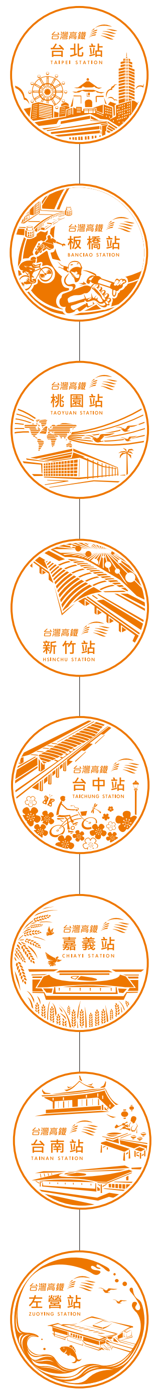
台灣高鐵
TAIWAN HIGH SPEED RAIL

www.thsrc.com.tw

Taiwan High Speed Rail Corporation 2008 Annual Report

2008 ANNUAL REPORT

台灣高鐵
TAIWAN HIGH SPEED RAIL



THSRC Milestones

Commencement Date: **May 1998**
Construction Stage: **From March 2000 to December 2006**
Operation Stage: **Started in January 2007**
Capitalization: **NT$105.3 billion**

Business Summary for 2008:

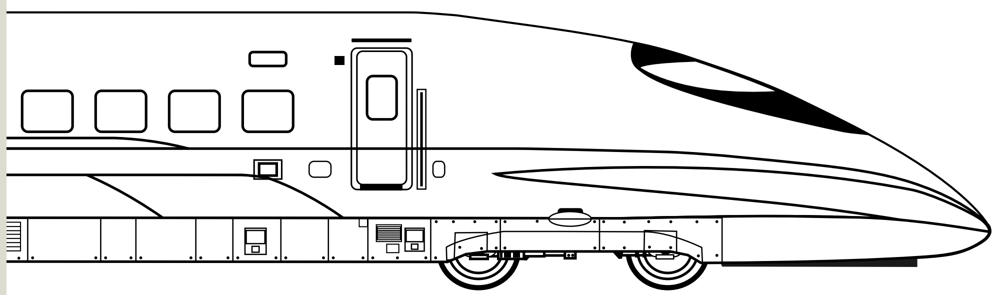
Train Services: **45,900 train services**
Punctuality (defined as delay not exceeding 5 minutes from timetable): **99.19%**
Annual Patronage: **30,581 thousand passengers**
Annual Revenue: **NT$ 23.05 billion**
Loading Factor: **43.51%**
Passenger Kilometers: **6.57 billion km**
Length of Operation Routes: **345 km**
Number of Cities/Counties Passed Through: **14 cities/counties**
Maximum Operating Speed: **300 km/hr**
Number of Seats: **989 seats** (923 seats in standard and 66 in business class carriages)
Stations in Service: **8** (Taipei, Banciao, Taoyuan, Hsinchu, Taichung, Chiayi, Tainan and Zuoying)
Maintenance Depots in Service: **4** (Hsinchu Lioujia, Taichung Wurih, Kaohsiung Zuoying and Kaohsiung Yanchao Main Workshop)

Note:

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

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

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



Taiwan High Speed Rail Corporation

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1. Letter to Shareholders

Dear Shareholders,

With high anticipation, a high-speed train service began operating along the Western corridor of Taiwan on January 5, 2007, marking the beginning of a new era for Taiwan's transportation system. After operation in 2007, THSRC proved to fulfill the train services required by the contract and rendered high-quality train services. In 2008, in addition to enhancing the train services further, we diversified our products, expanded our services and improved the efficiency of our management, based on the demand of the market. THSRC is committed to providing superior services, achieving customers' satisfaction, and fulfilling our responsibility as a corporate citizen.

2008 Operating Report

Our operating revenue in 2008 increased NT$9.55 billion or 70.7 percent to NT$23.05 billion, compared to NT$13.5 billion in 2007. The net loss for 2008 was NT$25.01 billion, or NT$4.58 per share. The operating review for 2008 was as follows:

1. Operating Review

(1) Rail Operation

One-way train services per day increased from between 57~63 train services in the beginning of 2008 to between 65~71 train services at year-end, totaling 45,900 train services during 2008. Compared to 24,400 train services in 2007, train services increased by 21,500, with a growth rate of 88.1%. To meet customers' needs, we provide 5 and 4 one-way services per hour at peak and off-peak time, respectively. The annual patronage was 30.581 million, a growth rate of 96.6% compared to 15.556 million in 2007; and the highest and least daily average patronage were 96 thousand in August and 63 thousand in January, respectively.

We have achieved zero-accident performance in 2008. Besides, the Punctuality（delay<5mins）registered at 99.19%, which was higher than our goal of 98.0%. The reliability, without unavoidable factors taken into consideration, reached 99.86%, which was also higher than our goal of 99.5%.

(2) Marketing and Passenger Services

A. To reduce operating and maintenance costs, we implemented a flexible timetable to deploy various train services on peak dates and off-peak dates in January 2008.

B. To expand booking channels, we provided a voice booking service in June 2008.

C. To broaden the customer base, we applied the HSR Dual-Color Fares in November 2008, which offered different discounts during peak and off-peak time.

D. To provide convenient connecting services for high-speed rail passengers, we keep providing free shuttle bus services at Taoyuan, Hsinchu, Taichung, and Tainan stations.

2. Budget Implementation

Compared with NT$24.51 billion forecast, the operating revenues for 2008 totaled NT$23.05 billion, giving a 94% budget achieving rate. Besides, mainly due to the huge depreciation and interest expenses, and the impact of economic downturn, the Company posted net loss of NT$25.01 billion in 2008. In which, depreciation and interest expenses resulting from initial huge capital expenditures under BOT plan were up to NT$18.99 and NT$17.46 billion, respectively, amounting to 74.8% of total costs and expenses.

3. Financial Position and Profitability Analysis

Compared to 2007, the operating revenue increased 70.7%, with only approximately 3% rise in operating costs and expenses in 2008. Besides, our EBITDA (Earning before Interest, Tax, Depreciation, and Amortization) in 2008 increased 188.38% to NT$11.616 billion, compared with 2007 EBITDA of NT$4.028 billion. Those proved that our operating performance was outstanding.

To meet our financial needs, we continually drew down second syndicated loan, totaling NT$12.953 billion in 2008. In addition, we issued the first, second and third secured domestic corporate bonds in April, October and December 2008, amounting to NT$6 billion, NT$6.8 billion and NT$6 billion, respectively, to repay the first and second secured domestic corporate bonds issued in 2003 and the first secured domestic corporate bonds issued in 2008. The successful and effective financing activities above had raised sufficient funds to meet our needs in 2008.

4. Research and Development

Our capacity and annual patronage still stay on rapid growth stage, giving the full year of operation in 2007 and 2008. Thus, our 2008 R&D programs stressed on increasing operation efficiency and transferring maintenance technology:

(1) Enhance ticketing and distribution channels to increase the quality and efficiency of services - launching voice booking system in June 2008, surveying the demand of rapid ticket collection machine, and improving online booking systems.

(2) Transfer maintenance techniques to establish independent maintenance ability - Establishing training function on integrity of rails and traffic signs at Yanchao Main Workshop, establishing electronic factories to pass down maintenance techniques at Lioujia depot, seeking spare part substitution to reduce the costs and diversify concentration risks, and enhancing the inventory management system to increase cost-benefits and respond rapidly to emergencies.

(3) Strengthen internal management to enhance internal productivity and performance - accomplishing the development of e-learning system, and developing the second stage of budget management system.

2009 Operation Plan Outline

1. Operating Guideline

With the solid foundation on high speed rail operation and passenger services established in the successful year of operation, 2007 to 2008, we will keep enhancing our maintenance ability, capture the market share to increase operating revenue, enhance service quality, and establish independent maintenance ability.

2. Marketing Initiatives

With the services commencing in January 2007, THSRC refines all services and product planning, and analyzes customer satisfaction and expectations via various periodic surveys; so that we can deliver the premium quality services and maintain our competitiveness. The main marketing initiatives in 2009 will be as follows:

(1) Adjust Train Services in Accordance with Market Demand

In 2009, train service scheduling will be turned to market-oriented, based on our marketing strategies and demand forecasts, to increase the loading factor.

(2) Enhance Customer Service Quality

Based on the current operation performance, passengers' opinions, and mystery shopping investigation, we will review the service process, hardware facilities, and various products; and strengthen our service training materials and on-job training. In addition, we will keep conducting market investigation to understand passengers' overall satisfaction on THSRC. Through these ways, passengers will have reliability in our Company's service and experience further train-taking satisfaction.

(3) Strengthen promotion

In 2009, our top goal is to enlarge market share via establishing complete demand-oriented product lines, such as the HSR Dual-Color Fares, shopping voucher promotion, summer promotion, commuter ticket, travel package projects, and business-class promotion, to attract more passengers to choose traveling with High Speed Rail.

(4) Reinforce Transfer Services

In 2009, in addition to providing the free shuttle bus service, we will launch joint promotion with regional public bus services and MRT, taxi car-pool program, instant-access bus information service, periodically updated transfer information, and a transfer inquiry service, etc. With this information, we assist passengers to find the best way to transfer and experience our rapid and convenient transfer services.

(5) Integrate ticketing systems

In order to provide more convenient ticketing services, we will keep improving the convenience of booking and payment methods aside from at stations. We plan to launch a series of more convenient booking measures in 2009, such as ticket collection at convenience stores, simplified online booking, mobile booking, and accelerated ticketing process. After implementation of these, passengers will buy tickets easily and take trains with comfort.

(6) Promote Trips and Cooperate with Other Industrial Sectors

We actively promoted high-speed-rail trips in 2008. In 2009, we will continue launching the Fun-with-THSRC and regional festivals projects, and establish exclusive traveling website. Meanwhile, we will expand current cooperation with ticket agents, hotels, amusement parks, tour buses, souvenir shops, and local governments. We will broaden high-speed rail market by offering such all-round and complete travel packages.

3. Revenue Forecast

The Directorate General of Budget, Accounting and Statistics Dept (DGBAS) of the Executive Yuan projected that the economic growth for 2009 will be -2.97%. The economy is slowing down in 2009. However, we will still implement effective marketing strategies to ensure the operating revenue growth stability.

Development Perspectives

We pursue five core values, Discipline, Integrity, Efficiency, Innovation, and Sensibility, emphasize on the details of each operation and passenger service, and strive to deliver the quality services with four attributes - Real, Progressive, Passionate, and Premium. We expect every passenger will experience a pleasant high-speed-rail journey with satisfaction. In the future, we will still hold our core values and attributes to put the following strategies into effect:

1. Ensure safety management to achieve the zero-accident target.
2. Enhance service quality to establish better customer relationship.
3. Establish a fully integrated regional transportation network in Taiwan to create complete living facilities.
4. Implement "revenue management" to increase the profitability and benefits.
5. Reinforce employees' professional skills to establish self-sustaining maintenance ability.
6. Strengthen communication mechanism to increase administrative management efficiency and effectiveness.

The Impacts of Competition, Regulations, and Macro-Economic Environment

1. According to 2009 policy paper of the Executive Yuan, the establishment of mass transportation network, planning Asia Pacific International Air City under the I-Taiwan 12 Projects, and the pursuit of limiting carbon emissions manifest the high speed rail playing as a vital role within the transportation network.
2. To prevent corporate failures under the economic crises, the Executive Yuan has launched a series of bailout measures, which will stabilize Taiwan economy and indirectly benefit our operations.

3. The Ministry of Transportation and Communications has added some punitive clauses for dangerous behavior into the modified "Railway Act", in which, there are positive impacts upon the assurance of railway safety and the protection of passengers' rights. As for the compensation mechanism for train delays, we suggest follow the "Passenger Transportation Rules" in force.
4. The Legislative Yuan has passed the "Regulation for Noise Control" on November 11, 2008. It stipulates that, if the noise pollution, causing by a freeway or railway, exceeds the set standard, the authority would require improvement within 180 days. However, if the situation cannot be improved, the authority would work out and implement a subsidy plan, which would be limited to one time. We are not aware of the implications of this new regulation.
5. To summarize, in spite of the rapid economic growth in Taiwan and increase in national income, the variances of geography and government resources result in gaps between rural and urban areas. The high-speed rail with efficient travel time characteristic can ease traffic congestion and transportation inefficiency in the Western corridor, enhance economic growth and gain balanced development among rural and urban areas. In addition, industries would be able to stretch into the new development areas and expand their service scope, which would be helpful to upgrade the whole industry in Taiwan.

On the other hand, the high-speed rail has replaced some other transportation modes for inter-country travel. Yet through the integration of transportation modes in the future, an extensive new mass transportation network will exist in Taiwan. THSRC will cooperate with the government to integrate the interface of ticket systems and transfer services, so that we are able to develop new market and broaden customer base. With the expectation of an increasing transportation supply and decreasing travel costs, we are able to attract more passengers for business, travel and commutation purposes. We are confident that the Taiwan economy and the high-speed patronage will grow simultaneously, and there will be a win-win situation for all.

Nita Ing
Chairman

Chin-Der Ou
Chief Executive Officer

2. Company Profile

Enter a New High Speed Era

Taiwan High Speed Rail Corporation (THSRC, the Company) carries the expectations of twenty-three million people. In 2007, we marked a new epoch in Taiwan's high speed rail transportation. Starting from scratch, through the persistence and devotion of thousands of local employees and professionals from twenty-three countries, we fulfilled our dream of threading a line, through the Western corridor from north to south within ninety-six minutes.

We not only identify ourselves as a transportation industry provider, but anticipate THSRC becoming a transportation supplier that promotes the progression of Taiwan. Setting such objectives, we represent more than speed, but a modern attitude toward life benefited by speed and efficiency. We dedicate ourselves to satisfying passengers' needs and providing more comfortable experiences with innovative and customer-oriented attitude. By developing the potential station areas with perceptive foresight, we can create new values of modern life for urban and rural development.

Pursuant to sustainability and innovation, we pursue five core values-Disciplines, Integrity, Efficiency, Innovation and Sensibility, and deliver four attributes-Real, Progressive, Passionate, and Premium. Through the fulfillment of our core values and deliver attributes, we create the specific corporate culture which forms a momentum for new life style in Taiwan.

Compete with time; improve constantly; together with as the whole society, we look forward to a better and speedy traveling life in the future. We promise to keep the five core values and four attributes as our motto, and sure to fulfill our vision and mission.

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

Our Core Values

Discipline

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

Integrity

Not only do we carry out our duty according to relevant codes and standards, we do so with our heart and conscience. We strive to be responsible for everything we do in order to deserve our shareholders' and customers' trust.

Efficiency

We accomplish our task efficiently and effectively, and we constantly seek the most effective approach in performing our daily duties.

Innovation

Innovation is how we always deliver better service and the best performance. We seek to improve and excel ourselves by creating new ways to achieve our goals.

Sensibility

We strive to anticipate, understand and address our customers' needs. Our service excellence lies in our sensitivity to meet our customers' needs.

Our Attributes

Real

We encourage every employee to experience life and embrace the world actively.

Progressive

By leading the world and meeting the customers' needs, we make our services more progressive.

Passionate

With attention to society and passion for our customers, we make our services more attractive.

Premium

We pursue high quality in everything we do and insist on precise while providing diligent service.

Company History

Commencement Date: May 11, 1998






Development Stage

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

Construction Stage

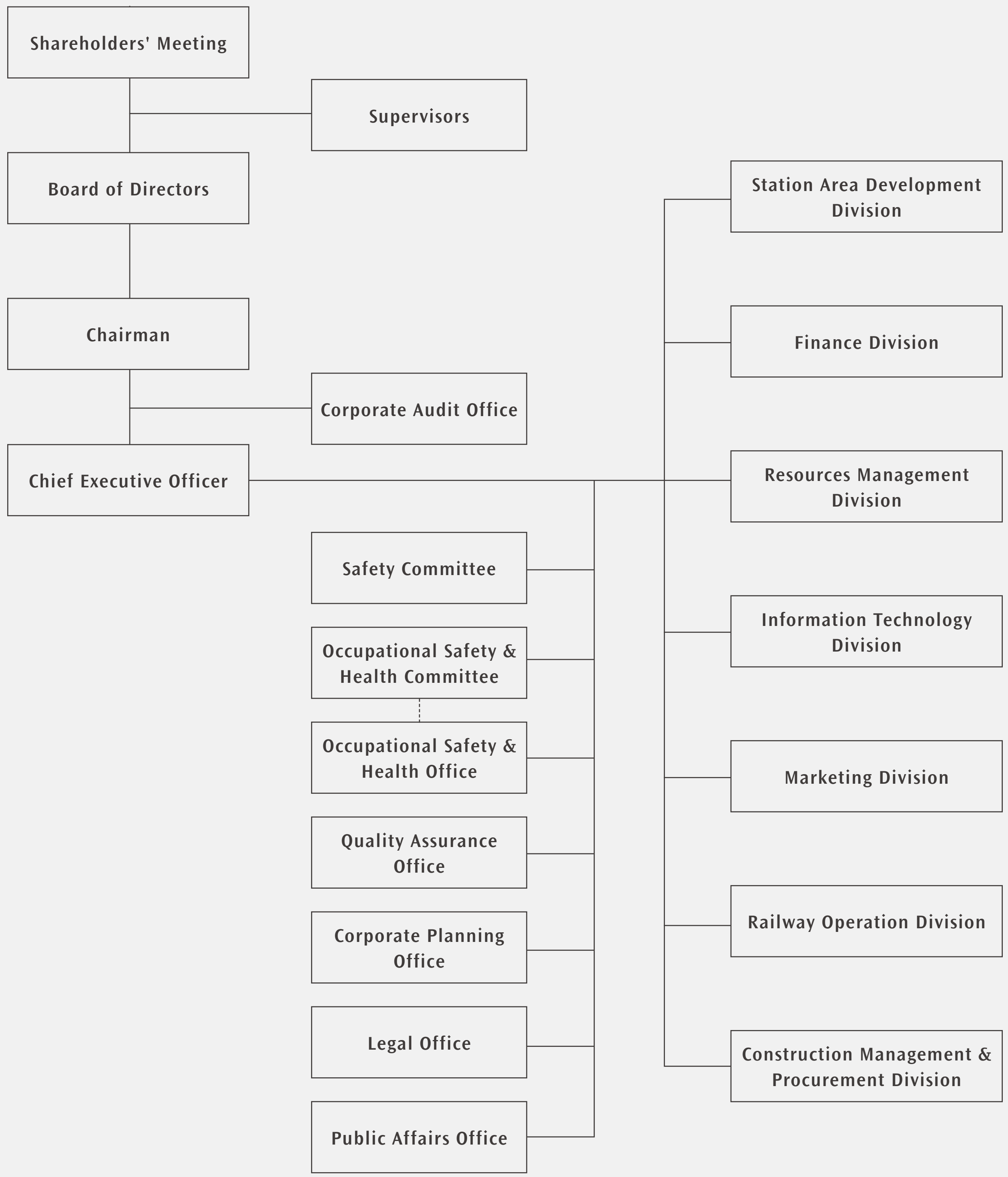
March 2000	THSRC began the construction of the high speed rail project.
December 2000	THSRC entered into the "Core System Supply Contract" and "Core System Integration and Installation Contract" with Taiwan Shinkansen Corporation and Taiwan Shinkansen International Engineering Corporation.
April 2001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

Operation Stage

January 2007	THSRC started commercial operations from Banciao Station to Zuoying Station with 38 train services daily.
March 2007	THSRC started the entire-line operations from Taipei Station to Zuoying Station with 50 train services daily.
May 2007	THSRC entered into the second updated syndicated loan agreement with Lehman Brothers Asia Limited and the second bank syndicate, under which THSRC obtained the credit facilities totaling NT$65.5 billion.
June 2007	THSRC expanded the operation into 62 train services daily.
July 2007	THSRC expanded the operation into 74 train services daily.
September 2007	THSRC expanded the operation into 91 train services daily. THSRC provided a 24-hour online reservation system. The cumulative patronage was over 10 million.
November 2007	THSRC expanded the operation into 113 train services daily. THSRC launched the non-reserved class.
December 2007	The monthly patronage was over 2 million for the first time.
January 2008	THSRC introduced a flexible timetable, under which there were 114 train services daily on off-peak days (from Tuesday to Thursday), 120 train services daily on sub-peak days (Monday and Friday), and 126 train services daily on peak days (Saturday and Sunday).
April 2008	The cumulative patronage was over 23 million.
July 2008	THSRC expanded the operation to between 128 and 140 services daily. (Based on peak or off-peak days to allow a flexible timetable)
August 2008	Ticketing revenue from January to August 2008 was higher than the whole 2007.
November 2008	THSRC introduced the HSR Dual-Color Fares, under which the Standard reserved seat "Orange Fare" is 35% off the regular ticket price, and the "Blue Fare" is 15% off.
December 2008	THSRC expanded the operation to between 130 and 142 services daily. (Based on peak or off-peak days to allow a flexible timetable)
January 2009	THSRC has operated the entire-line service for 2 years and the cumulative patronage was over 46.5 million.
March 2009	Due to the recession, THSRC froze or shrank the payments to senior management, expanded the coverage of the Blue & Orange Fare Premiums, reduced the consumption of energy, and adjusted operations to 816 services per week.

3. Organization

Organization Structure



Board of Directors & Supervisors

Nita Ing

Chairman (Representative, Continental Engineering Corporation)

Chairman of Continental Engineering Corporation

B.A. degree in Economics from University of California, Los Angeles

Chun-Chi Chiu

Director (Representative, Teco Electric & Machinery Co. Ltd)

President and Spokesperson of Teco Electric & Machinery Co. Ltd.

MBA from Michigan University

B.A. degree in Business Administration from National Taiwan University

Li-Ching Ko

Director (Representative, Evergreen International Corporation)

Supervisor of EVA Airways Corporation

Supervisor of Evergreen International Storage & Transport Corporation

George Liu

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

Chairman of Fubon Land Development Co. Ltd.

Ph. D. in Physics from Massachusetts Institute of Technology

Daniel Tsai

Director (Representative, Taipei Fubon Commercial Bank Co. Ltd.)

Chairman of Fubon Financial Holding Company

LL.M. degree from Georgetown University

B.A. degree in Law from National Taiwan University

Mao-Lin Hu

Director (Representative, Taiwan Sugar Corporation)

Chairman of Taiwan Sugar Corporation

Ph.D. in Institute of Agronomy from Washington State University

B.S. degree in Agronomy from National Taiwan University

Earle Jen-Shyong Ho

Director (Representative, Tung Ho Steel Enterprise Corporation)

Chairman & CEO of Tung Ho Steel Enterprise Corporation

Master degree in Economics from Indiana University

B.A. degree in Economics from National Taiwan University

Thomas T.L. Wu

Director (Representative, Taishin International Bank)

Chairman of Taishin Financial Holding Company

MBA from UCLA Anderson School

Philip H. H. Wei

Director (Representative, China Aviation Development Foundation)

Chairman of China Airlines Ltd.

