

2011
ANNUAL
REPORT



Fact Sheet

THSRC Milestones

Commencement Date: **May 1998**

Construction Stage: **March 2000–December 2006**

Operation Stage: **Started in January 2007**

Capitalization: **NT\$105.3 billion**

Summary Results for 2011:

Train Services: **48,553 train services**

Punctuality Rate (defined as departure within 5 minutes of scheduled time): **99.86%**

Annual Ridership: 41.63 million passengers

Annual Revenue: NT\$32.24 billion

Loading Factor: 51.63%

Passenger Kilometers: 8.15 billion km

Total Route Length: 345 km

Number of Cities/Counties Passed Through: 11 cities/counties

Maximum Operating Speed: 300 km/hr

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

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

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

Note:

Loading Factor=Passenger Kilometers/Seat Kilometers x100%

Passenger Kilometers = \sum (sum of the mileage traveled by passengers based on the tickets purchased and used on trains)

Seat Kilometers = \sum (number of seats per trainset * sum of the mileage of trains operated in revenue service)



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CHAIRMAN'S LETTER to SHAREHOLDERS

We've brought to Taiwan a

*New Way of **LIFE***



Chin-Der Ou
Chairman

Dear Fellow Shareholders,

2011 marked a turning point for THSRC. We achieved profitability for the first time in our company's history with a net income of NT\$ 5.78 billion. From the time we commenced construction of THSR in 2000, and since starting commercial operations in 2007, we have been able to overcome many challenges along the way, thanks to the efforts of our Board members, our management team, and our dedicated employees.

Additionally, we appreciate the assistance from the Government, our most important build-operate-transfer (BOT) project partner, whose support has been integral to our growth. Finally, we are profoundly grateful to our shareholders, who have shown us incredible loyalty and support over the years. We remain dedicated to fulfilling our mission of enhancing people's lives by offering a rail transport experience that is safe, reliable, and dependable, and with the continued support of our shareholders, we will succeed.

2011 Results

Since starting operations on the rail line in January 2007, we have carried over 150 million passengers. Last year marked our fifth operational anniversary, and THSRC continued its efforts to increase patronage despite the challenges posed by the economic slowdown.

During 2011, our passenger volume rose to 41.63 million, we provided a total of 48,553 train services, and our loading factor was 51.63%, an increase of 2.66 percentage points compared to 48.97% in 2010. Even with this increase in passenger volume, we managed to achieve a punctuality rate of 99.86% and a reliability rate of 100%.

We are proud of our zero accident record over the past year – no accidents or injuries to passengers or members of the public on railway premises were caused by train service operations or malfunctions of station equipment.

We also made strong progress in marketing and sales with the launches of several promotional programs, including Early Bird ticketing, discounts for college students, upgraded service to business class, and vacation packages and deals under our T Holiday program. Furthermore, we provided multiple channels for ticket purchasing, including at convenience stores, via mobile phone, and using EasyCard, a contactless smartcard. We maximized accessibility to our HSR stations by providing free shuttle bus services to and from downtown areas.

Our financial performance also improved significantly from the prior year. We posted revenues of NT\$32.24 billion, a 16.65% increase from 2010. With the inclusion of NT\$2.59 billion of income tax benefits, we earned a net profit for the first time of NT\$5.78 billion, with earnings per share of NT\$0.59. EBITDA reached NT\$22.73 billion, a 22.34% increase over 2010.

Based on the figures above, we demonstrated broad-based growth and improvement across our entire operation, from transport volume and passenger revenue to cost control and operational efficiency.

Research & Development

For the stability and safety of our railway operation and to help develop the railway industry in Taiwan, we work to build up our maintenance capability and reduce the cost and delivery risk of spare parts. To meet these objectives, we seek out local suppliers for spare parts, develop and operate a bridge structure diagnosis and management system, and strengthen the capability of electronic devices repair factory.

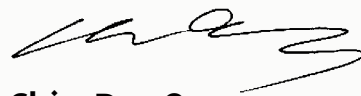
Looking Forward

Based on our solid track record over the past five years, high speed rail has become the most important transportation system along Taiwan's western corridor, and THSR has boosted overall economic activity in Taiwan and improved the daily lives of its residents.

Looking toward the next 5 years, THSRC will not only provide safe and reliable train services, but will also practice corporate social responsibility to support the economic and social development of Taiwan.

In the course of our own future development, we will continue to prioritize safety measures, enhance sales and marketing, streamline customer service, and improve ticketing, station, on-board, and transfer services. Additionally, we will continue to invest in new trainsets and build new stations to capture market share growth. Finally, we will work to implement sound management practices and enhance our overall financial health, help employees expand their skill sets, cooperate with other high-speed rail operators around the world to strengthen our technology and management know-how, and engage in property and business development in the areas surrounding our stations to better coordinate and integrate every facet of our high-speed rail operations.

In order to enable the long-term development of THSRC, We are currently studying the feasibility of calling on the Government to extend our 35-year concession to operate Taiwan's high-speed rail system. We hope to have the opportunity to continue to provide maximum benefits for shareholders and for the general public for many years to come.



Chin-Der Ou
Chairman

OVERVIEW





Speeding through Taiwan's western corridor, our rail network conveniently connects millions of travelers across 11 cities and counties, bringing profound changes to people's lives and their communities.

Company Profile

Business Segments

THSRC's business scope covers the operation of the high-speed railway and affiliated businesses, as well as station area development.

A. High-Speed Rail Service

THSRC provides high-speed rail services to each of the major cities along Taiwan's western corridor via eight stations: Taipei, Banqiao, Taoyuan, Hsinchu, Taichung, Chiayi, Tainan and Zuoying. A total of 48,553 train services were delivered in 2011 with traffic volume amounting to as many as 175 services each day. Offering speed, convenience and dependability, THSRC has become the transport of choice for residents and travelers alike.

B. Affiliated Businesses

To serve the needs of the traveling public, at high-speed rail stations, we have deployed various commercial outlets that supply goods and services, including food, beverages, newspapers and other reading materials, souvenirs, car rental and travel agency services, and car parking facilities.

Advertising, both at station sites and on board trains, makes a significant contribution to THSRC revenue, offering passengers within the rail system a unique brand of distinctive artwork and information.

All these commercial outlets and facilities are designed to add value to passengers' high-speed rail experience and demonstrate THSRC's commitment to providing high-quality services in its stations, which play an important role in the communities served by the high-speed railway.

C. Station Area Development

There are five station area developments, located in Taoyuan, Hsinchu, Taichung, Chiayi, and Tainan. The total area of all station area developments is 30.14 hectares, with a floor area of 1,200,380 m², which can be used for an array of commercial purposes, including hotels and restaurants, convention and exhibition space, recreation and amusement venues, office space, retail facilities, and space for financial services, general services, telecommunication services, transportation services, and tourism-related services.

THSRC will work to enhance station area development in support of the government's policy of economic development, and we will align our development efforts with the needs of local communities and market conditions in order to maximize profit.

The main objectives of station area development are as follows:

- Execute and coordinate the Station Area Development Agreement.
- Initiate the overall development planning and strategy for station area development.
- Evaluate different business models for station area development, such as investing and building for operation by THSRC, other developers, joint venture or land rental.
- Attract investments for short-term and/or temporary usage of station area property to utilize the land and create alternative sources of revenue.



Business Strategy and Vision

THSRC not only identifies itself as a major participant in Taiwan's transport industry, but also acts as a positive agent for change in the development of Taiwan's commercial and manufacturing industries in areas served by high-speed rail.

THSRC also strives to play a significant role in improving the quality of life of the entire population of Taiwan, and works to identify and meet the needs of those traveling along Taiwan's western corridor. The company continually works to improve the quality and standard of its services by ensuring that its stations are well connected and accessible via the high-speed rail network and through connections with other transport modes.



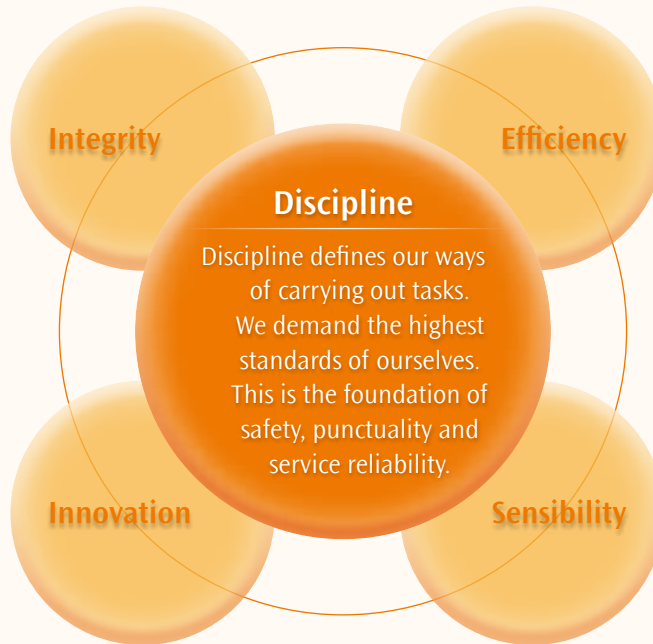
Five core values—Discipline, Integrity, Efficiency, Innovation and Sensibility—form the basis of THSRC's objective of establishing and developing long-term partnerships with those electing to travel by high-speed rail. In addition to these five core values, four attributes characterize THSRC's service: Real, Progressive, Passionate and Premium. THSRC's corporate culture, founded on these core values and attributes, can best be exemplified by the guiding principle of "Go Extra Mile," which aptly describes the company's dedication to meeting passengers' needs and its strategic objective of continuous improvement across all facets of its operations.

Looking ahead, THSRC will continue to adhere to its core values and attributes to develop and improve its high-speed rail services to respond to the demands and needs of the industry, businesses, and residents in the towns and cities it serves. In addition, THSRC will continue to play a key role in Taiwan's transport network, and will also work to seamlessly integrate its stations with the surrounding neighborhoods. THSRC remains dedicated and committed to pursuing these strategic initiatives in order to deliver value to its employees and shareholders.



Our Core Values

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



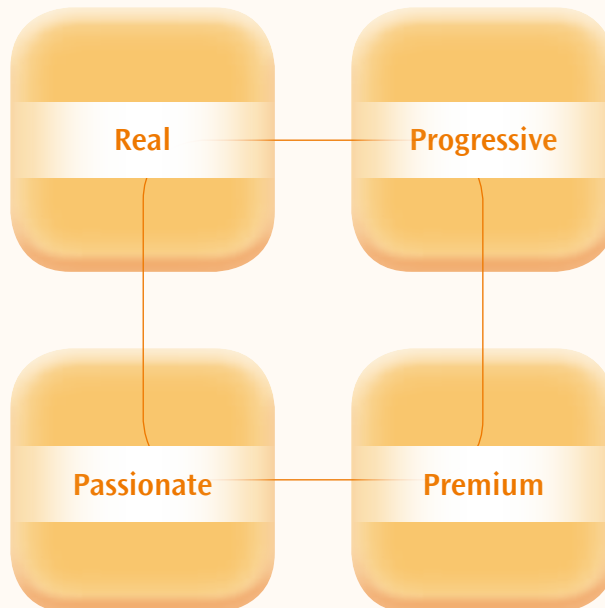
We seek to carry out each task efficiently, through regular review and assessment of the most effective approach to our daily activities.

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

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

Our Attributes

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



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

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

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

Company History

Development Stage

November 1996	The Taiwan High Speed Rail Consortium is established.
September 1997	The Ministry of Transportation and Communications (the "MOTC") awards the Taiwan High Speed Rail Consortium with the concession to build and operate the Taiwan High Speed Rail.
May 1998	Taiwan High Speed Rail Corporation (THSRC) is established.
July 1998	THSRC and MOTC sign the "Taiwan North-South High Speed Rail Construction and Operation Agreement" (the "C&OA"), the "Taiwan North-South High Speed Rail Station Zone Development Agreement" (the "SZDA") and memorandums for the Government obligations and executions.
February 2000	THSRC enters into a syndicated loan agreement with 25 banks, under which THSRC obtains credit facilities totaling NT\$323.3 billion. In addition, THSRC, the syndicated banks and MOTC simultaneously sign the Tripartite Agreement.



Construction Stage

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



• Taipei Station

• Banqiao Station



Operation Stage

January 2007	THSRC starts commercial operations from Banqiao Station to Zuoying Station with 38 train services daily.
May 2007	THSRC enters into a second updated syndicated loan agreement with Lehman Brothers Asia Limited and syndicate banks, under which THSRC obtains credit facilities totaling NT\$65.5 billion.
September 2007	THSRC increases its operation to 91 train services daily. THSRC provides a 24-hour online reservation system. The cumulative patronage reaches over 10 million passengers.
November 2007	THSRC increases its operation to 113 train services daily. THSRC launches the non-reserved class.
November 2008	THSRC introduces HSR Dual-Color Fares, under which the Standard reserved seat "Orange Fare" is 35% off the regular ticket price, and the "Blue Fare" is 15% off.
December 2008	THSRC increases its operation to between 130 and 142 services daily. (Based on peak or off-peak days to allow a flexible timetable)

January 2010	THSRC enters into a syndicated loan agreement with eight banks, under which THSRC obtains credit facilities totaling NT\$382 billion for refinancing its first and second syndicated loans, excluding Tranche D. In addition, THSRC, the syndicated banks and MOTC simultaneously renew the Tripartite Agreement.
February 2010	THSRC and FamilyMart launch the first railway tickets sold by a convenience store in Taiwan, enabling passengers to book, pay for and collect their tickets at the same time. This new system allows passengers to pass through the HSR ticket barrier directly using the QR code printed on each ticket.
April 2010	7-Eleven stores begin selling high speed rail tickets, and the HSR convenience store ticketing channel expands to more than 7,000 outlets.
May 2010	THSRC used the proceeds of tranches A, B & C of the "Taiwan North-South High Speed Rail Construction and Operation Project NT\$382 Billion Syndicated Loan Agreement" to repay the outstanding balance of the "Taiwan North-South High Speed Rail Construction and Operation Project NT\$323.3 Billion Syndicated Loan Agreement" and tranches A, B & C of "The Second Syndicated Loan Agreement" on May 4th, 2010.



• Taichung Station

• Chiayi Station





• Taoyuan Station

• Hsinchu Station



**August
2010**

“Taiwan North-South High Speed Rail Project” is awarded the “Outstanding Civil Engineering Project Award” by the Asian Civil Engineering Coordination Council (ACECC).

**October
2010**

THSRC increases its operation to 915 train services weekly, the Interactive Voice Response service is extended to 24 hours, and a new reservation notification system by SMS is rolled out.

**January
2011**

THSRC redeems and cancels the “2007 first overseas unsecured convertible bonds,” the total amount is US\$26,318,000. Following the cancellation, the outstanding principal balance is US\$0.

**February
2011**

THSRC tops the list of “Taiwan’s 100 Best Infrastructure Projects,” commissioned by the Public Construction Commission of the Executive Yuan.

**August
2011**

THSRC attends the 12th Golden Road Award for the first time and wins six awards, including outstanding performance for equipment maintenance of vehicle, signal communications, road, station electrical and mechanical maintenance, depot electrical and mechanical maintenance, and the second prize for the station environment maintenance.

**October
2011**

THSRC is awarded the “20th ROC Enterprise Environmental Protection Award,” which is organized by the Environmental Protection Administration.

**October
2011**

THSRC launches a new ticketing system, the “THSR T Express” Cell Phone Booking Service, which enables customers to book and purchase tickets using their smartphones. Tickets are displayed as QR codes on smartphone screens, allowing passengers to pass through ticket barriers.

**November
2011**

Following FamilyMart, 7-Eleven, and Hi-Life convenience stores, OK convenience stores begin selling HSR tickets, expanding the HSR convenience store ticketing channel to more than 9,700 outlets.

**November
2011**

THSRC has been selected by the GTSM (Greater Taipei Securities Market) as a winner in the 2011 1st “Golden Laurel Award” for the excellence in emerging market contribution.

**April
2012**

THSRC and the International Union of Railways (UIC) hold the 2nd UIC World High Speed Interaction Workshop specializing in the maintenance of High Speed Rail Systems, inviting global railway industry and experts to share experiences and discuss technical information.



• Tainan Station

• Zuoying Station



OUR BUSINESS



Since its launch in 2007, more than 157 million passengers have ridden Taiwan High Speed Rail, and our volume continues to grow – in 2011, we carried more than 41 million passengers, an increase of almost 13% over 2010.

Five Years in Review

THSRC commenced operations in January 2007, and since that time, we have focused our efforts on steadily increasing ridership. THSRC has carried approximately 175 million passengers through May 2012.

Over our five-year history, we have achieved the following milestones:

- Provided a total of 231,613 train services, with an average service reliability of 99.94%
- Achieved 36.1 billion passenger-kilometers and a loading factor of 47.86%
- Achieved 75.5 billion seat-kilometers and an average service punctuality of 99.36%

Average Service Reliability, 2007–2012

99.94%

Average Service Punctuality, 2007–2012

99.36%

Summary Results, 2007–2011

Key Performance Indicators	Number of Passengers (thousands)	Loading Factor (passenger-km/seat-km)	Number of Services	Service Punctuality (% departing within 5 minutes of scheduled time)	Passenger-km (millions)	Seat-Km (millions)
2007	15,556	44.91%	24,400	99.09%	3,520	7,839
2008	30,581	43.51%	45,900	99.19%	6,566	15,089
2009	32,349	46.31%	45,286	99.25%	6,864	14,822
2010	36,940	48.97%	46,960	99.22%	7,491	15,296
2011	41,629	51.63%	48,553	99.86%	8,148	15,781

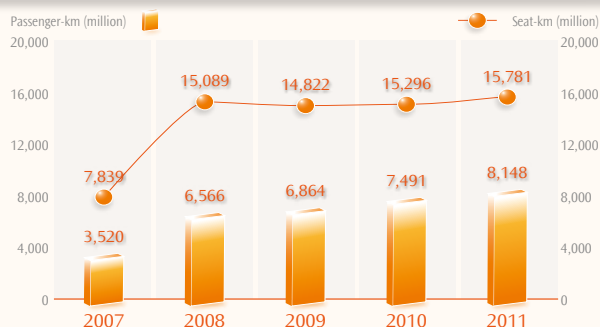
Number of Passengers from 2007 to 2011



Punctuality Rate from 2007 to 2011 (% of trains departing within 5 minutes of scheduled time)



Passenger-Kilometers & Seat-Kilometers from 2007 to 2011



Results of Operations

Taiwan High Speed Rail passes through 11 counties and cities in the west of Taiwan, providing high-speed rail services via eight stations along the way - Taipei, Banqiao, Taoyuan, Hsinchu, Taichung, Chiayi, Tainan and Zuoying. We delivered a total number of 48,553 train services in 2011. Each day, traffic volume amounted to as many as 146 services. During peak hours we operated up to 6 one way services per hour.

To meet increased transport demand during holiday seasons, we added 739 two-way train services at nine such high-volume travel periods, which offered a total of 6,930,912 additional seats.

2011 Highlights

- 41.63 million passengers were served, an increase of 12.70% from 2010.
- Traffic volume was 8,148 million passenger kilometers.
- The total number of train services was 48,553, with a reliability rate of 100%.
- Available seat kilometers totaled 15,781 million.
- Loading factor and punctuality rate increased to 51.63% and 99.86%, respectively.

All the above 2011 effectiveness measures showed improvements over 2010.

