台灣高鐵
TAIWAN HIGH SPEED RAIL

2007 ANNUAL REPORT

Beyond Transportation


A New Lifestyle

We at THSRC are committed to delivering efficient, comfortable and premium services, and we offer our customers a pleasant experience traveling with Taiwan High Speed Rail. Through integrated development of land and transportation network, we are committed to ***"enabling a new lifestyle"*** to the public and creating significant values for our shareholders and employees.



THSRC Description

BACKGROUND

The Taiwan High Speed Rail stretches 345km from Taipei in the north to Kaohsiung in the south along the Taiwan's western corridor where 94% of Taiwan's 23 million population and most of the socio-economic activities are located. The proposal to build this high speed rail as a public section project was first mooted in the late 1980s. In an effort to reduce public spending and to benefit from private sector efficiency, in 1996 the Government decided that it would turn the responsibility over to the private sector to finance, build and operate this railway.

The Statute for Encouragement of Private Participation in Transportation Infrastructure Projects was enacted and in 1997 the private sector was invited to put forward proposals to design, finance, construct and operate the Taiwan High Speed Railway using the Build, Operate and Transfer Model.

CONSTRUCTION AND OPERATION AGREEMENT (C&OA)

In September 1997 the Government selected the Taiwan High Speed Rail Consortium as the best applicant to be awarded the concession.

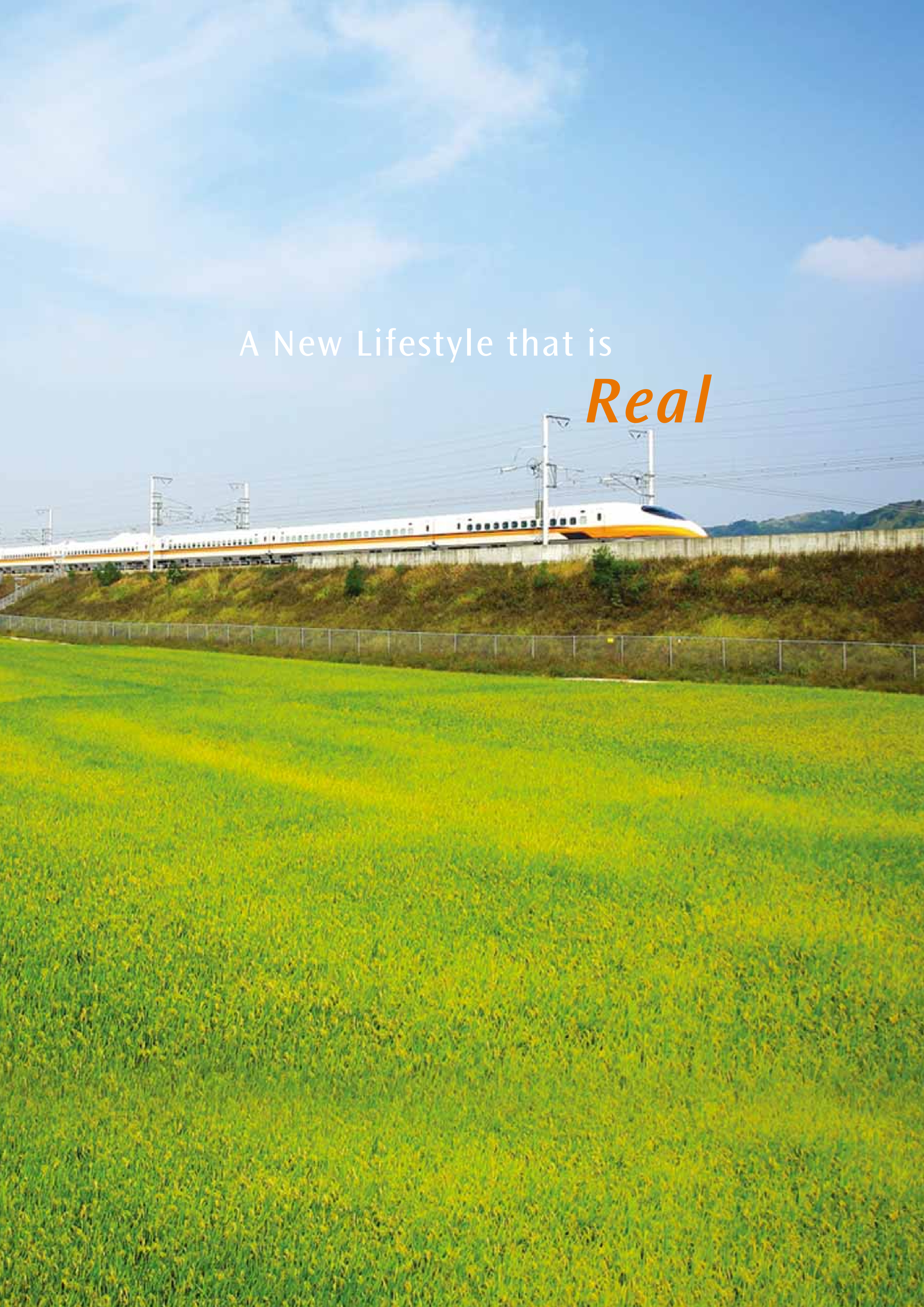
The Taiwan High Speed Rail Consortium was made up of 5 leading Taiwan companies, Fubon Insurance Co., Ltd, Pacific Electric Wire & Cable Co., Ltd, Continental Engineering Corporation, Teco Electric and Machinery Co., Ltd, and Evergreen Marine Corporation.

Taiwan High Speed Rail Corporation (THSRC) was registered as a Taiwan company in May 1998.

Following the conclusion of negotiations, the Government and THSRC signed the C&OA on 23 July 1998 granting THSRC the concession to design, finance, construct, and operate the Taiwan High Speed Railway for a period of 35 years.

Under the C&OA the Government agreed to provide free the land for the permanent works of Project and undertook not to allow another high speed operator to compete with THSRC during the concession period.

At the same time the Station Zone Development Agreement was executed which gave THSRC the 50-year right to develop land adjoining Taiwan High Speed Rail Stations at Taoyuan 8.55 ha, Hsinchu 3.13 ha, Taichung 11.30 ha, Chiayi 3.14 ha and Tainan 4.02 ha.


A New Lifestyle that is
Real

Chairman's and Chief Executive Officer's Report to Shareholders

DEAR SHAREHOLDERS,

2007 marked the beginning of a new era for THSRC, with revenue service commencing in January 2007. This is the culmination of ten years unremitting effort by THSRC on planning, financing, design, construction, and building a new operation team, all starting from ground zero.

Taiwan High Speed Rail is the first and only high speed rail service in Taiwan. It is also the first and only high speed rail in the world completed and now operated by a private company.

Our operations have already had a significant impact on the island's economy and the people's lifestyles, and we anticipate the new transportation mode will create further economic integration and growth in the years to come.

OPERATIONS REVIEW

Introducing a brand new mode of transport service in a stable and mature market is a challenge. The operation strategy for the first year of revenue service is to adopt a pragmatic and conservative ramp up programme starting with 38 daily services in January 2007. As the number of passengers increased, we expanded the frequency of our services steadily and progressively during the year. By January 2008, the services had increased three folds to 126 train services for peak days.

The new high speed rail service, with its unparalleled speed, comfort and premium customer service, has forever changed the transportation market in Taiwan. Our monthly ridership doubled over the course of 2007 from 1 million in January 2007 to 2 million in December 2007, and the growth trend continues.

As of December 31, 2007, 24,400 train services have been delivered; the annual patronage was 15.55 million; and the cumulative sales for travel totaled 3.52 billion passenger-km. Our annual revenue in 2007 was NTD 13.50 billion, of which 97% came from fare-box income.
We introduced the following initiatives in 2007:

A. Half fare promotion to celebrate our launch in January 2007.
B. Non-reserved seating/free seating class in specific cars.
C. Phone booking.
D. On-line reservation through the internet.
E. Additional ticketing facilities provided at stations to enhance convenience to passengers.

OUR SERVICES

Our service is built on a tripod of Safety, Punctuality, and Premium Quality Service. Based on the corporate policy that safety is paramount, we have achieved the zero-accident goal in our first year of operation. Our

2007 marked the beginning of a new era for THSRC, with revenue service commencing in January 2007. Within the first year of operation, the services had increased three folds from 38 daily services to 126 services for peak days.

service punctuality is 99.46% (defined as delay not exceeding 10 minutes from timetable service). The survey completed by the Ministry of Transportation and Communications in early 2008 also confirmed a high rating of 79.72% satisfaction on overall services.

The success of the High Speed Railway has also been demonstrated by the very significant reduction of domestic airline services along the route of the Railway.

ACCESS TO HIGH SPEED RAIL STATIONS

Ease of access to high speed rail stations is a critical factor for determining passenger's choice of using high speed rail services. During the design stage, THSRC, in conjunction with the Government, has placed special emphasis in integration of connecting public transport to the high speed rail stations.

Taipei, Banciao and Zuoying Stations adjoin the conventional rail and subway systems. Taichung Station is also connected to the conventional rail. Government's transport infrastructure plan also include mass transportation links to the remaining stations (Taoyuan, Hsinchu, Chiayi and Tainan).

During the course of 2007, THSRC introduced shuttle buses to serve stations which are some distance from the town centers, namely Taoyuan, Hsinchu, Taichung, Tainan and Chiayi stations.

HIGH SPEED RAIL STATION PASSENGER FACILITIES

At the high speed rail stations, passenger comfort is emphasized. Disabled and parenting facilities, together with manned information counters are provided at stations. Wireless internet will soon be introduced. Vending machines are available and other facilities and services, such as café/restaurant, travel service, car rental, etc. are provided by THSRC franchisees.

COMMERCIAL SPACE AT STATIONS

As of December 2007, we have successfully leased out 70% of our station commercial space. The leasing of our retail space has been driven by the aim to diversify and increase the choice of in-station entertainment and refreshments available to our passengers, such as bookstores, restaurants, convenience stores, etc. We have also established strategic partnerships with Kato and Sony Entertainments in order to raise our international profile.

LOOKING FORWARD

In the first year of operation, we have captured 4.17% of the total market of intercity travel. We are confident that we have a robust foundation for growth as our customer base exhibits a repeat user rate of 92%.

To meet the growing demand, we are planning to gradually increase to 176 train services per day, which is a 40% increase from 2007.

It is evident that THSRC has already established its presence in Taiwan's transport market.

Currently 75% of intercity travel is by the private cars. The soaring oil prices and the increasing public awareness of the importance of reducing carbon emissions should lead to some private car users switching to high speed rail.

We have achieved consistent growth in ridership in 2007. We aim to further improve the growth rate in 2008 through:

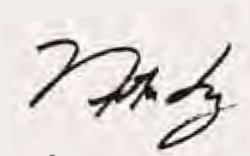
A. Broadening our customer base by promoting our strengths over competing modes of travel.
B. Strengthening our strategic alliances with hotels and tourist organizations to capture a higher market share of domestic and international tourists.
C. Continuing our effort to enhance and consolidate a premium brand image that is Real, Progressive, Passionate and Premium.
D. Improving our ticketing system and outlets to make it more convenient, flexible and user friendly.
E. Reviewing ticket pricing and the application of non-reserved seating.

To meet the growing demand, we are planning to gradually increase to 176 train services per day.

We will continue to demonstrate our commitment to serving society through the participation in various environment and social-responsibility campaigns with the objective of further promoting the THSRC profile.

One particular strategy will be the launch of our "THSRC Smile Program" which will enable underprivileged children the opportunity to enjoy the Taiwan High Speed Rail experience.

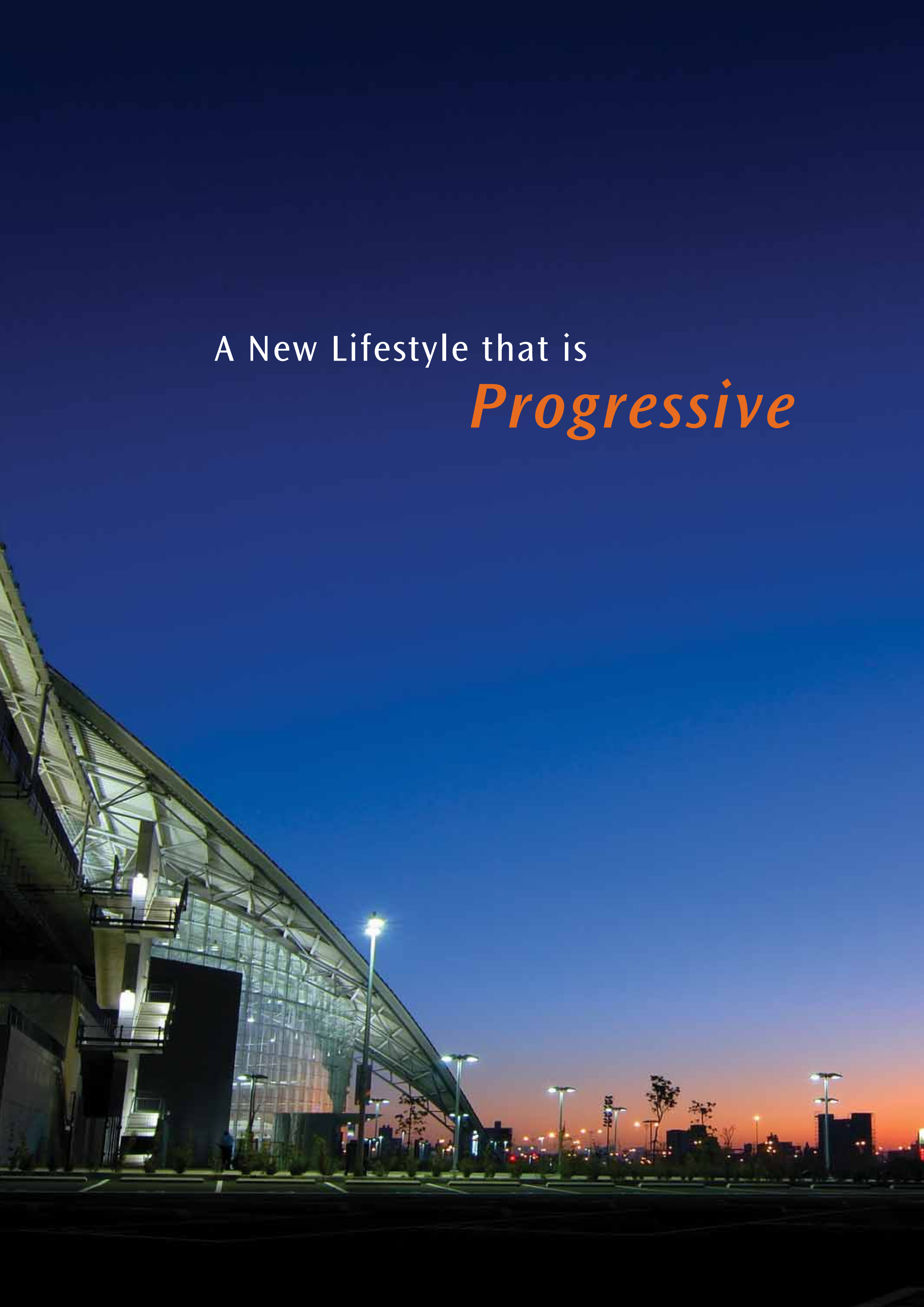
Our successful launch in 2007 was only the beginning and we look forward to the continued growth of ridership and success in the future.



Nita Ing
Chairman

Chin-Der Ou
Chief Executive Officer

A New Lifestyle that is *Progressive*



Corporate Governance

BOARD STRUCTURE

The Board has the overall responsibility for THSRC's performance and its main duties include regularly reviewing the Company's strategy, planned capital expenditure, internal restructuring and human resources policy. It also appoints, dismisses and supervises the Company's senior management team, chief auditor and chief accountant.

The current Board consists of a Chairman, eleven Directors, and two Independent Directors. The current Board was elected on August 16, 2007 for a term of 3 years. The Board holds at least 12 regular meetings each year.

The current Board comprises the following committees and their principal duties are as follows:

CORPORATE GOVERNANCE COMMITTEE

The Corporate Governance Committee recommends candidates to be nominated for election as independent directors at THSRC's shareholders' meeting, consistent with criteria approved by the Board; develops and regularly reviews corporate governance principles and related policies for approval by the Board.

