Taiwan High Speed Rail Corporation

Financial Statements for the
Six Months Ended June 30, 2020 and 2019 and
Independent Auditors' Review Report

Deloitte.

勤業眾信

勤業眾信聯合會計師事務所
11073 台北市信義區松仁路100號20樓

Deloitte & Touche
20F, Taipei Nan Shan Plaza
No. 100, Songren Rd.,
Xinyi Dist., Taipei 11073, Taiwan

Tel :+886 (2) 2725-9988
Fax:+886 (2) 4051-6888
www.deloitte.com.tw

INDEPENDENT AUDITORS' REVIEW REPORT

The Board of Directors and Stockholders
Taiwan High Speed Rail Corporation

Introduction

We have reviewed the accompanying balance sheets of Taiwan High Speed Rail Corporation (the "Corporation") as of June 30, 2020 and 2019 and the related statements of comprehensive income for the three months ended June 30, 2020 and 2019 and for the six months ended June 30, 2020 and 2019, as well as the statements of changes in equity and cash flows for the six months then ended, and the related notes to the financial statements, including a summary of significant accounting policies (collectively referred to as "the financial statements"). Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of Taiwan, the Republic of China ("ROC"). Our responsibility is to express a conclusion on the financial statements based on our reviews.

Scope of Review

We conducted our reviews in accordance with Statement of Auditing Standards No. 65 "Review of Financial Information Performed by the Independent Auditor of the Entity". A review of financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and of applying analytical and other review procedures. A review is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our reviews, nothing has come to our attention that caused us to believe that the accompanying financial statements do not present fairly, in all material respects, the financial position of Taiwan High Speed Rail Corporation as at June 30, 2020 and 2019, its financial performance for the three months ended June 30, 2020 and 2019, and its financial performance and its cash flows for the six months ended June 30, 2020 and 2019 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the ROC.

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

Deloitte & Touche
Taipei, Taiwan
Republic of China

August 5, 2020

<u>*Notice to Readers*</u>

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

For the convenience of readers, the independent auditors' review 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 independent auditors' review report and financial statements shall prevail.

TAIWAN HIGH SPEED RAIL CORPORATION

BALANCE SHEETS
(In Thousands of New Taiwan Dollars)

	June 30, 2020 (Reviewed)		December 31, 2019 (Audited)		June 30, 2019 (Reviewed)	
ASSETS	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS						
Cash and cash equivalents (Note 6)	$ 4,935,761	1	$ 16,271,676	4	$ 1,531,221	-
Financial assets at fair value through profit or loss (Note 7)	10,452,039	2	330,443	-	329,546	-
Notes and accounts receivable (Note 22)	261,521	-	333,092	-	463,471	-
Current tax assets (Note 4)	-	-	166,783	-	166,783	-
Inventories (Note 9)	2,447,056	1	2,056,045	1	2,385,672	1
Other financial assets (Notes 10 and 29)	20,401,275	5	22,207,764	5	21,191,885	5
Other current assets (Notes 14 and 28)	1,009,675	-	1,344,333	-	561,045	-
Total current assets	39,507,327	9	42,710,136	10	26,629,623	6
NON-CURRENT ASSETS						
Property, plant and equipment (Note 11)	109,720	-	125,047	-	90,480	-
Right-of-use assets (Note 12)	547,287	-	628,988	-	702,947	-
Operating concession assets (Notes 13 and 28)	383,796,986	89	390,113,063	88	395,979,795	92
Computer software, net (Note 13)	61,939	-	54,413	-	47,971	-
Deferred tax assets (Note 4)	7,429,020	2	7,316,212	2	7,090,054	2
Other financial assets (Notes 10 and 29)	2,058,101	-	2,102,503	-	2,128,646	-
Other non-current assets (Note 14)	7,369	-	9,240	-	13,252	-
Total non-current assets	394,010,422	91	400,349,466	90	406,053,145	94
TOTAL	$ 433,517,749	100	$ 443,059,602	100	$ 432,682,768	100
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Short-term borrowings (Note 15)	$ 126,945	-	$ 64,980	-	$ 295,380	-
Financial liabilities for hedging (Note 8)	725	-	-	-	-	-
Accounts payable	332,512	-	256,338	-	291,447	-
Operating concession liabilities (Notes 17 and 28)	137,345	-	777,511	-	417,507	-
Cash dividends payable (Note 21)	6,810,797	2	-	-	6,303,688	2
Other payables (Notes 15 and 19)	2,792,897	1	3,197,362	1	2,512,368	1
Payable for construction	298,550	-	942,141	-	755,917	-
Current tax liabilities (Note 4)	101,645	-	194,722	-	214,484	-
Provisions (Note 18)	6,367,937	2	6,367,937	2	283,279	-
Current portion of long-term debt (Notes 15 and 28)	10,496,037	2	-	-	-	-
Other current liabilities (Notes 12, 19, 22 and 28)	722,784	-	1,477,915	-	764,417	-
Total current liabilities	28,188,174	7	13,278,906	3	11,838,487	3
NON-CURRENT LIABILITIES						
Bonds payable (Note 16)	7,990,486	2	7,990,329	2	-	-
Long-term debt (Notes 15 and 28)	257,607,806	59	276,100,317	62	276,096,981	64
Provisions (Note 18)	9,729,166	2	10,000,000	2	12,763,679	3
Lease liabilities (Notes 12 and 28)	406,487	-	447,175	-	511,345	-
Long-term interest payable (Note 15)	7,588,549	2	8,450,080	2	8,687,392	2
Operating concession liabilities (Notes 17 and 28)	55,696,916	13	55,263,201	13	55,055,640	12
Other non-current liabilities (Notes 19 and 20)	476,643	-	452,325	-	384,124	-
Total non-current liabilities	339,496,053	78	358,703,427	81	353,499,161	81
Total liabilities	367,684,227	85	371,982,333	84	365,337,648	84
EQUITY (Note 21)						
Capital stock						
Common stock	56,282,930	13	56,282,930	13	56,282,930	13
Capital surplus	172,981	-	172,981	-	172,981	-
Retained earnings						
Legal reserve	3,270,422	1	2,469,719	-	2,469,719	1
Unappropriated earnings	6,107,189	1	12,151,639	3	8,419,490	2
Total retained earnings	9,377,611	2	14,621,358	3	10,889,209	3
Total equity	65,833,522	15	71,077,269	16	67,345,120	16
TOTAL	$ 433,517,749	100	$ 443,059,602	100	$ 432,682,768	100

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

TAIWAN HIGH SPEED RAIL CORPORATION

STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	For the Three Months Ended June 30				For the Six Months Ended June 30			
	2020		2019		2020		2019	
	Amount	%	Amount	%	Amount	%	Amount	%
OPERATING REVENUE (Notes 22 and 28)	$ 7,605,298	100	$ 11,866,527	100	$ 17,205,581	100	$ 23,628,717	100
OPERATING COSTS (Notes 23 and 28)	(6,334,244)	(83)	(6,355,103)	(53)	(12,647,257)	(74)	(12,582,640)	(53)
GROSS PROFIT	1,271,054	17	5,511,424	47	4,558,324	26	11,046,077	47
OPERATING EXPENSES (Note 23)	(284,121)	(4)	(307,537)	(3)	(554,570)	(3)	(585,190)	(3)
INCOME FROM OPERATIONS	986,933	13	5,203,887	44	4,003,754	23	10,460,887	44
NON-OPERATING INCOME AND EXPENSES								
Interest income (Note 23)	41,671	1	36,306	-	98,041	1	71,541	-
Interest expense (Notes 15, 23 and 28)	(1,427,708)	(19)	(1,602,215)	(13)	(3,041,702)	(18)	(3,199,443)	(13)
Stabilization reserve reverse (expense) (Note 18)	653,786	9	(1,655,159)	(14)	270,834	2	(3,202,782)	(13)
Other gains and losses (Notes 23 and 28)	32,295	-	20,303	-	42,517	-	44,862	-
Total non-operating income and expenses	(699,956)	(9)	(3,200,765)	(27)	(2,630,310)	(15)	(6,285,822)	(26)
INCOME BEFORE INCOME TAX	286,977	4	2,003,122	17	1,373,444	8	4,175,065	18
INCOME TAX BENEFIT (EXPENSE) (Note 24)	150,551	2	(55,071)	(1)	193,606	1	60,730	-
NET INCOME	437,528	6	1,948,051	16	1,567,050	9	4,235,795	18
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	$ 437,528	6	$ 1,948,051	16	$ 1,567,050	9	$ 4,235,795	18
EARNINGS PER SHARE (Note 25)								
Basic earnings per share	$ 0.08		$ 0.34		$ 0.28		$ 0.75	

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

TAIWAN HIGH SPEED RAIL CORPORATION

STATEMENTS OF CHANGES IN EQUITY
(In Thousands of New Taiwan Dollars, Except Per Share Information)
(Reviewed, Not Audited)

	Capital Stock		Retained Earnings			
	Common Stock	Capital Surplus	Legal Reserve	Unappropriated Earnings	Total	Total Equity
BALANCE AT JANUARY 1, 2020	$ 56,282,930	$ 172,981	$ 2,469,719	$ 12,151,639	$ 14,621,358	$ 71,077,269
Appropriations of 2019 earnings						
Legal reserve	-	-	800,703	(800,703)	-	-
Cash dividends to stockholders - NT$1.2101 per share	-	-	-	(6,810,797)	(6,810,797)	(6,810,797)
	-	-	800,703	(7,611,500)	(6,810,797)	(6,810,797)
Net income for the six months ended June 30, 2020	-	-	-	1,567,050	1,567,050	1,567,050
Total comprehensive income for the six months ended June 30, 2020	-	-	-	1,567,050	1,567,050	1,567,050
BALANCE AT JUNE 30, 2020	$ 56,282,930	$ 172,981	$ 3,270,422	$ 6,107,189	$ 9,377,611	$ 65,833,522
BALANCE AT JANUARY 1, 2019	$ 56,282,930	$ 172,981	$ 1,400,081	$ 11,557,021	$ 12,957,102	$ 69,413,013
Appropriations of 2018 earnings						
Legal reserve	-	-	1,069,638	(1,069,638)	-	-
Cash dividends to stockholders - NT$1.12 per share	-	-	-	(6,303,688)	(6,303,688)	(6,303,688)
	-	-	1,069,638	(7,373,326)	(6,303,688)	(6,303,688)
Net income for the six months ended June 30, 2019	-	-	-	4,235,795	4,235,795	4,235,795
Total comprehensive income for the six months ended June 30, 2019	-	-	-	4,235,795	4,235,795	4,235,795
BALANCE AT JUNE 30, 2019	$ 56,282,930	$ 172,981	$ 2,469,719	$ 8,419,490	$ 10,889,209	$ 67,345,120