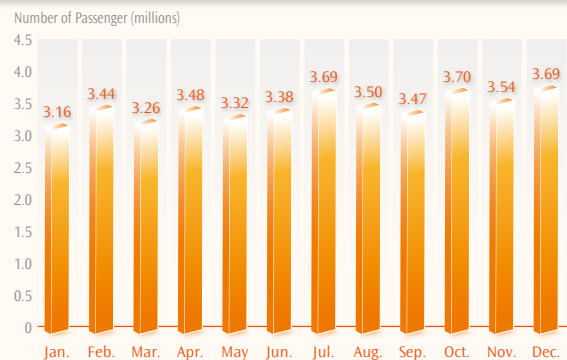
Service Reliability, 2011

100%

Service Punctuality, 2011

99.86%

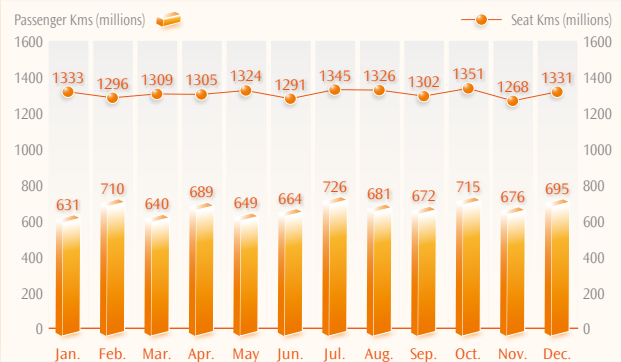
Number of Passengers, 2011



Measures of Transport Performance

	2010	2011	Change
1. Number of services	46,960	48,553	3.39% ↑
2. Number of passengers (thousands)	36,940	41,629	12.70% ↑
3. Available seat kilometers (millions)	15,296	15,781	3.17% ↑
4. Passenger kilometers (millions)	7,491	8,148	8.77% ↑
5. Punctuality rate (% of trains departing within 5 minutes of scheduled time)	99.22%	99.86%	0.64% ↑
6. Loading factor (passenger kms/seat kms)	48.97%	51.63%	2.66% ↑

Passenger Kilometers and Seat Kilometers, 2011

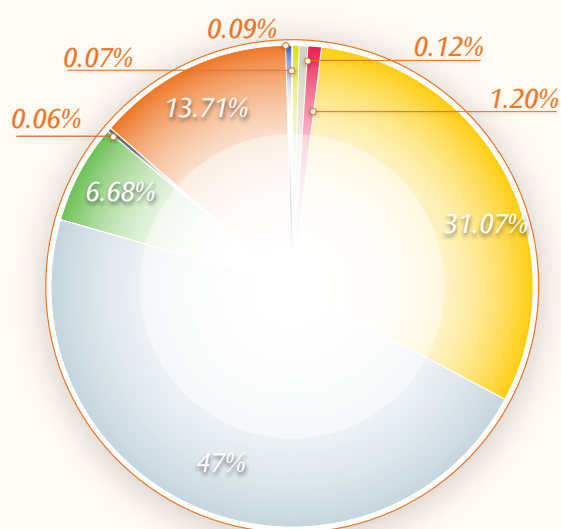


Multiple and Convenient Ticketing Services

We offer a number of ways to make booking and paying for tickets easy and convenient. Passengers can choose to purchase tickets at ticket counters, vending machines and convenience stores or via an Internet reservation system, an interactive voice reservation system, a reservation call center, a group reservation system and a joint ticketing program with airlines. Effective November 2011, tickets can be purchased by smartphones and from December 2011, passengers can also proceed through ticket barriers using their EasyCard, a contactless smartcard.

The share of each ticketing service option is shown below:

Share of Ticketing Service Options, 2011



- 47.0 Ticket Counter
- 31.07 Ticket Vending Machine
- 13.71 Internet Reservation System
- 6.68 Convenience Store
- 1.20 Group Reservation System
- 0.12 Electronic Ticket System
- 0.09 Interactive Voice Reservation System
- 0.07 Reservation Call Center
- 0.06 B2B Joint Promotion Scheme

Station Services

At each of our eight modern, attractively designed stations, we provide a wide range of services and amenities to ensure ease of travel. These include ticket counters and automated ticket vending machines, passenger information systems, customer service desks, disabled facilities, nursery rooms, drinking fountains, convenience stores, bookstores, restaurants and wireless network services.

To provide quick and easy access to and from our eight stations, each station is equipped with parking lots, car rental services, park-and-ride drop-off sites, taxi stations and interchanges with metro, bus and traditional railway services. In addition, we collaborate with express bus companies to run free shuttle bus services. In 2011 we offered a total of 401,686 free shuttle bus services which carried 5,221,278 passengers.

These bus routes are shown below:

Free Shuttle Bus Routes

HSR Station	Number of bus routes
Taoyuan	2
Hsinchu	2
Taichung	3
Chiayi	1
Tainan	2

Notes: Service on the HSR Tainan Station–Tainan Park route ended on January 2, 2011 to coincide with the commencement of service on the ShaLun Line, a branch line of Taiwan Railway.

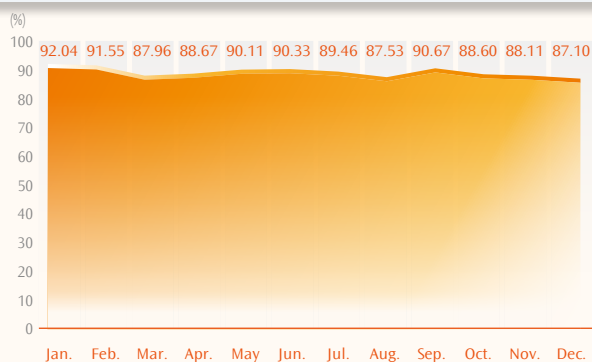
Free shuttle bus services between HSR Taichung Station and the Taichung Children's Arts Museum commenced on June 11, 2011.



Maintenance

Safety is the leading priority at THSRC. According to the Rolling Stock Maintenance Plan, we completed the fourth bogie inspection cycle for 18 trainsets (a total of 432 bogies) at a running distance of 2.4 million kilometers. The fifth bogie inspection, to be performed at a running distance of three million kilometers, commenced in 2011 and has been completed for two trainsets (a total of 48 bogies). The second general inspection began in August 2010, and by December 2011, 21 trainsets had been completed. This increased level of maintenance underscores our commitment to public safety.

Trainset Availability, 2011



The maintenance intervals for rolling stock are as follows:

- Daily inspection (level 1 inspection): every 2 days
- Monthly inspection (level 2 inspection): every 30 days or 30,000 km
- Bogie inspection (level 3 inspection): every 18 months or 600,000 km
- General inspection (level 4 inspection): every 36 months or 1,200,000 km

Note: The interval is determined by which condition occurs first.

The preventive maintenance works performed in 2011 are as follows:

Preventive Maintenance Works, 2011

System	Preventive Maintenance (Work Order)		
	Plan	Actual	Complete %
Rolling Stock	8,426	8,426	100%
Power Supply System	2,499	2,499	100%
OCS System	1,492	1,492	100%
Track	1,151	1,151	100%
Signaling System	5,751	5,751	100%
Communications System	5,509	5,509	100%
Control Center	5,817	5,817	100%
Total	30,645	30,645	100%

The company's internal policy required the Maintenance Sub-Division to seek an extension of its ISO 9001 certification in 2011. Beyond the previously audited 700T trainset, the surveillance audits this time were conducted for the processes and procedures integral to the maintenance of tracks, power, OCS(Overhead Catenary System), signaling, communications and depot facilities on September 15, 2011 and October 28, 2011. THSRC received recommendation for extension of its ISO 9001 certification on December 6, 2011.



Operational Safety

Prior to commencing their daily duties, each train staff member must undergo blood pressure screening and pass a breathalyzer test. To ensure safe operations, unannounced health examinations are performed periodically to identify potential substance abuse among operations staff.

To provide emergency medical treatment for passenger injuries or illnesses, THSRC has set up nursing centers in every station, where a qualified nurse is available during operating hours to assist passengers with health problems. To date, we have assisted 2,041 passengers and, starting in 2011, we have also outfitted every station with automated external defibrillators in the event of cardiac emergencies.

Passenger safety is the core of our mission. With this in mind, we continually address safety protocol, including instituting methods to maximize escalator safety and strengthening safety assistance measures for older passengers in all stations.

Our Commitments

The Road to Excellence

THSRC is committed to providing passengers with the world-class high-speed rail service and exemplary customer service. We focus on:

(1) Putting customers first

To fully meet customers' demands and expectations, we review their comments and modify our service policies appropriately.

(2) Creating and maintaining a service-oriented culture

We motivate our employees to develop and sustain a passion for service. We make continual progress on quality and efficiency through engaging our employees and helping them to identify areas for improvement.

Technical Development

THSRC has made it a top priority to deliver safe performance by strengthening its in-house maintenance capabilities, acquiring new maintenance technologies and reducing maintenance costs. The objectives we set for the maintenance of rolling stock, signaling and communication systems and turnout systems are as follow:

- (1) Enhancement of inspection and repair capabilities for failed integrated circuit boards and components in our electronics workshop.
- (2) Cooperation with Taiwan's Industrial Technology Research Institute (ITRI) and corporations to perform technical studies to find better maintenance solutions for rolling stock in various areas, including reliability improvements for frequently failing parts such as converter/inverters, air conditioning and toilet compartments; the build-up of in-house maintenance capabilities for CI (Converter/Inverter) modules; the development of high-efficiency air conditioning filters; and local manufacturing of parts and components, including saloon seat cushions and a developed repair kit for toilet disk valves.
- (3) The maintenance capabilities and skills of the PWD (Permanent Way Department) are adequate to perform PM (Preventive Maintenance) and CM (Corrective Maintenance) works for track, the OCS (Overhead Catenary System), power and wayside systems, or to improve ride comfort by shimming rails.
- (4) The implementation of company policies that localize the manufacturing of component parts to reduce material costs, improve stock management, increase cost effectiveness and secure parts supply in emergency situations.
- (5) Assistance provided to ITRI in carrying out its "WIMAX system on THSR 700T Trainset" test, which aims to improve the mobile Internet user experience on board.

Looking Ahead

Since our inception, we have operated under the guidance of our five core values: Discipline, Integrity, Efficiency, Innovation and Sensibility. Going forward, three strategic objectives will continue to define our future and ensure our success, and they are:

Accelerate and Sustain Growth

Despite challenges posed by the global financial crisis in the years following THSRC's launch in 2007, we have still managed to drive passenger volume from a daily average of 43,000 in the beginning to over 110,000 passengers in 2011. The pursuit of growth, however, has never compromised our commitment to quality service and safety. Through meticulous planning, we strive to offer a comfortable, reliable travel experience by high-speed rail by providing easy access to railway stations, on-board service, ticketing and customer support. We also uphold the highest standard of safety to ensure the well-being of our passengers and staff.

Revive Financial Strength

We must continue to negotiate constructively with the Government in order to bolster the capital and liquidity positions of THSRC. Only through remedial actions taken jointly with the Government to restore our financial strength can we consider an initial public offering in the future. The IPO proceeds would allow us to make key investments in the long-term health of our businesses.



Expand Network Coverage

Developing new points of access is another key priority we aim to execute. We are currently constructing three new stations, which will extend high-speed rail service to underserved regions along the western corridor of Taiwan. Additionally, we are procuring new trainsets to meet increased passenger traffic demand and to enhance the frequency of our train services.

As we plan on leveraging passenger traffic and railway assets to develop affiliated businesses, we must be prudent, yet, proactive in our approach. We will work to transform the areas within and near railway station areas into regional hubs of economic activity, therefore creating fresh revenue streams. Additionally, we will continue to cultivate long-term relations with our global industry peers, whose strength in railway operations, maintenance and ticketing management will inspire and catalyze our own continued development.

One of our missions is to support Taiwan's economic progress. The high-speed railway has closed distances between cities, bringing comfort and speed to tens of millions of travelers a year while making possible new markets and extended trade. The spirit of "Go Extra Mile" will guide us as we make progress on all of our execution priorities, including enhancing operational efficiency, updating technology and infrastructure, improving financial soundness and exploring development opportunities in railway assets.



CORPORATE GOVERNANCE



We improve the lives of residents and create sustainable social value by seamlessly integrating our high-speed rail system and stations into the surrounding communities.

Corporate Governance Overview

1. Board and its Committees

Board

The Board has the overall responsibility for THSRC's performance. Its main duties include regularly reviewing the Company's strategy, planning capital expenditure, internal restructuring and human resources policy. It also appoints, dismisses and supervises the Company's senior management team, chief auditor and chief accountant. The current Board consists of a Chairman, eleven Directors, and three Independent Directors. The current Board was elected on November 10, 2009 for a term of 3 years. The Board held 13 meetings during 2011. To carry out its duties, the Board has delegated certain authority to several committees. The Board currently has 5 committees.

Corporate Governance Committee

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

Quasi Audit Committee

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

Compensation Committee

The Compensation Committee assists the Board in fulfilling its responsibilities with regard to the compensation policies, systems and standards, and in the evaluation and compensation of THSRC's directors and supervisors of the Board and executives. The Committee consists of four members, and the meeting shall be convened by the independent director.

Finance Committee

The Finance Committee assists the Board in fulfilling its responsibilities for planning and reviewing the Company's capital and debt structure, and for reviewing the Company's financial and investment policies, strategies and capital structure, and financial risk management. The Committee consists of seven members, and the current meeting is convened by the independent director.

Procurement Committee

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



2. Corporate Governance Guidance

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

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

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

3. Other Important Information Disclosures

According to THSRC's "Guidelines for Corporate Governance," THSRC has taken liability insurance to indemnify its directors, supervisors and executive managers against liability while acting for THSRC, and the coverage was US\$10 million each year. Since November 1, 2010, the renewal of the coverage of the liability insurance was adjusted to US\$20 million each year.



4. Board of Directors and Supervisors

Chin-Der Ou

Chairman (Representative, China Aviation Development Foundation)

Other positions held:

- CEO of Taiwan High Speed Rail Corporation
- Director of Asia Cement Corporation

Previous positions:

- Chairman of Taipei Smart Card Corporation
- Deputy Mayor of Taipei City Government, Taiwan, R.O.C.
- Minister of Public Construction Commission, Executive Yuan

Ph.D. in Soil Mechanics, Case Western Reserve University

Arthur Chiang

Director (Representative, TSRC Corporation)

Other positions held:

- Chairman of Metropolis Industry Co. Ltd.
- Director of TSRC Corporation

Previous positions:

- Executive Vice President of China Development Financial Holding Corporation / China Development Industrial Bank
- Vice President of Taiwan High Speed Rail Corporation

Master in Public Administration, National Cheng-Chi University

Theodore M.H. Huang

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

Other positions held:

- Chairman of the Board, Century Development Corporation
- Managing Director of the Board, Teco Electric & Machinery Co. Ltd.
- Honorary Chairman, Chinese National Association of Industry & Commerce, Taiwan (CNAIC)

MBA, The Wharton School of the University of Pennsylvania

Lee-Ching Ko

Director (Representative, Evergreen International Corporation)

Other positions held:

- The Second Vice Group Chairman of Evergreen Group
- Director of EVA Airways Corporation
- Supervisor of Evergreen Marine Corporation (Taiwan) Ltd.
- Supervisor of Uni Airways Corporation
- Supervisor of Evergreen International Corporation

Sharon Fong

Director (Representative, Tai Ho Investment Co. Ltd.)

Other position held:

- Special Assistant to the Chairman of Pacific Electric Wire & Cable Co. Ltd.

Bachelor's degree in International Finance, Kent State University

George Liu

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

Other positions held:

- Chairman of Fubon Land Development Co., Ltd.
- Chairman of Taipei New Horizon Co., Ltd.
- Chairman of Fubon Real Estate Management Co., Ltd.

Ph.D. in Physics, Massachusetts Institute of Technology (MIT)

Mao-Lin Hu

Director (Representative, Taiwan Sugar Corporation)

Other position held:

- Chairman of Taiwan Sugar Corporation

Previous positions:

- President of National Chiayi Institute of Technology
- Vice Chairman of Council of Agriculture, Executive Yuan
- President of Hwa Hsia Institute of Technology

Ph.D. from the Institute of Agronomy, Washington State University

Earle Jen-Shyong Ho

Director (Representative, Tung Ho Steel Enterprise Corporation)

Other position held:

- Chairman of Tung Ho Steel Enterprise Corporation

Previous positions:

- Chairman of Taiwan Steel & Iron Industries Association
- Chairman of the Chinese National Federation of Industries

Master's degree in Economics, Indiana University

Chung-Yi Lin

Director (Representative, China Steel Corporation)

Other positions held:

- Assistant Vice President of Finance Division, China Steel Corporation
- Supervisor of Aerospace Industrial Development Corporation

B.A. in Economics, Soochow University

Wenent P. Pan

Director (Representative, CTCI Foundation)

Other positions held:

- Chairman of CTCI Foundation
- Chairman of Gintech Energy Corporation

Previous position:

- Chairman of Chinese Petroleum Corporation, Taiwan
- Ph. D. in Chemical Engineering, University of Wyoming

I-Hsi Ho

Director (Representative, Development Fund, Executive Yuan)

Other position held:

- Deputy Comptroller of Department of Accounting, Ministry of Transportation and Communications

Previous position:

- Specialized member of the Ministry of Transportation

M.S. in Civil Engineering, Virginia Polytechnic Institute and State University

Yu-Hern Chang

Director (Representative, Development Fund, Executive Yuan)

Other positions held:

- Dean of College of Management, National Cheng Kung University
- Chairman of Aviation Safety Council

Previous positions:

- Director General of Civil Aeronautics Administration, Ministry of Transportation and Communications
- Director General of Institute of Transportation, Ministry of Transportation and Communications

Ph.D. in Civil Engineering, University of Pennsylvania

M.S. from the Institute of Traffic and Transportation, National Chiao Tung University

Chen-Kuo Lin

Independent Director

Other positions held:

- Chairman of Tunghai University
- Independent Director of High Tech Computer Corporation

Previous positions:

- Director of Waterland Financial Holdings
- Chairman of Taiwan Asset Management Corporation
- Chairman of Taiwan External Trade Development Council
- Minister without Portfolio of Executive Yuan
- Minister of Ministry of Finance of R. O. C.

Research and study in Economics, Oklahoma State University

Research and study in Economics, Harvard University

B.A. in Economics, National Taiwan University

George S.Y. Chen

Independent Director

Other positions held:

- Division Convener of Sustainable Development Division, National Policy Foundation
- Independent Director of TransAsia Airways Corporation
- Supervisor of Z-Com Inc.
- Director of the China Road Federation

Previous position:

- Acting Minister and Executive Vice-Minister, Ministry of Transportation and Communications of R.O.C.

Research, study and co-authorship of a book with Professor Krowne at the Graduate School of System Management, University of Southern California

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

Victor W. Liu

Independent Director

Other positions held:

- Shin Kong Professor of Business Management, National Sun Yat-Sen University
- Chairman of Taiwan Assessment and Evaluation Association

Previous positions:

- Chairman of International Bills Finance Co., Ltd.
- Chairman of Waterland Financial Holdings Co., Ltd.
- Chairman of Aviation Safety Council of the Executive Yuan
- President of National Sun Yat-Sen University

Ph. D. and M.S., Kellogg Graduate School of Management, Northwestern University

Jiming Lu Tang

Supervisor (Representative, Walsin Lihwa Corporation)

Other position held:

- Special Assistant to Chairman of Walsin Lihwa Corporation

MBA, Indiana University

C.T. Wang

Supervisor

Other positions held:

- Managing Partner of Eli C Wang & Co CPAs
- Director of Yuan Ze University

M.S. in Accountancy, College of Business, University of Illinois at Urbana-Champaign

5. Senior Management Team

Chin-Der Ou

CEO

Other position held:

- Director of Asia Cement Corporation

Previous positions:

- Chairman of Taipei Smart Card Corporation
- Deputy Mayor of Taipei City Government, Taiwan, R.O.C.
- Minister of Public Construction Commission, Executive Yuan

Ph.D. in Soil Mechanics, Case Western Reserve University

Ricardo Tan

Senior Vice President of Corporate Planning Office and Construction Management & Procurement Division

Previous position:

- Supervising Engineer of RSEA Engineering Corporation

Diploma of Science degree in Aviation Mechanical Engineering, Air Force College of Mechanical Engineering, R.O.C.

Alex Chang

Chief Operation Officer of Railway Operation Division

Previous position:

- Vice President of Taipei Rapid Transit Corporation

Master of Management Science, National Chiao Tung University

Executive MBA, National Taiwan University of Science and Technology

Ted Chia

Secretariat-General, Secretariat Division of Board of Directors

Previous position:

- City Editor, Editor-in-Chief of Super Television Corporation

Master of Politics, Institute of Interdisciplinary Studies for Social Sciences, National Sun Yat-Sen University

Eleanore New

Vice President of Finance Division

Previous position:

- Vice President of Taishin International Bank
MBA, New York Institute of Technology

CF Chen

Vice President of Human Resource Division

Previous positions:

- Vice President of Human Resource & Administration, Lite-On (Taiwan)
- Assistant Vice President of Human Resource, Taiwan High Speed Rail Corporation

Master of Journalism, National Chengchi University

Rae-Fang Chung

Vice President of Marketing Division

Previous position:

- Marketing Manager, Anchor, Taiwan

Bachelor's degree in Economics, Tamkang University

Min Chen

Vice President of Information Technology Division

Previous position:

- IT Director of Chinatrust Commercial Bank

Master's degree in Computer Science, Ohio University

Tim Fu

Senior Manager of Corporate Audit Office

Previous positions:

- Training Specialist of Training Center, Bureau of Employment and Vocational Training, Council of Labor Affairs, Executive Yuan
- Manager of Pfizer Inc.