Other specific duties and responsibilities include: assessing the size and composition of the Board, including developing and reviewing director qualifications for approval by the Board; identifying and considering candidates proposed by shareholders; recommending assignments of directors to committees to ensure that committee membership complies with applicable laws; appraising performance and compensation of the Chairman of the Board; appraising performance and compensation of management; and overseeing director orientation and continuing education.

AUDIT COMMITTEE

The Audit Committee assists the Board in fulfilling its responsibilities for generally overseeing the Company's financial reporting processes, the audit of the Company's financial statements, and the Company's compliance with legal and regulatory requirements, the qualifications and independence of the Company's Chief Auditor, the performance of THSRC's internal control function, any conflicts of interest from affiliated parties, and risk assessment and risk management.

PROCUREMENT COMMITTEE

The Procurement Committee assists the Board in fulfilling its responsibilities for overseeing processes and assessments for major procurements and construction award.

SUPERVISORS

In accordance with the law, our company has established two supervisors to oversee the operation of the board of directors.


A New Lifestyle that is
Passionate

TAIPEI STATION

BANCIAO STATION

BOARD OF DIRECTORS

Nita Ing
Chairman.
Also: Chairman of the Continental Engineering Corporation.
B.A. degree in Economics from University of California, Los Angeles.

George Liu
Director.
And: Has been the President of THSRC.
Ph.D in Physics from Massachusetts Institute of Technology.

Chun-Chi Chiu
Director.
Also: President and Spokesperson of Teco Electric & Machinery Co., Ltd.
MBA degree from Michigan University.
B.A. degree in Business Administration from National Taiwan University.

Li Ching Ko
Director.
Also: Supervisor of EVA Airways Corporation.
Supervisor of Evergreen International Storage & Transport Corporation.

Daniel Tsai
Director.
Also: Chairman of Fubon Financial Holding Company.
LL.M. degree from Georgetown University.
B.A. degree in Law from National Taiwan University.

Earle Jen-Shyong Ho
Director.
Also: Chairman and CEO of Tung Ho Steel Enterprise Corporation.
Master degree in Economics from Indiana University.
B.A. degree in Economics from National Taiwan University.

Ching-Bin Chen
Director. (Representative changed on 17 June, 2008)
Also: Acting Chairman of Taiwan Sugar Corporation.
Master degree in Labor & Human Resource from Chinese Culture University.

Thomas T.L. Wu
Director.
Also: Chairman of Taishin Financial Holding Company.
MBA degree from UCLA Anderson School.

Arthur Yu-Cheng Chiao
Director.
Also: Chairman of Winbond Electronics Corporation.
Master degree in Electronics Engineering from University of Washington.
Bachelor degree in Telecommunication Engineering from National Chiao Tung University.

Ringo Kuo-Shui Chao
Director.
And: Has been the Chairman and President of China Airlines Corporation.
Master degree in Business Administration from National Chengchi University.
B.A. degree in Foreign Languages & Literature from Chinese Culture University.

John Yu
Director.
Also: Chairman of the CTCI Foundation.
Chairman of the CTCI Corporation.
B.A. degree in Electrical Engineering from National Taiwan University.

Wen-Yuan Lin
Director.
Also: Chairman of China Steel Corporation.
Master degree in Civil Engineering from University of Hawaii.

Chen-Kuo Lin
Independent Director since 2003.
Also: Chairman of Tunghai University.
Independent Director of High Tech Computer Corporation.
B.A. degree in Economics from National Taiwan University.

George S.Y. Chen
Independent Director since 2007.
Also: Division Convener of the Sustainable Development Division, Nation Policy Foundation.
M.S. degree in Transportation Engineering from the Asian Institute of Technology (AIT).
B.S. degree in Civil Engineering from Chung Yuan University.

SUPERVISORS

Chiou-Shiang Lu
Supervisor.
Also: Deputy Director of the Directorate-General of Budget, Accounting and Statistics of the Executive Yuan.
MBA degree from Concordia University.
Master degree in Politics from National Taiwan University.

Benny Ting-Wu Hu
Supervisor.
Also: Chairman of Federation Health Management Co., Ltd.
Chairman of NTU Innovation Incubation Center.
Master degree in International Economics from Yale University.
MBA degree from the Wharton School of the University of Pennsylvania.

SENIOR MANAGEMENT TEAM

Chin-Der Ou
CEO.
Ph.D in Soil Mechanics from Case Western Reverse University.

Kwok-Hung Lee
Executive Vice President.
B.Sc. degree in Engineering from Hong Kong University.

William Roger Donald
Executive Vice President of Railway Operation Division.
Sheffield University, Hipperholmes G.S.
(Joined January 2008)

Robert Hung
Chief Financial Officer of the Finance Division.
Master degree in Economics from Illinois University.
(Resigned April 2008)

Alex Chang
Chief Operation Officer of Railway Operation Division.
Master degree in Management Science from National Chiao Tung University.
EMBA degree from National Taiwan University of Science and Technology.

Ricardo Tan
Senior Vice President of Corporate Planning Office.
Diploma of Science degree in Aviation Mechanical Engineering from Air Force College of Mechanical Engineering, ROC.

Tsai-Der Chen
Secretariat-General, Secretariat Division of Board of Directors.
B.Sc. degree in Accounting and Statistics from National Cheng Kung University.

Jeder Hseih
Vice President of the Engineering Department, Construction Management & Procurement Division.
Ph.D in Civil Engineering from University of Houston.

Bernard Michael Fleming
Vice President of Contract Administration Department, Construction Management Division.
Honours degree in Law from the University of Canterbury, New Zealand.

Ted Chia
Vice President of the Public Affairs Office.
Master degree from the Politics Institute of Interdisciplinary Studies for Social Sciences, National Sun Yat-Sen University.

John Popoff
Vice President of Integration and Testing Task Force.
B.Sc. degree in Applied Science Electrical Engineering from the University of British Columbia, Canada.

Karl Ulrich Dobler
Vice President of Maintenance Sub-Division, Railway Operation Division.
Ph.D from the Department of Control Systems Technical University Stuttgart, Germany.

John Huang
Chief Auditor of Corporate Audit Office.
B.Sc. degree in Accounting from National Cheng Kung University.

CHIAYI STATION

TAINAN STATION

Samuel P Lin
Deputy Chief Operation Officer of Railway Operation Division.
Master degree in Business Administration from National Sun Yat-Sen University.
Master degree in Business Administration from Chinese University of Hong Kong.

Klaus Liu
Vice President of the Legal Office.
Doktorant, Ludwig-Maximilian-Universitaet Muenchen, B.R.D.

Peter Orange
Vice President of Construction Works Department, Construction Management Division.
Bachelor of Civil Engineering from University of Canterbury, New Zealand.
(Retired June 2007)

Konrad Tzeng
Deputy Chief Operation Officer of Railway Operation Division.
Ph.D from University of Texas.

Rae-Fang Chung
Vice President of Marketing Division.
Degree in Economics from Tamkang University.

Min Chen
Vice President of the Information Technology Division.
Master degree in Computer Sciences from Ohio University.

Eleanore New
Vice President of Finance Department, Finance Division.
MBA degree from NYIT.

Robert Ho-Peng Hsu
Deputy Chief Operation Officer of Railway Operation Division.
EMBA degree from National Chengchi University.
Master degree in Transportation Engineering from National Chiao Tung University.

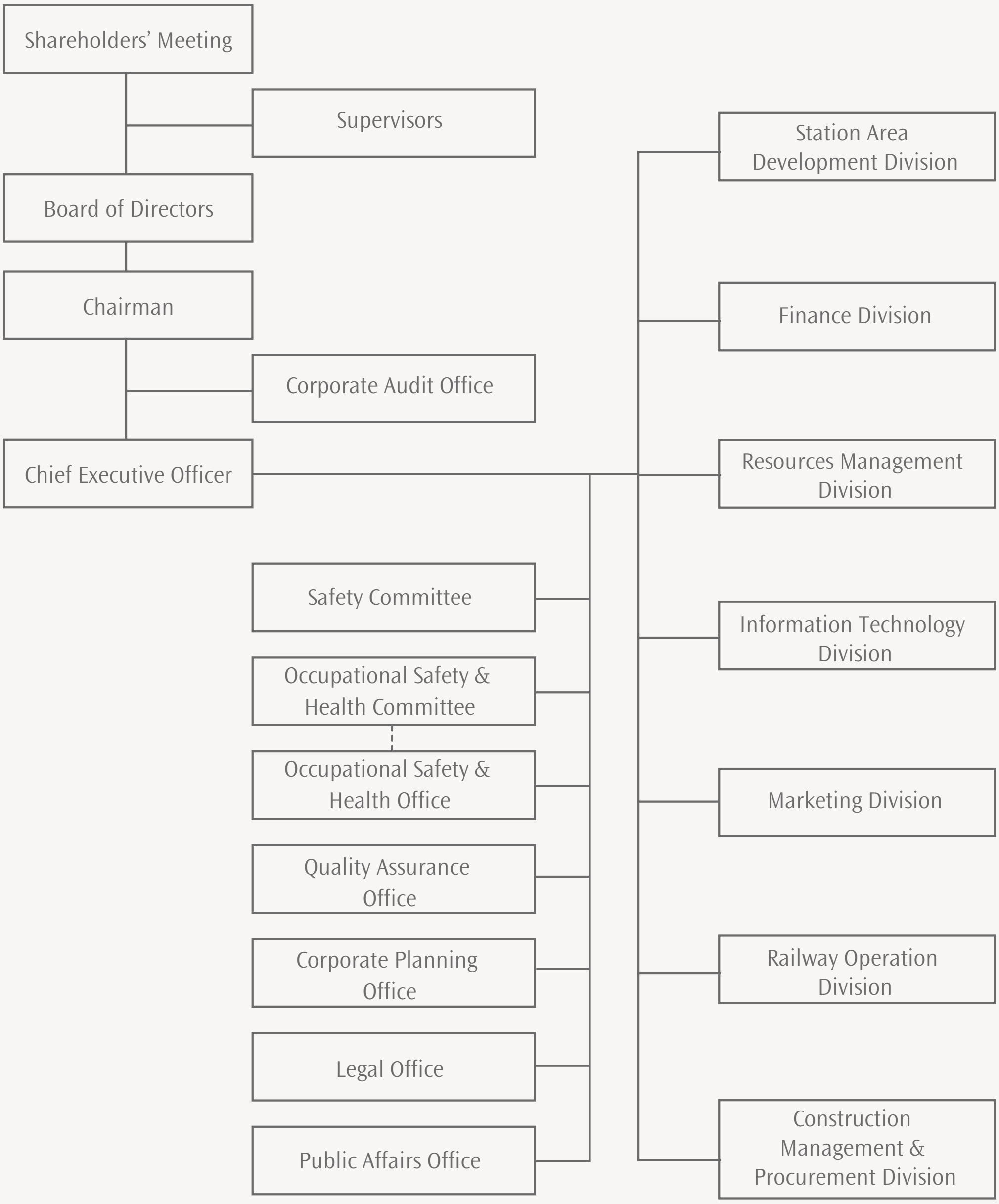
Linda Pei-Chen Chao
Vice President of Resource Management Division.
MBA degree from Tulane University, USA.
(Joined December 2007)

Arthur Chiang
Vice President of Administration Department.
Master degree in Public Administration from National Chengchi University.
(Resigned November 2007)

T. C. Kao
Vice-President, Preparation for Operation Task Force.
PhD in Geotechnical Engineering from Berkeley University.
(Retired April 2008)

ZUOYING STATION

ORGANIZATION STRUCTURE




A New Lifestyle that is
Premium

Business Report

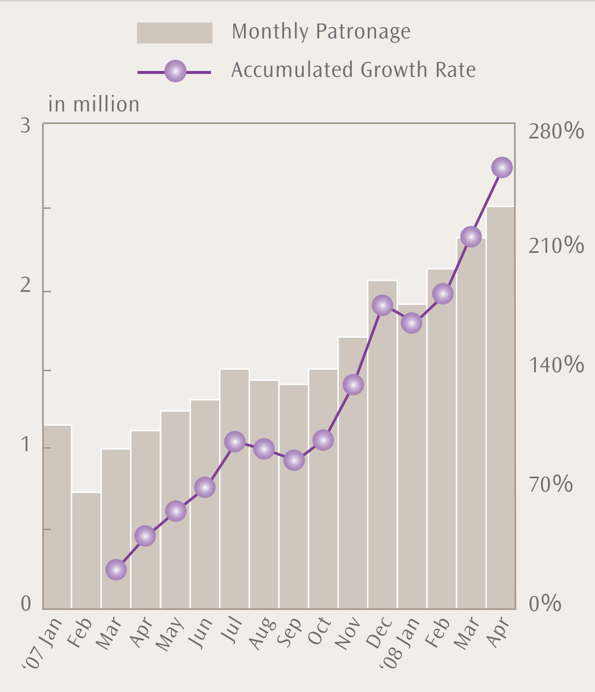
Business Overview

2007 was Taiwan High Speed Rail Corporation's first year of operation.

Total patronage in the year 2007 was 15.55 million. The monthly patronage has risen from 1.16 million in January to 2 million by December 2007, nearly a twofold increase within the first year of operation.

As of December 31, 2007, 24,400 train services have been delivered; the annual patronage was 15.55 million; and the cumulative sales for travel totaled 3.52 billion passenger-km. Our annual revenue in 2007 was NT$ 13.50 billion, of which 97% came from fare-box income.

MONTHLY PATRONAGE & ACCUMULATED GROWTH RATE (From Jan 07 To Apr 08)



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The domestic airline services have born the largest impact from introduction of the high speed rail, with the closure of most routes along the western corridor and a significant reduction of flight frequency for the remaining services. The Government-owned traditional railway (TRA) also registered a decline in long-distance patronage in 2007.

ACCESS TO AND FROM HIGH SPEED RAIL STATIONS

In order to provide convenient connecting services for high speed rail passengers, THSRC launched the free shuttle bus services at Taichung and Zuoying on November 15. By December 31, 2007, a total of 90,000 passengers had utilized the free shuttle bus service.

THSRC stations are also well-integrated with other transfer modes. Taipei, Banciao, Taichung and Zuoying stations are connected with TRA and/or MRT services. County Government and TRA are also planning on constructing TRA extensions to Hsinchu and Tainan High-Speed Rail stations, creating an integrated railway network.

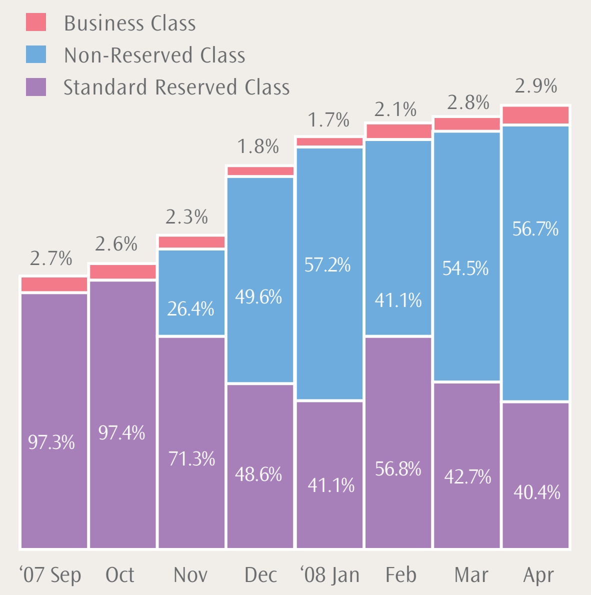
All THSRC stations enjoy excellent road accessibility. The highway and expressway infrastructure in areas surrounding the stations is well planned and constructed by the Government, also facilitating the development of areas around the stations.

FARE SCHEMES

Each of THSRC initial fleet of 30 trainsets has one business class and eleven standard class carriages. Discounted seats were available for senior citizens, children, and the disabled. In March, a group fare scheme was introduced.

In November, non-reserved seating in three standard class carriages was introduced on all services, which proved a great success. In December 2007, the non-reserved seating was expanded to 4 carriages to accommodate the increasing demand.

