

# **Taiwan High Speed Rail Corporation**

**Financial Statements for the  
Years Ended December 31, 2019 and 2018 and  
Independent Auditors' Report**

## INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders  
Taiwan High Speed Rail Corporation

### Opinion

We have audited the accompanying financial statements of Taiwan High Speed Rail Corporation (the "Corporation"), which comprise the balance sheets as of December 31, 2019 and 2018, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as of December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards ("IFRS"), International Accounting Standards ("IAS"), Interpretations of IFRS ("IFRIC"), and Interpretations of IAS ("SIC") endorsed by the Financial Supervisory Commission ("FSC") of Taiwan, the Republic of China ("ROC").

### Basis of Opinion

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

### Key Audit Matter

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2019. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The descriptions of the key audit matter of the 2019 financial statements are as follows:

#### Provision for Stabilization Reserve

Refer to Note 4, n. for further information on accounting policy on provision for stabilization reserve; Note 5, b. for further information on the accounting uncertainty associated with the judgments, and estimates and assumptions about provision for stabilization reserve. Refer to Note 17 for the details of such provision.

According to the Taiwan North-South High Speed Rail Construction and Operation Agreement (the “C&O Agreement”), which was amended on July 27, 2015, the Corporation established the financial stabilization mechanism (“FSM”) in 2016 in order to serve the purpose of returning the major portion of the excess earnings, which is defined under the C&O Agreement, to the ROC government. Started in 2017, the Corporation reports the status of the implementation of the aforementioned FSM to the Ministry of Transportation and Communications (“MOTC”), including the provision, contribution, and accumulated balance of the stabilization reserve in accordance with the C&O Agreement. Because 1) the provision for the stabilization reserve is related to the profitability of the remaining concession period under the C&O Agreement, 2) the reserve amount is material and can vary significantly, depending on the expiration or termination of the C&O Agreement, and 3) the implementation of the FSM involves critical accounting judgments and estimates, the recognition of provision for stabilization reserve is deemed a key audit matter.

Since earnings to be made in the remaining concession period, which will end in the year 2068 or any year where the C&O Agreement might be early terminated, cannot be reliably estimated, the stabilization reserve, totaling NT\$16,084,658 thousand as of December 31, 2019, was provided based on the earnings achieved in 2019 and on the requirements as stipulated in the C&O Agreement.

We evaluated whether the measurement method used by the management for making the accounting estimates related to the abovementioned provision was reasonable. In addition, on a sampling basis, we: (1) reviewed the C&O Agreement related to the movement of the provision, (2) recalculated the amount of the provision to ensure the accuracy of the balance, and (3) inspected the movement of the provision from the balance sheet date to the report date to evaluate whether the balance of the provision at the balance sheet date was appropriately accrued.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRS, IAS, IFRIC, and SIC endorsed and issued into effect by the FSC of the ROC, and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

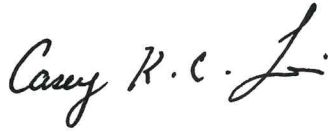
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the 2019 financial statements and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Mei-Yen Chiang and Kwan-Chung Lai.



Deloitte & Touche  
Taipei, Taiwan  
Republic of China



February 19, 2020

Notice to Readers

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

*For the convenience of readers, the independent 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 independent Chinese-language auditors' report and financial statements shall prevail.*

# TAIWAN HIGH SPEED RAIL CORPORATION

## BALANCE SHEETS

(In Thousands of New Taiwan Dollars)

	December 31			
	2019		2018	
ASSETS	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Note 6)	\$ 16,271,676	4	\$ 6,947,850	2
Financial assets at fair value through profit or loss (Note 7)	330,443	-	327,446	-
Notes and accounts receivable (Note 21)	333,092	-	505,565	-
Current tax assets (Note 4)	166,783	-	166,783	-
Inventories (Note 8)	2,056,045	1	2,028,925	1
Other financial assets (Notes 9 and 28)	22,207,764	5	11,881,545	2
Other current assets (Notes 13 and 27)	<u>1,344,333</u>	-	<u>938,435</u>	-
Total current assets	<u>42,710,136</u>	<u>10</u>	<u>22,796,549</u>	<u>5</u>
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment (Note 10)	125,047	-	98,085	-
Right-of-use assets (Note 11)	628,988	-	-	-
Operating concession asset (Notes 12 and 27)	390,113,063	88	401,168,964	93
Computer software, net (Note 12)	54,413	-	54,245	-
Deferred tax assets (Notes 4 and 23)	7,316,212	2	6,808,133	2
Other financial assets (Notes 9 and 28)	2,102,503	-	2,083,255	-
Other non-current assets (Note 13)	<u>9,240</u>	-	<u>47,838</u>	-
Total non-current assets	<u>400,349,466</u>	<u>90</u>	<u>410,260,520</u>	<u>95</u>
<b>TOTAL</b>	<u>\$ 443,059,602</u>	<u>100</u>	<u>\$ 433,057,069</u>	<u>100</u>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Short-term borrowings (Note 14)	\$ 64,980	-	\$ 147,865	-
Accounts payable	256,338	-	274,404	-
Operating concession liabilities (Notes 16 and 27)	777,511	-	731,182	-
Other payables (Notes 14 and 18)	3,197,362	1	3,031,763	1
Payable for construction (Note 27)	942,141	-	535,830	-
Current tax liabilities	194,722	-	123,204	-
Provisions (Note 17)	6,367,937	2	283,279	-
Current portion of long-term bills payable (Note 14)	-	-	7,986,870	2
Other current liabilities (Notes 11, 18, 21 and 27)	<u>1,477,915</u>	-	<u>699,649</u>	-
Total current liabilities	<u>13,278,906</u>	<u>3</u>	<u>13,814,046</u>	<u>3</u>
<b>NON-CURRENT LIABILITIES</b>				
Bonds payable (Note 15)	7,990,329	2	-	-
Long-term debt (Notes 14 and 27)	276,100,317	62	276,093,677	64
Provisions (Note 17)	10,000,000	2	9,560,897	2
Lease liabilities (Notes 11 and 27)	447,175	-	-	-
Long-term interest payable (Note 14)	8,450,080	2	8,921,744	2
Operating concession liabilities (Notes 16 and 27)	55,263,201	13	54,914,835	13
Other non-current liabilities (Notes 18 and 19)	<u>452,325</u>	-	<u>338,857</u>	-
Total non-current liabilities	<u>358,703,427</u>	<u>81</u>	<u>349,830,010</u>	<u>81</u>
Total liabilities	<u>371,982,333</u>	<u>84</u>	<u>363,644,056</u>	<u>84</u>
<b>EQUITY (Note 20)</b>				
Capital stock				
Common stock	<u>56,282,930</u>	<u>13</u>	<u>56,282,930</u>	<u>13</u>
Capital surplus	<u>172,981</u>	-	<u>172,981</u>	-
Retained earnings				
Legal reserve	2,469,719	-	1,400,081	-
Unappropriated earnings	<u>12,151,639</u>	<u>3</u>	<u>11,557,021</u>	<u>3</u>
Total retained earnings	<u>14,621,358</u>	<u>3</u>	<u>12,957,102</u>	<u>3</u>
Total equity	<u>71,077,269</u>	<u>16</u>	<u>69,413,013</u>	<u>16</u>
<b>TOTAL</b>	<u>\$ 443,059,602</u>	<u>100</u>	<u>\$ 433,057,069</u>	<u>100</u>

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

# TAIWAN HIGH SPEED RAIL CORPORATION

## STATEMENTS OF COMPREHENSIVE INCOME

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

	For the Years Ended December 31			
	2019		2018	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 21 and 27)	\$ 47,507,390	100	\$ 45,415,007	100
OPERATING COSTS (Notes 22 and 27)	<u>(25,762,687)</u>	<u>(54)</u>	<u>(25,081,394)</u>	<u>(55)</u>
GROSS PROFIT	21,744,703	46	20,333,613	45
OPERATING EXPENSES (Note 22)	<u>(1,232,750)</u>	<u>(3)</u>	<u>(1,188,649)</u>	<u>(3)</u>
INCOME FROM OPERATIONS	<u>20,511,953</u>	<u>43</u>	<u>19,144,964</u>	<u>42</u>
NON-OPERATING INCOME AND EXPENSES				
Interest income (Note 22)	162,700	-	106,859	-
Interest expense (Notes 14, 22 and 27)	(6,454,624)	(13)	(6,618,272)	(14)
Stabilization reserve expense (Note 17)	(6,523,761)	(14)	(5,415,046)	(12)
Other gains and losses (Note 22)	<u>78,840</u>	<u>-</u>	<u>93,318</u>	<u>-</u>
Total non-operating income and expenses	<u>(12,736,845)</u>	<u>(27)</u>	<u>(11,833,141)</u>	<u>(26)</u>
INCOME BEFORE INCOME TAX	7,775,108	16	7,311,823	16
INCOME TAX BENEFIT (Note 23)	<u>231,925</u>	<u>1</u>	<u>3,384,558</u>	<u>7</u>
NET INCOME	<u>8,007,033</u>	<u>17</u>	<u>10,696,381</u>	<u>23</u>
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plan	(48,861)	-	(103,820)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 23)	<u>9,772</u>	<u>-</u>	<u>23,323</u>	<u>-</u>
Other comprehensive loss for the year, net of income tax	<u>(39,089)</u>	<u>-</u>	<u>(80,497)</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 7,967,944</u>	<u>17</u>	<u>\$ 10,615,884</u>	<u>23</u>

(Continued)

# TAIWAN HIGH SPEED RAIL CORPORATION

## STATEMENTS OF COMPREHENSIVE INCOME

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

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	For the Years Ended December 31			
	2019		2018	
	Amount	%	Amount	%
EARNINGS PER SHARE (Note 24)				
Basic earnings per share	\$ <u>1.42</u>		\$ <u>1.90</u>	

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

(Concluded)



## TAIWAN HIGH SPEED RAIL CORPORATION

### STATEMENTS OF CHANGES IN EQUITY

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

	Capital Stock		Retained Earnings			Total Equity
	Common Stock	Capital Surplus	Legal Reserve	Unappropriated Earnings	Total	
BALANCE AT JANUARY 1, 2019	\$ 56,282,930	\$ 172,981	\$ 1,400,081	\$ 11,557,021	\$ 12,957,102	\$ 69,413,013
Appropriations of 2018 earnings						
Legal reserve	-	-	1,069,638	(1,069,638)	-	-
Cash dividends to shareholders - NT\$1.12 per share	-	-	-	(6,303,688)	(6,303,688)	(6,303,688)
	-	-	1,069,638	(7,373,326)	(6,303,688)	(6,303,688)
Net income for the year ended December 31, 2019	-	-	-	8,007,033	8,007,033	8,007,033
Other comprehensive loss for the year ended December 31, 2019	-	-	-	(39,089)	(39,089)	(39,089)
Total comprehensive income for the year ended December 31, 2019	-	-	-	7,967,944	7,967,944	7,967,944
BALANCE AT DECEMBER 31, 2019	<u>\$ 56,282,930</u>	<u>\$ 172,981</u>	<u>\$ 2,469,719</u>	<u>\$ 12,151,639</u>	<u>\$ 14,621,358</u>	<u>\$ 71,077,269</u>
BALANCE AT JANUARY 1, 2018	\$ 56,282,930	\$ 172,981	\$ 866,090	\$ 5,696,348	\$ 6,562,438	\$ 63,018,349
Appropriations of 2017 earnings						
Legal reserve	-	-	533,991	(533,991)	-	-
Cash dividends to shareholders - NT\$0.75 per share	-	-	-	(4,221,220)	(4,221,220)	(4,221,220)
	-	-	533,991	(4,755,211)	(4,221,220)	(4,221,220)
Net income for the year ended December 31, 2018	-	-	-	10,696,381	10,696,381	10,696,381
Other comprehensive loss for the year ended December 31, 2018	-	-	-	(80,497)	(80,497)	(80,497)
Total comprehensive income for the year ended December 31, 2018	-	-	-	10,615,884	10,615,884	10,615,884
BALANCE AT DECEMBER 31, 2018	<u>\$ 56,282,930</u>	<u>\$ 172,981</u>	<u>\$ 1,400,081</u>	<u>\$ 11,557,021</u>	<u>\$ 12,957,102</u>	<u>\$ 69,413,013</u>

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

# TAIWAN HIGH SPEED RAIL CORPORATION

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

	For the Years Ended December 31	
	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	\$ 7,775,108	\$ 7,311,823
Adjustments for:		
Depreciation	202,294	35,921
Amortization	13,798,850	13,740,294
Write-downs (reversal) of inventories	22,650	(87)
Interest expense	6,454,624	6,618,272
Interest income	(162,700)	(106,859)
Loss on foreign currency exchange, net	11,878	4,185
Stabilization reserve expenses	6,523,761	5,415,046
Others	(2,700)	13,765
Changes in operating assets and liabilities		
Financial assets at fair value through profit or loss	(2,997)	(7,461)
Hedging financial instruments	-	5
Notes and accounts receivable	172,473	(158,331)
Inventories	(49,770)	(101,115)
Other current assets	(403,292)	17,726
Other non-current assets	2,571	(6,170)
Accounts payable	(16,575)	24,424
Other payables	150,065	34,429
Other current liabilities	625,036	37,632
Other non-current liabilities	(5,618)	(7,295)
Cash generated from operations	35,095,658	32,866,204
Interest received	149,679	101,781
Interest paid	(5,772,857)	(6,061,159)
Interest paid with respect to operating concession liabilities	(731,182)	(647,850)
Income tax paid	(194,844)	(42,075)
Net cash generated from operating activities	<u>28,546,454</u>	<u>26,216,901</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Increase in other financial assets	(10,366,158)	(2,465,579)
Acquisition of property, plant and equipment	(67,192)	(26,361)
Proceeds from disposal of property, plant and equipment	1	182
Acquisition of intangible assets	(2,328,694)	(1,864,550)
Proceeds from disposal of intangible assets	1,266	-
Net cash used in investing activities	<u>(12,760,777)</u>	<u>(4,356,308)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net (decrease) increase in short-term borrowings	(79,700)	105,249
Proceeds from issuance of bonds	8,000,000	-
Repayment of long-term debt	-	(10,000,000)

(Continued)

# TAIWAN HIGH SPEED RAIL CORPORATION

## STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

	For the Years Ended	
	December 31	
	2019	2018
Repayment of long-term bills payable	\$ (8,000,000)	\$ (8,000,000)
Repayment of the principal portion of lease liabilities	(148,863)	-
Increase in other non-current liabilities	70,231	15,468
Cash dividends	<u>(6,303,688)</u>	<u>(4,221,220)</u>
Net cash used in financing activities	<u>(6,462,020)</u>	<u>(22,100,503)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>169</u>	<u>(157)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	9,323,826	(240,067)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>6,947,850</u>	<u>7,187,917</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 16,271,676</u>	<u>\$ 6,947,850</u>

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

(Concluded)

# TAIWAN HIGH SPEED RAIL CORPORATION

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

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### 1. GENERAL

Taiwan High Speed Rail Corporation (the “Corporation”) was incorporated in Taipei City on May 11, 1998. Under the Taiwan North-South High Speed Rail Construction and Operation Agreement (the “C&O Agreement”) and the Taiwan North-South High Speed Rail Station Zone Development Agreement (the “SZD Agreement”) entered into between the Corporation and the Ministry of Transportation and Communications (“MOTC”) on July 23, 1998, the Corporation was granted the authority to construct and operate the high speed rail (“HSR”) and relevant ancillary facilities. Under the Fourth Amendment to the C&O Agreement and the Taiwan North-South High Speed Rail Station Zone Development Termination Agreement (“SZD Termination Agreement”) entered into between the Corporation and the MOTC on July 27, 2015, effective on October 30, 2015, the construction and operation concession period of the HSR was extended from 35 years to 70 years until the year 2068.