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

TAIWAN HIGH SPEED RAIL CORPORATION

STATEMENTS OF CASH FLOWS
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	For the Six Months Ended June 30	
	2020	**2019**
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 1,373,444	$ 4,175,065
Adjustments for:		
Depreciation	105,744	99,834
Amortization	6,970,971	6,874,062
Reversal of write-downs of inventories	(4,608)	(8,794)
Interest expense	3,041,702	3,199,443
Interest income	(98,041)	(71,541)
Gain on foreign currency exchange, net	(8,242)	(351)
Stabilization reserve (reverse) expense	(270,834)	3,202,782
Others	7,271	(1,924)
Changes in operating assets and liabilities		
Financial assets at fair value through profit or loss	(10,121,596)	(2,100)
Financial liabilities for hedging	725	-
Notes and accounts receivable	71,571	42,094
Inventories	(386,403)	(347,953)
Other current assets	330,963	368,900
Other non-current assets	(377)	774
Accounts payable	76,161	15,363
Other payables	(739,386)	(503,269)
Other current liabilities	(717,132)	(94,343)
Other non-current liabilities	6,429	(2,710)
Cash (used in) generated from operations	(361,638)	16,945,332
Interest received	101,808	69,736
Interest paid	(2,992,734)	(2,873,790)
Interest paid with respect to operating concession liabilities	(777,511)	(731,182)
Income tax refunded (paid)	154,504	(129,891)
Net cash (used in) generated from operating activities	(3,875,571)	13,280,205
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in other financial assets	1,860,162	(9,350,983)
Acquisition of property, plant and equipment	(8,455)	(11,511)
Acquisition of intangible assets	(1,319,478)	(1,458,172)
Proceeds from disposal of intangible assets	6,018	314
Net cash generated from (used in) investing activities	538,247	(10,820,352)

(Continued)

TAIWAN HIGH SPEED RAIL CORPORATION

STATEMENTS OF CASH FLOWS
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	For the Six Months Ended June 30	
	2020	**2019**
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in short-term borrowings	$ 61,271	$ 146,786
Repayment of long-term debt	(8,000,000)	-
Repayment of long-term bills payable	-	(8,000,000)
Repayment of the principal portion of lease liabilities	(77,726)	(71,422)
Increase in other non-current liabilities	17,921	47,928
Net cash used in financing activities	(7,998,534)	(7,876,708)
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	(57)	226
NET DECREASE IN CASH AND CASH EQUIVALENTS	(11,335,915)	(5,416,629)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	16,271,676	6,947,850
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	$ 4,935,761	$ 1,531,221

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

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

1. GENERAL

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

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

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

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on August 5, 2020.

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

a. Initial application of the amendments to the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) (collectively, the "IFRSs") endorsed and issued into effect by the Financial Supervisory Commission (FSC)

Effective Date Announced by IASB	New IFRSs
January 1, 2020	Amendments to IFRS 3 "Definition of a Business"
January 1, 2020	Amendments to IFRS 9, IAS 39 and IFRS 7 "Interest Rate Benchmark Reform"
January 1, 2020	Amendments to IAS 1 and IAS 8 "Definition of Material"
June 1, 2020	Amendment to IFRS 16 "Covid-19 - Related Rent Concessions"

Except for the following, the initial application of the IFRSs endorsed and issued into effect by the FSC did not have material impact on the Corporation's accounting policies:

Amendment to IFRS 16 “Covid-19 - Related Rent Concessions”

The Corporation elected to apply the practical expedient provided in the amendment to IFRS 16 with respect to rent concessions negotiated with the lessors as a direct consequence of the Covid-19. In Note 4, it states the related accounting policies. Before the application of the amendment, the Corporation was required to determine whether the abovementioned rent concessions are lease modifications and, if yes, accounting for lease modifications will apply.

The Corporation applied the amendment since January 1, 2020. Retrospective application of the amendment has no impact on the retained earnings as of January 1, 2020.

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

Effective Date Announced by IASB (Note 1)	New IFRSs
Effective immediately upon promulgation by the IASB	Amendments to IFRS 4 “Extension of the Temporary Exemption from Applying IFRS 9”
January 1, 2022 (Note 2)	“Annual Improvements to IFRS Standards 2018-2020”
January 1, 2022 (Note 3)	Amendments to IFRS 3 “Reference to the Conceptual Framework”
January 1, 2022 (Note 4)	Amendments to IAS 16 “Property, Plant and Equipment - Proceeds before Intended Use”
January 1, 2022 (Note 5)	Amendments to IAS 37 “Onerous Contracts - Cost of Fulfilling a Contract”
January 1, 2023	Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”
January 1, 2023	IFRS 17 “Insurance Contracts”
January 1, 2023	Amendments to IFRS 17
To be determined by IASB	Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and Its Associate or Joint Venture”

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual reporting periods beginning on or after their respective effective dates.

Note 2: The amendments to IFRS 9 are applied prospectively to modifications and exchanges of financial liabilities that occur on or after the annual reporting periods beginning on or after January 1, 2022. The amendments to IAS 41 “Agriculture” are applied prospectively to the fair value measurements on or after the annual reporting periods beginning on or after January 1, 2022. The amendments to IFRS 1 “First-time Adoptions of IFRSs” are applied retrospectively for annual reporting periods beginning on or after January 1, 2022.

Note 3: The amendments are applicable to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2022.

Note 4: The amendments are applicable to property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after January 1, 2021.

Note 5: The amendments are applicable to contracts for which the entity has not yet fulfilled all its obligations on January 1, 2022.

As of the date the financial statements were authorized for issue, the Corporation is continuously assessing the possible impact that the application of relevant standards and interpretations will have on the Corporation’s financial position and financial performance and will disclose relevant impact when the assessment is completed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

The financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IAS 34 “Interim Financial Reporting” as endorsed and issued into effect by the FSC. The financial statements do not present all the disclosures required for a complete set of annual financial statements prepared under the IFRSs.

b. Basis of preparation

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

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

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

d. Foreign currencies

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

e. Cash equivalents

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

f. Financial assets at fair value through profit or loss

Financial asset is classified as at FVTPL when the financial asset is mandatorily classified or it is designated as at FVTPL.

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

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

g. Impairment of accounts receivable

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

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

h. Inventories

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

i. Property, plant and equipment

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

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

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

j. Intangible assets

1) Operating concession assets

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

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

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

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

2) Computer software

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

k. Operating concession liabilities

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

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

l. Impairment of assets

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

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

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

m. Hedge accounting

Hedging financial instruments are measured at fair value. Changes in fair value of hedging financial instruments are recognized in profit or loss.

n. Provisions

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

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

o. Revenue recognition

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

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

p. Leases

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

1) The Corporation as lessor

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

2) The Corporation as lessee

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

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

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

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

The Corporation negotiates with the lessor for rent concessions as a direct consequence of the Covid-19 to change the lease payments originally due by June 30, 2021, that results in the revised consideration for the lease less than the consideration for the lease immediately preceding the change. There is no substantive change to other terms and conditions. The Corporation elects to apply the practical expedient to all of these rent concessions, and therefore, does not assess whether the rent concessions are lease modifications. Instead, the Corporation recognizes the reduction in lease payment in profit or loss in the period in which the events or conditions that trigger the concession occurs, and makes a corresponding adjustment to the lease liabilities.

q. Borrowing costs

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

r. Government grants

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

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

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

s. Retirement benefit costs

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

t. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. The effect of a change in tax rate resulting from a change in tax law is recognized consistent with the accounting for the transaction itself, which gives rise to the tax consequence, and is recognized in profit or loss, other comprehensive income or directly in equity in full in the period in which the change in tax rate occurs.

1) Current tax

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

The interim period income tax expense is accrued using the tax rate that would be applicable to expected total annual earnings, that is, the estimated average annual effective income tax rate applied to the pre-tax income of the interim period.

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

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

2) Deferred tax

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

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

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

a. Controversial overtime

As of June 30, 2020, December 31, 2019 and June 30, 2019, provisions for controversial overtime payments recognized by the Corporation were all $283,279 thousand. The estimated provision could differ from the actual amount payable, which is subject to the result of the administrative court judgment or the agreement to be settled with the employees. Please refer to Note 18 for further information.

b. Stabilization reserve

As of June 30, 2020, December 31, 2019 and June 30, 2019, the Corporation recognized a provision for stabilization reserve for $15,813,824 thousand, $16,084,658 thousand and $12,763,679 thousand, respectively, in accordance with the stabilization mechanism under the C&O Agreement. The actual payment for the stabilization reserve may change and is subject to the profitability for the remaining concession period, which ends in the year 2068 or earlier if so terminated. Refer to Note 18 and Note 30.a.3) for further information.

c. Income taxes

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

As of June 30, 2020, December 31, 2019 and June 30, 2019, the carrying amounts of deferred tax assets in relation to deductible temporary differences were $7,429,020 thousand, $7,316,212 thousand and $7,090,054 thousand, respectively. As of June 30, 2020, December 31, 2019 and June 30, 2019, deductible temporary tax differences of $1,181,032 thousand, $1,181,032 thousand and $536,668 thousand, respectively, were not recognized as deferred tax assets according to the assessment of the realizability of deferred tax assets.

6. CASH AND CASH EQUIVALENTS

	June 30, 2020	December 31, 2019	June 30, 2019
Cash on hand	$ 169,843	$ 88,890	$ 122,262
Checking accounts	-	10	10
Demand deposits	72,918	481,618	173,816
Time deposits	-	8,158	8,133
Repurchase agreement collateralized by government bonds	4,693,000	15,693,000	1,227,000
	$ 4,935,761	$ 16,271,676	$ 1,531,221

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

	June 30, 2020	December 31, 2019	June 30, 2019
Demand deposits	0.001%-0.06%	0.001%-0.33%	0.001%-0.48%
Time deposits	-	0.62%	0.62%
Repurchase agreement collateralized by government bonds	0.20%-0.28%	0.50%-0.56%	0.53%-0.63%

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	June 30, 2020	December 31, 2019	June 30, 2019
Open-end money market funds	$ 10,452,039	$ 330,443	$ 329,546

The financial assets at FVTPL are mandatorily classified as FVTPL.

8. FINANCIAL LIABILITIES FOR HEDGING

	June 30, 2020	December 31, 2019	June 30, 2019
Financial liabilities for hedging - current			
Fair value hedges - forward exchange contracts	$ 725	$ -	$ -

The Corporation entered into forward exchange contracts mainly to hedge the risk of exchange rate fluctuations of foreign-currency accounts payable and payables for construction. As of the balance sheet date, outstanding forward exchange contracts were as follows:

	Currency	Maturity Date	Contract Amount (In Thousands)
June 30, 2020			
Buy	US$/JPY	July 2020	JPY 454,344
Buy	NT$/US$	July 2020	US$ 4,238

9. INVENTORIES

	June 30, 2020	December 31, 2019	June 30, 2019
Spare parts and supplies	$ 2,431,413	$ 2,044,649	$ 2,378,040
Merchandise	15,643	11,396	7,632
	$ 2,447,056	$ 2,056,045	$ 2,385,672

As of June 30, 2020, December 31, 2019 and June 30, 2019, allowance for inventory valuation losses amounted to $638,240 thousand, $642,848 thousand and $611,404 thousand, respectively.