PATRONAGE PERCENTAGE BY CLASS
(From Sep 07 To Apr 08)



MARKETING INITIATIVES

Surveys conducted in THSRC stations in summer 2007 showed that approximately 92% of the passengers were repeat customers. While this shows the high speed rail service has established a robust customer base, it also highlights the need to broaden the customer base and


All our stations are equipped with parenting rooms.


Our on-board trolley services offer a choice of refreshments for our passengers.


Every HSR train has a special disabled carriage.

attract more first time users in order to increase future profitability.

In November, with the introduction of non-reserved carriages, a 20% promotion discount was offered to non-reserved class tickets. The promotion has attracted more than 1.4 million passengers as of December 31. It has also contributed to the revenue growth.

Another marketing initiative was targeted specifically at corporate customers and frequent travelers in October. VIP members can enjoy the premium service using the dedicated VIP membership ticket counter at Taipei, Taichung and Zuoying stations; they can also accumulate mileages and redeem for discount ticket coupons.

CUSTOMER SATISFACTION

As a new operator, THSRC scored 85% customer satisfaction on staff service and 79.72% satisfaction on overall service based on the customer satisfaction survey conducted by the Ministry of Transportation and Communications (MOTC) in September 2007 .

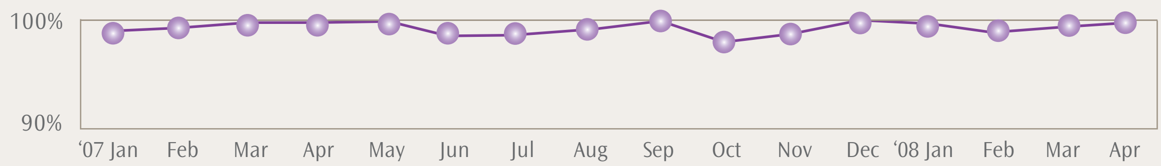
The remarkable success in achieving customer satisfaction within such a short time of operation is a direct result the corporate emphasis in providing a Premium Quality Service to the customers. The operation team has set up a high service performance requirement of delivering a “five-star” transport service from day one of operation. To achieve this goal, the Landis Consultants, renowned in advising the delivery of premium quality service, was engaged to assist in the recruitment and training of THSRC staff, which produced remarkable improvement to the services and staff morale in providing a pleasant journey experience to the passengers.

In addition to provide premium services to all passenger, THSRC also pays special care to serving disabled passengers. Onboard of every train, THSRC has reserved an area equipped with specially designed seats and lavatories tailored to meet the needs of the disabled passengers. Furthermore, discount fare is extended to passengers accompanying disabled persons onboard the train.

SAFETY, PUNCTUALITY AND RELIABILITY

With THSRC’s corporate policy that safety is the paramount objective in operations and passenger service, THSRC has achieved the ‘zero-accident’ target in the first year of operation. The service punctuality registered at a remarkable 99.46% (defined as delay not exceeding 10 minutes from timetable service). The train

PUNCTUALITY (DELAY < 10 MINS) (From Jan 07 To Apr 08)



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departure also achieved a 99.996% level of reliability against timetable departures schedule.

NON-FARE BOX INCOME

THSRC has been granted 50-year land-use rights by MOTC to develop 8.7 hectares at Station Plazas and 30.14 hectares of Station Development Area (SDA) designated for commercial developments.

THSRC plans to develop the SDA thematically. The observed market value of the SDA has appreciated considerably since the launch of high speed rail services, which made the SDA more attractive to property developers and international investors.

THSRC has also been granted 35-year rights to operate the franchise businesses in the station buildings. Until December 2007, 70% of the in-station retail spaces have been leased to convenience stores, restaurants, souvenir shops, and bookshops. The station parking facility has also been contracted to experienced operators. Total combined revenue from rental income on these retail outlets and parking building was NT$166.89 million in year 2007.

Advertising in the stations and onboard the coach is another source of revenue income for THSRC. The advertising revenue in 2007 was NT$ 66.3 million. With the growth of passenger flow, the addition of creative advertising space in the stations, and the addition of multimedia plasma displays onboard the trains and in the stations, it is anticipated that the advertising income will significantly increase in the coming years.

STATION REAL ESTATES

	Land Area of SDA (hectares)	Floor Area for commercial usage (square-meters)
Taoyuan	8.55	342,000
Hsinchu	3.13	115,500
Taichung	11.30	542,400
Chiayi	3.14	87,920
Tainan	4.02	112,560
Total	30.14	1,200,380

STATION DEVELOPMENT BY THEMES

Station	Theme	Projections
Taoyuan	Entertainments	Theme Parks, Restaurants, Shopping Malls, Boutiques, Hotels, Office Buildings
Hsinchu	Tourism/ Business/ Leisure	Business Centers, Hotels, Business Apartments, Conference/Exhibition Center, Shopping/Entertainments Center, Restaurants
Taichung	Tourism/ International Conference	Conference/Exhibition Halls, Office Blocks, Hotels, Restaurants, Shopping Malls
Chiayi	Tourism/ Leisure	Hotels, Entertainments, Restaurants, Shopping Centers
Tainan	Business/ Leisure	Office Blocks, Business Apartments, Conference/Exhibition Centers, Restaurants

"WE HAVE ACHIEVED **ZERO-ACCIDENT** PERFORMANCE"

Sustainability

Baguashan Tunnel Drill
(September 28, 2007)

Chemical Weapons Attack Drill
(September 9, 2007)

SAFETY

In 2007, THSRC had carried out 17,433 maintenance checks on the operating system and achieved 100% on all our system maintenance targets. THSRC is committed to uphold this high level of maintenance standard on a daily basis for safety is the cornerstone and foundation for high speed rail service.

Maintenance of complex high speed rail systems requires technical knowledge, skills, and experience. In order to ensure none of the maintenance work is compromised due to the lack of experience or technical knowledge, THSRC has obtained the assistance of the Taiwan Shinkansen Maintenance Services Corporation (TSMSC) who has arranged to dispatch seasoned Shinkansen maintenance experts to be working alongside the THSRC maintenance work force and to conduct on-the-job training. The technology transfer process was implemented through the day-to-day work, and providing advice and diagnosis of issues encountered from daily operation.

In addition to the routine technical training, THSRC also holds emergency drills to ensure the staff are familiar with the procedures and are able to prevent the confusion and chaos in emergency events. A total of 50 situation drills were conducted in 2007, which included large-scale emergency evacuation drills, such as the Baguashan Tunnel Drill, the Linkou Tunnel Drill, and Chemical Weapons Attack Drill. THSRC also actively participated in the government-led joint evacuation drills such as the Government-organized Air-Raid Drill, Taipei Junction Evacuation Drill, and Anti-Terrorist Attack Drill.

The service punctuality registered at a remarkable 99.46% (defined as delay not exceeding 10 minutes from timetable service). The train departure also achieved a 99.996% level of reliability against timetable departures schedule.

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY

In an age of rising fuel prices and climate changes, the society is becoming increasingly aware of environmental issues. THSRC is proud to be the provider of the most environmental-friendly mode of transportation. According to research conducted by the Institute of Transportation, high speed rail energy efficiency is twice that of buses and six times more efficient than private vehicles. High speed rail also produces less carbon releases; it is one half of that produced by buses and one fifth of that produced by private vehicles. THSRC's positive impact on the environment is estimated to achieve a reduction of 5,663,700 tons of carbon emitted and a 2,398,700kl reduction of energy consumption.

THSRC is also a strong proponent for environmental protection and is the long-term sponsor of the Chinese Wild Bird Federation's environmental projects: 'Jacana Restoration Program' and 'Eagles over Mt. Bagua - National Eagle-Watching', as well as the Jane Goodall Institute's 'Roots & Shoots Program'.

THSRC is committed to serve the less privileged in our society. In 2007, THSRC has worked with Eden Social Welfare Foundation, Taiwan Foundation for Rare Disorders Diseases, Fubon Cultural & Educational Foundation, Taiwan Cancer Friends New Life Association, and Taiwan Catholic Mission Foundation for arranging the less privileged and the disabled to realize their dreams of riding the High Speed Rail.

Mid-Summer Night's Light Off
(June 22, 2007)

A Trip of Your Dream
(December 22, 2007)

THSRC Smile Program
(January 23, 2008)

Looking Forward

With the solid foundation established from the successful year of operation in 2007, THSRC is ready to take on more demanding challenge of offering a flexible timetable schedule in 2008 to better meet different levels of demand during weekdays, weekends, special events, and holidays.

To broaden the customer base, THSRC will tap into the 120 million domestic holiday tourism market by establishing strategic partnerships with hotels, theme parks, and travel agencies to create travel packages using high speed rail. The advertisement campaign strategy in 2008 will also focus on another pool of potential customers, the private car users. Creative media campaigns will be launched to attracting private car users to switch to the High Speed Rail for its ease, comfort, convenience, and a means to combat rising petrol prices.

In terms of increasing customers' ease in traveling with high speed rail, a key focus is on the improvement of the ticketing system, which includes plans to automate the phone booking facilities and set up the in-town outlets for ticket sale and collection. In addition, shuttle bus services will be expanded to provide comfortable and convenient services between the high speed rail stations and main commercial centres.

2008 OPERATION PLAN OUTLINE

After the first year of operation, THSRC has already successfully established a stable operation, winning high recognition for the superior service quality. In 2008, the operation plan will focus on enlarging the customer base, offering flexible train services to capture the



demands, improving the ticketing system, and strengthening the brand image. The goal is to solidify the market dominance, concentrating on elevating sales revenue, and achieving operation targets through the following measures:

- Adjust Train Services in Accordance with Market Demand – Train service frequency has already reached a stable level through the gradual increase of services in 2007. In 2008, train service scheduling will be more precisely tuned to match the increase of demand, e.g., for special events, holidays, or increase of tourists using high speed rail services.

- Enhance Customer Service Quality – Target on providing a five-star service experience for passengers traveling with high speed rail by improving the service workflow, and setting corresponding staff performance index.

- Combine Promotion with Travel Related Industries – Create the high speed rail holiday packages by working with hotels, amusement parks, tourist bus companies, souvenir shops, credit card companies, and local governments.

- Strengthen Advertisement Campaign – Advertisement will be focused to broaden the customer base and attract more people to choose traveling with High Speed Rail.

- Increase ticketing channels – Multiple ticketing channels will be provided in 2008 such as voice booking by telephone, payment at convenience stores, and issuing multi-ride and season tickets.

- Offer High Quality Transit Service – The transit services will be further enhanced in 2008, including adding additional routes, offering tourist maps, and integrating with transport services offered by theme parks, commercial districts, science parks, etc.

- Place Safety as Cornerstone of Operation – Safety is paramount for all the operation and maintenance activities. In 2008, series of evacuation drills will be held to ensure the staff are prepared to respond to incidents and emergencies in accordance with procedures. Training programs will also be implemented to ensure zero accident target and high level of service reliability will be upheld by operation and maintenance staff.

As the petrol price continues to escalate, and the general public becomes more environmentally consciousness, Taiwan High Speed Rail will solidify its position as the preferred choice of intercity transport. The future of Taiwan High Speed Rail, with our young and enthusiastic staff dedicated to delivering high quality service, is filled with promise and opportunities.

Financial Report

Financial Highlights

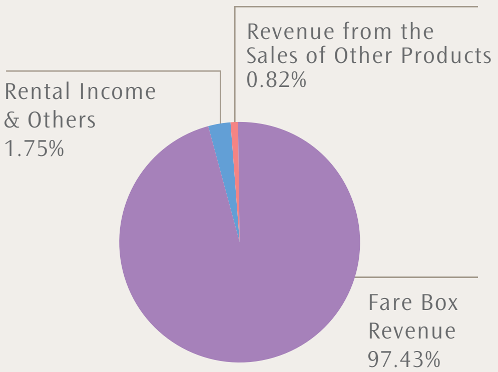
With the launch of our train services, we have begun to generate revenues from operating activities this year. Total revenue generated in 2007 was NTD 13.5 billion. Our operating profit before depreciation and amortization turned positive this year. Fare Box revenue accounted for 97% of our total revenues this year.

As a new transport-service provider, THSRC has yet to generate net profit. We incurred a net loss of NTD 29.4 billion this year, mostly due to interest expense and asset depreciation.

However, we are confident that our Company has a strong prospect of future profitability. Our revenue has been growing at a near double-digit average monthly growth rate since our launch. Driven by impressive customer demand in 2007, monthly revenue has risen from NTD 599 million in January to NTD 1,578 million in December. We expect the steady trend of growth reported in 2007 to continue in 2008.

Our market share has grown steadily since our first launch. The market share of our direct competitors, particularly the long-distance service providers, has either declined or stagnated. In 2007, domestic airline operators have lost 26.6% of their market share, and conventional railway operators suffered a loss of long-distance passengers. The

2007 REVENUES



in NTD thousand

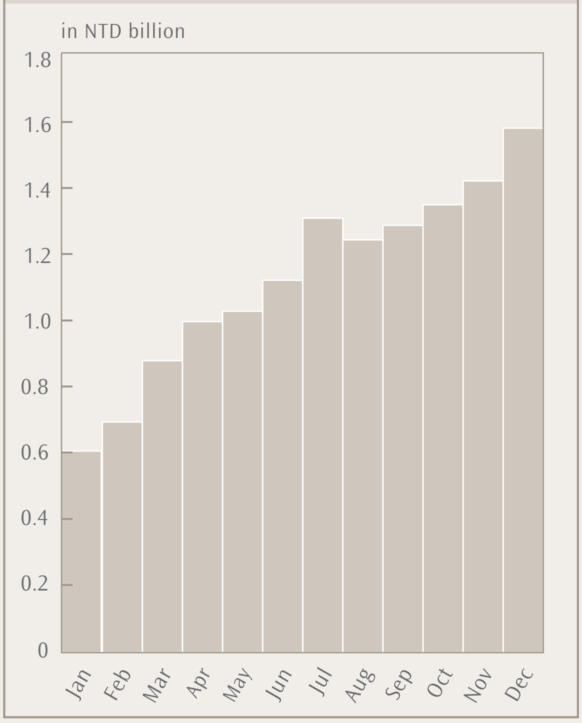
INCOME STATEMENT	2007	2006
Operating Revenue	13,502,788	-
Operating Cost and Expense before Depreciation & Amortization	(9,484,615)	(2,998,694)
Operating Profit before Depreciation & Amortization	4,018,173	(2,998,694)
Depreciation & Amortization	(18,927,230)	(131,305)
Financial Cost	(14,489,637)	(271,730)
Net Loss	(29,398,748)	(3,426,425)

ramp-up of daily services has helped raise our market share in 2007. We expect to see greater market-share gain in the near term, once we increase our service frequency to 176 trains daily at the final stage of planned ramp-up.

According to researches conducted by the Ministry of Transportation and Communications, we have gained 4.17% of the total market of domestic transportation in our first year of operation. We are confident that our market share will continue to grow in the coming years, as the usage of private vehicles (currently accounts for 75% of the market) is likely to decline due to rising fuel prices and the increasing public awareness of the importance of reducing carbon emissions.

We are confident about our future profitability. With our customer base enlarged as a result of our proactive launch-year marketing policy, we will have more room to maneuver different pricing and promotion strategies in the near term in order to accelerate our passenger and revenue growth to generate profits.

2007 MONTHLY OPERATING REVENUE



FINANCIAL POSITIONING

This year saw our Company undertake various measures to raise funds. In April 2007 we issued NTD 9.76 billion guaranteed corporate bonds in order to repay the corporate bonds issued in 2002. In May 2007, we successfully raised USD 300 million's worth of funds through issuance of overseas convertible bonds listed at the Singapore Stock Exchange. During the same month, we increased our Second Syndicated Loan with the syndicated banks from NTD 40.7 billion to NTD 65.5 billion. The successful and effective financing activities had raised sufficient funds to meet our needs in 2007.