On January 5, 2007, the Corporation started its commercial operations from the Banqiao Station to the Zuoying Station. On March 2, 2007, the Corporation started operating its railway service at the Taipei Station. On December 1, 2015, the Corporation started operating its railway service at the Miaoli, Changhua and Yunlin stations. On July 1, 2016, the Corporation started operating its railway service at the Nangang Station.

The Corporation’s stock has been listed and traded on the Taiwan Stock Exchange since October 27, 2016.

### 2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Corporation’s board of directors on February 19, 2020.

### 3. APPLICATION OF NEW, AMENDED AND REVISED STANDARDS AND INTERPRETATIONS

- a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) (collectively, the “IFRSs”) endorsed and issued into effect by the Financial Supervisory Commission (FSC)

Except for the following, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC did not have any material impact on the Corporation’s accounting policies:

- IFRS 16 “Leases”

IFRS 16 sets out the accounting standards for leases that supersedes IAS 17 and IFRIC 4 “Determining whether an Arrangement contains a Lease” as well as a number of related interpretations. Refer to Note 4 for information relating to the relevant accounting policies.

### Definition of a lease

The Corporation elects to apply the guidance of IFRS 16 in determining whether contracts are, or contain, a lease only to contracts entered into (or changed) on or after January 1, 2019. Contracts identified as containing a lease under IAS 17 and IFRIC 4 are not reassessed and are accounted for in accordance with the transitional provisions under IFRS 16.

### The Corporation as lessee

The Corporation recognizes right-of-use assets and lease liabilities for all leases on the balance sheets except for low-value and short-term leases whose payments are recognized as expenses on a straight-line basis. On the statements of comprehensive income, the Corporation will present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the statements of cash flows, cash payments for the principal portion of lease liabilities will be classified within financing activities; cash payments for the interest portion will be classified within operating activities. Prior to the application of IFRS 16, payments under operating lease contracts are recognized as expenses on a straight-line basis. Cash flows for operating leases are classified within operating activities on the statements of cash flows.

The Corporation elects to apply IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized in retained earnings on January 1, 2019. Comparative information is not be restated.

Lease liabilities were recognized on January 1, 2019 for leases previously classified as operating leases under IAS 17. Lease liabilities are measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid lease payments. The Corporation applies IAS 36 for assessing impairment of all right-of-use assets.

The Corporation also applies the following practical expedients:

- 1) The Corporation applies a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.
- 2) The Corporation accounts for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.
- 3) The Corporation uses hindsight, such as in determining lease terms, to measure lease liabilities.

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognized on January 1, 2019 is 0.86%. The difference between the lease liabilities recognized and the future minimum lease payments of non-cancellable operating lease on December 31, 2018 is explained as follows:

The future minimum lease payments of non-cancellable operating lease on December 31, 2018	\$ 765,427
Less: Recognition exemption for short-term leases	(3,811)
Less: Recognition exemption for leases of low-value assets	<u>(99)</u>
Undiscounted amounts on January 1, 2019	<u>\$ 761,517</u>
Discounted amounts using the incremental borrowing rate on January 1, 2019	<u>\$ 739,619</u>
Lease liabilities recognized on January 1, 2019	<u>\$ 739,619</u>

The Corporation as lessor

The Corporation does not make any adjustments for leases in which it is a lessor and it accounts for those leases with the application of IFRS 16 starting from January 1, 2019.

The impact on assets and liabilities as of January 1, 2019 from the initial application of IFRS 16 is set out as follows:

	<b>As Originally Stated on January 1, 2019</b>	<b>Adjustments Arising from Initial Application</b>	<b>Adjusted on January 1, 2019</b>
Right-of-use assets	\$ -	\$ 781,422	\$ 781,422
Prepayments - current	901,172	(10,322)	890,850
Prepayments - non-current	31,481	<u>(31,481)</u>	-
Total effect on assets		<u>\$ 739,619</u>	
Lease liabilities - current	-	\$ 152,673	152,673
Lease liabilities - non-current	-	<u>586,946</u>	586,946
Total effect on liabilities		<u>\$ 739,619</u>	

- b. The IFRSs endorsed by the FSC for application starting from 2020

<b>Effective Date Announced by IASB</b>	<b>New IFRSs</b>
January 1, 2020 (Note 1)	Amendments to IFRS 3 “Definition of a Business”
January 1, 2020 (Note 2)	Amendments to IFRS 9, IAS 39 and IFRS 7 “Interest Rate Benchmark Reform”
January 1, 2020 (Note 3)	Amendments to IAS 1 and IAS 8 “Definition of Material”

Note 1: The Corporation shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

Note 2: The Corporation shall apply these amendments retrospectively for annual reporting periods beginning on or after January 1, 2020.

Note 3: The Corporation shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.

As of the date the financial statements were authorized for issue, the Corporation evaluated that no significant impact on its financial position and financial performance is anticipated as a result of the initial adoption of the other standards or interpretations.

- c. New IFRSs in issue but not yet endorsed and issued into effect by the FSC

<b>Effective Date Announced by IASB (Note)</b>	<b>New IFRSs</b>
January 1, 2021	IFRS 17 “Insurance Contracts”
January 1, 2022	Amendments to IAS1 “Classifying Liabilities as Current or Non-current”
To be determined by IASB	Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”

Note: Unless stated otherwise, the above New IFRSs are effective for annual reporting periods beginning on or after their respective effective dates.

As of the date the financial statements were authorized for issue, the Corporation continues in evaluating the impact on its financial position and financial performance as a result of the initial adoption of the related standards or interpretations. The related impact will be disclosed when the Corporation completes the evaluation.

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- a. Statement of compliance

The financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs as endorsed and issued into effect by the FSC.

- b. Basis of preparation

The financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

- c. Classification of current and non-current assets and liabilities

Current assets include cash, cash equivalents, assets held for trading purposes and assets that are expected to be converted into cash or consumed within 12 months from the balance sheet date; assets other than current assets are non-current assets. Current liabilities include liabilities incurred for trading purposes and obligations that are expected to be settled within 12 months from the balance sheet date; liabilities other than current liabilities are non-current liabilities.

- d. Foreign currencies

Foreign-currency transactions other than derivative contracts are recorded in the New Taiwan dollars at the rates of exchange in effect when the transactions occur. Gains or losses resulting from application of different exchange rates when foreign-currency assets and liabilities are converted or settled are recognized in profit or loss in the year of conversion or settlement. At year-end, balances of monetary foreign-currency assets and liabilities are restated using prevailing exchange rates and the resulting differences are recognized in profit or loss.

- e. Cash equivalents

Cash equivalents include time deposits and repurchase agreement collateralized by government bonds with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

f. Financial asset at fair value through profit or loss

Financial asset is classified as at fair value through profit or loss (FVTPL) when the financial asset is mandatorily classified or it is designated as at FVTPL.

Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses arising on re-measurement recognized in profit or loss. The net gain or loss recognized in profit or loss contains any dividend or interest earned on the financial asset.

The fair values of open-end money market funds are determined using net asset values at balance sheet date.

g. Impairment of accounts receivable

Receivables are mainly generated from customers who purchased tickets and merchandise through credit cards; these receivables are assessed for lifetime Expected Credit Loss (i.e. ECL).

Expected credit loss reflects the weighted average of credit losses with the respective risks of default occurring as the weights. Lifetime ECL represents the expected credit loss that will result from all possible default events over the expected life of a financial instrument.

h. Inventories

Inventories, consisting of consumptive and non-consumptive spare parts and supplies for internal operation and merchandise for sale, are stated at the lower of weighted-average cost or net realizable value.

i. Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation. Major additions, replacement and improvements are capitalized, while maintenance and repairs are expensed currently.

Depreciation is recognized so as to write off the cost of the assets less their residual values over their useful lives, and it is computed using the straight-line method over the following estimated useful lives: Machinery and equipment - 3 to 5 years; transportation equipment - 4 years; office equipment - 3 to 10 years; leasehold improvements - 2 to 5 years; other equipment - 3 to 35 years.

Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss in the current year.

j. Intangible assets

1) Operating concession asset

The Corporation was granted authority to construct and operate the HSR and relevant ancillary facilities under the C&O Agreement and therefore the Corporation's operation is under the scope of IFRIC 12 "Service Concession Arrangements". According to the C&O Agreement, the Corporation is required to share profit with the MOTC for the development and construction of HSR infrastructure and facilities, thus profit sharing payments are considered as an acquisition cost of the concession. The minimum commitment to profit sharing payments was discounted and recognized as intangible assets - operating concession asset with corresponding operating concession liabilities.



The Fourth Amendment of the C&O Agreement was effective on October 30, 2015. The construction and operation concession period of the HSR was extended from 35 years to 70 years until the year 2068. Receivable due from shortfall charges with respect to statutory concession tickets is considered as cost of the extension of concession period and recognized as operating concession asset - period extension cost.

The cost less residual value of the operating concession asset is amortized on a straight-line basis over the estimated useful lives which range as follows: Land improvements - 15 to 61.5 years; buildings - 10 to 61.5 years; machinery and equipment - 2.5 to 35 years; transportation equipment - 3 to 35 years; other equipment - 5 years; profit sharing payments - 61.5 years; period extension cost (shortfall charge with respect to statutory concession tickets) - 52.75 years (the remaining concession period started from October 2015).

Operating concession asset is measured initially at cost model and then amortized during the concession period. Major additions, replacement and improvements are capitalized, while maintenance and repairs are expensed currently. On de-recognition of operating concession asset, the difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss.

## 2) Computer software

Computer software is amortized on a straight-line basis over 5 years.

## k. Operating concession liabilities

According to the C&O Agreement, the Corporation is required to share profit with the MOTC for the development and construction of HSR infrastructure and facilities; thus, profit sharing payments are considered as an acquisition cost of the concession. The acquisition cost is recognized as operating concession asset (an intangible asset described in item j.1) above) with corresponding operating concession liabilities. The liability was measured at the discounted amount of the profit sharing payments at the date of HSR commercial operation. Subsequent interest is computed by using the effective interest method.

The Fourth Amendment of the C&O Agreement and the SZD Termination Agreement were effective on October 30, 2015. As the value of returned superficies is allowed to offset profit sharing payable each year, it is recognized as a deduction of the operating concession liabilities (value of returned superficies for offset of profit sharing payable).

## l. Impairment of assets

The Corporation estimates the recoverable amount of an asset at the balance sheet date if there was an indication that it might be impaired.

Recoverable amount is the higher of value in use and fair value less costs to sell. When the carrying amount of an asset exceeds its value in use, the Corporation further estimates its fair value less costs to sell. If the carrying amount of an asset exceeds its fair value less costs to sell, an impairment loss will be recognized as the excess of the carrying amount over the higher of value in use or fair value less costs to sell.

When an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized on the asset in prior years.

m. Hedging derivatives

Hedging derivatives are measured at fair value. Changes in fair value of hedging derivatives are recognized in profit or loss currently.

n. Provisions

Provisions are recognized when the Corporation has a present obligation (legal or constructive) as a result of a past event, it is probable that the Corporation will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

o. Revenue recognition

Passenger fares received or receivable are recognized as revenue when transport services are provided. Amounts received for passenger tickets sold but not yet used are recorded as contract liabilities.

Sales of tickets that grant reward credits to customers under the Corporation's reward scheme are accounted for as multiple element revenue transactions and the fair value of the consideration received or receivable is allocated between the tickets sold and the reward credits granted. The transaction price of the reward credits is allocated to the contract's performance obligations based on the relatively separate sales price. Such consideration is not recognized as revenue at the time of the initial sale transaction but is recognized as contract liabilities; revenue is recognized when the reward credits are redeemed and the Corporation's obligations have been fulfilled.

p. Lease

2019

At the inception of a contract, the Corporation assesses whether the contract is, or contains, a lease. For a contract that contains a lease component and non-lease components, the Corporation allocates the consideration in the contract to each component on the basis of the relative stand-alone price and accounts for each component separately.

1) The Corporation as lessor

Leases are classified as finance leases whenever the terms of a lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

2) The Corporation as lessee

The Corporation recognizes right-of-use assets and lease liabilities for all leases at the commencement date of a lease, except for short-term leases and low-value asset leases accounted for applying a recognition exemption where lease payments are recognized as expenses on a straight-line basis over the lease terms. Right-of-use assets are initially measured at cost, which comprises the initial measurement of lease liabilities adjusted for lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs needed to restore the underlying assets, and less any lease incentives received. Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses and adjusted for any re-measurement of the lease liabilities.

Right-of-use assets are depreciated using the straight-line method from the commencement dates to the earlier of the end of the useful lives of the right-of-use assets or the end of the lease terms.

Lease liabilities are initially measured at the present value of the lease payments, which comprise fixed payments. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Corporation uses the lessee's incremental borrowing rate.

Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms.

## 2018

### 1) The Corporation as lessor

Rental income from operating leases is recognized over the term of the relevant lease.

### 2) The Corporation as lessee

Operating lease payments are recognized as expenses over the lease term.

### q. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Other than the borrowing costs described above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

### r. Government grants

Government grants are not recognized until there is reasonable assurance that the Corporation will comply with the conditions attached to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Corporation recognizes as expenses the related costs for which the grants are intended to compensate.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Corporation with no future related costs are recognized in profit or loss in the period in which they become receivable.

### s. Retirement benefit costs

Payments of contributions to a defined contribution plan are recognized as an expense when employees have rendered service entitling them to the contributions. Defined benefit costs under a defined benefit plan are recognized based on actuarial calculations.

t. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

1) Current tax

Current tax payable depends on the current taxable income. Taxable income is different from the net income before tax on the statement of comprehensive income for the reason that certain revenue and expenses are taxable or deductible items in other period, or not taxable or deductible items pursuant to related Income Tax Law. The Corporation's current tax liabilities are calculated by the legislated tax rate on the balance sheet date.

Pursuant to the Income Tax Law, an additional tax at 5% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, unused loss carryforwards and personnel training expenditures to the extent that it is probable that taxable income will be available against which those deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liabilities are settled or the assets are realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Corporation expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

## **5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the Corporation's accounting policies which are described in Note 4, the management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

a. Controversial overtime

As of December 31, 2019 and 2018, the Corporation recognized a provision for controversial overtime both in the amount of \$283,279 thousand. The estimated provision could differ from the actual amount payable which is subject to the result of the administrative judgment or the agreement to be signed with the employees. Refer to Note 17 for further information.

b. Stabilization reserve

As of December 31, 2019 and 2018, the Corporation recognized a provision for stabilization reserve in an amount of \$16,084,658 thousand and \$9,560,897 thousand, respectively, in accordance with the stabilization mechanism under the C&O Agreement. The actual payment for the stabilization reserve may change and is subject to the profitability for the remaining concession period which ends in the year 2068 or earlier if so terminated. Refer to Note 17 and Note 29 a. 3) for further information.

c. Income taxes

Deferred tax assets are recognized to the extent that it is probable that future taxable income will be available against which those deferred tax assets can be utilized. Assessment of the realization of the deferred tax assets includes consideration of future revenue growth, amount of tax credits that can be utilized and feasible tax planning strategies.

As of December 31, 2019 and 2018, the carrying amounts of deferred tax assets in relation to deductible temporary differences were \$7,316,212 thousand and \$6,808,133 thousand, respectively. As of December 31, 2019, the deductible temporary differences remained unchanged at \$1,181,032 thousand, and were not recognized as deferred tax assets according to the assessment of the realizability of deferred tax assets.

d. Amortization of intangible assets - operating concession asset

In the commercial operation of the transportation system, the Corporation has accumulated extensive experience, including the skills of self-maintenance. From this extensive experience, the Corporation is able to assess the anticipated beneficial usage, external economic changes, scheduling of railcar maintenance and impair and other factors. The Corporation has assessed that the amortization lives of certain operating concession asset as previously estimated need revision. In order to reasonably reflect future economic benefits and appropriately amortize the cost of the assets, the Corporation held a meeting of the Asset Review Committee on September 6 and December 4, 2018. The Committee thereby decided to modify the estimated amortization lives of certain operating concession asset. After the resolution of the Corporation's board of directors on January 23, 2019, the revised estimated amortization lives became effective on January 1, 2019. The adjustment of the estimated amortization lives of certain operating concession asset will increase the amortization expense by \$716,166 thousand and \$691,150 thousand, respectively, for the years ended December 31, 2019 and 2020.

