | April 2007 | Interest is calculated and paid according to the simple interest rate per year, and the bonds are redeemable in April 2014. | 2,760,000 | 2,760,000 |
| Less: Cost of issuing corporate bonds | | | | | | (5,766) | (7,630) |
| Subtotal | | | | | | 9,754,234 | 9,752,370 |
| The first issuance in 2003 | C Bonds | Syndicate (consisting of 20 banks) | 1.90% | April 2003 | Interest is calculated and paid according to the simple interest rate per year, and the bonds are redeemable in April 2009. | - | 3,000,000 |
| | D Bonds | 〃 | 1.8911% | April 2003 | Interest is calculated according to the compound interest rate every year and is paid once a year. The bonds are redeemable in April 2009. | - | 1,000,000 |
| Subtotal | | | | | | - | 4,000,000 |
| Total | | | | | | 22,431,955 | 26,517,673 |
| Less: Current portion of secured domestic corporate bonds payable | | | | | | - | (10,777,181) |
| | | | | | | **22,431,955** | **15,740,492** |

(i) The bondholders exercised the option to require the Company to redeem the first issuance of bonds in 2008, at par value of NT$6,000,000 thousand, on December 15, 2008. The Company incurred losses amounting to NT$37,836 thousand (recognized as non-operating expenses and losses-others amounting to NT$44,592 thousand and valuation gain on financial instruments amounting to NT$6,756 thousand).

(ii) The redemption at the option of the Company and the bondholders of the second issuance of corporate bonds amounting to NT$6,800,000 thousand in 2008 is as follows:

(1) The redemption at the option of the Company

The Company has an option to redeem the bonds at par value plus interest premium during the period from the issue date to June 30, 2009.

(2) The redemption at the option of the bondholders

The bondholders have an option to require the Company to redeem the bonds at par value plus interest premium on September 30, 2009.

The bondholders exercised the option to require the Company to redeem the bonds, at par value of NT$100,000 thousand, on September 30, 2009. The Company incurred losses amounting to NT$246 thousand (recognized as non-operating expenses and losses－others.)

As of December 31, 2009 and 2008, the liability components of the aforementioned corporate bonds were as follows:

| **(in thousands of dollars)** | **2009.12.31**<br>**NT$** | **2008.12.31**<br>**NT$** |
|---|---|---|
| Carrying amount of the non-derivative liability component of bonds (recognized as bonds payable) | **6,685,527** | **6,777,181** |
| Redemption at the option of the Company and the bondholders, net (recognized as financial assets stated at fair value through profit or loss - current) | **-** | **69,142** |

ii. Unsecured overseas convertible bonds payable

On May 15, 2007, the Company issued five-year zero coupon overseas convertible bonds and applied for permission to list on the Singapore Stock Exchange in order to finance the construction costs and operating expenses in constructing the high speed rail system and stations and related operation activities. The significant terms and conditions of the overseas convertible bonds are as follows:

(i) Principal amount: US$300 million

(ii) Period covered: From May 15, 2007, to May 15, 2012

(iii) Coupon rate: 0%

(iv) Conversion right:

The bondholders may convert the convertible bonds into the Company's common stock during the period from June 15, 2007, to April 30, 2012. The initial conversion price is NT$10 per common share. However, the conversion price will be adjusted on any of the dates May 15, 2008, May 15, 2009, and May 16, 2010 (each a "Reset Date") if the volume-weighted-average market price (as defined below) of the Company's common shares on the Emerging Stock Market or, upon the listing of the initial public offering (IPO"), the Taiwan Stock Exchange, the Gre Tai Securities Market or another internationally recognized stock exchange in Asia, Europe or the United States (each, a recognized stock exchange) for 15 consecutive trading days ending on the Reset Date, converted into US dollars at the then prevailing rate, is less than the conversion price then in effect, converted into US dollars at the fixed exchange rate of NT$33.285=US$1.00. When the resetting for the conversion price occurs, the conversion price will be reset at 101% of the volume-weighted-average market price. Notwithstanding the foregoing, any adjustment to the conversion price pursuant to the conversion price resetting arrangement will be limited so that the adjusted conversion price will not be less than (a) 80% of the initial conversion price, as adjusted from time to time for dilutive events, or (b) NT$10.



Volume-weighted-average market price in relation to the Reset Date means the volume-weighted-average market price of the shares on a relevant stock exchange for 15 consecutive trading days immediately before and including the reset date; provided, however, if no volume-weighted-average market price is available for one or more trading days, such day or days shall be disregarded in any relevant calculation and shall be deemed not to have existed when ascertaining any period of consecutive trading days.

(v) Qualifying public offering ("QPO")

QPO means an IPO, plus, if necessary, up to three public offerings consecutively following the IPO, of common shares or depositary receipts (DRs) representing the right to receive common shares, exclusively for cash, which complies with certain conditions relating to offering size, minimum distribution and other conditions. To be a QPO, the common shares or DRs must be listed on the recognized stock exchange in Asia, Europe or the United States.

(vi) Put option of the bondholders

The bondholders may require the Company to redeem, in whole or in part in multiples of US$1,000, the bonds on May 15, 2010, at 121.15% if a QPO has occurred prior to the bondholders' put option date, or 124.72% if a QPO has not occurred prior to the bondholders' put option date, of their principal amount.

(vii) Redemption at the option of the Company

The Company shall have the right to redeem the bonds in whole or in part. The redeemable amount is determined so that it represents for the bondholder a gross yield of 6.5% per annum if a QPO has occurred, and 7.5% per annum if a QPO has not occurred, in each case calculated on a semi-annual basis. Redemption at the option of the Company occurs when

(1) At any time after 12 months from the listing date of the bonds on the Singapore Stock Exchange and prior to the maturity date, the closing price of the Company's common shares on the recognized stock exchange, translated into US dollars at the prevailing rate, for a period of 20 consecutive trading days, the last of which occurs not more than 10 trading days prior to the date upon which notice of such redemption is published, is at least 125% multiplied by the early redemption amount divided by the adjusted conversion ratio;

(2) More than 90% in principal amount of the bonds has already been redeemed, repurchased and cancelled, or converted as herein provided.

(3) The Company becomes obligated to pay additional amounts as a result of any change in the tax laws or regulations of the ROC.

(viii)Redemption at maturity

Unless previously redeemed, purchased and cancelled, or converted, the bonds are redeemable at 137.69% if a QPO occurs or at 144.50% if a QPO does not occur, of bondholders' principal amount on May 15, 2012.

As of December 31, 2009 and 2008, the aforementioned convertible bonds, whose par value amounted to US$6,660 thousand, had been converted into 22,168 thousand shares of common stock. The equity and liability components of the aforementioned convertible bonds were as follows:

| (in thousands of dollars) | 2009.12.31 NT$ | 2008.12.31 NT$ |
|---|---|---|
| Carrying amount of the non-derivative liability component of bonds (recognized as current portion of long-term debts) | 10,588,529 | - |
| Carrying amount of the non-derivative liability component of bonds (recognized as bonds payable) | - | 9,701,503 |
| Put option (recognized as financial liabilities at fair value through profit or loss - current) | 30,442 | 55,907 |
| Conversion right (recognized as capital surplus - equity conversion option of convertible bonds) | 1,295,378 | 1,295,378 |

(h) Long-term debts

| (in thousands of dollars) | 2009.12.31 NT$ | 2008.12.31 NT$ |
|---|---|---|
| The first syndicated loan agreement: | | |
| The credit facility, which was initially utilized on November 20, 2000, is repayable in 25 semiyearly installments commencing from November 20, 2010. (Note 1) | 279,063,795 | 279,063,795 |
| The second syndicated loan agreement - Tranche A Facility: | | |
| The credit facility, which was initially utilized on September 27, 2006, is repayable in 8 semiyearly installments commencing from December 31, 2009. | 19,583,000 | 19,883,000 |
| The second syndicated loan agreement - Tranche B Facility: | | |
| The credit facility, which was initially utilized on October 23, 2006, is repayable in 27 semiyearly installments commencing from November 20, 2009. | 20,676,381 | 20,817,000 |
| The second syndicated loan agreement - Tranche C Facility: | | |
| The credit facility, which was initially utilized on September 7, 2007, is repayable on September 7, 2010. | 9,000,000 | 9,000,000 |
| The second syndicated loan agreement - Tranche D (Five years) Facility: | | |
| The credit facility, which was initially utilized on August 15, 2007, is repayable on August 15, 2012. | 7,900,000 | 7,900,000 |
| The second syndicated loan agreement - Tranche D (Seven years) Facility: | | |
| The credit facility, which was initially utilized on August 15, 2007, is repayable on August 15, 2014. | 7,900,000 | 7,900,000 |
| Total | 344,123,176 | 344,563,795 |
| Less: Current portion of long-term debts | (16,364,453) | (2,325,694) |
| | 327,758,723 | 342,238,101 |

Note 1: On November 20, 2009, the former repayment schedule was replaced upon the approval of the first bank syndicate.

For the years ended December 31, 2009 and 2008, the annual interest rates for the above loans were as follows:

| Sources of long-term debts | 2009 | 2008 |
|---|---|---|
| a)The first syndicated loan agreement (based on the debt source) | | |
| Long-term funds from the Council for Economic Planning and Development, Executive Yuan | 2.1068%~2.6332% | 2.6332%~3.8437% |
| Civil servants retirement pension fund | 2.1679%~2.7753% | 2.7753%~4.1037% |
| Labor pension fund | 2.2363%~2.7353% | 2.7353%~4.0616% |
| Labor insurance fund | 2.1634%~2.7753% | 2.7753%~4.1037% |
| Funds from banks | 2.7032%~4.0268% | 8.0847%~8.2242% |

With approval of the first bank syndicate on December 31, 2008, the interest on funds from banks will be determined based on the average benchmark interest rates which were determined by the listed interest rate of Bank of Taiwan and Mega International Commercial Bank starting from the year 2009.

| Sources of long-term debts | 2009 | 2008 |
|---|---|---|
| b)The second syndicated loan agreement - Tranche A Facility | 3.6158%~4.1842% | 4.1842%~5.3947% |
| The second syndicated loan agreement - Tranche B Facility | 2.7737%~3.3421% | 3.3421%~4.5526% |
| The second syndicated loan agreement - Tranche C Facility | 3.8316%~4.2737% | 3.8316%~4.0895% |
| The second syndicated loan agreement - Tranche D (five years) Facility | 4.020%~4.57% | 4.020%~4.570% |
| The second syndicated loan agreement - Tranche D (seven years) Facility | 4.315%~4.89% | 4.315%~4.890% |

On February 2, 2000, the Company obtained the first secured credit facilities totaling NT$323.3 billion from the bank syndicate to finance the construction of the high speed rail system and stations. The significant terms of the first syndicated loan agreement are as follows:

i. The Company is required to increase its capital according to the schedule prescribed in the first syndicated loan agreement, otherwise, the banks that provide the syndicated loan may exercise their right to deactivate the Company's credit line.

Under the Tripartite Agreement, which was signed on February 2, 2000, by the Company, MOTC and MICB, the breach of contract by the Company will result in the following consequences:

(i) The MOTC may directly terminate the C&O Agreement with the Company, pursuant to the C&O Agreement, upon the expiration of the "six-month grace period" within which the Company is required to remedy a Material Event of Default under the Credit Facility Agreement, subject to a notification by the MICB to the MOTC within seven days prior to the expiration of the "six-month period" of the failure of the Company to remedy a Material Event of Default under the Credit Facility Agreement. (Refer to Note 7(a)(xii) for further details on this matter.)

(ii) The Company should transfer to the MOTC its operating assets and other assets required to maintain the operation of the high speed railway which is required of the Company in accordance with the provisions of the agreement upon the termination of the C&O Agreement. Furthermore, the MOTC could claim for damages from the Company for the termination of the agreement due to circumstances attributable to the Company. (Refer to Note 7(a)(x) for further details on this matter.)