In the light of our near-term financial positioning, we have continued to undertake refinancing work in order to better align its structure with the liquidity consideration and cash flow needs of the initial stage of operation.

in thousands of shares (as of April 1, 2008)

CAPITAL				
Type of Stock	Authorized Share Capital			Remarks
	Issued Shares	Unissued Shares	Total	
Common Stock	5,709,396			Public Offering
Convertible Preferred Stock	3,348,293	1,489,911	12,000,000	Public Offering
Convertible Preferred Stock	1,452,400			Private Placement

1. Registration date on the GreTai 2003/9/5
2. Unissued Shares can be issued as both common and preferred shares

COMPOSITION OF SHAREHOLDERS

in thousands of shares (as of April 1, 2008)

COMMON STOCK

Type of Shareholders	Government agencies	Government-owned institutions	Financial institutions	Other corporate investors	Individuals	Foreign institutions and natural individuals	Total
Shareholding	300,000	500,000	573,451	2,417,974	1,622,669	295,302	5,709,396
Percentage (%)	5.26%	8.76%	10.04%	42.35%	28.42%	5.17%	100.00%

PREFERRED STOCK

Type of Shareholders	Government agencies	Financial institutions		Other corporate investors	Individuals	Foreign institutions and natural individuals	Total
		Government-owned institutions	Private institutions				
Shareholding	0	450,000	2,171,999	2,027,530	55,700	95,464	4,800,693
Percentage (%)	0.00%	9.37%	45.25%	42.23%	1.16%	1.99%	100.00%

Note：Article 47 of Law of Audit：(definition of public enterprises)

Following public enterprises and institutions shall be audited by an auditing agency：

a. Sole government ownership.

b. Joint government and private ownership with the government holding over 50 percent of the stock.

c. Reinvestment by the enterprises described in a, and b. above which accounts for over 50 percent of the total capital of the reinvested enterprise.

in NTD thousand

FINANCIAL ANALYSIS

	2007	2006	Change YoY	
			Amount	%
Current Assets	6,214,525	2,260,264	3,954,261	174.95
Fixed Assets	426,835,550	421,481,395	5,354,155	1.27
Intangible Assets	-	37,077	(37,077)	(100.00)
Other Assets	6,793,115	3,729,543	3,063,572	82.14
Total Assets	**439,843,190**	**427,508,279**	**12,334,911**	**2.89**
Current Liabilities	31,461,631	42,592,407	(11,130,776)	(26.13)
Long-term Liabilities	353,590,503	302,414,563	51,175,940	16.92
Other Liabilities	384,585	84,974	299,611	352.59
Total Liabilities	**385,436,719**	**345,091,944**	**40,344,775**	**11.69**
Capital Stock	105,100,565	105,100,565	-	-
Capital Surplus	1,324,788	-	1,324,788	100.00
Retained Earnings	(42,506,974)	(13,108,226)	(29,398,748)	(224.28)
Unrealized Gain (Losses) on Financial Instruments	332	(63,764)	64,096	100.52
Provision for Dividends-Preferred Stock	(9,512,240)	(9,512,240)	-	-
Total Stockholders' Equity	**54,406,471**	**82,416,335**	**(28,009,864)**	**(33.99)**

Explanation for Significant Changes (Over 20%) in Financial Position Include：

1. The increase in current assets was mainly due to the increase of operating revenue and inventories after operation in 2007.
2. The decrease in intangible assets was primarily due to the decrease of deferred pension cost.
3. The increase in other assets was mainly due to the increase of time deposit of mortgage in accordance with the debt contract.
4. The decrease in current liabilities was mainly due to the decrease of short-term debts, the halt of accruing preferred stock dividend according to the Company Law, and the decrease of long-term liabilities due within one year subject to the amendment to the syndicated loan agreement.
5. The increase in other liabilities was mainly due to profit sharing payable to government after entire line operation on 2nd March, 2007.
6. The increase in capital surplus was mainly due to equity conversion option of Euro-convertible bonds issued in May 2007.
7. The decrease in retained earnings was primarily due to operating deficit in 2007.
8. The increase in unrealized gain on financial instruments was mainly due to the decrease of forward contract in 2007.

in NTD thousand

OPERATING ANALYSIS				
	2007	2006	Change YoY	
			Amount	%
Operating Revenue	13,502,788	-	13,502,788	100.00
Operating Cost	(26,782,691)	-	(26,782,691)	(100.00)
Gross Loss from Operations	(13,279,903)	-	(13,279,903)	(100.00)
General and Administrative Expenses	(1,629,154)	(3,129,999)	1,500,845	(47.95)
Loss from Operations	(14,909,057)	(3,129,999)	(11,779,058)	376.33
Non-Operating Income and Gains	315,187	134,902	180,285	133.64
Non-Operating Expenses and Losses	(14,804,824)	(406,632)	(14,398,192)	3,540.84
Loss before Income Tax	(29,398,694)	(3,401,729)	(25,996,965)	764.23
Income Tax Expense	(54)	-	(54)	(100.00)
Net Loss before Cumulative Effect of Changes in Accounting Principle	(29,398,748)	(3,401,729)	(25,997,019)	764.23
Cumulative Effect of Changes in Accounting Principle	-	(24,696)	(24,696)	(100.00)
Net Loss	(29,398,748)	(3,426,425)	(25,972,323)	758.00

Explanation for Significant Changes (Over 20%) in operating results Include：

1. The increase in operating revenue and cost was primarily due to the launch of services in 2007.
2. The decrease in general and administrative expenses was mainly due to reclassification from operating related expenses to operating cost after the operation.
3. The increase in non-operating income and gains was mainly due to the interest income of time deposit from the fund of Euro-convertible bonds.
4. The increase in non-operating expenses and losses was primarily due to the decrease of capitalized interest after the operation in 2007.
5. The decrease in cumulative effect of changes in accounting principle was mainly due to the initial adoption of SFAS No. 34 "Financial Instruments: Recognition and Measurement" in 2006.

RESPONSIVE MEASURES OF LITIGIOUS OR NON-LITIGIOUS MATTERS

1. With regard to the Company's concluded or pending litigious or non-litigious cases in 2007, there are no major cases the outcome of which may have a material effect on the rights of the shareholders or the price of the securities.

2. With regard to the concluded or pending litigious or non-litigious cases involving the Company's directors, supervisors, chief executive officer, de facto responsible person, major shareholders holding more than 10% of the Company's shares, or subsidiaries, there are no major cases the outcome of which may have a material effect on the Company's finance and operation.

Financial Statements

Independent Auditors' Report

Balance Sheets

Statements of Operations

Statements of Changes in Stockholders' Equity

Statements of Cash Flows

Notes to Financial Statements

(English Translation of Financial Report Originally Issued in Chinese)

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Taiwan High Speed Rail Corporation

We have audited the accompanying balance sheets of Taiwan High Speed Rail Corporation (the Company) as of December 31, 2007 and 2006, and the related statements of operations, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Taiwan High Speed Rail Corporation as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended, in conformity with the ROC "Guidelines Governing the Preparation of Financial Reports by Securities Issuers", the related financial accounting standards of the "Business Entity Accounting Act" and of the "Regulation on Business Entity Accounting Handling", and generally accepted accounting principles.

KPMG

March 31, 2008

Note to Readers

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

For the convenience of readers, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

(English Translation of Financial Report Originally Issued in Chinese)

TAIWAN HIGH SPEED RAIL CORPORATION
BALANCE SHEETS

DECEMBER 31, 2007 AND 2006

(Amounts expressed in thousands of New Taiwan dollars)

Assets	2007.12.31	2006.12.31 (In the development stage)
Current Assets:		
Cash and cash equivalents (notes 4(a) and 4(n))	$ 3,675,416	612,158
Notes and accounts receivable (note 4(n))	44,100	-
Inventories (note 4(b))	1,293,686	386,883
Prepayments and other current assets	560,209	608,210
Restricted assets-current (notes 4(n), 5 and 6)	1,100	125,865
Available-for-sale financial assets-current (notes 4(c) and 4(n))	613,549	527,148
Hedging derivative financial assets-current (notes 4(m) and 4(n))	26,465	-
Total current assets	6,214,525	2,260,264
Fixed Assets (Notes 4(d), 4(m), 5, 6 and 7):		
Cost:		
Land improvements	220,995,952	-
Buildings	24,692,394	-
Machinery and equipment	53,626,594	19,322
Transportation equipment	145,171,855	-
Office equipment	104,261	323,538
Leasehold improvements	116,927	109,447
Other equipment	324,561	214,102
	445,032,544	666,409
Less: accumulated depreciation	(19,340,312)	(499,180)
Construction in progress and prepayments	1,143,318	421,314,166
Fixed assets-net	426,835,550	421,481,395
Intangible Assets:		
Deferred pension cost (note 4(i))	-	37,077
Other Assets:		
Refundable deposits (notes 4(n) and 7)	33,585	55,014
Deferred charges (note 4(e))	869,239	714,451
Restricted assets-noncurrent (notes 4(n) and 6)	5,890,291	2,960,078
Total other assets	6,793,115	3,729,543
Total Assets	$ 439,843,190	427,508,279

Liabilities and Stockholders' Equity	2007.12.31	2006.12.31 (In the development stage)
Current Liabilities:		
Short-term debts (notes 4(f), 4(n) and 6)	$ 4,195,422	8,310,460
Accounts payable (note 4(n))	923,606	332,562
Financial liabilities stated at fair value through profit or loss-current (notes 4(g) and 4(n))	323,132	-
Construction payables to related parties-current (notes 4(d), 4(n) and 5)	310,223	298,309
Hedging derivative financial liabilities-current (notes 4(m) and 4(n))	-	186,414
Construction payables (notes 4(d) and 4(n))	10,006,642	8,924,780
Dividends payable-preferred stock (note 4(k))	-	3,162,787
Current portion of long-term debts (notes 4(g), 4(h), 4(n) and 6)	12,800,000	18,849,232
Accrued expenses and other current liabilities	2,902,606	2,527,863
Total current liabilities	31,461,631	42,592,407
Long-Term Liabilities:		
Bonds payable (notes 4(g) and 4(n))	21,979,708	16,800,000
Long-term debts (notes 4(h), 4(n), 5 and 6)	331,610,795	285,614,563
Total long-term liabilities	353,590,503	302,414,563
Other Liabilities:		
Accrued pension liability (note 4(i))	25,680	60,953
Other liabilities (note 7)	358,905	24,021
Total other liabilities	384,585	84,974
Total liabilities	385,436,719	345,091,944
Stockholders' Equity (Notes 3, 4(g), 4(j), 4(k), 4(m) and 4(n)):		
Capital stock:		
Common stock	56,724,834	50,509,000
Preferred stock-convertible	48,375,731	54,591,565
	105,100,565	105,100,565
Capital surplus-equity conversion option of convertible bonds	1,324,788	-
Retained earnings (accumulated deficits):		
Legal reserve	40,285	40,285
Accumulated deficits	(42,547,259)	(13,148,511)
	(42,506,974)	(13,108,226)
Unrealized gains (losses) on financial instruments	332	(63,764)
Provision for dividends-preferred stock	(9,512,240)	(9,512,240)
Total stockholders' equity	54,406,471	82,416,335
Significant Commitments and Contingencies (Notes 4(m), 4(n), 5, and 7)		
Total Liabilities and Stockholders' Equity	$ 439,843,190	427,508,279

(English Translation of Financial Report Originally Issued in Chinese)

TAIWAN HIGH SPEED RAIL CORPORATION
STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

(The operations for the period from January 1 to 4, 2007, and the year ended December 31, 2006, were in the development stage)

(Amounts expressed in thousands of New Taiwan dollars, except for per share data)

	2007	2006
Operating revenue	$ 13,502,788	-
Operating cost (notes 5, 7, and 10)	(26,782,691)	-
Gross loss from operations	(13,279,903)	-
General and administrative expenses (note 10)	(1,629,154)	(3,129,999)
Loss from operations	(14,909,057)	(3,129,999)
Non-operating income and gains:		
Interest income	273,979	61,340
Gains on disposal of fixed assets, net	1	-
Gains on disposal of financial instruments (note 11)	14,515	70,620
Others	26,692	2,942
	315,187	134,902
Non-operating expenses and losses (note 10):		
Interest expenses (notes 4(d) and 5)	(14,423,091)	(380,572)
Losses on disposal of fixed assets, net	-	(106)
Foreign exchange loss, net	(189,073)	-
Valuation losses on financial instruments, net	(72,233)	(15,289)
Others	(120,427)	(10,665)
	(14,804,824)	(406,632)
Loss before income tax	(29,398,694)	(3,401,729)
Income tax expense (note 4(j))	(54)	-
Net loss before cumulative effect of changes in accounting principle	(29,398,748)	(3,401,729)
Cumulative effect of changes in accounting principle (note 3)	-	(24,696)
Net loss	$ (29,398,748)	(3,426,425)

	2007		2006	
	Loss before income tax	Net loss	Loss before income tax	Net loss
Basic and diluted loss per share (expressed in NT dollars) (note 4(l))	$ (6.10)	(6.10)	(1.32)	(1.32)

(English Translation of Financial Report Originally Issued in Chinese)

TAIWAN HIGH SPEED RAIL CORPORATION
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

(The operations for the period from January 1 to 4, 2007, and the year ended December 31, 2006, were in the development stage)

(Amounts expressed in thousands of New Taiwan dollars)

	Capital Stock		
	Common stock	Preferred stock	Capital Surplus
Balance as of January 1, 2007	$ 50,509,000	54,591,565	-
Net loss for the period from January 1 to 4, 2007	-	-	-
Balance as of January 4, 2007	50,509,000	54,591,565	-
Accumulated deficits in the development stage reclassified into accumulated deficits	-	-	-
Convertible preferred stock converted into common stock	6,215,834	(6,215,834)	-
Recognition of equity conversion option of convertible bonds	-	-	1,324,788
Net loss for the period from January 5 to December 31, 2007	-	-	-
Changes in unrealized gains on financial instruments	-	-	-
Balance as of December 31, 2007	$ 56,724,834	48,375,731	1,324,788
Balance as of January 1, 2006	$ 49,999,000	55,101,565	-
Convertible preferred stock converted into common stock	510,000	(510,000)	-
Effect of adopting SFAS No. 34 “Financial Instruments: Recognition and Measurement” commencing from January 1, 2006	-	-	-
Net loss for the year ended December 31, 2006	-	-	-
Provision for dividends on preferred stock	-	-	-
Changes in unrealized losses on financial instruments	-	-	-
Balance as of December 31, 2006	$ 50,509,000	54,591,565	-

Retained Earnings (Deficit)					
Legal reserve	Accumulated deficits in the development stage	Accumulated deficits	Unrealized gains (losses) on financial instruments	Provision for dividends on preferred stock	Total
40,285	(13,148,511)	-	(63,764)	(9,512,240)	82,416,335
-	(144,515)	-	-	-	(144,515)
40,285	(13,293,026)	-	(63,764)	(9,512,240)	82,271,820
-	13,293,026	(13,293,026)	-	-	-
-	-	-	-	-	-
-	-	-	-	-	1,324,788
-	-	(29,254,233)	-	-	(29,254,233)
-	-	-	64,096	-	64,096
40,285	-	(42,547,259)	332	(9,512,240)	54,406,471
40,285	(9,722,086)	-	-	(6,349,453)	89,069,311
-	-	-	-	-	-
-	-	-	18,301	-	18,301
-	(3,426,425)	-	-	-	(3,426,425)
-	-	-	-	(3,162,787)	(3,162,787)
-	-	-	(82,065)	-	(82,065)
40,285	(13,148,511)	-	(63,764)	(9,512,240)	82,416,335

(English Translation of Financial Report Originally Issued in Chinese)

TAIWAN HIGH SPEED RAIL CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

(The operations for the period from January 1 to 4, 2007, and the year ended December 31, 2006, were in the development stage)

(Amounts expressed in thousands of New Taiwan dollars)