## 6. CASH AND CASH EQUIVALENTS

	<u>December 31</u>	
	<b>2019</b>	<b>2018</b>
Cash on hand	\$ 88,890	\$ 148,780
Checking accounts	10	10
Demand deposits	481,618	113,952
Time deposits	8,158	8,108
Repurchase agreement collateralized by government bonds	<u>15,693,000</u>	<u>6,677,000</u>
	<u>\$ 16,271,676</u>	<u>\$ 6,947,850</u>

The interest rate intervals of cash and cash equivalents at the end of the reporting periods were as follows:

	<u>December 31</u>	
	<b>2019</b>	<b>2018</b>
Demand deposits	0.001%-0.33%	0.001%-0.50%
Time deposits	0.62%	0.62%
Repurchase agreement collateralized by government bonds	0.50%-0.56%	0.51%-0.62%

## 7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>December 31</u>	
	<b>2019</b>	<b>2018</b>
Open-end money market funds	<u>\$ 330,443</u>	<u>\$ 327,446</u>

The financial assets at FVTPL are mandatorily classified as FVTPL.

## 8. INVENTORIES

	<u>December 31</u>	
	<b>2019</b>	<b>2018</b>
Spare parts and supplies	\$ 2,044,649	\$ 2,021,109
Merchandise	<u>11,396</u>	<u>7,816</u>
	<u>\$ 2,056,045</u>	<u>\$ 2,028,925</u>

As of December 31, 2019 and 2018, allowance for inventory valuation losses amounted to \$642,848 thousand and \$620,198 thousand, respectively.

## 9. OTHER FINANCIAL ASSETS

	<u>December 31</u>	
	<b>2019</b>	<b>2018</b>
Repurchase agreement collateralized by government bonds	\$ 20,433,000	\$ 10,130,000
Time deposits	3,848,118	3,812,847
Demand deposits	24,901	17,107
Other performance guarantee	<u>4,248</u>	<u>4,846</u>
	<u>\$ 24,310,267</u>	<u>\$ 13,964,800</u>
Current	\$ 22,207,764	\$ 11,881,545
Non-current	<u>2,102,503</u>	<u>2,083,255</u>
	<u>\$ 24,310,267</u>	<u>\$ 13,964,800</u>

a. The interest rate intervals of other financial assets at the end of the reporting periods were as follows:

	<u>December 31</u>	
	<b>2019</b>	<b>2018</b>
Repurchase agreement collateralized by government bonds	0.53%-0.58%	0.51%-0.62%
Time deposits	0.15%-2.65%	0.15%-3.10%
Demand deposits	0.03%-0.08%	0.05%-0.08%

b. Refer to Note 28 for the information of other financial assets pledged as collateral.

## 10. PROPERTY, PLANT AND EQUIPMENT

	<u>December 31</u>	
	<b>2019</b>	<b>2018</b>
Land	\$ 28	\$ 28
Machinery and equipment	69,091	44,286
Transportation equipment	-	-
Office equipment	11,846	11,435
Leasehold improvements	710	1,053
Other equipment	<u>43,372</u>	<u>41,283</u>
	<u>\$ 125,047</u>	<u>\$ 98,085</u>

	<b>Land</b>	<b>Machinery and Equipment</b>	<b>Transportation Equipment</b>	<b>Office Equipment</b>	<b>Leasehold Improvements</b>	<b>Other Equipment</b>	<b>Total</b>
<u>Cost</u>							
Balance at January 1, 2019	\$ 28	\$ 275,437	\$ 155	\$ 121,048	\$ 80,448	\$ 252,813	\$ 729,929
Additions	-	47,573	-	4,449	80	15,090	67,192
Disposals	-	(5,801)	(68)	(5,579)	-	(1,902)	(13,350)
Transfer	-	-	-	(308)	-	-	(308)
Balance at December 31, 2019	<u>28</u>	<u>317,209</u>	<u>87</u>	<u>119,610</u>	<u>80,528</u>	<u>266,001</u>	<u>783,463</u>

(Continued)

	Land	Machinery and Equipment	Transportation Equipment	Office Equipment	Leasehold Improvements	Other Equipment	Total
<u>Accumulated depreciation</u>							
Balance at January 1, 2019	\$ -	\$ 231,151	\$ 155	\$ 109,613	\$ 79,395	\$ 211,530	\$ 631,844
Depreciation	-	22,743	-	4,038	423	13,001	40,205
Disposals	-	(5,776)	(68)	(5,579)	-	(1,902)	(13,325)
Transfer	-	-	-	(308)	-	-	(308)
Balance at December 31, 2019	<u>-</u>	<u>248,118</u>	<u>87</u>	<u>107,764</u>	<u>79,818</u>	<u>222,629</u>	<u>658,416</u>
	<u>\$ 28</u>	<u>\$ 69,091</u>	<u>\$ -</u>	<u>\$ 11,846</u>	<u>\$ 710</u>	<u>\$ 43,372</u>	<u>\$ 125,047</u>
<u>Cost</u>							
Balance at January 1, 2018	\$ 28	\$ 263,048	\$ 242	\$ 122,805	\$ 79,370	\$ 251,241	\$ 716,734
Additions	-	18,069	-	3,924	1,168	3,200	26,361
Disposals	-	(5,277)	(87)	(5,709)	(90)	(2,285)	(13,448)
Transfer	-	(403)	-	28	-	657	282
Balance at December 31, 2018	<u>28</u>	<u>275,437</u>	<u>155</u>	<u>121,048</u>	<u>80,448</u>	<u>252,813</u>	<u>729,929</u>
<u>Accumulated depreciation</u>							
Balance at January 1, 2018	-	216,979	242	111,770	79,326	201,063	609,380
Depreciation	-	19,458	-	3,552	159	12,752	35,921
Disposals	-	(5,277)	(87)	(5,709)	(90)	(2,285)	(13,448)
Transfer	-	(9)	-	-	-	-	(9)
Balance at December 31, 2018	<u>-</u>	<u>231,151</u>	<u>155</u>	<u>109,613</u>	<u>79,395</u>	<u>211,530</u>	<u>631,844</u>
	<u>\$ 28</u>	<u>\$ 44,286</u>	<u>\$ -</u>	<u>\$ 11,435</u>	<u>\$ 1,053</u>	<u>\$ 41,283</u>	<u>\$ 98,085</u>

(Concluded)

## 11. LEASE ARRANGEMENTS

### a. Right-of-use assets - 2019

	Buildings	Machinery and Equipment	Transportation Equipment	Other Equipment	Total
<u>Cost</u>					
Balance at January 1, 2019	\$ 251,857	\$ 497,473	\$ 30,659	\$ 1,433	\$ 781,422
Additions	<u>3,008</u>	<u>-</u>	<u>6,595</u>	<u>52</u>	<u>9,655</u>
Balance at December 31, 2019	<u>254,865</u>	<u>497,473</u>	<u>37,254</u>	<u>1,485</u>	<u>791,077</u>
<u>Accumulated depreciation</u>					
Balance at January 1, 2019	-	-	-	-	-
Depreciation	<u>81,897</u>	<u>61,881</u>	<u>17,321</u>	<u>990</u>	<u>162,089</u>
Balance at December 31, 2019	<u>81,897</u>	<u>61,881</u>	<u>17,321</u>	<u>990</u>	<u>162,089</u>
	<u>\$ 172,968</u>	<u>\$ 435,592</u>	<u>\$ 19,933</u>	<u>\$ 495</u>	<u>\$ 628,988</u>



b. Lease liabilities - 2019

	Lease Term	Discount Rate	December 31, 2019
Buildings	2-10 years	0.66%-0.87%	\$ 169,049
Machinery and equipment	2-9 years	0.59%-0.87%	410,876
Transportation equipment	3-5 years	0.59%-0.73%	19,983
Other equipment	1.5-3 years	0.59%	<u>497</u>
			600,405
Less: Recognized as current lease liabilities			<u>(153,230)</u>
Lease liabilities - non-current			<u>\$ 447,175</u>

c. Material lease terms

The Corporation leased an office building from Century Development Corporation with the lease term from January 2018 to December 2020.

The Corporation leased a parking lot for rental business in Zuoying Station from Cargo Service Headquarters of the Taiwan Railroad Administration Bureau, MOTC with the lease term from January 2017 to January 2027.

The Corporation leased a host of automatic ticketing system for operating from IBM Taiwan Corporation with the lease term from February 2018 to January 2027.

d. Other lease information

	2019
Expenses relating to short-term leases	<u>\$ 4,060</u>
Expenses relating to low-value asset leases	<u>\$ 277</u>
Total cash outflows for leases	<u>\$ (158,791)</u>

The Corporation leases certain space which qualifies as short-term leases and certain office equipment and other equipment which qualify as low-value asset leases. The Corporation has elected to apply the recognition exemption and thus, did not recognize right-of-use assets and lease liabilities for these leases.

## 12. INTANGIBLE ASSETS

	December 31	
	2019	2018
Operating concession asset	\$ 390,113,063	\$ 401,168,964
Computer software, net	<u>54,413</u>	<u>54,245</u>
	<u>\$ 390,167,476</u>	<u>\$ 401,223,209</u>

a. Movements of the intangible assets

	Operating Concession Asset				Total	Computer Software, Net	Total
	Operating Assets	Profit Sharing Payments	Period Extension Cost	Construction in Progress			
<u>Cost</u>							
Balance at January 1, 2019	\$ 473,162,271	\$ 69,972,043	\$ 12,701,819	\$ 1,355,857	\$ 557,191,990	\$ 428,411	\$ 557,620,401
Additions	328,170	-	-	2,393,311	2,721,481	16,706	2,738,187
Disposals	(379,352)	-	-	-	(379,352)	-	(379,352)
Transfer	3,011,186	-	-	(3,010,052)	1,134	1,460	2,594
Balance at December 31, 2019	<u>476,122,275</u>	<u>69,972,043</u>	<u>12,701,819</u>	<u>739,116</u>	<u>559,535,253</u>	<u>446,577</u>	<u>559,981,830</u>
<u>Accumulated amortization</u>							
Balance at January 1, 2019	139,599,984	15,640,464	782,578	-	156,023,026	374,166	156,397,192
Amortization	12,437,907	1,097,607	240,792	-	13,776,306	17,998	13,794,304
Disposals	(377,450)	-	-	-	(377,450)	-	(377,450)
Transfer	308	-	-	-	308	-	308
Balance at December 31, 2019	<u>151,660,749</u>	<u>16,738,071</u>	<u>1,023,370</u>	<u>-</u>	<u>169,422,190</u>	<u>392,164</u>	<u>169,814,354</u>
	<u>\$ 324,461,526</u>	<u>\$ 53,233,972</u>	<u>\$ 11,678,449</u>	<u>\$ 739,116</u>	<u>\$ 390,113,063</u>	<u>\$ 54,413</u>	<u>\$ 390,167,476</u>
<u>Cost</u>							
Balance at January 1, 2018	\$ 472,404,197	\$ 69,972,043	\$ 12,701,819	\$ 551,084	\$ 555,629,143	\$ 412,868	\$ 556,042,011
Additions	294,933	-	-	1,477,114	1,772,047	11,584	1,783,631
Disposals	(162,040)	-	-	-	(162,040)	(3,584)	(165,624)
Transfer	625,181	-	-	(672,341)	(47,160)	7,543	(39,617)
Balance at December 31, 2018	<u>473,162,271</u>	<u>69,972,043</u>	<u>12,701,819</u>	<u>1,355,857</u>	<u>557,191,990</u>	<u>428,411</u>	<u>557,620,401</u>
<u>Accumulated amortization</u>							
Balance at January 1, 2018	127,378,129	14,542,855	541,786	-	142,462,770	358,701	142,821,471
Amortization	12,378,258	1,097,609	240,792	-	13,716,659	19,040	13,735,699
Disposals	(156,403)	-	-	-	(156,403)	(3,584)	(159,987)
Transfer	-	-	-	-	-	9	9
Balance at December 31, 2018	<u>139,599,984</u>	<u>15,640,464</u>	<u>782,578</u>	<u>-</u>	<u>156,023,026</u>	<u>374,166</u>	<u>156,397,192</u>
	<u>\$ 333,562,287</u>	<u>\$ 54,331,579</u>	<u>\$ 11,919,241</u>	<u>\$ 1,355,857</u>	<u>\$ 401,168,964</u>	<u>\$ 54,245</u>	<u>\$ 401,223,209</u>

b. Operating assets and construction in progress are as follows:

	December 31	
	2019	2018
<u>Operating assets, net</u>		
Land improvements	\$ 165,016,977	\$ 168,450,930
Buildings	27,558,084	28,121,114
Machinery and equipment	27,012,524	29,283,877
Transportation equipment	104,848,364	107,691,997
Other equipment	<u>25,577</u>	<u>14,369</u>
	<u>\$ 324,461,526</u>	<u>\$ 333,562,287</u>
<u>Construction in progress</u>		
Prepayments for equipment	<u>\$ 739,116</u>	<u>\$ 1,355,857</u>

c. Operating concession- rental

According to the HSR Right-of-Way Map and the HSR Overpass/Underpass Superficies Space Map appended to the C&O Agreement, the Corporation acquired superficies from the MOTC on the land of transportation infrastructure and pays the rental every year, including routes, maintenance bases, and stations. The rental is governed by the Public-owned Land Rent Preferential Treatment Scheme under the Statute for Encouragement of Private Participation in Transportation Infrastructure Projects, and is subject to the changes in the future reported price of public-owned land and usage of such public-owned land and other relevant factors. The Corporation prepays the rental for the following year by the end of each year, and if the reported price of public-owned land is adjusted, the discrepancies due to that should be paid off in the same year. As of December 31, 2019, the superficies encompasses northern area to southern area of Taiwan, from Land Lot No. 0837-0000 of Kuanghua Section, Hsinchuang

District, New Taipei City located on the north to Land Lot No. 0419-0002 of Subsection 6, Hsinchuang Section, Zuoying District, Kaohsiung City located on the south. The term of such acquired superficies is from the date of their registration to the date of expiration or termination of the C&O Agreement.