Bachelor's degree in Computer Science, Tamkang University

Barret Wang

Assistant Vice President of Legal Office

Previous position:

- Attorney-at-Law Chun He Law Firm
- Bachelor of Law, National Taiwan University

Yan-Ping Tien

Assistant Vice President of Public Affairs Office

Previous position:

- Director of South District, National Security Bureau, R.O.C.

Bachelor's degree in Political Science, Fu Hsing Kang College

Max Liu

Assistant Vice President of Employee Service Department

Previous position:

- Special Assistant to Chairman, DJ Auto Components Corporation

Bachelor's degree in Mechanical Engineering, National Chiao Tung University



6. Organization Structure



Internal Control

1. Statement of Internal Control System

Taiwan High Speed Rail Corporation Statement of Internal Control System

Date: April 20, 2012

Based on the findings of a self-assessment, Taiwan High Speed Rail Corporation (THSRC) states the following with regard to its internal control system during the period from January 1 to December 31, 2011:

1. THSRC is fully aware that establishing, operating, and maintaining an internal control system are the responsibilities of its Board of Directors and management. THSRC has established such a system aimed at providing reasonable assurance regarding the achievement of objectives in the following categories: (1) effectiveness and efficiency of operations (including profitability, performance, and safeguarding of assets), (2) reliability of financial reporting, and (3) compliance with applicable laws and regulations.
2. An internal control system has its inherent limitations. No matter how perfectly designed, an effective internal control system can only provide reasonable assurance of accomplishing the three objectives mentioned above. Moreover, the effectiveness of an internal control system may be subject to changes of environment or circumstances. Nevertheless, the internal control system of THSRC contains self-monitoring mechanisms, and THSRC takes corrective actions whenever a deficiency is identified.
3. THSRC evaluates the design and operating effectiveness of its internal control system based on the criteria provided in the Regulations Governing the Establishment of Internal Control Systems by Public Companies (herein below, the "Regulations"). The criteria adopted by the Regulations identify five components of internal control based on the process of management control: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring. Each component further contains several items. Please refer to the Regulations for details.
4. THSRC has evaluated the design and operating effectiveness of its internal control system according to the aforementioned criteria.
5. Based on the findings of the evaluation mentioned in the preceding paragraph, THSRC believes that, during the year 2011, its internal control system (including its supervision and management of subsidiaries), as well as its internal controls to monitor the achievement of its objectives concerning operational effectiveness and efficiency, reliability of financial reporting, and compliance with applicable laws and regulations, were effective in design and operation, and reasonably assured the achievement of the above-stated objectives.
6. This Statement will be an integral part of THSRC's Annual Report for the year 2011 and Prospectus, and will be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171, and 174 of the Securities and Exchange Law.
7. This Statement has been passed by the Board of Directors meeting held on April 19, 2012, with fourteen of the attending directors all affirming the content of this Statement.

Taiwan High Speed Rail Corporation

Chairman of the
Board of Directors:



CEO:



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

Major Stockholders who are Related Parties in Compliance with the Statement of Financial Accounting Standard No. 6

Units: Thousand Shares; %

Name (Note 1)	Shareholding		Spouse & Minor		Shareholding by Nominee Arrangement		The relationship between any of the Company's Top Ten Shareholders		Remarks
	Shares	%	Shares	%	Shares	%	Name	Relation	
China Steel Corporation	605,370	5.75	-	-	-	-	-	-	THSRC Director
Chung-Yi Lin	-	-	-	-	-	-	-	-	Representative of China Steel Corporation
Taiwan Sugar Corporation	500,000	4.75	-	-	-	-	-	-	THSRC Director
Mao-Lin Hu	-	-	-	-	-	-	-	-	Representative of Taiwan Sugar Corporation
China Aviation Development Foundation	483,920	4.59	-	-	-	-	-	-	THSRC Director
Chin-Der Ou	326	0.00	-	-	-	-	-	-	Representative of China Aviation Development Foundation
Teco Electric & Machinery Co.,Ltd.	475,151	4.51	-	-	-	-	-	-	THSRC Director
Theodore M.H.Huang	-	-	-	-	-	-	-	-	Representative of Teco Electric & Machinery Co., Ltd.
Continental Engineering Corporation	402,585	3.82	-	-	-	-	Continental Development Corporation	Continental Engineering Corporation and Continental Development Corporation are the subsidiaries of Continental Holdings Corporation	-
Arthur Chiang	109	0.00	20	-	-	-	-	-	Representative of Continental Engineering Corporation
Mega International Commercial Bank	400,000	3.80	-	-	-	-	-	-	-
Mckinney Tsai	-	-	-	-	-	-	-	-	Chairman of Mega International Commercial Bank.

CORPORATE GOVERNANCE

Units: Thousand Shares; %

Name (Note 1)	Shareholding		Spouse & Minor		Shareholding by Nominee Arrangement		The relationship between any of the Company's Top Ten Shareholders		Remarks
	Shares	%	Shares	%	Shares	%	Name	Relation	
Continental Development Corporation	349,785	3.32	-	-	-	-	Continental Engineering Corporation	Continental Development Corporation and Continental Engineering Corporation are the subsidiaries of Continental Holdings Corporation	-
Christopher Chang	-	-	-	-	-	-	-	-	Chairman of Continental Development Corporation
Pacific Electric Wire & Cable Co., Ltd.	343,364	3.26	-	-	-	-	-	-	-
Sharon Fong	30	0.00	-	-	-	-	-	-	Representative of Pacific Electric Wire & Cable Co., Ltd.
CTCI Foundation	322,580	3.06	-	-	-	-	-	-	THSRC Director
Wenent P. Pan	200	0.00	-	-	-	-	-	-	Representative of CTCI Foundation
Development Fund of Executive Yuan	300,000	2.85	-	-	-	-	-	-	THSRC Director
I-Hsi Ho, Yu-Hen Chang	-	-	-	-	-	-	-	-	Representative of Development Fund of Executive Yuan

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

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

CORPORATE ACTIVITIES

*We believe in giving back to the
communities
in which we operate.*

*We don't just conquer distance
we bring **Hearts** closer.*

Public Relations

Events

Ride THSR and Join the Book Exhibition for Free

In order to promote a national reading culture, since 2009, we have organized the “Ride THSR and Join the Book Exhibition for Free” event. Since then, we have offered more than 39,000 THSR passengers free admission to the Taipei International Book Exhibition (TIBE), which is held in February of each year.

In 2012, the “THSR Reading Train” was launched. This year’s TIBE spokesperson, singer Crowd Lu, read the classic novel *The Old Man and the Sea* for children aboard the train, allowing these students from remote areas to experience both the joy of reading and the marvel of high-speed rail travel.

THSR Camp

Since we began operations, THSRC has planned a series of “THSR Camp” events together with the Railway Cultural Society of Taiwan, the National Chiao Tung University Railway Research Society and the China Youth Corps. Between 2009 and 2011, 42 “THSR Camp” events have been organized, which include college/university, senior high school/vocational high school, junior high school, and elementary school students. Lectures are given at these gatherings to impart information about high-speed rail in order to give pupils a better understanding of THSRC.



THSR Camp (College/University Students)



THSR Camp (Elementary Students)

One Word Maxim – “Trustworthiness” Exhibition

In May 2011, THSRC co-organized the “One Word Maxim – Trustworthiness” exhibition together with renowned calligrapher Dong Yang-zi at the THSR Taichung Station. On public display was an enormous 2 meter tall by 3 meter wide calligraphy sculpture created by Ms. Dong using naturally weathered wood from Taiwan. This is the first calligraphy sculpture in Taiwan that allows the spirit of calligraphy and the connotation of words to transcend the constraints of the writing brush, and its cultural and artistic significance enriched Taichung Station as well as the journeys of passengers transiting through the station.



One Word Maxim – “Trustworthiness” Exhibition

Resplendent Spring Starlight –**International A Cappella Performance at THSR**

In 2010, THSRC sponsored the Taiwan Choral Music Center (TCMC) to organize the “Taiwan International A Cappella Festival,” which featured performances by musical groups at THSR stations. The performances were well received by passengers, with fans even forming groups to catch a glimpse of the musicians at various stations.

In 2011, THSRC once again sponsored TCMC, this time to hold the “2011 Spring Performance – Resplendent Stars Spring Concert,” which gave THSR passengers the opportunity to view live performances by prominent international musical groups.

Visits

In an effort to allow the general public to gain a deeper understanding about THSR, we provide station tour guides who educate visitors about THSR’s operations and services. In addition, professional organizations are also permitted to visit the depots and OMC (Operational Management Center) to gain hands-on knowledge about THSR. In 2011, we received 281 groups with a total of 10,700 people.

We also continue to actively conduct experience sharing with our fellow railway transportation operators to enhance the quality of public transportation and create better planning, design and services. By engaging with industry peers, we can pinpoint areas of improvement, with the continual aim of providing high-quality services to our passengers.

ROC Centennial – Love at THSR

Owing to their unique architecture and design, THSR stations have become local scenic destinations, and they are also popular backdrops for wedding photos. To mark the ROC Centennial, THSRC organized the “ROC Centennial – Love at THSR” event which awarded unique gifts to selected couples taking wedding photos at 6 THSR stations – Taoyuan, Hsinchu, Taichung, Chiayi, Tainan and Zuoying.



ROC Centennial – Love at THSR at Chiayi Station

ROC Centennial – Love at THSR at Taoyuan Station



Corporate Social Responsibility (CSR)

We believe that creating a sustainable and reliable relationship with the general public is a significant part of THSRC's corporate vision and an important foundation of environmental and social sustainability. Therefore, we will continue making efforts to establish a good partnership with the general public as well as with our stakeholders, customers, employees, suppliers, communities and the government. To create greater value for each of these parties, we will move forward with our philosophy of "Go Extra Mile" to improve their lives through the provision of environmentally friendly high-speed rail services, which play a central role in connecting the entire western corridor of Taiwan.

Since we began operations in 2007, THSRC has been dedicated to CSR initiatives, emphasizing environmental protection and giving support to all members of the communities served by THSRC. We published our first CSR Report in 2009, which gave all stakeholders a better understanding of our CSR objectives and activities, and in 2011, we received the 20th Annual Enterprises Environmental Protection Award, sponsored by the Environmental Protection Administration of Taiwan.

Social Philanthropy

1. Deliver Love with HSR to Children

Since 2010, along with World Vision Taiwan, we have offered a tuition assistance program to underprivileged children. We invited passengers to support our philanthropic effort, and together we raised over NT\$23 million which was used to help 7,200 underprivileged students pay their tuition fees.



Deliver Love with HSR to Children

2. THSRC Smile Program

In cooperation with various nonprofit organizations, since 2008 we have organized the THSRC Smile Program, which offers minority groups and families the chance to experience the comfort and convenience of high-speed rail rides. Our THSRC Smile Program gave its first ride on January 23, 2008 to children, social workers and parents from the Fushan branch of the Taiwan Fund for Children and Families. As of the end of 2011, 12,231 people in total, comprising 229 underprivileged groups and families, have participated in the THSRC Smile Program.



THSRC Smile Program at National Palace Museum

Environmental Protection

1. Carbon Emission Reduction and Energy Saving Initiatives

THSRC is proud to offer high-speed rail services, one of the most environmentally friendly forms of public transportation available. With this in mind, THSRC set a goal of increasing the number of passengers by 9% per year to reduce overall carbon emissions. By the end of December 2011, over 157 million passengers had ridden the Taiwan High Speed Rail, which helped eliminate the equivalent of 2.58 million metric tons of carbon dioxide (CO₂) emissions that would have resulted from passenger cars making similar journeys.

On a monthly basis, we also reduced electric power consumption in our trainset operations by between 2% and 10% compared to equivalent months in 2010. Year-on-year, we reduced the power consumption of our railway operations in 2011 by 20.16 million kWh, and we cut CO₂ emissions by 12,342 metric tons.

We strive to minimize energy consumption through energy saving programs, such as voluntary energy saving management, the reduction and leveling of electric consumption, and the reasonable use of electric power. These efforts continue to be implemented in each of our depots, and they have resulted in the reduction of total energy consumption per passenger from 1.5 kWh in 1997 to 0.43 kWh in 2011. The energy expenditures of all our depots have fallen by about 10% year-on-year.

All eight THSRC stations have implemented energy saving measures that have lowered energy consumption per passenger from 2.16 kWh in 1998 to 1.37 kWh in 2011. For our 3 future stations located in Miaoli, Zhanghua and Yunlin, THSRC has adhered to Regulation Governing Building Technologies and has used local materials and equipment in order to reduce the overall carbon footprint during the construction and operation phases. The stations have all attained silver or above level standards, as outlined by the government.

2. Pheasant-Tailed Jacana Preservation

For more than 10 years, THSRC has been devoted to the preservation of the pheasant-tailed jacana, a type of bird that is considered endangered in Taiwan. With NT\$50 million invested, the first artificial habitat recovery project was completed in collaboration with the government, development organizations and non-governmental organizations. The pheasant-tailed jacana population in Taiwan, which at one point numbered less than 100, has increased to almost 450. In 2008, we officially renamed the recovery habitat Jacana Park and opened the park to public visitors.

To educate students in matters concerning environmental protection, THSRC has arranged for visits to Jacana Park by elementary and junior high school students, where they are able to learn about the beauty of Taiwan's natural habitats.

3. The Old Camphor Tree of Hsinchu and the Earth God Temple

During the construction period, an old camphor tree in the city of Hsinchu and the earth God Temple both faced removal, as they were unfortunately located on the main route of the THSR right-of-way. Under a joint effort involving our management team and local celebrities, THSRC's construction team managed to preserve the old camphor tree in its original place through an adjustment in the construction design. Afterwards, together with the government, the Environment and Resources Protection Committee, and cultural and historical authorities, THSRC drafted the Hsinchu Old Camphor Tree Medical Plan, which called for the repair of decayed branches as well as measures designed to maintain the long-term growth and health of the tree.

4. "Roots and Shoots" Program

Since 2001, THSRC has sponsored Roots & Shoots, a program of the Jane Goodall Institute Taiwan. Support is given to Roots & Shoots teams to promote their studies of the ecology of Taiwan and of environmental conservation. There are presently 670 teams active in Taiwan.

5. Green Ticketing

- In an effort to provide service quality and convenience for the public, THSR tickets are available for purchase at convenience stores throughout Taiwan. In 2011, more than 5.2 million passengers purchased THSR tickets using the ticketing systems at partner convenience stores, accounting for approximately 12.6% of total annual ridership.
- On October 28, 2011, THSRC launched a whole new ticket purchasing system – the "THSR T Express" Cell Phone Booking Service. This service allows passengers to purchase tickets using their smart phones, which reduces paper waste in an effort to protect the environment. Between the service's launch and the end of December 2011, more than 40,000 passengers used the "THSR T Express" service.
- Since December 15, 2011, THSRC has cooperated with the EasyCard Corporation to allow passengers to buy non-reserved THSR tickets using a co-branded EasyCard. As of the end of December 2011, over 17,600 passengers had used the service, accounting for around 2.9% of total non-reserved ticket sales.
- Passengers also can choose to buy a Periodic Ticket or a Multi-Ride Ticket. Usage of these consolidated tickets resulted in 2.25 million fewer magnetic and paper tickets used between July 2010 and December 2011.

6. Environmental Labor Day

Beginning in July 2009, THSRC has designated the 22nd day of each month "Environmental Labor Day." While THSRC promotes energy saving programs and other environmental protection practices in all its activities, on "Environmental Labor Days" special attention is paid to reducing, recycling, reusing and other environmentally sound measures across all our facilities.



Pheasant-Tailed Jacana Preservation



The Old Camphor Tree of Hsinchu and the Earth God Temple

FINANCIAL REPORT

A photograph of four business professionals in a train car. In the foreground, a man in a dark suit and headset is looking at a woman in a grey suit who is smiling and looking at a document. In the background, another man in a suit and a woman are seated. The train car has purple and grey seats and a window is visible on the right.

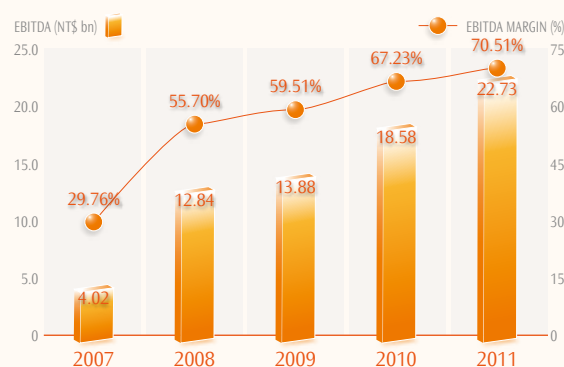
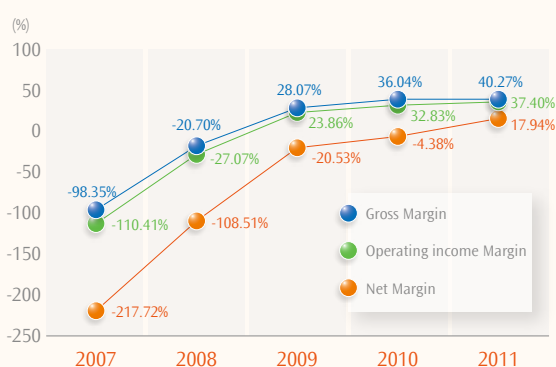
*2011 marked a turning point
for THSRC. We achieved
profitability for the first time in
our company's history with a
net income of
NT\$5.78 billion.*

Financial Highlights

In the face of slow global and domestic economic growth in 2011, THSRC continued introducing various initiatives to raise patronage and profits. For the first time in its five-year operation, the Company reported a net income of NT\$5.78 billion, with earnings per share of NT\$0.59.

(NT\$ bn)	2007	2008	2009	2010	2011
Operating revenues	13.50	23.05	23.32	27.64	32.24
Gross profit(loss)	(13.28)	(4.77)	6.55	9.96	12.98
Income (loss) from operation	(14.91)	(6.24)	5.57	9.07	12.06
Income (loss) before tax	(29.40)	(25.01)	(4.79)	(1.21)	3.19
Net income (loss)	(29.40)	(25.01)	(4.79)	(1.21)	5.78

Between 2010 and 2011, revenues increased by 16.65% from NT\$27.64 billion to NT\$32.24 billion, with operating costs and expenses (excluding depreciation and amortization) rising by only 4.98%. Over the same period of time, gross profit totaled NT\$12.98 billion (an increase of 30.32%), income from operations totaled NT\$12.06 billion (an increase of 32.93%) and EBITDA totaled NT\$22.73 billion (an increase of 22.34%). 2011 gross profit, income from operation and EBITDA were all record highs.



Since commencing operations in 2007, THSRC has had a significant influence on Taiwan's economy and on the lives of its people. In 2011, the Company continued to pursue sustainable growth aligned with the interests of shareholders and society, achieving record profits even amid a challenging economic environment.

Our first ever annual profit in 2011 was only the beginning of a long-term growth strategy, and we are currently studying the feasibility of calling on the Government to extend THSRC's 35-year concession to operate Taiwan's high-speed rail system in order to enable the continuous growth of ridership and profits in the future.