	2007	2006
Cash flows from operating activities:		
Net loss	$ (29,398,748)	(3,426,425)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	18,859,587	107,347
Amortization	144,192	23,958
Other expense (transferred from fixed assets and deferred charges)	-	21
(Gains) losses on disposal of fixed assets	(1)	106
Increase in notes and accounts receivable	(44,100)	-
Increase in inventories	(631,410)	(386,883)
Decrease in prepayments and other current assets	48,001	437,016
Increase in accounts payable	591,044	332,562
Increase in accrued expenses and other current liabilities	374,742	793,396
Provision for profit sharing with the government	333,333	-
Increase in accrued pension liability	1,804	23,876
Exchange gain on non-derivative liability component of convertible bonds	(225,905)	-
Losses on valuation of put option component of convertible bonds	72,233	-
Interest expenses on convertible bonds	186,215	-
Amortization of cost of issuing corporate bonds	20,896	-
Cumulative effect of change in accounting principles	-	24,696
Net cash used in operating activities	(9,668,117)	(2,070,330)
Cash flows from investing activities:		
(Increase) decrease in available-for-sale financial assets-current	(86,217)	127,189
Proceeds from disposal of fixed assets	321	715
Additions to fixed assets	(23,518,426)	(59,323,980)
Decrease in other assets	-	9,714
(Increase) decrease in restricted assets (including current and noncurrent)	(2,805,448)	7,372,124
Decrease in refundable deposits	21,429	63,818
Increase in deferred charges	(176,233)	(215,195)
Increase in hedging derivative financial instruments	(148,967)	(806,633)
Net cash used in investing activities	(26,713,541)	(52,772,248)

	2007	2006
Cash flows from financing activities:		
Decrease in short-term debts	(4,115,039)	-
Increase in long-term debts	37,147,000	58,459,120
Issuance of corporate bonds	19,574,191	-
Redemption of bonds payable	(10,000,000)	-
Payment of preferred stock dividends	(3,162,787)	(3,071,211)
Increase in other liabilities	1,551	4,415
Net cash provided by financing activities	39,444,916	55,392,324
Net increase in cash and cash equivalents	3,063,258	549,746
Cash and cash equivalents at beginning of period	612,158	62,412
Cash and cash equivalents at end of period	$ 3,675,416	612,158
Supplemental disclosures of cash flow information:		
Interest paid (excluding capitalized interest)	$ 13,969,606	380,572
Income tax paid	$ 21,504	532
Supplemental disclosures of investing activities affecting both cash and non-cash items:		
Additions to fixed assets by paying cash and recognizing liabilities:		
Additions to fixed assets	$ 24,614,787	57,930,519
(Increase) decrease in construction payables (including related parties)	(1,093,776)	1,647,919
Increase in interest payable (recorded as other current liabilities)	-	(398,520)
Decrease in construction retentions payable (including related parties)	-	223,899
Amortization capitalized as construction in progress	(907)	(61,508)
Depreciation capitalized as construction in progress	(1,678)	(18,329)
Cash paid	$ 23,518,426	59,323,980
Supplemental disclosures of noncash investing and financing activities:		
Reclassification to current liabilities of portion of long-term debts maturing within one year	$ 12,800,000	18,849,232
Provision for dividends on preferred stock	$ -	3,162,787
Unrealized valuation gains (losses) on financial instruments	$ 64,096	(63,764)

(English Translation of Financial Report Originally Issued In Chinese)

TAIWAN HIGH SPEED RAIL CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

1. Organization and Principal Activities

Taiwan High Speed Rail Corporation ("the Company") commenced preparation for incorporation on May 3, 1997, and obtained its company license, which was issued by the Taipei City Government on May 11, 1998. On July 23, 1998, the Company signed both the "Taiwan North-South High Speed Rail Construction and Operation Agreement" (the "C&O Agreement") and "Taiwan North-South High Speed Rail Station Zone Development Agreement" (the "SZD Agreement") with the Ministry of Transportation and Communications (the "MOTC") (refer to note 7), under which the Company entered into a concession agreement for the construction and operation of the Taiwan North-South High Speed Rail and related facilities. Before January 4, 2007, the Company was in the development stage, and its activities primarily included high speed rail construction, business process development, operation system development, financial planning, fund-raising, employee recruitment and training, station area planning, and drive-testing and examination. On January 5, 2007, the Company started its commercial operations from the Banciao Station to the Zuoying Station. When the railway service at the Taipei Station began on March 2, 2007, the Company started its service for the entire line from the Taipei Station to the Zuoying Station.

Revenue and expense of the Company in the development stage were as follows:

(in thousands of dollars)		From January 1 to 4, 2007	From May 3, 1997, to January 4, 2007
General and administrative expenses	$	(6,356)	(11,372,080)
Loss from operations		(6,356)	(11,372,080)
Non-operating income and gains		2,363	4,488,845
Non-operating expenses and losses		(140,522)	(4,052,301)
Loss before income tax		(144,515)	(10,935,536)
Income tax expense		-	(140,794)
Net loss before cumulative effect of changes in accounting principle		(144,515)	(11,076,330)
Cumulative effect of changes in accounting principle		-	(24,696)
Net loss	**$**	**(144,515)**	**(11,101,026)**

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

As of December 31, 2007 and 2006, the headcounts of employees were 3,317 and 2,366, respectively.

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NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies and Basis of Measurement

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

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

(a) Use of estimates

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

(b) Foreign currency transactions

The Company maintains its books of account in New Taiwan dollars. Foreign currency transactions during the year are translated at the exchange rates on the transaction dates. Foreign currency-denominated assets and liabilities are translated into New Taiwan dollars at the exchange rate prevailing on the balance sheet date, and the resulting translation gains or losses are recognized as non-operating income or expenses.

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

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

(d) Asset impairment

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

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

(e) Cash and cash equivalents

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

(f) Financial instruments

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

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

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

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

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

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

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

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

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

i. Fair value hedges

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

ii. Cash flow hedges

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

(h) Inventories

Inventories consist of spare parts and supplies for the maintenance of trains and merchandise for sale to passengers during travel. Merchandise is stated at the lower of cost or market value, while spare parts and supplies are stated at cost less allowance for slow-moving and obsolete items. Cost is calculated by the weighted-average method, and market value represents net realizable value. Net realizable value is determined based on the estimated selling price in the ordinary course of business, less the estimated selling expenses.

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(i) Fixed assets

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

Depreciation of fixed assets is provided using the straight-line method over the lower of the estimated useful lives of assets or the remaining period of the concession agreement; depreciation of leasehold improvements is provided over the lower of the estimated useful lives of assets or the period of the lease contract. The useful lives of major fixed assets are as follows:

i. Land improvements: 15 to 26.5 years.
ii. Buildings: 26.5 years.
iii. Machinery and equipment: 4 to 26.5 years.
iv. Transportation equipment: 6 to 26.5 years.
v. Office equipment: 6 to 11 years.
vi. Leasehold improvements: 1.6 to 5 years.
vii. Other equipment: 4 to 5 years.

(j) Deferred charges

i. Consulting fees for syndicated loans

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

ii. Bank charges for syndicated loans

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

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

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(k) Convertible bonds

Convertible bonds issued by the Company comprise financial liabilities (liability component) and convertible options that can be converted into share capital at the option of the holder (equity component). The Company determines the fair value of the liability component, including any embedded derivatives. The amount allocated to the equity component is the residual amount after deducting the fair value of the liability component from the fair value of the entire convertible bond. The embedded derivative component of a convertible bond is recognized initially as financial liabilities stated at fair value through profit or loss－current. The equity component is recognized initially as capital surplus－equity conversion option of convertible bonds. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of a convertible bond is measured at amortized cost using the effective interest method, unless it is designated at fair value through profit or loss. The equity component of a convertible bond is not re-measured subsequent to initial recognition.

(l) Employee retirement plan

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

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

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

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

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

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(m) Preferred stock

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

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

(n) Revenue recognition

The main service provided by the Company is to carry passengers. Passenger ticket sales are initially recorded as unearned revenue, included in current liabilities, and recognized as revenue when the services are provided.

(o) Income tax

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

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

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

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

(p) Earnings (losses) per common share

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

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The calculation of diluted EPS is consistent with the calculation of basic EPS while giving the effects of all dilutive common stock equivalents that were outstanding during the reporting period. When calculating the diluted EPS, the net income (losses) attributable to common stockholders and the weighted-average number of shares outstanding are adjusted for the effects of all dilutive common stock equivalents.

3. Reason for and Effect of Accounting Changes

(a) Cumulative effect of change in accounting principle and stockholders' equity adjustments

Commencing from January 1, 2006, the Company adopted SFAS No. 34 "Financial Instruments: Recognition and Measurement", and financial assets and liabilities at the beginning of the period were re-evaluated at fair market value or at cost less amortization. This re-evaluation resulted in a cumulative effect of change in accounting principle of (NT$24,696 thousand) and stockholders' equity adjustments of NT$18,301 thousand for the year ended January 1, 2006.

(b) Effect on income of change in accounting principle

Commencing from January 1, 2006, the Company adopted SFAS No. 34 "Financial Instruments: Recognition and Measurement", SFAS No. 36 "Financial Instruments: Disclosure and Presentation" and SFAS No. 1 "Conceptual Framework for Financial Accounting and Preparation of Financial Statements". The effects of the adoption of these new accounting principles on the financial statements as of and for the year ended December 31, 2006, were as follows:

Nature of change in accounting principle (in thousands of dollars, except for loss per share data)	Increase in net loss NT$	Increase in loss per share NT$	Decrease in stockholders' equity NT$
Accounting for financial instruments	50,996	0.01	63,764

(Continued)

(c) Commencing from January 1, 2007, the Company adopted SFAS No. 37 “Intangible Assets”. The adoption of this new accounting principle did not impact the Company’s financial statements as of and for the year ended December 31, 2007.

4. Significant Accounts

(a) Cash and cash equivalents

(in thousands of dollars)	**2007.12.31 NT$**	**2006.12.31 NT$**
Cash on hand	130,804	14,335
Cash in banks	3,349,012	597,823
Cash equivalents－highly liquid short-term investments	195,600	-
	3,675,416	**612,158**

(b) Inventories

(in thousands of dollars)	**2007.12.31 NT$**	**2006.12.31 NT$**
Consumables for use	1,273,158	350,218
Merchandise for sale	20,946	36,665
	1,294,104	386,883
Less: allowance for obsolete inventories	(418)	-
	1,293,686	**386,883**

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

(in thousands of dollars)	**2007.12.31 NT$**	**2006.12.31 NT$**
Open-end bond funds	**613,549**	**527,148**

(Continued)

(d) Fixed assets

i. Accumulated depreciation

(in thousands of dollars)	2007.12.31 NT$	2006.12.31 NT$
Land improvements	8,464,538	-
Buildings	931,741	-
Machinery and equipment	3,160,473	-
Transportation equipment	6,387,140	-
Office equipment	63,535	192,847
Leasehold improvements	106,104	100,105
Other equipment	226,781	206,228
	19,340,312	**499,180**

ii. Construction in progress and prepayments

(in thousands of dollars)	2007.12.31 NT$	2006.12.31 NT$
Civil work construction	7,188	183,268,403
Core electricity system construction	48,646	81,139,115
Track construction	-	59,485,823
Station construction	-	20,704,677
Depot construction	503,137	15,715,566
Other construction	902	1,900,373
Capitalized construction department expenses	208,035	31,844,723
Capitalized interest	38,284	27,598,762
Deferred exchange gains from hedging derivative financial instruments	-	(487,096)
Prepayments	337,126	143,820
	1,143,318	**421,314,166**

On January 5, 2007, the Company started its commercial operations; reclassified its construction in progress to land improvements, buildings, machinery and equipment, transportation equipment, etc.; and began to depreciate these fixed assets.

For the years ended December 31, 2007 and 2006, interest expenses were capitalized on construction in progress amounting to NT$38,284 thousand and NT$10,513,972 thousand, respectively. The annual interest rates for the above capitalization for the years ended December 31, 2007 and 2006, ranged from 3.6288% to 4.2264% and 2.9784% to 3.9696%, respectively.

For the C&O Agreement, the Company provided a portion of fixed assets, amounting to NT$13 billion, as a guarantee as of December 31, 2006, and terminated it in February 2008.

(Continued)

As of December 31, 2007 and 2006, the related payables arising from the high speed rail construction were as follows:

(in thousands of dollars)	2007.12.31 NT$	2006.12.31 NT$
Construction payables	10,006,642	8,924,780
Construction payables to related parties－current	310,223	298,309
	10,316,865	**9,223,089**

(e) Deferred charges

(in thousands of dollars)	2007.12.31 NT$	2006.12.31 NT$
Bank charges for syndicated loans	527,974	504,561
Decoration costs	110,048	20,053
Computer software	85,168	99,870
Consulting fees for syndicated loans	70,753	76,266
Cost of issuing corporate bonds	3,774	11,422
Other	71,522	2,279
	869,239	**714,451**

(f) Short-term debts

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

As of December 31, 2007 and 2006, total credit lines amounted to NT$17,736,353 thousand and NT$16,741,550 thousand, respectively.

For the years ended December 31, 2007 and 2006, the annual interest rates for borrowings denominated in Japanese yen ranged from 1.1483% to 2.0613% and 0.70428% to 1.90%, respectively. The annual interest rates for borrowings denominated in US dollars ranged from 6.212100% to 6.243837% and 5.75% to 6.2710%, respectively.

(g) Bonds payable

(in thousands of dollars)	2007.12.31 NT$	2006.12.31 NT$
Secured domestic corporate bonds payable	26,550,506	26,800,000
Unsecured overseas convertible bonds payable	8,229,202	-
Total	34,779,708	26,800,000
Less: current portion	(12,800,000)	(10,000,000)
	21,979,708	**16,800,000**

(Continued)

i. Secured domestic corporate bonds payable

As of December 31, 2007 and 2006, the Company had issued secured corporate bonds to finance the construction costs and operating expenses of the high speed rail system and stations as follows:

Name		Guarantee bank	Annual interest rate	Issued date	Payment schedule (in thousands of dollars)	2007.12.31 NT$	2006.12.31 NT$
The first issuance in 2007	A Bonds	Syndicate (consisting of 20 banks)	2.07%	May 2007	Interest is calculated and paid according to the simple interest rate per year, and the bonds are redeemable in May 2012.	4,000,000	-
	B Bonds	〃	2.12%	April 2007	Interest is calculated and paid according to the simple interest rate per year, and the bonds are redeemable in April 2013.	3,000,000	-
	C Bonds	〃	2.17%	April 2007	Interest is calculated and paid according to the simple interest rate per year, and the bonds are redeemable in April 2014.	2,760,000	-
Less: Cost of issuing corporate bonds						(9,494)	-
Subtotal						9,750,506	-
The second issuance in 2003	A Bonds	Syndicate (consisting of 20 banks, with Mega International Commercial Bank as the original lead bank) (Note)	1.90%	September 2003	Interest is calculated and paid according to the simple interest rate per year, and the bonds are redeemable in September 2008.	2,500,000	2,500,000
	B Bonds	〃	1.8911%	September 2003	Interest is calculated according to the compound interest rate every six months and is paid once a year. The bonds are redeemable in September 2008.	2,300,000	2,300,000
	C Bonds	〃	1.8866%	September 2003	Interest is calculated according to the compound interest rate quarterly and is paid once a year. The bonds are redeemable in September 2008.	2,000,000	2,000,000
Subtotal						6,800,000	6,800,000
The first issuance in 2003	A Bonds	Syndicate (consisting of 20 banks, with Mega International Commercial Bank as the original lead bank) (Note)	1.75%	April 2003	Interest is calculated and paid according to the simple interest rate per year, and the bonds are redeemable in April 2008.	3,500,000	3,500,000
	B Bonds	〃	1.7424%	April 2003	Interest is calculated according to the compound interest rate every six months and is paid once a year. The bonds are redeemable in April 2008.	2,500,000	2,500,000
	C Bonds	〃	1.90%	April 2003	Interest is calculated and paid according to the simple interest rate per year, and the bonds are redeemable in April 2009.	3,000,000	3,000,000
	D Bonds	〃	1.8911%	April 2003	Interest is calculated according to the compound interest rate every six months and is paid once a year. The bonds are redeemable in April 2009.	1,000,000	1,000,000
Subtotal						10,000,000	10,000,000
The first issuance in 2002	A Bonds	Syndicate (consisting of 20 banks, with Mega international Commercial Bank as the lead bank) (Note)	3.5%	April to May 2002	Interest is calculated and paid according to the simple interest rate per year, and the bonds are redeemable in April 2007.	-	3,700,000
	B Bonds	〃	3.47%	April to May 2002	Interest is calculated according to the compound interest rate every six months and is paid once a year. The bonds are redeemable in April 2007.	-	3,400,000
	C Bonds	〃	3.455%	April to May 2002	Interest is calculated according to the compound interest rate quarterly and is paid once a year. The bonds are redeemable in April 2007.	-	2,900,000
Subtotal						-	10,000,000
Total						26,550,506	26,800,000
Less: Current portion of secured domestic corporate bonds payable						(12,800,000)	(10,000,000)
						13,750,506	**16,800,000**

(Continued)

(Note) Chiao Tung Bank merged with Mega International Commercial Bank ("MICB") in August 2006, with MICB as the surviving entity from this merger.