### 13. OTHER ASSETS

	<u>December 31</u>	
	<b>2019</b>	<b>2018</b>
<u>Other current assets</u>		
Prepayments	\$ 1,290,402	\$ 901,172
Others	<u>53,931</u>	<u>37,263</u>
	<u>\$ 1,344,333</u>	<u>\$ 938,435</u>
<u>Other non-current assets</u>		
Prepayments	\$ -	\$ 31,481
Others	<u>9,240</u>	<u>16,357</u>
	<u>\$ 9,240</u>	<u>\$ 47,838</u>

### 14. BORROWINGS

#### a. Short-term borrowings

	<u>December 31</u>	
	<b>2019</b>	<b>2018</b>
Japanese yen (“JPY”) letters of credit	<u>\$ 64,980</u>	<u>\$ 147,865</u>

The range of interest rates at the end of the reporting periods was as follows:

	<u>December 31</u>	
	<b>2019</b>	<b>2018</b>
JPY letters of credit	0.62%-0.74%	0.61%-0.66%

#### b. Long-term debt

	<u>December 31</u>	
	<b>2019</b>	<b>2018</b>
<u>Syndicated loan</u>		
Tranche A1 Facility	\$ 120,000,000	\$ 120,000,000
Tranche A2 Facility	<u>156,205,117</u>	<u>156,205,117</u>
	276,205,117	276,205,117
Less: Unamortized cost of long-term debt	<u>(104,800)</u>	<u>(111,440)</u>
	<u>\$ 276,100,317</u>	<u>\$ 276,093,677</u>

The Corporation entered into the Taiwan North-South High Speed Rail Construction and Operation Tripartite Agreement (the “Tripartite Agreement”) with the MOTC and Bank of Taiwan on January 8, 2010, and the NT\$382 billion Syndicated Loan Agreement with respect to Taiwan North-South High Speed Rail Construction and Operation Project (the “Syndicated Loan Agreement”) with a group of eight syndicated banks. The Corporation entered into the First Amendment of the Tripartite Agreement and the Second Amendment of the Syndicated Loan Agreement on August 3, 2015. The Corporation also entered into the Third Amendment of the Syndicated Loan Agreement on February 15, 2017, and the Second Amendment of the Tripartite Agreement on April 7, 2017, respectively. The Corporation entered into the Fourth Amendment of Syndicated Loan Agreement on October 13, 2017. The syndicated banks of the Syndicated Loan Agreement consist of Bank of Taiwan, Mega International Commercial Bank, Taiwan Cooperative Bank, Land Bank of Taiwan, First Commercial Bank, Taiwan Business Bank, Chang Hwa Commercial Bank, and Hua Nan Commercial Bank. The significant terms with respect to the aforementioned credit facilities are as follows:

- 1) The syndicated loan includes Tranches A1, A2, A3, B, C and D with different credit facilities. The main purposes of the agreement are to repay the first syndicated loan, the second syndicated loan excluding Tranche D, and the overseas convertible bonds, and to meet fund requirements of operations. Tranches A1, A2, C and D are credit facilities, Tranche A3 corporate bond guarantee facility, and Tranche B is performance guarantee facility. Tranche A3, C and D were fully redeemed and cannot be issued afterwards.
- 2) The Corporation provided assets (refer to assets to be transferred to the MOTC under the C&O Agreement) as collateral for the syndicated loan (the Corporation’s assets are not required to be registered with the syndicated banks for creating rights attached to the Corporation’s such assets). When the value of the collateral is less than the balance of the outstanding syndicated loan, the Corporation shall negotiate with Bank of Taiwan and the MOTC for solutions. However, if an agreement cannot be reached within 45 days after the date of the negotiation notice issued by the Bank of Taiwan, the Corporation should redeem the difference immediately. The aforementioned collateral is inspected in May and November every year. The re-assessment mechanism for collateral value is inactive when Tranche B Facility is not utilized.
- 3) According to the Syndicated Loan Agreement, the Corporation opened a capital account and a reserve account at the Bank of Taiwan for deposits and financial instruments. The Corporation is free to use the capital account; however, the reserve account is restricted and pledged as collateral to the Bank of Taiwan, and is recorded as other financial assets. Refer to Notes 9 and 28 for further information.
- 4) The syndicated period, repayment method and interest rates of the Syndicated Loan Agreement are as follows:
  - a) Term of loan and repayment method

	<b>Term of Loan</b>	<b>Number of Semi-annual Installment Repayment</b>	<b>Ratio of Repayment</b>
Tranche A1 Facility	May 4, 2021-November 4, 2040	Installments 01-40	1.5% per installment
	May 4, 2041-November 4, 2049	Installments 41-58	2.0% per installment
	May 4, 2050 (after early repayment of Installments 58-59 made on July 3, 2018, the last installment repayment date is May 4, 2049)	Installments 59	4.0% per installment

(Continued)

	<b>Term of Loan</b>	<b>Number of Semi-annual Installment Repayment</b>	<b>Ratio of Repayment</b>
Tranche A2 Facility	May 4, 2021-November 4, 2040	Installments 01-40	1.5% per installment
	May 4, 2041-November 4, 2049	Installments 41-58	2.0% per installment
	May 4, 2050 (after early repayment of Installments 56-59 made on July 4, 2017, the last installment repayment date is May 4, 2048)	Installments 59	4.0% per installment

(Concluded)

b) Interest rates

The interest rates (including 5% VAT) of the Tranche A1 Facility and Tranche A2 Facility are determined as the reference rate (1-year time deposit floating rate of Chunghwa Post Co., Ltd.) plus spread as listed on the table below. Due to the step-up spread mechanism, the Corporation shall make up for the deficit arising from interests calculated according to the below the agreed interest rates to the bank syndicate if early redemption occurs. As of December 31, 2019 and 2018, the reference rate remained unchanged at 1.06%.

<b>Syndicated Period</b>	<b>Markup Interest Rates</b>
May 4, 2010 - May 3, 2012	0.10%
May 4, 2012 - May 3, 2013	0.20%
May 4, 2013 - May 3, 2014	0.30%
May 4, 2014 - May 3, 2015	0.40%
May 4, 2015 - May 3, 2016	0.50%
May 4, 2016 - May 3, 2017	0.60%
May 4, 2017 - May 3, 2018	0.70%
May 4, 2018 - May 3, 2040	0.92%
May 4, 2040 - May 4, 2049	1.08%

The Corporation made early repayment of the Tranche A1 Facility in the amount of \$10 billion on July 3, 2018 and repaid interest differences in the amount of \$366,615 thousand due to the early repayment of the loan.

- 5) The interest on Tranche A1 and A2 Facilities is calculated based on the Syndicated Loan Agreement. The Corporation computes interest expense by using the effective interest method. Interest payment that is due longer than one year is recognized as long-term interest payable according to the agreement. The effective interest rates, accrued interest expense, and interest expense were summarized as follows:

a) Effective interest rates

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Tranche A1 Facility	1.91%	1.91%
Tranche A2 Facility	1.92%	1.92%

b) Accrued interest expense (included in other payables)

	<u>December 31</u>	
	<b>2019</b>	<b>2018</b>
<u>Syndicated loan</u>		
Tranche A1 Facility	\$ 212,417	\$ 212,417
Tranche A2 Facility	<u>276,505</u>	<u>276,505</u>
	<u>\$ 488,922</u>	<u>\$ 488,922</u>

c) Long-term interest payable

	<u>December 31</u>	
	<b>2019</b>	<b>2018</b>
<u>Syndicated loan</u>		
Tranche A1 Facility	\$ 3,870,760	\$ 4,081,969
Tranche A2 Facility	<u>4,579,320</u>	<u>4,839,775</u>
	<u>\$ 8,450,080</u>	<u>\$ 8,921,744</u>

d) Interest expense

	<u>For the Year Ended December 31</u>	
	<b>2019</b>	<b>2018</b>
<u>Syndicated loan</u>		
Interest expense	<u>\$ 5,285,003</u>	<u>\$ 5,394,685</u>

c. Long-term bills payable

	<u>December 31</u>	
	<b>2019</b>	<b>2018</b>
Long-term bills payable	\$ -	\$ 8,000,000
Less: Unamortized discount on long-term bills payable	-	(11,795)
Less: Unamortized cost of long-term bills payable	<u>-</u>	<u>(1,335)</u>
	-	7,986,870
Less: Current portion of long-term bills payable	<u>-</u>	<u>(7,986,870)</u>
	<u>\$ -</u>	<u>\$ -</u>

On January 24, 2017, the Corporation (as the issuer), International Bills Finance Corporation (as the lead arranger), and the other 9 financial institutions (as the underwriters) entered into a joint underwriting agreement on the \$20 billion 2-year revolving underwriting facility for the issuance of unsecured commercial paper, with terms ranging from 90 days to 1 year. The utilization of the facility has a validity period of 3 months from the date of agreement, and any remaining unutilized facility will become invalid.

The Corporation issued unsecured commercial papers totaling \$16 billion under the facility on March 1, 2017, and the remaining facility was expired on April 24, 2017. On February 13, 2018 and August 10, 2018, the facility was reduced by \$4 billion each time, and the unsecured commercial paper was also

reduced by the same amount. The \$8 billion unsecured commercial paper was fully redeemed on February 27, 2019, and the joint underwriting agreement was expired at the same time. As of December 31, 2018 the effective interest rate of the long-term bills payable was 0.93%.

## 15. BONDS PAYABLE

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Domestic unsecured bond	\$ 8,000,000	\$ -
Less: Unamortized issuance cost	<u>(9,671)</u>	<u>-</u>
	<u>\$ 7,990,329</u>	<u>\$ -</u>

On November 14, 2019, the Corporation issued \$8 billion of 30-year, 1.6% unsecured bonds at par value with interest payable annually and a bullet repayment term. The trustee of the Corporation's creditors is Taishin International Bank.

## 16. OPERATING CONCESSION LIABILITIES

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Operating concession liabilities	\$ 78,516,696	\$ 77,681,295
Value of returned superficies for offset of profit sharing payable	<u>(22,475,984)</u>	<u>(22,035,278)</u>
	<u>\$ 56,040,712</u>	<u>\$ 55,646,017</u>
Current	\$ 777,511	\$ 731,182
Non-current	<u>55,263,201</u>	<u>54,914,835</u>
	<u>\$ 56,040,712</u>	<u>\$ 55,646,017</u>

According to the C&O Agreement, the Corporation is required to share profit with the MOTC for the development and construction of HSR infrastructure and facilities. Refer to Note 29 a. 2) for further information. The minimum commitment to profit sharing payments of \$108 billion was discounted and recognized as operating concession asset and operating concession liabilities, and related amortization expense and interest expense, respectively, are recognized during the concession period. The information about the amortization expense of operating concession asset and the interest expense of operating concession liabilities during the concession period is summarized as follows:

Year	Amortization Expense	Interest Expense	Total
Up to December 31, 2019	\$ 16,738,071	\$ 19,923,685	\$ 36,661,756
2020 (estimate)	1,097,608	1,597,915	2,695,523
2021 (estimate)	1,097,608	1,629,873	2,727,481
2022 (estimate)	1,097,608	1,662,470	2,760,078
2023 (estimate)	1,097,608	1,395,720	2,493,328
2024-2033 (estimate)	10,976,080	11,818,294	22,794,374
2034-2068 (estimate)	<u>37,867,460</u>	<u>-</u>	<u>37,867,460</u>
	<u>\$ 69,972,043</u>	<u>\$ 38,027,957</u>	<u>\$ 108,000,000</u>

According to the Financial Resolution Plan, the Fourth Amendment of the C&O Agreement and the SZD Termination Agreement that became effective on October 30, 2015, the Corporation used the appraised fair value of returned superficies of \$22,613,234 thousand to proportionally offset the operating concession liabilities (profit sharing payable), which is payable to the MOTC at the end of every five years. The estimated offset amount is \$29,784,855 thousand. Refer to Note 29 a. 2) for further details. The information on actual and estimated profit or loss recognized on the value of returned superficies for offset of profit sharing payable within the concession period is summarized as follows:

Year	Other Gain	Deduction of Interest Expense	Total
Up to December 31, 2019	\$ 22,613,234	\$ 1,866,271	\$ 24,479,505
2020 (estimate)	-	449,520	449,520
2021 (estimate)	-	458,510	458,510
2022 (estimate)	-	467,680	467,680
2023 (estimate)	-	391,989	391,989
2024-2033 (estimate)	<u>-</u>	<u>3,537,651</u>	<u>3,537,651</u>
	<u>\$ 22,613,234</u>	<u>\$ 7,171,621</u>	<u>\$ 29,784,855</u>

As of December 31, 2019, the Corporation's accumulated profit sharing payments paid to the MOTC amounted to \$9,375,511 thousand (or accumulated profit sharing payments in the amount of \$11,379,032 thousand less the deductible amount of returned superficies in the amount of \$2,003,521 thousand).

## 17. PROVISIONS

### a. Provisions

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
<u>Current</u>		
Provision for controversial overtime pay	\$ 283,279	\$ 283,279
Provision for stabilization reserve	<u>6,084,658</u>	<u>-</u>
	<u>\$ 6,367,937</u>	<u>\$ 283,279</u>
<u>Non-current</u>		
Provision for stabilization reserve	<u>\$ 10,000,000</u>	<u>\$ 9,560,897</u>



b. Movements in provisions were as follows:

	<b>Balance at January 1, 2019</b>	<b>Addition</b>	<b>Usage</b>	<b>Reversal</b>	<b>Balance at December 31, 2019</b>
<u>Current</u>					
Provision for controversial overtime pay	\$ 283,279	\$ -	\$ -	\$ -	\$ 283,279
Provision for stabilization reserve	<u>-</u>	<u>6,084,658</u>	<u>-</u>	<u>-</u>	<u>6,084,658</u>
	<u>\$ 283,279</u>	<u>\$ 6,084,658</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,367,937</u>
<u>Non-current</u>					
Provision for Stabilization reserve	<u>\$ 9,560,897</u>	<u>\$ 439,103</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,000,000</u>
	<b>Balance at January 1, 2018</b>	<b>Addition</b>	<b>Usage</b>	<b>Reversal</b>	<b>Balance at December 31, 2018</b>
<u>Current</u>					
Provision for controversial overtime pay	\$ 286,662	\$ -	\$ (3,383)	\$ -	\$ 283,279
Provision for preferred stock compensation	<u>5,853</u>	<u>-</u>	<u>(4,293)</u>	<u>(1,560)</u>	<u>-</u>
	<u>\$ 292,515</u>	<u>\$ -</u>	<u>\$ (7,676)</u>	<u>\$ (1,560)</u>	<u>\$ 283,279</u>
<u>Non-current</u>					
Provision for Stabilization reserve	<u>\$ 4,145,851</u>	<u>\$ 5,415,046</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,560,897</u>

1) Controversial overtime pay

Part of the Corporation's employees are required to work in shifts due to the nature of the Corporation's business. The national holidays are adjusted to regular holidays for employees who work in shifts and the combination of adjusted national holidays and regular holidays has been excluded in the calculation of regular working hours for the entire year. However, the Taiwan High Speed Rail Corporation Labor Union (the "THSRC Labor Union") claimed that overtime should be paid if employees working in shifts worked on national holidays. In regard to the controversy over the calculation of overtime hours in every two consecutive weeks, and the improvement of policy on recess during regular days and holidays, in January 2016, the THSRC Labor Union proclaimed that employees working in shifts shall cease to work overtime on Chinese New Year Holidays. In order to uphold the rights of both the passengers and employees, the Corporation has reached an agreement regarding the aforementioned controversy with the THSRC Labor Union on January 21, 2016. The Corporation shall finish the calculation of overtime hours and overtime pay on the abovementioned adjusted national holidays and working hours of two consecutive weeks, and after confirmation of the calculated amount of overtime, the Corporation shall sign agreements with employees individually, and half of the overtime pay shall be paid as an incentive bonus. The Corporation and the THSRC Labor Union agreed to settle the litigation on the Taipei City Government Labor Sanction in the Taipei High Administrative Court. In the final judgment, if the Corporation loses the lawsuit, the abovementioned incentive bonus shall be considered as part of the overtime pay to the employees; if the Corporation wins the lawsuit, the abovementioned incentive

bonus shall remain in its nature as incentive bonus and does not need to be returned to the Corporation. This administrative litigation was rejected by Taipei High Administrative Court in June 2018, but the Corporation lodged an appeal against the verdict on July 6, 2018.

In October 2019, the Supreme Administrative Court has decided that the original judgment be reversed and remanded to the Taipei High Administrative Court. As of December 31, 2019, the Corporation evaluated the most likely result and recognized the provision for controversial overtime pay in the amount of \$283,279 thousand.

2) Stabilization reserve

Refer to Note 29 a. 3) for recognition of provision for stabilization reserve.