Financial Positioning

Condensed Balance Sheet

NTD (thousands)

Item	Year	2011	2010	Change	
				Amount	%
Current Assets		36,052,568	20,823,576	15,228,992	73.13
Fixed Assets		385,544,813	395,248,591	(9,703,778)	(2.46)
Intangible Assets		27,537	35,566	(8,029)	(22.57)
Other Assets		3,410,937	1,768,532	1,642,405	92.87
Total Assets		425,035,855	417,876,265	7,159,590	1.71
Current Liabilities		18,377,377	8,843,521	9,533,856	107.81
Long-term Liabilities		377,809,033	383,831,862	(6,022,829)	(1.57)
Other Liabilities		42,790	1,624,267	(1,581,477)	(97.37)
Total Liabilities		396,229,200	394,299,650	1,929,550	0.49
Capital Stock		105,322,243	105,322,243	-	-
Capital Surplus		1,293,910	1,295,378	(1,468)	(0.11)
Accumulated Deficits		(67,745,991)	(73,529,738)	5,783,747	7.87
Unrealized Gain on Financial Instruments		992	972	20	2.06
Prepaid Dividends during the Development Stage – Preferred Stock		(10,064,499)	(9,512,240)	(552,259)	5.81
Total Stockholders' Equity		28,806,655	23,576,615	5,230,040	22.18

Explanation of significant changes (over 20%) compared with the previous year:

1. The increase in current assets was mainly due to the increased operating revenue which was invested in short term bonds with repurchase agreements.
2. The decrease in intangible assets was mainly due to software amortization.
3. The increase in other assets was mainly due to the increased deferred income tax assets.
4. The increase in current liabilities was mainly due to an increase in current portion of long-term debts and a reclassification of current portion of profit sharing provision as accrued expenses.
5. The decrease in other liabilities was mainly due to the reclassification of current portion of profit sharing provision as current liabilities.

Condensed Income Statement

NTD (thousands)

Item	Year	2011	2010	Change	
				Amount	%
Operating Revenue		32,236,505	27,635,351	4,601,154	16.65
Operating Cost		(19,255,676)	(17,673,986)	1,581,690	8.95
Gross Profit from Operations		12,980,829	9,961,365	3,019,464	30.31
Operation Expenses		(922,424)	(889,820)	32,604	3.66
Income from Operations		12,058,405	9,071,545	2,986,860	32.93
Non-operating Income and Gains		248,318	230,348	17,970	7.80
Non-operating Expenses and Losses		(9,120,890)	(10,512,782)	(1,391,892)	(13.24)
Income (Loss) Before Income Tax		3,185,833	(1,210,889)	4,396,722	363.10
Income Tax Benefit		2,597,914	848	2,597,066	306,257.78
Net Income (Loss)		5,783,747	(1,210,041)	6,993,788	577.98

Explanation of significant changes (over 20%) compared with the previous year:

1. The increase in gross profit from operations, income from operations, and income before income tax in 2011 was mainly due to increased operating revenues.
2. The increase in income tax benefit was due to partial reversal of valuation allowance for deferred income tax assets.

Capital				In thousands of shares (as of April 24, 2012)
Type of Stock	Authorized Share Capital			Remarks
	Issued Shares	Unissued Shares	Total	
Common Stock	6,513,232	1,467,776	12,000,000	Public Offering
Convertible Preferred Stock	4,018,992			Public Offering

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

Composition of Shareholders								In thousands of shares (as of April 24, 2012)
Common Stock								
Type of Shareholders	Government agencies	Government-owned institutions	Financial institutions	Other corporate investor	Individuals	Foreign institutions and natural individuals	Total	
Shareholding	300,100	500,000	508,399	3,018,403	1,915,271	271,059	6,513,232	
Percentage (%)	4.61%	7.68%	7.81%	46.34%	29.40%	4.16%	100.00%	
Preferred Stock								
Type of Shareholders	Government agencies	Financial institutions		Other corporate investors	Individuals	Foreign institutions and natural individuals	Total	
		Government-owned institutions	Private institutions					
Shareholding	0	450,000	2,047,426	1,393,502	35,600	92,464	4,018,992	
Percentage (%)	0.00%	11.20%	50.95%	34.67%	0.88%	2.30%	100.00%	

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

The following public enterprises and institution should be audited by an auditing agency

- a. Sole government ownership.
- b. Joint government and private ownership with the government holding over 50 percent of stock.
- c. Reinvestment by the enterprises described in a and b above which accounts for over 50 percent of the total capital of the reinvested enterprise.

Taiwan High Speed Rail Corporation

Financial Statements for the
Years Ended December 31, 2011 and 2010 and
Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Taiwan High Speed Rail Corporation

We have audited the accompanying balance sheet of Taiwan High Speed Rail Corporation as of December 31, 2011, and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Taiwan High Speed Rail Corporation as of and for the year ended December 31, 2010 were audited by other auditors whose report dated March 30, 2011 expressed an unqualified opinion with an explanatory paragraph relating to the Corporation's strategy to improve its financial condition and decrease deficit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Taiwan High Speed Rail Corporation as of December 31, 2011, and the results of its operations and its cash flows for the year then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, the requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

As stated in Note 22 c. to the financial statements, the Corporation has adopted a strategy to improve its financial condition and decrease deficit.

Deloitte & Touche

March 29, 2012

Notice to Readers

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

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

TAIWAN HIGH SPEED RAIL CORPORATION

BALANCE SHEETS

DECEMBER 31, 2011 AND 2010

(In Thousands of New Taiwan Dollars, Except Par Value)

The accompanying notes are an integral part of the financial statements.
(With Deloitte & Touche audit report dated March 29, 2012)

ASSETS	2011		2010	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash (Note 4)	\$ 1,555,812	-	\$ 1,406,964	-
Available-for-sale financial assets (Note 5)	628,094	-	487,473	-
Hedging derivative assets (Note 6)	1,081	-	19,852	-
Notes and accounts receivable	249,717	-	112,853	-
Inventories (Note 7)	3,124,582	1	3,415,565	1
Deferred income tax assets - current (Note 16)	464,569	-	-	-
Restricted assets (Note 20)	29,555,061	7	14,865,897	4
Prepayments and other current assets (Note 21)	473,652	-	514,972	-
Total current assets	<u>36,052,568</u>	<u>8</u>	<u>20,823,576</u>	<u>5</u>
PROPERTIES (Notes 8 and 19)				
Cost				
Land improvements	217,071,872	51	217,104,304	52
Buildings	30,629,058	7	30,602,511	8
Machinery and equipment	55,289,655	13	55,265,418	13
Transportation equipment	147,308,728	35	146,747,897	35
Office equipment	119,357	-	125,343	-
Leasehold improvements	78,777	-	78,492	-
Other equipment	318,966	-	412,101	-
Total cost	450,816,413	106	450,336,066	108
Less: Accumulated depreciation	<u>(66,377,505)</u>	<u>(15)</u>	<u>(55,858,949)</u>	<u>(13)</u>
	384,438,908	91	394,477,117	95
Construction in progress and payments for equipment	<u>1,105,905</u>	<u>-</u>	<u>771,474</u>	<u>-</u>
Properties, net	<u>385,544,813</u>	<u>91</u>	<u>395,248,591</u>	<u>95</u>
INTANGIBLE ASSETS				
Computer software, net (Note 9)	<u>27,537</u>	<u>-</u>	<u>35,566</u>	<u>-</u>
OTHER ASSETS				
Refundable deposits	14,223	-	7,409	-
Deferred income tax assets - non-current (Note 16)	2,133,382	1	-	-
Restricted assets (Note 20)	1,228,141	-	1,715,437	-
Others (Note 13)	35,191	-	45,686	-
Total other assets	<u>3,410,937</u>	<u>1</u>	<u>1,768,532</u>	<u>-</u>
TOTAL	<u>\$ 425,035,855</u>	<u>100</u>	<u>\$ 417,876,265</u>	<u>100</u>

LIABILITIES AND STOCKHOLDERS' EQUITY	2011		2010	
	Amount	%	Amount	%
CURRENT LIABILITIES				
Short-term debt (Note 10)	\$ 1,033,752	-	\$ 1,009,367	-
Accounts payable	551,182	-	1,012,672	-
Accrued expenses (Note 21)	4,106,800	1	2,239,029	1
Payable for construction - related parties (Note 19)	1,623	-	8,625	-
Payable for construction	3,929,201	1	4,268,435	1
Current portion of long-term debt (Note 11)	7,896,774	2	-	-
Other current liabilities	858,045	-	305,393	-
Total current liabilities	<u>18,377,377</u>	<u>4</u>	<u>8,843,521</u>	<u>2</u>
LONG-TERM LIABILITIES				
Bonds payable (Note 12)	13,256,031	3	26,905,049	7
Long-term debt (Note 11)	361,402,389	85	355,540,192	85
Long-term interest payable	<u>3,150,613</u>	<u>1</u>	<u>1,386,621</u>	<u>-</u>
Total long-term liabilities	<u>377,809,033</u>	<u>89</u>	<u>383,831,862</u>	<u>92</u>
OTHER LIABILITIES (Note 21)	<u>42,790</u>	<u>-</u>	<u>1,624,267</u>	<u>-</u>
Total liabilities	<u>396,229,200</u>	<u>93</u>	<u>394,299,650</u>	<u>94</u>
STOCKHOLDERS' EQUITY (Note 14)				
Capital stock - \$10 par value, authorized 12,000,000 thousand shares				
Common stock - issued 6,513,233 thousand shares	65,132,326	15	65,132,326	15
Preferred stock - issued 4,018,992 thousand shares	<u>40,189,917</u>	<u>10</u>	<u>40,189,917</u>	<u>10</u>
Total capital stock	<u>105,322,243</u>	<u>25</u>	<u>105,322,243</u>	<u>25</u>
Capital surplus	<u>1,293,910</u>	<u>-</u>	<u>1,295,378</u>	<u>-</u>
Retained earnings (accumulated losses)				
Legal reserve	40,285	-	40,285	-
Deficit	<u>(67,786,276)</u>	<u>(16)</u>	<u>(73,570,023)</u>	<u>(17)</u>
Total retained earnings (accumulated losses)	<u>(67,745,991)</u>	<u>(16)</u>	<u>(73,529,738)</u>	<u>(17)</u>
Unrealized gain on financial instruments	<u>992</u>	<u>-</u>	<u>972</u>	<u>-</u>
Prepaid preferred stock dividends	<u>(10,064,499)</u>	<u>(2)</u>	<u>(9,512,240)</u>	<u>(2)</u>
Total stockholders' equity	<u>28,806,655</u>	<u>7</u>	<u>23,576,615</u>	<u>6</u>
TOTAL	<u>\$ 425,035,855</u>	<u>100</u>	<u>\$ 417,876,265</u>	<u>100</u>

STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2011 AND 2010

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

The accompanying notes are an integral part of the financial statements.
(With Deloitte & Touche audit report dated March 29, 2012)

	2011		2010	
	Amount	%	Amount	%
OPERATING REVENUES (Note 19)	\$ 32,236,505	100	\$ 27,635,351	100
OPERATING COSTS (Notes 15 and 19)	<u>(19,255,676)</u>	<u>(60)</u>	<u>(17,673,986)</u>	<u>(64)</u>
GROSS PROFIT	12,980,829	40	9,961,365	36
OPERATING EXPENSES (Note 15)	<u>(922,424)</u>	<u>(3)</u>	<u>(889,820)</u>	<u>(3)</u>
INCOME FROM OPERATIONS	<u>12,058,405</u>	<u>37</u>	<u>9,071,545</u>	<u>33</u>
NON-OPERATING INCOME AND GAINS				
Interest income	146,740	1	34,592	-
Gain on disposal of financial instruments, net	3,324	-	2,114	-
Foreign exchange gain, net	-	-	144,154	1
Valuation gain on financial instruments, net	-	-	30,442	-
Others	<u>98,254</u>	<u>-</u>	<u>19,046</u>	<u>-</u>
Total non-operating income and gains	<u>248,318</u>	<u>1</u>	<u>230,348</u>	<u>1</u>
NON-OPERATING EXPENSES AND LOSSES				
Interest expense (Notes 8 and 19)	(8,854,892)	(27)	(8,928,258)	(32)
Foreign exchange loss, net	(224,409)	(1)	-	-
Others (Notes 11, 12 and 15)	<u>(41,589)</u>	<u>-</u>	<u>(1,584,524)</u>	<u>(6)</u>
Total non-operating expenses and losses	<u>(9,120,890)</u>	<u>(28)</u>	<u>(10,512,782)</u>	<u>(38)</u>
INCOME (LOSS) BEFORE INCOME TAX	3,185,833	10	(1,210,889)	(4)
INCOME TAX BENEFIT (Note 16)	<u>2,597,914</u>	<u>8</u>	<u>848</u>	<u>-</u>
NET INCOME (LOSS)	<u>\$ 5,783,747</u>	<u>18</u>	<u>\$ (1,210,041)</u>	<u>(4)</u>

	2011		2010	
	Before In- come Tax	After Income Tax	Before In- come Tax	After Income Tax
EARNINGS (LOSS) PER SHARE (Note 17)				
Basic earnings (loss) per share	<u>\$ 0.19</u>	<u>\$ 0.59</u>	<u>\$ (0.48)</u>	<u>\$ (0.48)</u>
Diluted earnings per share		<u>\$ 0.55</u>		

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2011 AND 2010
(In Thousands of New Taiwan Dollars)

The accompanying notes are an integral part of the financial statements.
 (With Deloitte & Touche audit report dated March 29, 2012)

	Capital Stock (Note 14)		Capital Surplus (Notes 12 and 14)			
	Common Stock	Preferred Stock	Treasury Stock	Stock options	Others	Total
BALANCE, JANUARY 1, 2011	\$ 65,132,326	\$ 40,189,917	\$ -	\$ 116,219	\$ 1,179,159	\$ 1,295,378
Redemption of convertible bonds	-	-	114,751	(116,219)	-	(1,468)
Distribution of preferred stock dividends resolved by the stockholders on June 24, 2011	-	-	-	-	-	-
Distribution of preferred stock dividends due to a court's final judgment	-	-	-	-	-	-
Net income for 2011	-	-	-	-	-	-
Changes in unrealized gain on financial instruments	-	-	-	-	-	-
BALANCE, DECEMBER 31, 2011	<u>\$ 65,132,326</u>	<u>\$ 40,189,917</u>	<u>\$ 114,751</u>	<u>\$ -</u>	<u>\$ 1,179,159</u>	<u>\$ 1,293,910</u>
BALANCE, JANUARY 1, 2010	\$ 65,032,326	\$ 40,289,917	\$ -	\$ 116,219	\$ 1,179,159	\$ 1,295,378
Conversion of convertible preferred stock into common stock	100,000	(100,000)	-	-	-	-
Net loss for 2010	-	-	-	-	-	-
Changes in unrealized gain on financial instruments	-	-	-	-	-	-
BALANCE, DECEMBER 31, 2010	<u>\$ 65,132,326</u>	<u>\$ 40,189,917</u>	<u>\$ -</u>	<u>\$ 116,219</u>	<u>\$ 1,179,159</u>	<u>\$ 1,295,378</u>

Retained Earnings (Accumulated Losses) (Note 14)			Unrealized Gain on Financial Instruments	Prepaid Preferred Stock Dividends (Note 14)	Total Stockholders' Equity
Legal Reserve	Deficit	Total			
\$ 40,285	\$ (73,570,023)	\$ (73,529,738)	\$ 972	\$ (9,512,240)	\$ 23,576,615
-	-	-	-	-	(1,468)
-	-	-	-	(29,077)	(29,077)
-	-	-	-	(523,182)	(523,182)
-	5,783,747	5,783,747	-	-	5,783,747
-	-	-	20	-	20
<u>\$ 40,285</u>	<u>\$ (67,786,276)</u>	<u>\$ (67,745,991)</u>	<u>\$ 992</u>	<u>\$ (10,064,499)</u>	<u>\$ 28,806,655</u>
\$ 40,285	\$ (72,359,982)	\$ (72,319,697)	\$ 716	\$ (9,512,240)	\$ 24,786,400
-	-	-	-	-	-
-	(1,210,041)	(1,210,041)	-	-	(1,210,041)
-	-	-	256	-	256
<u>\$ 40,285</u>	<u>\$ (73,570,023)</u>	<u>\$ (73,529,738)</u>	<u>\$ 972</u>	<u>\$ (9,512,240)</u>	<u>\$ 23,576,615</u>

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2011 AND 2010
(In Thousands of New Taiwan Dollars)

The accompanying notes are an integral part of the financial statements.
(With Deloitte & Touche audit report dated March 29, 2012)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 5,783,747	\$ (1,210,041)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	10,647,252	9,472,967
Amortization	21,909	42,302
Gain on disposal of financial instruments, net	(3,324)	(2,114)
Gain on valuation of financial instruments, net	-	(30,442)
Transfer of properties to other expenses	676	5,057
Loss on disposal of properties	669	6,281
Amortization of discount on bonds	6,148	443,549
Amortization of bonds issuance cost	9,740	22,151
Loss on redemption of convertible bonds	35,910	651,854
Interest paid for overseas convertible bonds	(239,538)	(2,073,834)
Foreign exchange loss (gain) on overseas convertible bonds	2,186	(220,811)
Amortization of cost of long-term debt	30,170	29,446
Transfer of unamortized cost of long-term debt to other loss	-	412,265
Deferred income tax	(2,597,951)	-
Changes in operating assets and liabilities		
Hedging derivative financial instruments	18,771	(21,540)
Notes and accounts receivable	(136,864)	(4,822)
Inventories	93,700	(1,065,368)
Prepayments and other current assets	41,320	(12,483)
Other assets - others	9,256	(21,821)
Accounts payable	(461,490)	(402,452)
Accrued expenses	281,564	(214,386)
Other current liabilities	552,652	(74,077)
Long-term interest payable	1,763,992	1,228,256
Other liabilities	-	362,728
Net cash provided by operating activities	<u>15,860,495</u>	<u>7,322,665</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of available-for-sale financial assets	(865,000)	(1,470,900)
Proceeds from disposal of available-for-sale financial assets	727,723	1,524,492
Acquisition of properties	(1,095,032)	(2,108,029)
Proceeds from disposal of properties	62	13,090
Acquisition of computer software	(10,743)	(4,899)
Decrease (increase) in refundable deposits	(6,814)	493
Increase in deferred charges	(700)	(1,500)
Increase in restricted assets	<u>(14,201,868)</u>	<u>(13,863,272)</u>
Net cash used in investing activities	<u>(15,452,372)</u>	<u>(15,910,525)</u>

	2011	2010
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in short-term debt	\$ 24,385	\$ 452,581
Issuance of bonds	-	3,494,210
Redemption of bonds	(13,464,932)	(8,432,554)
Proceeds from long-term debt	13,728,801	339,749,431
Repayment of long-term debt	-	(328,323,176)
Increase (decrease) in guarantee deposits received	4,730	(920)
Preferred stock dividends	<u>(552,259)</u>	<u>-</u>
Net cash provided by (used in) financing activities	<u>(259,275)</u>	<u>6,939,572</u>
 NET INCREASE (DECREASE) IN CASH	 148,848	 (1,648,288)
 CASH, BEGINNING OF YEAR	 <u>1,406,964</u>	 <u>3,055,252</u>
 CASH, END OF YEAR	 <u>\$ 1,555,812</u>	 <u>\$ 1,406,964</u>
 SUPPLEMENTARY INFORMATION		
Cash paid for interest	\$ 7,052,503	\$ 9,063,881
Less: capitalized interest	<u>(9,369)</u>	<u>(3,883)</u>
	<u>\$ 7,043,134</u>	<u>\$ 9,059,998</u>
Cash paid for income tax	<u>\$ 12,132</u>	<u>\$ 2,766</u>
 NON-CASH INVESTING ACTIVITIES		
Transfer of inventories to properties	<u>\$ 197,283</u>	<u>\$ 537</u>
Transfer of intangible assets to properties	<u>\$ -</u>	<u>\$ 500</u>
Transfer of properties to intangible assets	<u>\$ 1,300</u>	<u>\$ -</u>
 INVESTING ACTIVITIES INVOLVING BOTH CASH AND NON-CASH ITEMS		
Acquisition of properties	\$ 748,796	\$ 496,418
Decrease in payable for construction (including related parties)	346,236	574,106
Decrease in other liabilities	<u>-</u>	<u>1,037,505</u>
Cash paid for acquisition of properties	<u>\$ 1,095,032</u>	<u>\$ 2,108,029</u>

TAIWAN HIGH SPEED RAIL CORPORATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

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

01. GENERAL

Taiwan High Speed Rail Corporation (the "Corporation") commenced the preparation for its incorporation on May 3, 1997, and 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 Taiwan North-South High Speed Rail Station Zone Development Agreement ("SZD Agreement") entered into with the Ministry of Transportation and Communications ("MOTC") on July 23, 1998, the Corporation was granted authority to construct and operate the high speed rail and relevant ancillary facilities. On January 5, 2007, the Corporation started its commercial operations from the Banqiao Station to the Zuoying Station. When the railway service at the Taipei Station began on March 2, 2007, the Corporation started its service for the entire line.