On July 31, 2006, the Company obtained the second secured credit facilities totaling NT$40.7 billion from the second bank syndicate in order to finance the construction and completion of the high speed rail system and stations and operating activities. On May 24, 2007, this credit line was increased to NT$65.5 billion upon the approval of the second bank syndicate.

ii. The first and the second syndicated loan agreements require the Company to maintain a specific debt-to-equity ratio and interest cover ratio at the end of each year, as follows:

| | 2010 and before | 2011 ~ 2012 | 2013 ~ 2014 | 2015 ~ 2016 | 2017 and after |
|---|---|---|---|---|---|
| Debt-to-equity ratio | NA | 400% | 300% | 200% | 150% |
| Interest cover ratio | NA | 100% | 100% | 130% | 130% |

If the balance of the outstanding syndicated loans is higher than the value of the high speed rail, the Company should redeem the aforementioned difference immediately.

As of December 31, 2009 and 2008, the Company had outstanding promissory notes in order to obtain credit lines for the first and the second syndicated loan, as follows:

| | 2009.12.31 | 2008.12.31 |
|---|---|---|
| **(in thousands of dollars)** | **NT$** | **NT$** |
| The first syndicated loan agreement | 312,114,506 | 312,800,000 |
| The second syndicated loan agreement | 65,359,381 | 65,500,000 |
| | **377,473,887** | **378,300,000** |

Furthermore, the Company provided a time deposit, short-term notes and superficies as syndicated loan pledges; please refer to Notes 6 and 4(p).

As of December 31, 2009 and 2008, the used and unused credit lines of long-term loans were as follows:

i. The first syndicated loan agreement:

| | 2009.12.31 | 2008.12.31 |
|---|---|---|
| **(in thousands of dollars)** | **NT$** | **NT$** |
| Used credit lines | | |
| Tranche A Facility–for loans | 279,063,795 | 279,063,795 |
| Tranche C Facility–for corporate bonds guarantee | 23,009,192 | 27,187,892 |
| Tranche D Facility–for import duty | 1,259,000 | 1,422,100 |
| Tranche E Facility–for construction performance bond guarantee | 4,000,000 | 4,500,000 |
| | 307,331,987 | 312,173,787 |
| Unused credit lines | 15,968,013 | 11,126,213 |
| Total credit lines | **323,300,000** | **323,300,000** |

ii. The second syndicated loan agreement:

| | 2009.12.31 | 2008.12.31 |
|---|---|---|
| **(in thousands of dollars)** | **NT$** | **NT$** |
| Used credit lines | | |
| Tranche A Facility–for loans | 19,583,000 | 19,883,000 |
| Tranche B Facility–for loans | 20,676,381 | 20,817,000 |
| Tranche C Facility–for loans | 9,000,000 | 9,000,000 |
| Tranche D (five years) Facility–for loans | 7,900,000 | 7,900,000 |
| Tranche D (seven years) Facility–for loans | 7,900,000 | 7,900,000 |
| | 65,059,381 | 65,500,000 |
| Redemption of debts | 440,619 | - |
| Total credit lines | **65,500,000** | **65,500,000** |

(i) Retirement plan

The pension costs and related accounts as of and for the years ended December 31, 2009 and 2008 were as follows:

| | 2009.12.31 | 2008.12.31 |
|---|---|---|
| **(in thousands of dollars)** | **NT$** | **NT$** |
| Benefit obligation: | | |
| Vested benefit obligation | (19,021) | (7,791) |
| Non-vested benefit obligation | (289,068) | (315,868) |
| Accumulated benefit obligation | (308,089) | (323,659) |
| Projected compensation increases | (109,859) | (184,940) |
| Projected benefit obligation | (417,948) | (508,599) |
| Plan assets at fair value | 438,163 | 415,838 |
| Funding status | 20,215 | (92,761) |
| Unrecognized prior service cost | 104,039 | 128,183 |
| Unrecognized pension gains | (106,132) | (50,182) |
| Unrecognized net transition obligation | 1,685 | 2,100 |
| Prepayment of pension (accrued pension liability) | **19,807** | **(12,660)** |

The components of net periodic pension costs for 2009 and 2008 were as follows:

| | 2009.12.31 | 2008.12.31 |
|---|---|---|
| **(in thousands of dollars)** | **NT$** | **NT$** |
| Service cost | 28,756 | 28,850 |
| Interest cost | 11,818 | 13,556 |
| Actual return on plan assets | (10,066) | (11,566) |
| Amortization | 9,847 | 8,897 |
| Gain or loss on curtailment or settlement | 42,079 | - |
| Net pension cost | **82,434** | **39,737** |

Actuarial assumptions at December 31, 2009 and 2008 were as follows:

| | 2009 | 2008 |
|---|---|---|
| Discount rate | 2.25% | 2.60% |
| Rate of increase in compensation | 2.00% | 3.00% |
| Expected long-term rate of return on plan assets | 1.50% | 2.60% |

The pension information recognized for 2009 and 2008 was as follows:

| | 2009 | 2008 |
|---|---|---|
| **(in thousands of dollars)** | **NT$** | **NT$** |
| Pension expense: | | |
| Defined benefit net pension cost | 79,642 | 38,819 |
| Defined contribution pension cost | 119,028 | 105,506 |
| | **198,670** | **144,325** |
| Pension cost charged to construction in progress: | | |
| Defined benefit net pension cost | 2,792 | 918 |
| Defined contribution pension cost | 978 | 1,508 |
| | **3,770** | **2,426** |

(j) Income tax

i. The Company's earnings are subject to a maximum income tax rate of 25%. According to the revised ROC Income Tax Act announced on May 27, 2009, the Company will be subject to an income tax rate of 20% commencing in 2010. For the years ended December 31, 2009 and 2008, the components of income tax benefit were as follows:

| | 2009 NT$ | 2008 NT$ |
|---|---|---|
| Income tax benefit - current | (1,670) | - |
| Income tax benefit - deferred | - | - |
| | **(1,670)** | - |

ii. The income tax benefit calculated on the pre-tax accounting loss at the statutory income tax rate of 25% was reconciled with the income tax as reported in the accompanying financial statements for the years ended December 31, 2009 and 2008, as follows:

| (in thousands of dollars) | 2009 NT$ | 2008 NT$ |
|---|---|---|
| Income tax benefit calculated on the pre-tax accounting loss at statutory income tax rate | (1,197,781) | (6,252,424) |
| Loss carryforwards | (197,574) | 246,967 |
| Investment tax credits | 37,363 | (56,820) |
| Effect of change in tax rate | 3,356,670 | - |
| Increase in valuation allowance for deferred income tax assets | (2,207,459) | 3,727,596 |
| Prior-period income tax adjustment | 114,320 | 2,336,177 |
| Others | 92,791 | (1,496) |
| Income tax benefit | **(1,670)** | - |

iii. As of December 31, 2009 and 2008, the components of deferred income tax assets or liabilities were as follows:

| | 2009.12.31 | | 2008.12.31 | |
|---|---|---|---|---|
| (in thousands of dollars) | Amount NT$ | Effect on income tax expense NT$ | Amount NT$ | Effect on income tax expense NT$ |
| Deferred income tax assets (liabilities) - current: | | | | |
| Unutilized loss carryforwards | - | - | 3,402,376 | 850,594 |
| Investment tax credits | - | 7,916 | - | 14,353 |
| Unamortized company establishment expenses initially deferred for tax purposes | 36,202 | 7,240 | 36,202 | 9,050 |
| Unpaid interest on convertible bonds payable | 2,005,696 | 401,139 | - | - |
| Allowance for obsolete inventories | 268 | 54 | 333 | 83 |
| Valuation loss (gain) on financial instruments | - | - | (347,551) | (86,887) |
| Unrealized foreign exchange loss | 130,365 | 26,073 | 1,100,487 | 275,122 |
| | | 442,422 | | 1,062,315 |
| Less: valuation allowance for deferred income tax assets - current | | (442,422) | | (1,062,315) |
| | | - | | - |

| | 2009.12.31 | | 2008.12.31 | |
|---|---|---|---|---|
| (in thousands of dollars) | Amount NT$ | Effect on income tax expense NT$ | Amount NT$ | Effect on income tax expense NT$ |
| Deferred income tax assets - non-current: | | | | |
| Unutilized loss carryforwards | 65,228,289 | 13,045,658 | 58,389,792 | 14,597,448 |
| Investment tax credits | - | 16,300 | - | 42,467 |
| Unamortized company establishment expenses initially deferred for tax purposes | 814,555 | 162,911 | 850,757 | 212,689 |
| Provision for profit sharing | 1,133,333 | 226,667 | 733,333 | 183,333 |
| Pension expenses in excess of tax limit | - | - | 12,660 | 3,165 |
| | | 13,451,536 | | 15,039,102 |
| Less: valuation allowance for deferred income tax assets - non-current | | (13,451,536) | | (15,039,102) |
| | | - | | - |

The Company was granted investment tax credits for investment in employee training. These investment tax credits can be used to reduce the income tax liability in the current year and in the following four years at an amount not exceeding 50% of the income tax liability for each year during the first four years, with full utilization of the balance of any remaining unused investment tax credits in the final year.

| Year granted | NT$ (in thousands of dollars) | Expiry year |
|---|---|---|
| 2006 | 7,916 | 2010 |
| 2007 | 11,541 | 2011 |
| 2008 | 4,759 | 2012 |
| | **24,216** | |

v. The income tax returns have been examined by the tax authorities through 2006. Pursuant to the amendment of the ROC Income Tax Act in January 2009, losses can be carried forward for 10 consecutive years to reduce future taxable income. The expiration years of the remaining loss carryforwards were as follows:

| Year granted | NT$ (in thousands of dollars) | Expiry year |
|---|---|---|
| 2003 | 987,868 | 2013 |
| 2004 | 3,402,376 | 2014 |
| 2005 | 1,849,438 | 2015 |
| 2006 | 3,470,467 | 2016 |
| 2007 | 28,618,894 | 2017 |
| 2008 | 22,645,167 | 2018 |
| 2009 | 4,254,079 | 2019 |
| | **65,228,289** | |

vi. Imputation credit account (the "ICA") and tax credit percentage

The income tax paid by the Company is appropriated to the stockholders together with the appropriation of earnings. A stockholder who is a resident of the ROC can use the imputed tax appropriated by the Company as a credit against the resident stockholder's income tax liability. As of December 31, 2009 and 2008, the details of the ICA were as follows:

| (in thousands of dollars) | 2009.12.31 NT$ | 2008.12.31 NT$ |
|---|---|---|
| ICA | 72,618 | 72,618 |

There were no earnings appropriated to the Company's stockholders for the year ended December 31, 2009 and 2008.

vii. Accumulated deficits

The accumulated deficits as of December 31, 2009 and 2008, amounted to NT$72,359,982 thousand and NT$67,570,527 thousand, respectively.