10. OTHER FINANCIAL ASSETS

	June 30, 2020	December 31, 2019	June 30, 2019
Repurchase agreement collateralized by government bonds	$ 16,506,000	$ 20,433,000	$ 19,452,600
Time deposits	5,932,033	3,848,118	3,835,332
Demand deposits	16,005	24,901	28,051
Other performance guarantee	5,338	4,248	4,548
	$ 22,459,376	$ 24,310,267	$ 23,320,531
Current	$ 20,401,275	$ 22,207,764	$ 21,191,885
Non-current	2,058,101	2,102,503	2,128,646
	$ 22,459,376	$ 24,310,267	$ 23,320,531

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

	June 30, 2020	December 31, 2019	June 30, 2019
Repurchase agreement collateralized by government bonds	0.28%-0.55%	0.53%-0.58%	0.54%-0.62%
Time deposits	0.09%-2.10%	0.15%-2.65%	0.15%-3.25%
Demand deposits	0.01%-0.04%	0.03%-0.08%	0.03%-0.08%

b. Please refer to Note 29 for the information of other financial assets pledged as collateral.

11. PROPERTY, PLANT AND EQUIPMENT

	June 30, 2020	December 31, 2019	June 30, 2019
Land	$ 28	$ 28	$ 28
Machinery and equipment	58,667	69,091	40,447
Transportation equipment	-	-	-
Office equipment	10,924	11,846	11,104
Leasehold improvements	494	710	838
Other equipment	39,607	43,372	38,063
	$ 109,720	$ 125,047	$ 90,480

	Land	Machinery and Equipment	Transportation Equipment	Office Equipment	Leasehold Improvements	Other Equipment	Total
Cost							
Balance at January 1, 2020	$ 28	$ 317,209	$ 87	$ 119,610	$ 80,528	$ 266,001	$ 783,463
Additions	-	3,501	-	1,211	-	3,743	8,455
Disposals	-	(10,009)	-	(1,986)	-	(106)	(12,101)
Transfer	-	177	-	106	-	-	283
Balance at June 30, 2020	28	310,878	87	118,941	80,528	269,638	780,100
Accumulated depreciation							
Balance at January 1, 2020	-	248,118	87	107,764	79,818	222,629	658,416
Depreciation	-	14,102	-	2,239	216	7,508	24,065
Disposals	-	(10,009)	-	(1,986)	-	(106)	(12,101)
Balance at June 30, 2020	-	252,211	87	108,017	80,034	230,031	670,380
	$ 28	$ 58,667	$ -	$ 10,924	$ 494	$ 39,607	$ 109,720
Cost							
Balance at January 1, 2019	$ 28	$ 275,437	$ 155	$ 121,048	$ 80,448	$ 252,813	$ 729,929
Additions	-	6,745	-	1,616	-	3,150	11,511
Disposals	-	(5,801)	(34)	(3,571)	-	(1,008)	(10,414)
Balance at June 30, 2019	28	276,381	121	119,093	80,448	254,955	731,026
Accumulated depreciation							
Balance at January 1, 2019	-	231,151	155	109,613	79,395	211,530	631,844
Depreciation	-	10,559	-	1,947	215	6,370	19,091
Disposals	-	(5,776)	(34)	(3,571)	-	(1,008)	(10,389)
Balance at June 30, 2019	-	235,934	121	107,989	79,610	216,892	640,546
	$ 28	$ 40,447	$ -	$ 11,104	$ 838	$ 38,063	$ 90,480

12. LEASE ARRANGEMENTS

a. Right-of-use assets

	Buildings	Machinery and Equipment	Transportation Equipment	Other Equipment	Total
Cost					
Balance at January 1, 2020	$ 254,865	$ 497,473	$ 37,254	$ 1,485	$ 791,077
Deduction	-	(500)	-	(197)	(697)
Balance at June 30, 2020	254,865	496,973	37,254	1,288	790,380
Accumulated depreciation					
Balance at January 1, 2020	81,897	61,881	17,321	990	162,089
Depreciation	41,274	30,841	9,091	473	81,679
Deduction	-	(500)	-	(175)	(675)
Balance at June 30, 2020	123,171	92,222	26,412	1,288	243,093
	$ 131,694	$ 404,751	$ 10,842	$ -	$ 547,287
Cost					
Balance at January 1, 2019	$ 251,857	$ 497,473	$ 30,659	$ 1,433	$ 781,422
Additions	-	-	2,215	53	2,268
Balance at June 30, 2019	251,857	497,473	32,874	1,486	783,690
Accumulated depreciation					
Balance at January 1, 2019	-	-	-	-	-
Depreciation	40,786	30,941	8,521	495	80,743
Balance at June 30, 2019	40,786	30,941	8,521	495	80,743
	$ 211,071	$ 466,532	$ 24,353	$ 991	$ 702,947

b. Lease liabilities

	Lease Term	Discount Rate	June 30, 2020	December 31, 2019	June 30, 2019
Buildings	2-10 years	0.66%-0.87%	$ 127,987	$ 169,049	$ 206,290
Machinery and equipment	2-9 years	0.59%-0.87%	382,847	410,876	438,784
Transportation equipment	3-5 years	0.59%-0.73%	10,884	19,983	24,390
Other equipment	1.5-3 years	0.59%	-	497	993
			521,718	600,405	670,457
Less: Recognized as current lease liabilities			(115,231)	(153,230)	(159,112)
Lease liabilities - non-current			$ 406,487	$ 447,175	$ 511,345

c. Material lease terms

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

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

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

d. Other lease information

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Expenses relating to short-term leases	$ 1,056	$ 1,197	$ 1,913	$ 2,335
Expenses relating to low-value asset leases	$ 93	$ 31	$ 240	$ 61
Total cash outflow for leases	$ (40,723)	$ (40,982)	$ (82,496)	$ (76,982)

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

13. INTANGIBLE ASSETS

	June 30, 2020	December 31, 2019	June 30, 2019
Operating concession assets	$ 383,796,986	$ 390,113,063	$ 395,979,795
Computer software, net	61,939	54,413	47,971
	$ 383,858,925	$ 390,167,476	$ 396,027,766

a. Movements of the intangible assets

	Operating Concession Assets						
	Operating Assets	Profit Sharing Payments	Period Extension Cost	Construction in Progress	Total	Computer Software, Net	Total
Cost							
Balance at January 1, 2020	$ 476,122,275	$ 69,972,043	$ 12,701,819	$ 739,116	$ 559,535,253	$ 446,577	$ 559,981,830
Additions	135,049	-	-	534,800	669,849	5,941	675,790
Disposals	(2,343,375)	-	-	-	(2,343,375)	-	(2,343,375)
Transfer	412,545	-	-	(426,749)	(14,204)	13,714	(490)
Balance at June 30, 2020	474,326,494	69,972,043	12,701,819	847,167	557,847,523	466,232	558,313,755
Accumulated amortization							
Balance at January 1, 2020	151,660,749	16,738,071	1,023,370	-	169,422,190	392,164	169,814,354
Amortization	6,287,394	548,803	120,397	-	6,956,594	12,129	6,968,723
Disposals	(2,328,247)	-	-	-	(2,328,247)	-	(2,328,247)
Balance at June 30, 2020	155,619,896	17,286,874	1,143,767	-	174,050,537	404,293	174,454,830
	$ 318,706,598	$ 52,685,169	$ 11,558,052	$ 847,167	$ 383,796,986	$ 61,939	$ 383,858,925
Cost							
Balance at January 1, 2019	$ 473,162,271	$ 69,972,043	$ 12,701,819	$ 1,355,857	$ 557,191,990	$ 428,411	$ 557,620,401
Additions	118,491	-	-	1,556,087	1,674,578	1,045	1,675,623
Disposals	(156,166)	-	-	-	(156,166)	-	(156,166)
Transfer	2,427,914	-	-	(2,427,088)	826	1,460	2,286
Balance at June 30, 2019	475,552,510	69,972,043	12,701,819	484,856	558,711,228	430,916	559,142,144
Accumulated amortization							
Balance at January 1, 2019	139,599,984	15,640,464	782,578	-	156,023,026	374,166	156,397,192
Amortization	6,193,754	548,803	120,396	-	6,862,953	8,779	6,871,732
Disposals	(154,546)	-	-	-	(154,546)	-	(154,546)
Balance at June 30, 2019	145,639,192	16,189,267	902,974	-	162,731,433	382,945	163,114,378
	$ 329,913,318	$ 53,782,776	$ 11,798,845	$ 484,856	$ 395,979,795	$ 47,971	$ 396,027,766

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

	June 30, 2020	December 31, 2019	June 30, 2019
Operating assets, net			
Land improvements	$ 163,335,101	$ 165,016,977	$ 166,717,231
Buildings	27,272,696	27,558,084	27,840,747
Machinery and equipment	26,259,219	27,012,524	27,433,084
Transportation equipment	101,809,494	104,848,364	107,910,023
Other equipment	30,088	25,577	12,233
	$ 318,706,598	$ 324,461,526	$ 329,913,318
Construction in progress			
Prepayments for equipment	$ 847,167	$ 739,116	$ 484,856

c. Operating concession - rental

According to the HSR Right-of-Way Map and the HSR Overpass/Underpass Superficies Space Map appended to the C&O Agreement, the Corporation acquired superficies from the MOTC on the land of transportation infrastructure and pays the rental every year, including routes, maintenance bases, and stations. The rental is governed by the Public-owned Land Rent Preferential Treatment Scheme under the Statute for Encouragement of Private Participation in Transportation Infrastructure Projects, and is subject to the changes in the future reported price of public-owned land and usage of such public-owned land and other relevant factors. The Corporation prepays the rental for the following year by the end of each year, and if the reported price of public-owned land is adjusted, the discrepancies due to that should be paid off in the same year. As of June 30, 2020, the superficies encompasses northern area to southern area of Taiwan, from Land Lot No. 1042-0001 of Tongxing Section, Xizhi District, New Taipei City located on the north to Land Lot No. 0419-0002 of Subsection 6, Hsinchuang Section, Zuoying District, Kaohsiung City located on the south. The term of such acquired superficies is from the date of their registration to the date of expiration or termination of the C&O Agreement.