The Corporation's stock has been registered as an emerging market stock in the GreTai Securities Market since September 5, 2003.

As of December 31, 2011 and 2010, the number of employees of the Corporation was 3,246 and 3,087, respectively.

02. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, Business Accounting Law, Guidelines Governing Business Accounting, and accounting principles generally accepted in the Republic of China ("ROC").

For the convenience of readers, the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the ROC. 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 financial statements shall prevail.

Significant accounting policies are summarized as follows:

Foreign-currency Translations

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. At year-end, balances of monetary foreign-currency assets and liabilities are restated using prevailing exchange rates and the resulting differences are recognized in profit or loss.

Accounting Estimates

The preparation of financial statements in conformity with the aforementioned guidelines, law and principles requires management to make reasonable assumptions and estimates of impairment of receivable, allowance for loss on inventory, depreciation of properties, impairment of assets, income tax, pension cost, contingencies, and estimated number of passengers of the concession period that are inherently uncertain. The actual results may differ from management's estimates.

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 one year 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 one year from the balance sheet date; liabilities other than current liabilities are non-current liabilities.

Cash Equivalents

Repurchase agreements collateralized by government bonds acquired with maturities of less than three months from the date of purchase are classified as cash equivalents. Their carrying amount approximates fair value.

Available-for-sale Financial Assets

Upon initial recognition, open-end money market funds are measured at fair value, with transaction costs expensed as incurred. The changes in fair value from subsequent remeasurement are reported as a separate component of stockholders' equity. The corresponding accumulated gains or losses are recognized in profit or loss when the financial asset is derecognized from the balance sheet. An impairment loss is recognized when there is objective evidence that the financial asset is impaired. A regular way purchase or sale of financial assets is recognized and derecognized using trade date accounting.

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

Hedging Derivatives

Fair value hedging derivatives are measured at fair value. Changes in fair value of hedging derivatives are recognized in profit or loss for the year.

Impairment of Accounts Receivable

As stated in Note 3 to the financial statements, on January 1, 2011, the Corporation adopted the third-time revised Statement of Financial Accounting Standards (SFAS) No. 34, "Financial Instruments: Recognition and Measurement." One of the main revisions is that impairment of receivables originated by the Corporation should be covered by SFAS No. 34.

Receivables are mainly generated by customers purchasing tickets and merchandise through credit cards. Allowance for doubtful accounts is provided based on an evaluation of the collectibility of individual account balances. Receivables are assessed for impairment and considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the accounts receivable, the estimated future cash flows of the asset have been affected.

Impairment of Assets

When the carrying amount of an asset (including primarily properties) exceeds its recoverable amount, the excess is recognized as an impairment loss.

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.

Properties

Properties are stated at cost less accumulated depreciation. Borrowing costs directly attributable to the acquisition or construction of properties are capitalized as part of the cost of those assets. Major additions, replacement and improvements are capitalized, while maintenance and repairs are expensed currently.

The related cost and accumulated depreciation of an item of properties are derecognized from the balance sheet upon its disposal. Any gain or loss on disposal of the asset is included in non-operating gains or losses in the year of disposal.

Before January 1, 2009, depreciation was provided using the straight-line method. For the purpose of more closely reflecting the expected pattern of consumption of the future economic benefits embodied in the asset, with the approval of Rule No. 0970069714 issued by the Financial Supervisory Commission (FSC) under the Executive Yuan, commencing from January 1, 2009, the Corporation changed the depreciation method from the straight-line method to the units of throughput method based on ridership for properties (including land improvements, buildings, machinery and equipment, transportation equipment, and parts of other equipment) directly related to transport volume. Depreciation under the units of throughput method based on ridership was calculated by the proportion of the higher of estimated number of passengers or actual number of passengers to the total estimated number of passengers of the remaining concession period. When there is a significant gap between estimated number of passengers and actual number of passengers, the Corporation adjusts its depreciation over the remaining concession period in accordance with a revised transport volume study. According to the transport volume report prepared by an external expert in July 2009, the estimated number of passengers in 2011 and 2010 was 39 million and 35 million, respectively. The actual number of passengers in 2011 and 2010 was 42 million and 37 million, respectively.

The major service lives and depreciation methods of properties are summarized as follows:

	Major Service Lives	Major Depreciation Methods	Estimated Number of Passengers (Note 2) (Million)
Land improvements	26.5 years (Note 1)	The units of throughput method based on ridership	2,074
Buildings	26.5 years (Note 1)	The units of throughput method based on ridership	2,074
Machinery and equipment	10-26.5 years (Note 1)	The units of throughput method based on ridership	391-2,074
Transportation equipment	26.5 years (Note 1)	The units of throughput method based on ridership	2,074
Office equipment	5-11 years	Straight-line method	-
Leasehold improvements	3-5 years	Straight-line method	-
Other equipment	4-15 years	The units of throughput method based on ridership and straight-line method	106-1,104

Note 1: The service lives were subject to the remaining concession period (26.5 years) of the C&O Agreement on January 5, 2007.

Note 2: The estimated number of passengers each year is based on the transport volume report prepared by an external expert in July 2009 covering the years in the major service lives of the assets.

Intangible Assets

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

Convertible Bonds

The Corporation first determines the carrying amount of the liability component by measuring the fair value of a similar liability that does not have an associated equity component, then determines the carrying amount of the equity component, representing the equity conversion option, by deducting the fair value of the liability component from the fair value of the convertible bonds as a whole. The liability component (excluding embedded derivatives) is measured at amortized cost using the effective interest method. Transaction costs of convertible bonds, net of related income tax benefit, are allocated to the liability and equity components in proportion to their initial carrying amounts. Upon conversion, the Corporation uses the aggregate carrying amount of the liability and equity components of the bonds at the time of conversion as a basis to record the common shares issued.

When bondholders exercise the put option, cash paid is considered the redemption of the liability component of the convertible bonds, and the equity component is regarded as abandoned. The difference between cash paid and the book value of the liability component of convertible bonds is recorded in profit or loss. The equity component which is recognized initially as capital surplus equity conversion option of convertible bonds is reclassified as capital surplus others.

When the Corporation redeems the bonds, the redemption price is allocated to the liability and equity components pro rata on the basis of the fair value. The difference between the redemption price and the book value of the liability component of convertible bonds is recognized in profit or loss. The difference between the redemption price and the book value of the equity component of convertible bonds is recognized as capital surplus - treasury stock transactions.

Pension Cost

Pension cost under a defined contribution pension plan is recognized based on the amount of the contributions made to employees' pension accounts during the period in which employees render services. Pension cost under a defined benefit pension plan is recognized based on actuarial calculations.

Preferred Stock

The preferred stock issued on or before January 1, 2006, regarded as equities in the legal form but as liabilities in the economic substance, was recognized as a separate component of stockholders' equity. However, after January 1, 2006, the preferred stock may be treated as a new issue when there are major changes in the terms of the original issue and divided into financial liability and equity elements in accordance with the substance.

Income Tax

Deferred income tax assets and liabilities are recognized for the tax effects of temporary differences, unused loss carryforwards and unused investment tax credits. Valuation allowance is provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. A deferred tax asset or liability is classified as current or non-current in accordance with the classification of its related asset or liability. However, if a deferred income tax asset or liability does not relate to an asset or liability in the financial statements, then it is classified as either current or non-current based on the expected length of time before it is realized or settled.

Investment tax credits arising from personnel training expenditures are recognized using the flow-through

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

Additional income tax at 10% of undistributed earnings is recorded when the amount is determinable, namely, when the retention of earnings is resolved by the stockholders.

Revenue Recognition

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

Reclassifications

Certain accounts of the financial statements as of and for the year ended December 31, 2010 have been reclassified to conform to the classifications adopted for the financial statements as of and for the year ended December 31, 2011.

03. EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES

Financial Instruments

On January 1, 2011, the Corporation adopted the newly revised SFAS No. 34, "Financial Instruments: Recognition and Measurement." The main revisions included loans and receivables originated by the Corporation under the scope of SFAS No. 34. This accounting change did not have a significant effect on the Corporation's financial statements as of and for the year ended December 31, 2011.

04. CASH

	December 31	
	2011	2010
Cash on hand and petty cash	\$ 140,250	\$ 80,451
Checking account deposits	755	1,017
Demand deposits	113,276	547,548
Time deposits	<u>1,301,531</u>	<u>777,948</u>
	<u>\$ 1,555,812</u>	<u>\$ 1,406,964</u>

As of December 31, 2011 and 2010, time deposits with maturities of over one year amounted to \$610 thousand and \$205,974 thousand, respectively.

05. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2011	2010
Open-end money market funds	<u>\$ 628,094</u>	<u>\$ 487,473</u>

06. HEDGING DERIVATIVE ASSETS

	December 31	
	2011	2010
Forward exchange contracts	<u>\$ 1,081</u>	<u>\$ 19,852</u>

The Corporation entered into forward exchange contracts mainly to hedge the risk of exchange rate fluctuations of foreign-currency accounts payable and payables to construction. As of December 31, 2011 and 2010, outstanding forward exchange contracts were as follows:

	Currency	Maturity Date	Contract Amount (In Thousands)	
December 31, 2011				
Buy	US\$/JPY	January 2012	JPY	625,342
	NT\$/US\$	January 2012	US\$	8,016
December 31, 2010				
Buy	US\$/JPY	January 2011	JPY	269,563
	NT\$/US\$	January 2011	US\$	33,215

07. INVENTORIES

	December 31	
	2011	2010
Spare parts and supplies	\$ 3,120,995	\$ 3,411,383
Merchandise	3,587	4,182
	<u>\$ 3,124,582</u>	<u>\$ 3,415,565</u>

As of December 31, 2011 and 2010, allowance for loss on inventories amounted to \$476 thousand and \$833 thousand, respectively.

08. PROPERTIES

	December 31	
	2011	2010
Accumulated depreciation		
Land improvements	\$ 27,151,939	\$ 23,113,148
Buildings	3,956,479	3,387,372
Machinery and equipment	12,108,215	9,909,930
Transportation equipment	22,715,426	18,978,141
Office equipment	100,647	102,689
Leasehold improvements	78,505	54,443
Other equipment	266,294	313,226
	<u>\$ 66,377,505</u>	<u>\$ 55,858,949</u>

Capitalized interest amounted to \$9,369 thousand and \$3,883 thousand for the years ended December 31, 2011 and 2010, respectively. The interest rates of capitalized interest were 1.95%-2.34% and 1.95%-2.73%, respectively.

09. INTANGIBLE ASSETS

	Year Ended December 31	
	2011	2010
Computer software		
Cost		
Balance, beginning of year	\$ 283,686	\$ 279,822
Acquisition	10,743	4,899
Reclassification	1,300	(1,035)
Balance, end of year	<u>295,729</u>	<u>283,686</u>
Accumulated amortization		
Balance, beginning of year	248,120	216,968
Amortization	20,072	31,687
Reclassification	-	(535)
Balance, end of year	<u>268,192</u>	<u>248,120</u>
	<u>\$ 27,537</u>	<u>\$ 35,566</u>

10. SHORT-TERM DEBT

	December 31	
	2011	2010
JPY letters of credit, interest at 0.94%-1.42% in 2011 and 0.93%-1.52% in 2010	<u>\$ 1,033,752</u>	<u>\$ 1,009,367</u>

11. LONG-TERM DEBT

	December 31	
	2011	2010
Syndicated Loan		
Tranche A1 Facility, which was initially utilized on May 4, 2010, repayable in twenty-one semi-annual installments from May 4, 2022, interest at 1.95%-2.19% in 2011 and 1.79%-1.95% in 2010	\$ 130,000,000	\$ 130,000,000
Tranche A2 Facility, which was initially utilized on May 4, 2010, repayable in thirty-one semi-annual installments from May 4, 2017, interest at 1.95%-2.16% in 2011 and 1.79%-1.95% in 2010	162,945,117	150,245,117
Tranche C Facility, which was initially utilized on May 4, 2010, is repayable in nine semi-annual installments from May 4, 2016, interest at 2.02%-2.25% in 2011 and 1.89%-2.02% in 2010	49,259,381	49,259,381
Tranche D Facility, which was initially utilized on May 13, 2010, repayable in nine semi-annual installments from May 4, 2013, interest at 2.02%-2.25% in 2011 and 1.89%-2.02% in 2010	11,543,134	10,514,333
The second syndicated loan		
Tranche D (seven years) Facility, which was initially utilized on August 15, 2007, repayable on August 15, 2014, interest at 4.32%-4.89%	7,900,000	7,900,000
Tranche D (five years) Facility, which was initially utilized on August 15, 2007, repayable on August 15, 2012, interest at 4.02%-4.57%	<u>\$ 7,900,000</u>	<u>\$ 7,900,000</u>
	369,547,632	355,818,831
Less: Unamortized cost of long-term debt	<u>(248,469)</u>	<u>(278,639)</u>
	369,299,163	355,540,192
Less: Current portion (including unamortized cost of long-term debt)	<u>(7,896,774)</u>	<u>-</u>
	<u>\$ 361,402,389</u>	<u>\$ 355,540,192</u>

In order to improve financial condition, the Corporation has entered into the Taiwan North-South High Speed Rail Construction and Operation Tripartite Agreement (“Tripartite Agreement”) with the MOTC and Bank of Taiwan on January 8, 2010, and the Taiwan North-South High Speed Rail Construction and Operation Project NTD 382 Billion Syndicated Loan Agreement (“Syndicated Loan Agreement”) with a bank syndicate consisting of 8 banks. The significant terms are as follows:

- a. The Syndicated Loan includes Tranches A1, A2, A3, B, C, and D with different credit facilities. The main purposes of the agreements are to repay the first syndicated loan, the second syndicated loan excluding Tranche D, and the overseas convertible bonds, and to meet fund requirements from operations. On May 4, 2010, the Corporation utilized the Tranche A1 Facility amounting to \$130,000,000 thousand, Tranche A2 Facility amounting to \$150,245,117 thousand, Tranche A3 Facility amounting to \$26,566,942 thousand, Tranche B Facility amounting to \$4,000,000 thousand, and Tranche C Facility amounting to \$49,259,381 thousand to repay all of the first syndicated loan, as well as the Tranche A, B and C Facilities of the second syndicated loan agreement under the Syndicated Loan. On May 13, 2010 and January 25, 2011, the Corporation redeemed the unsecured overseas convertible bond (including interest premium) of US\$367,589 thousand with the Tranche D Facility amounting to \$10,514,333 thousand and \$1,028,801 thousand, respectively. On October 7 and December 19, 2011, the Corporation utilized the Tranche A2 Facility to repay the \$6,700,000 thousand and the \$6,000,000 thousand secured domestic corporate bonds payable issued in October and December 2008, respectively, and extinguished the Tranche A3 Facility’s \$13,042,900 thousand guarantees for repayment of the aforementioned domestic bonds (including interest premium).
- b. The Corporation provided assets (refer to assets transferred to the MOTC under the C&O Agreement) and a portion of the superficies (see Note 22) as collateral for the Syndicated Loan (The Corporation’s assets need not be registered by the bank syndicate to create a right attached to the Corporation’s 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. However, if an agreement is not reached within 45 days after the date of the negotiation notice issued by Bank of Taiwan, the Corporation should redeem the difference immediately.

Due to the advanced payment of the first syndicated loan and the second syndicated loan Tranches A, B and C, the related unamortized cost of long-term debt of \$412,265 thousand was written off and recognized as other loss.

As of December 31, 2011, unused credit lines of the Syndicated Loan amounted to \$7,000,000 thousand. The Corporation had outstanding promissory notes amounting to \$381,100,000 thousand and \$15,800,000 thousand in order to obtain credit lines of the Syndicated Loan and the second syndicated loan, respectively.

Pursuant to the Syndicated Loan Agreement, the Corporation opened related accounts at Bank of Taiwan intended for deposits and financial instruments reserved for acquisition and disposal of assets and financial instruments. The deposits and financial instruments pledged as collateral at Bank of Taiwan are recognized as restricted assets.

As of December 31, 2011, long-term debt (including the current portion) by year of repayment was as follows:

Year of Repayment	Amount
2012	\$ 7,900,000
2013	2,565,141
2014	10,465,141
2015	2,565,141
2016	13,511,670
2017 and after	<u>332,540,539</u>
	<u>\$ 369,547,632</u>

12. BONDS PAYABLE

The Corporation had issued bonds to finance the construction costs and operating expenses of the high speed rail system and stations. The bonds were as follows:

	December 31	
	2011	2010
Secured domestic corporate bonds		
Issued in January 2010, repayable in January 2013, interest payable annually at 1.65%	\$ 3,500,000	\$ 3,500,000
Issued in December 2008, repayable in December 2011, interest payable annually at 2.70%	-	6,000,000
Issued in October 2008, repayable in October 2011, and interest payable annually at 2.70%	-	6,695,893
Issued in May 2007, repayable in May 2012, and interest payable annually at 2.07%	4,000,000	4,000,000
Issued in April 2007, repayable in April 2013, and interest payable annually at 2.12%	3,000,000	3,000,000
Issued in April 2007, repayable in April 2014, and interest payable annually at 2.17%	2,760,000	2,760,000
Unsecured overseas convertible bonds	<u>-</u>	<u>962,866</u>
	13,260,000	26,918,759
Less: Unamortized bonds issuance cost	<u>(3,969)</u>	<u>(13,710)</u>
	<u>\$ 13,256,031</u>	<u>\$ 26,905,049</u>

The Corporation had accomplished the refinancing arrangement in 2010 and reclassified the secured domestic corporate bonds payable issued in May 2007, October and December 2008 to long-term debt. After completion of the refinancing arrangement which is in accordance with the Syndicated Loan Agreement, the annual interest rate and interest payment date are the same as the Tranche A2 Facility, and long-term debt is repayable in thirty-one semi-annual installments commencing from May 4, 2017.

The Corporation issued secured domestic corporate bonds in October 2008 and had the option to redeem the bonds at par value plus interest premium during the period from the issue date to June 30, 2009. The bondholders had the option to require the Corporation to redeem the bonds at par value plus interest premium on September 30, 2009. The bondholders exercised the option to require the Corporation to redeem the bonds at par value of \$100,000 thousand.

On May 15, 2007, the Corporation issued five-year zero coupon overseas convertible bonds with a face value of US\$300 million and applied for permission to list on the Singapore Stock Exchange. The bondholders may convert the convertible bonds into the Corporation's common stock during the period from June 15, 2007, to April 30, 2012 (barring the year in which registration of share transfer is suspended). The initial conversion price is \$10 per common share; however, future adjustment of conversion price may be made according to a formula. The bondholders may request the Corporation to redeem bonds on May 15, 2010 at 124.72% of face value. When over 90% of the bonds had been redeemed, bought back or converted, the Corporation may redeem the remaining bonds at a price calculated by a predetermined formula. Upon maturity, the Corporation should redeem the remaining bonds at 144.5% of their face value.

As of December 31, 2011, bonds with par value of US\$6,660 thousand had been converted into 22,168 thousand shares of common stock.

On May 15, 2010, part of the bondholders requested the Corporation to redeem bonds with a face value of US\$267,022 thousand. The Corporation utilized credit facilities amounting to US\$333,030 thousand (including interest premium of \$2,073,834 thousand) from the Syndicated Loan and redeemed the bonds. The unamortized issuance cost and discounts of the bonds, amounting to \$52,479 thousand and \$599,375 thousand, respectively, were written off and recognized as other loss. The expired conversion right of the convertible bonds amounting to \$1,179,159 thousand was transferred from capital surplus equity conversion option of convertible bonds to capital surplus others.

On January 27, 2011, the Corporation redeemed bonds at a yield rate of 7.5% which was calculated on a semi-annual period basis. The Corporation utilized credit facilities of US\$34,559 thousand (including interest premium of \$239,538 thousand) from the Syndicated Loan and redeemed the bonds. The unamortized issuance cost and discounts of the bonds, amounting to \$3,448 thousand and \$32,461 thousand, respectively, were written off and recognized as other loss. The redeemed amount of the convertible bonds of \$114,751 thousand was transferred from capital surplus equity conversion option of convertible bonds to capital surplus treasury stock transaction.