(k) Stockholders' equity

i. Common stock and preferred stock

As of December 31, 2009 and 2008, the Company's authorized share capital comprised 12,000,000,000 shares with par value of NT$10 per share (NT$9,985,500 thousand of the Company's authorized share capital was reserved for overseas convertible bonds). As of December 31, 2009 and 2008, the Company had issued NT$65,032,326 thousand and NT$58,978,626 thousand, respectively, of common stock and NT$40,289,917 thousand and NT$46,343,617 thousand, respectively, of preferred stock, as follows:

(In thousands of dollars)

| Item | Issue date | Issued shares (in thousands) | Issued period | Par value 2009.12.31 NT$ | Par value 2008.12.31 NT$ | Issuance Amount NT$ |
|---|---|---|---|---|---|---|
| Class A Convertible Preferred Stock | January 27, 2003 | 2,690,000 | January 27, 2003, to February 26, 2010 (Note) | $ 26,900,000 | 26,900,000 | 26,900,000 |
| Less: converted into common stock | | | | (840,000) | (840,000) | |
| Sub-total | | | | 26,060,000 | 26,060,000 | |
| Class B Convertible Preferred Stock | September 9, 2003 | 134,249.5 | September 9, 2003, to October 8, 2010 (Note) | 1,342,495 | 1,342,495 | 1,342,495 |
| Less: converted into common stock | | | | (1,002,000) | (2,000) | |
| Sub-total | | | | 340,495 | 1,340,495 | |
| Class C Convertible Preferred Stock: | | | | | | |
| C1 | January 20, 2004 | 161,300 | January 20, 2004, to January 19, 2008 | 1,613,000 | 1,613,000 | 1,500,090 |
| C2 | February 27, 2004 | 151,400 | February 27, 2004, to February 26, 2008 | 1,514,000 | 1,514,000 | 1,408,020 |
| C3 | March 24, 2004 | 74,600 | March 24, 2004, to March 23, 2008 | 746,000 | 746,000 | 693,780 |
| C4 | April 23, 2004 | 107,620 | April 23, 2004, to April 22, 2008 | 1,076,200 | 1,076,200 | 1,000,866 |
| C5 | August 18, 2004 | 637,077 | August 18, 2004, to August 17, 2008 | 6,370,770 | 6,370,770 | 5,924,816 |
| C6 | September 7, 2004 | 64,500 | September 7, 2004, to September 6, 2008 | 645,000 | 645,000 | 599,850 |
| C7 | November 17, 2004 | 37,010 | November 17, 2004, to November16, 2008 | 370,100 | 370,100 | 344,193 |
| C8 | April 28, 2005 | 645,900 | April 28, 2005, to April 27, 2009 | 6,459,000 | 6,459,000 | 6,006,870 |
| C9 | September 30, 2005 | 806,500 | September 30, 2005, to September 29, 2009 | 8,065,000 | 8,065,000 | 7,500,450 |
| | | | | 26,859,070 | 26,859,070 | |
| Less: converted into common stock | | | | (12,969,648) | (7,915,948) | |
| Sub-total | | | | 13,889,422 | 18,943,122 | |
| Total | | | | $ 40,289,917 | 46,343,617 | |

Note: On October 23, 2008, the Company's board of directors approved a resolution to exercise its right to extend the maturity date. Refer to item (i)(1) below.

(i) The rights and obligations of Class A Preferred Stock and Class B Preferred Stock are as follows:

(1) The Company may exercise its right three months before the maturity date to extend the maturity date for another thirteen months. So that the new maturity date of Class A Preferred Stock would be February 26, 2010, and the new maturity date of Class B Preferred Stock would be October 8, 2010.

(2) The Dividend Yield of Preferred Stock is calculated based on the nominal value at the rate of 5% per annum. Dividends are payable in cash on a yearly basis during the issuance period of Class A and B Preferred stock pursuant to Article 7-1 and Article 36 of the Company's articles of incorporation on dividend allocation. The board of directors determines the record date for the distribution of dividends following the approval of the financial statements by the stockholders during their regular stockholders' meeting. Dividends with different issue dates are calculated and allocated based on the actual number of issue days outstanding in a particular year.

(3) If, in any given year, the Company generates no profit or insufficient profit for the distribution of dividends for Preferred Stock, dividends are accumulated and are given preference over the dividends to be distributed to the holders of common stock in the year when the Company generates sufficient profit. Upon the maturity date of the Preferred Stock, the Company shall prioritize the payment in full of the undistributed dividends in a particular year or each year thereafter.

(4) Commencing from the day following a full three years after the issuance of Preferred Stock and ending three months prior to the Maturity Date (the "Conversion Period"), the Preferred Stockholders may at any time make a one-time request to the Company for converting all their Preferred Stock into common shares newly issued by the Company at a 1:1 ratio.

(5) If the Preferred Stockholders fail to convert the shares during the Conversion Period, the Company shall redeem the Preferred Stock at par value on the Maturity Date. If the Company is prevented by laws and regulations from redeeming the Preferred Stock in whole or in part on the maturity date, the rights and obligations associated with the unredeemed Preferred Stock will continue in accordance with the terms and conditions for issue hereunder, until they are redeemed.

(6) Other than the dividends on Preferred Stock, the Preferred Stockholders are not normally entitled to receive any dividends on common stock accrued from allocation of profits and capital reserve. The Preferred Stockholders are not entitled to receive Preferred Stock dividends in the year when the conversion takes place (the dividends for that particular year which are allocated in the following year). However, they may receive the dividends on common stock appropriated from profits and capital reserve (the dividends for that particular year which are approved by the stockholders during their meeting in the following year).

(7) The Preferred Stockholders are entitled to receive the remaining assets to be allocated by the Company before the common stockholders; provided, however, the amount of allocation shall not exceed the nominal value of Preferred Stock.

(8) The Preferred Stockholders are not entitled to cast votes during the common stockholders' meeting and are not granted the right to vote for directors and supervisors. However, the Preferred Stockholders may be elected as directors or supervisors.

(9) When the Company issues new shares, both the Preferred Stockholders and common stockholders have the same preemptive rights to the subscription thereof.

On October 23, 2008, the Company's board of directors approved a resolution to define the maturity dates of Class A and B Preferred Stock as the date of actual redeeming in the future.

(ii) On December 30, 2003 and March 4, 2005, the stockholders approved a resolution to issue Class C Preferred Stock through private placement within one year of the resolution by stockholders.

The rights and obligations of Class C Preferred Stock are as follows:

(1) Class C Preferred Stock shall be issued at NT$9.3 per share. The Dividend Yield is payable at the rate of 9.5% per annum for the initial two years, and 0% thereafter. Dividends are payable in cash on a yearly basis during the issuance period of Class C Preferred Stock pursuant to Article 7-2 and Article 36 of the Company's articles of incorporation on dividend allocation. The board of directors determines the record date for the allocation of dividends declared from earnings for the previous year following the approval by the shareholders of the related financial statements during their regular shareholders' meeting. Dividends with different issue dates are calculated and allocated based on the actual number of issue days outstanding in a particular year, and the issue date is the record date of the capital increase. If the Company generates no profits or the profits are insufficient to pay dividends in a particular year, such dividends are accumulated and are given preference over the dividends to be distributed to the holders of common stock in the year when the Company gains sufficient profits.

(2) Class C Preferred Stock shall mature four years after the initial Issue Date. The Company shall redeem all Class C Preferred Stock at issuance value on the Maturity Date. If legal restrictions prevent the Company from redeeming all or part of the Class C Preferred Stock, the unredeemed Class C Preferred Stock is entitled to payment of interest at the rate of 4.71% based on the issuance value of such unredeemed stock. The unredeemed Class C Preferred Stock is entitled to the same rights and obligations stated in the Company's articles of incorporation until such unredeemed stock is fully redeemed.

(3) Class C Preferred Stockholders are not entitled to receive any dividends on common stock accrued from the allocation of profits and capital reserve other than those dividends discussed herein.

(4) Class C Preferred Stockholders are entitled to receive any residual assets to be allocated by the Company before such assets are allocated to the common stockholders; provided, however, the amount of allocation shall not exceed the issuance amount of Class C Preferred Stock.

(5) Class C Preferred Stockholders are not entitled to cast votes during a common stockholders' meeting and do not have the right to vote for directors and supervisors. However, they may be elected as directors and supervisors.

(6) When the Company issues new shares, both the Class C Preferred Stockholders and common stockholders shall have equal preemptive rights to the subscription thereof.

(7) Commencing from the day following a full three years after the issuance of Class C Preferred Stock and ending three months prior to the Maturity Date (the "Conversion Date"), the Preferred Stockholders may at any time make a one-time request to the Company for converting all of their Preferred Stock into common stock newly issued by the Company at a 1:1 ratio.

(8) The Class C Preferred Stockholders may send their request to the Company for the conversion of their shares into common stock newly issued by the Company in accordance with the Terms and Conditions for Class C Preferred Stock. These stockholders are not entitled to receive dividends declared for Class C Preferred Stock in the year when the conversion takes place; however, they may be entitled to receive the dividends on common stock accrued from allocation of profits and capital reserve for that year. The rights and obligations of Class C Preferred Stockholders after conversion shall be identical to those of the Company's common stockholders.

On December 14, 2007, the board of directors approved a resolution to define the maturity date as the date of actual redeeming in the future.

ii. Restrictions on appropriations of earnings and capital surplus

(i) Capital surplus

Pursuant to the ROC Company Act, capital surplus can only be utilized to offset accumulated deficits first, and then to increase capital stocks. Realized capital surplus includes additional paid-in capital and gains from donations. Pursuant to the ROC Securities and Exchange Act, the capitalization of capital surplus should not exceed 10% of the amount of paid-in capital every year.

As of December 31, 2009, capital surplus from issuance of convertible bonds was recognized, but cannot be utilized to increase share capital before exercise of the conversion right, put option of the bondholders, and redemption at the option of the Company due to not conforming to the definition of capital surplus in the ROC Company Act.

(ii) Legal reserve

The ROC Company Act stipulates that the Company must retain 10% of its annual earnings, as defined in the Act, until such retention equals the amount of authorized share capital. This retention is accounted for by transfers to legal reserve, upon approval by the stockholders during their meeting. Legal reserve can be used to offset an accumulated deficit and cannot be distributed as cash dividends to stockholders. However, one-half of legal reserve may be converted to share capital when it reaches an amount equal to one-half of issued share capital, upon approval by the Company's stockholders during their meeting.

(iii) Distribution of earnings

The Company's annual net profits, if any, are appropriated and used in the following order:

1. to pay all taxes and duties;

2. to cover any losses;

3. to set aside 10% of the profits as legal reserve;

4. to set aside special reserve in addition to the legal reserve where necessary;

5. to pay dividends on preferred shares.

Thereafter, 1% of the remaining profits is set aside as remuneration to directors and supervisors and at least 1% of the remaining profits as bonus to employees. Any remaining profits and undistributed retained earnings are distributed as dividends to common shareholders based on the resolution drawn up by the board of directors and approved by the shareholders' during their meeting.

After obtaining prior government approval, the Company is allowed to declare dividends to preferred shareholders during the development stage regardless of the restrictions outlined above. However, the Company is required to account for the prepayment of dividends to preferred shareholders in its balance sheet under the shareholders' equity; where the annual appropriations for dividends and bonuses exceed 6% of the Company's paid-in capital, the excess is offset against prepaid dividends to preferred shareholders.

The Company's policy on dividend and bonus appropriation is based on the principles of stability and equity, balancing shareholder value, and the Company's long-term financial plans and impact thereof on the business operations of the Company.

As of December 31, 2009, because the Company still had not reached economic scale in the early operating stage and suffered in heavy burden resulted from depreciation and interest expenses, the accumulated deficits, amounting to NT$72,359,982 thousand, had reached 50% of capital. Therefore, it was not necessary for the Company to accrue and disclose employee bonuses and directors' and supervisor's remuneration according to the rules issued by the Financial Supervisory Commission on March 30, 2007.

iii. Preferred stock dividends

During the development stage, after obtaining prior government approval, the Company was allowed to declare dividends to preferred shareholders. As of December 31, 2006, the preferred stock dividends of the development stage, amounting to NT$9,512,240 thousand, had been paid.

The Company started operations in 2007, and therefore terminated accruing dividends payable on preferred stock of the development stage. For the years ended December 31, 2009 and 2008, preferred stock dividends during the operating period, amounting to NT$1,636,373 thousand and NT$1,483,023 thousand, respectively, will not be recognized until a resolution is approved by the stockholders at a later date. The accumulated preferred stock dividends as of December 31, 2009 and 2008, amounted to NT$4,952,229 thousand and NT$3,566,960 thousand, respectively.

(l) Loss per share

For the years ended December 31, 2009 and 2008, the basic and diluted loss per common share was calculated as follows:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | **Loss before income tax** | **Net loss** | **Loss before income tax** | **Net loss** |
| **(in thousands of dollars, except per share data)** | **NT$** | **NT$** | **NT$** | **NT$** |
| **Basic and diluted loss per common share:** | | | | |
| Net loss | (4,791,125) | (4,789,455) | (25,009,697) | (25,009,697) |
| Dividends on preferred stock | (1,636,373) | (1,636,373) | (1,483,023) | (1,483,023) |
| Loss attributable to common stockholders | **(6,427,498)** | **(6,425,828)** | **(26,492,720)** | **(26,492,720)** |
| Weighted-average number of outstanding common shares | **6,212,987** | **6,212,987** | **5,787,713** | **5,787,713** |
| Basic and diluted loss per common share | **(1.03)** | **(1.03)** | **(4.58)** | **(4.58)** |

(m) Hedge accounting

Fair value hedges

The Company entered into foreign currency forward contracts and foreign currency swap contracts to hedge the foreign exchange exposures on foreign-currency-denominated contract payables. The Company assessed these exposures as possibly significant.