14. OTHER ASSETS

	June 30, 2020	December 31, 2019	June 30, 2019
Other current assets			
Prepayments	$ 959,310	$ 1,290,402	$ 519,719
Others	50,365	53,931	41,326
	$ 1,009,675	$ 1,344,333	$ 561,045
Other non-current assets			
Others	$ 7,369	$ 9,240	$ 13,252

15. BORROWINGS

a. Short-term borrowings

	June 30, 2020	December 31, 2019	June 30, 2019
Japanese yen ("JPY") letters of credit	$ 126,945	$ 64,980	$ 295,380

The range of interest rates on short-term borrowings at the end of the reporting periods were as follows:

	June 30, 2020	December 31, 2019	June 30, 2019
JPY letters of credit	0.63%-0.85%	0.62%-0.74%	0.62%-0.74%

b. Long-term debt

	June 30, 2020	December 31, 2019	June 30, 2019
Syndicated loan			
Tranche A1 Facility (from May 4, 2010 to May 4, 2049)	$ 116,640,000	$ 120,000,000	$ 120,000,000
Tranche A2 Facility (from May 4, 2010 to May 4, 2048)	151,565,117	156,205,117	156,205,117
	268,205,117	276,205,117	276,205,117
Less: Unamortized cost of long-term debt	(101,274)	(104,800)	(108,136)
	268,103,843	276,100,317	276,096,981
Less: Current portion			
Tranche A1 Facility	(4,440,000)	-	-
Tranche A2 Facility	(6,060,000)	-	-
Unamortized cost of long-term debt	3,963	-	-
	(10,496,037)		-
	$ 257,607,806	$ 276,100,317	$ 276,096,981

The Corporation has entered into the Taiwan North-South High Speed Rail Construction and Operation Tripartite Agreement (the "Tripartite Agreement") with the MOTC and Bank of Taiwan on January 8, 2010, and the NT$382 billion Syndicated Loan Agreement with respect to Taiwan North-South High Speed Rail Construction and Operation Project (the "Syndicated Loan Agreement") with a group of eight syndicated banks. The syndicated banks of the Syndicated Loan Agreement consist of Bank of Taiwan, Mega International Commercial Bank, Taiwan Cooperative Bank, Land Bank of Taiwan, First Commercial Bank, Taiwan Business Bank, Chang Hwa Commercial Bank, and Hua Nan Commercial Bank. The significant terms are as follows:

1) The syndicated loan includes Tranches A1, A2, A3, B, C and D with different credit facilities. Tranches A1, A2, C and D are credit facilities, Tranche A3 is corporate bond guarantee facility, and Tranche B is performance guarantee facility. Tranche A3, C and D were fully redeemed and cannot be issued afterwards.

2) The Corporation provided assets (refer to assets to be transferred to the MOTC under the C&O Agreement) as collateral for the syndicated loan (the Corporation's assets are not required to be registered with the syndicated banks for creating rights attached to the Corporation's such assets). When the value of the collateral is less than the balance of the outstanding syndicated loan, the Corporation shall negotiate with Bank of Taiwan and the MOTC for solutions. However, if an

agreement cannot be reached within 45 days after the date of the negotiation notice issued by Bank of Taiwan, the Corporation should redeem the difference immediately. The aforementioned collateral is inspected in May and November every year. The re-assessment mechanism for collateral value is inactive when Tranche B Facility is not utilized.

3) According to the Syndicated Loan Agreement, the Corporation opened capital account and reserve account at Bank of Taiwan for deposits and financial instruments. The Corporation is free to use the capital account; however, the reserve account is restricted and pledged as collateral to Bank of Taiwan, and is recorded as other financial assets. Please refer to Notes 10 and 29 for further information.

4) The repayment method and interest rates of the Syndicated Loan Agreement are as follows:

a) Term of loan and repayment method

	Term of Loan	Number of Semi-annual Installment Repayment	Ratio of Repayment
Tranche A1 Facility	May 4, 2021-November 4, 2040	Installments 01-40	1.5% per installment
	May 4, 2041-November 4, 2049	Installments 41-58	2.0% per installment
	May 4, 2050	Installments 59	4.0% per installment
Tranche A2 Facility	May 4, 2021-November 4, 2040	Installments 01-40	1.5% per installment
	May 4, 2041-November 4, 2049	Installments 41-58	2.0% per installment
	May 4, 2050	Installments 59	4.0% per installment

On March 3, 2020, the Corporation made early repayment for $8 billion and repaid interest differences for $276,433 thousand due to early repayment of the loan.

On July 2, 2020, the Corporation made early repayment for $10.5 billion and repaid interest differences for $358,420 thousand due to early repayment of the loan. The most recent repayment date for Tranche A1 and A2 Facilities are both May 4, 2023.

After the Corporation’s early repayment in 2017 and 2018, the final repayment date for Tranche A1 and A2 Facilities are May 4, 2049 and May 4, 2048, respectively.

b) Interest rates

The interest rates (including 5% VAT) of the Tranche A1 Facility and Tranche A2 Facility are determined as the reference rate (1-year time deposit floating rate of Chunghwa Post Co., Ltd.) plus spread as listed on the table below. Due to the step-up spread mechanism, the Corporation shall make up for the deficit of the interests below the agreed interest rate to the syndicated banks if early redemption occurs. As of June 30, 2020, December 31, 2019 and June 30, 2019, the reference rate were 0.81%, 1.06% and 1.06%, respectively.

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

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

a) Effective interest rates

	June 30, 2020	December 31, 2019	June 30, 2019
Tranche A1 Facility	1.65%	1.91%	1.91%
Tranche A2 Facility	1.66%	1.92%	1.92%

b) Accrued interest expense (included in other payables)

	June 30, 2020	December 31, 2019	June 30, 2019
Syndicated loan			
Tranche A1 Facility	$ 326,162	$ 212,417	$ 205,565
Tranche A2 Facility	433,742	276,505	267,586
	$ 759,904	$ 488,922	$ 473,151

c) Long-term interest payable

	June 30, 2020	December 31, 2019	June 30, 2019
Syndicated loan			
Tranche A1 Facility	$ 3,501,343	$ 3,870,760	$ 3,977,026
Tranche A2 Facility	4,087,206	4,579,320	4,710,366
	$ 7,588,549	$ 8,450,080	$ 8,687,392

d) Interest expense

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Syndicated loan				
Interest expense	$ 1,107,274	$ 1,317,869	$ 2,399,527	$ 2,620,324

16. BONDS PAYABLE

	June 30, 2020	December 31, 2019	June 30, 2019
Domestic unsecured bond	$ 8,000,000	$ 8,000,000	$ -
Less: Unamortized issuance cost	(9,514)	(9,671)	-
	$ 7,990,486	$ 7,990,329	$ -

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

17. OPERATING CONCESSION LIABILITIES

	June 30, 2020	December 31, 2019	June 30, 2019
Operating concession liabilities	$ 78,533,777	$ 78,516,696	$ 77,726,967
Value of returned superficies for offset of profit sharing payable	(22,699,516)	(22,475,984)	(22,253,820)
	$ 55,834,261	$ 56,040,712	$ 55,473,147
Current	$ 137,345	$ 777,511	$ 417,507
Non-current	55,696,916	55,263,201	55,055,640
	$ 55,834,261	$ 56,040,712	$ 55,473,147

According to the C&O Agreement, the Corporation is required to share profit with the MOTC for the development and construction of HSR infrastructure and facilities. Please refer to Note 30.a.2) for further information. The minimum commitment to profit sharing payments of $108 billion was discounted and recognized as operating concession assets and operating concession liabilities, and related amortization expense and interest expense, respectively, are recognized during the concession period. The information about the amortization expense of operating concession assets and the interest expense of operating concession liabilities during the concession period is summarized as follows:

Year	Amortization Expense	Interest Expense	Total
Up to December 31, 2019	$ 16,738,071	$ 19,923,685	$ 36,661,756
First half year of 2020	548,803	794,592	1,343,395
	17,286,874	20,718,277	38,005,151
Second half year of 2020 (estimate)	548,805	803,323	1,352,128
2021 (estimate)	1,097,608	1,629,873	2,727,481
2022 (estimate)	1,097,608	1,662,470	2,760,078
2023 (estimate)	1,097,608	1,395,720	2,493,328
2024 (estimate)	1,097,608	1,423,634	2,521,242
2025-2033 (estimate)	9,878,472	10,394,660	20,273,132
2034-2068 (estimate)	37,867,460	-	37,867,460
	52,685,169	17,309,680	69,994,849
	$ 69,972,043	$ 38,027,957	$ 108,000,000

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

Year	Other Gain	Deduction of Interest Expense	Total
Up to December 31, 2019	$ 22,613,234	$ 1,866,271	$ 24,479,505
First half year of 2020	-	223,532	223,532
	22,613,234	2,089,803	24,703,037
Second half year of 2020 (estimate)	-	225,988	225,988
2021 (estimate)	-	458,510	458,510
2022 (estimate)	-	467,680	467,680
2023 (estimate)	-	391,989	391,989
2024 (estimate)	-	399,829	399,829
2025-2033 (estimate)	-	3,137,822	3,137,822
	-	5,081,818	5,081,818
	$ 22,613,234	$ 7,171,621	$ 29,784,855

As of June 30, 2020, the Corporation's accumulated profit sharing payments paid to the MOTC amounted to $10,153,022 thousand (or accumulated profit sharing payments for 12,156,543 thousand less the deductible amount of returned superficies for $2,003,521 thousand).

18. PROVISIONS

a. Provisions

	June 30, 2020	December 31, 2019	June 30, 2019
Current			
Provision for controversial overtime pay	$ 283,279	$ 283,279	$ 283,279
Provision for stabilization reserve	6,084,658	6,084,658	-
	$ 6,367,937	$ 6,367,937	$ 283,279
Non-current			
Provision for stabilization reserve	$ 9,729,166	$ 10,000,000	$ 12,763,679

b. Movements in provisions were as follows:

	Balance at January 1, 2020	Reversal	Balance at June 30, 2020
Current			
Provision for controversial overtime pay	$ 283,279	$ -	$ 283,279
Provision for stabilization reserve	6,084,658	-	6,084,658
	$ 6,367,937	$ -	$ 6,367,937
Non-current			
Provision for stabilization reserve	$ 10,000,000	$ (270,834)	$ 9,729,166

	Balance at January 1, 2019	Addition	Balance at June 30, 2019
Current			
Provision for controversial overtime pay	$ 283,279	$ -	$ 283,279
Non-current			
Provision for stabilization reserve	$ 9,560,897	$ 3,202,782	$ 12,763,679

1) Controversial overtime pay

Part of the Corporation's employees are required to work in shifts due to the nature of the Corporation's business. The national holidays are adjusted to regular holidays for employees who work in shifts and the combination of adjusted national holidays and regular holidays has been excluded in the calculation of regular working hours for the entire year. However, the Taiwan High Speed Rail Corporation Labor Union (the "THSRC Labor Union") claimed that overtime should be paid if employees working in shifts worked on national holidays. Concerning the controversy over the calculation of overtime hours in every two consecutive weeks, and the improvement of policy on recess during regular days and holidays, in January 2016, the THSRC Labor Union proclaimed that employees working in shifts should cease to work overtime on Chinese New Year Holidays. In order to uphold the rights of both the passengers and employees, the Corporation has reached an agreement regarding the aforementioned controversy with the THSRC Labor Union on January 21, 2016. The Corporation shall finish the calculation of overtime hours and overtime pay on the abovementioned adjusted national holidays and working hours of two consecutive weeks, and after confirmation of the calculated amount of overtime, the Corporation shall sign agreements with employees individually, and half of the overtime pay shall be paid as an incentive bonus. The Corporation and the THSRC Labor Union agreed to settle the litigation on the Taipei City Government Labor Sanction in the Taipei High Administrative Court. In the final judgment, if the Corporation loses the lawsuit, the abovementioned incentive bonus shall be considered as part of the overtime pay to the employees; if the Corporation wins the lawsuit, the abovementioned incentive bonus shall remain in its nature as incentive bonus and does not need to be returned to the Corporation. This administrative litigation was rejected by Taipei High Administrative Court in June 2018. After the Corporation lodged an appeal against the verdict, the Supreme Administrative Court has decided that the original judgment be remanded to the Taipei High Administrative Court in October 2019. The lawsuit is still under the review of the court now.