Master degree in Finance from National Chengchi University

Bachelor degree in Transportation Management from National Cheng Kung University

Wenent P. Pan

Director (Representative, CTCI Foundation)

Chairman of CTCI Foundation

Ph. D. in Chemical Engineering from the University of Wyoming

Bachelor degree in Chemistry from the National Taiwan Normal University

(Representative changed on April 20, 2009)

Arthur Yu-Cheng Chiao

Director (Representative, Walsin Lihwa Corporation)

Chairman of Winbond Electronics Corporation

Chairman of Taiwan Electrical and Electronics Manufacturers Association

Master degree in Electronics Engineering from University of Washington

Bachelor degree in Telecommunication Engineering from National Chiao Tung University

Wen-Yuan Lin

Director

Director of Tatung Co.

Director of Bank of Kaohsiung

Master degree in Civil Engineering from University of Hawaii

Chen-Kuo Lin

Independent Director

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

Division Convener of Sustainable Development Division, Nation Policy Foundation

M.S. degree in Transportation Engineering from Asian Institute of Technology (AIT)

B.S. degree in Civil Engineering from Chung Yuan University

Chuan-Chin Hsu

Supervisor (Representative, Development Fund, Executive Yuan)

Deputy Comptroller of Accounting Department, Ministry of Transportation and Communications

Bachelor degree in Accounting from Soochow University

Benny Ting-Wu Hu

Supervisor

Chairman of Federation Health Management Co. Ltd.

Chairman of NTU Innovation Incubation Center

Master degree in International Economics from Yale University

MBA from the Wharton School of the University of Pennsylvania

Directors' and Supervisors' Professional Qualifications and Independence Analysis

Name	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Conform to the Independent Situation (Note1)										Number of Other Public Companies Concurrently Serving as an Independent Director
	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Corporation in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialists Who Has Passed a National Examination and Been Awarded a Certificate in a Profession Necessary for the Business of the Corporation	Have Work Experience in the Area of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Corporation	1	2	3	4	5	6	7	8	9	10	
Nita Ing			V	V		V	V		V		V	V		
Daniel Tsai			V	V		V	V	V	V		V	V		
Li-Ching Ko			V	V		V	V	V	V	V	V	V		
Chun-Chi Chiu			V	V		V	V		V		V	V		
George Liu			V			V	V	V	V		V	V		
Earle Jen-Shyong Ho			V	V		V	V	V	V	V	V	V		
Mao-Lin Hu	V		V	V		V	V		V	V	V	V		
Thomas T. L. Wu			V	V		V	V	V	V	V	V	V		
Arthur Yu-Cheng Chiao			V	V		V	V	V	V	V	V	V		
Philip H. H. Wei	V		V	V		V	V		V	V	V	V		
Wenent P. Pan			V	V		V	V	V	V	V	V	V		
Chen-Kuo Lin	V		V	V	V	V	V	V	V	V	V	V	V	1
George S. Y. Chen	V	V	V	V	V	V	V	V	V	V	V	V	V	
Wen-Yuan Lin			V	V		V	V		V	V	V	V	V	

Name	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Conform to the Independent Situation （Note1）										Number of Other Public Companies Concurrently Serving as an Independent Director
	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Corporation in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialists Who Has Passed a National Examination and Been Awarded a Certificate in a Profession Necessary for the Business of the Corporation	Have Work Experience in the Area of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Corporation	1	2	3	4	5	6	7	8	9	10	
Benny Ting-Wu Hu			V	V		V	V		V	V	V	V	V	
Chuan-Chin Hsu			V	V		V	V	V	V	V	V	V		

Note 1: Directors or Supervisors, during the two years before being elected or during the term of office, have been or be any of the following, please tick the appropriate corresponding boxes:

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

Senior Management Team

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

Kwok-Hung Lee
Executive Vice President of Construction Management & Procurement Division
Bachelor in Engineering, the University of Hong Kong

Ricardo Tan
Senior Vice President of Corporate Planning Office
Diploma of Science Degree in Aviation Mechanical Engineering, Air Force College of Mechanical Engineering, R.O.C.

William Roger Donald
Executive Vice President of Railway Operation Division
Bachelor in Engineering, University of Sheffield, U.K.

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

Samuel P. Lin
Vice President of Operation Sub-Division, Railway Operation Division
Master in Business Administration, National Sun Yat-Sen University
Master in Business Administration, The Chinese University of Hong Kong

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

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

John Huang
Chief Auditor of Corporate Audit Office
Bachelor in Accounting, National Cheng Kung University

Tsai-Der Chen
Secretariat-General, Secretariat Division of Board of Directors
Bachelor in Accounting and Statistics, National Cheng Kung University

Eleanore New
Vice President of Finance Department, Finance Division
MBA, New York Institute Technology

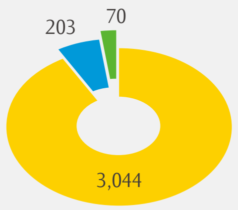
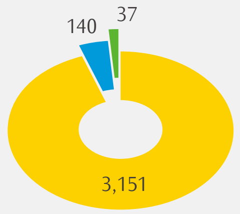
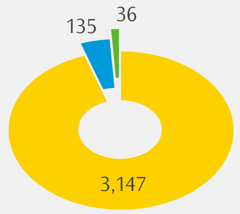
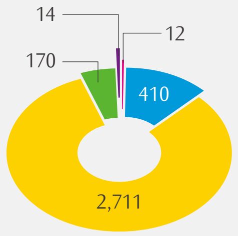
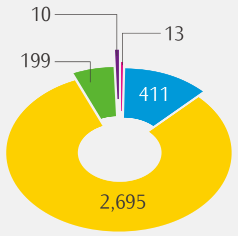
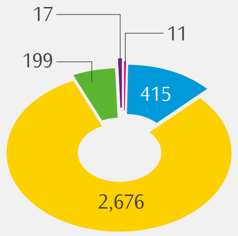
Ted Chia
Vice President of Public Affairs Office
Master in the Politics Institute of Interdisciplinary Studies for Social Sciences, National Sun Yat-Sen University

Min Chen
Vice President of Information Technology Division
Master in Computer Sciences, Ohio University

Rae-Fang Chung
Vice President of Marketing Division
Bachelor in Economics, Tamkang University

Human Resources

1. Status of Number of Employees, Average Ages, Average Employment Years and Education in 2007, 2008 and the date Ending 3/31/2009

Year	2007 (Ending on 12/31/2007)	2008 (Ending on 12/31/2008)	Ending on 3/31/2009
Number of Employees General Employees Contracted Employees Contracted Expatriate Employees			
Total	3,317	3,328	3,318
Average Age	34.32	33.85	34.00
Average Employment Years	2.76	3.48	3.68
Education Ph.D Master Bachelor High School Under High School			

2. Relationship between THSRC and Employees

(1) Negotiations between THSRC and Employees: None.

(2) Laws and Egulations:

A. Hold Labor-Management Conference:

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

B. Establishment of Grievance System:

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

C. Sexual Harassment Prevention and Grievance Procedures:

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

D. Gender Equality in Employment Act:

Since June, 2005, THSRC has continuously founded Nursery Room for passengers and employees to provide the facilities that they need.

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

(3) Countermeasures against Latest Labor-Management Conflicts:

THSRC is currently undergoing litigation against labor-management conflicts. As in a case of

legal severance, THSRC will comply with the court's adjudication as our disposition.

4. Corporate Governance

Corporate Governance Execution Status

1. Board and its Committees

Board

The Board has the overall responsibility for THSRC's performance and its main duties include regularly reviewing the Company's strategy, planning 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 held 15 meetings during 2008. To carry out its duties, the board has delegated certain authority to several committees. The Board currently has 3 committees.

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.

Quasi Audit Committee

The Quasi 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.

2. Supervisors

In accordance with the law, THSRC has established two supervisors to oversee the business operation and financial status.

3. Taiwan Corporate Governance Implementation as Required by the Taiwan Financial Supervisory Commission

Item	Implementation Status	Reason for Non-Implementation
1. Stockholders' structure and stockholders' rights ■ Method of handling stockholder suggestions or complaints ■ The company's possession of a list of major stockholders and a list of ultimate owners of the major stockholders ■ Risk management mechanism and "firewall" between the company and its affiliates	■ THSRC has designed the stockholder unit to handle stockholder suggestions or complaints. ■ THSRC's major stockholders are the members of the board of directors or the financial institutions, and therefore THSRC possesses a list of major stockholders and a list of ultimate owners of the major stockholders to stabilize the business operations. ■ THSRC does not own any affiliate right now. However, in order to prevent the conflict of interest, THSRC not only stipulates "Procedures Governing the Transactions with Affiliates, Specific Companies and Related Parties" based on the related regulations, but also establishes the Quasi-Audit Committee, under the board of directors, to examine the transactions which are related with the directors and related parties.	■ THSRC's stocks do not trade in an Exchange or OTC market, so that it is not necessary to obey "Corporate Governance Best-Practice Principles for TSEC/GTSM Listed Companies". However, THSRC has stipulated the corporate governance guidance based on the related principles. ■ There is no discrepancy between the policies and their implementation.
2. Composition and responsibilities of the board of directors ■ Independent directors ■ Regular evaluation of external auditors' independence	■ THSRC has nominated 3 independent directors. One has resigned, and one is the convener of Corporate Governance Committee and the other is Quasi-Audit Committee director. ■ Quasi-Audit Committee evaluates periodically external auditors' professionalism and independence.	■ THSRC's stocks do not trade in an Exchange or OTC market, so that it is not necessary to obey "Corporate Governance Best-Practice Principles for TSEC/GTSM Listed Companies". However, THSRC has stipulated the corporate governance guidance based on the related principles. ■ There is no discrepancy between the policies and their implementation.
3. Communication channels with stakeholders	■ THSRC has good communication channels with stakeholders, and is going to create email accounts for each supervisor to enhance this further.	■ THSRC's stocks do not trade in an Exchange or OTC market, so that it is not necessary to obey "Corporate Governance Best-Practice Principles for TSEC/GTSM Listed Companies". However, THSRC has stipulated the corporate governance guidance based on the related principles. ■ There is no discrepancy between the policies and their implementation.

Item	Implementation Status	Reason for Non-Implementation
4. Information disclosure ■ Establishment of a company website to disclose information regarding financial, business and corporate governance status ■ Other information disclosure channels (e.g., maintaining an English-language website, appointing people to handle information collection and disclosure, appointing spokespersons, webcasting investors conference)	■ According to the corporate governance guidance approved by the meeting of stockholders, THSRC has disclosed information regarding financial, business and corporate governance status, and updated the contents of the website periodically or when necessary. ■ THSRC's policies on information disclosure are not only written on the annual report and prospectus, but also announced or filed on the website "Market Observation Post System". Some contents are disclosed in THSRC's website using Chinese and English.	■ THSRC's stocks do not trade in an Exchange or OTC market, so that it is not necessary to obey "Corporate Governance Best-Practice Principles for TSEC/GTSM Listed Companies". However, THSRC has stipulated the corporate governance guidance based on the related principles. ■ There is no discrepancy between the policies and their implementation.
5. Operations of the company's nomination committee, compensation committee, or other committees of the board of directors	■ According to the corporate governance guidance approved by the meeting of stockholders, THSRC has established Quasi-Audit Committee, Corporate Governance Committee and Procurement Committee. Independent directors are a convener of Quasi-Audit Committee and Corporate Governance Committee. ■ The board of directors has stipulated the rules governing the duties for each committee so that each committee can act individually. Corporate Governance Committee is responsible for the nomination and examination of independent directors and remuneration for all directors, supervisors and managers. ■ All committees operate smoothly and actively, to supervise accordingly to enhance the management mechanism and establish a sound corporate governance system.	■ THSRC's stocks do not trade in an Exchange or OTC market, so that it is not necessary to obey "Corporate Governance Best-Practice Principles for TSEC/GTSM Listed Companies". However, THSRC has stipulated the corporate governance guidance based on the related principles. ■ There is no discrepancy between the policies and their implementation.
6. If the company has established corporate governance policies based on Corporate Governance Best-Practice Principles for TSEC/GTSM Listed Companies, please describe any discrepancy between the policies and their implementation: ■ THSRC's "Guidelines for Corporate Governance", which was approved by the stockholders' meeting, is based upon OECD Principles of Corporate Governance, S&P Corporate Governance Score-Criteria, Methodology and Definitions, NYSE Listed Company Manual Sec303A, Infosys Corporate Governance Report, the international and/or domestic companies' guidance governing corporate governance, the related regulations in Taiwan, rules issued by Taiwan Stock Exchange, and the Corporate Governance Best-Practice Principles for TSEC/GTSM Listed Companies. The main purposes are to construct a better corporate governance system, protect stockholders' rights and interests, strengthen the structure of the board of directors, build up the supervisors' function and fulfill social obligations.		

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

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

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

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

4. **Corporate Governance Guidance and the Way to Query**

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

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

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

5. **Other Important Information Disclosures**

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

Internal Control System Execution Status

1. **Statement of Internal Control System**

Taiwan High Speed Rail Corporation

Statement of Internal Control System

Date: April 24, 2009

Based on the findings of a self-assessment, Taiwan High Speed Rail Corporation (THSRC) states the following with regard to its internal control system during the period from January 1 to December 31, 2008:

(1) THSRC is fully aware that establishing, operating, and maintaining an internal control system are the responsibility of its Board of Directors and management. THSRC has established such a system aimed at providing reasonable assurance regarding the achievement of objectives in the following categories: A. effectiveness and efficiency of operations (including profitability, performance, and safeguarding of assets), B. reliability of financial reporting, and C compliance with applicable laws and regulations.

(2) An internal control system has inherent limitations. No matter how perfectly designed, an effective internal control system can provide only reasonable assurance of accomplishing the three objectives mentioned above. Moreover, the effectiveness of an internal control system may be subject to changes of environment or circumstances. Nevertheless, the internal control system of THSRC contains self monitoring mechanisms, and THSRC takes corrective actions whenever a deficiency is identified.

(3) THSRC evaluates the design and operating effectiveness of its internal control system based on the criteria provided in the Regulations Governing the Establishment of Internal Control Systems by Public Companies (herein below, the "Regulations"). The criteria adopted by the Regulations identify five components of internal control based on the process of management control: A. control environment, B. risk assessment, C. control activities, D. information and communication, and E. monitoring. Each component further contains several items. Please refer to the Regulations for details.

(4) THSRC has evaluated the design and operating effectiveness of its internal control system according to the aforesaid criteria.

(5) Based on the findings of the evaluation mentioned in the preceding paragraph, TSHRC believes that, during the year 2008, its internal control system (including its supervision and management of subsidiaries), as well as its internal controls to monitor the achievement of its objectives concerning operational effectiveness and efficiency, reliability of financial reporting, and compliance with applicable laws and regulations, were effective in design and operation, and reasonably assured the achievement of the above-stated objectives.

(6) This Statement will be an integral part of THSRC's Annual Report for the year 2008 and Prospectus, and will be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171, and 174 of the Securities and Exchange Law.

(7) This Statement has been passed by the Board of Directors in their meeting held on April 24, 2009, with ten of the attending directors all affirming the content of this Statement.

Taiwan High Speed Rail Corporation

Chairman of the Board of Directors：

CEO：

2. **The Disclosure of The External Auditors' Opinion on THSRC's Internal Control: None**

Important Information Regarding Corporate Governance in 2008 and up to the Date the Annual Report Is Issued

1. Major Issues of Record or Written Statements Made by Any Director Dissenting to Important Resolutions Passed by The Board of Directors in 2008 and Up to the Day Before the Annual Report is Issued: None.

2. Status of Personnel Responsible for Preparing Financial Reports:

Title	Name	Date on Board	Date to Resign	Reasons for Resigning
CFO	Robert Hung	02/10/2006	04/01/2008	Personal career planning

Note: The persons who have something to do with the financial reporting refer to a chairman, CEO, managers in charge of accounting operation, chief internal auditors, etc.

Information Regarding THSRC's Independent Auditors

1. Audit Fees

(1) If the non-audit fees paid to CPAs, the audit firm and its affiliates are higher than a quarter of the audit fees, the total fees of audit and non-audit services and the contents of the non-audit services should be disclosed: None

(2) If the audit firm is replaced and the audit fees paid in the replacement year is less than the ones before the replacement year, the reduction amounts and reasons should be disclosed: None

(3) If the audit fees are reduced by 15% compared to the ones of last year, the reduction amounts and reasons should be disclosed:

The audit fees in 2008 were less than the ones in 2007, amounting to NT$6,688 thousand (53.77%). The main reason was that the audit fees in 2007 included the attestation fee for the issuance of overseas convertible bonds amounting to NT$6,988 thousand, but there was no related transaction in 2008.

2. Information Regarding the Replacement of CPA: None

3. If the company's director, CEO, managers in charge of the finance or accounting operations hold positions within THSRC's independent audit firm or its affiliates during 2008, the names, positions and independent audit firm and its affiliates should be disclosed. The independent audit firm's affiliates refer to the ones whose over a half of stocks or memberships of the board of directors are held by CPAs belonging to THSRC's independent audit firm, or the ones which are included in the public information issued by THSRC's independent audit firm: None

Status of Net Changes in Stockholdings and in Stocks Pledged

Information regarding the status of net changes in stockholdings and in stocks pledged by directors, supervisors, managers and the stockholders with 10% stockholdings during 2008 and the date before this annual report is issued should be disclosed. If stocks are traded or pledged with the related parties, the related parties' name, the relationship with the company, directors, supervisors, managers and the stockholders with 10% stockholdings and the number of traded or pledged stocks should be disclosed.

1. Net Changes in Stockholdings and in Stocks Pledged by Directors, Supervisors, Managers and the Stockholders with 10% Stockholdings

Unit: thousand shares

Title	Name	2008		01/01/2009~04/30/2009	
		Net Changes in Stockholdings	Net Changes in Stocks Pledged	Net changes in Stockholdings	Net Changes in Stocks Pledged
Director	Pacific Electric Wire & Cable Co., Ltd.	–	(2,000) (3,000) 275 (1,000) (4,000)	–	6,806 (1,000)
Director	Development Fund, Executive Yuan	–	–	–	300,000
Assistant Vice President	William Chen	(43)	–	–	–

2. Stock Trade with Related Parties

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

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

3. Stock Pledge with Related Parties

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

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

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

Unit: thousand Shares; %

Name (Note 1)	Stockholdings by oneself		Note
	Shares	%	
Continental Engineering Corporation	752,370	7.14	THSRC's director
Nita Ing	-	-	Representative of Continental Engineering Corporation
China Steel Corporation	605,370	5.75	-
Chia-Juch Chang	-	-	Chairman of China Steel Corporation
Taiwan Sugar Corporation	500,000	4.75	THSRC's director
Mao-Lin Hu	-	-	Representative of Taiwan Sugar Corporation
China Aviation Development Foundation	483,920	4.59	THSRC's director
Philip H. H. Wei	-	-	Representative of China Aviation Development Foundation
Teco Electric & Machinery Co., Ltd.	475,151	4.51	THSRC's director
Chun-Chi CHiu	-	-	Representative of Teco Electric & Machinery Co., Ltd
Mega International Commercial Bank	400,000	3.80	-
Rong-Jou Wang	-	-	Mega International Commercial Bank's Chairman
Pacific Electric Wire & Cable Co., Ltd.	343,364	3.26	THSRC's director
George Liu	114	0.00	Representative of Pacific Electric Wire & Cable Co., Ltd.
CTCI Foundation	322,580	3.06	THSRC's director
Wenent P. Pan	-	-	Representative of CTCI Foundation
Development Fund, Executive Yuan	300,000	2.85	THSRC's supervisor
Chuan-Chin Hsu	-	-	Representative of Development Fund, Executive Yuan
Fubon Life Assurance Co., Ltd.	253,376	2.41	-
Richard Tsai	-	-	Fubon Life Assurance Co., Ltd.'s chairman

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

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

Manager's Investments in THSRC's Affiliated Companies

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

5. Capital and Shares

Capital and Shares

1. Capital and Shares

Unit:thousands shares (As of 04/05/2009)

Stock	Authorized Share Capital			Note
	Issued Shares	Unissued Shares	Total	
Common Stock	5,897,862	1,467,776	12,000,000	Public Offering
Convertible Preferred Stock	4,634,362			Public Offering

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

Shelf Registration: None

2. Composition of Shareholders

Common Stock

Unit:thousands shares; person(s)(As of 04/05/2009)

Type of Shareholders	Government Agencies	Government- Owned Institutions	Financial Institutions	Other Corporate Investors	Individuals	Foreign Institutions and Natural Persons	Total
Number of Shareholders	1	1	18	106	57,255	22	57,403
Shareholding	300,000	500,000	629,728	2,417,234	1,786,199	264,701	5,897,862
Holding Percentage	5.09%	8.48%	10.68%	40.98%	30.29%	4.48%	100.00%

Preferred Stock

Unit:thousands shares; person(s)(As of 04/05/2009)

Type of Shareholders	Government	Financial Institution		Other Corporate Investors	Individuals	Foreign Institutions and Natural Persons	Total
		Government-Owned Institutions	Natural Persons				
Number of Shareholders Shareholders	0	2	29	20	18	28	97
Shareholding	0	450,000	2,064,426	1,983,872	40,600	95,464	4,634,362
Holding Percentage	0.00%	9.71%	44.55%	42.81%	0.87%	2.06%	100.00%

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

3. Net Worth, Earnings, Dividends, and Market Price Per Common Share

Unit: share; NT$

Item			2007	2008	For the Three Months Ended March 31, 2009（Note 2）
Market Price Per Share（Note 1）	Highest Market Price		-	-	-
	Lowest Market Price		-	-	-
	Average Market Price		-	-	-
Net Worth Per Common Share	Before Distribution		1.06	(2.84)	-
	After Distribution		1.06	(Note 3)	-
Earnings Per Common Share	Weighted Average Shares		5,162,351,000	5,787,713,000	-
	Earnings Per Common Share		(6.10)	(4.58)	-
Dividends per share	Cash Dividends		-	-	-
	Stock Dividends	Dividends from Retained Earnings	-	-	-
		Dividends from Capital Surplus	-	-	-
	Accumulated Undistributed Dividend		-	-	-
Return on Investment	Price/Earnings Ratio		-	-	-
	Price/Dividend Ratio		-	-	-
	Cash Dividend Yield		-	-	-

Note 1: The Company is an unlisted company. No market price information
Note 2: No need to disclose quarterly financial information for an unlisted company.
Note 3: Pending shareholders' approval

4. Dividend Policy and Distribution of Earnings

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

(1) to pay all taxes and duties

(2) to cover any losses

(3) to set aside 10% of the profits as legal reserve

(4) to set aside special reserve in addition to the legal reserve where necessary

(5) to pay dividends on preferred shares.

Thereafter, 1% of the remaining profits are 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 stockholders based on the resolution drawn up by the board of directors and approved by the stockholders' during their meeting.