As of December 31, 2009 and 2008, the hedged items and the fair value of derivative financial hedging instruments were as follows:

| | | 2009.12.31 | 2008.12.31 |
|---|---|---|---|
| | | **Hedging derivative financial liabilities -current** | **Hedging derivative financial assets -current** |
| **Hedged items** | **Hedging instruments (in thousands of dollars)** | **NT$** | **NT$** |
| Construction payables | Forward foreign exchange contracts and foreign currency swap contracts | 1,688 | 1,604 |

For the years ended December 31, 2009 and 2008, the valuation gains (losses) generated from financial instruments used in fair value hedges amounted to NT$4,788 thousand and NT$(54,067) thousand, respectively, and were recorded as foreign exchange gains and foreign exchange losses, respectively.

(n) Disclosure of financial instruments

i. Fair value of financial instruments

The details of financial instruments as of December 31, 2009 and 2008 were as follows:



| | 2009.12.31 | | | 2008.12.31 | | |
|---|---|---|---|---|---|---|
| | | Fair value | | | Fair value | |
| | **Carrying value** | **Publicly quoted market price** | **Value using valuation technique** | **Carrying value** | **Publicly quoted market price** | **Value using valuation technique** |
| **(in thousands of dollars)** | **NT$** | **NT$** | **NT$** | **NT$** | **NT$** | **NT$** |
| Non-derivative financial instruments: | | | | | | |
| Financial assets: | | | | | | |
| Cash and cash equivalents | 3,055,252 | 3,055,252 | - | 8,932,581 | 6,943,581 | 1,989,000 |
| Notes and accounts receivable | 108,031 | - | 108,031 | 105,227 | - | 105,227 |
| Financial assets at fair value through profit or loss – current | - | - | - | 69,142 | - | 69,142 |
| Available-for-sale financial assets | 538,695 | - | 538,695 | 275,257 | - | 275,257 |
| Refundable deposits | 7,902 | - | 7,902 | 34,330 | - | 34,330 |
| Restricted assets (including current and non-current) | 2,718,062 | 1,230,062 | 1,488,000 | 1,070,360 | 1,070,360 | - |
| Financial liabilities: | | | | | | |
| Short-term debts | 556,786 | - | 556,786 | 1,002,420 | - | 1,002,420 |
| Commercial paper payable | - | - | - | 499,525 | - | 499,525 |
| Accounts payable | 1,415,124 | - | 1,415,124 | 1,379,815 | - | 1,379,815 |
| Bonds payable (including current portion) | 33,020,484 | - | 33,135,960 | 36,219,176 | - | 35,614,367 |
| Construction payable (including related parties) | 4,851,166 | - | 4,851,166 | 6,458,489 | - | 6,458,489 |
| Accrued expense and other current liabilities | 2,832,885 | - | 2,832,885 | 3,187,197 | - | 3,187,197 |
| Accrued interest - non-current | 158,365 | - | 158,365 | 118,580 | - | 118,580 |
| Long-term debts (including current portion) | 344,123,176 | - | 344,221,340 | 344,563,795 | - | 344,793,283 |
| Guarantee deposits received (recognized as other liabilities) | 19,894 | - | 19,894 | 14,054 | - | 14,054 |
| Provision for profit sharing (recognized as other liabilities) | 1,133,333 | - | 1,133,333 | 733,333 | - | 733,333 |
| Derivative financial instruments: | | | | | | |
| Financial assets: | | | | | | |
| Forward foreign exchange contracts | - | - | - | 1,604 | - | 1,604 |
| Financial liabilities: | | | | | | |
| Forward foreign exchange contracts | 1,688 | - | - | - | - | - |
| Financial liabilities at fair value through profit or loss - current | 30,442 | - | 30,442 | 55,907 | - | 55,907 |
| Off-balance-sheet financial instruments: | | | | | | |
| Unused letter of credit | - | - | 216,443 | - | - | 816,011 |
| Letter of credit for guarantee | - | - | - | - | - | 198,342 |

ii. Methods and assumptions to measure the fair value of financial instruments

(i) Because the maturity dates of short-term financial instruments, including cash and cash equivalents, notes and accounts receivable, restricted assets (including current and non-current), short-term debts, accrued expenses and other current liabilities, accounts payable and construction payables (including related parties), are within one year of the balance sheet date, their book value is adopted as their fair value.

(ii) If publicly quoted market prices of financial assets and liabilities are available, then the quoted price is adopted as the fair value. If market prices are not available, a valuation technique is adopted to determine the fair value. When adopting a valuation technique, the estimates and assumptions used are consistent with those used by financial market participants when setting prices for the financial instruments. The method is used for available-for-sale financial assets, and financial assets/liabilities at fair value through profit or loss – current.

(iii) The estimated fair value of refundable deposits is determined as the discounted present value of expected future cash flows, which is similar to book value.

(iv) The fair value of bonds payable is determined based on the discounted future cash flows and discount rates were 2.4085% and 3.4900% for the years ended December 31, 2009 and 2008, respectively.

(v) The fair value of accrued interest－non-current is estimated by discounting the future cash flows.

(vi) If the interest rates on long-term debts do not fluctuate with market interest rates, the fair value of long-term debts is estimated by discounting the future cash flows at interest rates currently offered to the Company for similar debt instruments of comparable maturities by the Company’s bankers. If the interest rates on long-term debts fluctuate with market interest rates, no material differences are expected between the carrying amount and fair value of long-term debts.

(vii) The fair values of derivative instruments are assessed by valuation techniques. When adopting a valuation technique, the estimates and assumptions used are close to those used by financial market participants when setting prices for the financial instruments.

(viii) Unused letter of credit: Because the maturity dates of unused letters of credit are within one year of the balance sheet date, the fair value is assessed on the basis of the nominal value of the L/C agreement.

(ix) Letter of credit for guarantee: The Company provided letters of credit as guarantees for the development of stations. Because the possible loss is similar to the nominal value of the L/C agreement, the fair value is assessed on the basis of the nominal value of the L/C agreement.

iii. As of December 31, 2009 and 2008, the unrealized valuation gain on available-for-sale financial assets amounted to NT$716 thousand and NT$257 thousand, respectively, and was recognized as an adjustment to stockholders’ equity.

iv. Disclosure of financial risks and management information

(i) Market risk

The Company's securities were recorded as available-for-sale financial assets and measured at fair value. This exposes the Company to the risk of changes in market price.

The Company's short-term debts, bonds payable and long-term debts (the second syndicated loan agreement - Tranche C and D Facilities) carried a fixed interest rate. This exposes the Company to the risk of adverse movements in market interest rates.

The Company's liabilities are denominated in foreign currencies, which expose the Company to the risk of changes in foreign exchange rates. As of December 31, 2009, if the fluctuations in foreign exchange rates of USD/NTD and JPY/NTD increase by USD0.01 and JPY0.01, respectively, the exchange loss would increase by NT$3,191 thousand and NT$127,565 thousand, respectively.

(ii) Credit risk

The Company is exposed to potential credit risk through its cash and cash equivalents, and securities. Counterparties are limited to high-credit-quality financial institutions. In order to minimize the credit risk, the Company continually evaluates the concentrations of credit risk and the components of financial instruments.

(iii) Liquidity risk

(1) The accumulated deficits of the Company amounted to NT$72,359,982 thousand, and its current liabilities exceeded its current assets by NT$30,076,999 thousand. On January 8, 2010, the Company signed a syndicated loan agreement with a bank syndicate consisting of 8 banks. The Company's estimated funds from the agreement are sufficient to fulfill all obligations. Therefore, the Company did not have significant liquidity risk.

(2) The Company held forward exchange contracts which will result in cash flows in December 2009, as follows:

USD/JPY forward exchange contracts:

| **(in thousands of US$/JPY)** | **Cash outflows** | **Cash inflows** |
|---|---|---|
| In January 2010 | US$ 6,563 | JPY 600,000 |

There are no material cash flow risks as the exchange rate of forward exchange contracts is fixed.

(iv) Interest rate risk

The Company's long-term debts (the first syndicated loan agreement and the second syndicated loan agreement - Tranche A and B Facilities) bear floating interest rates. This exposes the Company to interest rate risk because any adverse changes in market interest rates will affect the future cash flows of the long-term debts. If the market interest rate increases by 1%, the Company's future cash outflow would increase by approximately NT$3,193,232 thousand per year.

(v) Risk management

(1) Foreign currency risk

Under the Company's risk management policy, foreign currency forward contracts and foreign currency swap contracts are used to mitigate foreign currency rate fluctuation risks.

a) The Company utilizes foreign currency forward contracts in order to meet the payment schedule and to make available sufficient amounts of foreign currency to pay foreign currency payables in the future.

b) The Company utilizes foreign currency swap contracts for foreign currency payables whose due dates were extended.

(2) Interest rate risk

The Company utilizes interest rate swap contracts to mitigate interest rate fluctuation risk.

(vi) Hedging strategy

(1) Foreign currency hedging strategy

The foreign currency risk of construction payables and other capital expenditures denominated in foreign currency is hedged by using foreign derivative financial instruments in the form of foreign currency forward contracts and foreign currency swap contracts.

(2) Interest rate hedging strategy

The interest risk of syndicated loans bearing floating interest is also hedged by using derivative financial instruments in the form of interest swap contracts.

(o) Superficies

On July 23, 1998, the Company entered into a C&O Agreement and SZD Agreement with the MOTC, under which the Company was granted a concession right to construct and operate the high speed rail (the "HSR"), to operate businesses ancillary to high speed rail operation, and to develop and use the station zones. (Refer to Note 7(a) for further details on this matter.)

Pursuant to the HSR Right-of-Way Map and the HSR Overpass/Underpass Superficies Space Map appended to the C&O Agreement, the Company further secured superficies from the MOTC over the transportation infrastructure land such as route land, maintenance bases, station land, etc. As of December 31, 2009, superficies had been procured over the land from Lot 0837-0000 Kuanghua Section, Hsinchuang, Taipei County, in the north to Lot 0421-0002, Subsection 6, Hsinchuang Section, Zuoying, Kaohsiung, in the south. The term of such superficies is from the date of their registration to the date of expiration or termination of the C&O Agreement.

The Company also procured superficies from the MOTC over the ancillary business land of station zones within the designated area of the Taoyuan, Hsinchu, Taichung, Chiayi and Tainan stations, the area being 46.49 hectares pursuant to the SZD Agreement. In addition, the MOTC and the Company reached an agreement: In order to reflect and improve the assets' value and financial structure of the Company by promoting the use of the land and representing the real value of superficies, and further, to attract professionals to develop the ancillary business land by providing a guarantee institution for superficies, the Company shall have the right to dispose of the superficies over the ancillary land for business development purposes, transfer the superficies to others for development and operation, and create liens over the superficies. The MOTC entered into an Agreement on the Principles of Handling Superficies over Ancillary Business Land in Taiwan North-South High Speed Rail Station Zones ("Superficies Agreement") with the Company on March 9, 2006, and approved the aforementioned matters. However, the terms and conditions of the contracts covering the actual disposal and transfer of and creation of liens over these superficies shall be consented to by the MOTC.

As of December 31, 2009, the Company had secured the right to develop and conduct business on the ancillary land of the Taoyuan, Hsinchu, Taichung Chiayi and Tainan station zones, the concession periods were as follows:

| Ancillary land of stations | Concession Period | | |
|---|---|---|---|
| Taoyuan | July 1, 2006 | to | June 30, 2056 |
| Hsinchu | August 22, 2007 | to | August 21, 2057 |
| Taichung | August 22, 2007 | to | August 21, 2057 |
| Chiayi | February 2, 2004 | to | February 1, 2054 |
| Tainan | June 1, 2005 | to | May 31, 2055 |

The Company provided a portion of these superficies with a total area of 30 hectares as collateral to secure the second syndicated loan.