As of June 30, 2020, the Corporation evaluated the most likely result and recognized the provision for controversial overtime pay for $283,279 thousand.

2) Stabilization reserve

Please refer to Note 30.a.3) regarding the recognition and reversal of provision for stabilization reserve.

19. OTHER LIABILITIES

	June 30, 2020	December 31, 2019	June 30, 2019
Other payables			
Accrued expenses	$ 1,707,084	$ 2,362,196	$ 1,671,022
Accrued interest expense	840,031	505,382	473,293
Business tax payable	213,484	304,910	321,846
Others	32,298	24,874	46,207
	$ 2,792,897	$ 3,197,362	$ 2,512,368
Other current liabilities			
Contract liabilities (Note 22)	$ 516,018	$ 1,233,056	$ 563,308
Lease liabilities (Note 12)	115,231	153,230	159,112
Receipts under custody	29,990	28,929	27,658
Rent received in advance	29,938	49,813	-
Others	31,607	12,887	14,339
	$ 722,784	$ 1,477,915	$ 764,417
Other non-current liabilities			
Net defined benefit liabilities	$ 254,978	$ 256,562	$ 209,299
Guarantee deposits received	207,757	189,868	167,619
Deferred revenue	13,908	5,895	7,206
	$ 476,643	$ 452,325	$ 384,124

20. RETIREMENT BENEFIT PLANS

a. Defined contribution plan

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

b. Defined benefit plan

The Corporation also adopted a defined benefit plan under the Labor Standards Law (the “LSL”). Under the LSL, pension benefits are calculated based on the length of service and average monthly salaries of the six months before retirement. The Corporation contributes amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committees’ name. Before the end of each year, the Corporation assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the following year, the Corporation is required to fund the difference in a one-time appropriation that shall be made before the end of March of the following year.

Employee benefit expenses under defined benefit plans were calculated using the actuarially determined pension cost discount rate.

c. Please refer to Note 23.a. for the expenses of defined contribution plan and defined benefit plan recorded as pension costs in comprehensive income.

21. EQUITY

a. Capital stock

	June 30, 2020	December 31, 2019	June 30, 2019
Number of shares authorized (in thousands)	12,000,000	12,000,000	12,000,000
Shares authorized	$ 120,000,000	$ 120,000,000	$ 120,000,000
Number of shares issued and fully paid (in thousands)	5,628,293	5,628,293	5,628,293
Share capital issued and outstanding	$ 56,282,930	$ 56,282,930	$ 56,282,930

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

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

b. Capital surplus

	June 30, 2020	December 31, 2019	June 30, 2019
Issuance of common stock	$ 171,885	$ 171,885	$ 171,885
Forfeited employee share options	1,096	1,096	1,096
	$ 172,981	$ 172,981	$ 172,981

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

c. Legal reserve and appropriation of earnings

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

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

For the information on the appropriation policy, actual distributions of employees' compensation and remuneration to directors, please refer to Note 23.a.

The appropriations of earnings for 2019 and 2018 approved in the stockholders' meetings on May 21, 2020 and May 30, 2019, respectively, were as follows:

	Appropriation of Earnings		Dividends Per Share (NT$)	
	For Fiscal Year 2019	For Fiscal Year 2018	For Fiscal Year 2019	For Fiscal Year 2018
Legal reserve	$ 800,703	$ 1,069,638		
Cash dividends	6,810,797	6,303,688	$1.2101	$1.1200
	$ 7,611,500	$ 7,373,326		

Information on the appropriations of earnings is available at the Market Observation Post System website of the Taiwan Stock Exchange.

22. REVENUE

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Revenue from contracts with customers				
Railroad transportation revenue	$ 7,376,467	$ 11,531,405	$ 16,611,091	$ 22,941,751
Other operating revenue	228,831	335,122	594,490	686,966
	$ 7,605,298	$ 11,866,527	$ 17,205,581	$ 23,628,717

a. Contract balances

	June 30, 2020	December 31, 2019	June 30, 2019	January 1, 2019
Notes and accounts receivable	$ 261,521	$ 333,092	$ 463,471	$ 505,565
Contract liabilities				
Railroad transportation revenue	$ 354,896	$ 1,163,968	$ 429,399	$ 534,736
Customer loyalty programmer	147,363	62,629	120,519	120,467
Others	13,759	6,459	13,390	10,338
	$ 516,018	$ 1,233,056	$ 563,308	$ 665,541

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

Revenue of the reporting period recognized from the beginning balance of contract liability is as follows:

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
From the beginning balance of contract liability				
Railroad transportation revenue	$ 12,511	$ 1,871	$ 1,153,574	$ 526,364
Customer loyalty programmer	12,241	15,905	19,674	30,026
Others	69	2,394	5,819	10,336
	$ 24,821	$ 20,170	$ 1,179,067	$ 566,726

b. Revenue from contracts with customers

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

23. INCOME BEFORE INCOME TAX

a. Employee benefits expense

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Post-employment benefits				
Defined contribution plan	$ 47,429	$ 47,201	$ 94,399	$ 92,028
Defined benefit plan	3,969	4,135	7,937	8,271
	51,398	51,336	102,336	100,299

(Continued)

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Short-term employee benefits				
Payroll	$ 1,038,110	$ 1,030,509	$ 2,128,709	$ 2,090,189
Insurance	95,688	92,743	190,746	184,790
Others	46,965	48,408	94,247	96,858
	1,180,763	1,171,660	2,413,702	2,371,837
	$ 1,232,161	$ 1,222,996	$ 2,516,038	$ 2,472,136
An analysis of employee benefits expense by function				
Operating costs	$ 1,007,153	$ 994,682	$ 2,085,900	$ 2,038,686
Operating expenses	225,008	228,314	430,138	433,450
	$ 1,232,161	$ 1,222,996	$ 2,516,038	$ 2,472,136

(Concluded)

For the three months and six months ended June 30, 2020, the professional service fee was $419 thousand and $1,256 thousand, respectively. For the three months and six months ended June 30, 2019, the professional service fee was $1,585 thousand and $3,206 thousand, respectively.

Under the Corporation's Articles of Incorporation, if there is any after-tax profit at the end of the year, the Corporation shall first make up for accumulated losses and then distribute employees' compensation and remuneration to directors at the rates not less than 1% and not higher than 1%, respectively, of remaining distributable profit. The employees' compensation and remuneration to directors of the Corporation were calculated based on income before income tax (net of the employees' compensation and remuneration to directors) according to the above policy. For the three months and six months ended June 30, 2020, the estimated employees' compensation in cash was $5,886 thousand and $28,173 thousand, and the estimated remuneration to directors in cash was $1,471 thousand and $7,043 thousand, respectively. For the three months and six months ended June 30, 2019, the estimated employees' compensation in cash was $41,089 thousand and $85,642 thousand, and the estimated remuneration to directors in cash was $10,273 thousand and $21,411 thousand, respectively.

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

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

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

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

b. Depreciation and amortization

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Property, plant and equipment	$ 12,144	$ 9,658	$ 24,065	$ 19,091
Right-of-use assets	40,779	40,438	81,679	80,743
Intangible assets	3,488,451	3,440,991	6,968,723	6,871,732
Other non-current assets	1,127	1,149	2,248	2,330
	$ 3,542,501	$ 3,492,236	$ 7,076,715	$ 6,973,896
An analysis of depreciation by function				
Operating costs	$ 46,634	$ 44,692	$ 93,194	$ 89,021
Operating expenses	6,289	5,404	12,550	10,813
	$ 52,923	$ 50,096	$ 105,744	$ 99,834
An analysis of amortization by function				
Operating costs	$ 3,488,127	$ 3,440,960	$ 6,968,173	$ 6,871,730
Operating expenses	1,451	1,180	2,798	2,332
	$ 3,489,578	$ 3,442,140	$ 6,970,971	$ 6,874,062

c. Interest income

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Interest income of repurchase agreement collateralized by government bonds	$ 31,032	$ 25,847	$ 77,693	$ 50,744
Interest income of bank deposits	10,631	10,451	20,332	20,781
Others	8	8	16	16
	$ 41,671	$ 36,306	$ 98,041	$ 71,541

d. Interest expense

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Interest on bank loans	$ 1,109,070	$ 1,319,757	$ 2,403,072	$ 2,624,130
Interest on operating concession liabilities	285,530	280,699	571,060	558,312

(Continued)

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Interest on bonds payable	$ 31,906	$ -	$ 63,812	$ -
Interest on long-term bills payable	-	-	-	13,130
Others	1,202	1,759	3,758	3,871
	$ 1,427,708	$ 1,602,215	$ 3,041,702	$ 3,199,443

(Concluded)

e. Other gains and losses

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Liquidated damages and termination compensation	$ 25,514	$ 887	$ 32,918	$ 1,863
Government grants	2,623	1,589	8,027	2,244
Gains on financial assets at FVTPL	4,143	455	4,596	902
Compensation gain	415	26,867	3,563	44,014
Loss on disposal of intangible assets, net	(633)	(1,289)	(9,110)	(1,306)
Foreign exchange loss, net	(6,234)	(10,585)	(4,942)	(6,238)
Others	6,467	2,379	7,465	3,383
	$ 32,295	$ 20,303	$ 42,517	$ 44,862

24. INCOME TAX

a. Income tax recognized in profit or loss

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Current tax				
In respect of the current period	$ (1,165)	$ (26,470)	$ (25,196)	$ (59,306)
Income tax on unappropriated earnings	(17,822)	(162,128)	(17,822)	(162,128)
Adjustments for prior periods	125,958	244	123,816	244
Deferred tax	43,580	133,283	112,808	281,920
Income tax benefit (expense)	$ 150,551	$ (55,071)	$ 193,606	$ 60,730

Under the amendment to the ROC Statute of Industrial Innovation in 2019, the amounts of unappropriated earnings in 2018 and thereafter that are reinvested in the construction or purchase of certain assets or technologies are allowed as deduction when computing the income tax on unappropriated earnings.

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

b. Income tax assessments

The tax authorities have assessed the tax returns through 2017.

25. EARNINGS PER SHARE

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	**2019**	**2020**	**2019**
Basic earnings per share (NT$)	$ 0.08	$ 0.34	$ 0.28	$ 0.75

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

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	**2019**	**2020**	**2019**
Earnings attributable to common stockholders	$ 437,528	$ 1,948,051	$ 1,567,050	$ 4,235,795
Weighted average number of common stock in the computation of basic earnings per share (in thousands)	5,628,293	5,628,293	5,628,293	5,628,293

26. CAPITAL MANAGEMENT

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

27. FINANCIAL INSTRUMENTS

a. Financial instruments

	June 30, 2020	December 31, 2019	June 30, 2019
Financial assets			
Financial assets at FVTPL	$ 10,452,039	$ 330,443	$ 329,546
Financial assets at amortized cost			
Other financial assets	22,459,376	24,310,267	23,320,531
Others (Note 1)	5,229,815	16,641,362	2,018,919
Financial liabilities			
Financial liabilities for hedging	725	-	-
Financial liabilities at amortized cost (Note 2)	342,291,073	351,625,069	343,222,767

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

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

b. Fair value of financial instruments

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

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

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

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

a) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;

b) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

c) Level 3 inputs are unobservable inputs for the asset or liability.