After obtaining prior government approval, the Company is allowed to declare dividends to preferred stockholders during the development stage regardless of the restrictions outlined above. However, the Company is required to account for the prepayment of dividends to preferred stockholders in its balance sheet under the stockholders' 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 stockholders.

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

As of December 31, 2008, the accumulated deficits including the beginning balance of accumulated deficits of NT$42,547,259 thousand in 2007, net loss of NT$25,009,697 thousand in 2008, and the additions of NT$13,571 thousand from the convertible bonds converting into common stock, amounted to NT$67,570,527 thousand. Therefore, the Company didn't have any retained earnings to distribute. For the years 2008 and 2007, preferred stock dividends, amounting to NT$1,483,023 thousand and NT$2,083,937 thousand, respectively, will not be recognized until a resolution is approved by the stockholders at a later date.

5. **Impact to 2008 Business Performance Resulting from Stock Dividend Distribution which will Be Proposed at the Shareholders' Meeting: None**

6. **Bonus to Employees and Bonus to Directors：None**

7. **Buyback of Common Stock: None**

Issuance of Corporate Bonds

1. Secured Domestic Corporate Bonds Payable

Issuance	The First Secured Domestic Corporate Bond in 2007	The Second Secured Domestic Corporate Bond in 2008	The Third Secured Domestic Corporate Bond in 2008
Issued Date	A Bonds：Issued date was May 7, 2007 B Bonds：Issued date was April 25, 2007 C Bonds：Issued date was April 23, 2007	Issued date was October 7, 2008	Issued date was December 19, 2008
Denomination (in thousands)	NT$10,000	NT$10,000	NT$10,000
Issued Price	At Par Value	At Par Value	At Par Value
Issued Amount (in thousands)	NT$9,760,000	NT$6,800,000	NT$6,000,000
Interest Rate	A Bonds：annual interest rate 2.07%, simple interest per year B Bonds：annual interest rate 2.12%, simple interest per year C Bonds：annual interest rate 2.17%, simple interest per year	annual interest rate 2.7%, simple interest per year	annual interest rate 2.7%, simple interest per year
Duration Time	A Bonds：5 years B Bonds：6 years C Bonds：7 years	3 years	3 years
Guaranty Bank	Mega International Commercial Bank Ltd. and other nineteen banks	Mega International Commercial Bank Ltd. and other nineteen banks	Mega International Commercial Bank Ltd. and other nineteen banks
Consignee	Yuanta Commercial Bank Company Limited.	Yuanta Commercial Bank Company Limited.	Yuanta Commercial Bank Company Limited.
Underwriter	None	None	None
Certification Organization	None(Note 2)	None(Note 2)	None(Note 2)
Service Agency	Business Department, Mega International Commercial Bank Ltd.	Business Department, Mega International Commercial Bank Ltd.	Business Department, Mega International Commercial Bank Ltd.
Legal Counsel	Baker & McKenzie	Baker & McKenzie	Baker & McKenzie
Auditor	KPMG	KPMG	KPMG
Repayment	Repayment at maturity	Unless put or call option exercised, the bonds will be repaid at maturity	Repayment at maturity
Outstanding Bonds (in thousands)	NT$9,760,000	NT$6,800,000	NT$6,000,000
Redemption Term	None	1. Call option From issuing date to June 30,2009, the company could exercise Call option; the bond holders can't object. 2. Put option the bond holders could exercise Put option before September 30, 2009. the Company can't object.	None
Term Limitation	None	None	None
Credit Rating Agency、Rating Date、Rating Results	None	None	None
Others: Amount of Converted or exchange of common shares, ADRs, or Other Securities as of March 31,2009	None	None	None
Dilution Effect and Other Adverse Effects on Existing Shareholders	In sequence of distribution, the shareholders were allocated dividends only after redemption to interests and principals of the corporate bonds. As to liquidation, bondholders had higher priority to shareholders.	In sequence of distribution, the shareholders were allocated dividends only after redemption to interests and principals of the corporate bonds. As to liquidation, bondholders had higher priority to shareholders.	In sequence of distribution, the shareholders were allocated dividends only after redemption to interests and principals of the corporate bonds. As to liquidation, bondholders had higher priority to shareholders.
Custodian Bank	None	None	None

Note 1: Chinatrust Commercial Bank merged with the Grand Commercial Bank on December 1, 2003. Taiwan Cooperative Bank merged with the Farmers Bank of China on May 1, 2006. Chiao Tung Bank Co. and The International Commercial Bank of China Co. formally merged into one bank under the name of Mega International Commercial Bank Co., Ltd. on August 21, 2006.Bank of Taiwan merged with Central Trust of China in July 1, 2007. Guaranty banks decreased from 24 banks to 20 banks.

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

2. Unsecured Overseas Convertible Bonds Payable

Issuance	The First Unsecured Overseas Convertible Bond in 2007
Issued Date	May 15, 2007
Denomination	USD 1,000
Issuing & Listing (Note 1)	The Singapore Stock Exchange
Issued Price	At par value
Issued Amount	USD 300,000,000
Interest Rate	Coupon Rate 0%
Maturity Date	5 years from issuing date
Guaranty Bank	None
Consignee	The Bank of New York Mellon
Underwriter	Deutsche Bank
Certification Organization	None
Service Agency	The Bank of New York Mellon
Legal Counsel	Overseas：Simpson Thacher & Bartlett LLP Domestic：Lee and Li Law Office
Auditor	KPMG
Repayment	Unless the bonds were redeemed, purchased, cancelled, or converted, the Company could redeem the bonds at a gross yield of 6.5% per annum if a Qualifying Public Offering (QPO) has occurred during the period from three year after issuing date through maturity date or 7.5% per annum if a QPO has not occurred during the period from three year after issuing date through maturity date
Outstanding Bonds	USD 293,340,000
Redemption Term	■ Unless the bonds were redeemed, purchased, cancelled, or converted, the bondholders could redeem the bonds in whole or in part to the Company at a gross yield of 6.5% per annum if a Qualifying Public Offering (QPO) has occurred during the period from three year after issuing date through maturity date or 7.5% per annum if a QPO has not occurred during the period from three year after issuing date through maturity date. ■ Redemption 1. Effective after a year of issuance, the Company may redeem the bonds in whole or in part if the closing price (translated into U.S. dollars at the current rates) of its common shares is at least 125% of the conversion price for 20 consecutive trading days, the last of which occurs not more than 10 days prior to the date upon which notice of such redemption is published. 2. If at least 90% in principal amount of the bonds have already been redeemed, purchased, cancelled or converted, the Company may redeem all, but not some only, of the bonds. 3. In the event of certain changes in taxation in the R.O.C. resulting in the Company becoming required to pay additional amounts, the Company may redeem all, but not in part, of the bonds at their principal amount
Term Limitation	None
Credit Rating Agency、Rating Date、Rating Results	TW-B (Taiwan Ratings Corporation, January 31, 2007)

Issuance		The First Unsecured Overseas Convertible Bond in 2007
Others:	Amount of Converted or Exchange of Common Shares, ADRs, or Other Securities as of March 31,2009	USD 6,660,000
Dilution Effect and Other Adverse Effects on Existing Shareholders		Coupon rate of the first unsecured overseas convertible bond is 0 %. The bond can get lower cost of capital and its conversion price issued at premium is based on market value of common stock. Therefore, the issuance of the overseas convertible bond should have no adverse effects on existing shareholders
Custodian Bank		The Bank of New York Mellon

Note 1: For overseas corporate bond

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

Convertible Bond

Issuance		The First Unsecured Overseas Convertible Bond in 2007		
Item \ Year		2007	2008	For the Three Months Ended Mar 31,2009
Market Value of Convertible Bond	Maximum	103.00	105.25	91.39
	Minimum	96.25	69.50	75.83
	Average	99.06	92.79	83.14
Conversion Price		NT$10	NT$10	NT$10
Issued Date and Conversion Price		Issued date: May 15,2007 Conversion price: NT$10	Issued date: May 15,2007 Conversion price: NT$10	Issued date: May 15,2007 Conversion price: NT$10
Conversion Method		New shares	New shares	New shares

3. Corporate Bonds in Process of Issuance: The Company planned to issue NT$3,500 million of the first secured domestic corporate bonds which were still in process of issuance.

Issuance of Preferred Stocks

1. Listed Preferred Stock

Items \ Issued Date		January 27, 2003 Class A Convertible Preferred Stock
Denomination		NT$10 per share
Issued Price		NT$10 per share
Issued Shares (in thousands)		2,690,000
Issued Amount (in thousands)		NT$26,900,000
The Rights and Obligations	Dividends Allocation	Dividend yield ratio: annual interest 5% of par value
	Residual Assets Allocation	Prior to common stock, yet, the amount of allocation shall not exceed the issuance amount of Class A preferred stock.
	Voting Right	None
	Others	1. Other than the dividends on Preferred Stock, Preferred Stockholders are not normally entitled to receive any dividends on common stock accrued from allocation of profits and capital reserve. The Preferred Stockholders are not entitled to receive Preferred Stock dividends in the year when the conversion takes place (the dividends for that particular year which are allocated in the following year). However, they may receive the dividends on common stock appropriated from profits and capital reserve (the dividends for that particular year which are approved by the stockholders during their meeting in the following year). 2. Preferred Stockholders are not entitled to cast votes during the common stockholders' meeting and are not granted the right to vote for directors and supervisors. However, the Preferred Stockholders may be elected as directors or supervisors. 3. When the Company issues new shares, both the Preferred Stockholders and common stockholders have the same preemptive rights to the subscription thereof.
Listed Preferred Stock	Balance of Unredeemed or Unconverted Share (in thousands)	2,606,000
	Size of Redeemed or Converted Share (in thousands)	84,000
	Terms of Redemption or Conversion	See measures of issuance and conversion
Market Price Per Share		Not applicable
Others: Right of Shareholders		None
Dilution Effect and Other Adverse Effects on Existing Shareholders		Distribution of preferred stock dividends takes precedence over common stock dividends. When preferred stock converts into common stock, earnings per share and voting rights of common stock shareholders will be diluted depending on the size of conversion.

Items \ Issued Date		September 9, 2003 Class B Convertible Preferred Stock
Denomination		NT$10 per share
Issued Price		NT$10 per share
Issued Shares (in thousands)		134,249.5
Issued Amount (in thousands)		NT$1,342,495
The Rights and Obligations	Dividends Allocation	Dividend yield ratio: annual interest 5% of par value
	Residual Assets Allocation	Prior to common stock, yet, the amount of allocation shall not exceed the issuance amount of Class B preferred stock
	Voting Right	No voting right
	Others	1. Other than the dividends on Preferred Stock, Preferred Stockholders are not normally entitled to receive any dividends on common stock accrued from allocation of profits and capital reserve. The Preferred Stockholders are not entitled to receive Preferred Stock dividends in the year when the conversion takes place (the dividends for that particular year which are allocated in the following year). However, they may receive the dividends on common stock appropriated from profits and capital reserve (the dividends for that particular year which are approved by the stockholders during their meeting in the following year). 2. Preferred Stockholders are not entitled to cast votes during the common stockholders' meeting and are not granted the right to vote for directors and supervisors. However, the Preferred Stockholders may be elected as directors or supervisors. 3. When the Company issues new shares, both the Preferred Stockholders and common stockholders have the same preemptive rights to the subscription thereof.
Listed Preferred Stock	Balance of Unredeemed or Unconverted Share (in thousands)	134,049
	Size of Redeemed or Converted Share (in thousands)	200
	Terms of Redemption or Conversion	See measures of issuance and conversion
Market Price Per Share		Not applicable
Others: Right of Shareholders		None
Dilution Effect and Other Adverse Effects on Existing Shareholders		Distribution of preferred stock dividends takes precedence over common stock dividends. When preferred stock converts into common stock, earnings per share and voting rights of common stock shareholders will be diluted depending on the size of conversion.

<table>
<tr><th colspan="2" rowspan="2">Item</th><th colspan="7">Class C Convertible Preferred Stock</th></tr>
<tr><th>C1</th><th>C2</th><th>C3</th><th>C4</th><th>C5</th><th>C6</th><th>C7</th></tr>
<tr><td colspan="2">Issued Date</td><td>January 20,2004</td><td>February 27,2004</td><td>March 24, 2004</td><td>April 23,2004</td><td>August 18, 2004</td><td>September 7, 2004</td><td>November 17, 2004</td></tr>
<tr><td colspan="2">Issued Shares (in thousands)</td><td>161,300</td><td>151,400</td><td>74,600</td><td>107,620</td><td>637,077</td><td>64,500</td><td>37,010</td></tr>
<tr><td colspan="2">Issued Amount (in thousands of NT$)</td><td>1,613,000</td><td>1,514,000</td><td>746,000</td><td>1,076,200</td><td>6,370,770</td><td>645,000</td><td>370,100</td></tr>
<tr><td colspan="2">Denomination</td><td colspan="7">NT$10 per share</td></tr>
<tr><td colspan="2">Issue Price</td><td colspan="7">NT$9.3 per share</td></tr>
<tr><td rowspan="4">The Rights and Obligations</td><td>Dividends Allocation</td><td colspan="7">9.5% per annum for the initial two years, and 0 % thereafter</td></tr>
<tr><td>Residual Assets Allocation</td><td colspan="7">Prior to common stock, yet, the amount of allocation shall not exceed the issuance amount of Class C preferred stock</td></tr>
<tr><td>Voting Right</td><td colspan="7">No voting right</td></tr>
<tr><td>Others</td><td colspan="7">1. Other than the dividends on Preferred Stock, Preferred Stockholders are not normally entitled to receive any dividends on common stock accrued from allocation of profits and capital reserve. The Preferred Stockholders are not entitled to receive Preferred Stock dividends in the year when the conversion takes place (the dividends for that particular year which are allocated in the following year). However, they may receive the dividends on common stock appropriated from profits and capital reserve (the dividends for that particular year which are approved by the stockholders during their meeting in the following year).
2. Preferred Stockholders are not entitled to cast votes during the common stockholders' meeting and are not granted the right to vote for directors and supervisors. However, the Preferred Stockholders may be elected as directors or supervisors.
3. When the Company issues new shares, both the Preferred Stockholders and common stock-holders have the same preemptive rights to the subscription thereof.</td></tr>
<tr><td rowspan="4">Listed Preferred Stock</td><td rowspan="2">Balance of Unredeemed or Unconverted Share (in thousands)</td><td>C1</td><td>C2</td><td>C3</td><td>C4</td><td>C5</td><td>C6</td><td>C7</td></tr>
<tr><td>35,400</td><td>47,300</td><td>9,600</td><td>35,700</td><td>409,756</td><td>-</td><td>930</td></tr>
<tr><td>Size of Redeemed or Converted Share (in thousands)</td><td>125,900</td><td>104,100</td><td>65,000</td><td>71,920</td><td>227,321</td><td>64,500</td><td>36,080</td></tr>
<tr><td>Terms of Redemption or Conversion</td><td colspan="7">See measures of issuance and conversion</td></tr>
<tr><td colspan="2">Market Price Per Share</td><td colspan="7">Not applicable</td></tr>
<tr><td colspan="2">Others: Right of Shareholders</td><td colspan="7">None</td></tr>
<tr><td colspan="2">Dilution Effect and Other Adverse Effects on Existing Shareholders</td><td colspan="7">Distribution of preferred stock dividends takes precedence over common stock dividends. When preferred stock converts into common stock, earnings per share and voting rights of common stock shareholders will be diluted depending on the size of conversion.</td></tr>
</table>

<table>
<tr><th colspan="2" rowspan="2">Items</th><th colspan="2">Class C Convertible Preferred Stock</th></tr>
<tr><th>C8</th><th>C9</th></tr>
<tr><td colspan="2">Issued Date</td><td>April 28, 2005</td><td>September 30, 2005</td></tr>
<tr><td colspan="2">Issued Share (in thousands)</td><td>645,900</td><td>806,500</td></tr>
<tr><td colspan="2">Issued Amount (in thousands)</td><td>NT$6,459,000</td><td>NT$8,065,000</td></tr>
<tr><td colspan="2">Par Value</td><td colspan="2">NT$10 per share</td></tr>
<tr><td colspan="2">Issued Price</td><td colspan="2">NT$9.3 per share</td></tr>
<tr><td rowspan="4">The Rights and Obligations</td><td>Dividends Allocation</td><td colspan="2">9.5% per annum for the initial two years, and 0 % thereafter</td></tr>
<tr><td>Residual Assets Allocation</td><td colspan="2">Prior to common stock, yet, the amount of allocation shall not exceed the issuance amount of Class C preferred stock.</td></tr>
<tr><td>Voting Right</td><td colspan="2">No voting right</td></tr>
<tr><td>Others</td><td colspan="2">1. Other than the dividends on Preferred Stock, Preferred Stockholders are not normally entitled to receive any dividends on common stock accrued from allocation of profits and capital reserve. The Preferred Stockholders are not entitled to receive Preferred Stock dividends in the year when the conversion takes place (the dividends for that particular year which are allocated in the following year). However, they may receive the dividends on common stock appropriated from profits and capital reserve (the dividends for that particular year which are approved by the stockholders during their meeting in the following year).
2. Preferred Stockholders are not entitled to cast votes during the common stockholders' meeting and are not granted the right to vote for directors and supervisors. However, the Preferred Stockholders may be elected as directors or supervisors.
3. When the Company issues new shares, both the Preferred Stockholders and common stockholders have the same preemptive rights to the subscription thereof.</td></tr>
<tr><td rowspan="4">Listed Preferred Stock</td><td rowspan="2">Balance of Unredeemed or Unconverted Share (in thousands)</td><td>C8</td><td>C9</td></tr>
<tr><td>549,127</td><td>806,500</td></tr>
<tr><td>Size of Redeemed or Converted Share (in thousands)</td><td>96,773</td><td>None</td></tr>
<tr><td>Terms of Redemption or Conversion</td><td colspan="2">See measures of issuance and conversion</td></tr>
<tr><td colspan="2">Market Price Per Share</td><td colspan="2">Not applicable</td></tr>
<tr><td colspan="2">Others: Right of Shareholders</td><td colspan="2">None</td></tr>
<tr><td colspan="2">Dilution Effect and Other Adverse Effects on Existing Shareholders</td><td colspan="2">Distribution of preferred stock dividend takes precedence over common stock dividend before conversion. When preferred stock is converted into common stock, earnings per share and voting rights of common stock shareholders will be diluted depending on the size of conversion.</td></tr>
</table>

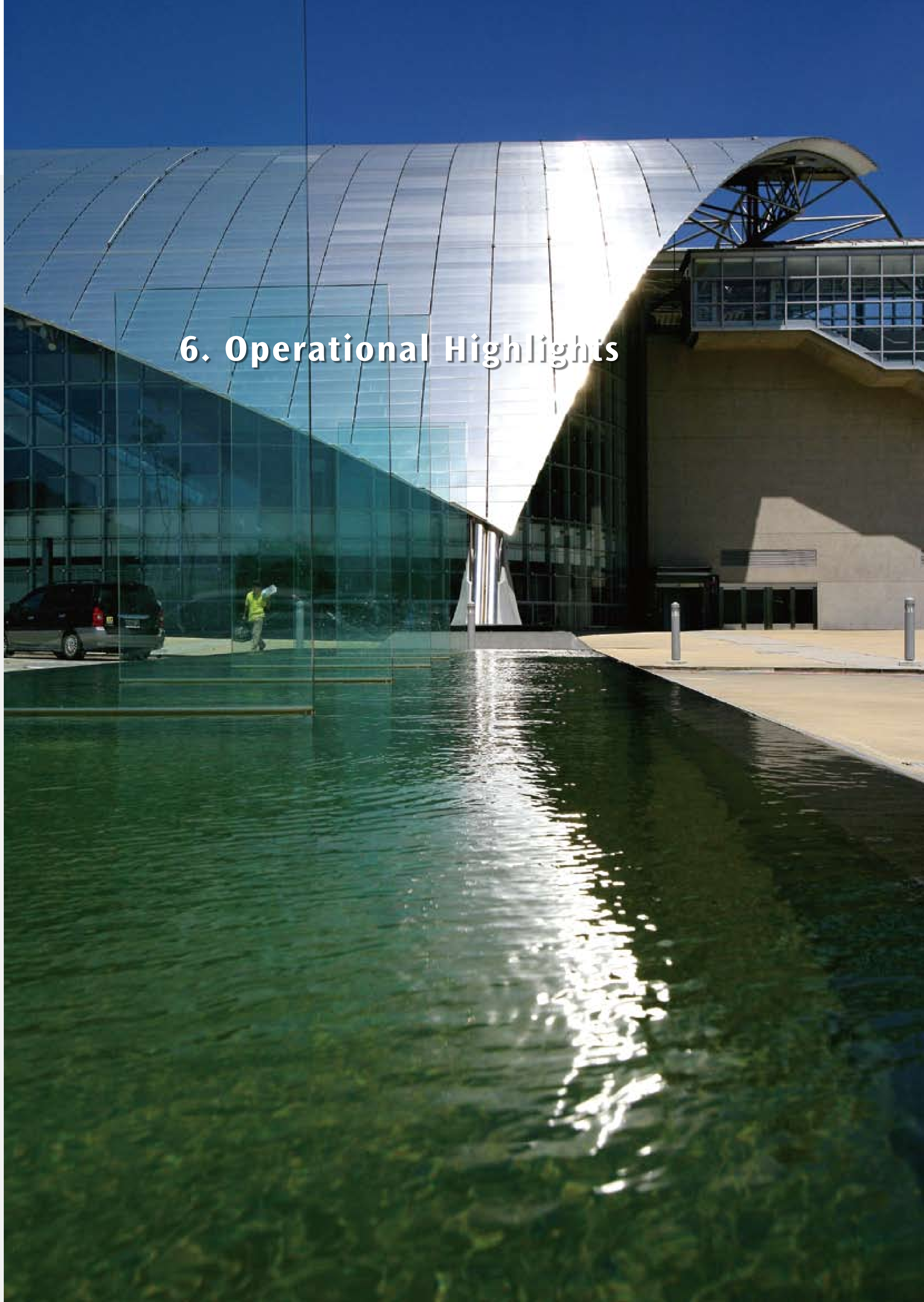
2. Preferred Stocks in Process of Issuance: None

Issuance of Global Depositary Receipts: None

Status of Employee Stock Option Plan: None

Statue of New Shares Issuance in Connection with Mergers or Acquisitions: None

Status of Fund Planning and Execution: None



Business Activities

1. Business Scope

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

(1) HSR Service

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

The high speed rail currently operates eight stations, namely, Taipei, Banciao, Taoyuan, Hsinchu, Taichung, Chiayi, Tainan, and Kaohsiung; and plans adding three more stations at proper timing, namely, Miaoli, Changhua and Yunlin.

The Company provides convenient transport services for trips from Taipei to Kaohsiung and cities in between at peak speed of 300 km/hr.