For the years ended 2009 and 2008, the rental of the aforementioned superficies in accordance with the C&O Agreement and SZD Agreement amounted to NT$383,167 thousand and NT$381,523 thousand, respectively. As of December 31, 2009 and 2008, the Company had prepaid NT$378,618 thousand and NT$384,153 thousand, respectively, recognized as prepayments and other current assets.

## 5. Transactions with Related Parties

(a) Names of and relationship with related parties

| Name | Relationship with the Company |
|---|---|
| Continental Engineering Corp. (CEC) | A Company director |
| TECO Electric and Machinery Co., Ltd. (TECO) | A Company director |
| Taipei Fubon Commercial Bank Co., Ltd. (Taipei Fubon Bank) | A Company director |
| Taishin International Bank Co., Ltd. (Taishin Bank) | A Company director until November 10, 2009 |
| Directors, supervisors, CEO and vice president | Directors, supervisors and main management of the Company |

(b) Significant transactions with related parties

i. Operating revenue

The ticket sales transactions with related parties were no different from those with non-related parties. Because the ticket sales transactions with related parties recognized as operating revenue cannot be separated from the total ticket sales transactions, the Company cannot disclose the separate amount of operating revenue with related parties.

ii. The Company entered into several construction contracts with its related parties. A summary of the unclosed contracts is as follows:

| | | | Contract Price | |
|---|---|---|---|---|
| Effective Year | Nature of Contract | Related Party (in thousands of dollars) | Original NT$ | Amended (Note) NT$ |
| 2004 | Train Wash System Contract | Vector Systems-China Steel-TECO JV | 53,704 | 53,971 |

Note: The contract price has been adjusted because of changes in specifications.

According to the contracts, the Company retains 10% of each construction payable as a guarantee for fulfilling the contracts, but the aggregate amount of such retention shall not exceed 5% of the contract price. The retention amount is refundable when the construction is completed.

For the year ended December 31, 2008, the related construction costs paid to contractors, which were recorded as fixed assets, were as follows:

| | 2008 | | |
|---|---|---|---|
| | Depot | Station | Total |
| (in thousands of dollars) | NT$ | NT$ | NT$ |
| TECO | 483,953 | 121,215 | 605,168 |
| CEC | - | 16,472 | 16,472 |
| | **483,953** | **137,687** | **621,640** |

For the year ended December 31, 2009, there were no related construction costs paid to contractors.

As of December 31, 2009 and 2008, the details of construction payables (including construction retentions) were as follows:

| | 2009.12.31 |
|---|---|
| | Depot |
| (in thousands of dollars) | NT$ |
| TECO - construction retentions payable | 2,927 |
| TECO - construction payable | 8,325 |
| | 11,252 |

| | 2008.12.31 | | |
|---|---|---|---|
| | Depot | Station | Total |
| (in thousands of dollars) | NT$ | NT$ | NT$ |
| TECO - construction retentions payable | 17,735 | 25,447 | 43,182 |
| TECO - construction payable | 10,921 | 222 | 11,143 |
| | 28,656 | 25,669 | 54,325 |

iii. Syndicated loans

The Company obtained the first and second secured credit facilities from the syndicate banks, including Taipei Fubon Bank and Taishin Bank. As of and for the years ended December 31, 2009 and 2008, the syndicated loans from Taipei Fubon Bank and Taishin Bank and interest expenses incurred thereon were as follows (expressed in thousands of dollars, except for the interest rate):

| | 2009 | | | |
|---|---|---|---|---|
| | Maximum balance | Ending balance | Interest rate | Amount of interest |
| Taipei Fubon Bank | 20,774,722 | 20,676,228 | 2.1068%~4.2737% | 598,984 |
| Taishin Bank | 10,997,863 | 9,456,943 | 〃 | 258,159 |

| | 2008 | | | |
|---|---|---|---|---|
| | Maximum balance | Ending balance | Interest rate | Amount of interest |
| Taipei Fubon Bank | 20,774,722 | 20,774,722 | 2.6332%~8.2242% | 908,387 |
| Taishin Bank | 10,997,863 | 10,997,863 | 〃 | 477,079 |

iv. Service charge

Taipei Fubon Bank and Taishin Bank are the Company's exclusive cooperators to deal with the Company's passenger ticket sales. For the years ended December 31, 2009 and 2008, the related service charges paid to cooperators were as follows:

| | 2009 | 2008 |
|---|---|---|
| (in thousands of dollars) | NT$ | NT$ |
| Taipei Fubon Bank | 4,652 | 4,293 |
| Taishin bank | 183,397 | 161,780 |
| | 188,049 | 166,073 |

(c) Remuneration of directors, supervisors and main management

For the years ended December 31, 2009 and 2008, the remuneration of the Company's directors, supervisors, CEO and vice presidents was as follows:

| (in thousands of dollars) | 2009 | 2008 |
|---|---|---|
| | NT$ | NT$ |
| Salaries | 84,047 | 112,334 |
| Cash awards and special allowances | 25,920 | 33,822 |
| Transportation allowances and business expense | 4,494 | 5,520 |
| Employee bonus | - | - |

For the policy on employee bonus and remuneration to directors and supervisors, please refer to note 4(l)(ii)(iii).

## 6. Pledged Assets

As of December 31, 2009 and 2008, the carrying values of pledged assets were as follows:

| Pledged assets | Pledged to secure | 2009.12.31 | 2008.12.31 |
|---|---|---|---|
| | (in thousands of dollars) | NT$ | NT$ |
| Restricted assets - current: | | | |
| Time deposit | Guarantee for commodity sale | 1,610 | - |
| Time deposit | Station land lease | 7,359 | 615 |
| Time deposit | Office lease | 978 | 2,478 |
| Time deposit | Letter of credit for guarantee | - | 40,000 |
| Sub-total | | 9,947 | 43,093 |
| Restricted assets - non-current: | | | |
| Time deposit | Guarantee for oil purchase | 4,000 | 3,000 |
| Time deposit | Station land lease | 8,127 | 14,917 |
| Time deposit | Guarantee for development of station | 1,192,665 | 994,026 |
| Time deposit | Guarantee for office lease | 15,323 | 15,324 |
| Bonds with resale agreements | Syndicated loan | 1,488,000 | - |
| Sub-total | | 2,708,115 | 1,027,267 |
| Total | | 2,718,062 | 1,070,360 |

Note: In addition, the Company provided a portion of these superficies as collateral to secure the second syndicated loan. Please refer to Note 4(p).

## 7. Commitments and Contingencies

(a) Significant contracts

On July 23, 1998, the Company entered into the C&O Agreement and SZD Agreement with the MOTC. The significant provisions of these contracts are as follows:

i. The C&O Agreement covers the building, operation and transfer (BOT) of the High Speed Rail between Taipei (Sihjih) and Kaohsiung (Zuoying). In addition, the contract includes the transfer of stations built by the Company and station facilities co-built by the Company with the Taiwan Railroad Administration and Taipei Rapid Transit Corporation.

ii. The station contract covers the plan, design and construction of the Taoyaun (Chingpu), Hsinchu (Lioujia), Miaoli, Taichung (Wurih), Changhua, Yunlin, Chiayi (Taibao), Tainan (Shaluen) and Kaohsiung (Zuoying) stations as well as any required modifications and engineering equipment for the Taipei and Banciao stations.

iii. The SZD Agreement covers the development, operation, return of the land, and transfer of assets of five stations along the Taiwan High Speed Rail line: Taoyuan (Chingpu), Hsinchu (Lioujia), Taichung (Wurih), Chiayi (Taibao), and Tainan (Shaluen).

iv. The duration of the concession agreement for the High Speed Rail (the "HSR"), including the construction period and operating period, is 35 years from the contract date.

v. The concession agreement for the stations also includes the following:

(i) The right to develop and operate the station land for 35 years from the contract date.

(ii) The concession agreement to operate businesses on the land neighboring the stations for 50 years after the land is transferred to the Company.

vi. Any changes to the Company's articles of incorporation, organization by-laws, directors and supervisors should be reported to the MOTC within 15 days.

vii. The ratio of the Company's stockholders' equity to its total assets shall be maintained at 25% or more during the concession period. On January 7, 2009, the Company obtained the consent of the MOTC to delay this ratio until the year following the first year in which the Company earns an operating profit.

viii. During the operating period, the Company undertakes to return by profit sharing 10% of the operating profit before tax to the MOTC each year for use in projects associated with development; provided, however, that if the total amount of the Company's cumulative profit sharing return is less than the amount listed in the table below, the Company undertakes to follow the table below:

| | NT$ |
|---|---|
| As of the end of the fifth year of full operation | 2 billion |
| As of the end of the tenth year of full operation | 10 billion |
| As of the end of the fifteenth year of full operation | 25 billion |
| As of the end of the twentieth year of full operation | 48 billion |
| As of the end of the twenty-fifth year of full operation | 75 billion |
| As of the expiration of the concession period | 108 billion |

As of December 31, 2009 and 2008, the Company had accrued aggregated profit sharing return amounting to NT$1,133,333 thousand and NT$733,333 thousand, respectively, which was recorded as other liabilities, since March 2007, the date of starting of service for the entire line. For each of the years ended December 31, 2009 and 2008, the profit sharing return was NT$400,000 thousand, recognized as operating cost.

ix. Assets which are purchased with the consent of the MOTC during the five-year period immediately preceding the expiration of the concession period and are not yet completely depreciated and are still available for normal operation and use upon the expiration of the concession period shall be transferred with compensation to the MOTC or other party designated by the MOTC. Except for those operating facilities of ancillary business and the land acquired by the Company, all operating assets shall be transferred without compensation to the MOTC or other party designated by the MOTC.

x. Transfer of ownership prior to the expiration of the concession period

The operating assets will be examined and evaluated by impartial and professional appraisal organizations before the transfer.

xi. Agreement guarantee

(i) The C&O Agreement

(1) Construction period: The Company provided a bank guarantee of NT$2 billion and a portion of fixed assets amounting to NT$13 billion as a performance bond to guarantee the fulfillment of its responsibility to construct the Taiwan High Speed Rail system. In February 2008, the aforementioned guarantee was removed.

(2) During the operating period: The Company provided a NT$5 billion performance bond as a guarantee for fulfilling its operating responsibility. If there is no breach of the contract since the date of starting its railway operations, the MOTC will return NT$0.5 billion each year; however, the total returnable amount shall not exceed NT$3 billion. The deadline to return the remaining amount is the earlier of the year after the end of the concession period or the year after the termination of the agreement. As of December 31, 2009 and 2008, the aforementioned guarantee amounted to NT$4 billion and NT$4.5 billion, respectively.

(ii) The SZD Agreement

The Company provided a time deposit amounting to NT$1.2 billion as the guarantee for the development of the Taoyuan, Hsinchu, Taichung, Chiayi and Tainan stations.

xii. Liabilities for breach of contract and the consequences under the Company's C&O Agreement with the MOTC

(i) Any of the following events attributable to the Company shall constitute a breach of contract:

(1) Material delay in work schedule

(2) Material default in quality control of the works

(3) A material default during the operating period in relation to traffic safety, service quality, or the relevant management as determined by the Authority in Charge

(4) Other events which have a material impact on the construction or operation of the HSR and for which the situation is serious as determined by the MOTC or the Authority in Charge.

(ii) Consequences of breach of contract

If it confirms that the Company has breached the contract, the MOTC may take the following action:

(1) Suspend the construction or operation of the HSR

(2) Revoke the permit for construction or operation of the HSR

(3) Terminate the C&O Agreement

Upon revocation of the Company's permit for construction or operation of the HSR by the Authority in Charge, the C&O Agreement shall be terminated ipso facto. Where there are operating assets and works in progress which are necessary and useful, the MOTC shall apply to the Authority in Charge for a compulsory take-over of such assets and works.