As of December 31, 2007, the bonds payable referred to above were repayable as follows:

Year of Repayment (in thousands of dollars)	**NT$**
2008	12,800,000
2009	4,000,000
2012	4,000,000
After 2013	5,760,000
	26,560,000

ii. Unsecured overseas convertible bonds payable

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

(i) Principal amount: US$300 million

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

(iii) Coupon rate: 0%

(iv) Conversion right:

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

(Continued)

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

(v) Qualifying public offering ("QPO")

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

(vi) Put option of the bondholders

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

(vii) Redemption at the option of the Company

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

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

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

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

(Continued)

(viii) Redemption at maturity

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

As of December 31, 2007, there was no conversion of convertible bonds. The equity and liability components of convertible bonds were as follows:

(in thousands of dollars)	**2007.12.31 NT$**
Carrying amount of the non-derivative liability component of bonds (recognized as bonds payable)	**8,229,202**
Put option (recognized as financial liabilities at fair value through profit or loss－current)	**323,132**
Conversion right (recognized as capital surplus－equity conversion option of convertible bonds)	**1,324,788**

(h) Long-term debts

(in thousands of dollars)	**2007.12.31 NT$**	**2006.12.31 NT$**
The first syndicated loan agreement:		
The credit facility, which was initially utilized on November 20, 2000, is repayable in 27 semi-yearly installments commencing from November 20, 2009. (Note 1)	279,063,795	279,063,795
The second syndicated loan agreement - Tranche A Facility:		
The credit facility, which was initially utilized on September 27, 2006, is repayable in 8 semi-yearly installments commencing from December 31, 2009. (Note 2)	19,883,000	7,400,000
The second syndicated loan agreement - Tranche B Facility:		
The credit facility, which was initially utilized on October 23, 2006, is repayable in 27 semi-yearly installments commencing from November 20, 2009. (Note 2)	20,817,000	8,000,000
The second syndicated loan agreement - Tranche C Facility:		
The credit facility, which was initially utilized on September 7, 2007, is repayable on September 7, 2010.	4,101,804	-
The second syndicated loan agreement - Tranche D (Five years) Facility:		
The credit facility, which was initially utilized on August 15, 2007, is repayable on August 15, 2012.	3,872,598	-

(Continued)

(in thousands of dollars)	2007.12.31 NT$	2006.12.31 NT$
The second syndicated loan agreement - Tranche D (Seven years) Facility:		
The credit facility, which was initially utilized on August 15, 2007, is repayable on August 15, 2014.	3,872,598	-
Total	331,610,795	294,463,795
Less: Current portion of long-term debts	-	(8,849,232)
	331,610,795	**285,614,563**

(Note 1) On November 19, 2007, the former repayment schedule was replaced upon the approval of the first bank syndicate.

(Note 2) On December 3, 2007, the former repayment schedules of Tranche A and Tranche B Facility were replaced upon the approval of the second bank syndicate.

As of December 31, 2007 and 2006, the annual interest rates for the above loans were as follows:

Sources of long-term debts	2007	2006
a. The first syndicated loan agreement (based on the debt source)		
Long-term funds from the Council for Economic Planning and Development, Executive Yuan	3.3068%~3.7489%	3.1279%~3.3068%
Civil servants retirement pension fund	3.5289%~3.9889%	3.2837%~3.5290%
Labor pension fund	3.5226%~3.9468%	3.2774%~3.5226%
Labor insurance fund	3.5289%~3.9889%	3.2837%~3.5290%
Funds from banks	7.7084%~8.0426%	7.9147%~8.1316%
b. The second syndicated loan agreement - Tranche A Facility	4.8684%~5.3000%	4.8053%~4.8684%
The second syndicated loan agreement - Tranche B Facility	4.0263%~4.4579%	4.0263%
The second syndicated loan agreement - Tranche C Facility	4.0421%~4.2737%	-
The second syndicated loan agreement - Tranche D (five years) Facility	2.05%~2.52%	-
The second syndicated loan agreement - Tranche D (seven years) Facility	2.02%~2.59%	-

As of December 31, 2007, the future repayments of the above loans were as follows:

Year of Repayment (in thousands of dollars)	NT$
2009	2,325,694
2010	11,466,332
2011	12,408,287
2012	18,601,073
After 2013	286,809,409
	331,610,795

(Continued)

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

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

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

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

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

2. The first syndicated loan agreement requires the Company to maintain a specific debt-to-equity ratio and interest cover ratio at the end of each year, as follows:

	2010 and before	**2011~2012**	**2013~2014**	**2015～2016**	**2017 and after**
Debt-to-equity ratio	NA	400%	300%	200%	150%
Interest cover ratio	NA	110%	110%	130%	130%

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

   In addition, the Company had provided time deposits and short-term notes to MICB (the original lead bank and agent bank) as collateral to secure the loans as of December 31, 2007 and 2006. The details of these pledged assets are disclosed in note 6.

As of December 31, 2007 and 2006, the Company had outstanding promissory notes amounting to NT$315.3 billion and NT$310.3 billion, respectively, in order to obtain credit lines for the first syndicated loan.

On July 31, 2006, the Company obtained the second secured credit facilities totaling NT$40.7 billion from the second bank syndicate in order to finance the construction and completion of the high speed rail system and stations and operating activities. On May 24, 2007, this credit line was increased to NT$65.5 billion upon the approval of the second bank syndicate, and the Company provided superficies as collateral. The details of these pledged assets are disclosed in note 4(o).

The second syndicated loan agreement requires, the Company, among other things, to maintain a specified debt-to equity ratio and interest cover ratio at the end of each year, as follows:

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

As of December 31, 2007 and 2006, the Company had issued promissory notes amounting to NT$65.5 billion and NT$40.7 billion, respectively, in order to secure credit lines for the second syndicated loan.

As of December 31, 2007 and 2006, the used and unused credit lines of long-term loans were as follows:

a. The first syndicated loan agreement:

(in thousands of dollars)	2007.12.31 NT$	2006.12.31 NT$
Used credit lines		
Tranche A Facility–for loans	279,063,795	279,063,795
Tranche C Facility–for corporate bonds guarantee	27,076,493	27,460,205
Tranche D Facility–for import duty	1,168,100	1,398,000
Tranche E Facility–for construction performance bond guarantee	5,000,000	2,000,000
	312,308,388	309,922,000
Unused credit lines	10,991,612	13,378,000
Total credit lines	**323,300,000**	**323,300,000**

(Continued)

b. The second syndicated loan agreement:

(in thousands of dollars)	2007.12.31 NT$	2006.12.31 NT$
Used credit lines		
Tranche A Facility–for loans	19,883,000	7,400,000
Tranche B Facility–for loans	20,817,000	8,000,000
Tranche C Facility–for loans	4,101,804	-
Tranche D (five years) Facility–for loans	3,872,598	-
Tranche D (seven years) Facility–for loans	3,872,598	-
	52,547,000	15,400,000
Unused credit lines	12,953,000	25,300,000
Total credit lines	**65,500,000**	**40,700,000**

(i) Retirement plan

The Company's defined benefit employee retirement obligation is determined based on the actuarial calculations. The funding status of the plan was reconciled with accrued pension liability as of December 31, 2007 and 2006, as follows:

(in thousands of dollars)	2007.12.31 NT$	2006.12.31 NT$
Benefit obligation:		
Vested benefit obligation	42,389	31,384
Nonvested benefit obligation	284,928	322,148
Accumulated benefit obligation	327,317	353,532
Projected compensation increases	134,857	140,854
Projected benefit obligation	462,174	494,386
Plan assets at fair value	(349,982)	(292,579)
Funding status	112,192	201,807
Unrecognized prior service cost	(171,019)	(182,814)
Unrecognized pension gains	86,797	7,363
Unrecognized net transition obligation	(2,290)	(2,480)
Additional pension liability	-	37,077
Accrued pension liability	**25,680**	**60,953**

(Continued)

The components of net periodic pension costs for 2007 and 2006 were as follows:

(in thousands of dollars)	2007.12.31 NT$	2006.12.31 NT$
Service cost	33,709	36,358
Interest cost	13,596	14,919
Actual return on plan assets	(8,746)	(8,227)
Amortization	11,985	18,610
Net pension cost	**50,544**	**61,660**

Actuarial assumptions at December 31, 2007 and 2006 were as follows:

	2007	2006
Discount rate	3.00%	2.75%
Rate of increase in compensation	3.00%	3.00%
Expected long-term rate of return on plan assets	3.00%	2.75%

The pension information recognized for 2007 and 2006 was as follows:

(in thousands of dollars)	2007 NT$	2006 NT$
Pension expense:		
Defined benefit net pension cost	48,473	29,146
Defined contribution pension cost	81,624	34,477
	130,097	**63,623**
Pension cost charged to construction in progress:		
Defined benefit net pension cost	2,071	32,514
Defined contribution pension cost	3,345	22,087
	5,416	**54,601**

(j) Income tax

i. The Company's earnings are subject to a maximum income tax rate of 25%.

ii. The Company is subject to the "Income Basic Tax Act" commencing from January 1, 2006. This new act has been enacted to impose an alternative minimum tax at the rate of 10% on the "basic taxable income" of any profit seeking enterprise in Taiwan determined pursuant to a certain formula. The income tax expense (benefit) calculated on the pre-tax accounting income (loss) at the statutory income tax rate of 25% was reconciled with the income tax as reported in the accompanying financial statements for the years ended December 31, 2007 and 2006, as follows:

(Continued)

(in thousands of dollars)	2007 NT$	2006 NT$
Income tax benefit calculated on the pre-tax accounting loss at statutory income tax rate	(7,349,673)	(850,432)
Effect of change in accounting principle	-	(6,174)
Tax-exempt income from sales of marketable securities	(3,629)	(17,655)
Expenses disallowed for tax purposes	559	3,575
Expiry of deferred income tax assets of loss carryforwards	178,231	254,137
Increase in valuation allowance for deferred income tax assets	7,199,702	602,031
Overseas income withholding tax	54	-
Others	(25,190)	14,518
Income tax expense	**54**	**-**

iii. The components of the deferred income tax expense (benefit) for the years ended December 31, 2007 and 2006, were as follows:

(in thousands of dollars)	2007 NT$	2006 NT$
Loss carryforwards	(9,375,602)	(597,100)
Company establishment expenses initially deferred and amortized for tax purposes	9,051	-
Allowance for obsolete inventories	(105)	-
Pension expenses in excess of tax limit	(451)	(2,188)
Valuation gain (loss) on financial instruments	25,783	(43,841)
Unrealized foreign exchange gain (loss)	(111,222)	41,098
Provision for profit sharing return	(83,333)	-
Depreciation expense incurred for tax purposes	2,336,177	-
Increase in valuation allowance for deferred income tax assets	7,199,702	602,031
	-	**-**

iv. As of December 31, 2007 and 2006, the components of deferred income tax assets or liabilities were as follows:

(Continued)

(in thousands of dollars)	2007.12.31 Amount NT$	2007.12.31 Effect on income tax expense NT$	2006.12.31 Amount NT$	2006.12.31 Effect on income tax expense NT$
Deferred income tax assets (liabilities) — current:				
Unutilized loss carryforwards	987,868	246,967	712,925	178,231
Unamortized company establishment expenses initially deferred for tax purposes	36,202	9,050	36,202	9,050
Allowance for obsolete inventories	418	105	-	-
Valuation loss on financial instruments	72,233	18,058	175,363	43,841
Unrealized foreign exchange loss (gain)	280,497	70,124	(164,393)	(41,098)
Less: valuation allowance for deferred income tax assets — current		(344,304)		(190,024)
		-		-
Deferred income tax assets (liabilities) — noncurrent:				
Unutilized loss carryforwards	46,872,097	11,718,024	9,644,631	2,411,158
Unamortized company establishment expenses initially deferred for tax purposes	886,960	221,740	923,163	230,791
Provision for profit sharing	333,333	83,333	-	-
Depreciation expense incurred for tax purposes	(9,344,707)	(2,336,177)	-	-
Pension expenses in excess of tax limit	25,680	6,420	23,876	5,969
Less: valuation allowance for deferred income tax assets — noncurrent		(9,693,340)		(2,647,918)
		-		-

v. Pursuant to the ROC Income Tax Act, losses may be carried forward for five consecutive years to reduce future taxable income. The expiration years of the remaining loss carryforwards were as follows:

Expiry year (in thousands of dollars)	NT$
2008	987,868
2009	3,402,376
2010	1,849,438
2011	3,470,467
2012	38,149,816
	47,859,965

vi. The income tax returns have been examined by the tax authorities through 2005.

(Continued)

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

The income tax paid by the Company is appropriated to the stockholders together with the appropriation of earnings. A stockholder who is a resident of the ROC can use the imputed tax appropriated by the Company as a credit against the resident stockholder's income tax liability. As of December 31, 2007 and 2006, the details of the ICA were as follows:

(in thousands of dollars)	**2007.12.31 NT$**	**2006.12.31 NT$**
ICA	**72,618**	**72,618**

There were no earnings appropriated to the Company's stockholders for the years ended December 31, 2007 and 2006.

viii. Accumulated deficits

The accumulated deficits as of December 31, 2007 and 2006, amounted to NT$42,547,259 thousand and NT$13,148,511 thousand, respectively.

(k) Stockholders' equity

(1) Common stock and preferred stock

As of December 31, 2007 and 2006, the Company's authorized share capital comprised 12,000,000,000 shares with par value of NT$10 per share. As of December 31, 2007 and 2006, the Company had issued NT$56,724,834 thousand and NT$50,509,000 thousand, respectively, of common stock and NT$48,375,731 thousand and NT$54,591,565 thousand, respectively, of preferred stock.

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

i. On January 27, 2003, the Company issued and registered the Class A Convertible Preferred Stock of NT$26,900,000 thousand with par value of NT$10 per share and with maturity on January 26, 2009. However, the Company may exercise its right three months before the maturity date to extend the maturity date for another thirteen months, so that the new maturity date would be February 26, 2010.

On September 9, 2003, the Company issued and registered the Class B Convertible Preferred Stock of NT$1,342,495 thousand with par value of NT$10 per share, and with maturity on September 8, 2009. However, the Company may exercise its right three months before the maturity date to extend the term for another thirteen months, so that the new maturity date would be October 8, 2010.

(Continued)

As of December 31, 2007, Class A Convertible Preferred Stock amounting to NT$840,000 thousand and Class B Convertible Preferred Stock amounting to NT$2,000 thousand had been converted into common stock.

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

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

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

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

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

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

(Continued)

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

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

On December 30, 2003, the stockholders approved a resolution to issue Class C Preferred Stock, but limited to 2,175,750,500 shares at par value of NT$10 per share, through private placement within one year of the resolution by stockholders. Upon the expiration of the term on December 29, 2004, 1,233,507,000 shares of Class C Preferred Stock with par value of NT$12,335,070 thousand had been issued at NT$11,471,615 thousand, the details of which were as follows:

			(in thousands of dollars)	
Item	**Issue Date**	**Issued Shares (in thousands)**	**Issuance Par Value NT$**	**Issuance Amount NT$**
C1	January 20, 2004	161,300	1,613,000	1,500,090
C2	February 27, 2004	151,400	1,514,000	1,408,020
C3	March 24, 2004	74,600	746,000	693,780
C4	April 23, 2004	107,620	1,076,200	1,000,866
C5	August 18, 2004	637,077	6,370,770	5,924,816
C6	September 7, 2004	64,500	645,000	599,850
C7	November 17, 2004	37,010	370,100	344,193

On March 4, 2005, the stockholders approved a resolution to issue Class C Preferred Stock, within the limit of 1,500,000,000 shares at par value of NT$10 per share, through private placement within one year of the resolution by stockholders. Upon the expiration of the term on March 4, 2006, 1,452,400,000 shares of Class C Preferred Stock with par value of NT$14,524,000 thousand had been issued at NT$13,507,320 thousand, the details of which were as follows:

			(in thousands of dollars)	
Item	**Issue Date**	**Issued Shares (in thousands)**	**Issuance Par Value NT$**	**Issuance Amount NT$**
C8	April 28, 2005	645,900	6,459,000	6,006,870
C9	September 30, 2005	806,500	8,065,000	7,500,450

(Continued)

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

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

   As of December 31, 2007, NT$5,883,834 thousand of Class C Convertible Preferred Stock had been converted into common stock.