A. Rapid Convenient Route

To satisfy various passenger demands, THSRC has multiple stopping patterns:

Train-stop Modes

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

B. Extensive, Convenient, Punctual and Reliable Train Service

The Company adopts phased ramp-up program to offer extensive and convenient transportation services and has gradually increased to 142 train services per day since operation. However, from March 16, 2009, we adjust train services to 134 per day with a more punctual and reliable rail operation. Besides, to meet transport demand in consecutive holidays, the Company increases trains services providing passengers with intense and convenient transportation. Train services performance in 2008 is stated as below：

■ Train Service Delivered: 45,900

■ Punctuality (delay<5mins): 99.19%

C. Multiple and Convenient Ticketing Services

The Company constructs multiple ticketing channels, providing passengers ticketing services such as ticket counter, ticket vending machine, online booking, phone booking, group ticket booking, all payable via cash, credit card, or debit card. Besides, we expect to launch the service “online booking, ticket pick-up and paid at convenience stores” in 2009.

Wireless Internet Services

Station Ticket Counter

Free Shuttle Bus

D. Convenient Station Services

Our spacious, bright modern station architecture and enthusiastic staff provide various convenient services, such as ticket counters and vending machines, passenger information system, customer service desks, disabled facilities, affiliated business services (i.e., convenient stores, bookstores, and restaurants), and wireless networks. In addition, the hardware facilities of our connecting services include park and ride sites, parking lots, and taxis and bus transfer areas at Taoyuan, Hsinchu, Taichung, Chiayi, Tainan and Zuoying stations. Meanwhile, the software facilities include public bus and taxi services, car rental services, and free shuttle bus services. In which, the Company provides free shuttle bus for station accessibility since November 2007, and serves accumulated passengers reached nearly 4.23 million as of March 2009. After the free shuttle service contracts expired, the Company conducts joint marketing projects with regional bus firms and provides 10 express bus routes services and related transfer premiums. The service is allocated as below:

Free Shuttle Bus Route Allocation

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

E. Comfortable Carriage Services

The trainset is equipped with business class and standard class coaches with reserved and non-reserved seats options for various trip demands. Moreover, we take the disabled into account, and design the 7th carriage as disabled-accessible coach. In which, four seats around the disabled area are reserved for those who take care of the disabled passengers.

There are also vending machines and trolley services in carriages. Besides, free drinks (i.e., coffee, tea, juice, and bottled water), snacks, newspapers, personal music listening equipment, and the exclusive "T-Plus Magazine" are offered for business class passengers.

In addition to the train drivers and train masters, train attendants are trained to provide exceptional quality services.

Carriage Information

Type of Carriage	Business Class	Standard Class	
	Reserved Seat	Reserved Seat	Non-Reserved Seat
Class	1	7	4
Seats	66	583	340

(2) Affiliated Business

In coordination with the HSR operation, we arrange the marketplace, tourist agency counters, car rentals and parking lots services inside the stations. Other commercial services, such as advertising in stations and onboard, and selling HSR souvenirs, are also parts of the affiliated businesses.

(3) Station Development Area

The Company takes charge of the development, construction, and operation of 5 Station Development Areas (SDA), namely Taoyuan, Hsinchu, Taichung, Chiayi, and Tainan along the high speed rail route. The total land area of SDA and floor area for commercial usage are 30.14 hectares and 1,200,380 square meters, respectively. The SDA could be utilized as hotel facilities, conference/exhibition centers, restaurants, entertainments, shopping malls, financial services, general services, communication services, transport services, and tourist services. The Company will flexibly develop the SDA, based on market demand and station characteristics, to ensure the SDA quality and gain the maximum benefits.

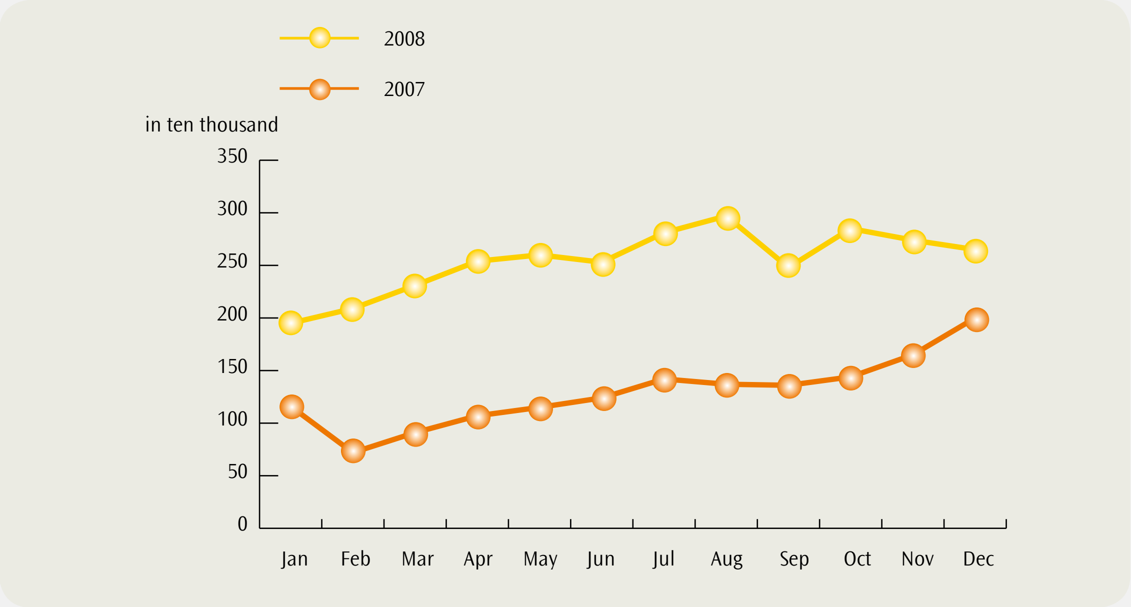
2. Review of Current Operation

(1) Operation Profile

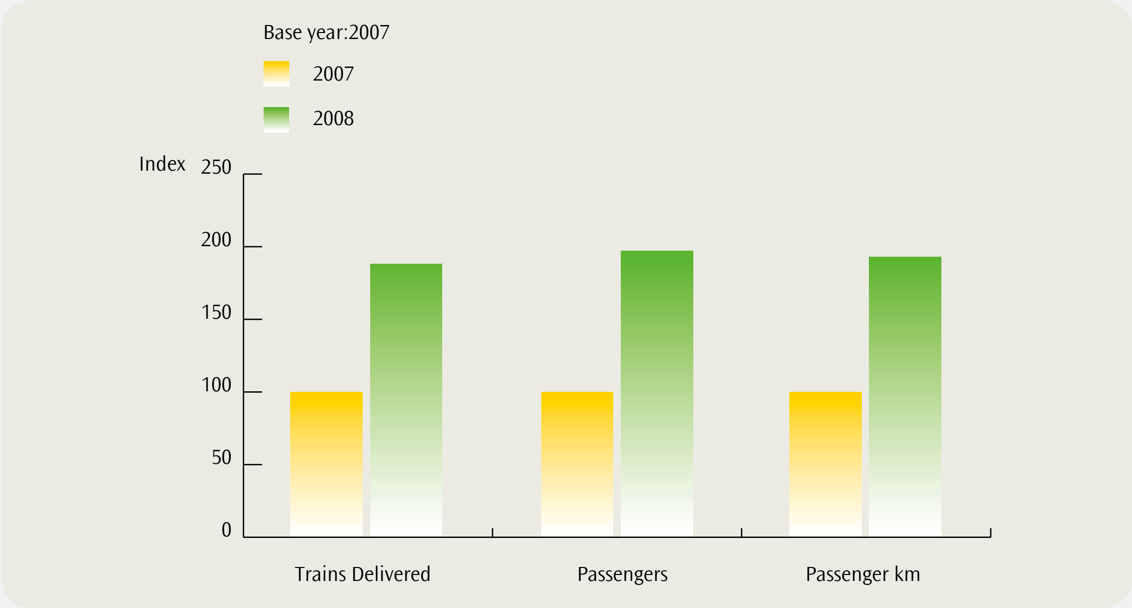
A. HSR Service

Commenced on January 5, 2007 with 38 services per day (two-way), THSRC has successfully executed eight ramp-up initiatives to 140 services per day (two-way) as of July 2008. In 2008, 45,900 train services have been delivered; and the total patronage and passenger kilometers amounted to 30,581 thousand passengers and 6,566 million passenger km, a 96.59% and 86.53% increase compared to 2007, respectively.

Monthly Patronage Statistics



HSR Patronage Index



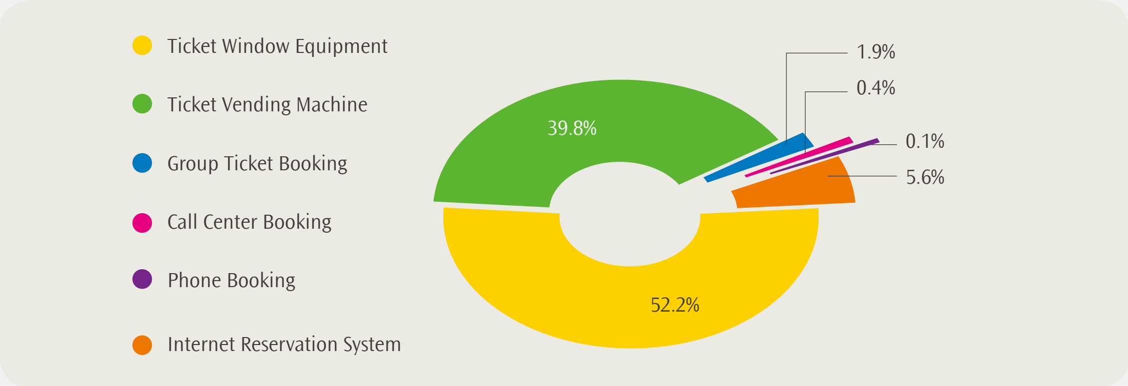
Operation Statistics

Description	2007	2008	Compare
(a) Train Service Delivered (Trains)	24,400	45,900	88.11%
(b) Passengers (in thousand)	15,556	30,581	96.59%
(c) Seat km (in million)	7,838	15,089	92.51%
(d) Passenger km (in million)	3,520	6,566	86.53%
(e) Punctuality (delay<5 mins)	99.09%	99.19 %	0.10%
(f) Loading Factor (Passenger km/Seat km)	44.91%	43.51 %	-1.40%

B. Ticketing Services and Channels

Along with continuous promotion projects which are expected to bring a large number of passengers, the Company launched voice booking service in June, 2008 and allowed passengers to collect tickets 30 minutes prior to train departure since August 2008. In addition, to improve the quality of ticket vending machine and shorten operating time, the Company launched voice-guidance function and changed POS interface in November and December, 2008, respectively. Meanwhile, we launched phone message service for online booking passengers since December 2008. The online booking passengers could receive instant notification via phone message upon accomplishing booking, payment or refund.

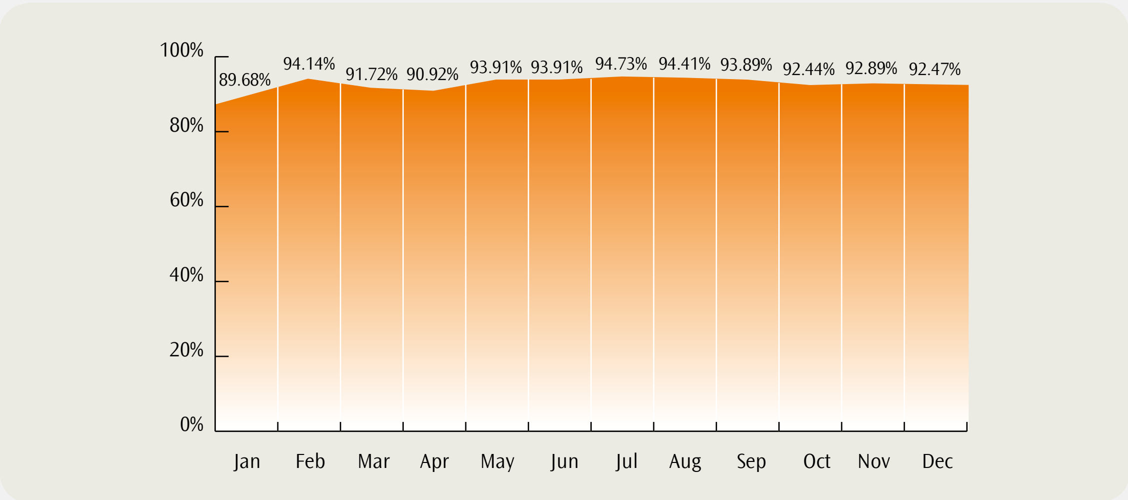
Ticketing Channels Usage Percentage



C. Maintenance

The Company collects and analyzes data through the Maintenance Management Information System (MMIS) to increase system reliability, lower operation loss due to unexpected failures, and reduce maintenance costs. The purchases of spare parts are mainly from regional suppliers to reduce OEM costs and concentration risks. In addition, the Company establishes self-sustaining maintenance ability to increase operation added values; and upholds electromechanical system workflows and conducts energy savings at depots. After these were implemented, train availability has arisen from 70.43% in the initial period to 92.47% in December 2008.

Trainset Availability in 2008



In order to provide safe and comfortable HSR services, the Company executed various inspections in accordance with the "Rolling Stock Maintenance Plan". We accomplished 720 bogie inspections (BI) of 30 trainsets during the period of October 2007 and October 2008. Towards a new milestone of overall maintenance capacity, there are 103 sets of different equipment, totaling more than 300 machines, to fulfill the various inspection demands at Main Workshop.

Trainset Maintenance Schedule:

(a) Daily Inspection (First Level): Each 2 operating days, or over 24 operating hrs.

(b) Monthly Inspection (Second Level): Each 30 operating days, or over 30,000 operating km.

(c) Bogie Inspection (Third Level): Each 18 operating months, or over 600,000 operating km.

(d) General Inspection (Fourth Level): Each 3 operating years, or over 1.2 million operating km.

Note: scheduled by the sooner of days or km.

System Maintenance Execution in 2008

System		Preventive Maintenance		
		Planned	Actual	Fulfill Rate
Rolling Stock	Daily Inspection	4,577	4,577	100 %
	Monthly Inspection	587	587	100 %
	Automatic Train Control Function Inspection	250	250	100 %
	Bogie Inspection	32	32	100 %
	General Inspection	6	6	100 %
Power System		3,522	3,522	100 %
Overhead Contact System		1,123	1,123	100 %
Track System		995	995	100 %
Signaling System		5,482	5,482	100 %
Communications System		2,821	2,821	100 %
Operation Control System		4,679	4,679	100 %
Total		24,074	24,074	100 %

D. Safety

The operation safety task of 2008 focused on executing the operation safety management system practically. Each management level (company, division and sub-division) realized safety management, risk management and emphasized safety training. In order to evaluate daily safety performance efficiency, the Railway Operation Division periodically analyzed trends and causes, based on the revised Safety Performance Indicator, to apply the appropriate strategy.

The major safety task was to carry out security management by supervising the stations, depots and mainline, security quality and patrol, in order to insure personal and property safety in the HSR station areas and the security of trains, facilities and equipment.

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

In 2008, three training sessions for Site Commander (SC) / Incident Engineer (IE) were accomplished. Also, two lectures were given by emergency salvage organizations, such as fire fighters, police, health and environmental protection, along with holding fifty emergency drills at stations, depots and mainline.

Emergency Drills in 2008

Locations	Station	Depot	Mainline	Operation Management Center	Total
Times	28	14	6	2	50

The Company held large-scale exercises such as Train on Fire Drill in TRUPO Tunnel at TK13+739(11/28), Derailment Drill at Viaduct TK290+500(5/30), Train on Fire Drill at Miaoli Tunnel TK113+500(3/28) and some exercise projects with government units like the Drill of National Disaster Prevention Day(9/21) and Combat Readiness Training of the 10th Army(9/22) in 2008.

In addition, to enhance efficiency and specialty of operation safety, the Company has planned to transform the operation safety organization, which includes promoting Security and Emergency Section to a department level unit and transferring resident safety specialists to the Operation Safety Office for unity of command, to enhance organization function and operation safety controlling ability. The re-organization of operation safety has been adopted since January 1, 2009.

E. Training

To match the 2008 maintenance requirements, the Company has continuously held safety training and professional operation/maintenance training, to fulfill the demand for acquiring professional skills. Such training includes High-Speed Railway Operation Regulation (HSROR) training (completed by 6,438 persons), MOTC High-Speed Rail Driving License (completed by 73 employees, a total of 126 employees since initial operation), professional training of operation staff, i.e. train crew, station, and controller (completed by 827 persons), and professional training of maintenance staff, i.e. rolling stock, signaling, communication, power and track (completed by 423 persons).

Professional Operation and Maintenance Training in 2008 (persons)

Train Operation	Station Operation	Controller	Rolling Stock	Signaling and Communication	Permanent Way Maintenance	Depot Facilities
263	524	40	209	75	72	67

(2) Marketing

A. Fare Discount

A 50% fare discount was offered and has attracted 1.16 million passengers during the period of the initial HSR operation commenced from January 5, 2007 to January 31, 2007. In August 2007, 10 train services between Taipei and Taichung with a 15% promotion discount served 100 thousand passengers. Since November 12, 2007, 20% discount for non-reserved seats has attracted more than 1.4 million passengers. The Company's 2008 marketing strategies focused on strengthening the brand image, broadening customer base, and alleviating high fare image. Thus, we launched a 20% fare discount for non-reserved seats from November 2007 to February 2008, a 20% fare discount on weekdays since March 2008, and HSR dual color fares promotion since November 2008. The pricing strategies above appear distinguished results: an approximately 96.6% annual growth in passenger volume compared to 2007.

B. Traveling Activities

"Have Fun with THSRC" project: the Company recommended seasonal trips and cooperated with other industrial sectors (i.e., specialty shops or amusement parks) to provide unique premium for HSR passengers. Meanwhile, the Company cooperated with more than 100 local hotels providing HSR passengers with free shuttle services or room fare premium. The information above has been collected into "Have Fun with THSRC" brochure released seasonally and posted on our website.

Combined with national and local tourism activities (ex. Taiwan Lantern Festival, Hakka Tung Blossom Festival), the Company promoted such tourism activities and provided shuttle bus services to gain further public attention and increase HSR travel popularity.

C. Station Accessibility

The Company had established convenient connecting networks before initial operation, including taxis, car rentals, parking lots, reserved shuttle services, station area traffic management, transferring information enquiries and schedule planning websites. The government also integrated bus, railway and MRT system in accordance with Construction and Operation Agreement. With well-integrated connecting network, it makes the station accessibility more complete.

According to the market survey, most of the passengers are content with the transfer services, but most of the people who haven't traveled by HSR still doubt the convenience. To address this issue, the Company should emphasize in advertising the transfer services provided to eliminate unnecessary doubt. Meanwhile, we launched 5 free shuttle route services from Taoyuan to Tainan station in 2008, which received dramatic reactions from passengers. In order to enlarge the service coverage and bring in bus firms resources, the Company has continuously negotiated with the government to release the concessions of 2-4 intercity express bus routes at each station, and accomplished the public bidding process successfully by the end of 2008. We will combine promotion with other express bus firms to achieve the goal of stabilizing inter-city shuttle services by extending customer sources.

D. Station/Onboard Services

In addition to the waiting areas, Nursery rooms and barrier free environment since the operation commenced, the Company provided wireless internet services inside the stations since November 2007 to fulfill passengers' needs for internet connectivity. As for onboard services, excepting for the original trolley services, we added seasonally adjusted light-meals service since 2008. The Company provides free drinks, snacks, newspapers and magazines for business class coach passengers to upgrade the overall service quality.

(3) Affiliated Business

A. Media Business

The HSR stations and trains provide multiple media channels, such as light box, banner and exhibition areas for products, multimedia TVs, timetables and "T-Plus" Magazine for business class, to efficiently increase the popularity and preference of HSR media. As HSR media attracted numerous consumers, the Company plans to popularize the usage of indoor and outdoor plazas around stations, onboard posters, souvenir ticket covers, and current advertising facilities as well in the future. It's expected to induce another wave of media benefits to increase the popularity of both the Company and advertisers.

B. Retail Business

The HSR retail mainly focuses on various HSR peripheral goods to enrich traveling experiences. The HSR retail goods include key chains, cell phone charms, pens, cups, train model, and all with HSR representative patterns given our authorization.

C. Leasing Business

The Company schemes market places in HSR stations, and has brought in bookstores, convenient stores, fast food outlets, restaurants, car rentals, and travel agencies. In the outdoor space, the Company has built parking lots and selected famous local or foreign firms to provide related services for travelers. The Company will proceed with the public bidding process in the future, to achieve the full lease of all commercial areas and expects to attract more kinds of businesses, so that the Company can provide more consumer choices and promote earnings of affiliated businesses.

Industry Outlook

1. Industry overview

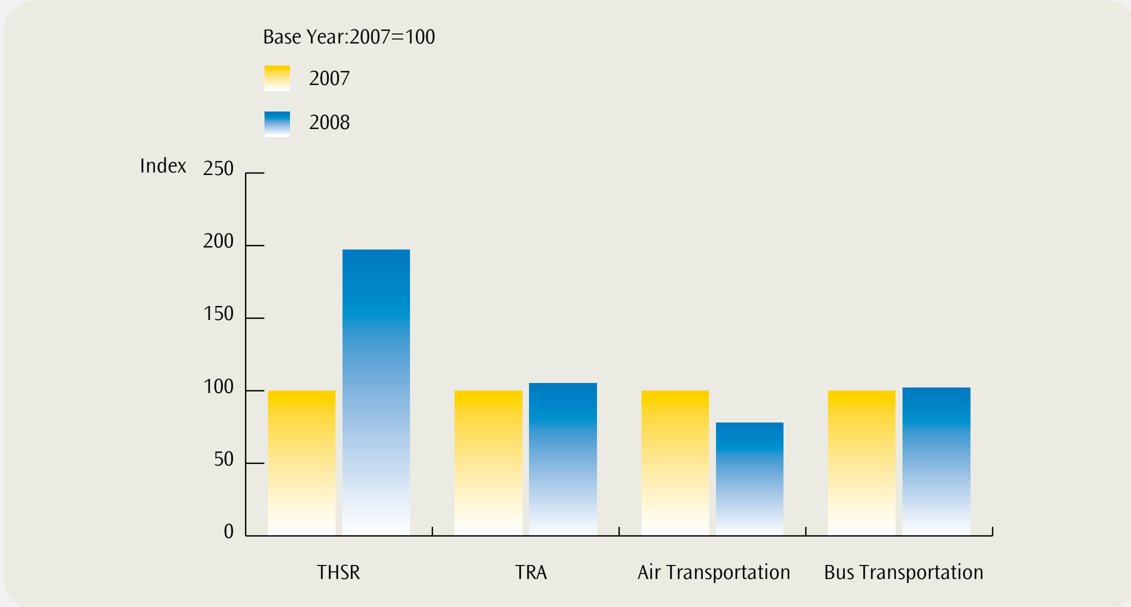
(1) Status Quo and Development of Industry

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

Comparing the number of passengers of the four transportation types, the number of HSR passengers in 2008 increased approximately 96.6% from 2007, by reaching 30.58 million passengers. As for TRA passengers, the increase rate in 2008 was 5.3%, hitting 178.66 million passengers. While bus transportation reached 246.4 million passengers in 2008, which was a 1.69% growth, travelers with air transportation access went in to a striking abatement in 2008, descending to 4.91 million passengers, indicating a 22.3% passenger loss compared to 2007. The status of negative growth also showed in two other aspects, a number of individual vehicles owned and traveling in highway. Both decreased by 0.67% and 3.9% when compared with 2007, down to 5.674 million and 453.93 million vehicles.