(b) Operating lease

i. The Company rents its office premises. As of December 31, 2009, future lease payments were as follows:

| **(in thousands of dollars)** | **NT$** |
|---|---|
| January 1, 2010~December 31, 2010 | 85,573 |
| January 1, 2011~December 31, 2011 | 68,661 |
| Total | **154,234** |

ii. The Company obtained the superficies according to the C&O Agreement and SZD Agreement (refer to Note 4(p)). The rental of superficies is governed by the :"Public-owned Land Rent Preferential Treatment Scheme under the Encouragement Statute", and the Company shall prepay the rental for the subsequent year by December 31 of each year. Future lease payments at December 31, 2009, were as follows:

| **(in thousands of dollars)** | **NT$** |
|---|---|
| January 1, 2010~December 31, 2010 | 378,618 |
| January 1, 2011~December 31, 2011 | 378,618 |
| January 1, 2012~December 31, 2012 | 378,618 |
| January 1, 2013~December 31, 2013 | 378,618 |
| January 1, 2014~end of concession period | 7,463,136 |
| Total | **8,977,608** |

(c) As of December 31, 2009, the Company had obtained credit line facilities in the form of letters of credit from several banks, of which JPY622,858 thousand was unused, and the Company had issued NT$5,739,440 thousand worth of promissory notes to banks to obtain guarantees for credit lines.

(d) Significant unsettled lawsuit

The corporate stockholder CTCI Foundation claimed that the Company should have distributed dividend on Class C Convertible Preferred Stock to CTCI Foundation amounting to NT$212,383 thousand that had accumulated from January 1 to September 29, 2007, after the Company had already launched operations. On March 27, 2009, CTCI Foundation filed a civil action in the Shihlin District Court (the Court) to compel the Company to distribute the Preferred Stock dividend with 5% interest accumulated from January 1, 2009, to the discharge date. On September 18, 2009, the Court ruled against the Company. The Company appealed to a higher court on October 23, 2009, and the final judgment has not been given yet.

## 8. Significant Damage Losses: none.

## 9. Significant Subsequent Events

On January 8, 2010, the Company signed both the "Taiwan North-South High Speed Rail Construction and Operation Tripartite Agreement" with the MOTC and Bank of Taiwan, and the "Taiwan North-South High Speed Rail Construction and Operation Project NTD 382 billion Syndicated Loan Agreement" with a bank syndicate consisting of 8 banks for the purpose of improving its financial status.



## 10. Others

(a) Total personnel, depreciation and amortization expenses incurred for the years ended December 31, 2009 and 2008, were as follows:

| | 2009 | | | | 2008 | | | |
|---|---|---|---|---|---|---|---|---|
| By item | Operating cost | Operating expenses | Non-operating expenses | Total | Operating cost | Operating expenses | Non-operating expenses | Total |
| (in thousands of dollars) | NT$ | NT$ | NT$ | NT$ | NT$ | NT$ | NT$ | NT$ |
| Personnel expenses | | | | | | | | |
| Salaries | 1,974,380 | 429,372 | - | 2,403,752 | 2,107,625 | 555,494 | - | 2,663,119 |
| Professional service | 406,139 | 37,515 | - | 443,654 | 761,328 | 56,383 | - | 817,711 |
| Insurance | 156,399 | 27,765 | - | 184,164 | 142,842 | 27,975 | - | 170,817 |
| Pension | 161,222 | 37,448 | - | 198,670 | 118,944 | 25,381 | - | 144,325 |
| Others | 64,775 | 22,825 | - | 87,600 | 64,787 | 23,685 | - | 88,472 |
| Depreciation | 8,212,443 | 10,191 | - | 8,222,634 | 18,984,657 | 9,594 | - | 18,994,251 |
| Amortization | 58,036 | 37,128 | 57,397 | 152,561 | 45,925 | 35,430 | 85,204 | 166,559 |

(b) In order to improve the financial status and make a decrease on operating deficits, the Company has been striving to raise revenue and reduce the cost. Furthermore, to lessen the heavy financial burden caused from depreciation and interest expense, the Company changed the depreciation method of major fixed assets from the straight-line method to the units of throughput method based on ridership commencing from January 1, 2009, with the approval of the Financial Supervisory Commission, Executive Yuan (refer to note 2(i)). In addition, the interest rate of funds under the first syndicated loan agreement was adjusted with the approval of the bank syndicate (refer to note 4(i)). On January 8, 2010, in order to strengthen the financial status, the Company signed both the "Taiwan North-South High Speed Rail Construction and Operation Tripartite Agreement" with the MOTC and Bank of Taiwan, and the "Taiwan North-South High Speed Rail Construction and Operation Project NTD 382 billion Syndicated Loan Agreement" with a bank syndicate consisting of 8 banks .

(c) Reclassification

Certain accounts in the financial statements as of and for the year ended December 31, 2008, have been reclassified to conform with the presentation adopted in the financial statements as of and for the year ended December 31, 2009.

| Balance Sheet | Before Reclassification | After Reclassification |
|---|---|---|
| **(in thousands of dollars)** | **NT$** | **NT$** |
| Land improvement | 221,377,765 | 217,006,252 |
| Buildings | 25,569,315 | 29,912,856 |
| Machinery and equipment | 54,759,700 | 54,787,672 |
| Account payable | 1,441,840 | 1,379,815 |
| Construction payable | 7,528,477 | 6,404,164 |
| Other liabilities | 766,473 | 1,952,811 |
| | **311,443,570** | **311,443,570** |

| Statement of operations | Before Reclassification | After Reclassification |
|---|---|---|
| **(in thousands of dollars)** | **NT$** | **NT$** |
| Operating cost | (27,817,851 ) | (27,818,011 ) |
| Non-operating income and gains - others | 9,450 | 9,365 |
| Non-operating expenses and losses - others | (138,236 ) | (137,991 ) |
| | **(27,946,637 )** | **27,946,637** |

## 11. Other Disclosure Items

(a) Related information on material transaction items:

i. Lending to other parties: None.

ii. Guarantees and endorsements for other parties: None.

iii. Information regarding securities held:

(In thousands of New Taiwan dollars, except units)

| Company holding securities | Security type and name | Relationship with the issuing company | Account | Period-end | | | | Note |
|---|---|---|---|---|---|---|---|---|
| | | | | Units (in thousands) | Carrying value | Percentage of ownership | Market value (or net value) | |
| The Company | YUANTA WAN-TAI FUND | - | Available-for-sale financial assets–current | 8,476 | 122,642 | - | 122,642 | |
| " | JIH SUN BOND FUND | - | " | 11,042 | 155,879 | - | 155,879 | |
| " | PCA WELL POOL FUND | - | " | 4,627 | 60,076 | - | 60,076 | |
| " | MEGA DIAMOND BOND FUND | - | " | 5,034 | 60,059 | - | 60,059 | |
| " | ING TAIWAN BOND FUND | - | " | 7,696 | 120,039 | - | 120,039 | |
| " | Hua Nan Kirin Bond Fund | - | " | 1,744 | 20,000 | - | 20,000 | |
| " | Central Government Bond 95-3 | - | Restricted assets–non-current | 79,200 | 88,000 | - | 88,000 | |
| " | Central Government Bond 91-8 | - | " | 279,000 | 310,000 | - | 310,000 | |
| " | Central Government Bond 97-1 | - | " | 240,700 | 261,000 | - | 261,000 | |
| " | Central Government Bond 93-8 | - | " | 324,000 | 360,000 | - | 360,000 | |
| " | Central Government Bond 92-4 | - | " | 433,000 | 469,000 | - | 469,000 | |

iv. Information regarding purchase or sale of securities for the period exceeding NT$100 million or 20% of the Company's paid-in capital:

(In thousands of New Taiwan dollars, except units)

| Company holding securities | Security type and Name | Account | Counter-party | Relation-ship | Beginning | | Purchase | | Sale | | | | Gain (loss) on valuation | Ending | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Units (in thousands) | Amount | Units (in thousands) | Amount | Units (in thousands) | Price | Carrying value | Gain (loss) on disposal | | Units (in thousands) | Amount |
| The Company | PCA WELL POOL FUND | Available-for-sale financial assets–current | - | - | - | - | 21,756 | 282,000 | 17,129 | 222,080 | 221,966 | 115 | 42 | 4,627 | 60,076 |
| " | YUANTA WAN-TAI FUND | " | - | - | 4,093 | 59,000 | 23,703 | 342,400 | 19,320 | 279,074 | 278,903 | 171 | 145 | 8,476 | 122,642 |
| " | MEGA DIAMOND BOND FUND | " | - | - | - | - | 29,920 | 356,000 | 24,886 | 296,119 | 296,000 | 119 | 59 | 5,034 | 60,059 |
| " | Polaris DE-LI Fund | " | - | - | 6,760 | 105,000 | - | - | 6,760 | 105,226 | 105,000 | 226 | - | - | - |
| " | JIH SUN BOND FUND | " | - | - | - | - | 16,724 | 235,376 | 5,682 | 80,000 | 79,928 | 72 | 431 | 11,042 | 155,879 |

| Company holding securities | Security type and Name | Account | Counter-party | Relation-ship | Beginning | | Purchase | | Sale | | | | Gain (loss) on valuation | Ending | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Units (in thousands) | Amount | Units (in thousands) | Amount | Units (in thousands) | Price | Carrying value | Gain (loss) on disposal | | Units (in thousands) | Amount |
| " | ING TAIWAN BOND FUND | " | - | - | - | - | 7,696 | 120,000 | - | - | - | - | 39 | 7,696 | 120,039 |
| " | Central Government Bond 89-6 | Restricted assets - non-current | - | - | - | - | 90,000 | 100,000 | 90,000 | 100,008 | 100,000 | 8 | - | - | - |
| " | Central Government Bond 90-7 | " | - | - | 200,000 | 200,000 | - | - | 200,000 | 200,667 | 200,000 | 667 | - | - | - |
| " | Central Government Bond 91-4 | " | - | - | 115,700 | 120,400 | 601,700 | 658,000 | 717,400 | 778,732 | 778,400 | 332 | - | - | - |
| " | Central Government Bond 91-8 | " | - | - | 63,400 | 70,400 | 279,000 | 310,000 | 63,400 | 70,408 | 70,400 | 8 | - | 279,000 | 310,000 |
| " | Central Government Bond 91-11 | " | - | - | - | - | 895,200 | 977,600 | 895,200 | 977,665 | 977,600 | 65 | - | - | - |
| " | Central Government Bond 92-4 | " | - | - | 532,500 | 582,500 | 1,290,500 | 1,420,902 | 1,390,000 | 1,534,708 | 1,534,402 | 306 | - | 433,000 | 469,000 |
| " | Central Government Bond 93-4 | " | - | - | 68,900 | 68,900 | 281,700 | 313,000 | 350,600 | 382,161 | 381,900 | 261 | - | - | - |
| " | Central Government Bond 93-8 | " | - | - | 216,200 | 233,500 | 348,000 | 386,000 | 240,200 | 259,905 | 259,500 | 405 | - | 324,000 | 360,000 |
| " | Central Government Bond 94-2 | " | - | - | - | - | 190,000 | 206,000 | 190,000 | 206,021 | 206,000 | 21 | - | - | - |
| " | Central Government Bond 94-6 | " | - | - | 287,000 | 287,000 | 180,300 | 200,000 | 467,300 | 488,017 | 487,000 | 1,017 | - | - | - |

| Company holding securities | Security type and Name | Account | Counter-party | Relation-ship | Beginning | | Purchase | | Sale | | | | Gain (loss) on valuation | Ending | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Units (in thousands) | Amount | Units (in thousands) | Amount | Units (in thousands) | Price | Carrying value | Gain (loss) on disposal | | Units (in thousands) | Amount |
| " | Central Government Bond 95-5 | " | - | - | 191,200 | 191,200 | 313,000 | 333,000 | 504,200 | 524,934 | 524,200 | 734 | - | - | - |
| " | Central Government Bond 96B-1 | " | - | - | - | - | 558,000 | 607,000 | 558,000 | 607,041 | 607,000 | 41 | - | - | - |
| " | Central Government Bond 97-1 | " | - | - | - | - | 780,500 | 849,048 | 539,800 | 588,089 | 588,048 | 41 | - | 240,700 | 261,000 |
| " | Central Government Bond 97-5 | " | - | - | 100,000 | 100,000 | - | - | 100,000 | 100,007 | 100,000 | 7 | - | - | - |

v. Information on acquisition of real estate for which the purchase amount exceeded NT$100 million or 20% of the Company's paid-in capital: None.

vi. Information regarding receivables from disposal of real estate exceeding NT$100 million or 20% of the Company's paid-in capital: None.

vii. Information regarding related-party purchases and/or sales for which the amount exceeded NT$100 million or 20% of the Company's paid-in capital: None.

viii. Information regarding receivables from related parties for which the amount exceeded NT$100 million or 20% of the Company's paid-in capital: None.

ix. Information regarding trading in derivative financial instruments: Discussed in notes 4(m) and 4(n).