As of December 31, 2011, all of the aforementioned bonds had been converted into common stock, bought back or redeemed by the Corporation.

13. PENSION PLANS

The pension mechanism under the Labor Pension Act is deemed a defined contribution pension plan. The Corporation makes monthly contributions at 6% of each employee's monthly salary to employees' individual pension accounts.

Based on the defined benefit plan under the Labor Standards Law, pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Corporation contributes amounts equal to 2% of total monthly salaries and wages to a pension fund, which is administered by the employees' pension fund committee and deposited in the committee's name with the Bank of Taiwan. Information about the defined benefit pension plan was summarized as follows:

a. Components of net periodic pension cost

	Year Ended December 31	
	2011	2010
Service cost	\$ 20,014	\$ 22,946
Interest cost	10,330	9,354
Projected return on plan assets	(9,390)	(6,844)
Amortization	8,716	6,116
Net periodic pension cost	<u>\$ 29,670</u>	<u>\$ 31,572</u>

b. Reconciliation of funded status of the plan and prepaid pension cost

	December 31	
	2011	2010
Benefit obligation		
Vested benefit obligation	\$ (47,417)	\$ (28,941)
Non-vested benefit obligation	<u>(342,447)</u>	<u>(323,608)</u>
Accumulated benefit obligation	(389,864)	(352,549)
Additional benefit based on future salaries	<u>(116,109)</u>	<u>(110,828)</u>
Projected benefit obligation	(505,973)	(463,377)
Fair value of plan assets	<u>482,082</u>	<u>464,806</u>
Funded status	(23,891)	1,429
Unrecognized service cost	85,911	94,975
Unrecognized net gain	(30,997)	(56,293)
Unrecognized net transition obligation	<u>1,349</u>	<u>1,517</u>
Prepaid pension (included in other assets - other)	<u>\$ 32,372</u>	<u>\$ 41,628</u>

	December 31	
	2011	2010
c. Vested benefit	<u>\$ 52,017</u>	<u>\$ 31,795</u>

d. Actuarial assumptions

	December 31	
	2011	2010
Discount rate used in determining present values	2.00%	2.25%
Future salary increase rate	2.00%	2.00%
Expected rate of return on plan assets	2.00%	2.00%

The pension information for 2011 and 2010 was as follows:

	Year Ended December 31	
	2011	2010
Recognized as operating cost and expenses		
Defined contribution plan	\$ 110,320	\$ 104,712
Defined benefit plan	<u>29,102</u>	<u>31,371</u>
	<u>\$ 139,422</u>	<u>\$ 136,083</u>
Recognized as construction in progress		
Defined contribution plan	\$ 717	\$ 383
Defined benefit plan	<u>568</u>	<u>201</u>
	<u>\$ 1,285</u>	<u>\$ 584</u>

14. STOCKHOLDERS' EQUITY

a. Preferred Stock comprised:

Item	Issue Date	Issued Shares (In Thousands)	Issued Period	Par Value		Issuance Amount
				December 31 2011	2010	
Class A Convertible Preferred Stock	January 27, 2003	2,690,000	January 27, 2003 to February 26, 2010	\$ 26,900,000	\$ 26,900,000	\$ 26,900,000
Less: Converted into common stock				(890,000)	(890,000)	
				<u>26,010,000</u>	<u>26,010,000</u>	
Class B Convertible Preferred Stock	September 9, 2003	134,250	September 9, 2003 to October 8, 2010	1,342,495	1,342,495	1,342,495
Less: Converted into common stock				(1,002,000)	(1,002,000)	
				<u>340,495</u>	<u>340,495</u>	
Class C Convertible Preferred Stock						
C1	January 20, 2004	161,300	January 20, 2004 to January 19, 2008	1,613,000	1,613,000	1,500,090
C2	February 27, 2004	151,400	February 27, 2004 to February 26, 2008	1,514,000	1,514,000	1,408,020
C3	March 24, 2004	74,600	March 24, 2004 to March 23, 2008	746,000	746,000	693,780
C4	April 23, 2004	107,620	April 23, 2004 to April 22, 2008	1,076,200	1,076,200	1,000,866
C5	August 18, 2004	637,077	August 18, 2004 to August 17, 2008	6,370,770	6,370,770	5,924,816
C6	September 7, 2004	64,500	September 7, 2004 to September 6, 2008	645,000	645,000	599,850
C7	November 17, 2004	37,010	November 17, 2004 to November 16, 2008	370,100	370,100	344,193
C8	April 28, 2005	645,900	April 28, 2005 to April 27, 2009	6,459,000	6,459,000	6,006,870
C9	September 30, 2005	806,500	September 30, 2005 to September 29, 2009	<u>8,065,000</u>	<u>8,065,000</u>	7,500,450
				26,859,070	26,859,070	
Less: Converted into common stock				(13,019,648)	(13,019,648)	
				<u>13,839,422</u>	<u>13,839,422</u>	
				<u>\$ 40,189,917</u>	<u>\$ 40,189,917</u>	

On October 23, 2008 and December 14, 2007, the Corporation's board of directors resolved to define the maturity dates of Class A, B and C preferred stock as the date of actual redemption in the future.

The rights and obligations of preferred stock are as follows:

1. Class A and Class B Preferred Stock

- a) Preferred stock shall be issued at par value per share. The dividend yield is payable at the rate of 5% based on par value per annum. Dividends are payable in cash on a yearly basis. If, in any given year, the Corporation generates no profit or insufficient profits for the distribution of preferred stock dividends, dividends are accumulated and are given preference over the dividends to be

distributed to the holders of common stock in the year when the Corporation generates sufficient profits. Upon the maturity date of the Preferred Stock, the Corporation shall prioritize the payment in full of the undistributed dividends in a particular year or each year thereafter.

- b) If the preferred stockholders fail to convert the shares during the conversion period, the Corporation shall redeem the preferred stock at par value on the maturity date. If the Corporation is prevented by laws and regulations from redeeming the preferred stock in whole or in part on the maturity date, the rights and obligations associated with the unredeemed preferred stock shall continue in accordance with the terms and conditions for issue until they are redeemed.
- c) Other than the dividends on preferred stock, the preferred stockholders are not entitled to participate in the distribution of profits and capital surplus to the common stockholders.
- d) The preferred stockholders have preference over the common stockholders in the distribution of the residual assets; however, the assets to be distributed to them shall not exceed the total issue price of the preferred stock.
- e) The preferred stockholders have no voting rights in the common stockholders' meetings, including the election of directors and supervisors, but may be elected as directors or supervisors.
- f) The preferred stockholders have the same preemptive rights as the common stockholders in capital raising.
- g) Commencing from the day following a full three years after the issuance of preferred stock and ending three months prior to the maturity date, the preferred stockholders may at any time make a one-time request to the Corporation for converting all their preferred stock into common shares newly issued by the Corporation at a 1:1 ratio. Preferred stockholders are not entitled to receive the preferred dividends in the year of conversion, but shall receive the common dividends appropriated from profits and the distribution of capital reserve in the year of conversion. The rights and obligations of the preferred stockholders after conversion shall be identical to those of the Corporation's common stockholders unless otherwise restricted by law.

2. Class C Preferred Stock

- a) Preferred stock shall be issued at \$9.3 per share. The dividend yield is payable at the rate of 9.5% per annum for the initial two years, and 0% thereafter. Dividends are payable in cash on a yearly basis. If, in any given year, the Corporation generates no profit or insufficient profits for the distribution of preferred stock dividends, dividends are accumulated and are given preference over the dividends to be distributed to the holders of common stock in the year when the Corporation generates sufficient profits. Upon the maturity date of the Preferred Stock, the Corporation shall prioritize the payment in full of the undistributed dividends in a particular year or each year thereafter.
- b) Preferred stock shall mature four years after the initial issue date. The Corporation shall redeem all preferred stock at issuance value on the maturity date. If legal restrictions prevent the Corporation from redeeming all or part of the preferred stock, the unredeemed preferred stock is entitled to payment of interest at the rate of 4.71% based on the issuance value of such unredeemed stock. The unredeemed preferred stock is entitled to the same rights and obligations stated in the Corporation's articles of incorporation until such unredeemed stock is fully redeemed.

- c) Other than the dividends on preferred stock, the preferred stockholders are not entitled to participate in the distribution of profits and capital surplus to the common stockholders.
 - d) The preferred stockholders have preference over the common stockholders in the distribution of the residual assets; however, the assets to be distributed to them shall not exceed the total issue price of the preferred stock.
 - e) The preferred stockholders have no voting rights in the common stockholders' meetings, including the election of directors and supervisors, but may be elected as directors or supervisors.
 - f) The preferred stockholders have the same preemptive rights as the common stockholders in the capital raising.
 - g) Commencing from the day following a full three years after the issuance of preferred stock and ending three months prior to the maturity date, the preferred stockholders may at any time make a one-time request to the Corporation for converting all their preferred stock into common shares newly issued by the Corporation at a 1:1 ratio. Preferred stockholders are not entitled to receive the preferred dividends in the year of conversion, but shall receive the common dividends appropriated from profits and the distribution of capital reserve in the year of conversion. The rights and obligations of the preferred stockholders after conversion shall be identical to those of the Corporation's common stockholders unless otherwise restricted by law.
- b. Capital surplus and appropriation of earnings

Under the Company Act, capital surplus can only be used to offset a deficit. However, the capital surplus from shares issued in excess of par may be capitalized, which however is limited to a certain percentage of the Corporation's paid-in capital. Under the revised Company Law issued on January 4, 2012, capital surplus also may be distributed in cash.

Under the Company Law, legal reserve shall be appropriated until the reserve equals the paid-in capital. Such reserve may be used to offset a deficit. Under the revised Company Law issued on January 4, 2012, when the legal reserve has exceeded 25% of the Corporation's paid-in capital, the excess may be transferred to capital or distributed in cash.

The Corporation's Articles of Incorporation provide that the annual income (less any deficit) shall be appropriated as follows:

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

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

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

As of December 31, 2010 and 2009, the Corporation had deficit as shown on the balance sheet; therefore, bonus to employees and bonus to directors and supervisors for 2010 and 2009 were all nil.

As of December 31, 2011 and 2010, the Corporation still had deficit as shown on the balance sheet; therefore, the accruals for bonus to employees and bonus to directors and supervisors for the years ended December 31, 2011 and 2010 were all nil.

c. Preferred Stock Dividends

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

On June 24, 2011, the stockholders resolved to distribute the preferred stock dividends of \$29,077 thousand accumulated from January 1, 2007 to January 4, 2007.

On March 27, 2009, China Technical Consultants, Inc. (CTCI) filed a civil action in the Shihlin District Court to compel the Corporation to distribute dividends of \$212,383 thousand on Class C preferred stock that had accumulated from January 1, 2007 to September 29, 2007, with 5% interest accumulated from January 1, 2009 to the discharge date. On September 18, 2009, the Shihlin District Court ruled against the Corporation. The Corporation appealed to Supreme Court, and the Supreme Court made a final judgment rejecting the appeal on April 28, 2011. As of December 31, 2011, the Corporation had paid the preferred stock dividends (including preferred stock dividends of \$3,123 thousand accumulated from January 1, 2007 to January 4, 2007, which was included in the preferred stock dividends of \$29,077 thousand mentioned above) and interest expense.

On March 11, 2011, China Aviation Development Foundation (CADF) filed a civil action in the Shihlin District Court to compel the Corporation to distribute dividends of \$313,922 thousand on Class C preferred stock that had accumulated from January 5, 2007 to September 29, 2007, with 5% interest accumulated from January 1, 2009 to the discharge date. On August 12, 2011, the Shihlin District Court ruled against the Corporation. The Corporation appealed to Taiwan High Court. However, CADF and CTCI are both Class C preferred stockholders of the Corporation; thus, they should be treated the same way due to the identical terms of issuance and investment convention. The Corporation withdrew the appeal on December 7, 2011. As of December 31, 2011, the Corporation has paid the above preferred stock dividends and interest expense.

After the Corporation launched operations, the estimated preferred stock dividends for the years ended December 31, 2011 and 2010 were \$1,923,733 thousand in both years. The estimated preferred stock dividends will be recognized as liabilities when the stockholders resolve to distribute these dividends. As of December 31, 2011 and 2010, estimated unpaid accumulated preferred stock dividends amounted \$8,240,897 thousand and \$6,864,579 thousand, respectively.

15. PERSONNEL COST, DEPRECIATION AND AMORTIZATION

	Year Ended December 31, 2011			Total
	Operating Costs	Operating Expenses	Non-operating Expenses	
Personnel cost				
Payroll	\$ 1,916,674	\$ 381,134	\$ -	\$ 2,297,808
Professional service	91,772	22,816	-	114,588
Pension	116,046	23,376	-	139,422
Insurance	170,338	28,863	-	199,201
Others	66,441	36,533	-	102,974
	<u>\$ 2,361,271</u>	<u>\$ 492,722</u>	<u>\$ -</u>	<u>\$ 2,853,993</u>
Depreciation	\$ 10,604,594	\$ 42,658	\$ -	\$ 10,647,252
Amortization	\$ 21,833	\$ 76	\$ -	\$ 21,909
Personnel cost				
Payroll	\$ 1,865,778	\$ 366,291	\$ -	\$ 2,232,069
Professional service	170,264	20,774	-	191,038
Pension	104,637	31,446	-	136,083
Insurance	156,448	25,538	-	181,986
Others	63,566	24,106	-	87,672
	<u>\$ 2,360,693</u>	<u>\$ 468,155</u>	<u>\$ -</u>	<u>\$ 2,828,848</u>
Depreciation	\$ 9,427,132	\$ 45,835	\$ -	\$ 9,472,967
Amortization	\$ 32,067	\$ 1,286	\$ 8,949	\$ 42,302

16. INCOME TAX

	Year Ended December 31	
	2011	2010
Tax on income (loss) before income tax at statutory rate	\$ 541,592	\$ (205,851)
Tax effects on adjusting items:		
Permanent differences	11,603	120,631
Temporary differences	71,719	(181,457)
Loss carryforwards generated (used)	(624,914)	266,677
Others	37	-
Current income tax	37	-
Deferred income tax		
Interest of convertible bonds	41,600	299,368
Loss carryforwards	24,914	(266,677)
Accrual for profit sharing	(70,345)	(76,989)
Effect of tax law changes on deferred income tax		2,080,379
Adjustment to valuation allowance	(3,161,773)	(2,001,185)
Others	(34,500)	(35,623)
Adjustments to prior years' income tax	2,153	(121)
Income tax benefit	<u>\$ (2,597,914)</u>	<u>\$ (848)</u>

In May 2010, the Legislative Yuan passed the amendment of Article 5 of the Income Tax Law, which reduced a profit-seeking enterprise's income tax rate from 20% to 17%, effective 2010.

Deferred income tax assets comprised:

	December 31	
	2011	2010
Current		
Deferred income tax assets		
Accrual for profit sharing	\$ 340,000	\$ -
Unrealized foreign exchange losses	118,334	69,144
Investment tax credits	3,451	8,475
Others	<u>6,235</u>	<u>47,896</u>
	468,020	125,515
Valuation allowance	<u>(3,451)</u>	<u>(125,515)</u>
	<u>\$ 464,569</u>	<u>\$ -</u>
Non-current		
Deferred income tax assets		
Loss carryforwards	\$ 10,730,056	\$ 11,355,021
Accrual for profit sharing	-	269,655
Other assets - other	126,166	132,320
Investment tax credits	<u>4,709</u>	<u>10,262</u>
	10,860,931	11,767,258
Valuation allowance	<u>(8,727,549)</u>	<u>(11,767,258)</u>
	<u>\$ 2,133,382</u>	<u>\$ -</u>

The Corporation's income tax returns through 2009 have been examined by the tax authorities.

Tax effects of unused loss carryforwards and investment tax credits of the Corporation as of December 31, 2011 comprised:

Loss Carryforwards	Investment Tax Credits	Year of Expiry
\$ -	\$ 3,451	2012
-	2,093	2013
121,427	2,616	2014
314,404	-	2015
594,178	-	2016
4,857,361	-	2017
3,849,678	-	2018
726,381	-	2019
<u>266,627</u>	<u>-</u>	2020
<u>\$ 10,730,056</u>	<u>\$ 8,160</u>	

The above investment tax credits arose from personnel training expenditures and were granted under the Statute for Upgrading Industries and Statute of Private Participation in transportation infrastructure project. As of December 31, 2011 and 2010, stockholders' imputed tax credits both amounted to \$72,618 thousand.

17. EARNINGS (LOSS) PER SHARE

	Amount		Number of Shares (In Thousands)	Earnings (Loss) Per Share	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
<u>Year ended December 31, 2011</u>					
Income for the year	\$ 3,185,833	\$ 5,783,747			
Less: Dividends on preferred stock	<u>(1,923,733)</u>	<u>(1,923,733)</u>			
Basic earnings per share					
Earnings attributable to common stockholders	<u>\$ 1,262,100</u>	3,860,014	6,513,233	<u>\$ 0.19</u>	<u>\$ 0.59</u>
Diluted earnings per share					
Effect of dilutive potential convertible preferred stock		<u>\$ 1,923,733</u>	<u>4,018,992</u>		
Income for the year attributable to common stockholders plus effect of potential convertible preferred stock		<u>\$ 5,783,747</u>	<u>10,532,225</u>		<u>\$ 0.55</u>
<u>Year ended December 31, 2010</u>					
Loss for the year	\$ (1,210,889)	\$ (1,210,041)			
Less: Dividends on preferred stock	<u>(1,923,733)</u>	<u>(1,923,733)</u>			
Basic loss per share					
Loss attributable to common stockholders	<u>\$ (3,134,622)</u>	<u>\$ (3,133,774)</u>	<u>6,509,808</u>	<u>\$ (0.48)</u>	<u>\$ (0.48)</u>

The Corporation's convertible preferred stock is potential common stock. But the shares had an anti-dilutive effect in calculation of diluted before income tax earnings per share for the year ended December 31, 2011 and had an anti-dilutive effect in calculation of diluted loss per share for the year ended December 31, 2010; therefore, they were not considered in the calculation of diluted earnings (loss) per share.

18. DISCLOSURES FOR FINANCIAL INSTRUMENTS

a. Fair values of financial instruments were as follows:

	December 31			
	2011		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Available-for-sale financial assets	\$ 628,094	\$ 628,094	\$ 487,473	\$ 487,473
Hedging derivative assets	1,081	1,081	19,852	19,852
Liabilities				
Bonds payable	13,256,031	13,216,233	26,905,049	27,005,413
Long-term debt (tranche D facility of the second syndicated loan, including current portion)	15,786,570	15,889,811	15,777,090	15,862,422
Long-term debt (excluding tranche D facility of the second syndicated loan)	353,512,593	353,512,593	339,763,102	339,763,102

b. Methods and assumptions used in the determination of fair values of financial instruments

- 1) The aforementioned financial instruments do not include cash, receivables, restricted assets, refundable deposits, short-term debt and payables. The carrying amounts of these financial instruments approximate their fair values because of their short maturities.
- 2) The fair values of available-for-sale financial assets, open-end funds are determined using their market values.
- 3) The fair values of derivative financial instruments are determined using valuation techniques because no market prices are available. The estimates and assumptions used in the valuation techniques are consistent with those that market participants would use in setting prices for financial instruments and are attainable by the Corporation.
- 4) The fair value of bonds payable is estimated using the present value of future cash flows discounted by the interest rates the Corporation may obtain for similar long-term debt (e.g., similar maturities). Discount rate was 2.28% and 2.07% for the years ended December 31, 2011 and 2010, respectively.
- 5) The fair values of long-term debt and long-term interest payable are estimated using the present value of future cash flows discounted by the interest rates the Corporation may obtain for similar long-term debt (e.g., similar maturities).

c. Unrealized gain (recorded as adjustments to stockholders' equity) on available-for-sale financial assets amounted to \$20 thousand and \$256 thousand for the years ended December 31, 2011 and 2010, respectively.

d. As of December 31, 2011 and 2010, financial assets exposed to fair value interest rate risk amounted to \$31,991,511 thousand and \$16,371,292 thousand, respectively; financial liabilities exposed to fair value interest rate risk amounted to \$30,076,353 thousand and \$43,691,506 thousand, respectively; financial liabilities exposed to cash flow interest rate risk amounted to \$353,512,593 thousand and \$339,763,102 thousand, respectively.

e. Information about financial risk

1) Market risk

Market risk includes fair value risk arising from the fluctuation of interest rates and price risk. The short-term debt, bonds payable and the second syndicated loan carried fixed interest rate. The fair values are affected by changes in market interest rates. The fluctuations in prices of open-end money market funds would result in changes in their fair values.