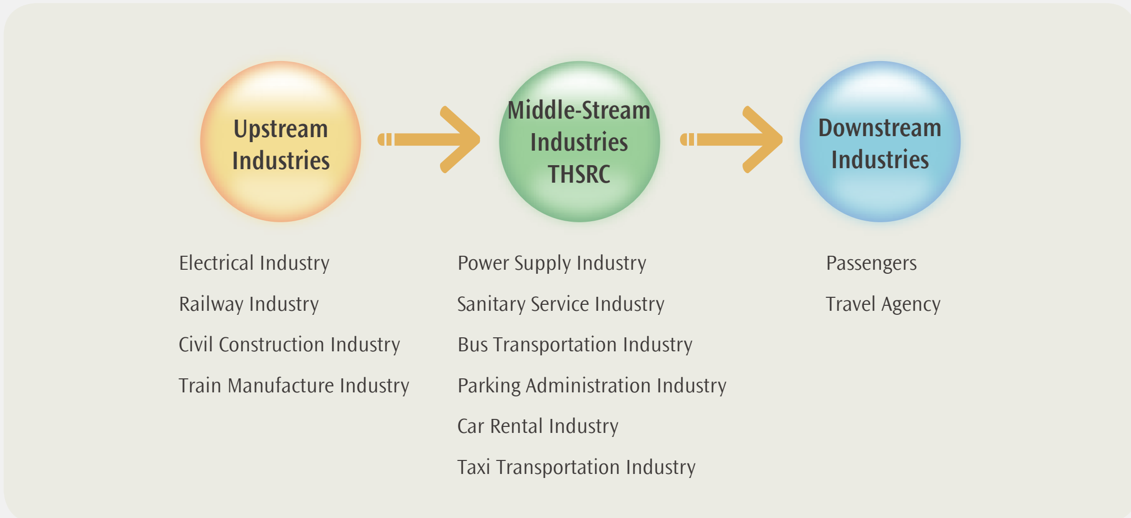
The HSR has connected major cities of Taiwan's West corridor with high speed and mass capacity. Through the increase in operation and adjustment in pull-in patterns, the HSR is able to condense passengers' waiting time efficiently and has earned a place in the transportation market of the west corridor. Due to our advantage in efficiency and convenience, the transportation market left only one air operator which was still running the Taipei-Kaohsiung line, and most air operators continuously withdraw from the competition in the Taipei-Taichung, Taipei-Chiayi and Taipei-Tainan line.

Public Transportation Patronage Index



(2) Relevance of Chains in Industry

THSRC mainly provides transportation service in collaboration with streams of various industries. The upstream industries consist of facility manufacture and maintenance industry, which provides relevant services for railway train supplement, civil construction and track construction. For the middle-stream industries, in addition to the Company, there is support from the electric power supply industry as our power resource and supporting services to transportation as our train reconditioning subsidiary. In the downstream industries, they consist of customers and operators, to whom we provide our transportation service, including passengers purchasing tickets directly, travel agencies promoting high-speed railway tours, and other collaborative transfer service providers, such as parking administration industry, bus transportation industry, car rental industry and taxi transportation industry.



2. Market Analysis

(1) Market Scale and Market Share Rate

According to the Ministry of Transportation and Communications, the daily patronage of public land transportation reached 4.761 million passengers (2.206 million passengers in urban bus transportation, 1.31 million in MRT, 0.673 million in highway bus transportation, 0.488 million on TRA and 84 thousand on the high-speed railway). The total ridership increased by 7.4% compared with last year. Domestic air transportation passengers have decreased in the last 11 years, to approximately 13 thousand passengers daily in 2008, 22.3% less than 2007. Moreover, the 1.45 million vehicles passing through freeway toll stations on a daily average has reached a second year downturn since its peak in 2006, decreasing 3.7% from 2007.

The Company has 1.8% of passengers from the total number of public transportation passengers in Taiwan. If transportation services, such as city bus transportation and MRT subway were excluded, we then have 6.6% of passengers. According to research done by the Institute of Transportation (MOTC), in September 2007, the Company had over 20% of passengers among the routes between Taipei-Taichung, Taipei-Chiayi and Taipei-Tainan. We obtained 44% of passengers on the Taipei-Kaohsiung route. From the above statistics, we are assured of our advantage and market share of the long-distance transportation market.

(2) Demands and Supplies of Market Future Growth

The domestic economy has been under the influence of the global economic recession, reduced domestic population growth, industry migration, the unpaid leave policy and the rising unemployment rate. Due to these factors, we foresee a decrease in demand for intercity travel.

For the supply aspect, the Taiwan Railways Administration, by coordinating with national policies and changing business focus, will emphasize on the East route intercity train and the West route shuttle trains for future train-purchasing and improvement plans. For air operators, the business focus is moved from domestic mainland routes to islands routes, international routes and cross-strait charter flights. After the release of the rights to run the bus business and the official operation of the Company, the bus transportation companies offered a partial price mark-down promotion to maintain passengers, yet still faces the problem of a changing business focus. To sum up, THSRC's competition with other transportation service providers among the public transportation market will be alleviating.

Although the majority of the transportation market is taken by individual vehicles, and the fact that its convenience is hard to be replaced by public transportation, the Company still anticipates acquiring more customers from vehicle users by enhancing the ticket and transfer services, and further promoting the convenience of the high-speed railway.

3. Influential Factors and Countermeasures to Corporation Vision and Competitiveness

The Company and its stations are currently stimulating the development of the West coast of Taiwan. We are not only the center of regional transportation, but also better development in the aspects of politics, economy, culture and recreation. The West corridor has become a united economic circle as well as a connected inter-region with the convenience for residents of the West corridor to travel from the North to the South speedily.

Through convenient and efficient transportation, the Company offers people a great deal of time saving in transportation for commercial affairs and tourism. With more sufficient time to experience the beauty of each scenic area, the Company benefits city development and economic activities in Taiwan, as well as connecting urban and rural areas. The corresponding transfer devices such as taxis and rental vehicles along with surrounding hotels will bring more even passengers and enhance the attitude toward providing a better quality of service. According to the Tourism Bureau, Taiwan has 120 million travelers in the domestic tourism market. With our characteristics of speed, comfort and safety, we promote the depth and quality of tours by saving transportation time, and we believe we will be able to change people's traveling style and stimulate the travel industry.

The high-speed railway stations in foreign countries are constructed in mostly metropolitan areas where their operations are supported by people of a higher consuming ability, as high-speed railways often cost a lot for construction, which has a problem of how to balance cost and income over the short term. However, in Taiwan, with the government's mission to exploit and to activate rural areas and also to avoid demolishing existing buildings and facilities, the station locations are mostly in suburbs, which has a detrimental factor for the Company's operation. So far, the government completed the construction of access roads and negotiated with the bus transportation operators to offer shuttle services. The Company also intensified competitiveness by providing free shuttle services, ticket preference, and booking access improvement to enhance patronage.

4. Function and Manufacture Process of Major Products

The convenient and high quality transportation service is the main product of the Company. Since we are not involved in the manufacturing process, a manufacturing process for products is not relevant for us. For operation, the main energy resource we rely on to maintain regular operation is electricity.

5. Supplement Process of Major Raw Materials

Raw materials used in manufacturing processes are not required since HSR is a part of the transportation industry. Electric power is the main energy resource we need.

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

6. Customers Exceeding 10% of HSR Total Transaction in 2007-2008

As the Company is part of the transportation industry, purchases of raw materials, as in the manufacturing industry do not apply to us. Electricity occupies the highest proportion of our operation costs. In 2008, our operation had stable growth since the majority of HSR customers are the general public.

7. Annual Production from 2007-2008:

	Available Seat Kilometers (thousand kilometers)	Passenger-Kilometers (thousand kilometers)	Loading Factor	Total Patronage (thousand people)
2007	7,838,644	3,520,173	44.91%	15,556
2008	15,089,499	6,566,120	43.51%	30,581

Note:Statistics of 2007 indicates operation period of January 5, 2007 to December 31, 2007.

8. Sales Volume and Value of 2007-2008:

Item / Year	2007			2008		
	Sales Volume (thousand passenger-kilometers)	Sales Value (thousand dollars NTD)	Proportion of Operating Revenue	Sales Volume (thousand passenger-kilometers)	Sales Value (thousand dollars NTD)	Proportion of Operating Revenue
HSR Transportation	3,520,173	13,155,221	97.43%	6,566,120	22,441,012	97.37%
Sales Revenue	—	111,256	0.82%	—	127,215	0.55%
Rental, etc	—	236,311	1.75%	—	479,356	2.08%
Total	3,520,173	13,502,788	100%	6,566,120	23,047,583	100%

Macro-Economic Analysis

Taking our neighbor Japan as an example, in order to adjust its integral industrial structure and promote regional economic development, one of the main measures of success was to build convenient transportation conditions by co-operating with the operation of high-speed rail transportation. The measures act as the foundation for further economic activities such as industrial territory and knowledge territory development. Likewise in Taiwan, the advantage of the Company is the big decrease in time cost, especially for efficiency-oriented passengers. The safe, comfortable, reliable transportation and innovative service style provided not only expands our market share in the transportation industry, but has altered passengers' value of determining their choice of transportation. Besides extending regional industrial development from manufacturing to the service sector, we have raised the safety level by reducing the number of accidents from happening, the environment benefits from energy saving, carbon reduction and a decrease in pollution levels. All these benefits have been created by the operation of the high-speed rail.

The economic development has revealed a slow tendency in growth referring to individual economic activities. Fortunately, the operation of HSR will conveniently carry people around and efficiently increase business development in urban and rural areas by offering and creating job opportunities that promote the expansion of the local featured industry in the long term.

Long-Term and Short-Term Business Development Plan

1. Short-Term Business Development Plan

(1) Offer Safe and Reliable Transportation Service

Up to the end of 2008, the Company has delivered 45,900 train services with a 99.19% punctuality. Making passengers' safety as our key service concept, we set a constant objective in providing high efficiency, high quality, and a high standard transportation service since our first day of operation.

(2) Build Corporate Image

We do more than satisfying multiple passengers. In order to convey our value of service for the public awareness, we adequately show our key service concepts and the individual service content of our products, via the Internet, print and electronic media.

(3) Transportation Service Design

Considering the structural changes of the transportation market in cities (the decreased market share of air transportation in the West coast), market acceptance (HSR Dual-Color Fares), and market competition (highway bus ticket prices are half or one-third to THSR tickets), we design the appropriate service products that meet the market's demands and more importantly our passengers' needs.

2. Long-Term Business Development Plan

(1) Promote Multiple Ticketing Channels

Besides ticket counters, ticket vending machines, online booking and phone booking, the Company will provide several other purchase channels to enhance passengers' options in purchasing high-speed rail tickets due to its convenience of use. Through the multiple ways to purchase our service and the increased frequency in train services, we witness the change in economic development in the urban and rural character of the Western corridor.

(2) Integration of Transportation Net Between HSR and Peripherals

With the anticipation to actualize our government's goals for transportation services, the Company will continuously integrate peripheral transportation systems, including TRA (Taipei, Banciao, Hsinchu, Taichung, Tainan and Zuoying stations), MRT (Taipei, Banciao and Zuoying stations) and bus transportation. By combining HSR with transfer services and providing transit schedules, we are sure to supply passengers with the services that they need.

(3) Environment Emphasis and Pollution Diminution

In order to gear to international trends on energy saving and carbon reduction, we offer a high-speed rail service to encourage the public to decrease individual transportation use.

7. Core Values

Corporate Social Responsibility

The Company actively participates in promoting the social common good, emphasizing environmental protection and giving back to minorities since its foundation, and has set this as a core value and has had a positive influence on society.

1. Social Common Good

For an extended period of time, the Company has provided the disadvantaged people with free high-speed rail rides through collaboration with charitable organizations and enterprises such as World Vision, the Taiwan Fund for Children and Families (TFCF), TECO Technology Foundation, the International Commercial Bank of China Cultural and Educational Foundation, the Cerebral Palsy Association of R.O.C., JC Artist Association, the Taipei Municipal Haoran Senior Citizens Home, the Taiwan Catholic Mission Foundation, the Chou, Ta-Kuan Foundation, and the NTU Star Rain Club. Due to our collaboration, the Watoto AIDS Orphans Choir from Uganda, and the "All-Black Pearl of Mt. Jade" damsel-voice choir of Taiwanese Aboriginals from Tong-Fu Junior High school in Nantou, fulfilled their dreams of performing throughout Taiwan through our sponsored railway tickets.

By combining our advantages and helping the disadvantaged people, we have carried out a non-profit activity, THSRC Smile Program since 1998. Up to today, 2,360 people in total have participated in THSRC Smile Program and gained joyful memories.

In 2009, THSRC Smile Program will continuously support people from ethnic minorities and impoverished backgrounds. Besides sponsored railway tickets, the Company will cooperate with charity groups and local education groups to provide theme projects. Through our projects, we fulfill people's dreams and share the love and joy of THSRC Smile Program.

2. Environmental Protection

(1) Jacana Recovery

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

In 2000, Dr. Jane Goodall, the internationally celebrated expert in environment conservation, visited the Jacana recovery habitat and highly approved of our active participation in environmental conservation by introducing our successful recovery case in numerous international speeches. On November 26, 2008, Dr. Jane Goodall visited the park again by using the high-speed railway. Along with Dr. Goodall, Chairman Ing, Tainan County Magistrate, Su Huan-Chih and other guests, witnessed the Jacana habitat as a land where exploitation and conservation exist in harmony.

The All-Black Pearl of Mt.Jade Damsel-Voice Choir

(2) The Hsinchu Old Camphor and the Land God

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

Dr. Jane Goodall visited the Jacana habitat by high-speed railway.

「Plus Green」 Exhibition

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

The series of "Taiwan's 319 townships-share the spirit" activities hosted by the Common Wealth Magazine aroused tremendous responses since its first movement in 2001. To highlight our objectives in caring for locals, promoting tourism and encouraging high-speed railway transportation to rural areas, the Company has sponsored this activity for 3 years.

In the 2008 event, we invited the public to collect souvenir stamps of each high-speed railway station and supplied souvenir gifts. During this event, up to 2,000 people accomplished the collection of 8 station souvenir stamps.

(4) "Roots and Shoots" Program

Having the value of caring for the community, the Company has sponsored, the Jane Goodall Institute Taiwan, every year since 2001 to promote the "Roots and Shoots" program. In this project, "Roots and Shoots" teams are supported, to get acquainted with the ecological environment and aggressively promote protophyte cultivation and environment conservation. Up to today, "Roots and Shoots" teams are wide spread around Taiwan and have increased to 530 groups.

(5) 「Plus Green」 Exhibition

In August 2008, to echo the ideas of environmental protection and energy saving by combining resources of various enterprises, the Company, Eslite Bookstore and PHILIPS collaboratively displayed the "Plus Green" exhibition. In the five sections of the exhibition, "Green Light", "Green Work", "Green Traffic", "Green Building", "Green Clothes", we raised new concepts and actions for energy saving, carbon reduction and Earth consideration. The main exhibition was held at the performance hall, on the sixth floor of the Eslite Bookstore chain, the Hsin Yi flagship store. Over the 17-day activity, the main exhibition accumulated 10,200 visitors, and from the 20 Eslite branches around Taiwan the total reached 2,346,000 participants through exhibition related activities.

Celebrating Breaking through the 23 Million Passenger Mark

THSRC Camp

THSRC Smile Program

Promotions and Events

1. Celebrating Breaking through the 23 Million Passenger Mark

On April 12, 2008, the Company held a series of activities in order to celebrate the breakthrough of the 23 million passenger mark. Apart from finding the lucky 23 millionth passenger, we initiated the event "THSR for Everyone, Smile for Everyone" by placing HSR photo-sticker machines in stations such as Taoyuan, Hsinchu, Taichung, Chiayi, Tainan and Zuoying, providing passengers with the chance to save their memorable experiences with HSR. Finally, this event attained passengers' ardent support and positive response.

2. "Summer ◦ HSR ◦ Be There" On-Line Writing Contest

To co-operate with the promotion of "Have Fun with THSR-Summer Trip" over the summer vacation, the Company held the "Summer ◦ HSR ◦ Be There" on-line writing contest from August 1 to August 31, 2008. Besides offering internet viewers the chance to submit their travelling experiences, we also invited popular bloggers to share their personal favorite scenic spots as references, in order to enhance people's interest in traveling and highlight the good experiences of passengers who have taken a high-speed railway tour.

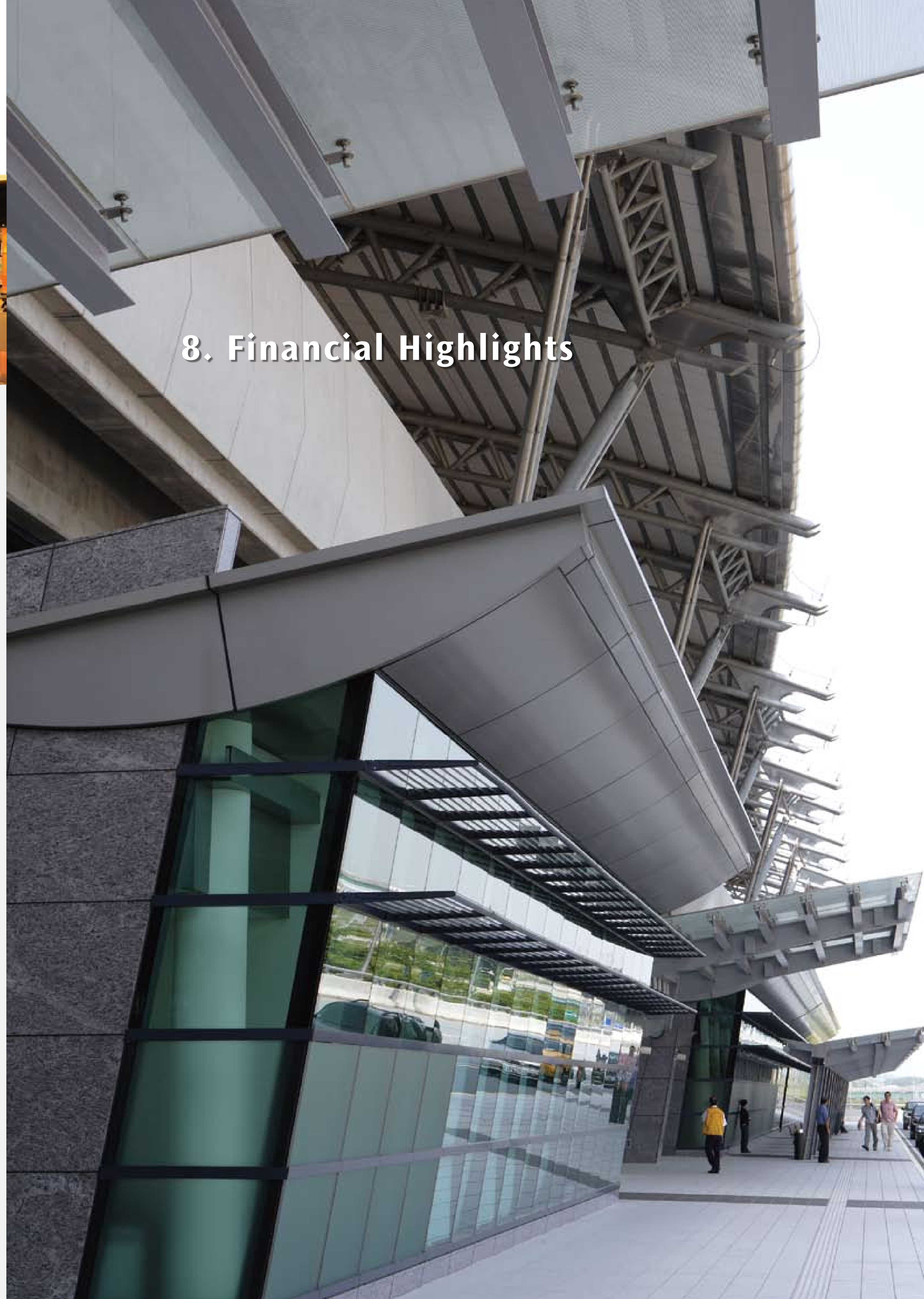
3. THSRC Camp

To raise awareness of the Company's multiple features through various media, we sponsored 7 THSRC Camps in 2008, where we invited college and high school students to participate. The first camp took place on January 29, 2008, lasting for 2 days and comprising of 30 participants.

During this event, we not only presented basic knowledge about THSR, and the relevant hardware and professional techniques to camp participants, but conducted a "HSR Lecture" by inviting railway experts such as Mr. Chih-Wen Hung, Mr. Jau-Shi Su, Mr. Min-Chang Cheng and Mr. Ming-Hsiun Hsieh to give lectures. From 2009, the THSR Camp will collaborate with the China Youth Corps and extend the camps participants from college and high school students to junior high and elementary school students. Through such a program, we hope to equip more pupils with a better insight into the Company.

4. THSRC Smile Program

From 2008, in cooperation with non-profit groups, we organized the "THSRC Smile Program" to offer minority groups and families, the chance to experience the comfort and convenience of high-speed rail rides. "THSRC Smile Program" gave its first ride on January 23, 2008, inviting children, social workers, and parents from T.F.C.F Fushan office as the first guests of "THSRC Smile Program". Until the end of 2008, 48 minorities and families, 2,360 people in total, have participated in THSRC Smile Program. Besides providing free high-speed rail trips, we delighted our guests with excellent memories by arranging visits to THSR Exhibitions or other interesting places.