**18. OTHER LIABILITIES**

	<u>December 31</u>	
	<b>2019</b>	<b>2018</b>
<u>Other payables</u>		
Accrued expenses	\$ 2,362,196	\$ 2,234,095
Accrued interest expense	505,382	488,975
Business tax payable	304,910	264,260
Others	<u>24,874</u>	<u>44,433</u>
	<u>\$ 3,197,362</u>	<u>\$ 3,031,763</u>
<u>Other current liabilities</u>		
Contract liabilities (Note 21)	\$ 1,233,056	\$ 665,541
Lease liabilities (Note 11)	153,230	-
Rent received in advance	49,813	-
Receipts under custody	28,929	25,090
Others	<u>12,887</u>	<u>9,018</u>
	<u>\$ 1,477,915</u>	<u>\$ 699,649</u>
<u>Other non-current liabilities</u>		
Net defined benefit liability (Note 19)	\$ 256,562	\$ 210,698
Guarantee deposits received	189,868	119,643
Deferred revenue	<u>5,895</u>	<u>8,516</u>
	<u>\$ 452,325</u>	<u>\$ 338,857</u>

**19. RETIREMENT BENEFIT PLANS**

a. Defined contribution plan

The Corporation adopted a pension plan under the Labor Pension Act (the "LPA"), which is a state-managed defined contribution plan. Under the LPA, the Corporation makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

b. Defined benefit plan

The Corporation also adopted a defined benefit plan under the Labor Standards Law (the “LSL”). Under the LSL, pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Corporation contributes amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committees’ name. Before the end of each year, the Corporation assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Corporation is required to fund the difference in a one-time appropriation that shall be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (the “Bureau”); the Corporation has no right to influence the investment policy and strategy.

Through the defined benefit plans under the Labor Standards Law, the Corporation is exposed to the following risks:

1) Investment risk

The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be lower than the interest rate for a 2-year time deposit with local banks.

2) Interest risk

A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the value on the plan’s debt investments.

3) Salary risk

The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The amounts included in the balance sheets in respect of the Corporation’s obligations under its defined benefit plan are as follows:

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Present value of defined benefit obligation	\$ (844,479)	\$ (782,888)
Fair value of plan assets	<u>587,917</u>	<u>572,190</u>
Net defined benefit liability	<u>\$ (256,562)</u>	<u>\$ (210,698)</u>

Movements in net defined benefit liability were as follows:

	<b>Present Value of the Defined Benefit Obligation</b>	<b>Fair Value of the Plan Assets</b>	<b>Net Defined Benefit Liability</b>
Balance at January 1, 2018	\$ (662,674)	\$ 551,121	\$ (111,553)
Current service cost	(12,791)	-	(12,791)
Net interest income (expense)	(9,734)	8,210	(1,524)
Recognized in profit or loss	(22,525)	8,210	(14,315)
Remeasurement			
Return on plan assets	-	14,016	14,016
Actuarial loss - experience adjustments	(107,949)	-	(107,949)
Actuarial loss - changes in financial assumptions	(9,887)	-	(9,887)
Recognized in other comprehensive income	(117,836)	14,016	(103,820)
Contributions from the employer	-	18,990	18,990
Benefits paid	20,147	(20,147)	-
Balance at December 31, 2018	(782,888)	572,190	(210,698)
Current service cost	(13,714)	-	(13,714)
Net interest income (expense)	(10,827)	7,999	(2,828)
Recognized in profit or loss	(24,541)	7,999	(16,542)
Remeasurement			
Return on plan assets	-	17,845	17,845
Actuarial loss - experience adjustments	(42,224)	-	(42,224)
Actuarial loss - changes in financial assumptions	(24,482)	-	(24,482)
Recognized in other comprehensive income	(66,706)	17,845	(48,861)
Contributions from the employer	-	19,539	19,539
Benefits paid	29,656	(29,656)	-
Balance at December 31, 2019	\$ (844,479)	\$ 587,917	\$ (256,562)

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

	<b>Measurement Date</b>	
	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Discount rate	1.15%	1.40%
Expected salary growth rate	2.25%	2.25%

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as shown on the table below. The sensitivity analysis may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Discount rate		
Increase 0.5%	\$ (47,993)	\$ (47,819)
Decrease 0.5%	<u>\$ 52,067</u>	<u>\$ 52,021</u>
Expected salary growth rate		
Increase 0.5%	\$ 51,587	\$ 51,655
Decrease 0.5%	<u>\$ (48,047)</u>	<u>\$ (47,969)</u>

An analysis of the average duration of the defined benefit obligation was as follows:

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
The expected contributions to the plan for the next year	\$ 45,398	\$ 19,125
The average duration of the defined benefit obligation	10.6 years	11.4 years

- c. Refer to Note 22 a. for the expenses of defined contribution plan and defined benefit plan recorded as pension costs in comprehensive income for the years ended December 31, 2019 and 2018.

## 20. EQUITY

- a. Capital stock

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Number of shares authorized (in thousands)	<u>12,000,000</u>	<u>12,000,000</u>
Shares authorized	<u>\$ 120,000,000</u>	<u>\$ 120,000,000</u>
Number of shares issued and fully paid (in thousands)	<u>5,628,293</u>	<u>5,628,293</u>
Share capital issued and outstanding	<u>\$ 56,282,930</u>	<u>\$ 56,282,930</u>

A holder of issued common stock with par value of \$10 is entitled to vote and to receive dividends.

On November 26, 2015, the Corporation conducted capital injection and issued 3,000,000 thousand shares of common stock through a private placement at par value of \$10, or a total of \$30,000,000 thousand. The rights and obligations of the aforementioned privately placed common stock are the same as other common stock issued, except that such common stock has not yet been applied to be listed and traded on the Taiwan Stock Exchange.

- b. Capital surplus

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Issuance of common stock	\$ 171,885	\$ 171,885
Forfeited employee share options	<u>1,096</u>	<u>1,096</u>
	<u>\$ 172,981</u>	<u>\$ 172,981</u>

The capital surplus generated from shares issued in excess of par may be used to offset a deficit, if any; in addition, when the Corporation has no accumulated deficit, such capital surplus may be transferred to share capital or distributed in cash. Capitalization of such capital surplus is limited to once a year and a certain prescribed percentage of the Corporation's paid-in capital. The capital surplus generated from forfeited employee share options may not be used for any purpose except for offsetting an accumulated deficit.

c. Legal reserve and appropriation of earnings

Under the dividend policy set forth in the Articles, after the resolution of the board of directors to distribute employees' compensation and remuneration to directors, and payments for all taxes and duties, 10% of the remaining after-tax profit is set aside as legal reserve. However, when the legal reserve equals the Corporation's paid-in capital, further appropriation of earnings to legal reserve will no longer be required. Furthermore, after reversal or appropriation of special reserve according to related regulations, the remainder together with any accumulated unappropriated earnings may be distributed to shareholders as proposed by the board of directors and ultimately resolved by the shareholders.

The Corporation's dividend policy takes into account current and future development projects, consideration of investment environment, demand for funds and situations of domestic and international competitions, and consideration of shareholders' benefits and other relevant factors to determine earnings distribution. The Corporation adopts a stable and balanced dividend policy. Distributable earnings shall be appropriated at the rate no less than 60% to shareholders as dividends; however, when accumulated unappropriated earnings are lower than 0.5% of paid-in capital, no appropriation shall be made. Dividends to be distributed shall be paid either in cash or in share, and cash dividends shall be no less than 50% of total dividends.

For the information on the appropriation policy, actual distributions of employees' compensation and remuneration to directors, refer to Note 22 a.

The appropriations of earnings for 2018 and 2017 approved in the shareholders' meetings on May 30, 2019 and May 24, 2018, respectively, were as follows:

	<u>Appropriation of Earnings</u>		<u>Dividends Per Share (NT\$)</u>	
	<u>For Fiscal Year 2018</u>	<u>For Fiscal Year 2017</u>	<u>For Fiscal Year 2018</u>	<u>For Fiscal Year 2017</u>
Legal reserve	\$ 1,069,638	\$ 533,991		
Cash dividends	<u>6,303,688</u>	<u>4,221,220</u>	\$1.12	\$0.75
	<u>\$ 7,373,326</u>	<u>\$ 4,755,211</u>		

Information on the appropriations of earnings, which is resolved by the board of directors and shareholders, is available at the Market Observation Post System website of the Taiwan Stock Exchange.

## 21. REVENUE

	<u>For the Year Ended December 31</u>	
	<u>2019</u>	<u>2018</u>
Revenue from contracts with customers		
Railroad transportation revenue	\$ 46,107,656	\$ 44,098,796
Other operating revenue	<u>1,399,734</u>	<u>1,316,211</u>
	<u>\$ 47,507,390</u>	<u>\$ 45,415,007</u>

a. Contract balances

	<b>December 31, 2019</b>	<b>December 31, 2018</b>	<b>January 1, 2018</b>
Notes and accounts receivable	<u>\$ 333,092</u>	<u>\$ 505,565</u>	<u>\$ 347,275</u>
Contract liabilities			
Railroad transportation revenue	\$ 1,163,968	\$ 534,736	\$ 468,193
Customer loyalty programmer	62,629	120,467	49,762
Others	<u>6,459</u>	<u>10,338</u>	<u>3,983</u>
	<u>\$ 1,233,056</u>	<u>\$ 665,541</u>	<u>\$ 521,938</u>

The changes in the balances of contract liabilities primarily result from the timing difference between the Corporation's performance and the customer's payment.

Revenue of the current year recognized from the beginning balance of contract liability is as follows:

	<b><u>For the Year Ended December 31</u></b>	
	<b>2019</b>	<b>2018</b>
From the beginning balance of contract liability		
Railroad transportation revenue	\$ 529,513	\$ 463,965
Customer loyalty programmer	108,738	40,494
Others	<u>10,336</u>	<u>3,983</u>
	<u>\$ 648,587</u>	<u>\$ 508,442</u>

b. Revenue from contracts with customers

The Corporation is engaged only in the operation of HSR and related facilities. Consequently, there is no other reportable segment. Revenue is railroad transportation revenue.

c. Partially completed contracts

For the performance obligations that are not fully satisfied, the expected timings for recognition of revenue are as follows.

	<b>December 31, 2019</b>
Railroad transportation revenue	
In 2020	\$ 1,159,582
In 2021	<u>4,386</u>
	<u>1,163,968</u>
Customer loyalty programmer	
In 2020	47,271
In 2021	<u>15,358</u>
	<u>62,629</u>
Others	
In 2020	<u>6,459</u>
	<u>\$ 1,233,056</u>

## 22. INCOME BEFORE INCOME TAX

Income before income tax was as follows:

a. Employee benefits expense

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Post-employment benefits		
Defined contribution plan	\$ 188,484	\$ 175,141
Defined benefit plan	<u>16,542</u>	<u>14,315</u>
	<u>205,026</u>	<u>189,456</u>
Short-term employee benefits		
Payroll	4,253,680	3,990,757
Insurance	358,744	333,439
Others	<u>196,479</u>	<u>190,462</u>
	<u>4,808,903</u>	<u>4,514,658</u>
	<u>\$ 5,013,929</u>	<u>\$ 4,704,114</u>
An analysis of employee benefits expense by function		
Operating costs	\$ 4,156,369	\$ 3,907,755
Operating expenses	<u>857,560</u>	<u>796,359</u>
	<u>\$ 5,013,929</u>	<u>\$ 4,704,114</u>

As of December 31, 2019 and 2018, the number of employees of the Corporation was 4,608 and 4,475, respectively. As of December 31, 2019 and 2018, the number of professional service employees was 6 and 10, respectively. For the years ended December 31, 2019 and 2018, the professional service fee was \$5,677 thousand and \$9,725 thousand, respectively.

Under the Corporation's Articles of Incorporation, if there is any after-tax profit at the end of the year, the Corporation shall first make up for accumulated losses and then distribute employees' compensation and remuneration to directors at the rates not less than 1% and not higher than 1%, respectively, of remaining distributable profit. The employees' compensation and remuneration to directors of the Corporation were calculated based on income before income tax (net of the employees' compensation and remuneration to directors) according to the above policy. For the years ended December 31, 2019 and 2018, the estimated employees' compensation in cash was \$159,489 thousand and \$149,986 thousand, and the estimated remuneration to directors in cash was \$39,872 thousand and \$37,497 thousand, respectively.

Material differences between estimated amounts and the amounts resolved by the board of directors on or before the date the annual financial statements are approved are adjusted in the year the compensation and remuneration were recognized. If there is a change in the resolved amounts after the annual financial statements were approved, the differences are recorded as a change in accounting estimate and adjusted in the following year.

The employees' compensation of \$159,489 thousand and the remuneration to directors of \$39,872 thousand for the year ended December 31, 2019, which are payable in cash, had been resolved by the Corporation's board of directors on January 15, 2020. There was no difference between such amounts and the respective amounts recognized in the financial statements for the year ended December 31, 2019.



The employees' compensation of \$149,986 thousand and the remuneration to directors of \$37,497 thousand for the year ended December 31, 2018, which are payable in cash, had been resolved by the Corporation's board of directors on February 20, 2019. There was no difference between such amounts and the respective amounts recognized in the financial statements for the year ended December 31, 2018.

Information on the employees' compensation and remuneration to directors resolved by the board of directors and reported in the shareholders' meeting is available at the Market Observation Post System website of the Taiwan Stock Exchange.

b. Depreciation and amortization

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
An analysis of depreciation and amortization expenses by assets		
Property, plant and equipment	\$ 40,205	\$ 35,921
Right-of-use assets	162,089	-
Intangible assets	13,794,304	13,735,699
Other non-current assets	<u>4,546</u>	<u>4,595</u>
	<u>\$ 14,001,144</u>	<u>\$ 13,776,215</u>
An analysis of depreciation by function		
Operating costs	\$ 179,923	\$ 24,015
Operating expenses	<u>22,371</u>	<u>11,906</u>
	<u>\$ 202,294</u>	<u>\$ 35,921</u>
An analysis of amortization by function		
Operating costs	\$ 13,794,118	\$ 13,735,620
Operating expenses	<u>4,732</u>	<u>4,674</u>
	<u>\$ 13,798,850</u>	<u>\$ 13,740,294</u>

c. Interest income

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Interest income of repurchase agreement collateralized by government bonds	\$ 122,118	\$ 69,934
Interest income of bank deposits	40,550	36,895
Others	<u>32</u>	<u>30</u>
	<u>\$ 162,700</u>	<u>\$ 106,859</u>

d. Interest expense

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Interest on bank loans	\$ 5,292,487	\$ 5,401,938
Interest on operating concession liabilities	1,125,877	1,103,802
Interest on bonds payable	16,491	-
Interest on long-term bills payable	13,130	111,729
Others	<u>6,639</u>	<u>803</u>
	<u>\$ 6,454,624</u>	<u>\$ 6,618,272</u>

e. Other gains and losses

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Compensation gain	\$ 52,346	\$ 58,228
Foreign exchange gain, net	4,816	7,332
Government grants	3,554	26,669
Amortization of cost for early repayment of long-term debt and bills payable	-	(10,634)
Loss on disposal of intangible assets, net	(636)	(5,455)
Others	<u>18,760</u>	<u>17,178</u>
	<u>\$ 78,840</u>	<u>\$ 93,318</u>

## 23. INCOME TAX

a. Income tax recognized in profit or loss

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Current tax		
In respect of the current year	\$ (104,333)	\$ (107,542)
Income tax on unappropriated earnings	(162,152)	(57,745)
Adjustments for prior years	103	1,269,732
Deferred tax		
In respect of the current year	498,307	1,487,726
Adjustments to deferred tax attributable to changes in tax rates and laws	<u>-</u>	<u>792,387</u>
Income tax benefit	<u>\$ 231,925</u>	<u>\$ 3,384,558</u>

A reconciliation of income before income tax and income tax expense was as follows:

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Income tax expense calculated at the statutory rate	\$ (1,555,021)	\$ (1,462,365)
Nondeductible expenses in determining taxable income	(9,590)	(6,601)
Change in unrecognized deductible temporary differences	(1,181,032)	1,171
Income tax on unappropriated earnings	(162,152)	(57,745)
Change in tax rate	-	792,387
Income tax exemption effect	3,119,694	2,841,765
Adjustments for prior years	103	1,269,732
Others	<u>19,923</u>	<u>6,214</u>
Income tax benefit recognized in profit or loss	<u>\$ 231,925</u>	<u>\$ 3,384,558</u>

The Income Tax Act in the ROC was amended in 2018, and the corporate income tax rate was adjusted from 17% to 20%. The effect of the change in income tax rate on deferred tax was fully recognized in profit or loss in the period in which the change in income tax rate occurred. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings was reduced from 10% to 5%.