2) Credit risk

Credit risk represents the potential loss that would be incurred by the Corporation if the counterparties or third parties breached the contracts. Contracts with positive fair values at the balance sheet date are evaluated for credit risk. The Corporation only transacts with financial institutions and companies with good credit ratings; thus, no material credit risk is anticipated.

3) Liquidity risk

The Corporation has enough funds to meet its cash needs upon maturity of short-term debt and long-term debt; thus, no liquidity risk with respect to breach of such contracts is anticipated. The investments in open-end funds could be redeemed quickly at prices approximating fair values because they are traded in an active market or are redeemable; thus, no material liquidity risk is anticipated.

4) Cash flow interest rate risk

As of December 31, 2011, the Corporation's Syndicated Loan with floating interest rates amounted to \$353,747,632 thousand. When the market interest rate increases by 1%, the cash outflow of the Corporation will increase by \$3,537,476 thousand a year.

19. RELATED PARTY TRANSACTIONS

a. Related parties and relationships:

Related Party	Relationship with the Corporation
TECO Electric and Machinery Co., Ltd. (TECO)	Director of the Corporation
Taipei Fubon Commercial Bank Co., Ltd. (Taipei Fubon Bank)	Director of the Corporation
Directors, supervisors, CEO and vice presidents	Director, supervisors and key management of the Corporation

b. Significant transactions with related parties:

1) Operating revenue

The ticket sales transactions with related parties were not different from those with non-related parties. Because the ticket sales transactions with related parties recognized as operating revenue cannot be separated from the total ticket sales transactions, the Corporation was unable to disclose the separate amount of operating revenue with related parties.

2) Operating cost

Taipei Fubon Bank provided services for the Corporation's passenger ticket sales. The related bank charges were as follows:

	Year Ended December 31	
	2011	2010
Taipei Fubon Bank	\$ 6,335	\$ 5,571

3) Long-term debt and interest expense

The Corporation obtained the first and second secured credit facilities from the syndicate banks, including Taipei Fubon Bank. The related debt was repaid on May 4, 2010. For the year ended December 31, 2010, the syndicated loan from Taipei Fubon Bank and interest expense incurred thereon were as follows:

	Year Ended December 31, 2010			
	Maximum Balance	Ending Balance	Interest Rate	Interest Expense
Taipei Fubon Bank	\$ 20,676,228	\$ -	2.11%-4.27%	\$ 214,360

4) Acquisition of properties

	Year Ended December 31	
	2011	2010
TECO	\$ (514)	\$ 3,255

As of December 31, 2011, the contract with the related party regarding the above properties is summarized as follows:

Effective Year	Nature of Contract	Related Party	Contract Price *	
			Original	Amended
2004	Train Wash System Contract	TECO-Vector Systems - China Steel JV	\$ 53,704	\$ 57,064

The contract price was determined by percentage of joint venture ("JV").

5) Payable for construction

	December 31	
	2011	2010
TECO	\$ 1,623	\$ 8,625

The transactions with related parties were conducted on normal commercial terms.

c. Compensation of directors, supervisors, CEO and vice presidents:

	Year Ended December 31	
	2011	2010
Salaries	\$ 39,230	\$ 78,452
Incentives	3,682	14,115
Special compensation	916	730
	<u>\$ 43,828</u>	<u>\$ 93,297</u>

20. RESTRICTED ASSETS

Pledged assets	Pledged to secure	December 31	
		2011	2010
Restricted assets - current:			
Time deposits	Guarantee for commodity sale	\$ 1,000	\$ 1,610
Time deposits	Guarantee for office lease	16,277	16,277
Time deposits	Guarantee for station land lease	2,562	3,020
Time deposits	Guarantee for oil purchase	1,000	-
Time deposits	Guarantee for customs duties	-	10,000
Demand deposits	Trust deposit of unearned revenue	37,562	33,088
Demand deposits	Syndicated loan	55,660	954,902
Repurchase agreement collateralized by government bonds	Syndicated loan	<u>29,441,000</u>	<u>13,847,000</u>
		<u>29,555,061</u>	<u>14,865,897</u>
Restricted assets - non-current:			
Time deposits	Guarantee for development of station	\$ 1,192,368	\$ 1,688,749
Time deposits	Guarantee for station land lease	12,268	12,188
Time deposits	Guarantee for oil purchase	3,000	4,000
Time deposits	Guarantee for customs duties	<u>20,505</u>	<u>10,500</u>
		<u>1,228,141</u>	<u>1,715,437</u>
		<u>\$ 30,783,202</u>	<u>\$ 16,581,334</u>

The Corporation provided a portion of superificies (see Note 22) as collateral to secure the second syndicated loan and syndicated loan.

21. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

a. Significant contracts

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

- 1) The C&O Agreement covers the building, operation and transfer (BOT) of the High Speed Rail (“HSR”) between Taipei (Sijhih) and Kaohsiung (Zuoying). In addition, the contract includes the transfer of stations built by the Corporation and station facilities co-built by the Corporation with the Taiwan Railroad Administration and Taipei Rapid Transit Corporation.
- 2) The station contract covers the plan, design and construction of the Taoyuan (Chingpu), Hsinchu (Lioujia), Miaoli, Taichung (Wurih), Changhua, Yunlin, Chiayi (Taibao), Tainan (Shaluen) and Kaohsiung (Zuoying) stations as well as any required modifications and engineering equipment for the Taipei and Banqiao stations.
- 3) The SZD Agreement covers the development, operation, return of the land, and transfer of assets of five stations along the Taiwan HSR line: Taoyuan (Chingpu), Hsinchu (Lioujia), Taichung (Wurih), Chiayi (Taibao), and Tainan (Shaluen).
- 4) The duration of the concession agreement for the HSR, including the construction period and operating period, is 35 years from the contract date.
- 5) The concession agreement for the stations also includes the following:
 - a) The right to develop and operate the station land for 35 years from the contract date.
 - b) The concession agreement to operate businesses on the land neighboring the stations for 50 years after the land is transferred to the Corporation.
- 6) Any changes to the Corporation’s articles of incorporation, organization by-laws, directors and supervisors should be reported to the MOTC within 15 days.
- 7) The ratio of the Corporation’s stockholders’ equity to its total assets shall be maintained at 25% or more during the concession period. On January 7, 2009, the Corporation obtained the consent of the MOTC to delay this ratio until the year following the first year in which the Corporation earns an operating profit.
- 8) During the operating period, the Corporation undertakes to return by profit sharing 10% of the operating profit before tax to the MOTC each year for use in projects associated with development, provided, however, that if the total amount of the Corporation’s cumulative profit sharing return is less than the amount listed in the table below, the Corporation undertakes to follow the table below:

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

For each of the years ended December 31, 2011 and 2010, the profit sharing returns were \$413,793

thousand and \$452,874 thousand, recognized as operating cost. As of December 31, 2011 and 2010, the Corporation accrued an aggregated profit sharing return amount of \$2,000,000 thousand and \$1,586,207 thousand, respectively, which was recorded as accrued expenses and other liabilities.

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

10) Transfer of ownership prior to the expiration of the concession period

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

11) Agreement guarantee

a) The C&O Agreement

The Corporation provided a \$5 billion performance bond at the start of the contract as a guarantee for fulfilling its operating responsibility. After the start of railway operations, if there is no breach of the contract, the MOTC will return \$0.5 billion each year; however, the total returnable amount shall not exceed \$3 billion. The deadline for returning the remaining performance bond is the earlier of six months after the end of the concession period, or six months after early termination of the agreement.

As of December 31, 2011 and 2010, the remaining performance bond provided amounted to \$3 billion and \$3.5 billion, respectively.

b) The SZD Agreement

As of December 31, 2011 and 2010, the Corporation provided time deposits amounting to approximately \$1.2 billion and \$1.7 billion, respectively, as guarantee for the development of the Taoyuan, Hsinchu, Taichung, Chiayi and Tainan stations.

12) Liabilities in breach of contract and the consequences under the Corporation's C&O Agreement with the MOTC

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

i. Material delay in work schedule.

ii. Material default in quality control of the works.

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

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

b) Consequences of breach of contract

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

- i. Suspend the construction or operation of the HSR.
- ii. Revoke the permit for construction or operation of the HSR.
- iii. Terminate the C&O Agreement.

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

- b. In accordance with the C&O Agreement, SZD Agreement and the Protocol of Taipei Main Station and Tunnel, the MOTC leased land, Taipei Main Station and tunnel for HSR. The rental is governed by the Public-owned Land Rent Preferential Treatment Scheme under the Encouragement Statute, and is determined by future price of public-owned land and usage and other factors. The rental expenses amounted to \$362,212 thousand and \$390,401 thousand for the years ended December 31, 2011 and 2010, respectively. As of December 31, 2011 and 2010, prepaid rental amounted to \$364,613 thousand and \$369,501 thousand, respectively, and was recognized as prepayment and other current assets.
- c. As of December 31, 2011, the Corporation had obtained credit line facilities in the form of letters of credit from several banks, of which JPY998,833 thousand and US\$1,010 thousand were unused, and the Corporation had issued \$5,281,184 thousand worth of promissory notes to banks to obtain guarantees for credit lines.

22. OTHERS

a. Superficies

Pursuant to the HSR Right-of-Way Map and the HSR Overpass/Underpass Superficies Space Map appended to the C&O Agreement, the Corporation further secured superficies from the MOTC over the transportation infrastructure land such as route land, maintenance bases, station land, etc. As of December 31, 2011, superficies had been procured over the land from Lot 0837-0000 Kuanghua Section, Hsinchuang, New Taipei City, in the north to Lot 0421-0002, Subsection 6, Hsinchuang Section, Zuoying, Kaohsiung, in the south. The term of such superficies is from the date of their registration to the date of expiration or termination of the C&O Agreement.

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

As of December 31, 2011, the Corporation had secured the right to develop and conduct business on the ancillary land of the Taoyuan, Hsinchu, Taichung, Chiayi and Tainan station zones, the concession periods were as follows:

Ancillary Land of Stations	Concession Period
Taoyuan	July 1, 2006 to July 1, 2056
Hsinchu	August 22, 2007 to August 22, 2057
Taichung	August 22, 2007 to August 22, 2057
Chiayi	February 2, 2004 to February 2, 2054
Tainan	June 1, 2005 to June 1, 2055

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

- b. The information of foreign-currency financial assets and liabilities with significant effect is as follows (in thousands of respective foreign currencies or New Taiwan dollars):

	December 31					
	2011			2010		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars	Foreign Currencies	Exchange Rate	New Taiwan Dollars
Financial assets						
Monetary items						
USD	\$ 19,887	30.290	\$ 602,388	\$ 19,690	29.152	\$ 573,990
EUR	40	39.107	1,574	40	38.886	1,564
JPY	1,892	0.390	738	1,889	0.358	677
Financial liabilities						
Monetary items						
USD	5,237	30.290	158,615	38,244	29.152	1,114,891
EUR	2,320	39.107	90,746	1,254	38.886	48,765
JPY	9,382,630	0.390	3,659,226	11,605,785	0.358	4,157,192
AUD	109	30.732	3,346	180	29.677	5,355
GBP	-	-	-	18	45.145	804

- c. As of December 31, 2011, the deficit amounted to \$67,786,276 thousand. The Corporation promotes the ridership and reduces the operation costs continually. In order to reduce the heavy burden of depreciation and interest expense, the Corporation had changed the depreciation method of part of properties from the straight-line method to the units of throughput method based on ridership commencing from January 1, 2009, with the prior approval of the FSC. On January 8, 2010, the Corporation entered into the Tripartite Agreement with the MOTC and Bank of Taiwan, and the Syndicated Loan Agreement with a bank syndicate consisting of 8 banks. On May 4 and 13, 2010, the Corporation utilized the above credit facilities. After the Corporation adopted the aforementioned measures and improved the operating status, the Corporation's net income before tax amounted to \$3,185,833 thousand for the year ended December 31, 2011.

23. ADDITIONAL DISCLOSURES

Except Table 1 and 2, there are no significant transactions, information of investees and investments in Mainland China required for disclosure.

24. OPERATING SEGMENT FINANCIAL INFORMATION

The Corporation is engaged only in high speed rail and related facilities. Consequently, there is no other reportable segment.

25. PRE-DISCLOSURE FOR ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

Under Rule No. 0990004943 issued by the FSC on February 2, 2010, the Corporation's pre-disclosure information on the adoption of International Financial Reporting Standards (IFRSs) was as follows:

- a. On May 14, 2009, the FSC announced the "Framework for Adoption of International Financial Reporting Standards by Companies in the ROC." In this framework, starting 2013, companies with shares listed on the TSE or traded on the Taiwan GreTai Securities Market or Emerging Stock Market should prepare their financial statements in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, International Financial Reporting Standards, International Accounting Standards, Interpretations and related guidance translated by the ARDF and issued by the FSC. To comply with this framework, the Corporation has set up a project team and made a plan to adopt the IFRSs. Leading the implementation of this plan is Chief Executive Officer, Mr. Chin-Der Ou. The main contents of the plan, anticipated schedule and status of execution as of December 31, 2011 were as follows:

Contents of Plan	Responsible Department	Status of Execution
Develop IFRS conversion plan (from December 2009 to December 2010)		
1) Establish the IFRSs taskforce	Chief executive officer	Completed
2) Set up a work plan for IFRSs adoption	Accounting department	Completed
3) Complete the identification of GAAP differences and impact	Accounting department	Completed
Design and Implementation (from December 2010 to December 2011)		
1) Perform analyses of elements of financial statements, decide accounting policies under IFRSs and proper action plans	Accounting department	Completed
2) Adjust related systems	Accounting department and information technology division	Completed
3) Communicate with concerned parties	Finance division and legal office	Completed

Contents of Plan	Responsible Department	Status of Execution
Conversion (from January 2012 to December 2012)		
1) Complete the preparation of a balance sheet as of the beginning of the comparative period in which IFRS is applied for the first time	Accounting department	In progress
2) Improve from the first experience in preparing IFRSs financial report	Accounting department	Unexecuted
3) Communicate with concerned parties	Finance division and legal office	Unexecuted
Adjustment and Improvement (from January 2013 to March 2013)		
1) Continuously watch the effect of newly issued IFRSs on the financial statements and procedures to prepare these financial statements, and take actions accordingly	Accounting division	Unexecuted
2) Communicate with concerned parties	Finance division and legal office	Unexecuted

b. As of December 31, 2011, the material differences between the existing accounting policies and the accounting policies to be adopted under IFRSs were as follows:

Accounting Issues	Description of Differences
Preferred stock	Under ROC GAAP, the preferred stocks issued before January 1, 2006, which were regarded as equities in the legal form but as liabilities in the economic substance, was recognized as stockholders' equity. Under IFRSs, the preferred stocks have to be classified to financial liability or equity based on its economic substance. However, according to Rule No. 10000322083 issued by the FSC on July 7, 2011, the Corporation does not have to reclassify the preferred stock issued before January 1, 2006 and will remain recorded as stockholder equity under IFRSs.
Service concession arrangements	The Corporation was granted to construct and operate the high speed rail and relevant ancillary facilities under the C&O Agreement. The Corporation's operation conforms to IFRIC 12 "Service Concession Arrangements". Under IFRSs, the Corporation should calculate the direct cost (mainly the operating assets and profit sharing return) of the acquisition of concession retroactively until the date of commercial operation and uses cost model to recognize intangible assets-operating concession which has to be amortized through the units of throughput method during the concession period.
Service concession arrangements - operating assets	According to the C&O Agreement, the construction of HSR, which is directly related to the operation of HSR and has to be transferred without compensation as of the expiration of the concession period, is considered as a necessary cost of acquiring concession. Under IFRSs, the HSR construction should be reclassified from properties to intangible asset-operating concession.

Accounting Issues	Description of Differences
Service concession arrangements-profit sharing return	According to the C&O Agreement, the Corporation has to pay profit sharing return to the MOTC for the development of related HSR construction, thus profit sharing return is considered as a necessary cost of acquiring concession. Under IFRSs, the Corporation shall discount the minimum commitment, \$108 billion, and recognize the amount as operating concession asset and operating concession liability.
Employee benefits - pension	Under ROC GAAP, pension cost and prepaid pension under a defined benefit plan is determined by actuarial valuations. Under IFRSs, the corridor approach requires the calculation of actuarial gains and losses from the beginning of pension plan to the date of transition to IFRSs annually and adjust accrued pension cost for each year according to IAS 19 "Employee Benefits". Only the first-time adopter can choose to recognize all the accumulated actuarial gains and losses on the transition date and do not have to calculate and adjust pension costs and liabilities for prior years annually. Thus, the Corporation plans to adopt this exemption and adjust to retained earnings the full amount of accumulated actuarial gains and losses.
Employee benefits - compensated absences	Employees' leave days are granted on the basis of the length of their service. Under ROC GAAP, the cost of compensated absences is recognized when the absences occur. Under IFRSs, the compensated absences, earned by the employee who provided service, that could be deferred to next year shall be recognized as accumulated compensated absences payable in the current year's balance sheet date.
Customer loyalty programmes	The Corporation established customer loyalty programmes. Under IFRSs, the Corporation shall allocate some of the consideration received or receivable from the sales transaction to the award credits and defer the recognition of revenue when providing free or discounted goods or services.

- c. The Corporation has prepared the above assessments in accordance with (a) the 2010 version of the IFRSs translated by the ARDF and issued by the FSC and (b) the Guidelines Governing the Preparation of Financial Reports by Securities Issuers amended and issued by the FSC on December 22, 2011. These assessments may be changed as the International Accounting Standards Board continues to issue or amend standards, and as the FSC may issue new rules governing the adoption of IFRSs by companies with shares listed on the TSE or traded on the Taiwan GrTai Securities Market or Emerging Stock Market. Actual accounting policies adopted under IFRSs in the future may differ from those contemplated during the assessments.