June 30, 2020

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Open-end money market funds	$ 10,452,039	$ -	$ -	$ 10,452,039
Financial liabilities for hedging				
Forward exchange contracts	$ -	$ 725	$ -	$ 725

December 31, 2019

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Open-end money market funds	$ 330,443	$ -	$ -	$ 330,443

June 30, 2019

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Open-end money market funds	$ 329,546	$ -	$ -	$ 329,546

There were no transfers between Level 1 and Level 2 for the six months ended June 30, 2020 and 2019.

3) Valuation techniques and assumptions applied for measuring fair value

The fair values of financial assets and financial liabilities were determined as follows:

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

b) The fair values of derivative financial instruments are determined using valuation techniques because no market prices are available. Forward exchange contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

c. Financial risk management objectives and policies

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

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

1) Market risk

a) Foreign currency risk

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

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

	June 30, 2020		
	Foreign Currencies	**Exchange Rate**	**New Taiwan Dollars**
Financial assets			
Monetary items			
USD	$ 22,526	29.660	$ 668,121
JPY	370	0.2753	102
Financial liabilities			
Monetary items			
USD	48	29.660	1,424
JPY	1,357,863	0.2753	373,820

	December 31, 2019		
	Foreign Currencies	**Exchange Rate**	**New Taiwan Dollars**
Financial assets			
Monetary items			
USD	$ 22,319	30.106	$ 671,940
JPY	4,931	0.2770	1,366
Financial liabilities			
Monetary items			
JPY	889,301	0.2770	246,337

	June 30, 2019		
	Foreign Currencies	**Exchange Rate**	**New Taiwan Dollars**
Financial assets			
Monetary items			
USD	$ 22,053	31.072	$ 685,239
JPY	4,931	0.2886	1,423

(Continued)

	June 30, 2019		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars
Financial liabilities			
Monetary items			
JPY	$ 2,468,246	0.2886	$ 712,336

(Concluded)

The Corporation was mainly exposed to USD and JPY foreign currency exchange risks. The sensitivity analysis related to foreign currency exchange rate risk was mainly calculated for foreign currency monetary items at the balance sheet date. If the U.S. dollar weakened against the New Taiwan dollar by 1%, income before income tax would have decreased by $6,667 thousand and $6,852 thousand for the six months ended June 30, 2020 and 2019, respectively. If the JPY strengthened against the New Taiwan dollar by 1%, the income before income tax would have decreased by $2,486 thousand and $7,109 thousand for the six months ended June 30, 2020 and 2019, respectively.

The significant unrealized exchange gain and loss were as follows:

	For the Three Months Ended June 30			
	2020		2019	
Foreign Currency	Exchange Rate	Exchange Gain (Loss), Net	Exchange Rate	Exchange Gain (Loss), Net
USD	29.660	$ (5,682)	31.072	$ 5,564
JPY	0.2753	3,472	0.2886	(12,617)

	For the Six Months Ended June 30			
	2020		2019	
Foreign Currency	Exchange Rate	Exchange Gain (Loss), Net	Exchange Rate	Exchange Gain (Loss), Net
USD	29.660	$ 9,182	31.072	$ 4,770
JPY	0.2753	(1,112)	0.2886	(4,427)

b) Interest rate risk

As of June 30, 2020 and 2019, the Corporation's syndicated loan with floating interest rates amounted to $268,205,117 thousand and $276,205,117 thousand, respectively. If the market interest rate increased by 1% and all other variables were held constant, the income before income tax of the Corporation would have decreased by $1,341,026 thousand and $1,381,026 thousand for the six months ended June 30, 2020 and 2019, respectively.

c) Other price risk

The investments in open-end money market funds (recorded as financial assets at FVTPL) exposed the Corporation to equity price risk. If the price of the funds decreased by 1%, income before income tax would have decreased by $104,520 thousand and $3,295 thousand for the six months ended June 30, 2020 and 2019, respectively.

2) Credit risk

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

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

3) Liquidity risk

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

The following table details the Corporation's remaining contractual maturity for its long-term debt and interest on long-term debt (please refer to Note 15.b.), operating concession liabilities, lease liabilities, and bonds payable based on the undiscounted cash flows (excluding the hedging financial instruments and non-hedging financial liabilities that are to be settled within one year from the balance sheet date):

June 30, 2020

Repayment Period	Long-term Debt (Including Current Portion)	Interest on Long-term Debt	Operating Concession Liabilities	Lease Liabilities	Principal and Interest on Bonds Payable	Total
2020.7.1-2020.9.30	$ 10,500,000	$ 1,069,476	$ -	$ 40,187	$ -	$ 11,609,663
2020.10.1-2021.6.30	-	4,630,139	731,700	75,479	128,000	5,565,318
2021.7.1-2022.6.30	-	7,206,360	7,859,512	79,220	128,000	15,273,092
2022.7.1-2023.6.30	4,465,384	7,636,806	116,525	74,415	128,000	12,421,130
2023.7.1-2024.6.30	9,186,153	7,996,805	182,113	74,309	128,000	17,567,380
2024.7.1-2025.6.30	9,186,153	7,866,601	142,002	73,575	128,000	17,396,331
2025.7.1-2034.6.30	78,082,306	58,060,696	59,030,271	118,593	1,152,000	196,443,866
2034.7.1-2049	156,785,121	42,743,477	-	-	10,048,000	209,576,598
	$ 268,205,117	$ 137,210,360	$ 68,062,123	$ 535,778	$ 11,840,000	$ 485,853,378

December 31, 2019

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

June 30, 2019

Repayment Period	Long-term Debt	Interest on Long-term Debt	Operating Concession Liabilities	Lease Liabilities	Total
2019.7.1-2019.9.30	$ -	$ 1,749,124	$ -	$ 39,761	$ 1,788,885
2019.10.1-2020.6.30	-	5,531,344	700,606	119,997	6,351,947
2020.7.1-2021.6.30	4,593,077	8,301,931	715,300	113,789	13,724,097
2021.7.1-2022.6.30	9,186,153	8,995,807	7,952,817	77,343	26,212,120
2022.7.1-2023.6.30	9,186,153	8,786,546	116,525	73,277	18,162,501
2023.7.1-2024.6.30	9,186,153	8,626,954	182,113	73,418	18,068,638
2024.7.1-2034.6.30	91,861,535	72,252,560	59,172,273	191,871	223,478,239
2034.7.1-2049	152,192,046	44,548,673	-	-	196,740,719
	$ 276,205,117	$ 158,792,939	$ 68,839,634	$ 689,456	$ 504,527,146

28. TRANSACTIONS WITH RELATED PARTIES

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

The Corporation is not required to disclose transactions and outstanding balances with the government-related entities. In addition to the C&O Agreement entered into with MOTC as stated in Note 30, the names of related parties, relationships, and the nature and amounts of the significant transactions were summarized as follows:

a. Name of related party and relationship

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

b. Operating revenue

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

c. Operating costs

1) Profit sharing payments

According to the C&O Agreement, during the operating period, the Corporation shall make profit sharing payments at 10% of the net income before income tax to the MOTC each year for the development and construction of HSR infrastructure and facilities. The minimum commitment to profit sharing payments of $108 billion was discounted and recognized as intangible assets - operating concession assets and operating concession liabilities, and related amortization expense and interest expense, respectively, are recognized during the concession period. Please refer to Note 17 and Note 30.a.2) for further information.

2) Operating concession - rental

The transactions between the Corporation and the MOTC were as follows, and, as for the nature, please refer to Note 13.c. for further details:

a) Rental expense

	For the Three Months Ended June 30		**For the Six Months Ended June 30**	
	2020	**2019**	**2020**	**2019**
Railway Bureau, MOTC	$ 196,476	$ 196,509	$ 392,953	$ 393,018
Taiwan Railways Administration, MOTC	12,082	12,075	24,163	24,151
	$ 208,558	$ 208,584	$ 417,116	$ 417,169

b) Prepaid rentals (included in other current assets)

	June 30, 2020	**December 31, 2019**	**June 30, 2019**
Railway Bureau, MOTC	$ 392,953	$ 785,906	$ 393,018
Taiwan Railways Administration, MOTC	24,162	48,325	24,152
	$ 417,115	$ 834,231	$ 417,170

d. Non-operating income and expenses - interest expense

Please refer to Note 17 for the interest expense recognized on the operating concession liabilities, and the deduction of interest expense recognized on the value of returned superficies for offset of profit sharing payable using the effective interest method due to termination of the SZD Agreement.

e. Long-term debt

The Corporation has entered into the Tripartite Agreement with the MOTC and Bank of Taiwan. In addition, the Corporation has entered into the Syndicated Loan Agreement with Bank of Taiwan and seven other syndicated banks. If an early termination of the C&O Agreement occurs, the MOTC shall assume the remaining obligations under Tranche A Facility of the Syndicated Loan Agreement. Please refer to Note 15.b. for further information on the major terms, the term of loan, repayment method, interest rates, and early repayment of loan with respect to the Syndicated Loan Agreement.

f. Procurement contract

In August 2018, the Corporation entered into the "OCS Maintenance Vehicle Manufacturing and Supply Procurement Contract" with China Steel Corporation, and the contract value, including business tax, was $1,232,000 thousand. As of June 30, 2020, payments for the contract amounted to $117,333 thousand and were recognized as construction in progress of the operating concession assets under intangible assets.

In December 2017, the Corporation entered into the "Ticket Vending Machine Renovation and Maintenance Project" with InfoChamp Systems Corporation, and the contract value, including business tax, was $271,721 thousand. As of June 30, 2020, payments for the contract amounted to $181,749 thousand and unpaid payments (included in payable for construction) were $11,256 thousand. In addition, the Corporation received a fine of $6,521 thousand from the aforementioned vendor due to its performance delay, and recorded such receipt as other gains and losses. The Corporation has obtained the operating concession assets under intangible assets for $193,005 thousand in December 2019.