In July 2019, the President of the ROC approved the announcement of the amendments to the Statute of Industrial Innovation, which stipulates that the amounts of unappropriated earnings in 2018 and thereafter that are reinvested in certain assets or technologies above a specific amount are allowed as deduction when computing the income tax on unappropriated earnings. However, the related implementation rules are yet to be issued by the Ministry of Finance; thus, the Corporation could not estimate the effect on the current income tax.

According to Article 28 of the Statute for Encouragement of Private Participation in Transportation Infrastructure Projects, the Corporation applied for a five-year income tax exemption. On April 13, 2018, the application for income tax exemption was approved by the Ministry of Finance, and the qualified exemption income is railroad and freight transportation income according to Article 3, Section 1, Item 1 of the Regulations Governing Application of Profit-seeking Enterprise Income Tax Exemption to Private Institutions Participating in Transportation and Communication Infrastructure Projects. The Corporation chose to start and has started its consecutive five-year income tax exemption period from January 1, 2017 according to Article 28, Section 2 of the Statute for Encouragement of Private Participation in Transportation Infrastructure Projects.

b. Income tax recognized in other comprehensive income

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Deferred tax		
Change in tax rates	\$ -	\$ 2,559
In respect of the current year		
Remeasurement of defined benefit plan	<u>9,772</u>	<u>20,764</u>
	<u>\$ 9,772</u>	<u>\$ 23,323</u>

c. Deferred tax assets and liabilities

For the year ended December 31, 2019

	<b>Beginning Balance</b>	<b>Recognized in Profit or Loss</b>	<b>Recognized in Other Comprehensive Income</b>	<b>Ending Balance</b>
<u>Deferred tax assets</u>				
Temporary differences				
Profit sharing payments	\$ 4,774,930	\$ 379,361	\$ -	\$ 5,154,291
Provisions	1,968,835	123,721	-	2,092,556
Deferred revenue	24,094	(11,568)	-	12,526
Defined benefit obligation	37,825	-	9,772	47,597
Others	<u>2,449</u>	<u>6,793</u>	<u>-</u>	<u>9,242</u>
	<u>\$ 6,808,133</u>	<u>\$ 498,307</u>	<u>\$ 9,772</u>	<u>\$ 7,316,212</u>

For the year ended December 31, 2018

	<b>Beginning Balance</b>	<b>Recognized in Profit or Loss</b>	<b>Recognized in Other Comprehensive Income</b>	<b>Ending Balance</b>
<u>Deferred tax assets</u>				
Temporary differences				
Profit sharing payments	\$ 3,727,289	\$ 1,047,641	\$ -	\$ 4,774,930
Provisions	753,528	1,215,307	-	1,968,835
Deferred revenue	8,459	15,635	-	24,094
Defined benefit obligation	14,502	-	23,323	37,825
Others	<u>920</u>	<u>1,529</u>	<u>-</u>	<u>2,449</u>
	<u>\$ 4,504,698</u>	<u>\$ 2,280,112</u>	<u>\$ 23,323</u>	<u>\$ 6,808,133</u>

Deferred tax liabilities

Temporary differences				
Others	<u>\$ 1</u>	<u>\$ (1)</u>	<u>\$ -</u>	<u>\$ -</u>

d. Items for which no deferred tax assets have been recognized

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Deductible temporary differences		
Provision	<u>\$ 1,181,032</u>	<u>\$ -</u>

e. Income tax assessments

The tax returns through 2016 have been assessed by the tax authorities.

## 24. EARNINGS PER SHARE

	<u>For the Year Ended December 31</u>	
	<u>2019</u>	<u>2018</u>
Basic earnings per share (NT\$)	\$ <u>1.42</u>	\$ <u>1.90</u>

The net income and weighted average number of common stock outstanding that were used in the computation of earnings per share were as follows:

	<u>For the Year Ended December 31</u>	
	<u>2019</u>	<u>2018</u>
Earnings attributable to common shareholders	\$ <u>8,007,033</u>	\$ <u>10,696,381</u>
Weighted average number of common stock in the computation of basic earnings per share (in thousands)	<u>5,628,293</u>	<u>5,628,293</u>

## 25. CAPITAL MANAGEMENT

The Corporation manages its capital in a manner to ensure that it has sufficient and necessary financial resources to fund its needs, including working capital needs within 12 months, capital expenditure during the concession period, profit sharing payments, repayments of long-term and short-term debt, and other operating needs.

## 26. FINANCIAL INSTRUMENTS

### a. Financial instruments

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
<u>Financial assets</u>		
Financial assets at FVTPL	\$ 330,443	\$ 327,446
Financial assets at amortized cost		
Other financial assets	24,310,267	13,964,800
Others (Note 1)	16,641,362	7,475,772
<u>Financial liabilities</u>		
Financial liabilities at amortized cost (Note 2)	351,625,069	351,192,835

Note 1: The balances included financial assets measured at amortized cost, which comprised cash and cash equivalents, notes and accounts receivable, and other receivables (included in other current assets).

Note 2: The balances included financial liabilities measured at amortized cost, which comprised short-term borrowings, accounts payable, operating concession liabilities, other payables, payable for construction, bonds payable, long-term debt, long-term bills payable (including current portion), long-term interest payable and guarantee deposits received (included in other non-current liabilities). However, short-term employee benefits payable and business tax payable were not included.

b. Fair value of financial instruments

1) Fair value of financial instruments that are not measured at fair value

Management believes the carrying amounts of financial assets and financial liabilities not measured at fair value approximate their fair values.

2) Fair value of financial instruments that are measured at fair value on a recurring basis

The following table provides an analysis of financial instruments that are measured at fair value subsequent to initial recognition. The fair value measurements are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable as follows:

- a) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- b) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- c) Level 3 inputs are unobservable inputs for the asset or liability.

December 31, 2019

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Financial assets at FVTPL				
Open-end money market funds	<u>\$ 330,443</u>	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ 330,443</u>

December 31, 2018

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Financial assets at FVTPL				
Open-end money market funds	<u>\$ 327,446</u>	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ 327,446</u>

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2019 and 2018.

3) Valuation techniques and assumptions applied for the purpose of measuring fair value

The fair values of financial assets and financial liabilities were determined. The fair values of financial assets and financial liabilities with standard terms and conditions and traded in active markets are determined with reference to quoted market prices.

c. Financial risk management objectives and policies

The Corporation's major financial risk management goal is to manage risks that relate to operating activities. These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. In order to lower relevant financial risks, the Corporation identifies and assesses the risks and takes actions to manage uncertainty of the market.

The Corporation's important financial activities are reviewed by the board of directors in accordance with related regulations and internal controls. The Corporation also established related financial transaction procedures in accordance with the Corporation's overall financial risk management and segregation of duties.

1) Market risk

a) Foreign currency risk

The Corporation's deposits, accounts payable and payable for construction denominated in foreign currencies exposed the Corporation to foreign currency risk. To control decline in value or fluctuations in future cash flows due to changes in exchange rates, the Corporation enters into forward exchange contracts to hedge foreign exchange risk. Hedging financial instruments can partially, but not entirely, reduce the impact arising from changes in foreign exchange rates.

The Corporation's foreign-currency financial assets and liabilities were as follows (in thousands of respective foreign currencies or New Taiwan dollars):

	<b>December 31, 2019</b>		
	<b>Foreign Currencies</b>	<b>Exchange Rate</b>	<b>New Taiwan Dollars</b>
<u>Financial assets</u>			
Monetary items			
USD	\$ 22,319	30.106	\$ 671,940
JPY	4,931	0.2770	1,366
<u>Financial liabilities</u>			
Monetary items			
JPY	889,301	0.2770	246,337
	<b>December 31, 2018</b>		
	<b>Foreign Currencies</b>	<b>Exchange Rate</b>	<b>New Taiwan Dollars</b>
<u>Financial assets</u>			
Monetary items			
USD	\$ 21,748	30.733	\$ 668,387
JPY	4,931	0.2782	1,372
<u>Financial liabilities</u>			
Monetary items			
USD	33	30.733	1,029
JPY	1,436,946	0.2782	399,758

The Corporation was mainly exposed to USD and JPY foreign currency exchange risks. The sensitivity analysis related to foreign currency exchange rate risk was mainly calculated for foreign currency monetary items at the balance sheet date. If the U.S. dollar weakened against the New Taiwan dollar by 1%, income before income tax would have decreased by \$6,719 thousand and \$6,674 thousand, respectively, for the years ended December 31, 2019 and 2018. If the JPY strengthened against the New Taiwan dollar by 1%, the income before income tax would have decreased by \$2,450 thousand and \$3,984 thousand for the years ended December 31, 2019 and 2018, respectively.

The significant unrealized exchange gain and loss were as follows:

Foreign Currency	For the Year Ended December 31			
	2019		2018	
	Exchange Rate	Exchange (Loss) Gain, Net	Exchange Rate	Exchange (Loss) Gain, Net
USD	30.106	\$ (20,788)	30.733	\$ 11,728
JPY	0.2770	8,894	0.2782	(15,748)

b) Interest rate risk

As of December 31, 2019 and 2018, the Corporation's syndicated loan with floating interest rates amounted to both \$276,205,117 thousand. If the market interest rate increased by 1% and all other variables were held constant, the income before income tax of the Corporation would have decreased by both \$2,762,051 thousand, for the years ended December 31, 2019 and 2018.

c) Other price risk

The investments in open-end money market funds (recorded as FVTPL) exposed the Corporation to equity price risk. If the price of the funds decreased by 1%, income before income tax and other comprehensive income before income tax would have decreased by \$3,304 thousand and \$3,274 thousand for the years ended December 31, 2019 and 2018, respectively.

2) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Corporation. Financial assets with positive fair values at the balance sheet date are evaluated for credit risk. At the end of the reporting period, the Corporation's maximum exposure to credit risk which will cause a financial loss to the Corporation due to failure of counterparties to discharge an obligation could arise from the carrying amount of the respective recognized financial assets as stated in the balance sheets.

The Corporation only transacts with financial institutions and companies with good credit ratings. Therefore, no significant credit risk is anticipated.

3) Liquidity risk

The Corporation manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Corporation's operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of financing facilities and ensures compliance with loan covenants.



The following table details the Corporation's remaining contractual maturity for its long-term debt and interest on long-term debt (refer to Note 14 b.), long-term bills payable, and operating concession liabilities, lease liabilities and bonds payable based on the undiscounted cash flows (excluding non-hedging financial liabilities that are to be settled within one year from the balance sheet date).

December 31, 2019

Repayment Period	Long-term Debt	Interest on Long-term Debt	Operating Concession Liabilities	Lease Liabilities	Principal and Interest on Bonds Payable	Total
2020.1.1-2020.3.31	\$ -	\$ 1,638,182	\$ -	\$ 40,536	\$ -	\$ 1,678,718
2020.4.1-2020.12.31	-	4,914,546	777,511	113,297	128,000	5,933,354
2021	9,186,153	9,039,422	731,700	84,745	128,000	19,170,020
2022	9,186,153	8,952,193	7,859,512	74,570	128,000	26,200,428
2023	9,186,153	8,620,899	116,525	74,449	128,000	18,126,026
2024	9,186,153	8,633,009	182,113	74,021	128,000	18,203,296
2025-2033	82,675,382	65,225,341	59,172,273	155,232	1,152,000	208,380,228
2034-2049	<u>156,785,123</u>	<u>47,259,388</u>	<u>-</u>	<u>-</u>	<u>10,048,000</u>	<u>214,092,511</u>
	<u>\$ 276,205,117</u>	<u>\$ 154,282,980</u>	<u>\$ 68,839,634</u>	<u>\$ 616,850</u>	<u>\$ 11,840,000</u>	<u>\$ 511,784,581</u>

December 31, 2018

Repayment Period	Long-term Debt	Long-term Bills Payable (Including Current Portion)	Interest on Long-term Debt	Operating Concession Liabilities	Total
2019.1.1-2019.3.31	\$ -	\$ 8,000,000	\$ 1,749,124	\$ -	\$ 9,749,124
2019.4.1-2019.12.31	-	-	5,247,372	731,182	5,978,554
2020	-	-	8,688,551	700,606	9,389,157
2021	9,186,153	-	9,039,422	161,106	18,386,681
2022	9,186,153	-	8,952,193	8,507,011	26,645,357
2023	9,186,153	-	8,620,899	116,525	17,923,577
2024-2033	91,861,535	-	73,858,350	59,354,386	225,074,271
2034-2049	<u>156,785,123</u>	<u>-</u>	<u>47,259,388</u>	<u>-</u>	<u>204,044,511</u>
	<u>\$ 276,205,117</u>	<u>\$ 8,000,000</u>	<u>\$ 163,415,299</u>	<u>\$ 69,570,816</u>	<u>\$ 517,191,232</u>

## 27. TRANSACTIONS WITH RELATED PARTIES

The MOTC under the Executive Yuan owns 43% equity interests in the Corporation's outstanding common stock. Under IAS 24, the Corporation is a government-related entity which is significantly influenced by the central government. The Corporation is a related party with the government-related entities (e.g., government-owned businesses) which are controlled by the Executive Yuan. However, the Corporation is not a related party with those government-related entities which are only significantly influenced but not controlled by the Executive Yuan.

The Corporation is not required to disclose transactions and outstanding balances with the government-related entities. In addition to the C&O Agreement entered into with MOTC as stated in Note 29, the names of related parties, relationships, and the nature and amounts of the significant transactions were summarized as follows:

a. Name of related party and relationship

<u>Related Party</u>	<u>Relationship with the Corporation</u>
MOTC	An investor with significant influence over the Corporation
Bank of Taiwan and seven other syndicated banks	A government-related entity controlled by the central government
China Steel Corporation	A legal entity as director of the Corporation
Century Development Corporation	An entity controlled by the legal entity as directors of the Corporation
InfoChamp Systems Corporation	An entity controlled by the legal entity as directors of the Corporation
Others	Individual and legal entity as directors of the Corporation, and individuals and entities controlled by the directors, key management personnel and their relatives, and related parties in substance

b. Operating revenue

The Corporation is mainly engaged in the operation of the North-South High Speed Railway. According to the fare rate standard, timing and procedures of fare adjustment as prescribed in the C&O Agreement and regulated by the MOTC, the Corporation's ticket price setting and adjustment shall be reported to the MOTC before they are announced and implemented. The transportation services and ticket prices provided to related parties were the same as those provided to general public passengers.

c. Operating costs

1) Profit sharing payments

According to the C&O Agreement, during the operating period, the Corporation shall make profit sharing payments at 10% of the net income before income tax to the MOTC each year for the development and construction of HSR infrastructure and facilities. The minimum commitment to profit sharing payments of \$108 billion was discounted and recognized as intangible assets - operating concession asset and operating concession liabilities, and related amortization expense and interest expense, respectively, are recognized during the concession period. Refer to Note 16 and Note 29 a. 2) for further information.