TABLE 1
TAIWAN HIGH SPEED RAIL CORPORATION

MARKETABLE SECURITIES HELD
 DECEMBER 31, 2011
 (In Thousands of New Taiwan Dollars)

Holding Company	Marketable Securities Type and Name	Relationship with the Holding Company
The Corporation	Taishin Lucky Money Market Fund	-
	Fubon Chi-Hsiang Money Market Fund	-
	Fuh Hwa Money Market Fund	-
	Jih Sun Money Market Fund	-
	Mega Diamond Money Market Fund	-
	FSITC Taiwan Money Market Fund	-
	Yuanta Wan Tai Money Market Money Market Fund	-
	Central Government Bonds for major transportation infrastructure project (type A) - 10th issue of bond certificates	-
	Central Government Bonds for major transportation infrastructure project (type A) - 10th issue of bond certificates	-
	Central Government Bonds 95-6	-
	Central Government Bonds 87-3	-
	Central Government Bonds 87-3	-
	Central Government Bonds 87-3	-
	Central Government Bonds 89-11	-
	Central Government Bonds 89-11	-
	Central Government Bonds 89-11	-
	Central Government Bonds 89-3	-
	Central Government Bonds 89-3	-
	Central Government Bonds 89-3	-
	Central Government Bonds 89-3	-
	Central Government Bonds 89-3	-
	Central Government Bonds 89-4	-
	Central Government Bonds 89-9	-
	Central Government Bonds 89-9	-
	Central Government Bonds 89-9	-
	Central Government Bonds 90-3	-
	Central Government Bonds 90-3	-
	Central Government Bonds 90-3	-
	Central Government Bonds 90-3	-
	Central Government Bonds 90-3	-
	Central Government Bonds 90-3	-
	Central Government Bonds 90-3	-

Financial Statement Account	December 31, 2011				Note
	Units/Face Value (In Thousands)	Carrying Value	Percentage of Ownership	Market Value	
Available-for-sale financial assets - current	7,547	\$ 81,017	-	\$ 81,017	
"	6,427	97,329	-	97,329	
"	4,277	59,668	-	59,668	
"	2,806	40,008	-	40,008	
"	12,435	150,031	-	150,031	
"	6,787	100,020	-	100,020	
"	6,848	100,021	-	100,021	
Restricted assets - current	\$ 531,000	590,000	-	590,000	
"	157,300	185,000	-	185,000	
"	367,200	408,000	-	408,000	
"	116,200	129,000	-	129,000	
"	396,900	441,000	-	441,000	
"	254,700	283,000	-	283,000	
"	167,000	185,000	-	185,000	
"	97,000	107,000	-	107,000	
"	90,000	99,000	-	99,000	
"	511,000	511,000	-	511,000	
"	349,200	388,000	-	388,000	
"	110,000	110,000	-	110,000	
"	424,700	471,000	-	471,000	
"	216,000	240,000	-	240,000	
"	200,000	200,000	-	200,000	
"	134,100	145,500	-	145,500	
"	355,500	395,000	-	395,000	
"	219,600	244,000	-	244,000	
"	110,000	120,000	-	120,000	
"	130,000	130,000	-	130,000	
"	40,000	43,000	-	43,000	
"	118,000	118,000	-	118,000	
"	173,000	190,000	-	190,000	
"	28,000	30,000	-	30,000	
"	350,100	389,000	-	389,000	
"	242,000	242,000	-	242,000	

Holding Company	Marketable Securities Type and Name	Relationship with the Holding Company
The Corporation	Central Government Bonds 90-6	-
	Central Government Bonds 90-6	-
	Central Government Bonds 90-6	-
	Central Government Bonds 90-6	-
	Central Government Bonds 90-6	-
	Central Government Bonds 90-6	-
	Central Government Bonds 90-7	-
	Central Government Bonds 90-7	-
	Central Government Bonds 90-7	-
	Central Government Bonds 90-7	-
	Central Government Bonds 90-7	-
	Central Government Bonds 90-7	-
	Central Government Bonds 90-7	-
	Central Government Bonds 90-7	-
	Central Government Bonds 90-7	-
	Central Government Bonds 90-7	-
	Central Government Bonds 90-7	-
	Central Government Bonds 90-7	-
	Central Government Bonds 90-7	-
	Central Government Bonds 90-7	-
	Central Government Bonds 91-11	-
	Central Government Bonds 91-11	-
	Central Government Bonds 91-4	-
	Central Government Bonds 91-4	-
	Central Government Bonds 91-8	-
	Central Government Bonds 91-8	-
	Central Government Bonds 91-8	-
	Central Government Bonds 91-8	-
	Central Government Bonds 91-8	-
	Central Government Bonds 91-8	-
	Central Government Bonds 91-8	-
	Central Government Bonds 91-8	-
	Central Government Bonds 91-8	-
	Central Government Bonds 92-10	-
	Central Government Bonds 92-10	-
	Central Government Bonds 92-4	-
	Central Government Bonds 92-4	-
	Central Government Bonds 92-4	-
	Central Government Bonds 92-4	-

Financial Statement Account	December 31, 2011				Note
	Units/Face Value (In Thousands)	Carrying Value	Percentage of Ownership	Market Value	
Restricted assets - current	\$ 175,000	\$ 190,000	-	\$ 190,000	
"	64,000	70,000	-	70,000	
"	169,800	169,800	-	169,800	
"	161,200	177,000	-	177,000	
"	142,000	155,000	-	155,000	
"	126,000	138,000	-	138,000	
"	92,000	100,000	-	100,000	
"	120,600	132,500	-	132,500	
"	194,300	194,300	-	194,300	
"	133,000	133,000	-	133,000	
"	413,400	413,400	-	413,400	
"	150,000	150,000	-	150,000	
"	172,000	188,000	-	188,000	
"	61,000	67,000	-	67,000	
"	146,000	146,000	-	146,000	
"	146,000	160,000	-	160,000	
"	130,000	142,000	-	142,000	
"	200,000	200,000	-	200,000	
"	157,100	157,100	-	157,100	
"	294,800	323,800	-	323,800	
"	178,300	198,000	-	198,000	
"	30,600	34,000	-	34,000	
"	179,000	192,000	-	192,000	
"	181,800	202,000	-	202,000	
"	110,000	122,000	-	122,000	
"	282,000	282,000	-	282,000	
"	526,500	585,000	-	585,000	
"	1,155,000	1,155,000	-	1,155,000	
"	100,000	100,000	-	100,000	
"	82,600	90,700	-	90,700	
"	107,400	107,400	-	107,400	
"	90,500	100,500	-	100,500	
"	41,000	45,500	-	45,500	
"	447,700	481,000	-	481,000	
"	278,100	309,000	-	309,000	

Holding Company	Marketable Securities Type and Name	Relationship with the Holding Company
The Corporation	Central Government Bonds 92-4	-
	Central Government Bonds 92-4	-
	Central Government Bonds 92-4	-
	Central Government Bonds 92-4	-
	Central Government Bonds 92-7	-
	Central Government Bonds 92-7	-
	Central Government Bonds 92-7	-
	Central Government Bonds 92-7	-
	Central Government Bonds 92-7	-
	Central Government Bonds 92-7	-
	Central Government Bonds 93-4	-
	Central Government Bonds 93-4	-
	Central Government Bonds 93-8	-
	Central Government Bonds 93-8	-
	Central Government Bonds 93-8	-
	Central Government Bonds 94-5	-
	Central Government Bonds 94-5	-
	Central Government Bonds 94-5	-
	Central Government Bonds 94-7	-
	Central Government Bonds 94-7	-
	Central Government Bonds 94-7	-
	Central Government Bonds 95-3	-
	Central Government Bonds 95-6	-
	Central Government Bonds 96-3	-
	Central Government Bonds 96-3	-
	Central Government Bonds 96-3	-
	Central Government Bonds 96-3	-
	Central Government Bonds 96-5	-
	Central Government Bonds 96-5	-
	Central Government Bonds 96 B 1st	-
	Central Government Bonds 96 B 1st	-
	Central Government Bonds 96 B 1st	-
	Central Government Bonds 97-1	-
	Central Government Bonds 97-1	-
	Central Government Bonds 97-4	-

Financial Statement Account	December 31, 2011				Note
	Units/Face Value (In Thousands)	Carrying Value	Percentage of Ownership	Market Value	
Restricted assets - current	\$ 250,000	\$ 250,000	-	\$ 250,000	
"	490,000	490,000	-	490,000	
"	642,000	705,000	-	705,000	
"	190,000	208,000	-	208,000	
"	111,300	123,600	-	123,600	
"	153,000	153,000	-	153,000	
"	198,000	198,000	-	198,000	
"	22,000	24,000	-	24,000	
"	58,800	63,000	-	63,000	
"	27,100	30,000	-	30,000	
"	103,000	114,000	-	114,000	
"	139,000	151,500	-	151,500	
"	190,700	190,700	-	190,700	
"	73,700	73,700	-	73,700	
"	245,600	266,500	-	266,500	
"	200,000	200,000	-	200,000	
"	10,000	10,000	-	10,000	
"	300,000	300,000	-	300,000	
"	74,200	80,500	-	80,500	
"	144,900	144,900	-	144,900	
"	782,600	782,600	-	782,600	
"	189,000	210,000	-	210,000	
"	810,000	900,000	-	900,000	
"	513,900	571,000	-	571,000	
"	258,000	272,000	-	272,000	
"	496,000	551,000	-	551,000	
"	297,400	297,400	-	297,400	
"	50,000	55,000	-	55,000	
"	420,000	420,000	-	420,000	
"	236,200	259,000	-	259,000	
"	73,000	79,500	-	79,500	
"	138,000	150,000	-	150,000	
"	204,000	225,000	-	225,000	
"	32,000	32,000	-	32,000	
"	167,000	179,000	-	179,000	

Holding Company	Marketable Securities Type and Name	Relationship with the Holding Company
The Corporation	Central Government Bonds 97-4	-
	Central Government Bonds 97-4	-
	Central Government Bonds 97-4	-
	Central Government Bonds 97-4	-
	Central Government Bonds 97-4	-
	Central Government Bonds 97-4	-
	Central Government Bonds 97-4	-
	Central Government Bonds 97-4	-
	Central Government Bonds 97-6	-
	Central Government Bonds 98-1	-
	Central Government Bonds 98-4	-
	Central Government Bonds 98-4	-
	Central Government Bonds 98-4	-
	Central Government Bonds 98-4	-
	Central Government Bonds 98-4	-
	Central Government Bonds 98-4	-
	Central Government Bonds 98-6	-
	Central Government Bonds 98-6	-
	Central Government Bonds 99-5	-
	Central Government Bonds 99-6	-
	Central Government Bonds 99-6	-
	Central Government Bonds 99-6	-
	Central Government Bonds 99-6	-
	Central Government Bonds 100-3	-
	Central Government Bonds 100-3	-
	Central Government Bonds 100-3	-
	Central Government Bonds 100-3	-
	Central Government Bonds 100-3	-
	Central Government Bonds 100-5	-
	Central Government Bonds 100-6	-
	Central Government Bonds 100-6	-
	Central Government Bonds 100-6	-
	Central Government Bonds 100-6	-
	Central Government Bonds 100-7	-

Financial Statement Account	December 31, 2011				Note
	Units/Face Value (In Thousands)	Carrying Value	Percentage of Ownership	Market Value	
Restricted assets - current	\$ 70,000	\$ 76,000	-	\$ 76,000	
"	40,000	44,000	-	44,000	
"	492,200	540,000	-	540,000	
"	1,121,700	1,121,700	-	1,121,700	
"	113,100	113,100	-	113,100	
"	77,500	86,000	-	86,000	
"	150,000	166,000	-	166,000	
"	36,000	40,000	-	40,000	
"	88,000	88,000	-	88,000	
"	154,000	170,000	-	170,000	
"	290,050	322,000	-	322,000	
"	126,000	140,000	-	140,000	
"	149,000	163,000	-	163,000	
"	12,600	12,600	-	12,600	
"	98,100	109,000	-	109,000	
"	113,200	123,500	-	123,500	
"	252,900	281,000	-	281,000	
"	724,500	805,000	-	805,000	
"	476,100	529,000	-	529,000	
"	19,400	21,500	-	21,500	
"	25,200	27,900	-	27,900	
"	84,800	94,000	-	94,000	
"	45,100	50,000	-	50,000	
"	92,000	100,000	-	100,000	
"	50,000	55,000	-	55,000	
"	172,000	180,000	-	180,000	
"	182,000	200,000	-	200,000	
"	91,000	100,000	-	100,000	
"	227,600	227,600	-	227,600	
"	138,000	138,000	-	138,000	
"	100,000	108,000	-	108,000	
"	355,700	355,700	-	355,700	
"	126,000	138,000	-	138,000	
"	151,000	151,000	-	151,000	

TABLE 2
TAIWAN HIGH SPEED RAIL CORPORATION

MARKETABLE SECURITIES ACQUIRED OR DISPOSED OF AT COSTS OR PRICES OF AT LEAST
\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
YEAR ENDED DECEMBER 31, 2011
(In Thousands of New Taiwan Dollars)

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counterparty	Nature of Relationship	Beginning Balance	
					Units/ Face Value (In Thousands)	Amount
The Corporation	Taishin Lucky Money Market Fund	Available-for-sale financial assets - current	-	-	9,480	\$ 101,000
	Fubon Chi-Hsiang Money Market Fund	"	-	-	6,717	101,000
	Jih Sun Money Market Fund	"	-	-	3,569	50,454
	Mega Diamond Money Market Fund	"	-	-	5,025	60,000
	FSITC Taiwan Money Market Fund	"	-	-	-	-
	Yuanta Wan Tai Money Market Fund	"	-	-	-	-
	Union Money Market Fund	"	-	-	-	-
	Central government bonds for major transportation infrastructure project (type B) - 3rd issue of bond certificates	Restricted assets - current	-	-	\$ 14,600	15,000
	Central government bonds for major transportation infrastructure project (type A) - 9th issue of bond certificates	"	-	-	92,000	100,000
	Central government bonds for major transportation infrastructure project (type A) - 10th issue of bond certificates	"	-	-	-	-
	Central Government Bonds 100-1	"	-	-	-	-
	Central Government Bonds 100-3	"	-	-	-	-
	Central Government Bonds 100-5	"	-	-	-	-
	Central Government Bonds 100-6	"	-	-	-	-
	Central Government Bonds 100-7	"	-	-	-	-
	Central Government Bonds 87-3	"	-	-	-	-
	Central Government Bonds 87 B1st	"	-	-	-	-
	Central Government Bonds 88-2	"	-	-	-	-
	Central Government Bonds 89-11	"	-	-	-	-
	Central Government Bonds 89-3	"	-	-	676,000	750,000
	Central Government Bonds 89-4	"	-	-	-	-
	Central Government Bonds 89-9	"	-	-	630,000	700,000
	Central Government Bonds 90-2	"	-	-	-	-
	Central Government Bonds 90-3	"	-	-	238,000	254,000

Acquisition		Disposal				Gain (Loss) on Valuation	Ending Balance	
Units/ Face Value (In Thousands)	Amount	Units/ Face Value (In Thousands)	Amount	Carrying Value	Gain (Loss) on Disposal		Units/Face Value (In Thousands)	Amount
7,547	\$ 81,000	9,480	\$ 101,398	\$ 101,000	\$ 398	\$ 17	7,547	\$ 81,017
6,427	97,000	6,717	101,289	101,000	289	329	6,427	97,329
9,644	137,000	10,407	148,367	147,454	913	8	2,806	40,008
20,754	250,000	13,344	160,970	160,000	970	31	12,435	150,031
6,787	100,000	-	-	-	-	20	6,787	100,020
6,848	100,000	-	-	-	-	21	6,848	100,021
7,879	100,000	7,879	100,331	100,000	331	-	-	-
\$ 413,100	459,000	\$ 427,700	474,298	474,000	298	-	\$ -	-
-	-	92,000	100,098	100,000	98	-	-	-
2,173,300	2,425,000	1,485,000	1,652,258	1,650,000	2,258	-	688,300	775,000
1,967,500	2,007,000	1,967,500	2,008,991	2,007,000	1,991	-	-	-
1,864,000	2,003,000	1,277,000	1,369,753	1,368,000	1,753	-	587,000	635,000
227,600	227,600	-	-	-	-	-	227,600	227,600
969,900	1,017,700	250,200	278,410	278,000	410	-	719,700	739,700
474,100	510,000	323,100	359,527	359,000	527	-	151,000	151,000
2,497,000	2,772,411	1,729,200	1,921,350	1,919,411	1,939	-	767,800	853,000
666,000	740,000	666,000	740,996	740,000	996	-	-	-
128,000	128,000	128,000	128,035	128,000	35	-	-	-
523,500	571,500	169,500	180,763	180,500	263	-	354,000	391,000
4,673,000	5,064,500	3,738,100	4,097,894	4,094,500	3,394	-	1,610,900	1,720,000
200,000	200,000	-	-	-	-	-	200,000	200,000
3,843,300	4,262,500	3,764,100	4,181,800	4,178,000	3,800	-	709,200	784,500
157,000	157,000	157,000	157,243	157,000	243	-	-	-
4,133,800	4,454,000	3,180,700	3,450,544	3,446,000	4,544	-	1,191,100	1,262,000

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counterparty	Nature of Relationship	Beginning Balance	
					Units/ Face Value (In Thousands)	Amount
The Corporation	Central Government Bonds 90-6	Restricted assets - current	-	-	\$ 1,040,000	\$ 1,135,000
	Central Government Bonds 90-7	"	-	-	462,000	496,000
	Central Government Bonds 91-11	"	-	-	-	-
	Central Government Bonds 91-4	"	-	-	-	-
	Central Government Bonds 91-8	"	-	-	794,000	858,000
	Central Government Bonds 92-10	"	-	-	-	-
	Central Government Bonds 92-4	"	-	-	3,549,000	3,927,000
	Central Government Bonds 92-7	"	-	-	130,500	145,000
	Central Government Bonds 93-4	"	-	-	191,000	200,000
	Central Government Bonds 93-8	"	-	-	522,500	575,000
	Central Government Bonds 94-4	"	-	-	177,000	191,000
	Central Government Bonds 94-5	"	-	-	-	-
	Central Government Bonds 94-7	"	-	-	602,500	657,000
	Central Government Bonds 95-3	"	-	-	495,000	505,000
	Central Government Bonds 95-5	"	-	-	270,000	300,000
	Central Government Bonds 95-6	"	-	-	1,611,600	1,784,000
	Central Government Bonds 96-1	"	-	-	-	-
	Central Government Bonds 96-3	"	-	-	-	-
	Central Government Bonds 96-5	"	-	-	-	-
	Central Government Bonds 96 B1st	"	-	-	326,000	333,000
	Central Government Bonds 97-1	"	-	-	-	-
	Central Government Bonds 97-4	"	-	-	432,400	467,000
	Central Government Bonds 97-6	"	-	-	-	-
	Central Government Bonds 98-1	"	-	-	-	-
	Central Government Bonds 98-4	"	-	-	-	-
	Central Government Bonds 98-6	"	-	-	-	-
	Central Government Bonds 99-5	"	-	-	409,500	455,000
	Central Government Bonds 99-6	"	-	-	-	-

Acquisition		Disposal				Gain (Loss) on Valuation	Ending Balance	
Units/ Face Value (In Thousands)	Amount	Units/ Face Value (In Thousands)	Amount	Carrying Value	Gain (Loss) on Disposal		Units/Face Value (In Thousands)	Amount
\$ 3,292,900	\$ 3,444,800	\$ 3,494,900	\$ 3,683,441	\$ 3,680,000	\$ 3,441	\$ -	\$ 838,000	\$ 899,800
4,886,700	5,203,100	3,390,400	3,676,663	3,672,900	3,763	-	1,958,300	2,026,200
4,528,700	4,848,600	4,076,800	4,372,289	4,367,700	4,589	-	451,900	480,900
470,600	521,800	261,700	290,156	289,800	356	-	208,900	232,000
5,012,700	5,341,300	3,272,400	3,564,222	3,561,300	2,922	-	2,534,300	2,638,000
335,300	357,200	145,300	159,285	159,100	185	-	190,000	198,100
9,056,100	9,887,856	10,175,800	11,236,860	11,225,856	11,004	-	2,429,300	2,589,000
1,091,800	1,163,400	652,100	717,343	716,800	543	-	570,200	591,600
679,500	730,500	628,500	665,775	665,000	775	-	242,000	265,500
1,356,500	1,462,500	1,369,000	1,507,608	1,506,600	1,008	-	510,000	530,900
471,500	517,500	648,500	709,426	708,500	926	-	-	-
919,000	919,000	409,000	409,584	409,000	584	-	510,000	510,000
7,117,500	7,746,800	6,718,300	7,403,832	7,395,800	8,032	-	1,001,700	1,008,000
1,884,300	2,022,600	2,190,300	2,319,946	2,317,600	2,346	-	189,000	210,000
958,500	1,065,000	1,228,500	1,366,150	1,365,000	1,150	-	-	-
6,232,300	6,844,000	6,666,700	7,326,480	7,320,000	6,480	-	1,177,200	1,308,000
3,332,000	3,698,000	3,332,000	3,702,571	3,698,000	4,571	-	-	-
3,811,300	4,159,400	2,246,000	2,471,007	2,468,000	3,007	-	1,565,300	1,691,400
892,000	941,000	422,000	466,696	466,000	696	-	470,000	475,000
1,668,700	1,805,800	1,547,500	1,651,990	1,650,300	1,690	-	447,200	488,500
3,458,900	3,766,500	3,222,900	3,514,046	3,509,500	4,546	-	236,000	257,000
5,771,000	6,217,433	3,935,900	4,323,135	4,318,633	4,502	-	2,267,500	2,365,800
188,000	188,000	100,000	100,141	100,000	141	-	88,000	88,000
1,049,600	1,144,900	895,600	976,065	974,900	1,165	-	154,000	170,000
1,018,400	1,120,100	229,000	250,406	250,000	406	-	789,400	870,100
2,055,600	2,284,000	1,078,200	1,199,574	1,198,000	1,574	-	977,400	1,086,000
2,852,300	3,152,000	2,785,700	3,080,764	3,078,000	2,764	-	476,100	529,000
619,100	686,700	444,600	493,691	493,300	391	-	174,500	193,400

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