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

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

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

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

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

(Continued)

vii. Commencing from the day following a full three years after the issuance of Class C Preferred Stock and ending three months prior to the Maturity Date (the “Conversion Date”), the Preferred Stockholders may at any time make a one-time request to the Company for converting all of their Preferred Stock into common stock newly issued by the Company at a 1:1 ratio. On December 14, 2007, the board of directors approved a resolution to define the maturity date as the date of actual redeeming in the future.

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

(2) Restrictions on appropriations of earnings and capital surplus

i. Capital surplus

Pursuant to the ROC Company Act, capital surplus can only be used to offset an accumulated deficit first, and then to increase share capital. Capital surplus cannot be distributed as cash dividends. Capital surplus includes additional paid-in capital and gains from donations.

As of December 31, 2007, capital surplus from issuance of convertible bonds was recognized, which did not conform to the definition of capital surplus in the ROC Company Act, and cannot be used to increase share capital.

ii. Legal reserve

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

iii. Distribution of earnings

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

1. to pay all taxes and duties;
2. to cover any losses;
3. to set aside ten percent of the profits as legal reserve;
4. to set aside special reserve in addition to the legal reserve where necessary;

(Continued)

5. to pay dividends on preferred shares.

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

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

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

iv. Preferred stock dividends

After obtaining prior government approval, the Company is allowed to declare dividends to preferred shareholders during the development stage, which were as follows:

	2007 **NT$**	**2006** **NT$**
Provision for preferred stock dividends of the development stage	-	3,162,787
Dividends payable on preferred stock of the development stage	-	3,162,787
Preferred stock dividends of the development stage actually paid	3,162,787	3,071,211

The accumulated preferred stock dividends during the development stage amounted to NT$9,512,240.

The Company started its commercial operations in 2007, and therefore discontinued accruing dividends payable on preferred stock of the development stage. Preferred stock dividends during the operating period, amounting to NT$2,083,937 thousand, will be recognized based on the resolution approved by the stockholders later.

(Continued)

(l) Loss per share

For the years ended December 31, 2007 and 2006, the basic and diluted loss per common share was calculated as follows:

	2007		2006	
(in thousands of dollars, except per share data)	**Loss before income tax NT$**	**Net loss NT$**	**Loss before income tax NT$**	**Net loss NT$**
Basic and diluted loss per common share:				
Loss before cumulative effect of changes in accounting principle	(29,398,694)	(29,398,748)	(3,401,729)	(3,401,729)
Cumulative effect of changes in accounting principle	-	-	(24,696)	(24,696)
Dividends on preferred stock	(2,083,937)	(2,083,937)	(3,162,787)	(3,162,787)
Loss attributable to common stockholders	**(31,482,631)**	**(31,482,685)**	**(6,589,212)**	**(6,589,212)**
Weighted-average number of outstanding common shares	**5,162,351**	**5,162,351**	**5,000,738**	**5,000,738**
Basic and diluted loss per common share	**(6.10)**	**(6.10)**	**(1.32)**	**(1.32)**

(m) Hedge accounting

(1) Fair value hedges

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

As of December 31, 2007 and 2006, the hedged items and the fair value of derivative financial hedging instruments were as follows:

Hedged items	**Hedging instruments (in thousands of dollars)**	**Fair value of designated hedging instruments 2007.12.31 NT$**	**2006.12.31 NT$**
Construction payables	Forward foreign exchange contracts and foreign currency swap contracts	26,465	(178,153)

(2) Cash flow hedges

The Company entered into foreign currency forward contracts and foreign currency swap contracts to hedge the risks of cash flow fluctuations, which were generated from the foreign exchange rate fluctuations on a portion of construction contracts. The Company assessed these fluctuations as possibly significant.

As of December 31, 2007 and 2006, the cash flow hedged items and derivative financial hedging instruments were as follows:

Hedged items	Hedging instruments (in thousands of dollars)	Fair value of designated hedging instruments 2007.12.31 NT$	2006.12.31 NT$	Projected period of cash flows	Projected period of recognizing related gain or loss in income statement (Note)
Construction contracts	Forward foreign exchange contracts and foreign currency swap contracts	-	(8,261)	2006	2006~2033

(Note) The period of the recognition of related valuation gain or loss generated from hedging instruments will be consistent with the concession period of the High Speed Rail (refer to Note 7(a)(iii)).

As of December 31, 2006, the valuation losses generated from financial instruments used in cash flow hedges amounted to NT$63,912 thousand, which was charged to stockholders' equity, and was included in an adjustment of the acquisition cost of fixed assets when the Company completed the construction for the year ended December 31, 2007.

(n) Disclosure of financial instruments

(1) Fair value of financial instruments

The details of financial instruments as of December 31, 2007 and 2006, were as follows:

	2007.12.31			2006.12.31		
		Fair value			Fair value	
(in thousands of dollars)	Carrying value NT$	Publicly quoted market price NT$	Value using valuation technique NT$	Carrying value NT$	Publicly quoted market price NT$	Value using valuation technique NT$
Nonderivative financial instruments:						
Financial assets:						
Cash and cash equivalents	3,675,416	3,479,816	195,600	612,158	612,158	-
Notes and accounts receivable	44,100	-	44,100	-	-	-
Available-for-sale financial assets	613,549	-	613,549	527,148	-	527,148
Refundable deposits	33,585	-	33,585	55,014	-	55,014
Restricted assets (including current and noncurrent)	5,891,391	-	5,891,391	3,085,943	-	3,085,943
Financial liabilities:						
Short-term debts	4,195,422	-	4,195,422	8,310,460	-	8,310,460
Accounts payable	923,606	-	923,606	332,562	-	332,562
Bonds payable (including current portion)	34,779,708	-	33,475,183	26,800,000	-	26,194,625
Construction payable (including related parties)	10,316,865	-	10,316,865	9,223,089	-	9,223,089
Long-term debts (including current portion)	331,610,795	-	331,610,795	294,463,795	-	294,463,795

(Continued)

(in thousands of dollars)	2007.12.31 Carrying value NT$	Fair value Publicly quoted market price NT$	Value using valuation technique NT$	2006.12.31 Carrying value NT$	Fair value Publicly quoted market price NT$	Value using valuation technique NT$
Derivative financial instruments:						
Financial assets:						
Forward foreign exchange contracts	26,465	-	26,465	-	-	-
Financial liabilities:						
Forward foreign exchange contracts	-	-	-	186,414	-	186,414
Financial liabilities at fair value through profit or loss－current	323,132	-	323,132	-	-	-
Off-balance-sheet financial instruments:						
Unused letter of credit	-	-	2,610,861	-	-	2,903,723
Letter of credit for guarantee	-	-	198,342	-	-	198,342

(2) Methods and assumptions to measure the fair value of financial instruments

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

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

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

iv. The fair value of bonds payable is determined based on the discounted future cash flows, and discount rates were 4.3788% and 4.0281% for the years ended December 31, 2007 and 2006, respectively.

v. As the interest rates on long-term debts fluctuate with market interest rates, no material differences are expected between the carrying amount and fair value of long-term debts.

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

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

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

(3) As of December 31, 2007 and 2006, the unrealized valuation gain on available-for-sale financial assets amounted to NT$332 thousand and NT$148 thousand, respectively, which were recognized as an adjustment to stockholders' equity.

(4) Disclosure of financial risks and management information

i. Market risk

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

The Company's short-term debts and bonds payable carried a fixed interest rate. This exposes the Company to the risk of adverse movements in market interest rates.

The fair value of the Company's forward foreign exchange contracts and foreign currency swap agreements fluctuates with the market exchange rates. If the fluctuation in market exchange rate between USD and NTD increases by USD 0.01, the fair value would increase by approximately NT$339 thousand. If the fluctuation in market exchange rate between USD and JPY increases by USD 0.01, the fair value would decrease by approximately NT$116 thousand.

ii. Credit risk

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

iii. Liquidity risk

(i) The Company's capital and operating fund are sufficient to reimburse all obligations. Therefore, the Company did not have liquidity risk.

(Continued)

(ii) The Company is exposed to liquidity risk through its forward exchange contracts as follows:

(a) Forward exchange contracts are traded on the Taipei Foreign Exchange Market. The liquidity risk is not considered material as the probability of failure to sell at reasonable prices is very low.

(b) The Company held forward exchange contracts which will result in cash flows in January 2008 as follows:

(1) USD/JPY forward exchange contracts:

(in thousands of US$/JPY)	**Cash Outflows US$**	**Cash Inflows JPY**
In January 2008	40,000	4,555,200

(2) USD/NTD forward exchange contracts:

(in thousands of US$/NT$)	**Cash Inflows US$**	**Cash Outflows NT$**
In January 2008	33,903	1,095,539

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

iv. Interest rate risk

The Company's long-term debts bear floating interest rates. This exposes the Company to interest rate risk because any adverse changes in market interest rates will affect the future cash flows of the long-term debts. If the market interest rate increases by 1%, the Company's future cash outflow would increase by approximately NT$3,316,108 thousand.

v. Risk management

(i) Foreign currency risk

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

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

(Continued)

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

(ii) Interest rate risk

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

vi. Hedging strategy

(i) Foreign currency hedging strategy

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

(ii) Interest rate hedging strategy

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

(o) Superficies

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

Pursuant to the HSR Right-of-Way Map and the HSR Overpass/Underpass Superficies Space Map appended to the C&O Agreement, the Company further secured superficies from the MOTC over the transportation infrastructure land such as route land, maintenance bases, station land, etc. As of December 31, 2007, superficies had been procured over the land comprising a total of 15,397 lots, or 9,933,625.79 m^2, with respect to land from Lot 0837-0000 Kuanghua Section, Hsinchuang, Taipei County, in the north to Lot 0421-0002, Subsection 6, Hsinchuang Section, Zuoying, Kaohsiung, in the south. The term of such superficies is from the date of their registration to the date of expiration or termination of the C&O Agreement, i.e., 35 years as the agreed concession period under the C&O Agreement.

The Company also procured superficies from the MOTC over the ancillary business land of station zones within the designated area of the Taoyuan, Hsinchu, Taichung, Chiayi and Tainan stations, the area being 46.49 hectares pursuant to the SZD Agreement. The MOTC entered into an Agreement on the Principles of Handling Superficies over Ancillary Business Land in Taiwan North-South High Speed Rail Station Zones (**"Superficies Agreement"**) with the Company on March 9, 2006. Through this Superficies Agreement, the MOTC granted the Company the rights to dispose of the superficies over the ancillary land for business development purposes, transfer the superficies to others for development and

(Continued)

operation, and create liens over the superficies. However, the terms and conditions of the contracts covering the actual disposal and transfer of and creation of liens over these superficies shall be consented to by the MOTC.

As of December 31, 2007, the Company secured the right to develop and to conduct business on the ancillary land of the Taoyuan, Hsinchu, Taichung Chiayi and Tainan station zones, and provided a portion of these superficies with a total area of 30 hectares as collateral to secure the second syndicated loan.

5. Transactions with Related Parties

(a) Names of and relationship with related parties

Name	Relationship with the Company
Continental Engineering Corp. (CEC)	The same chairman of the board
Pacific Electric Wire & Cable Co., Ltd. (PEWC)	A Company director
TECO Electric and Machinery Co., Ltd. (TECO)	A Company director
Taipei Fubon Commercial Bank Co., Ltd. (Taipei Fubon Bank)	A Company director
Taishin International Bank Co., Ltd. (Taishin Bank)	A Company director since August 16, 2007
Shinkong Insurance Co., Ltd. (Shinkong Insurance)	A Company director until August 15, 2007

(Continued)

(b) Significant transactions with related parties

i. Operating revenue

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

ii. The Company entered into several construction contracts with its related parties as follows:

Effective Year	Nature of Contract	Related Party (in thousands of dollars)	Contract Price Original NT$	Contract Price Amended (Note) NT$
1999	Water Pipe Road Construction Contract	CEC	112,168	112,168
2000	Civil work Construction of High Speed Rail Contract	Bilfinger+Berger-CEC JV	20,275,000	21,575,585
2000	〃	Evergreen-Italian-Thai-PEWC JV	3,824,463	4,226,300
2002	Zuoying Station Construction Contract	TAISEI-CEC JV	1,616,510	1,905,097
2002	Chiayi Station Construction Contract	TECO-TAKENAKA JV	811,000	894,979
2002	Wurih Base Construction Contract	CEC	331,000	367,845
2002	Taichung Station Construction Contract	TAISEI-CEC-CTCI-TAIAN JV	2,318,310	2,470,681
2003	Main Workshop Construction Contract	Chung Lu-CTCI-TECO JV	1,435,500	1,532,702
2003	Zuoying Depot Construction Contract	TECO-Barclay-Mowlem JV	1,650,000	2,089,622
2003	Wurih Depot Construction Contract	Chung Lu-CTLI-TECO JV	838,530	862,461
2003	Train Lifting System Contract	Vector Systems-China Steel-TECO JV	28,028	28,107
2004	Train Wash System Contract	Vector Systems-China Steel-TECO JV	53,704	53,704

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

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

For the years ended December 31, 2007 and 2006, the related construction costs paid to contractors, which were recorded as fixed assets, were as follows:

(Continued)

(in thousands of dollars)	Depot NT$	2007 Station NT$	Total NT$
TECO	86,097	54,722	140,819
CEC	283	68,073	68,356
	86,380	**122,795**	**209,175**

(in thousands of dollars)	Depot NT$	2006 Station NT$	Total NT$
TECO	414,759	168,313	583,072
CEC	-	238,956	238,956
	414,759	**407,269**	**822,028**

As of December 31, 2007 and 2006, the details of construction payables (including construction retentions) were as follows:

(in thousands of dollars)	Depot NT$	2007.12.31 Station NT$	Total NT$
TECO－construction retentions payable	119,774	49,039	168,813
TECO－construction payable	45,030	8,486	53,516
CEC－construction retentions payable	-	84,910	84,910
CEC－construction payable	283	2,701	2,984
	165,087	**145,136**	**310,223**

(in thousands of dollars)	Depot NT$	2006.12.31 Station NT$	Total NT$
TECO－construction retentions payable	121,775	48,175	169,950
TECO－construction payable	26,330	8,864	35,194
CEC－construction retentions payable	-	85,595	85,595
CEC－construction payable	-	7,570	7,570
	148,105	**150,204**	**298,309**

(Continued)

iii. Syndicated loans

The Company obtained the first and second secured credit facilities from the syndicate banks, including Taipei Fubon Bank and Taishin Bank. As of and for the years ended December 31, 2007 and 2006, the syndicated loans from Taipei Fubon Bank and Taishin Bank and interest expenses incurred thereon were as follows (expressed in thousands of New Taiwan dollars, except for the interest rate):

2007

	Maximum balance	**Ending balance**	**Interest rate**	**Amount of interest (including capitalized interest)**
Taipei Fubon Bank	**19,141,990**	**19,141,990**	3.3068%~8.2005%	**710,241**
Taishin Bank	**10,565,131**	**10,565,131**	〃	**407,005**

2006

	Maximum balance	**Ending balance**	**Interest rate**	**Amount of interest (including capitalized interest)**
Taipei Fubon Bank	**11,651,749**	**11,651,749**	3.1279%~8.1316%	**310,553**
Taishin Bank	**5,574,889**	**5,574,889**	〃	**110,428**

iv. Insurance expenses

For the year ended December 31, 2007, the Company incurred insurance premiums of NT$63,536 thousand for liability insurance, including passenger liability insurance, provided by Shinkong Insurance. The insurance covers the period from January 5, 2007, to January 4, 2008.