2) Operating concession - rental

The transactions between the Corporation and the MOTC were as follows, and, as for the nature, refer to Note 12 c. for further details:

a) Rental expense

	<u>For the Year Ended December 31</u>	
	<u>2019</u>	<u>2018</u>
Railway Bureau, MOTC	\$ 786,036	\$ 787,298
Taiwan Railways Administration, MOTC	<u>48,346</u>	<u>48,303</u>
	<u>\$ 834,382</u>	<u>\$ 835,601</u>

b) Prepaid rentals (included in other current assets)

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Railway Bureau, MOTC	\$ 785,906	\$ 786,036
Taiwan Railways Administration, MOTC	<u>48,325</u>	<u>48,303</u>
	<u>\$ 834,231</u>	<u>\$ 834,339</u>

d. Non-operating income and expenses - interest expense

Refer to Note 16 for the interest expense recognized on the operating concession liabilities, and the deduction of interest expense recognized on the value of returned superficies for offset of profit sharing payable using the effective interest method due to termination of the SZD Agreement.

e. Long-term debt

The Corporation has entered into the Tripartite Agreement with the MOTC and Bank of Taiwan. In addition, the Corporation has entered into the Syndicated Loan Agreement with Bank of Taiwan and seven other syndicated banks. If an early termination of the C&O Agreement occurs, the MOTC shall assume the remaining obligations under Tranche A Facility of the Syndicated Loan Agreement. Refer to Note 14 b. for further information on the major terms, the term of loan, repayment method, interest rates, and early repayment of loan with respect to the Syndicated Loan Agreement.

f. Procurement contract

In August 2018, the Corporation entered into the “OCS Maintenance Vehicle Manufacturing and Supply Procurement Contract” with China Steel Corporation, and the total amount of the contract (business tax included) was \$1,232,000 thousand.

As of December 31, 2019, payments for the contract amounted to \$29,333 thousand and were recognized as construction in progress of the operating concession asset under intangible assets.

In December 2017, the Corporation entered into the “Ticket Vending Machine Renovation and Maintenance Project” with InfoChamp Systems Corporation, and the total amount of the contract (business tax included) was \$271,721 thousand. As of December 31, 2019, payments for the contract amounted to \$32,073 thousand and unpaid payments (included in payable for construction) were \$160,932 thousand. The Corporation has obtained the operating concession asset under intangible assets in amount of \$193,005 thousand.

g. Lease arrangements

The transactions between the Corporation with Cargo Service Headquarters of the Taiwan Railroad Administration Bureau, MOTC and Century Development Corporation for the year 2019 are as follows:

<b>Line Item</b>	<b>Related Party</b>	<b>December 31, 2019</b>
Lease liabilities (Note 11)	Cargo Service Headquarters of the Taiwan Railroad Administration Bureau, MOTC	\$ 93,000
	Century Development Corporation	<u>53,243</u>
		<u>\$ 146,243</u>

The Corporation entered into a parking lease contract of Zuoying Station with Cargo Service Headquarters of the Taiwan Railroad Administration Bureau, MOTC, which is rented under operating lease in 2018. As of December 31 2018, the carrying amount of prepaid rentals (included in other current assets) was \$1,021 thousand. For the year ended December 31, 2018, the rental expense was \$11,230 thousand.

The Corporation entered into Nangang Software Park Phase 3 office lease contract with Century Development Corporation, which is rented under operating lease in 2018. As of December 31 2018, the carrying amount of prepaid rentals (included in other current assets) was \$4,856 thousand. For the year ended December 31, 2018, the rental expense was \$58,275 thousand.

h. Compensation of key management personnel

Compensation of key management personnel was as follows:

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Short-term employee benefits	\$ 103,008	\$ 99,124
Post-employment benefits	<u>878</u>	<u>854</u>
	<u>\$ 103,886</u>	<u>\$ 99,978</u>

**28. PLEDGED ASSETS**

<b>Pledged Assets</b>	<b>Pledged to Secure</b>	<b>December 31</b>	
		<b>2019</b>	<b>2018</b>
<b>Other financial assets - current:</b>			
Repurchase agreement collateralized by government bonds	Syndicated loan	\$ 1,577,000	\$ 1,572,000
Time deposits	Guarantee for customs duties	22,442	-
Time deposits	Guarantee for office lease	16,278	954
Time deposits	Guarantee for project subsidy	10,520	-
Time deposits	Trust deposit of unearned revenue	-	68,000
Demand deposits	Trust deposit of unearned revenue	21,676	15,654
Demand deposits	Project subsidy	2,001	-
Demand deposits	Syndicated loan	<u>1,224</u>	<u>1,453</u>
		<u>1,651,141</u>	<u>1,658,061</u>
<b>Other financial assets - non-current:</b>			
Time deposits	Performance guarantee for the C&O Agreement	2,000,000	2,000,000
Time deposits	Trust deposit of unearned revenue	68,000	-
Time deposits	Guarantee for customs duties	20,000	42,378
Time deposits	Guarantee for parking lease	7,134	7,067
Time deposits	Guarantee for oil purchase	3,120	3,120
Time deposits	Guarantee for office lease	-	15,324
Time deposits	Guarantee for project subsidy	<u>-</u>	<u>10,520</u>
		<u>2,098,254</u>	<u>2,078,409</u>
		<u>\$ 3,749,395</u>	<u>\$ 3,736,470</u>

## 29. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

### a. Construction and operation agreement

The significant provisions of the C&O Agreement were as follows:

- 1) The concession period, including the construction period and operating period, for the construction and operation of HSR is 70 years from the date of agreement, and can be extended pursuant to the C&O Agreement.
- 2) During the operating period, the Corporation shall make profit sharing payments at 10% of the net income before income tax to the MOTC each year for the development and construction of HSR infrastructure and facilities. However, if the accumulated amount of the profit sharing payments is less than the amount listed in the table below, the latter shall prevail.

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 July 23, 2033	108 billion

According to the SZD Termination Agreement, the Corporation and MOTC engaged impartial and professional appraisal firms to appraise the fair value of the superficieses returned to the MOTC in the amount of \$22,613,234 thousand. The value of the returned superficieses is allowed by the MOTC to offset the profit sharing payments in the amount of \$29,784,855 thousand at the end of every five years as follows:

As of the end of the tenth year of full operation	\$2,003,521 thousand
As of the end of the fifteenth year of full operation	4,252,245 thousand
As of the end of the twentieth year of full operation	6,520,109 thousand
As of the end of the twenty-fifth year of full operation	7,654,041 thousand
As of July 23, 2033	9,354,939 thousand

Starting from 2013, the Corporation prepares its financial statements in accordance with IFRSs endorsed by the FSC. Refer to Note 16 for the recognition of profit sharing payments as operating concession liabilities.

- 3) The Corporation should establish a financial stabilization mechanism starting from 2016.
  - a) From 2016 to the year the stabilization reserve is calculated, if the annual average of net income (loss) and the effect of retrospective adjustments that resulted from the change in accounting policies exceed \$3.5 billion, the stabilization reserve should be provided as described below:
    - i. If the Corporation's EBT in the current year is higher than A1 but less than A2, the EBT is regarded as operation incentive and no stabilization reserve should be provided (refer to the note below for the definitions of EBT, A1, A2 and A3).
    - ii. If the Corporation's EBT in the current year is higher than A2 but less than A3, the stabilization reserve should be provided in the current year as follows:

$$(EBT - A2) \times 50\%$$

- iii. If the Corporation's EBT in the current year is higher than A3, the stabilization reserve should be provided in the current year as follows:

$$(A3 - A2) \times 50\% + (EBT - A3) \times 70\%$$

EBT = Income (loss) before income tax, net of the stabilization reserve and the compensation and remuneration set out in Article 235-1 of the Company Act.

A1 = Net income of \$3.5 billion ÷ (1 - the statutory tax rate)

A2 = Net income of \$4.0 billion ÷ (1 - the statutory tax rate)

A3 = Net income of \$4.5 billion ÷ (1 - the statutory tax rate)

- b) If the Corporation's EBT in the current year is less than A1, the reversal of the accumulated stabilization reserve should be (A1 - EBT), but only to the extent of the accumulated stabilization reserve equals zero.
- c) The Corporation should open a "Taiwan High Speed Rail Stabilization Mechanism Account" (the "Stabilization Mechanism Account") at Bank of Taiwan.
- i. If the accumulated stabilization reserve, net of the balance in the Stabilization Mechanism Account, exceeds \$10 billion at the end of any year, the Corporation shall contribute the excess amount (net of tax, if any) to the Stabilization Mechanism Account within one month from the date the MOTC confirms the execution report submitted by the Corporation. The stabilization reserve should also be provided in the same amount for the interest income generated from the Stabilization Mechanism Account.
  - ii. The MOTC may request the Corporation to use the funds of the Stabilization Mechanism Account under the following circumstances:
    - i) Fare discount or fare reduction;
    - ii) Construction of HSR infrastructure and facilities; and
    - iii) In compliance with the government's policies.
  - iii. The accumulated stabilization reserve shall be deducted by the same amount of funds used from the Stabilization Mechanism Account.
  - iv. Except for payment of tax levied on the Stabilization Mechanism Account, the Corporation cannot use the funds of the Stabilization Mechanism Account, unless the Corporation obtains the approval from the MOTC.
- d) Treatments of the stabilization reserve and the Stabilization Mechanism Account upon expiration or early termination of the concession period
- i. If the accumulated stabilization reserve exceeds the balance of the Stabilization Mechanism Account at the end of the concession period, the Corporation shall contribute the excess amount (net of tax, if any) to the Stabilization Mechanism Account, and the remaining balance of the Stabilization Mechanism Account (net of tax, if any) shall be transferred to a specific account designated by the MOTC.
  - ii. If the C&O Agreement is terminated due to mutual agreement, force majeure or excluded events, the remaining balance of the Stabilization Mechanism Account (net of tax, if any) as of the termination date shall be transferred to a specific account designated by the MOTC, and the excess of the accumulated stabilization reserve over the balance of the Stabilization Mechanism Account shall be allocated to the Corporation.

- iii. According to the C&O Agreement, if the termination is due to the reasons attributable to the Corporation, all of the accumulated stabilization reserve, including the balance of the Stabilization Mechanism Account, shall be allocated to the MOTC.
  - iv. According to the C&O Agreement, if the termination is due to government's policies, all of the accumulated stabilization reserve, including the balance of the Stabilization Mechanism Account, shall be allocated to the Corporation.
  - e) Starting from 2017, the following year after the mechanism became effective, the Corporation shall submit to the MOTC an execution report audited by independent auditors, including provision, contribution, accumulated balance of the stabilization reserve, and the utilization and balance of the Stabilization Mechanism Account within one month from the date the shareholders approved the annual financial statements.
- 4) When the concession period expires, the assets which are purchased under the consent of the MOTC within five years before the concession period expires, and are not fully depreciated and remain usable for normal operations upon the expiry of the concession period, are transferred to MOTC with consideration. The transfer price is the undepreciated value of the assets determined based on the fixed percentage of declining method over the minimum useful lives prescribed by the Executive Yuan. Except for the assets mentioned above, the ownership and rights of all other assets shall be transferred to the MOTC or the third party designated by the MOTC without consideration.
  - 5) When the C&O Agreement is terminated before the expiration of the concession period, the value of the operating assets and construction in progress should be appraised by impartial professional appraisal organizations with their actual costs, usage, value in use, remaining concession period, and related articles of the C&O Agreements taken into consideration.
  - 6) The Corporation provided a \$5 billion performance bond as a guarantee for fulfillment of responsibilities of the HSR operations. The guarantee ends on the date six months after the expiry of concession period or early termination of the C&O Agreement. Starting from the date the Corporation commenced its commercial operations, if there is no breach of agreements, \$0.5 billion of the performance bond can be returned each year. However, the total returned amount cannot exceed \$3 billion.

As of December 31, 2019 and 2018, the amount of the aforementioned performance bond remained unchanged at \$2 billion, and was recognized as other financial assets.

- b. As of December 31, 2019, unused letters of credit amounted to JPY3,668,813 thousand.
- c. The residents of Chengbei, Tongxiao Township, Miaoli claimed that the Corporation did not install a complete set of noise and vibration control. The residents stated they suffered from the noise and vibration intrusion for a long time, and the situation brought the damage to the buildings and their health. Therefore, the residents claimed for the damage compensation. In June 2015, the Environmental Protection Administration Public Nuisance Arbitration Committee decided that the Corporation shall compensate the residents of \$8,338 thousand. The Corporation disagreed with the ruling and filed an appeal to Miaoli District Court. On November 23, 2018, Miaoli District Court declared that the Corporation won the first instance, and the defendant has filed an appeal on December 11, 2018. The Taiwan High Court ( the Taichung Branch Court) has dismissed the appeal on December 4, 2019, and the Corporation has appealed the case before the statutory deadline. On December 17, 2018, the residents filed a claim under the same reason, and requested for a payment of \$5,700 thousand. The Miaoli District Court has dismissed the appeal of accuser on December 12, 2019 and the accuser has appealed the case before the statutory deadline.

- d. In May 2017, the Corporation entered into an equipment procurement contract, and the total amounts of the contract (business tax included) were JPY5,123,358 thousand and NT\$495,547 thousand. As of December 31, 2019, payments for the contract amounted to JPY4,460,593 thousand and NT\$387,643 thousand and were recognized as construction in progress of the operating concession asset under intangible assets.

In July 2019, the Corporation entered into an equipment procurement contract, and the total amounts of the contract (business tax included) were JPY2,626,531 thousand and NT\$120,955 thousand. As of December 31, 2019, payments for the contract amounted to JPY134,027 thousand and NT\$13,826 thousand were recognized as construction in progress of the operating concession asset under intangible assets.

- e. In response to the aging equipment such as 700T train electronic control, the Corporation expects to update the equipment during the train maintenance period from 2021 to 2023 and purchase the relevant components. Therefore, the Corporation entered into a procurement contract “700T Spare Parts of 7GI” with Toshiba Electronic Components Taiwan Corporation, Ltd (subsidiary of Toshiba Corporation in Taiwan) in July 2019 and the total amounts of the contract (business tax and import tariffs excluded) were JPY11.6 billion. As of December 31, 2019, payments for the contract made were JPY1.16 billion.

### **30. SIGNIFICANT EVENTS AFTER REPORTING PERIOD**

Except for those separately disclosed in other notes, the Corporation had the following significant events after the reporting period:

On February 19, 2020, the board of directors approved the procurement of “high-speed railway passenger card purchase ticket cash flow receipt service contracts” for the period from March 2022 to April 2027.

### **31. EXCHANGE RATE OF FINANCIAL ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES**

For the information on the Corporation’s significant financial assets and liabilities denominated in foreign currencies, refer to Note 26, c.

### **32. SEPARATELY DISCLOSED ITEMS**

Except for Tables 1 and 2 as attached, there were no other significant transactions, information on investees and investments in mainland China required for disclosure.

### **33. SEGMENT INFORMATION**

The Corporation is engaged only in the operation of HSR and related facilities. Consequently, there is no other reportable segment.