(b) Information on the Company's long-term equity investments: None.

(c) Information regarding investments in Mainland China: None.

## 12. Segment Information: Not applicable.

(2) **Consolidated Financial Statements for current year audited by CPA: None**

## 5. Financial Impact on the Corporation if the Corporation and its Affiliated Parties Have Encountered Financial Difficulties: None

## 6. Financial Reviews and Analysis

### (1) Financial Status

In thousands of NT

| Item \ Year | 2009 | 2008 | Difference | % |
|---|---|---|---|---|
| Current Assets | 6,564,074 | 11,765,224 | (5,201,150) | (44.21) |
| Fixed Assets | 404,102,618 | 411,414,846 | (7,312,228) | (1.78) |
| Other Assets | 3,409,788 | 1,845,701 | 1,564,087 | 84.74 |
| Total Assets | 414,076,480 | 425,025,771 | (10,949,291) | (2.58) |
| Current Liabilities | 36,641,073 | 25,686,228 | 10,954,845 | 42.65 |
| Long-Term Liabilities | 350,349,043 | 367,798,676 | (17,449,633) | (4.74) |
| Other Liabilities | 2,299,964 | 1,965,471 | 334,493 | 17.02 |
| Total Liabilities | 389,290,080 | 395,450,375 | (6,160,295) | (1.56) |
| Capital Stock | 105,322,243 | 105,322,243 | - | - |
| Capital Surplus | 1,295,378 | 1,295,378 | - | - |
| Retained Earnings | (72,319,697) | (67,530,242) | (4,789,455) | (7.09) |
| Unrealized Gain on Financial Instruments | 716 | 257 | 459 | 178.60 |
| Provision for Dividends – Preferred Stock | (9,512,240) | (9,512,240) | - | - |
| Total Stockholders' Equity | 24,786,400 | 29,575,396 | (4,788,996) | (16.19) |

Analysis of Deviation over 20% for 2009 vs. 2008:

1. The decrease in current assets was mainly due to cash and cash equivalents reduction resulting from the redemptions of straight bonds.
2. The increase in other assets was mainly due to an increase in pledged assets to secure syndicated loan.
3. The increase in current liabilities was mainly due to an increase in current portion of long-term debts.
4. The increase in unrealized gains on financial instruments was mainly due to an increase in revaluation gains on available-for-sale financial assets.

### (2) Operating Results

In thousands of NT

| Item \ Year | 2009 | 2008 | Difference | % |
|---|---|---|---|---|
| Operating Revenue | 23,323,712 | 23,047,583 | 276,129 | 1.20 |
| Operating Cost | (16,777,745) | (27,818,011) | (11,040,266) | (39.69) |
| Gross Loss from Operations | 6,545,967 | (4,770,428) | 11,316,395 | 237.22 |
| General and Administrative Expenses | (981,121) | (1,468,125) | (487,004) | (33.17) |
| Loss from Operations | 5,564,846 | (6,238,553) | 11,803,399 | 189.20 |
| Non-Operating Income and Gains | 639,869 | 644,500 | (4,631) | (0.72) |
| Non-Operating Expenses and Losses | (10,995,840) | (19,415,644) | (8,419,804) | (43.37) |
| Loss before Income Tax | (4,791,125) | (25,009,697) | 20,218,572 | 80.84 |
| Income Tax Expense | 1,670 | - | 1,670 | 100.00 |
| Net Loss | (4,789,455) | (25,009,697) | (20,220,242) | (80.85) |

Analysis of Deviation over 20% for 2009 vs. 2008:

1. The decrease in operating cost was mainly due to the decreases in depreciation expense, resulting from the change of depreciation method, and personnel expenses, and various cost savings.
2. The decrease in general and administrative expenses was mainly due to a decrease in personnel expenses and various cost savings.
3. The decrease in non-operating expenses and losses was mainly due to a decrease in interest expenses.

In thousands of NT

| | 2009 | 2008 |
|---|---|---|
| Operating Revenue | 23,323,712 | 23,047,583 |
| Operating Cost and Expense before Depreciation & Amortization | (9,441,068) | (10,210,530) |
| Operating Profit before Depreciation & Amortization | 13,882,644 | 12,837,053 |
| Depreciation & Amortization | (8,317,798) | (19,075,606) |
| Financial Cost | (10,355,971) | (18,771,144) |
| Net Loss | (4,789,455) | (25,009,697) |

### (3) Cash Flow

A. Analysis of Cash flow for Current Year：

(A) A net cash inflow from operating activities of NT$4,142,857 thousand was mainly due to a decrease of interest expenses on the debts.

(B) A net cash outflow from investing activities of NT$4,540,248 thousand was mainly due to the additions to fixed assets.

(C) A net cash outflow from financing activities of NT$5,479,938 thousand was mainly due to the redemptions of straight bonds.

B. Future Plan on Financial Position：None

C. Cash Flow Projection for the Coming Year

In thousands of NT

| Cash and Cash Equivalents, Beginning of Year (1) | Net Cash Flow from Operating Activities (2) | Cash Outflow (3) | Cash Surplus (Deficit)( 1)+(2)-(3) | Leverage of Cash Deficit | |
|---|---|---|---|---|---|
| | | | | Investment Plans | Financing Plans |
| 3,055,252 | 6,430,000 | 6,363,252 | 3,122,000 | — | — |
| | | | | | — |

## (4) Major Capital Expenditures

A. Major Capital Expenditure and Sources of Funding

In thousands of NT

| Project | Actual or Planned Source of Capital | Actual or Planned Date of Completion | Total Capital | Actual or Expected Capital Expenditure | | |
|---|---|---|---|---|---|---|
| | | | | 1997 to 2008 | 2009 | 2010 |
| Construction Costs | Own Capital and Loans | December 2006 | 448,009,043 | 441,145,914 | 2,637,129 | 4,226,000 |

Note: The Company started its commercial operation since January, 2007. The capital expenditures in 2009 and 2010 above, including capitalized expenses during construction stage, were mainly the final payments of construction costs.

B. Expected Future Benefits：

With the launch of our train services commenced on January 5, 2007, the accumulated patronage for past 3 year was 78.486 million passengers as of December 31, 2009. In which, the annual patronage has risen from 30.581 million in 2008 to 32.349 million in 2009, increasing by 1.768 million passengers, a growth rate of 5.8%. THSRC will devote itself to raise operating revenues via rescheduling train services, based on market-oriented demands and marketing strategies. Meanwhile, we will also strive for various cost savings to improve operating performance.

Except for offering rapid and safe transportation services, THSRC project also creates external benefits, such as saving society time costs, increasing tax collections, creating job opportunities, and stimulating regional economy.

## (5) The Cause of Net Profit or Loss for Company Investment in 2009, Improving Plan and Investment Plan for Next Year：None

# 7. Analysis of Risk Management

## (1) Effects of Changes in Interest Rates, Foreign Exchange Rates and Inflation on Corporate Finance, and Future Response Measures：

As U.S. labor market stays weak and inflation pressure reduces, FED chairman Bernanke stated that the Federal Funds Rate will sustain at average 0~0.25% over a long period.

Encouraged by the growth of Taiwan stock market and foreign investment, NTD appreciates continually and the exchange rate has reached 31.800 NTD per USD, which benefits the Company's foreign exchange hedge activities. As hot money flows in Asia countries, SKW and SGD face appreciation pressure, SAFE of China government stated that RMB is expected to appreciate more this year. From the above mentioned, it is very likely that NTD will sustain relative strength in the short run, whereas upward trend of other Asian currencies is worth notice. The Company continually uses foreign exchange hedge in accordance to foreign currencies payment demands of contracts to lessen the effects of changes in foreign exchange in the future.



Central bank of Taiwan has not raised the interest rates so far, and the discount rate sustains at 1.25% while inflation is still in control. The Company's syndicated loan interest is calculated based on floating rates, and in the near future NTD interest rate is not likely to rise, which reduces the interest burden. Regarding the low level of national interest trend, there's no IRS contract in 2009. The Company will use IRS as appropriate to reduce risks relating to market change.

## (2) Policies, Main Causes of Gain or Loss and Future Response Measures with Respect to High-risk, High-leveraged Investments, Lending or Endorsement Guarantees, and Derivatives Transactions：

There's no lending to other parties so far. As of March 31, 2010 and December 31, 2009, the balances of endorsement guarantees for import duty were NT$20,000 thousand and NT$0, respectively.

The Company trade derivatives in accordance to internal governance principle "The process of Derivatives Transactions," which regulates transactions intended to hedge and never involves in speculative activities, and each transaction must be audited by CPA. The Company will use relative derivatives as appropriate to hedge.

## (3) Future Research & Development Projects and Corresponding Budget：

Except" Trainset Wheel/Rail Noise Measurement and Mobile Noise Monitoring Station", to response to changes in national noise act, "The Investigation of Low Frequency Noise and Infra-sound from HSR Viaduct, Noise Barrier and Tunnel Portal" and " The Vibration Measurement and Interaction Analysis of Train-Track and Viaduct" are planned in 2010, with a corresponding budget of approximately NT$5.25 million, to gain knowledge about HSR Low Frequency Noise and Vibration Characteristics and feasible improvement measures.

## (4) Effects of and Response to Changes in Policies and Regulations Relating to Corporate Finance and Sales：None.

## (5) Effects of and Response to Changes in Technology and in Industry Relating to Corporate Finance and Sales：

Changes in Technology

Railway is a basic industry where technology changes gradually; therefore it has a minimal effect on the Company's financial business.

Change in Industry

The Company has successfully executed many ramp-up initiatives since first day of operation. The characteristics of convenience, service reliability, high quality, efficiency and punctuality have changed the composition of Taiwan's West corridor intercity transportation, which drives passengers to take HSR instead of air transportation, bus transportation and traditional railway and results in growing revenues. While passengers gradually establish brand confidence and are increasingly willing to take HSR, the Company will continually improve systems, comply with safety maintenance regulations and process, and use risk assessment and safety management skills to ensure safe railway operations and maintain risk at the lowest levels that are reasonably practical.

## (6) The Impact of Changes in Corporate Image on Corporate Risk Management, and the Company's Response Measures：

The Company adopts measures listed below to response to the impact of changes in corporate image on corporate risk management:

A. Construct and maintain better public image and relationship and eliminate potential crisis factors with a positive attitude to prevent damages of image and any related cost arising afterwards.

B. Public affairs office including media relationship, district relationship and corporate relationship has an adequate operation plan involving negotiation, execute information gathering, monitoring and review of precautionary measures to external crisis.

C. Study and discuss fast and better resolution guidelines to eliminate roots of crisis development.

D. Provide public affairs officers excellent working qualities with review and inheritance of case experiences.

**(7) Expected Benefits from, Risks Relating to and Response to Merger and Acquisition Plans: None**

**(8) Expected Benefits from, Risks Relating to and Response to Factory Expansion Plans: None**

**(9) Risks Relating to and Response to Excessive Concentration of Purchasing Sources and Excessive Customer Concentration：**

Raw materials used in manufacturing processes are not required since HSR is a part of transportation industry. Electronic power is the main energy resource we need. The electricity provider is Taiwan Power Company. The Company mainly applies a dual circuit power supply, divided into normal circuit feedback power supply and redundant circuit feedback power supply. Wurih and Zuoying Depots use the single circuit feedback power supply for maintenance use only. The supply of the resource we rely on is very stable.

THSRC's services target the general public and it has various marketing strategies to attract customers from different market segments; therefore, there is no risk relating to excessive concentration in any market sector.

**(10) Effects of, Risks Relating to and Response to Large Share Transfers or Changes in Shareholdings by Directors, Supervisors, or Shareholders with Shareholdings of over 10%：**

The Company has continually put corporate governance principles approved by shareholders' meeting into effect to construct a better corporate governance system. The Company also plans to construct an inheritance and succession system of chairman and CEO to prevent negative effects of large share transfers or changes in shareholdings by directors, supervisors, or shareholders with shareholdings of over 10%.