In November 2019, the Corporation entered into the "Passenger Information System Upgrade Projects - IV Lightbox Display System Construction Contract" with InfoChamp Systems Corporation, and the contract value, including business tax, was $72,828 thousand. As of June 30, 2020, payments for the contract amounted to $6,936 thousand and were recognized as construction in progress of the operating concession assets under intangible assets.

g. Lease arrangements

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

Line Item	Related Party	June 30, 2020	December 31, 2019	June 30, 2019
Lease liabilities (Note 12)	Cargo Service Headquarters of the Taiwan Railroad Administration Bureau, MOTC	$ 86,656	$ 93,000	$ 98,808
	Century Development Corporation	24,241	53,243	82,149
		$ 110,897	$ 146,243	$ 180,957

h. Compensation of key management personnel was as follows:

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Short-term employee benefits	$ 17,412	$ 26,864	$ 40,621	$ 55,440
Post-employment benefits	220	247	439	439
	$ 17,632	$ 27,111	$ 41,060	$ 55,879

29. PLEDGED ASSETS

Pledged Assets	Pledged to Secure	June 30, 2020	December 31, 2019	June 30, 2019
Other financial assets - current:				
Repurchase agreement collateralized by government bonds	Syndicated loan	$ 1,337,000	$ 1,577,000	$ 1,591,600
Time deposits	Trust deposit of unearned revenue	68,000	-	-
Time deposits	Guarantee for office lease	16,278	16,278	954
Time deposits	Guarantee for project subsidy	10,520	10,520	-
Time deposits	Guarantee for customs duties	-	22,442	22,442
Demand deposits	Trust deposit of unearned revenue	14,856	21,676	20,413
Demand deposits	Syndicated loan	1,108	1,224	1,996
Demand deposits	Project subsidy	41	2,001	5,642
		1,447,803	1,651,141	1,643,047
Other financial assets - non-current:				
Time deposits	Performance guarantee for the C&O Agreement	2,000,000	2,000,000	2,000,000
Time deposits	Guarantee for customs duties	42,000	20,000	20,000
Time deposits	Guarantee for parking lease	7,203	7,134	7,134
Time deposits	Guarantee for oil purchase	3,120	3,120	3,120
Time deposits	Trust deposit of unearned revenue	-	68,000	68,000
Time deposits	Guarantee for office lease	-	-	15,324
Time deposits	Guarantee for project subsidy	-	-	10,520
		2,052,323	2,098,254	2,124,098
		$ 3,500,126	$ 3,749,395	$ 3,767,145

30. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

a. Construction and operation agreement

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

1) The concession period, including the construction period and operating period, for the construction and operation of HSR is 70 years from the date of agreement, and can be extended pursuant to the C&O Agreement.

2) During the operating period, the Corporation shall make profit sharing payments at 10% of the net income before income tax to the MOTC each year for the development and construction of HSR infrastructure and facilities. However, if the accumulated amount of the profit sharing payments is less than the amount listed in the table below, the latter shall prevail.

As of the end of the fifth year of full operation	$ 2 billion
As of the end of the tenth year of full operation	10 billion
As of the end of the fifteenth year of full operation	25 billion
As of the end of the twentieth year of full operation	48 billion
As of the end of the twenty-fifth year of full operation	75 billion
As of July 23, 2033	108 billion

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

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

Starting from 2013, the Corporation prepares its financial statements in accordance with IFRSs endorsed by the FSC. Please refer to Note 17 for the recognition of profit sharing payments as operating concession liabilities.

3) The Corporation should establish a financial stabilization mechanism starting from 2016.

a) From 2016 to the year the stabilization reserve is calculated, if the annual average of net income (loss) and the effect of retrospective adjustments that resulted from the change in accounting policies exceed $3.5 billion, the stabilization reserve should be provided as described below:

i. If the Corporation's EBT in the current year is higher than A1 but less than A2, the EBT is regarded as operation incentive and no stabilization reserve should be provided (please refer to the note below for the definitions of EBT, A1, A2 and A3).

ii. If the Corporation's EBT in the current year is higher than A2 but less than A3, the stabilization reserve should be provided in the current year as follows:

(EBT - A2) × 50%

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

(A3 - A2) × 50% + (EBT - A3) × 70%

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

A1 = Net income of $3.5 billion ÷ (1 - the statutory tax rate)
A2 = Net income of $4.0 billion ÷ (1 - the statutory tax rate)
A3 = Net income of $4.5 billion ÷ (1 - the statutory tax rate)

b) If the Corporation's EBT in the current year is less than A1, the reversal of the accumulated stabilization reserve should be (A1 - EBT), but only to the extent of the accumulated stabilization reserve equals zero.

c) The Corporation should open a "Taiwan High Speed Rail Stabilization Mechanism Account" (the "Stabilization Mechanism Account") at Bank of Taiwan.

   i. If the accumulated stabilization reserve, net of the balance in the Stabilization Mechanism Account, exceeds $10 billion at the end of any year, the Corporation shall contribute the excess amount (net of tax, if any) to the Stabilization Mechanism Account within one month from the date the MOTC confirms the execution report submitted by the Corporation. The stabilization reserve should also be provided in the same amount for the interest income generated from the Stabilization Mechanism Account.

   ii. The MOTC may request the Corporation to use the funds of the Stabilization Mechanism Account under the following circumstances:

      i) Fare discount or fare reduction,

      ii) Construction of HSR infrastructure and facilities, and

      iii) In compliance with the government's policies.

   iii. The accumulated stabilization reserve shall be deducted by the same amount of funds used from the Stabilization Mechanism Account.

   iv. Except for payment of tax levied on the Stabilization Mechanism Account, the Corporation cannot use the funds of the Stabilization Mechanism Account, unless the Corporation obtains the approval from the MOTC.

d) Treatments of the stabilization reserve and the Stabilization Mechanism Account upon expiration or early termination of the concession period

   i. If the accumulated stabilization reserve exceeds the balance of the Stabilization Mechanism Account at the end of the concession period, the Corporation shall contribute the excess amount (net of tax, if any) to the Stabilization Mechanism Account, and the remaining balance of the Stabilization Mechanism Account (net of tax, if any) shall be transferred to a specific account designated by the MOTC.

   ii. If the C&O Agreement is terminated due to mutual agreement, force majeure or excluded events, the remaining balance of the Stabilization Mechanism Account (net of tax, if any) as of the termination date shall be transferred to a specific account designated by the MOTC, and the excess of the accumulated stabilization reserve over the balance of the Stabilization Mechanism Account shall be allocated to the Corporation.

   iii. According to the C&O Agreement, if the termination is due to the reasons attributable to the Corporation, all of the accumulated stabilization reserve, including the balance of the Stabilization Mechanism Account, shall be allocated to the MOTC.

   iv. According to the C&O Agreement, if the termination is due to government's policies, all of the accumulated stabilization reserve, including the balance of the Stabilization Mechanism Account, shall be allocated to the Corporation.

e) Starting from 2017, the following year after the mechanism became effective, the Corporation shall submit to the MOTC an execution report audited by independent auditors, including provision, contribution, accumulated balance of the stabilization reserve, and the utilization and balance of the Stabilization Mechanism Account within one month from the date the stockholders approved the annual financial statements.

4) When the concession period expires, the assets, which are purchased under the consent of the MOTC within five years before the concession period expires, and are not fully depreciated and remain usable for normal operations upon the expiry of the concession period, are transferred to MOTC with consideration. The transfer price is the undepreciated value of the assets determined based on the fixed percentage of declining method over the minimum useful lives prescribed by the Executive Yuan. Except for the assets mentioned above, the ownership and rights of all other assets shall be transferred to the MOTC or the third party designated by the MOTC without consideration.

5) When the C&O Agreement is terminated before the expiration of the concession period, the value of the operating assets and construction in progress should be appraised by impartial professional appraisal organizations with their actual costs, usage, value in use, remaining concession period, and related articles of the C&O Agreements taken into consideration.

6) The Corporation provided a $5 billion performance bond as a guarantee for fulfillment of responsibilities of the HSR operations. The guarantee ends on the date six months after the expiry of concession period or early termination of the C&O Agreement. Starting from the date the Corporation commenced its commercial operations, if there is no breach of agreements, $0.5 billion of the performance bond can be returned each year. However, the total returned amount could not exceed $3 billion.

   As of June 30, 2020, December 31, 2019 and June 30, 2019, the amount of the aforementioned performance bond remained unchanged at $2 billion, and was recognized as other financial assets.

b. As of June 30, 2020, unused letters of credit amounted to JPY4,102,887 thousand and EUR1,911 thousand.

c. The residents of Chengbei, Tongxiao Township, Miaoli claimed that the Corporation did not install a complete set of noise and vibration control. The residents stated they suffered from the noise and vibration intrusion for a long time, and the situation brought the damage to the buildings and their health. Therefore, the residents claimed for the damage compensation. In June 2015, the Environmental Protection Administration Public Nuisance Arbitration Committee decided that the Corporation should compensate the residents of $8,338 thousand. In July 2015, the Corporation disagreed with the ruling and filed an appeal to Taiwan Miaoli District Court. On November 23, 2018, Taiwan Miaoli District Court declared that the Corporation won the first instance, and the defendant has filed an appeal. The Taiwan High Court (the Taichung Branch Court) has dismissed the appeal on December 4, 2019, and the Corporation has appealed the case before the statutory deadline. On December 17, 2018, the residents filed a claim under the same reason, and requested for a payment of $5,700 thousand. The Taiwan Miaoli District Court has dismissed the appeal of accuser on December 12, 2019 and the accuser has amended the appeal accusing that the defendant should eliminate noise nuisance caused by ridership operation by building a noise barrier. As of June 30, 2020, the lawsuit is still under the review of the court.

d. In July 2019, the Corporation entered into an equipment procurement contract, and the total amounts of the contract (business tax included) were JPY2,626,531 thousand and NT$120,955 thousand. As of June 30, 2020, payments for the contract amounted to JPY244,826 thousand and NT$21,777 thousand were recognized as construction in progress of the operating concession assets under intangible assets.

e. In response to the aging equipment such as 700T train electronic control, the Corporation expects to update the equipment during the train maintenance period from 2021 to 2023 and purchase the relevant components. Therefore, the Corporation entered into a procurement contract “700T Spare Parts of 7GI” with Toshiba Electronic Components Taiwan Corporation, Ltd (subsidiary of Toshiba Corporation in Taiwan) in July 2019 and the total amounts of the contract (business tax and import tariffs excluded) were JPY11.6 billion. As of June 30, 2020, payments for the contract made were JPY1.16 billion.

31. OTHER ITEMS

Due to the impact of the Covid-19 pandemic, ridership from February to June 2020 declined resulting a decrease of approximately 6.423 billion (about 27.18%) for the first half year of 2020, in operating revenue as compared to the same period of prior year. In response to the impact of the epidemic, the Corporation continues to adjust its operating strategies, and has established a “Disease Control Response Group” to carry out various disease control initiatives, including implementing train schedule adjustments, manpower scheduling planning, business project execution inspection and other countermeasures relating to expense reduction plans without affecting safety and service quality.

In terms of financing strategy, the Corporation continues to optimize its long-term financial structure, strengthen its capital sources and issued 10.5 billion unsecured domestic bonds in July 2020 to make early repayments of long-term debt.

With the epidemic slowing in June 2020, ridership has gradually recovered. The Corporation has resumed 1016 train services weekly from August 1, 2020, and will continue to pay attention to the development of the epidemic and implement agile actions in time. Therefore, the Corporation assessed that the epidemic has no material impact on the impairment of its assets or its ability as a going concern after the aforementioned actions and subsequent operation recovery.

32. SIGNIFICANT EVENTS AFTER REPORTING PERIOD

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

On July 1, 2020, the Corporation issued $10.5 billion of 30-year, 1.3% unsecured bonds at par value with interest payable annually and a bullet repayment term to make early repayment of its long-term debt.

33. EXCHANGE RATE OF FINANCIAL ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

For the information on the Corporation’s significant financial assets and liabilities denominated in foreign currencies, please refer to Note 27.c.