## TAIWAN HIGH SPEED RAIL CORPORATION

## MARKETABLE SECURITIES HELD

DECEMBER 31, 2019

(In Thousands of New Taiwan Dollars)

Holding Company	Type and Name of Marketable Securities	Relationship with the Holding Company	Line Item	December 31, 2019				Note
				Units/Face Value (In Thousands)	Carrying Amounts	Percentage of Ownership	Fair Value	
The Corporation	FSITC Taiwan Money Market Fund	-	Financial assets at fair value through profit or loss	3,907	\$ 60,019	-	\$ 60,019	
	Franklin Templeton Sinoam Money Market Fund	-	"	9,671	100,372	-	100,372	
	Yuanta De-Li Money Market Fund	-	"	6,538	107,032	-	107,032	
	Prudential Financial Money Market Fund	-	"	3,968	63,020	-	63,020	
	Central Government Bonds 2018-11	-	Cash and cash equivalents	\$ 100,000	108,000	-	108,000	
	Central Government Bonds 2016-11	-	"	1,500,000	1,583,000	-	1,583,000	
	Central Government Bonds 2016-8	-	"	55,000	60,000	-	60,000	
	Central Government Bonds 2015-12	-	"	2,052,400	2,280,333	-	2,280,333	
	Central Government Bonds 2013-B 1st	-	"	108,000	120,000	-	120,000	
	Central Government Bonds 2012-9	-	"	419,000	442,000	-	442,000	
	Central Government Bonds 2011-9	-	"	142,200	158,000	-	158,000	
	Central Government Bonds 2005-8	-	"	954,900	1,061,000	-	1,061,000	
	Central Government Bonds 2004-9	-	"	92,000	100,000	-	100,000	
	Central Government Bonds 2004-6	-	"	1,297,700	1,441,889	-	1,441,889	
	Central Government Bonds 2001-4	-	"	523,800	582,000	-	582,000	
	Central Government Bonds 2001-8	-	"	3,790,000	3,967,778	-	3,967,778	
	Central Government Bonds 2001-B-1st	-	"	637,000	649,000	-	649,000	
	Central Government Bonds 2000-13	-	"	1,051,500	1,065,000	-	1,065,000	
	Central Government Bonds 2000-7	-	"	189,000	210,000	-	210,000	
	Central Government Bonds 2000-B-1st	-	"	1,778,500	1,865,000	-	1,865,000	
	Central Government Bonds 2017-9	-	Other financial assets - current	1,230,000	1,308,000	-	1,308,000	
	Central Government Bonds 2016-11	-	"	3,797,000	4,066,000	-	4,066,000	
	Central Government Bonds 2015-12	-	"	636,300	707,000	-	707,000	
	Central Government Bonds 2012-9	-	"	805,000	861,000	-	861,000	
	Central Government Bonds 2011-9	-	"	110,000	120,000	-	120,000	
	Central Government Bonds 2011-7	-	"	705,600	784,000	-	784,000	
	Central Government Bonds 2011-5	-	"	819,900	911,000	-	911,000	
	Central Government Bonds 2010-8	-	"	252,900	281,000	-	281,000	
	Central Government Bonds 2010-7	-	"	877,500	975,000	-	975,000	
	Central Government Bonds 2004-6	-	"	847,800	942,000	-	942,000	
	Central Government Bonds 2003-3	-	"	133,000	140,000	-	140,000	
	Central Government Bonds 2002-7	-	"	1,609,200	1,788,000	-	1,788,000	
	Central Government Bonds 2001-8	-	"	665,000	670,000	-	670,000	
	Central Government Bonds 2001-4	-	"	176,000	176,000	-	176,000	
	Central Government Bonds 2001-2	-	"	1,127,000	1,137,000	-	1,137,000	
	Central Government Bonds 2001-B 1st	-	"	2,521,200	2,550,000	-	2,550,000	
	Central Government Bonds 2000-13	-	"	234,000	260,000	-	260,000	
	Central Government Bonds 2000-B 1st	-	"	2,547,900	2,757,000	-	2,757,000	

## TAIWAN HIGH SPEED RAIL CORPORATION

MARKETABLE SECURITIES ACQUIRED OR DISPOSED OF AT COSTS OR PRICES OF AT LEAST \$300 MILLION OR 20% OF THE PAID-IN CAPITAL  
FOR THE YEAR ENDED DECEMBER 31, 2019  
(In Thousands of New Taiwan Dollars)

Company	Type and Name of Marketable Securities	Line Item	Counterparty	Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance	
					Face Value	Carrying Amount	Face Value	Carrying Amount	Face Value	Amount	Carrying Amount	Gain on Disposal	Face Value	Carrying Amount
The Corporation	Central Government Bonds 2017-9	Note	-	-	\$ -	\$ -	\$ 1,230,000	\$ 1,308,000	\$ -	\$ -	\$ -	\$ -	\$ 1,230,000	\$ 1,308,000
	Central Government Bonds 2017-4	"	-	-	-	-	8,094,000	8,803,200	8,094,000	8,815,082	8,803,200	11,882	-	-
	Central Government Bonds 2016-11	"	-	-	6,835,000	7,429,000	13,121,500	14,100,600	14,659,500	15,901,743	15,880,600	21,143	5,297,000	5,649,000
	Central Government Bonds 2015-12	"	-	-	1,236,600	1,374,000	5,686,600	6,318,333	4,234,500	4,711,303	4,705,000	6,303	2,688,700	2,987,333
	Central Government Bonds 2015-6	"	-	-	-	-	1,676,000	1,811,000	1,676,000	1,813,419	1,811,000	2,419	-	-
	Central Government Bonds 2014-6	"	-	-	401,400	446,000	831,600	924,000	1,233,000	1,371,944	1,370,000	1,944	-	-
	Central Government Bonds 2013-10	"	-	-	-	-	1,749,500	1,943,889	1,749,500	1,946,482	1,943,889	2,593	-	-
	Central Government Bonds 2013-6	"	-	-	435,600	484,000	369,000	410,000	804,600	895,124	894,000	1,124	-	-
	Central Government Bonds 2012-9	"	-	-	-	-	1,224,000	1,303,000	-	-	-	-	1,224,000	1,303,000
	Central Government Bonds 2012-5	"	-	-	477,000	530,000	-	-	477,000	530,637	530,000	637	-	-
	Central Government Bonds 2012-2	"	-	-	-	-	674,100	749,000	674,100	749,999	749,000	999	-	-
	Central Government Bonds 2012-B 2nd	"	-	-	-	-	595,800	662,000	595,800	662,914	662,000	914	-	-
	Central Government Bonds 2012-B 1st	"	-	-	-	-	351,900	391,000	351,900	391,485	391,000	485	-	-
	Central Government Bonds 2011-9	"	-	-	-	-	577,100	639,000	324,900	361,502	361,000	502	252,200	278,000
	Central Government Bonds 2011-7	"	-	-	334,800	372,000	975,600	1,084,000	604,800	672,879	672,000	879	705,600	784,000
	Central Government Bonds 2011-5	"	-	-	-	-	1,462,500	1,625,000	642,600	714,890	714,000	890	819,900	911,000
	Central Government Bonds 2010-7	"	-	-	-	-	1,916,100	2,129,000	1,038,600	1,155,451	1,154,000	1,451	877,500	975,000
	Central Government Bonds 2010-4	"	-	-	133,200	148,000	701,100	779,000	834,300	928,131	927,000	1,131	-	-
	Central Government Bonds 2008-5	"	-	-	353,700	393,000	403,200	448,000	756,900	842,053	841,000	1,053	-	-
	Central Government Bonds 2005-8	"	-	-	-	-	954,900	1,061,000	-	-	-	-	954,900	1,061,000
	Central Government Bonds 2004-6	"	-	-	382,500	425,000	2,573,000	2,858,889	810,000	901,140	900,000	1,140	2,145,500	2,383,889
	Central Government Bonds 2004-3	"	-	-	-	-	1,780,200	1,978,000	1,780,200	1,981,062	1,978,000	3,062	-	-
	Central Government Bonds 2003-3	"	-	-	-	-	1,562,300	1,699,000	1,429,300	1,561,153	1,559,000	2,153	133,000	140,000
	Central Government Bonds 2002-7	"	-	-	-	-	1,609,200	1,788,000	-	-	-	-	1,609,200	1,788,000
	Central Government Bonds 2001-8	"	-	-	-	-	6,092,000	6,442,778	1,637,000	1,807,552	1,805,000	2,552	4,455,000	4,637,778
	Central Government Bonds 2001-5	"	-	-	-	-	457,200	508,000	457,200	508,698	508,000	698	-	-
	Central Government Bonds 2001-4	"	-	-	-	-	1,300,100	1,425,000	600,300	667,865	667,000	865	699,800	758,000
	Central Government Bonds 2001-2	"	-	-	-	-	3,935,000	4,257,000	2,808,000	3,124,174	3,120,000	4,174	1,127,000	1,137,000
	Central Government Bonds 2001-B 1st	"	-	-	-	-	4,547,800	4,743,000	1,389,600	1,546,077	1,544,000	2,077	3,158,200	3,199,000
	Central Government Bonds 2000-13	"	-	-	3,526,000	3,526,000	5,634,500	5,674,000	7,875,000	7,884,844	7,875,000	9,844	1,285,500	1,325,000
	Central Government Bonds 2000-7	"	-	-	-	-	3,736,400	4,101,667	3,547,400	3,896,961	3,891,667	5,294	189,000	210,000
	Central Government Bonds 2000-B 1st	"	-	-	1,152,000	1,152,000	8,485,500	9,014,333	5,311,100	5,551,790	5,544,333	7,457	4,326,400	4,622,000

Note: The above repurchase agreement collateralized by government bonds is included in cash and cash equivalents and other financial assets - current.

# TAIWAN HIGH SPEED RAIL CORPORATION

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**TAIWAN HIGH SPEED RAIL CORPORATION****STATEMENT OF CASH AND CASH EQUIVALENTS****DECEMBER 31, 2019****(In Thousands of New Taiwan Dollars)**

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<b>Item</b>	<b>Description</b>	<b>Amount</b>
Cash		
Cash on hand		\$ 88,890
Checking accounts		10
Demand deposits	Interest rate: 0.001%-0.33%	481,618
Time deposits		
New Taiwan dollars	Expired in January 2020; interest rate: 0.62%	8,158
Cash equivalents		
Repurchase agreement collateralized by government bonds	Can be redeemed between January and March 2020; interest rate: 0.50%-0.56%	15,693,000
		<hr/>
		<u>\$ 16,271,676</u>

**TAIWAN HIGH SPEED RAIL CORPORATION****STATEMENT OF FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS****DECEMBER 31, 2019****(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

---

<b>Name of Funds</b>	<b>Units (In Thousands)</b>	<b>Acquisition Cost</b>	<b>Net Value (NT\$)</b>	<b>Total Amount</b>
Open-end money market funds				
Franklin Templeton Sinoam Money Fund	9,671	\$ 100,000	10.3791	\$ 100,372
Yuanta De-Li Money Market Fund	6,538	107,000	16.3699	107,032
Prudential Financial Money Market Fund	3,968	63,000	15.8817	63,020
FSITC Taiwan Money Market Fund	3,907	<u>60,000</u>	15.3630	<u>60,019</u>
		<u>\$ 330,000</u>		<u>\$ 330,443</u>

**TAIWAN HIGH SPEED RAIL CORPORATION**

**STATEMENT OF INVENTORIES**

**DECEMBER 31, 2019**

**(In Thousands of New Taiwan Dollars)**

---

<b>Item</b>	<b>Amount</b>
Spare parts and supplies	\$ 2,687,442
Merchandise	<u>11,451</u>
	2,698,893
Less: Allowance for inventory valuation losses	<u>(642,848)</u>
	<u>\$ 2,056,045</u>

**TAIWAN HIGH SPEED RAIL CORPORATION**

**STATEMENT OF SHORT-TERM BORROWINGS**

**DECEMBER 31, 2019**

**(In Thousands of New Taiwan Dollars)**

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Type of Loans	Name of Creditors	Ending Balance	Credit Period	Interest Rate (%)	Loan Commitments	Collateral
JPY letters of credit						
	Bank of Taiwan	\$ 36,686	2019.12.18-2020.3.17	0.63	\$ 1,505,300	None
	Cathay United Bank	13,232	2019.12.4-2020.3.18	0.62-0.7	903,180	None
	Taiwan Business Bank	12,134	2019.12.2-2020.3.1	0.74	481,696	None
	Chang Hwa Commercial Bank	2,828	2019.12.6-2020.3.24	0.63	903,180	None
	E.SUN Commercial Bank	<u>100</u>	2019.11.27-2020.2.25	0.65	451,590	None
		<u>\$ 64,980</u>				

Note: The credit line is recorded at the exchange rate of JPY1:0.2770 at December 31, 2019.

**TAIWAN HIGH SPEED RAIL CORPORATION**

**STATEMENT OF ACCOUNTS PAYABLE**

**DECEMBER 31, 2019**

**(In Thousands of New Taiwan Dollars)**

---

<b>Supplier Name</b>	<b>Amount</b>
Toshiba Electronic Components Taiwan Corporation	\$ 24,718
Kawasaki Heavy Industries, Ltd.	20,229
Kaohsiung Airport Catering Services	17,075
Shin Goang International Corporation	13,305
Others (Note)	<u>181,011</u>
	<u>\$ 256,338</u>

Note: The amount of individual suppliers in others does not exceed 5% of the total account balance.



**TAIWAN HIGH SPEED RAIL CORPORATION****STATEMENT OF PAYABLE FOR CONSTRUCTION****DECEMBER 31, 2019****(In Thousands of New Taiwan Dollars)**

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<b>Supplier Name</b>	<b>Amount</b>
InfoChamp Systems Corporation	\$ 160,932
Kyosan Electric Manufacturing Co., Ltd. Taiwan Branch (Japan)	96,637
Industrial Technology Research Institute	91,330
Mitac Information Technology Corporation	81,907
Taiwan Shinkansen Corporation	69,977
Taiwan Hitachi Asia Pacific Co., Ltd.	58,946
Others (Note)	<u>382,412</u>
	<u>\$ 942,141</u>

Note: The amount of individual suppliers in others does not exceed 5% of the total account balance.

**TAIWAN HIGH SPEED RAIL CORPORATION**

**STATEMENT OF OPERATING REVENUE  
FOR THE YEAR ENDED DECEMBER 31, 2019  
(In Thousands of New Taiwan Dollars)**

---

<b>Item</b>	<b>Quantity</b>	<b>Amount</b>
Railroad transportation revenue	11,994 million passenger - kilometers; 67.41 million passengers	\$ 46,107,656
Others		<u>1,399,734</u>
		<u>\$ 47,507,390</u>

**TAIWAN HIGH SPEED RAIL CORPORATION****STATEMENT OF OPERATING COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2019  
(In Thousands of New Taiwan Dollars)**

---

<b>Item</b>	<b>Amount</b>
Amortization expense	\$ 13,794,118
Employee benefit expense	4,156,369
Electricity fee	1,838,201
Spare parts and supplies	1,306,469
Repair and maintenance expense	1,139,321
Others	<u>3,528,209</u>
	<u>\$ 25,762,687</u>

**TAIWAN HIGH SPEED RAIL CORPORATION**

**STATEMENT OF OPERATING EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2019  
(In Thousands of New Taiwan Dollars)**

---

<b>Item</b>	<b>Amount</b>
Employee benefit expense	\$ 857,560
Advertisement expense	82,544
Professional service expense	76,763
Repair and maintenance expense	47,394
Others	<u>168,489</u>
	<u>\$ 1,232,750</u>

**TAIWAN HIGH SPEED RAIL CORPORATION**

**STATEMENT OF SUMMARY OF EMPLOYEE BENEFIT, DEPRECIATION AND AMORTIZATION EXPENSE BY FUNCTION**

**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**(In Thousands of New Taiwan Dollars)**

	2019			2018		
	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Employee benefit expense						
Payroll	\$ 3,549,937	\$ 652,553	\$ 4,202,490	\$ 3,335,786	\$ 603,711	\$ 3,939,497
Insurance	308,428	50,316	358,744	288,142	45,297	333,439
Pension	172,066	32,960	205,026	161,429	28,027	189,456
Remuneration to directors	-	53,797	53,797	-	53,701	53,701
Other personnel expense	<u>125,938</u>	<u>67,934</u>	<u>193,872</u>	<u>122,398</u>	<u>65,623</u>	<u>188,021</u>
	<u>\$ 4,156,369</u>	<u>\$ 857,560</u>	<u>\$ 5,013,929</u>	<u>\$ 3,907,755</u>	<u>\$ 796,359</u>	<u>\$ 4,704,114</u>
Depreciation expense	<u>\$ 179,923</u>	<u>\$ 22,371</u>	<u>\$ 202,294</u>	<u>\$ 24,015</u>	<u>\$ 11,906</u>	<u>\$ 35,921</u>
Amortization expense	<u>\$ 13,794,118</u>	<u>\$ 4,732</u>	<u>\$ 13,798,850</u>	<u>\$ 13,735,620</u>	<u>\$ 4,674</u>	<u>\$ 13,740,294</u>

Note 1: The number of employees for December 31, 2019 and 2018 was 4,608 and 4,475, respectively, while the number of non-employee directors was 12 and 13, respectively.

Note 2: The amount of average employee benefit expense for the years ended December 31, 2019 and 2018 was \$1,079 thousand and \$1,042 thousand, respectively. The amount of average payroll for the years ended December 31, 2019 and 2018 was \$914 thousand and \$883 thousand, respectively. The average payroll has increased by 3.51% in 2019 compared with 2018.