**(11) Effects of, Risks Relating to and Response to Changes in Control over the Company：**

The Company has continually put corporate governance principles approved by shareholders’ meeting into effect to construct a better corporate governance system. The Company also plans to construct an inheritance and succession system of chairman and CEO to prevent negative effects of changes in control over the Company.

**(12) Litigation or Non-litigation Matters：**

1. The corporate stockholder CTCI Foundation claimed that the Company should have distributed dividend on Class C Convertible Preferred Stock to CTCI Foundation amounting to NT$212,383 thousand that had accumulated from January 1 to September 29, 2007, after the Company had already launched operations. On March 27, 2009, CTCI Foundation filed a civil action in the Shihlin District Court (the Court) to compel the Company to distribute the Preferred Stock dividend with 5% interest accumulated from January 1, 2009, to the discharge date. On September 18, 2009, the Court ruled against the Company. The Company appealed to a higher court on October 23, 2009, and the final judgment has not been given yet.

2. Major ongoing lawsuits, non-lawsuit or administrative lawsuit caused by directors, supervisors, managers, or major stockholders with shareholdings over 10%

Litigation or non-litigation matters of directors are as follows：

(Referred Sources from Directors' 2009 Financial Report )

Director: Pacific Electric Wire & Cable Co., Ltd (PEWC)

Litigation in Taiwan:

In the case of asset cleaning, the Taiwan Taipei District Court closed the statement on April 16, 2010, and will pronounce judgment on July 30, 2010. Civil Suits for compensation from each person committing the infringement of rights are also brought into the civil courts but are not on trial yet.

Litigation case in civil actions:

A. Litigation in Taiwan：

(A) Claim by Securities and Futures Investors Protection Center：

In April 2005, the Securities and Futures Investors Protection Center accused the Company and 275 other Defendants for damage indemnity for tortuous/ wrongful behavior in violation of Securities and Exchange Law. The target amount in the claim has been adjusted and reduced to NT$7,870,375 thousand. After the Center reached an out-of-court settlement with some Defendants and withdrew litigation against those Defendants, the number of Defendants has been reduced to 31. The case is being tried by a court at the moment.

Part of the Company's securities and real estate have been seized by the court because of the present case. In accordance with the opinions of the Attorney-at-Law, the Company anticipated to incur a NT$710 million potential loss if settling out-of-court.

(B) The damages indemnity claim by Carrefour against the Company and Tomson Asia Development Inc.:

The Company and Tomson Asia Development Inc. jointly leased B1 and B2 of Tomson Premises to Carrefour. In late December 2007, Carrefour filed the litigation for damages indemnity in an excuse to reach a Lease Agreement, claiming our Company and Tomson Asia Development Inc. to jointly pay NT$116.697 million. That case is being tried by Taiwan Taipei District Court.

(C) The claim to Carrefour to pay for the rent:

The Company brought the civil action against Carrefour regarding the owed rental payment by Carrefour due to the leasing of B1 and B2 of Tomson Premises in amount of NT$47,148 thousand. This case is being tried by Taipei District Court.

B. Litigation in Mainland China:

In the case of the equity dispute with Beijing Tai Feng Hui Zhong Mansion Co. Ltd., the First Intermediate People's Court of Beijing ruled in its judgment in December 2008 in disfavor of our Company. The Company's Attorney-at-Law holds that the Court was apparently faulty in adopting the applicable laws. As advised by the Attorney-at-Law, the Company already duly appealed in January 2009. The appellate court opened the court section on June 2, 2009. The Company is still waiting for the judgment results.

C. Litigation at Hong Kong:

(A) The case for repayment and indemnity of South Horizons Hong Kong; the case for land on Shouson Hill Hong Kong and for tortuous/ wrongful behavior damages indemnity, the case of reinstatement of shareholding with PacMos Technologies Holdings Ltd.

Court of Final Appeal opened the court section on September 9, 2009 and had a written judgment on September 14 stating that the issue claimed by the Company shall follow the regular litigation procedure not a simple litigation procedure. Therefore, the court overruled the Company's application for appeal and turned the case to Hong Kong Commercial Court.

Hong Kong Commercial Court had the first judgment meeting on January 29, 2010. The parties in the litigation exchanged the List of Documents on April 7. The second judgment meeting will be held on July 23.

(B) In the case of claim with the Conrad Hotel Hong Kong, the court is scheduling the hearing session at the moment.

(C) In the case if invalid loan with Nordbank, tortuous/ wrongful behavior and damages indemnity:

The Defendant's Attorney-at-Law already requested the Company to withdraw the litigation through a letter dated August 2, 2007. The Company's Attorney-at-Law replied by requesting more detailed records and documents about the loans. The Company has not yet received any response so far.

(D) The claim case of Maton Limited is being under tried by court.

(E) CPE liquidation case: The case is under trial process at the moment.

D. Litigation in British Virgin Islands:

The Defendant already appealed to the Appeals Court in November 2007 for permit of appeal to British Privy Council. The British Privy Council already made the decision on November 26, 2009 that the litigation of BVI should have been stopped and will proceed until the judgment results of Hong Kong are known.

E. Lawsuit in the aspect of USA:

USA JP Morgan Chase Bank, N.A. case:

The company has reached an agreement with JP Morgan Chase Bank in April 2006 for 3.5 million US dollars. The main contents of the settlement is that the company agrees to make the first payment from the remaining amount in the trust account after the termination of the reorganization procedures of the US subsidiary PUSA. If the remaining amount is less than 2.5 million US dollars, the company agrees to make up for the difference. The remaining amount shall be paid in three equal installments within 90 days, 180 days and 270 days from the first payment date.

The bankruptcy procedure of PUSA was terminated in the beginning of June, 2009. The Company made the payment from the trust account in amount of US$2,834,964.31 and US$547.54 on June 22 and July 9, 2009, respectively. Total amount was US$2,835,511.85. The remaining balance was paid equally in three installments which were paid off on September 16, 2009, December 14, 2009, and March 14, 2010, respectively.

**Director: Continental Engineering Corporation (CEC)**

A. The owner had a disagreement with CEC about whether a barrier to construction would influence the achievement of CEC's construction project "Hua-Jiang Bridge (the 4th project) and Add-on Works" for the Construction and Planning Agency, Ministry of the Interior. Based on the third item of article 28 of the contract, CEC's position is that if the reason construction cannot begin is not due to CEC, CEC can terminate the contract, and in January 2005, CEC filed a dispute appeal and mediation application with the Public Construction Commission, Executive Yuan. CEC decided not to adopt the intercession in the first quarter of 2006, and it lodged an appeal with the Taipei District Court.

In the opinion of the lawyer, the controversy over this project is because the Water Resources Agency disagreed with CEC's decision on dike breaking, and the owner announced the cancellation of construction in March and April 2006. Therefore, the above-mentioned circumstances are not due to CEC. CEC should keep a positive attitude since "the beginning of construction cannot be achieved" and "termination of the contract because construction cannot begin is not due to CEC."

The estimated loss was $53,114 thousand and $50,000 thousand in 2005 and 2004, respectively.

On October 20, 2008, the Taipei District Court decided in favor of the Company. Therefore, the Construction and Planning Agency should pay damages of $23,990 thousand to CEC, and relieve CEC from any further responsibility. However, the Construction and Planning Agency and CEC both lodged an appeal with the Taiwan High Court.

B. Because of insurgent activities in the area in India of CEC's construction projects 6060P and 6060Q, CEC's staff was under constant threat and CEC could not continue the construction. Therefore, after consulting with a local lawyer, CEC issued a letter of termination to the National Highway Authority of India (NHAI) on June 27, 2009.

In 2009, CEC recognized a loss of 143,368 thousand. As of December 31, 2009, NHAI agreed to terminate the contract. The case is closed.

**Director: Taiwan Sugar Corporation (TSC)**

A. In January and June 2008, certain pieces of land of TSC located in Siaogang Dist., Kaohsiung City and Annan Dist., Tainan City are involved in disputes between TSC and the Tax Authority relating to the application of Land Tax Law to the use for agricultural of residential areas purpose. As a result, the Tax Authority imposed Land Value Tax on TSC amounting to $131,066 and $21,663 from 2003 to 2007, respectively. TSC has paid the additional tax (shown as other assets-others) but petitioned these disputes with the Tax Authority. In 2009, a partial amount of the tax paid by TSC amounting to $10,848 for Siaogang Dist. in Kaohsiung City and $3,299 for Annan Dist. in Tainan City was ordered to be refunded to TSC as a result of the appeal filed by TSC. However, TSC refuses to accept the decision and has filed an administrative lawsuit with the Administrative Court.

B. In September 2008, certain pieces of land of TSC located in Cianjhen Dist., Kaohsiung City are involved in dispute between TSC and the Tax Authority, relating to application of the Land Tax Law to the lands to which special tax rates apply pursuant to Article 18. As a result, the Tax Authority imposed Land Value Tax on TSC amounting to $69,564 from 2003 to 2007. TSC has paid the additional tax (shown as other assets-others) and appealed such dispute with the Tax Authority. In April 2009, the Tax Authority has maintained its original decision. In May 209, TSC petitioned to the Tax Authority for the dispute.

C. TSC entered into a co-construction contract with Taiwan Takechi Sugar Foundation ( "the Foundation" ) to build a shopping center. Under the contract, the Foundation requested TSC to pay the remaining balance of $89,473. However, certain buyers of the shopping center made an appeal to return the store spaces to TSC and the Foundation. Based on the appeal decision, the buyers can return the store spaces to the contractors. As a result, the payment for the remaining balance of $89,473 was suspended by TSC. Consequently, the Foundation filed a legal claim against TSC. The Foundation filed a petition with the high court after the district court had dismissed the claim of the Foundation. In the opinion of TSC's legal counsel, the ultimate outcome of this lawsuit cannot be reasonably determined at present. If the high court renders a favorable decision to the Foundation, TSC will be liable for $89,473 plus additional interest computed at an annual rate of 5 %.

The corporate stockholders including PWSE, CEC and TSC are independent of the Company's finance, so that litigation cases do not have significant influence on the Company's stockholders' right or security prices.

3. Directors, supervisors, managers and major shareholders with shareholding over 10% violate Article 157 of the Securities and Exchange Law of Taiwan in 2008, 2009 and up to the date the annual report is issued：None

**(13) Other Major Risks: None**

## 8. Miscellaneous Important Items：None

# 9. Special Disclosure

## 1. Information on the Affiliated Companies: None

## 2. Status of Private Placements for Securities: None

## 3. Holding or Disposal of THSRC Shares Held by the Subsidiary Companies: None

## 4. Other Necessary Disclosures: None

## 5. Events Had Significant Impacts on Shareholders' Right or Security Prices as Stated in Item 2 Paragraph 2 of Article 36 of Securities and Exchange Law of Taiwan: None

Corporate Headquarter
Address: 13F, No. 66, Jingmao 2nd Rd., Nangang District, Taipei 11568, Taiwan, R.O.C.
Website: www.thsrc.com.tw
Tel: +886-2-8789-2000

THSRC Spokesperson: Ted Chia
Title: Vice President
Tel: +886-2-8725-1178
Email: Spokesman_MBOX@thsrc.com.tw

THSRC Deputy Spokesperson: Christina Tao
Title: Manager
Tel: +886-2-8725-1178
Email: Spokesman_MBOX@thsrc.com.tw

Share Transfer Agent and Registrar
Company: Transfer Agency Department, Fubon Securities
Address: 2F, No. 17, Shu Chung Street, Chungchen District, Taipei City
Website: www.fbs.com.tw
Tel: +886-2-2361-1300

Auditors
Auditors: Agnes Yang, Fion Chen
Company: KPMG
Address: 68F, No. 7, Sec. 5, Xinyi Rd., Taipei 11049, Taiwan, R.O.C.
Website: www.kpmg.com.tw
Tel: +886-2-8101-6666

THSRC's ECB Marketplace: Singapore Stock Exchange
Website: www.sgxnet.sgx.com

**Taiwan High Speed Rail Corporation**

**Chairman**