34. SEPARATELY DISCLOSED ITEMS

Except for Notes 8 and 27 regarding the information on derivative financial instrument transactions and Tables 1, 2 and 3 as attached, there were no other significant transactions, information on investees and investments in mainland China required for disclosure.

35. SEGMENT INFORMATION

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

TAIWAN HIGH SPEED RAIL CORPORATION

MARKETABLE SECURITIES HELD
JUNE 30, 2020
(In Thousands of New Taiwan Dollars)

Holding Company	Type and Name of Marketable Securities	Relationship with the Holding Company	Line Item	June 30, 2020				Note
				Units/Face Value (In Thousands)	Carrying Amount	Percentage of Ownership	Fair Value	
The Corporation	CTBC Hwa-win Money Market Fund	-	Financial assets at FVTPL	150,789	$ 1,672,095	-	$ 1,672,095	
	Yuanta De-Li Money Market Fund	-	〃	45,207	741,841	-	741,841	
	Jih Sun Money Market Fund	-	〃	20,113	300,035	-	300,035	
	Taishin 1699 Money Market Fund	-	〃	289,591	3,944,027	-	3,944,027	
	Taishin Ta-Chong Money Market Fund	-	〃	34,906	499,000	-	499,000	
	Prudential Financial Money Market Fund	-	〃	53,195	847,013	-	847,013	
	FSITC Taiwan Money Market Fund	-	〃	93,724	1,443,639	-	1,443,639	
	FSITC Money Market Fund	-	〃	836	150,053	-	150,053	
	Franklin Templeton Sinoam Money Market Fund	-	〃	82,097	854,336	-	854,336	
	Central Government Bonds 2019-9	-	Cash and cash equivalents	$ 309,000	309,000	-	309,000	
	Central Government Bonds 2018-9	-	〃	300,000	300,000	-	300,000	
	Central Government Bonds 2018-3	-	〃	700,000	700,000	-	700,000	
	Central Government Bonds 2018-1	-	〃	74,000	80,000	-	80,000	
	Central Government Bonds 2017-9	-	〃	76,000	76,000	-	76,000	
	Central Government Bonds 2016-11	-	〃	164,000	164,000	-	164,000	
	Central Government Bonds 2015-12	-	〃	400,000	400,000	-	400,000	
	Central Government Bonds 2012-5	-	〃	1,050,000	1,050,000	-	1,050,000	
	Central Government Bonds 2009-2	-	〃	96,000	96,000	-	96,000	
	Central Government Bonds 2004-9	-	〃	173,000	173,000	-	173,000	
	Central Government Bonds 2004-3	-	〃	251,000	251,000	-	251,000	
	Central Government Bonds 2003-3	-	〃	141,000	146,000	-	146,000	
	Central Government Bonds 2001-8	-	〃	948,000	948,000	-	948,000	
	Central Government Bonds 2017-4	-	Other financial assets - current	4,328,000	4,621,000	-	4,621,000	
	Central Government Bonds 2016-11	-	〃	950,000	1,000,000	-	1,000,000	
	Central Government Bonds 2015-12	-	〃	2,488,700	2,757,778	-	2,757,778	
	Central Government Bonds 2013-10	-	〃	374,800	416,333	-	416,333	
	Central Government Bonds 2012-9	-	〃	2,200,000	2,396,333	-	2,396,333	
	Central Government Bonds 2010-8	-	〃	1,084,300	1,204,778	-	1,204,778	
	Central Government Bonds 2004-9	-	〃	816,000	816,000	-	816,000	
	Central Government Bonds 2003-3	-	〃	357,500	380,000	-	380,000	
	Central Government Bonds 2001-8	-	〃	1,600,000	1,777,778	-	1,777,778	
	Central Government Bonds 2001-B 1st	-	〃	1,136,000	1,136,000	-	1,136,000	

TAIWAN HIGH SPEED RAIL CORPORATION

MARKETABLE SECURITIES ACQUIRED OR DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT$300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE SIX MONTHS ENDED JUNE 30, 2020
(In Thousands of New Taiwan Dollars)

Company Name	Type and Name of Marketable Securities	Line Item	Counterparty	Relationship	Beginning Balance		Acquisition		Disposal				Gain on Valuation	Ending Balance	
					Units/Face Value (In Thousands)	Carrying Amount	Units/Face Value (In Thousands)	Carrying Amount	Units/Face Value (In Thousands)	Amount	Carrying Amount	Gain on Disposal		Units/Face Value (In Thousands)	Carrying Amount
The Corporation	Prudential Financial Money Market Fund	Financial assets at FVTPL	-	-	3,968	$ 63,000	49,227	$ 783,000	-	$ -	$ -	$ -	$ 1,013	53,195	$ 847,013
	Yuanta De-Li Money Market Fund	〃	-	-	6,538	107,000	38,669	634,000	-	-	-	-	841	45,207	741,841
	FSITC Taiwan Money Market Fund	〃	-	-	3,907	60,000	89,817	1,383,000	-	-	-	-	639	93,724	1,443,639
	Franklin Templeton Sinoam Money Market Fund	〃	-	-	9,671	100,000	72,426	753,000	-	-	-	-	1,336	82,097	854,336
	Taishin 1699 Money Market Fund	〃	-	-	-	-	289,591	3,943,000	-	-	-	-	1,027	289,591	3,944,027
	CTBC Hwa-win Money Market Fund	〃	-	-	-	-	150,789	1,672,000	-	-	-	-	95	150,789	1,672,095
	Jih Sun Money Market Fund	〃	-	-	-	-	20,113	300,000	-	-	-	-	35	20,113	300,035
	Taishin Ta-Chong Money Market Fund	〃	-	-	-	-	34,906	499,000	-	-	-	-	-	34,906	499,000
	Central Government Bonds 2019-9	Note	-	-	$ -	-	$ 309,000	309,000	$ -	-	-	-	-	$ 309,000	309,000
	Central Government Bonds 2018-9	〃	-	-	-	-	300,000	300,000	-	-	-	-	-	300,000	300,000
	Central Government Bonds 2018-3	〃	-	-	-	-	700,000	700,000	-	-	-	-	-	700,000	700,000
	Central Government Bonds 2017-9	〃	-	-	1,230,000	1,308,000	769,000	811,000	1,923,000	2,045,647	2,043,000	2,647	-	76,000	76,000
	Central Government Bonds 2017-4	〃	-	-	-	-	4,888,400	5,219,000	560,400	598,413	598,000	413	-	4,328,000	4,621,000
	Central Government Bonds 2016-11	〃	-	-	5,297,000	5,649,000	5,254,200	5,615,300	9,437,200	10,112,741	10,100,300	12,441	-	1,114,000	1,164,000
	Central Government Bonds 2015-12	〃	-	-	2,688,700	2,987,333	5,173,700	5,454,778	4,973,700	5,290,227	5,284,333	5,894	-	2,888,700	3,157,778
	Central Government Bonds 2013-10	〃	-	-	-	-	1,050,000	1,166,555	675,200	751,101	750,222	879	-	374,800	416,333
	Central Government Bonds 2013-8	〃	-	-	-	-	315,000	350,000	315,000	350,397	350,000	397	-	-	-
	Central Government Bonds 2013-6	〃	-	-	-	-	400,100	444,444	400,100	444,509	444,444	65	-	-	-
	Central Government Bonds 2012-9	〃	-	-	1,224,000	1,303,000	2,200,000	2,396,333	1,224,000	1,304,654	1,303,000	1,654	-	2,200,000	2,396,333
	Central Government Bonds 2012-5	〃	-	-	-	-	1,550,000	1,605,556	500,000	555,636	555,556	80	-	1,050,000	1,050,000
	Central Government Bonds 2012B 2nd	〃	-	-	-	-	578,300	642,444	578,300	643,264	642,444	820	-	-	-
	Central Government Bonds 2011-7	〃	-	-	705,600	784,000	1,750,000	1,944,333	2,455,600	2,731,630	2,728,333	3,297	-	-	-
	Central Government Bonds 2011-5	〃	-	-	819,900	911,000	-	-	819,900	912,223	911,000	1,223	-	-	-
	Central Government Bonds 2010-8	〃	-	-	252,900	281,000	1,269,700	1,410,778	438,300	487,598	487,000	598	-	1,084,300	1,204,778
	Central Government Bonds 2010-7	〃	-	-	877,500	975,000	-	-	877,500	976,160	975,000	1,160	-	-	-
	Central Government Bonds 2008-5	〃	-	-	-	-	420,800	467,556	420,800	468,136	467,556	580	-	-	-
	Central Government Bonds 2005-8	〃	-	-	954,900	1,061,000	1,329,000	1,476,444	2,283,900	2,540,197	2,537,444	2,753	-	-	-
	Central Government Bonds 2004-9	〃	-	-	92,000	100,000	1,088,000	1,099,000	191,000	210,244	210,000	244	-	989,000	989,000
	Central Government Bonds 2004-6	〃	-	-	2,145,500	2,383,889	72,000	80,000	2,217,500	2,466,741	2,463,889	2,852	-	-	-
	Central Government Bonds 2003-3	〃	-	-	133,000	140,000	1,281,500	1,350,000	916,000	965,081	964,000	1,081	-	498,500	526,000
	Central Government Bonds 2002-7	〃	-	-	1,609,200	1,788,000	855,900	951,000	2,465,100	2,742,557	2,739,000	3,557	-	-	-
	Central Government Bonds 2001-8	〃	-	-	4,455,000	4,637,778	2,548,000	2,725,778	4,455,000	4,643,183	4,637,778	5,405	-	2,548,000	2,725,778
	Central Government Bonds 2001-4	〃	-	-	699,800	758,000	378,000	420,000	1,077,800	1,179,331	1,178,000	1,331	-	-	-
	Central Government Bonds 2001-2	〃	-	-	1,127,000	1,137,000	-	-	1,127,000	1,138,488	1,137,000	1,488	-	-	-
	Central Government Bonds 2001B 1st	〃	-	-	3,158,200	3,199,000	5,593,500	5,652,444	7,615,700	7,724,193	7,715,444	8,749	-	1,136,000	1,136,000
	Central Government Bonds 2000-13	〃	-	-	1,285,500	1,325,000	286,200	318,000	1,571,700	1,644,685	1,643,000	1,685	-	-	-
	Central Government Bonds 2000B 1st	〃	-	-	4,326,400	4,622,000	301,000	301,000	4,627,400	4,928,901	4,923,000	5,901	-	-	-

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

TABLE 3

TAIWAN HIGH SPEED RAIL CORPORATION

INFORMATION OF MAJOR STOCKHOLDERS
JUNE 30, 2020

Name of Major Stockholder	Shares	
	Number of Shares	Percentage of Ownership (%)
MOTC	2,420,000,000	43

Note: The table discloses stockholding information of stockholders whose ownership percentages are more than 5%. The Taiwan Depository & Clearing Corporation calculates the total number of common stocks and special stocks (including treasury stocks) that have completed the dematerialized registration and delivery on the last business day of the quarter. The stocks reported in the financial statements and the actual number of stocks that have completed the dematerialized registration and delivery may be different due to the basis of calculation.