8. Financial Highlights

Condensed Balance Sheet and Income Statement from 2004 to 2008

Condensed Balance Sheet

In thousands of NT

Item \ Year		Financial Information from 2004 to 2008（Note 1and Note2）					Financial Information for the Three Months Ending March 31, 2009 (Note 4)
		2004	2005	2006	2007	2008	
Current Assets		3,997,448	2,002,352	2,260,264	6,214,525	11,765,224	—
Funds and Investments		-	-	-	-	-	—
Fixed Assets		296,892,973	363,712,286	421,481,395	426,835,550	411,414,846	—
Intangible Assets		-	-	37,077	-	-	—
Other Assets		15,288,471	10,895,918	3,729,543	6,793,115	1,845,701	—
Total Assets		316,178,892	376,610,556	427,508,279	439,843,190	425,025,771	—
Current Liabilities	Before Distribution	11,011,083	23,246,895	42,592,407	31,452,468	26,872,566	—
	After Distribution	11,011,083	23,246,895	42,592,407	31,452,468	(Note3)	—
Long Term Liabilities		221,000,000	264,050,845	302,414,563	353,599,666	367,798,676	—
Other Liabilities		3,459,160	243,505	84,974	384,585	779,133	—
Total Liabilities	Before Distribution	235,470,243	287,541,245	345,091,944	385,436,719	395,450,375	—
	After Distribution	235,470,243	287,541,245	345,091,944	385,436,719	(Note3)	—
Capital Stock		90,576,565	105,100,565	105,100,565	105,100,565	105,322,243	—
Capital Surplus		-	-	-	1,324,788	1,295,378	—
Retained Earnings (Accumulated Deficits)	Before Distribution	(6,589,674)	(9,681,801)	(13,108,226)	(42,506,974)	(67,530,242)	—
	After Distribution	(6,589,674)	(9,681,801)	(13,108,226)	(42,506,974)	(Note3)	—
Unrealized Gains on Financial Instruments		-	-	(63,764)	332	257	—
Prepaid Dividends During the Development Stage – Preferred Stock		(3,278,242)	(6,349,453)	(9,512,240)	(9,512,240)	(9,512,240)	—
Cumulative Translation Adjustments		-	-	-	-	-	—
Net Loss of Unrecognized Pension Cost		-	-	-	-	-	—
Total Stockholders' Equity	Before Distribution	80,708,649	89,069,311	82,416,335	54,406,471	29,575,396	—
	After Distribution	80,708,649	89,069,311	82,416,335	54,406,471	(Note3)	—

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

Condensed Income Statements

In thousands of NT

Item \ Year	Financial Information from 2004 to 2008（Note1and Note2）					Financial Information for the Three Months Ended March 31, 2009 (Note3)
	2004	2005	2006	2007	2008	
Operating Revenue	-	-	-	13,502,788	23,047,583	—
Gross Profit (Loss) from Operations	-	-	-	(13,279,903)	(4,770,268)	—
Income (Loss) from Operations	(1,373,593)	(1,853,807)	(3,129,999)	(14,909,057)	(6,238,393)	—
Non-Operating Income and Gains	107,611	146,808	134,902	315,187	644,585	—
Non-Operating Expenses and Losses	2,146,924	368,448	406,632	14,804,824	19,415,889	—
Earnings (Loss) from Continuing Operations Before Income Taxes	(3,412,906)	(2,075,447)	(3,401,729)	(29,398,694)	(25,009,697)	—
Net Income (Loss) from Continuing Operation	(3,412,906)	(2,075,447)	(3,401,729)	(29,398,748)	(25,009,697)	—
Net Income (Loss) from Discontinued Operation	-	-	-	-	-	—
Net Income (Loss) from Extraordinary Items	-	-	-	-	-	—
Cumulative Effect of Changes in Accounting Principle	-	-	(24,696)	-	-	—
Net Income (Loss)	(3,412,906)	(2,075,447)	(3,426,425)	(29,398,748)	(25,009,697)	—
Basic and Diluted Loss Per Share	(1.08)	(1.03)	(1.32)	(6.10)	(4.58)	—

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

Auditors' Opinions from 2004 to 2008

Year	CPA firm	CPA	Opinion
2004	KPMG	James Wu, Eric Wu	Unqualified Opinion
2005	KPMG	Albert Lo, Agnes Yang	Modified Unqualified Opinion
2006	KPMG	Albert Lo, Agnes Yang	Modified Unqualified Opinion
2007	KPMG	Agnes Yang, Fion Chen	Unqualified Opinion
2008	KPMG	Agnes Yang, Fion Chen	Modified Unqualified Opinion

Financial Ratios from 2004 to 2008

Financial Analysis	Year	Financial Analysis from 2004 to 2008（Note 1）					Financial Analysis for the Three Months Ended March 31, 2009 (Note 4)
		2004	2005	2006	2007	2008	
Financial Structure	Debts Ratio (%)	74.47	76.35	80.72	87.63	93.04	—
	Long-term Fund to Fixed Assets Ratio (%)	101.62	97.09	91.30	95.59	96.59	—
Liquidity	Current Ratio (%)	36.30	8.61	5.31	19.75	43.78	—
	Quick Ratio (%)	36.22	8.26	4.28	14.26	35.54	—
	Time Interest Earned (Times)	-	-	-	-	-	—
Operating Performance	Average Collection Turnover (Times)	-	-	-	306.18	308.69	—
	Average Collection Days	-	-	-	1.19	1.18	—
	Average Inventory Turnover (Times)	-	-	-	-	-	—
	Average Payment Turnover (Times)	-	-	-	-	-	—
	Days Sales Outstanding	-	-	-	-	-	—
	Fixed Assets Turnover (Times)	-	-	-	0.03	0.06	—
	Total Assets Turnover (Times)	-	-	-	0.03	0.05	—
Profitability	Return on Total Assets (%)	-	-	-	(3.45)	(1.74)	—
	Return on Equity (%)	(4.39)	(2.44)	(4.00)	(42.97)	(59.56)	—
	In (%) of Paid-in Capital: Operating Income	(1.52)	(1.76)	(2.98)	(14.19)	(5.92)	—
	In (%) of Paid-in Capital: Pre-Tax Income	(3.77)	(1.97)	(3.24)	(27.97)	(23.75)	—
	Net Margin (%)	-	-	-	(217.72)	(108.51)	—
	Earning Per Share (NT$)	-	-	-	(6.10)	(4.58)	—
Cash Flow	Cash Flow Ratio (%)	(Note 2)	(Note 2)	(Note 2)	(Note 2)	(Note 2)	—
	Cash Flow Adequacy Ratio (%)	(Note 2)	(Note 2)	(Note 2)	(Note 2)	(Note 2)	—
	Cash Flow Reinvestment Ratio (%)	(Note 2)	(Note 2)	(Note 2)	(Note 2)	(Note 2)	—
Leverage	Operating Leverage	(Note 3)	(Note 3)	(Note 3)	(Note 3)	(Note 3)	—
	Financial Leverage	(Note 3)	(Note 3)	(Note 3)	(Note 3)	(Note 3)	—

The variance analysis in recent two years:

1. Liquidity
   The increase in current ratio and quick ratio in 2008 was mainly due to the increase of operating revenue, the decrease of construction payables, and the decrease of short-term debt.
2. Profitability
   The improvement of return on total assets, net margin, and ratios of operating loss to paid-in capital in 2008 was primarily due to an increase of operating revenue which resulting in lower net loss compared to 2007. Besides, the decrease in return on equity was mainly due to 2008 net loss.

Note 1: Development stage prior to January 4, 2007
Note 2: Not apply, due to cash outflow from operating activities
Note 3: Not apply, due to 2008 loss from operations
Note 4: No need to disclose quarterly financial information for an unlisted company
Note 5: Audited financial data
Note 6: Glossary:

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

2008 Supervisor's Report

The Board of Directors has prepared (1) the Company's 2008 financial statements. The CPA firm of KPMG was retained to audit THSRC's Financial Statements and has issued an audit report on March 5, 2009 relating to the Financial Statements. (2) The business report and proposal for loss reimbursement have been reviewed and determined to be correct and accurate by the Supervisor of the Taiwan High Speed Rail Corporation. According to Article 219 of the Company Law, I hereby submit this report.

To

2009 Shareholders' Meeting of Taiwan High Speed Rail Corporation

Taiwan High Speed Rail Corporation

Supervisor Sir Benny Ting-Wu Hu

April 24, 2009

Financial Statements for Current Year

1. Financial Statements for the Years Ended December 31, 2008 and 2007

(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, 2008 and 2007, 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, 2008 and 2007, 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.

As of December 31, 2008, the accumulated deficits of Taiwan High Speed Rail Corporation amounted to NT$67,570,527 thousand, as discussed in note 4(l)ii to the financial statements.

KPMG

March 5, 2009

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, 2008 AND 2007

(Amounts expressed in thousands of New Taiwan dollars)

Assets	**2008.12.31**	**2007.12.31**
Current Assets:		
Cash and cash equivalents (notes 4(a) and 4(o))	$ 8,932,581	3,675,416
Notes and accounts receivable (note 4(o))	105,227	44,100
Inventories (note 4(b))	1,806,560	1,293,686
Prepayments and other current assets	531,760	560,209
Restricted assets-current (notes 4(o) and 6)	43,093	1,100
Financial assets stated at fair value through profit or loss-current (notes 4(h) and 4(o))	69,142	-
Available-for-sale financial assets-current (notes 4(c) and 4(o))	275,257	613,549
Hedging derivative financial assets-current (notes 4(n) and 4(o))	1,604	26,465
Total current assets	11,765,224	6,214,525
Fixed Assets (Notes 4(d), 4(n), 5, 6 and 7):		
Cost:		
Land improvements	221,377,765	220,995,952
Buildings	25,569,315	24,692,394
Machinery and equipment	54,759,700	53,626,594
Transportation equipment	145,771,840	145,171,855
Office equipment	110,805	104,261
Leasehold improvements	117,459	116,927
Other equipment	348,638	324,561
	448,055,522	445,032,544
Less: accumulated depreciation	(38,314,058)	(19,340,312)
Construction in progress and prepayments	1,673,382	1,143,318
Fixed assets-net	411,414,846	426,835,550
Other Assets:		
Refundable deposits (notes 4(o) and 7)	34,330	33,585
Deferred charges (note 4(e))	784,104	869,239
Restricted assets-non-current (notes 4(o) and 6)	1,027,267	5,890,291
Total other assets	1,845,701	6,793,115
Total Assets	$ 425,025,771	439,843,190

Liabilities and Stockholders' Equity	**2008.12.31**	**2007.12.31**
Current Liabilities:		
Short-term debts (notes 4(f) and 4(o))	$ 1,002,420	4,195,422
Commercial paper payable (notes 4(g) and 4(o))	499,525	-
Accounts payable (note 4(o))	1,441,840	923,606
Financial liabilities stated at fair value through profit or loss-current (notes 4(h) and 4(o))	55,907	323,132
Construction payables to related parties-current (notes 4(d), 4(o) and 5)	54,325	310,223
Construction payables (notes 4(d) and 4(o))	7,528,477	10,006,642
Current portion of long-term debts (notes 4(h), 4(i), 4(o) and 6)	13,102,875	12,800,000
Accrued expenses and other current liabilities	3,187,197	2,893,443
Total current liabilities	26,872,566	31,452,468
Long-Term Liabilities:		
Bonds payable (notes 4(h) and 4(o))	25,441,995	21,979,708
Long-term debts (notes 4(i), 4(o), 5 and 6)	342,238,101	331,610,795
Accrued interest-non-current	118,580	9,163
Total long-term liabilities	367,798,676	353,599,666
Other Liabilities:		
Accrued pension liability (note 4(j))	12,660	25,680
Other liabilities (note 7)	766,473	358,905
Total other liabilities	779,133	384,585
Total liabilities	395,450,375	385,436,719
Stockholders' Equity (Notes 4(h), 4(k), 4(l), 4(n) and 4(o)):		
Capital stock:		
Common stock	58,978,626	56,724,834
Preferred stock-convertible	46,343,617	48,375,731
	105,322,243	105,100,565
Capital surplus-equity conversion option of convertible bonds	1,295,378	1,324,788
Retained earnings (accumulated deficits):		
Legal reserve	40,285	40,285
Accumulated deficits	(67,570,527)	(42,547,259)
	(67,530,242)	(42,506,974)
Unrealized gains on financial instruments	257	332
Prepaid dividends during the development stage-preferred stock	(9,512,240)	(9,512,240)
Total stockholders' equity	29,575,396	54,406,471
Significant Commitments and Contingencies (Notes 4(n), 4(o), 5, and 7)		
Total Liabilities and Stockholders' Equity	$ 425,025,771	439,843,190

(English Translation of Financial Report Originally Issued In Chinese)

TAIWAN HIGH SPEED RAIL CORPORATION

STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

(The operations for the period from January 1 to 4, 2007, were in the development stage)

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

		2008	2007
Operating revenue (note 5)	$	23,047,583	13,502,788
Operating cost (notes 5, 7, and 10)		(27,817,851)	(26,782,691)
Gross loss from operations		(4,770,268)	(13,279,903)
General and administrative expenses (notes 5 and 10)		(1,468,125)	(1,629,154)
Loss from operations		(6,238,393)	(14,909,057)
Non-operating income and gains:			
Interest income		228,229	273,979
Gains on disposal of financial instruments		9,891	14,515
Valuation gains on financial instruments, net (note 4(h))		397,015	-
Others		9,450	26,693
		644,585	315,187
Non-operating expenses and losses (note 10):			
Interest expenses (notes 4(d) and 5)		(17,464,896)	(14,423,091)
Foreign exchange loss, net		(1,812,757)	(189,073)
Valuation losses on financial instruments, net		-	(72,233)
Others (note 4(h))		(138,236)	(120,427)
		(19,415,889)	(14,804,824)
Loss before income tax		(25,009,697)	(29,398,694)
Income tax expense (note 4(k))		-	(54)
Net loss	$	**(25,009,697)**	**(29,398,748)**

		2008		2007	
		Loss before income tax	Net loss	Loss before income tax	Net loss
Basic and diluted loss per share (expressed in NT dollars) (note 4(m))	$	**(4.58)**	**(4.58)**	**(6.10)**	**(6.10)**

(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, 2008 AND 2007

(The operations for the period from January 1 to 4, 2007, were in the development stage)

(Amounts expressed in thousands of New Taiwan dollars)

	Capital Stock			Retained Earnings (Deficit)					
	Common stock	Preferred stock	Capital Surplus	Legal reserve	Accumulated deficits in the development stage	Accumulated deficits	Unrealized gains on financial instruments	Prepaid dividends during the development stage on preferred stock	Total
Balance as of January 1, 2008	$ 56,724,834	48,375,731	1,324,788	40,285	-	(42,547,259)	332	(9,512,240)	54,406,471
Convertible preferred stock converted into common stock	2,032,114	(2,032,114)	-	-	-	-	-	-	-
Convertible bonds payable converted into common stock	221,678	-	(29,410)	-	-	(13,571)	-	-	178,697
Net loss for the year ended December 31, 2008	-	-	-	-	-	(25,009,697)	-	-	(25,009,697)
Changes in unrealized losses on financial instruments	-	-	-	-	-	-	(75)	-	(75)
Balance as of December 31, 2008	**$ 58,978,626**	**46,343,617**	**1,295,378**	**40,285**	**-**	**(67,570,527)**	**257**	**(9,512,240)**	**29,575,396**
Balance as of January 1, 2007	$ 50,509,000	54,591,565	-	40,285	(13,148,511)	-	(63,764)	(9,512,240)	82,416,335
Net loss for the period from January 1 to 4, 2007	-	-	-	-	(144,515)	-	-	-	(144,515)
Balance as of January 4, 2007	50,509,000	54,591,565	-	40,285	(13,293,026)	-	(63,764)	(9,512,240)	82,271,820
Accumulated deficits in the development stage reclassified into accumulated deficits	-	-	-	-	13,293,026	(13,293,026)	-	-	-
Convertible preferred stock converted into common stock	6,215,834	(6,215,834)	-	-	-	-	-	-	-
Recognition of equity conversion option of convertible bonds	-	-	1,324,788	-	-	-	-	-	1,324,788
Net loss for the period from January 5 to December 31, 2007	-	-	-	-	-	(29,254,233)	-	-	(29,254,233)
Changes in unrealized gains on financial instruments	-	-	-	-	-	-	64,096	-	64,096
Balance as of December 31, 2007	**$ 56,724,834**	**48,375,731**	**1,324,788**	**40,285**	**-**	**(42,547,259)**	**332**	**(9,512,240)**	**54,406,471**

(English Translation of Financial Report Originally Issued In Chinese)

TAIWAN HIGH SPEED RAIL CORPORATION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

(The operations for the period from January 1 to 4, 2007, were in the development stage)

(Amounts expressed in thousands of New Taiwan dollars)

	2008	2007
Cash flows from operating activities:		
Net loss	$ (25,009,697)	(29,398,748)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	18,994,251	18,859,587
Amortization	166,559	144,192
Losses (gains) on disposal of fixed assets and other expenses transferred from fixed assets	18,980	(1)
Increase in notes and accounts receivable	(61,127)	(44,100)
Increase in inventories	(445,652)	(631,410)
Decrease in prepayments and other current assets	28,449	48,001
Increase in accounts payable	518,234	591,044
Increase in accrued expenses and other current liabilities	293,754	365,579
Provision for profit sharing with the government	400,000	333,333
Increase (decrease) in accrued pension liability	(13,020)	1,804
Increase in accrued interest—non-current	109,417	9,163
Amortization of cost of issuing corporate bonds	33,207	20,896
Accrued interest expenses on convertible bonds	1,538,498	186,215
Exchange losses (gains) on non-derivative liability component of convertible bonds	88,680	(225,905)
Losses (gains) on valuation of call/put option component of convertible bonds	(397,015)	72,233
Losses on redemption of domestic corporate bonds	44,592	-
Net cash used in operating activities	(3,691,890)	(9,668,117)
Cash flows from investing activities:		
Decrease (increase) in available-for-sale financial assets-current	338,217	(86,217)
Proceeds from disposal of fixed assets	62	321
Additions to fixed assets	(6,419,857)	(23,518,426)
Decrease (increase) in restricted assets (including current and non-current)	4,821,031	(2,805,448)
Decrease (increase) in refundable deposits	(745)	21,429
Increase in deferred charge	(55,441)	(176,233)
Decrease (increase) in hedging derivative financial instruments	24,861	(148,967)
Net cash used in investing activities	(1,291,872)	(26,713,541)

	2008	2007
Cash flows from financing activities:		
Decrease in short-term debts	(3,193,002)	(4,115,039)
Increase in commercial paper payable	499,525	-
Increase in long-term debts	12,953,000	37,147,000
Issuance of corporate bonds	18,773,836	19,574,191
Redemption of bonds payable	(18,800,000)	(10,000,000)
Payment of preferred stock dividends	-	(3,162,787)
Increase in other liabilities	7,568	1,551
Net cash provided by financing activities	10,240,927	39,444,916
Net increase in cash and cash equivalents	5,257,165	3,063,258
Cash and cash equivalents at beginning of period	3,675,416	612,158
Cash and cash equivalents at end of period	**$ 8,932,581**	**3,675,416**
Supplemental disclosures of cash flow information:		
Interest paid (excluding capitalized interest)	**$ 17,484,292**	**13,969,606**
Income tax paid	**$ 21,364**	**21,504**
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	$ 3,687,142	24,614,787
Decrease (increase) in construction payables (including related parties)	2,734,063	(1,093,776)
Amortization capitalized as construction in progress	(476)	(907)
Depreciation capitalized as construction in progress	(872)	(1,678)
Cash paid	**$ 6,419,857**	**23,518,426**
Supplemental disclosures of non-cash investing and financing activities:		
Unrealized valuation (losses) gains on financial instruments	**$ (75)**	**64,096**
Reclassification to current liabilities of portion of long-term debts maturing within one year	**$ 13,102,875**	**12,800,000**
Deferred charges transferred from fixed assets	**$ 26,459**	**123,654**
Inventories transferred from fixed assets	**$ 77,755**	**507,107**
Fixed assets transferred from inventories	**$ 10,534**	**231,714**

(English Translation of Financial Report Originally Issued In Chinese)

TAIWAN HIGH SPEED RAIL CORPORATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

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.

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, 2008 and 2007, the headcounts of employees were 3,328 and 3,317, respectively.

2. Summary of Significant Accounting Policies and Basis of Measurement

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

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

(a) Use of estimates

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

(b) Foreign currency transactions

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

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

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

(d) Asset impairment

The Company assesses at each balance sheet date whether there is any indication that an asset (individual asset or cash-generating unit) other than goodwill may have been impaired. If any such indication exists, the 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.

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-non-current, respectively.

(f) Financial instruments

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

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

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

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

iii. Financial assets carried at cost: Investments in equity which cannot be reliably 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 (replacement cost or net realizable value), while spare parts and supplies are stated at cost less allowance for obsolete items. Cost is calculated by the weighted-average method, and market value represents net realizable value.

(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. Property, plant and equipment are depreciated over their estimated useful lives using the straight-line method.

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

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.

Commencing from January 1, 2009, the Company is going to change the depreciation method of land improvements, buildings, machinery and equipment, and transportation equipment from the straight-line method to the transport volume percentage method with approval of the Financial Supervisory Commission, Executive Yuan.

(j) Deferred charges

i. Consulting fees for syndicated loans

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

ii. Bank charges for syndicated loans

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

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

(k) Convertible bonds

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

(l) Employee retirement plan

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

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

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

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

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

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

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

(n) Preferred stock

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

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

(o) 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.

(p) Income tax

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

Deferred tax assets and liabilities are classified as current or non-current 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.

(q) Earnings (losses) per common share

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

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

3. Reason for and Effect of Accounting Changes

(a) Commencing from January 1, 2007, the Company adopted SFAS No. 37 "Intangible Assets". The adoption of this new accounting principle had no effect on the Company's financial statements as of and for the year ended December 31, 2007.

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

(c) Commencing from January 1, 2009, in order to make the depreciation method be used in a reasonably systematic basic over useful life, the Company is going to change the depreciation method of parts of fixed assets from the straight-line method to the transport volume percentage method.

4. Significant Accounts

(a) Cash and cash equivalents

	2008.12.31	2007.12.31
(in thousands of dollars)	**NT$**	**NT$**
Cash on hand	142,832	130,804
Cash in banks	6,800,749	3,349,012
Cash equivalents－short-term notes	1,989,000	195,600
	8,932,581	**3,675,416**

(b) Inventories

	2008.12.31	2007.12.31
(in thousands of dollars)	**NT$**	**NT$**
Consumables for use	1,796,291	1,273,158
Merchandise for sale	10,602	20,946
	1,806,893	1,294,104
Less: allowance for obsolete inventories	(333)	(418)
	1,806,560	**1,293,686**

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

	2008.12.31	2007.12.31
(in thousands of dollars)	**NT$**	**NT$**
Open-end bond funds	**275,257**	**613,549**

(d) Fixed assets

i. Accumulated depreciation

	2008.12.31	2007.12.31
(in thousands of dollars)	**NT$**	**NT$**
Land improvements	16,951,090	8,464,538
Buildings	1,884,485	931,741
Machinery and equipment	6,238,373	3,160,473
Transportation equipment	12,795,241	6,387,140
Office equipment	72,923	63,535
Leasehold improvements	113,346	106,104
Other equipment	258,600	226,781
	38,314,058	**19,340,312**

For the years ended December 31, 2008 and 2007, depreciation expenses amounted to NT$18,994,251 thousand and NT$18,859,587 thousand, respectively. Commencing from January 1, 2009, the Company is going to change the depreciation method of land improvements, buildings, machinery and equipment, and transportation equipment from the straight-line method to the transport volume percentage method with approval of the Financial Supervisory Commission, Executive Yuan.

ii. For the years ended December 31, 2008 and 2007, interest expenses were capitalized on construction in progress amounting to NT$28,003 thousand and NT$38,284 thousand, respectively. The annual interest rates for the above capitalization for the years ended December 31, 2008 and 2007, ranged from 3.9900% to 4.4268% and 3.6288% to 4.2264%, 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, 2007, and such guarantee was removed in February 2008.