For the year ended December 31, 2006, the Company incurred insurance premiums of NT$55,476 thousand under the Owner Controlled Insurance Program (OCIP) provided by Shinkong Insurance Co., Ltd., which were charged to construction in progress.

v. Other

The Company pledged time deposits as collateral for a short-term loan, which was obtained under a credit facility with Taipei Fubon Bank. As of December 31, 2006, the time deposits of NT$112,000 thousand which were pledged for this credit line facility were recorded as restricted assets —current.

(Continued)

6. Pledged Assets

As of December 31, 2007 and 2006, the carrying values of pledged assets were as follows:

Pledged assets	Pledged to secure (in thousands of dollars)	2007.12.31 NT$	2006.12.31 NT$
Restricted assets－current:			
Time deposit	Guarantee for oil purchase	-	2,000
Time deposit	Station land lease	1,100	1,865
Time deposit	Customs duties	-	10,000
Time deposit	Guarantee for bank overdraft	-	112,000
Sub-total		1,100	125,865
Restricted assets－noncurrent:			
Time deposit	Guarantee for oil purchase	2,500	
Time deposit	Station land lease	15,225	12,078
Time deposit	Guarantee for the development of station	994,026	-
Time deposit	Letter of credit for guarantee	40,000	40,000
Time deposit	Syndicated loan	4,347,540	-
Short-term notes	Syndicated loan	491,000	2,908,000
Sub-total		5,890,291	2,960,078
Fixed assets	Agreement guarantee	13,000,000	13,000,000
Total		**18,891,391**	**16,085,943**

7. Commitments and Contingencies

(a) Significant contracts

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

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

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

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

(Continued)

The concession agreement for the stations also includes the following:

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

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

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

v. The promoters for the incorporation of the Company are required to hold 25% or more of the total equity shares issued by the Company during the construction period.

vi. The ratio of the Company's stockholders' equity to its total assets shall be maintained at 25% or more during the concession period. As of December 31, 2006, the ratio of the Company's equity to its total asset was 12.37%. The Company has obtained the consent of the MOTC to improve the ratio by the end of 2008.

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

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

The Company had accrued the profit sharing return amounting to NT$333,333 thousand, which was recorded as operating cost, since March 2007, the date of starting of service for the entire line. As of December 31, 2007, the return had not yet been paid to the MOTC and was recorded as other liabilities.

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

(Continued)

The value of transferable assets with compensation shall be calculated at the residual value of the assets as derived from the subtraction of the comparative depreciated value for the service life that has elapsed from the original cost of the assets at the time of the transfer, and the period of depreciation shall be based on the minimum term of service life determined by the fixed-percentage-on-declining-base method as set out in the "Property Standard Classification" issued by the Executive Yuan.

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

1) During the construction period: The transfer price is determined by the lower of actual construction costs (including capitalized financing costs) or agreed construction costs (including capitalized financing costs) multiplied by the percentage of completion of construction.

2) During the operating period: The transfer price is determined by appraisal organizations.

x. Agreement guarantee

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

2) During the operating period: The Company will provide a NT$5 billion performance bond as a guarantee for fulfilling its operating responsibility. If there is no breach of the contract since the date of starting its railway operations, the MOTC will return NT$0.5 billion each year; however, the total returnable amount shall not exceed NT$3 billion. The deadline to return the remaining amount is the earlier of six months after the maturity of the concession period or six months after the termination of the agreement.

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

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

a) Material delay in work schedule

b) Material default in quality control of the works

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

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

(Continued)

2) Consequences of breach of contract

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

a) Suspend the construction or operation of the HSR

b) Revoke the permit for construction or operation of the HSR

c) Terminate the C&O Agreement

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

(b) Operating lease

The Company rents its office premises. As of December 31, 2007, the Company had paid NT$32,415 thousand as a guarantee deposit for the lease of these premises. Future minimum lease payments at December 31, 2007, were as follows:

(in thousands of dollars)	**NT$**
2008	160,933
2009	18,971
2010	16,488
Total	**196,392**

(c) As of December 31, 2007, the Company had obtained credit line facilities in the form of letters of credit from several banks, of which US$951 thousand and JPY 8,911,945 thousand were unused, and the Company had issued NT$16,737,190 thousand worth of promissory notes to banks to obtain guaranties for credit lines.

(d) As of December 31, 2007, the Company had provided a letter of credit of NT$198,342 thousand to the Bureau of Taiwan High Speed Rail, MOTC, as a guarantee for the development of the Chiayi Station.

8. Significant Damage Losses: none.

9. Significant Subsequent Events: none.

(Continued)

10. Others

(a) Total personnel, depreciation and amortization expenses incurred for the years ended December 31, 2007 and 2006, were as follows:

By function / By item (in thousands of dollars)	2007 Operating cost NT$	2007 Operating expenses NT$	2007 Non-operating expenses NT$	2007 Total NT$	2006 Operating cost NT$	2006 Operating expenses NT$	2006 Non-operating expenses NT$	2006 Total NT$
Personnel expenses								
Salaries	1,855,263	588,352	-	2,443,615	-	995,388	-	995,388
Insurance	114,525	28,540	-	143,065	-	64,065	-	64,065
Pension	102,112	27,985	-	130,097	-	63,623	-	63,623
Others	54,414	12,961	-	67,375	-	29,482	-	29,482
Depreciation	18,848,127	11,460	-	18,859,587	-	107,347	-	107,347
Amortization	35,951	31,692	76,549	144,192	-	23,958	-	23,958

(b) Reclassification

Certain accounts in the financial statements as of and for the year ended December 31, 2006, have been reclassified to conform with the presentation adopted in the financial statements as of and for the year ended December 31, 2007.

11. Other Disclosure Items

(a) Related information on material transaction items:

i. Lending to other parties: None.

ii. Guarantees and endorsements for other parties: None.

iii. Information regarding securities held:

(in thousands of New Taiwan dollars, except units)

Company holding securities	Security type and name	Relationship with the issuing company	Account	Period-end Units (in thousands)	Period-end Carrying value	Period-end Percentage of ownership	Period-end Market value (or net value)	Note
The Company	ING TAIWAN BOND FUND	-	Available-for-sale financial assets–current	10,013	153,270	-	153,270	
"	JF (Taiwan) First Bond Fund	-	"	6,733	96,109	-	96,109	
"	PCA WELL POOL FUND	-	"	15,725	200,093	-	200,093	
"	YUANTA WAN-TAI FUND	-	"	6,557	93,045	-	93,045	
"	YRANTA WAN-TAI FUND	-	"	5,470	71,032	-	71,032	
"	Central Government Bond 88-1	-	Restricted assets–noncurrent	118,000	131,000	-	131,000	
"	Central Government Bond 92-2	-	"	355,300	360,000	-	360,000	
"	Central Government Bond 93-4	-	Cash and cash equivalents	63,600	70,600	-	70,600	
"	Central Government Bond 93-7	-	"	112,500	125,000	-	125,000	

(Continued)

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

(in thousands of New Taiwan dollars, except units)

Company holding securities	Security type and Name	Account	Counter-party	Relation-ship	Beginning		Purchase		Sale				Gain (loss) on valuation	Ending	
					Units (in thousands)	Amount	Units (in thousands)	Amount	Units (in thousands)	Price	Carrying value	Gain (loss) on disposal		Units (in thousands)	Amount
The Company	FUBON CHI-HSIANG FUND	Available-for-sale financial assets–current	-	-	-	-	8,926	130,000	8,926	130,138	130,000	138	-	-	-
〃	Fubon Jin-ju-I Fund	〃	-	-	4,089	50,000	38,202	469,770	42,291	521,140	519,770	1,370	-	-	-
〃	NITC Bond fund	〃	-	-	304	50,000	476	78,480	780	128,672	128,480	192	-	-	-
〃	NITC Taiwan Bond Fund	〃	-	-	-	-	36,177	513,180	36,177	514,213	513,180	1,033	-	-	-
〃	ING TAIWAN BOND FUND	〃	-	-	3,319	50,000	26,021	395,132	19,327	292,586	291,931	655	69	10,013	153,270
〃	JF (Taiwan) First Bond Fund	〃	-	-	1,922	27,000	9,603	136,660	4,792	67,723	67,644	79	93	6,733	96,109
〃	JF (Taiwan) Bond Fund	〃	-	-	3,278	50,000	8,895	136,000	12,173	186,228	186,000	228	-	-	-
〃	Hua Nan Kirin Bond Fund	〃	-	-	4,518	50,000	35,828	398,030	40,346	449,100	448,030	1,070	-	-	-
〃	James Bond Fund	〃	-	-	3,242	50,000	3,589	56,000	6,831	106,240	106,000	240	-	-	-
〃	Prudential Financial Bond Fund	〃	-	-	3,422	50,000	14,257	210,000	17,679	260,743	260,000	743	-	-	-
〃	POLARIS DE- LI FUND	〃	-	-	-	-	18,856	287,000	18,856	288,228	287,000	1,228	-	-	-
〃	Polaris De-Bao Fund	〃	-	-	4,514	50,000	6,313	70,025	10,827	120,240	120,025	215	-	-	-
〃	IBT TA-CHONG BOND FUND	〃	-	-	3,840	50,000	20,684	270,000	24,524	320,975	320,000	975	-	-	-
〃	Bond DAM Fund	〃	-	-	4,316	50,000	34,895	407,584	39,211	458,514	457,584	930	-	-	-
〃	PCA WELL POOL FUND	〃	-	-	-	-	63,172	799,000	47,447	601,030	599,000	2,030	93	15,725	200,093
〃	YUANTA WAN-TAI FUND	〃	-	-	-	-	35,045	492,630	28,488	400,679	399,630	1,049	45	6,557	93,045
〃	FUHWA WAN LI BOND FUND	〃	-	-	-	-	13,577	176,000	8,107	105,228	105,000	228	32	5,470	71,032
〃	MEGA DIAMOND BOND FUND	〃	-	-	-	-	55,122	638,480	55,122	640,470	638,480	1,990	-	-	-
〃	Central government bonds for major transportation infrastructure project (type A)-9th issue of bond certificates (1997)	Restricted assets–noncurrent	-	-	-	-	160,500	178,333	160,500	178,376	178,333	43	-	-	-
〃	Central Government Bond87-1	〃	-	-	830,000	920,000	29,600	32,790	859,600	954,125	952,790	1,335	-	-	-
〃	Central Government Bond88-1	〃	-	-	-	-	956,300	1,062,067	838,300	931,712	931,067	645	-	118,000	131,000
〃	Central Government Bond89-2	〃	-	-	-	-	270,000	300,000	270,000	300,067	300,000	67	-	-	-
〃	Central Government Bond89-3	〃	-	-	415,000	461,110	17,600	19,450	432,600	480,841	480,560	281	-	-	-
〃	Central Government Bond89-5	〃	-	-	-	-	787,400	878,600	787,400	879,360	878,600	760	-	-	-
〃	Central Government Bond89-6	〃	-	-	-	-	187,300	208,000	187,300	208,344	208,000	344	-	-	-
〃	Central Government Bond89-8	〃	-	-	-	-	613,400	681,450	613,400	681,826	681,450	376	-	-	-
〃	Central Government Bond89-10	〃	-	-	-	-	229,500	255,000	229,500	255,017	255,000	17	-	-	-
〃	Central Government Bond89-14	〃	-	-	-	-	225,200	249,770	225,200	250,101	249,770	331	-	-	-
〃	Central Government Bond90-1	〃	-	-	56,000	62,120	780,200	866,780	836,200	929,801	928,900	901	-	-	-
〃	Central Government Bond90-2	〃	-	-	-	-	2,574,000	2,856,100	2,574,000	2,860,217	2,856,100	4,117	-	-	-
〃	Central Government Bond91-2	〃	-	-	108,100	120,110	171,000	187,880	279,100	308,122	307,990	132	-	-	-
〃	Central Government Bond91-4	〃	-	-	-	-	96,000	106,500	96,000	106,567	106,500	67	-	-	-
〃	Central Government Bond91-6	〃	-	-	-	-	764,800	780,904	764,800	781,434	780,904	530	-	-	-
〃	Central Government Bond91-7	〃	-	-	-	-	342,000	378,560	342,000	379,209	378,560	649	-	-	-
〃	Central Government Bond91-8	〃	-	-	-	-	544,500	581,799	544,500	582,278	581,799	479	-	-	-

(Continued)

Company holding securities	Security type and Name	Account	Counter-party	Relation-ship	Beginning		Purchase		Sale				Gain (loss) on valuation	Ending	
					Units (in thousands)	Amount	Units (in thousands)	Amount	Units (in thousands)	Price	Carrying value	Gain (loss) on disposal		Units (in thousands)	Amount
The Company	Central Government Bond91-9	Restricted assets–noncurrent	-	-	-	-	1,152,200	1,191,046	1,152,200	1,192,243	1,191,046	1,197	-	-	-
"	Central Government Bond91-11	"	-	-	-	-	1,188,000	1,297,719	1,188,000	1,298,918	1,297,719	1,199	-	-	-
"	Central Government Bond92-2	"	-	-	-	-	1,656,400	1,699,407	1,301,100	1,340,602	1,339,407	1,195	-	355,300	360,000
"	Central Government Bond92-3	"	-	-	-	-	6,031,000	6,700,000	6,031,000	6,702,695	6,700,000	2,695	-	-	-
"	Central Government Bond92-4	"	-	-	-	-	1,345,700	1,462,074	1,345,700	1,462,985	1,462,074	911	-	-	-
"	Central Government Bond92-6	"	-	-	308,800	319,769	443,700	460,669	752,500	781,033	780,438	595	-	-	-
"	Central Government Bond92-7	"	-	-	-	-	140,500	150,889	140,500	150,977	150,889	88	-	-	-
"	Central Government Bond92-10	"	-	-	-	-	257,900	279,224	257,900	279,496	279,224	272	-	-	-
"	Central Government Bond93-2	"	-	-	-	-	445,000	476,990	445,000	477,405	476,990	415	-	-	-
"	Central Government Bond93-4	Cash and cash equivalents	-	-	-	-	1,051,000	1,129,864	987,400	1,060,475	1,059,264	1,211	-	63,600	70,600
"	Central Government Bond93-7	"	-	-	559,500	615,000	4,372,900	4,793,417	4,819,900	5,286,875	5,283,417	3,458	-	112,500	125,000
"	Central Government Bond93-8	"	-	-	-	-	7,907,000	8,782,000	7,907,000	8,784,787	8,782,000	2,787	-	-	-
"	Central Government Bond94-2	"	-	-	-	-	934,600	1,015,596	934,600	1,016,700	1,015,596	1,104	-	-	-
"	Central Government Bond94-3	"	-	-	-	-	249,000	275,600	249,000	278,978	275,600	3,378	-	-	-
"	Central Government Bond94-6	"	-	-	-	-	1,285,300	1,316,152	1,285,300	1,317,270	1,316,152	1,118	-	-	-
"	Central Government Bond94-7	"	-	-	285,000	316,660	2,707,100	3,001,720	2,992,100	3,320,750	3,318,380	2,370	-	-	-
"	Central Government Bond95-1	"	-	-	-	-	802,300	830,528	802,300	831,203	830,528	675	-	-	-
"	Central Government Bond95-3	"	-	-	-	-	255,000	282,500	255,000	282,915	282,500	415	-	-	-
"	Central Government Bond95-4	"	-	-	29,900	30,231	187,100	190,236	217,000	220,608	220,467	141	-	-	-
"	Central Government Bond95-5	"	-	-	-	-	864,700	888,264	864,700	888,822	888,264	558	-	-	-
"	Central Government Bond95-6	"	-	-	-	-	2,065,400	2,274,795	2,065,400	2,275,236	2,274,795	441	-	-	-
"	Central Government Bond96-1	"	-	-	-	-	1,164,900	1,214,186	1,164,900	1,214,988	1,214,186	802	-	-	-
"	Central Government Bond96-4	"	-	-	-	-	1,353,100	1,362,086	1,353,100	1,363,438	1,362,086	1,352	-	-	-

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

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

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

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

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

(Continued)

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

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

12. Segment Information: Not applicable.

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