As of December 31, 2008 and 2007, the related payables arising from the high speed rail construction were as follows:

(in thousands of dollars)	**2008.12.31 NT$**	**2007.12.31 NT$**
Construction payables	7,528,477	10,006,642
Construction payables to related parties－current	54,325	310,223
	7,582,802	**10,316,865**

(e) Deferred charges

(in thousands of dollars)	**2008.12.31 NT$**	**2007.12.31 NT$**
Bank charges for syndicated loans	452,057	527,974
Decoration costs	105,281	110,048
Computer software	79,247	85,168
Consulting fees for syndicated loans	65,240	70,753
Cost of issuing corporate bonds	-	3,774
Other	82,279	71,522
	784,104	**869,239**

(f) Short-term debts

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

For the years ended December 31, 2008 and 2007, the annual interest rates for borrowings were as follows:

	2008	**2007**
Borrowings in Japanese yen	1.553911%~2.237100%	1.148300%~2.061300%
Borrowings in US dollars	2.073996%~3.508192%	6.212100%~6.243837%
Borrowings in EUR	4.691636%	-

As of December 31, 2008 and 2007, total credit lines amounted to NT$8,975,960 thousand and NT$17,736,353 thousand, respectively.

(g) Commercial paper payable

The commercial paper issued by the Company was guaranteed by a financial institution within one year. As of December 31, 2008, the issuing interest rate for the commercial paper payable was 2.669%.

As of December 31, 2008, commercial paper payable amounted to NT$499,525 thousand after deducting discount amounting to NT$475 thousand.

(h) Bonds payable

(in thousands of dollars)	**2008.12.31 NT$**	**2007.12.31 NT$**
Secured domestic corporate bonds payable	26,517,673	26,550,506
Unsecured overseas convertible bonds payable	9,701,503	8,229,202
Total	36,219,176	34,779,708
Less: current portion	(10,777,181)	(12,800,000)
	25,441,995	**21,979,708**

i. Secured domestic corporate bonds payable

As of December 31, 2008 and 2007, the Company had issued secured domestic 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)**	**2008.12.31 NT$**	**2007.12.31 NT$**
The third issuance in 2008	Syndicate (consisting of 20 banks)	2.70%	December 2008	Interest is calculated and paid according to the simple interest rate per year, and the bonds are redeemable in December 2011.	6,000,000	-
Less: Cost of issuing corporate bonds					(11,878)	-
Subtotal					5,988,122	-
The second issuance in 2008	Syndicate (consisting of 20 banks)	2.70%	October 2008	Interest is calculated and paid according to the simple interest rate per year. The bonds are redeemable in October 2011 if the redemption options are not exercised. The bondholders have an option to require the company to redeem the bonds on September 30, 2009.	6,785,420	-
Less: Cost of issuing corporate bonds					(8,239)	-
Subtotal					6,777,181	-
The first A Bonds issuance in 2007	Syndicate (consisting of 20 banks)	2.07%	May 2007	Interest is calculated and paid according to the simple interest rate per year, and the bonds are redeemable in May 2012.	4,000,000	4,000,000

Name		Guarantee bank	Annual interest rate	Issued date	Payment schedule (in thousands of dollars)	2008.12.31 NT$	2007.12.31 NT$
	B Bonds	〃	2.12%	April 2007	Interest is calculated and paid according to the simple interest rate per year, and the bonds are redeemable in April 2013.	3,000,000	3,000,000
	C Bonds	〃	2.17%	April 2007	Interest is calculated and paid according to the simple interest rate per year, and the bonds are redeemable in April 2014.	2,760,000	2,760,000
Less: Cost of issuing corporate bonds						(7,630)	(9,494)
Subtotal						9,752,370	9,750,506
The second issuance in 2003	A Bonds	Syndicate (consisting of 20 banks)	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
	B Bonds	〃	1.8911%	September 2003	Interest is calculated according to the compound interest rate every year and is paid once a year. The bonds were redeemable in September 2008.	-	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 were redeemable in September 2008.	-	2,000,000
Subtotal						-	6,800,000
The first issuance in 2003	A Bonds	Syndicate (consisting of 20 banks)	1.75%	April 2003	Interest is calculated and paid according to the simple interest rate per year, and the bonds were redeemable in April 2008.	-	3,500,000
	B Bonds	〃	1.7424%	April 2003	Interest is calculated according to the compound interest rate every year and is paid once a year. The bonds were redeemable in April 2008.	-	2,500,000

Name		Guarantee bank	Annual interest rate	Issued date	Payment schedule (in thousands of dollars)	2008.12.31 NT$	2007.12.31 NT$
	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 year and is paid once a year. The bonds are redeemable in April 2009.	1,000,000	1,000,000
Subtotal						4,000,000	10,000,000
Total						26,517,673	26,550,506
Less: Current portion of secured domestic corporate bonds payable						(10,777,181)	(12,800,000)
						15,740,492	**13,750,506**

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

(ii) The redemption at the option of the Company and the bondholders of the second issuance corporate bonds in 2008 is as follows:

(1) The redemption at the option of the Company

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

(2) The redemption at the option of the bondholders

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

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

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

ii. Unsecured overseas convertible bonds payable

On May 15, 2007, the Company issued five-year zero coupon overseas convertible bonds and applied for permission to list on the Singapore Stock Exchange in order to finance the construction costs and operating expenses 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.

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

(v)Qualifying public offering ("QPO")

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

(vi)Put option of the bondholders

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

(vii)Redemption at the option of the Company

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

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

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

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

(viii)Redemption at maturity

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

For the year ended December 31, 2008, the aforementioned convertible bonds, whose par value amounted to US$6,660 thousand, were converted into 22,168 thousand shares of common stock. For the year ended December 31, 2007, there was no such transaction. The equity and liability components of the aforementioned convertible bonds were as follows:

	2008.12.31	2007.12.31
(in thousands of dollars)	**NT$**	**NT$**
Carrying amount of the non-derivative liability component of bonds (recognized as bonds payable)	**9,701,503**	**8,229,202**
Put option (recognized as financial liabilities at fair value through profit or loss-current)	**55,907**	**323,132**
Conversion right (recognized as capital surplus-equity conversion option of convertible bonds)	**1,295,378**	**1,324,788**

(i) Long-term debts

	2008.12.31	2007.12.31
(in thousands of dollars)	**NT$**	**NT$**
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	19,883,000
The second syndicated loan agreement - Tranche B Facility:		
The credit facility, which was initially utilized on October 23, 2006, is repayable in 27 semi-yearly installments commencing from November 20, 2009. (Note 2)	20,817,000	20,817,000
The second syndicated loan agreement - Tranche C Facility:		
The credit facility, which was initially utilized on September 7, 2007, is repayable on September 7, 2010.	9,000,000	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.	7,900,000	3,872,598
The second syndicated loan agreement - Tranche D (Seven years) Facility:		
The credit facility, which was initially utilized on August 15, 2007, is repayable on August 15, 2014.	7,900,000	3,872,598
Total	344,563,795	331,610,795
Less: Current portion of long-term debts	(2,325,694)	-
	342,238,101	**331,610,795**

(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, 2008 and 2007, the annual interest rates for the above loans were as follows:

Sources of long-term debts	2008	2007
a) The first syndicated loan agreement (based on the debt source)		
Long-term funds from the Council for Economic Planning and Development, Executive Yuan	2.6332%~3.8437%	3.3068%~3.7489%
Civil servants retirement pension fund	2.7753%~4.1037%	3.5289%~3.9889%
Labor pension fund	2.7353%~4.0616%	3.5226%~3.9468%
Labor insurance fund	2.7753%~4.1037%	3.5289%~3.9889%
Funds from banks	8.0847%~8.2242%	7.7084%~8.0426%

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

Sources of long-term debts	2008	2007
b) The second syndicated loan agreement - Tranche A Facility	4.1842%~5.3947%	4.8684%~5.3000%
The second syndicated loan agreement - Tranche B Facility	3.3421%~4.5526%	4.0263%~4.4579%
The second syndicated loan agreement - Tranche C Facility	3.8316%~4.0895%	4.0421%~4.2737%
The second syndicated loan agreement - Tranche D (five years) Facility	4.020%~4.570%	4.095%~4.570%
The second syndicated loan agreement - Tranche D (seven years) Facility	4.315%~4.890%	4.315%~4.890%

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

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

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

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

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

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

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

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

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

As of December 31, 2008 and 2007, the Company had outstanding promissory notes in order to obtain credit lines for the first and the second syndicated loan, as follows:

	2008.12.31	2007.12.31
(in thousands of dollars)	**NT$**	**NT$**
The first syndicated loan agreement	312,800,000	315,300,000
The second syndicated loan agreement	65,500,000	65,500,000
	378,300,000	**380,800,000**

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

As of December 31, 2008 and 2007, the used and unused credit lines of long-term loans were as follows:

i. The first syndicated loan agreement:

	2008.12.31	2007.12.31
(in thousands of dollars)	**NT$**	**NT$**
Used credit lines		
Tranche A Facility–for loans	279,063,795	279,063,795
Tranche C Facility–for corporate bonds guarantee	27,187,892	27,076,493
Tranche D Facility–for import duty	1,422,100	1,168,100
Tranche E Facility–for construction performance bond guarantee	4,500,000	5,000,000
	312,173,787	312,308,388
Unused credit lines	11,126,213	10,991,612
Total credit lines	**323,300,000**	**323,300,000**

ii. The second syndicated loan agreement:

	2008.12.31	2007.12.31
(in thousands of dollars)	**NT$**	**NT$**
Used credit lines		
Tranche A Facility–for loans	19,883,000	19,883,000
Tranche B Facility–for loans	20,817,000	20,817,000
Tranche C Facility–for loans	9,000,000	4,101,804
Tranche D (five years) Facility–for loans	7,900,000	3,872,598
Tranche D (seven years) Facility–for loans	7,900,000	3,872,598
	65,500,000	52,547,000
Unused credit lines	-	12,953,000
Total credit lines	**65,500,000**	**65,500,000**

(j) Retirement plan

The pension costs and related accounts as of and for the years ended December 31, 2008 and 2007, were as follows:

	2008.12.31	2007.12.31
(in thousands of dollars)	**NT$**	**NT$**
Benefit obligation:		
Vested benefit obligation	7,791	42,389
Nonvested benefit obligation	315,868	284,928
Accumulated benefit obligation	323,659	327,317
Projected compensation increases	184,940	134,857
Projected benefit obligation	508,599	462,174
Plan assets at fair value	(415,838)	(349,982)
Funding status	92,761	112,192
Unrecognized prior service cost	(128,183)	(171,019)
Unrecognized pension gains	50,182	86,797
Unrecognized net transition obligation	(2,100)	(2,290)
Accrued pension liability	**12,660**	**25,680**

The components of net periodic pension costs for 2008 and 2007 were as follows:

	2008.12.31	2007.12.31
(in thousands of dollars)	**NT$**	**NT$**
Service cost	28,850	33,709
Interest cost	13,556	13,596
Actual return on plan assets	(11,566)	(8,746)
Amortization	8,897	11,985
Net pension cost	**39,737**	**50,544**

Actuarial assumptions at December 31, 2008 and 2007, were as follows:

	2008	2007
Discount rate	2.60%	3.00%
Rate of increase in compensation	3.00%	3.00%
Expected long-term rate of return on plan assets	2.60%	3.00%

The pension information recognized for 2008 and 2007 was as follows:

	2008	2007
(in thousands of dollars)	**NT$**	**NT$**
Pension expense:		
Defined benefit net pension cost	38,819	48,473
Defined contribution pension cost	105,506	81,624
	144,325	**130,097**
Pension cost charged to construction in progress:		
Defined benefit net pension cost	918	2,071
Defined contribution pension cost	1,508	3,345
	2,426	**5,416**

(ii) 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, 2008 and 2007, as follows:

	2008	2007
(in thousands of dollars)	**NT$**	**NT$**
Income tax benefit calculated on the pre-tax accounting loss at statutory income tax rate	(6,252,424)	(7,349,673)
Tax-exempt income from sales of marketable securities	(2,473)	(3,629)
Expenses disallowed for tax purposes	977	559
Expiry of deferred income tax assets of loss carryforwards	246,967	178,231
Prior-period deferred income tax liability adjustment	2,336,177	(2,336,177)
Investment tax credits	(56,820)	-
Increase in valuation allowance for deferred income tax assets	3,727,596	9,535,879
Overseas income withholding tax	-	54
Others	-	(25,190)
Income tax expense	**-**	**54**

iii. The components of the deferred income tax expense (benefit) for the years ended December 31, 2008 and 2007, were as follows:

	2008	2007
(in thousands of dollars)	**NT$**	**NT$**
Loss carryforwards	(3,483,051)	(9,375,602)
Investment tax credits	(56,820)	-
Company establishment expenses initially deferred and amortized for tax purposes	9,051	9,051
Allowance for obsolete inventories	22	(105)
Pension expenses in excess of tax limit	3,255	(451)
Valuation gain on financial instruments	104,945	25,783
Unrealized foreign exchange gain	(204,998)	(111,222)
Provision for profit sharing return	(100,000)	(83,333)
Increase in valuation allowance for deferred income tax assets	3,727,596	9,535,879
	-	-

iv. As of December 31, 2008 and 2007, the components of deferred income tax assets or liabilities were as follows:

	2008.12.31		2007.12.31	
	Amount	Effect on income tax expense	Amount	Effect on income tax expense
(in thousands of dollars)	NT$	NT$	NT$	NT$
Deferred income tax assets (liabilities)－current:				
Unutilized loss carryforwards	3,402,376	850,594	987,868	246,967
Investment tax credits	-	14,353	-	-
Unamortized company establishment expenses initially deferred for tax purposes	36,202	9,050	36,202	9,050
Allowance for obsolete inventories	333	83	418	105
Valuation loss (gain) on financial instruments	(347,551)	(86,887)	72,233	18,058
Unrealized foreign exchange loss	1,100,487	275,122	280,497	70,124
Less: valuation allowance for deferred income tax assets－current		(1,062,315)		(344,304)
		-		-
Deferred income tax assets－non-current:				
Unutilized loss carryforwards	58,389,792	14,597,448	46,872,097	11,718,024
Investment tax credits	-	42,467	-	-
Unamortized company establishment expenses initially deferred for tax purposes	850,757	212,689	886,960	221,740
Provision for profit sharing	733,333	183,333	333,333	83,333
Pension expenses in excess of tax limit	12,660	3,165	25,680	6,420
Less: valuation allowance for deferred income tax assets－non-current		(15,039,102)		(12,029,517)
		-		-

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

Year granted (in thousands of dollars)	NT$	Expiry year
2004	14,353	2009
2005	23,010	2010
2006	7,916	2011
2007	11,541	2012
	56,820	

vi. The income tax returns have been examined by the tax authorities through 2006. Pursuant to the ROC Income Tax Act, losses can be carried forward for 5 consecutive years to reduce future taxable income. The expiration years of the remaining loss carryforwards were as follows:

Year granted (in thousands of dollars)	NT$	Expiry year
2004	3,402,376	2009
2005	1,849,438	2010
2006	3,470,467	2011
2007	28,805,109	2012
2008	24,264,778	2013
	61,792,168	

A amendment to the ROC Income Tax Act in January 2009 specifies that losses can be carried forward for 10 consecutive years.

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, 2008 and 2007, the details of the ICA were as follows:

	2008.12.31	2007.12.31
(in thousands of dollars)	NT$	NT$
ICA	72,618	72,618

There were no earnings appropriated to the Company's stockholders for the years ended December 31, 2008 and 2007.

viii. Accumulated deficits

The accumulated deficits as of December 31, 2008 and 2007, amounted to NT$67,570,527 thousand and NT$42,547,259 thousand, respectively.

(1) Stockholders' equity

i. Common stock and preferred stock

As of December 31, 2008 and 2007, the Company's authorized share capital comprised 12,000,000 thousand shares with par value of NT$10 per share (NT$9,985,500 thousand of the Company's authorized share capital was reserved for overseas convertible bonds). As of December 31, 2008 and 2007, the Company had issued NT$58,978,626 thousand and NT$56,724,834 thousand, respectively, of common stock and NT$46,343,617 thousand and NT$48,375,731 thousand, respectively, of preferred stock, as follows:

(in thousands of dollars)

Item	Issue date	Issued shares (in thousands)	Issued period	Par value 2008.12.31 NT$	Par value 2007.12.31 NT$	Issuance Amount NT$
Class A Convertible Preferred Stock	January 27, 2003	2,690,000	January 27, 2003, to February 26, 2010 (note)	$ 26,900,000	26,900,000	26,900,000
Less: converted into common stock				(840,000)	(840,000)	
Sub-total				26,060,000	26,060,000	
Class B Convertible Preferred Stock	September 9, 2003	134,249.5	September 9, 2003, to October 8, 2010 (note)	1,342,495	1,342,495	1,342,495
Less: converted into common stock				(2,000)	(2,000)	
Sub-total				1,340,495	1,340,495	
Class C Convertible Preferred Stock:						
C1	January 20, 2004	161,300	January 20, 2004, to January 19, 2008	1,613,000	1,613,000	1,500,090
C2	February 27, 2004	151,400	February 27, 2004, to February 26, 2008	1,514,000	1,514,000	1,408,020
C3	March 24, 2004	74,600	March 24, 2004, to March 23, 2008	746,000	746,000	693,780
C4	April 23, 2004	107,620	April 23, 2004, to April 22, 2008	1,076,200	1,076,200	1,000,866
C5	August 18, 2004	637,077	August 18, 2004, to August 17, 2008	6,370,770	6,370,770	5,924,816
C6	September 7, 2004	64,500	September 7, 2004, to September 6, 2008	645,000	645,000	599,850
C7	November 17, 2004	37,010	November 17, 2004, to November16, 2008	370,100	370,100	344,193
C8	April 28, 2005	645,900	April 28, 2005, to April 27, 2009	6,459,000	6,459,000	6,006,870
C9	September 30, 2005	806,500	September 30, 2005, to September 29, 2009	8,065,000	8,065,000	7,500,450
				26,859,070	26,859,070	
Less: converted into common stock				(7,915,948)	(5,883,834)	
Sub-total				18,943,122	20,975,236	
Total				**$ 46,343,617**	**48,375,731**	

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ii. Restrictions on appropriations of earnings and capital surplus

(i) Capital surplus

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

As of December 31, 2008, capital surplus from issuance of convertible bonds was recognized, but cannot be utilized to increase share capital before exercise of the conversion right, put option of the bondholders, and redemption at the option of the Company due to not conforming to the definition of capital surplus in the ROC Company Act.

(ii) Legal reserve

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

(iii) Distribution of earnings

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

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

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

After obtaining prior government approval, the Company is allowed to declare dividends to preferred stockholders during the development stage regardless of the restrictions outlined above. However, the Company is required to account for the prepayment of dividends to preferred stockholders in its balance sheet under the stockholders' 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 stockholders.

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

As of December 31, 2008, because the Company still had not reached economic scale in the early operating stage and suffered in the heavy burden resulted from depreciation and interest expenses, the accumulated deficits, amounting to NT$67,570,527 thousand, had reached 50% of capital. Therefore, it was not necessary for the Company to accrue and disclose employee bonuses and directors' and supervisor's remuneration according to the rules issued by the Financial Supervisory Commission on March 30, 2007.

In order to reduce the heavy burden resulted from deprecation and interest expense, the Company is going to change the depreciation method of parts of fixed assets from the straight-line method to the transport volume percentage method commencing from January 1, 2009 with approval of the Financial Supervisory Commission, Executive Yuan (refer to note 4(d)) and the interest rates of funds from banks of the first syndicated loan agreement is going to be adjusted with approval of the bank syndicate (refer to note 4(i)). The Company is striving to increase revenue, decrease cost, and make the terms of syndicated loan agreements more beneficial.

iii. Preferred stock dividends

During the development stage, after obtaining prior government approval, the Company was allowed to declare dividends to preferred stockholders, which were as follows:

(in thousands of dollars)	**1997.5.3~ 2006.12.31 NT$**
Prepaid preferred stock dividends of the developments stage	9,512,240

	2006 NT$
Preferred stock dividends actually paid on September 27, 2007	3,162,787

The Company started operations in 2007, and therefore cased accruing dividends payable on preferred stock of the development stage. For the years ended December 31, 2008 and 2007, preferred stock dividends during the operating period, amounting to NT$1,483,023 thousand and NT$2,083,937 thousand, respectively, will not be recognized until a resolution is approved by the stockholders at a later date. The accumulated preferred stock dividends during the operating period as of December 31, 2008, amounted to NT$3,566,960 thousand.

(m) Loss per share

For the years ended December 31, 2008 and 2007, the basic and diluted loss per common share was calculated as follows:

	2008		2007	
(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:				
Net loss	(25,009,697)	(25,009,697)	(29,398,694)	(29,398,748)
Dividends on preferred stock	(1,483,023)	(1,483,023)	(2,083,937)	(2,083,937)
Loss attributable to common stockholders	**(26,492,720)**	**(26,492,720)**	**(31,482,631)**	**(31,482,685)**
Weighted-average number of outstanding common shares	**5,787,713**	**5,787,713**	**5,162,351**	**5,162,351**
Basic and diluted loss per common share	**(4.58)**	**(4.58)**	**(6.10)**	**(6.10)**

(n) Hedge accounting

i. 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, 2008 and 2007, 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 2008.12.31 NT$**	**2007.12.31 NT$**
Construction payables	Forward foreign exchange contracts and foreign currency swap contracts	1,604	26,465

ii. 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, 2008 and 2007, there was no such transaction.

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.

(o) Disclosure of financial instruments

i. Fair value of financial instruments

The details of financial instruments as of December 31, 2008 and 2007, were as follows:

	2008.12.31			2007.12.31		
		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$**	**Value using valuation technique NT$**
Non-derivative financial instruments:						
Financial assets:						
Cash and cash equivalents	8,932,581	6,943,581	1,989,000	3,675,416	3,479,816	195,600
Notes and accounts receivable	105,227	-	105,227	44,100	-	44,100
Financial assets at fair value through profit or loss – current	69,142	-	69,142	-	-	-
Available-for-sale financial assets	275,257	-	275,257	613,549	-	613,549
Refundable deposits	34,330		34,330	33,585	-	33,585
Restricted assets (including current and non-current)	1,070,360	1,070,360	-	5,891,391	5,400,391	491,000
Financial liabilities:						
Short-term debts	1,002,420	-	1,002,420	4,195,422	-	4,195,422
Commercial paper payable	499,525	-	499,525	-	-	-
Accounts payable	1,441,840	-	1,441,840	923,606	-	923,606
Bonds payable (including current portion)	36,219,176	-	35,614,367	34,779,708	-	33,475,183
Construction payable (including related parties)	7,582,802	-	7,582,802	10,316,865	-	10,316,865
Long-term debts (including current portion)	344,563,795	-	344,519,540	331,610,795	-	331,610,795
Derivative financial instruments:						
Financial assets:						
Forward foreign exchange contracts	1,604	-	1,604	26,465	-	26,465
Financial liabilities:						
Financial liabilities at fair value through profit or loss – current	55,907	-	55,907	323,132	-	323,132
Off-balance-sheet financial instruments:						
Unused letter of credit	-	-	816,011	-	-	2,610,861
Letter of credit for guarantee	-	-	198,342	-	-	198,342

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

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

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

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

(iv) The fair value of bonds payable is determined based on the discounted future cash flows, and discount rates were 3.4900% and 4.3788% for the years ended December 31, 2008 and 2007, respectively.

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

(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.

iii. As of December 31, 2008 and 2007, the unrealized valuation gain on available-for-sale financial assets amounted to NT$257 thousand and NT$332 thousand, respectively, which were recognized as an adjustment to stockholders' equity.

iv. Disclosure of financial risks and management information

(i) Market risk

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

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

The Company's liabilities are denominated in foreign currencies, which exposes the Company to the risk of changes in foreign exchange rates. As of December 31, 2008, if the fluctuations in foreign exchange rates of USD/NTD and JPY/NTD increase by USD0.01 and JPY0.01, respectively, the exchange loss would increase by NT$2,497 thousand and NT$166,187 thousand, respectively.

(ii) Credit risk

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

(iii) Liquidity risk

The Company's capital and estimated operating funds are sufficient to reimburse all obligations. Therefore, the Company did not have liquidity risk.

(iv) Interest rate risk

The Company's long-term debts (the first syndicated loan agreement and the second syndicated loan agreement - Tranche A and B Facilities) bear floating interest rates. This exposes the Company to interest rate risk because any adverse changes in market interest rates will affect the future cash flows of the long-term debts. If the market interest rate increases by 1%, the Company's future cash outflow would increase by approximately NT$3,197,638 thousand per year.

(v) Risk management

(1) Foreign currency risk

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

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

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

(2) Interest rate risk

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

(vi) Hedging strategy

(1) Foreign currency hedging strategy

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

(2) Interest rate hedging strategy

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

(p) Superficies

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

Pursuant to the HSR Right-of-Way Map and the HSR Overpass/Underpass Superficies Space Map appended to the C&O Agreement, the Company further secured superficies from the MOTC over the transportation infrastructure land such as route land, maintenance bases, station land, etc. As of June 30, 2008, superficies had been procured over the land from Lot 0837-0000 Kuanghua Section, Hsinchuang, Taipei County, in the north to Lot 0421-0002, Subsection 6, Hsinchuang Section, Zuoying, Kaohsiung, in the south. The term of such superficies is from the date of their registration to the date of expiration or termination of the C&O Agreement.

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

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

As of December 31, 2008, the Company had secured the right to develop and conduct business on the ancillary land of the Taoyuan, Hsinchu, Taichung, Chiayi and Tainan station zones. The concession periods of aforementioned right were as follows:

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

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

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
Directors, supervisors, CEO and vice president	Directors, supervisors and main management of the Company

(b) Significant transactions with related parties

i. Operating revenue

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

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

Effective Year	**Nature of Contract**	**Related Party (in thousands of dollars)**	**Contract Price**	
			Original NT$	**Amended (Note) NT$**
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	3,749,500	4,151,337
2002	Zuoying Station Construction Contract	TAISEI-CEC JV	1,616,510	1,915,805
2002	Chiayi Station Construction Contract	TECO-TAKENAKA JV	811,000	1,017,863
2002	Wurih Base Construction Contract	CEC	331,000	367,845
2002	Taichung Station Construction Contract	TAISEI-CEC-CTCI-TAIAN JV	2,318,310	2,481,621
2003	Main Workshop Construction Contract	Chung Lu-CTCI-TECO JV	1,435,500	1,691,188
2003	Zuoying Depot Construction Contract	TECO-Barclay-Mowlem JV	1,650,000	2,389,135
2003	Wurih Depot Construction Contract	Chung Lu-CTLI-TECO JV	838,530	908,482
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	53,971

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

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

For the years ended December 31, 2008 and 2007, the related construction costs paid to contractors, which were recorded as fixed assets, were as follows:

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

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

As of December 31, 2008 and 2007, the details of construction payables (including construction retentions) were as follows:

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

	2007.12.31		
	Depot	Station	Total
(in thousands of dollars)	NT$	NT$	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

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, 2008 and 2007, the syndicated loans from Taipei Fubon Bank and Taishin Bank and interest expenses incurred thereon were as follows (expressed in thousands of dollars, except for the interest rate):

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

	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

iv. Service charge

Taipei Fubon Bank and Taishin Bank are the Company's exclusive cooperators to deal with the Company's passengers ticket sales. For the years ended December 31, 2008 and 2007, the related service charges paid to cooperators were as follows:

	2008	2007
(in thousands of dollars)	NT$	NT$
Taipei Fubon Bank	4,437	1,887
Taishin bank	167,502	71,133
	171,939	73,020

v. 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.

vi. Directors, supervisors and main management remuneration

For the years ended December 31, 2007 and 2008, the remuneration of the Company's directors, supervisors, CEO and vice presidents was as follows:

(in thousands of dollars)	2008	2007
	NT$	NT$
Salaries	112,334	108,214
Cash awards and special allowances	33,822	25,365
Transportation allowances and business expense	5,520	3,593
Employee bonus	-	-

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

6. Pledged Assets

As of December 31, 2008 and 2007, the carrying values of pledged assets were as follows:

Pledged assets	Pledged to secure	2008.12.31	2007.12.31
	(in thousands of dollars)	NT$	NT$
Restricted assets－current:			
Time deposit	Station land lease	615	1,100
Time deposit	Office lease	2,478	-
Time deposit	Letter of credit for guarantee	40,000	-
Sub-total		43,093	1,100
Restricted assets－non-current:			
Time deposit	Guarantee for oil purchase	3,000	2,500
Time deposit	Station land lease	14,917	15,225
Time deposit	Guarantee for the development of station	994,026	994,026
Time deposit	Letter of credit for guarantee	-	40,000
Time deposit	Syndicated loan	-	4,347,540
Short-term notes	Syndicated loan	-	491,000
Time deposit	Guarantee for office's lease	15,324	-
Sub-total		1,027,267	5,890,291
Fixed assets	Agreement guarantee	-	13,000,000
Total		1,070,360	18,891,391

(Note) In accordance with syndicated loan agreements, the Company's funds raised by operating activities were used for operations first, and were not required to be collateralized for securing the loans.
In addition, the Company provided a portion of these superficies as collateral to secure the second syndicated loan. Refer to note 4(p).

7. Commitments and Contingencies

(a) Significant contracts

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

i. The C&O Agreement covers the building, operation and transfer (BOT) of the High Speed Rail between Taipei (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.

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. On January 7,2009, the Company obtained the consent of the MOTC to improve the ratio by the year, next to the year of the Company turning operating result from loss into profit.

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

As of December 31, 2008 and 2007, the Company had accrued the aggregated profit sharing return amounting to NT$733,333 thousand and NT$333,333 thousand, respectively which was recorded as operating cost, since March 2007, the date of starting of service for the entire line. As of December 31, 2008 and 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.

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

(i) 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.

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

x. Agreement guarantee

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

(ii) 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. As of December 31, 2008, the aforementioned guarantee has decreased to NT$4.5 billion by the approval of the MOTC in August, 2008.

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

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

(1) Material delay in work schedule

(2) Material default in quality control of the works

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

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

(ii) Consequences of breach of contract

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

(1) Suspend the construction or operation of the HSR

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

(3) Terminate the C&O Agreement

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

(b) Operating lease

The Company rents its office premises. As of December 31, 2008, the Company had paid NT$25,139 thousand as a guarantee deposit for the lease of these premises. Future minimum lease payments at December 31, 2008, were as follows:

(in thousands of dollars)	NT$
2009	84,054
2010	77,782
2011	63,652
Total	225,488

(c) As of December 31, 2008, the Company had obtained credit line facilities in the form of letters of credit from several banks, of which US$1,234 thousand, JPY2,083,037 thousand and EUR381 thousand were unused, and the Company had issued NT$11,883,890 thousand worth of promissory notes to banks to obtain guarantees for credit lines.

(d) As of December 31, 2008, 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.

10. Others

(a) Total personnel, depreciation and amortization expenses incurred for the years ended December 31, 2008 and 2007, were as follows:

By item (in thousands of dollars)	2008				2007			
	Operating cost NT$	Operating expenses NT$	Non-operating expenses NT$	Total NT$	Operating cost NT$	Operating expenses NT$	Non-operating expenses NT$	Total NT$
Personnel expenses								
Salaries	2,107,625	555,494	-	2,663,119	1,855,263	588,352	-	2,443,615
	761,328	56,383	-	817,711	1,109,353	102,267	-	1,211,620
Insurance	142,842	27,975	-	170,817	114,525	28,540	-	143,065
Pension	118,944	25,381	-	144,325	102,112	27,985	-	130,097
Others	64,787	23,685	-	88,472	54,414	19,712	-	74,126
Depreciation	18,984,657	9,594	-	18,994,251	18,848,127	11,460	-	18,859,587
Amortization	45,925	35,430	85,204	166,559	35,951	31,692	76,549	144,192

(b) Reclassification

Certain accounts in the financial statements as of and for the year ended December 31, 2007, have been reclassified to conform with the presentation adopted in the financial statements as of and for the year ended December 31, 2008.

11. Other Disclosure Items

(a) Related information on material transaction items:

i. Lending to other parties: None.

ii. Guarantees and endorsements for other parties: None.

iii. Information regarding securities held:

(in thousands of New Taiwan dollars, except units)

Company holding securities	Security type and name	Relationship with the issuing company	Account	Period-end				Note
				Units (in thousands)	Carrying value	Percentage of ownership	Market value (or net value)	
The Company	UNI-President James Bond Fund	-	Available-for-sale financial assets–current	3,578	57,013	-	57,013	
"	YUANTA WAN-TAI FUND	-	"	4,093	59,050	-	59,050	
"	Polaris De-Li Fund	-	"	6,760	105,183	-	105,183	
	Prudential Bond Fund	-	"	3,580	54,011	-	54,011	
"	Central Government Bond 88-3	-	Restricted assets–non-current	16,100	16,100	-	16,100	
"	Central Government Bond 90-1	-	"	50,000	50,000	-	50,000	
"	Central Government Bond 90-7	-	"	200,000	200,000		200,000	
"	Central Government Bond 91-4	-	"	115,700	120,400	-	120,400	
"	Central Government Bond 91-8	-	"	63,400	70,400	-	70,400	
"	Central Government Bond 92-4	-	"	532,500	582,500	-	582,500	
"	Central Government Bond 92-7	-	"	49,000	49,000	-	49,000	
"	Central Government Bond 93-4	-	"	68,900	68,900	-	68,900	
"	Central Government Bond 93-8	-	"	216,200	233,500	-	233,500	
"	Central Government Bond 94-6	-	"	287,000	287,000	-	287,000	
"	Central Government Bond 95-5	-	"	191,200	191,200	-	191,200	
"	Central Government Bond 97-4	-	"	20,000	20,000	-	20,000	
"	Central Government Bond 97-5	-	"	100,000	100,000	-	100,000	

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

(in thousands of New Taiwan dollars, except units)

Company holding securities	Security type and Name	Account	Counter-party	Relation-ship	Beginning		Purchase		Sale				Gain (loss) on valuation	Ending	
					Units (in thousands)	Amount	Units (in thousands)	Amount	Units (in thousands)	Price	Carrying value	Gain (loss) on disposal		Units (in thousands)	Amount
The Company	PCA WELL POOL FUND	Available-for-sale financial assets–current	-	-	15,725	200,000	49,017	628,897	64,742	831,951	828,897	3,055	-	-	-
"	YUANTA WAN-TAI FUND	"	-	-	6,557	93,000	32,150	460,000	34,614	495,840	494,000	1,840	50	4,093	59,050
"	MEGA DIAMOND BOND FUND	"	-	-	-	-	16,241	190,000	16,241	190,191	190,000	191	-	-	-
"	POLARIS DE-LI FUND	"	-	-	-	-	48,972	753,748	42,212	649,491	648,748	743	183	6,760	105,183
"	IBT 1699 BOND FUND	"	-	-	-	-	27,020	343,000	27,020	343,911	343,000	911	-	-	-
"	UNI-President James Bond Fund	"	-	-	-	-	53,894	852,000	50,316	795,924	795,000	924	13	3,578	57,013
"	Union Bond Fund	"	-	-	-	-	12,443	155,000	12,443	155,449	155,000	449	-	-	-
"	ING TAIWAN BOND FUND	"	-	-	10,013	153,201	51,641	796,000	61,654	950,675	949,201	1,474	-	-	-
"	Central government bonds for major transportation infrastructure project (type B)-3rd issue of bond certificates (1997)	Restricted assets–noncurrent	-	-	-	-	98,100	109,000	98,100	109,117	109,000	117	-	-	-
"	Central Government Bond 88-1	"	-	-	118,000	131,000	900,000	1,000,000	1,018,000	1,133,774	1,131,000	2,774	-	-	-
"	Central Government Bond 89-14	"	-	-	-	-	214,700	238,461	214,700	239,385	238,461	924	-	-	-
"	Central Government Bond 90-1	"	-	-	-	-	795,900	877,143	745,900	828,263	827,143	1,120	-	50,000	50,000
"	Central Government Bond 90-7	"	-	-	-	-	200,000	200,000	-	-	-	-	-	200,000	200,000
"	Central Government Bond 91-4	"	-	-	-	-	1,418,400	1,526,221	1,302,700	1,409,151	1,405,821	3,330	-	115,700	120,400
"	Central Government Bond 91-8	"	-	-	-	-	1,296,600	1,437,274	1,233,200	1,370,019	1,366,874	3,145	-	63,400	70,400
"	Central Government Bond 91-11	"	-	-	-	-	728,800	794,889	728,800	796,513	794,889	1,624	-	-	-
"	Central Government Bond 92-2	"	-	-	355,300	360,000			355,300	360,358	360,000	358	-	-	-
"	Central Government Bond 92-4	"	-	-	-	-	1,776,000	1,948,800	1,243,500	1,368,257	1,366,300	1,957	-	532,500	582,500
"	Central Government Bond 92-7	"	-	-	-	-	814,500	889,511	765,500	841,645	840,511	1,134	-	49,000	49,000
"	Central Government Bond 93-4	"	-	-	63,600	70,600	152,700	160,584	147,400	162,473	162,284	189	-	68,900	68,900
"	Central Government Bond 93-7	"	-	-	112,500	125,000	114,900	122,500	227,400	247,926	247,500	426	-	-	-
"	Central Government Bond 93-8	"	-	-	-	-	5,390,200	5,981,700	5,174,000	5,755,155	5,748,200	6,955	-	216,200	233,500
"	Central Government Bond 94-2	"	-	-	-	-	536,600	570,222	536,600	570,731	570,222	509	-	-	-
"	Central Government Bond 94-3	"	-	-	-	-	3,546,000	3,939,000	3,546,000	3,943,656	3,939,000	4,656	-	-	-
"	Central Government Bond 94-6	"	-	-	-	-	1,728,800	1,868,743	1,441,800	1,583,325	1,581,743	1,582	-	287,000	287,000
"	Central Government Bond 95-1	"	-	-	-	-	4,933,000	5,457,897	4,933,000	5,477,917	5,457,897	20,020	-	-	-
"	Central Government Bond 95-5	"	-	-	-	-	645,000	661,800	453,800	471,102	470,600	502	-	191,200	191,200
"	Central Government Bond 95-6	"	-	-	-	-	120,600	134,000	120,600	134,161	134,000	161	-	-	-
"	Central Government Bond 95-7	"	-	-	-	-	90,000	100,000	90,000	100,094	100,000	94	-	-	-
"	Central Government Bond 96-1	"	-	-	-	-	179,600	198,000	179,600	198,212	198,000	212	-	-	-
"	Central Government Bond 96-4	"	-	-	-	-	110,000	113,000	110,000	113,178	113,000	178	-	-	-
"	Central Government Bond 97-1	"	-	-	-	-	1,693,800	1,831,868	1,693,800	1,836,415	1,831,868	4,547	-	-	-
"	Central Government Bond 97-3	"	-	-	-	-	100,000	106,000	100,000	106,131	106,000	131	-	-	-
"	Central Government Bond 97-4	"	-	-	-	-	568,100	629,000	548,100	609,081	609,000	81	-	20,000	20,000
"	Central Government Bond 97-5	"	-	-	-	-	100,000	100,000	-	-	-	-	-	100,000	100,000

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/sales for which the amount exceeded NT$100 million or 20% of the Company's paid-in capital: None.

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

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

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

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

12. Segment Information: Not applicable.

2. Consolidated Financial Statements for current year audited by CPA: None

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

Financial Reviews and Analysis

1. Financial Status

In thousands of NT

Item / Year	2008	2007	Difference	%
Current Assets	11,765,224	6,214,525	5,550,699	89.32
Fixed Assets	411,414,846	426,835,550	(15,420,704)	(3.61)
Other Assets	1,845,701	6,793,115	(4,947,414)	(72.83)
Total Assets	425,025,771	439,843,190	(14,817,419)	(3.37)
Current Liabilities	26,872,566	31,452,468	(4,579,902)	(14.56)
Long-Term Liabilities	367,798,676	353,599,666	14,199,010	4.02
Other Liabilities	779,133	384,585	394,548	102.59
Total Liabilities	395,450,375	385,436,719	10,013,656	2.60
Capital Stock	105,322,243	105,100,565	221,678	0.21
Capital Surplus	1,295,378	1,324,788	(29,410)	(2.22)
Retained Earnings	(67,530,242)	(42,506,974)	(25,023,268)	58.87
Unrealized Gain on Financial Instruments	257	332	(75)	(22.59)
Provision for Dividends – Preferred Stock	(9,512,240)	(9,512,240)	-	-
Total Stockholders' Equity	29,575,396	54,406,471	(24,831,075)	(45.64)

Analysis of Deviation over 20% for 2008 vs. 2007:

(1) The increase of current assets was mainly due to an increase in 2008 operating revenue.

(2) The decrease of other assets was mainly due to a decrease in restricted assets at the end of 2008.

(3) The increase of other liabilities was mainly due to the accrued profit sharing.

(4) The decrease of retained earnings was mainly due to 2008 net loss.

(5) The decrease of unrealized gains on financial instruments was mainly due to a decrease in month-end valuation gains on mutual funds.

2. Operating Results

In thousands of NT

Item / Year	2008	2007	Difference	%
Operating Revenue	23,047,583	13,502,788	9,544,795	70.69
Operating Cost	(27,817,851)	(26,782,691)	(1,035,160)	3.87
Gross Loss from Operations	(4,770,268)	(13,279,903)	8,509,635	(64.08)
General and Administrative Expenses	(1,468,125)	(1,629,154)	161,029	(9.88)
Loss from Operations	(6,238,393)	(14,909,057)	8,670,664	(58.16)
Non-Operating Income and Gains	644,585	315,187	329,398	104.51
Non-Operating Expenses and Losses	(19,415,889)	(14,804,824)	(4,611,065)	31.15
Loss before Income Tax	(25,009,697)	(29,398,694)	4,388,997	(14.93)
Income Tax Expense	-	(54)	54	(100.00)
Net Loss	(25,009,697)	(29,398,748)	4,389,051	(14.93)

Analysis of Deviation over 20% for 2008 vs. 2007:

(1) The increase in operating revenue was mainly due to an increase of patronage in 2008.

(2) The increase in non-operating income and gains was mainly due to an increase in valuation gains on financial instruments in 2008.

(3) The increase in non-operating expenses and losses was mainly due to an increase of interest expenses and foreign exchange loss.

In thousands of NT

	2008	2007
Operating Revenue	23,047,583	13,502,788
Operating Cost and Expense before Depreciation & Amortization	(10,210,370)	(9,484,615)
Operating Profit before Depreciation & Amortization	12,837,213	4,018,173
Depreciation & Amortization	(19,075,060)	(18,927,230)
Financial Cost	(18,771,850)	(14,489,637)
Net Loss	(25,009,697)	(29,398,748)

3. Cash Flow

(1) Analysis of Cash flow for Current Year：

A. A net cash outflow from operating activities of NT$3,691,890 thousand was mainly due to the heavy burden of interest expenses in the initial operating stage.

B. A net cash outflow from investing activities of NT$1,291,872 thousand was primarily due to the additions to fixed assets.

C. A net cash inflow from financing activities of NT$10,240,927 thousand was mainly due to the increase of long-term debts.

(2) Future Plan on Financial Position

The Company raised totaling NT$32.2 billion via long-term debts drawdown and corporate bonds issues for the financial demands, totaling NT$27 billion, composed of various operating expenditures, construction repayment, and expired corporate bonds in 2008.

(3) Cash Flow Projection for Next Year

In thousands of NT

Cash Balance on December 31, 2008 (1)	Net Cash Provided by Operating Activity in 2009 (2)	Net Cash Outflows in 2009 (3)	Cash Balance on December 31, 2009 (1)+(2)-(3)	Remedy for Cash shortfall	
				Investment Plan	Financing Plan
8,932,581	8,386,000	12,358,581	4,960,000	–	– –

4. Major Capital Expenditures

(1) Major Capital Expenditure and Sources of Funding

In thousands of NT

Plan	Actual or Planned Source of Capital	Actual or Planned Completion Date	Total Amount as of December 31, 2009	Status of Actual or Projected Use of Capital		
				1997 to 2007	2008	2009
Construction Costs	Own Capital and Loans	December 2006	441,145,914	434,726,057	6,419,857	9,763,000

Note: The Company started its commercial operation since January 5, 2007. The capital expenditures in 2008 and 2009 above, including capitalized expenses during construction stage, were mainly the final payments of construction costs.

(2) Expected Future Benefits

With the launch of our train services commenced January 5, 2007, the past 2-year accumulated patronage was 46.5 million passengers as of January 4, 2009. It means that each person in Taiwan has approximately taken HSR twice. In which, the annual patronage has risen from 15.55 million in 2007 to 30.58 million in 2008, nearly a twofold increase. Due to the impact of economic downturn, THSRC will devote itself to raise operating revenues via rescheduling train services, based on market-oriented demands and marketing strategies. Meanwhile, we will also strive for various cost savings to achieve the break-even target.

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

5. The Cause of Net Profit or Loss for Company Investment in 2008, Improving Plan and Investment Plan for Next Year：None

Miscellaneous Important Items: None

9. Other Special Notes

Information on the Affiliated Companies: None

Status of Private Placements for Securities: None

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

Other Necessary Disclosures: None

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

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THSRC's ECB Marketplace: Singapore Stock Exchange

Taiwan High Speed Rail Corporation

Chairman