

International Cooperation and Development Fund Notes to Financial Statements

December 31, 2004 and 2003

(Expressed in New Taiwan Dollars except as cited in particular footnotes)

1. ORGANIZATION AND HISTORY

In accordance with the Statute for the Establishment of the International Cooperation and Development Fund (TaiwanICDF), promulgated by the President of the ROC, the Fund was formed and approved by the Ministry of Foreign Affairs (MOFA) on June 29, 1996. The TaiwanICDF was formed and registered as a consortium juridical person in law, with the succession of the net value of the International Economic Cooperation Development Fund (IECDF), which ceased to exist on June 30, 1996.

The mission of the TaiwanICDF is to assist developing countries in their economic growth, strengthen international cooperation, develop foreign relations with allied and friendly countries, and encourage social progress.

2. SIGNIFICANT ACCOUNTING POLICIES

(1) Accounting Basis

The TaiwanICDF uses the accrual basis, except funds for contracted projects from government agencies or other entities.

(2) Cash Equivalents

The TaiwanICDF considers all highly liquid instruments purchased with a maturity of three months or less from date of acquisition to be cash equivalents.

(3) Short-term Investments

Short-term investments are recorded at cost. If they belong to short-term notes, the valuations are based on cost or market price, whichever is lower. In cases of no market price, available cost will govern. When they are exchanged before maturity or sold at maturity, their cost and gain or loss are calculated based on specific identification. Income/loss from cost of sold funds and stock certificates is computed through the weighted average method.

(4) Long-term Lending

The TaiwanICDF loans are recorded and calculated based on actual exchange rate on the date of settlement of exchange.

(5) Long-term Investments

Long-term investments are recorded based on the cost and valued based on cost method.

Long-term investments (if ownership of investee company stocks has not exceeded 20 percent) are appraised based on the cost method. If ownership of investee company stocks has exceeded 20 percent (inclusive), then the equity method is employed, using investment gains (losses) suffered from the long-term investment of the income of the period by shareholding ratio.

(6) Allowance for Uncollectible Accounts—Long-Term Lending

Bad debts from long-term loan before 2002 (inclusive) were computed based on the payment collection probability evaluation of each loan case, as approved in the Joint Board of Directors and Supervisors Meeting Resolution submitted to the competent authorities. Thereafter, the Regulation for the TaiwanICDF's Dealings with Past-Due/Non-Performing Loans and Bad Debts created by the TaiwanICDF was submitted to the resolution of the Joint Board of Directors and Supervisors Meeting



and on August 29, 2003, and forwarded to the MOFA for approval. Hence, effective from 2003, the collection probability of lending plans was evaluated pursuant to the Regulations for the TaiwanICDF's Dealings with Past-Due/Non-Performing Loans and Bad Debts.

(7) Reserve for Guarantee Loss Contingencies

For meeting with the Regulations Governing Investments & Credit Guarantees of Private Companies in the Countries with Diplomatic Relations approved by the MOFA, we have allocated the reserve for guarantee loss annually for credit guarantee cases that we handled as a private company in accordance with the Regulations for the TaiwanICDF's Dealings with Past-due/Non-performing Loans and Bad Debt since 2004.

(8) Fixed Assets

Fixed assets are recorded at cost. Major improvements, renewals and replacements are capitalized, while repairs and maintenance are expensed currently. When assets are disposed of, the cost and related accumulated depreciation are removed from the accounts, and any gain or loss is credited or charged to income.

Depreciation is computed by the straight-line method over estimated useful life.

(9) Intangible Assets

Intangible assets are amortized by the straight-line method.

(10) Pension Plan

The TaiwanICDF appropriates seven percent of employees' monthly salaries as pension funds and recognizes the funds as expenses for the year, based on its employees' pension plan, which applies to all of the officially hired employees. Independent of the assets of the TaiwanICDF, they are deposited in financial institutions in the name of the TaiwanICDF. If appropriated funds are not sufficient to pay pensions, the TaiwanICDF will charge and pay the difference.

(11) Foreign-currency Transactions

Foreign-currency transactions are recorded in NT dollars at the exchange rate when the transactions occur. Deposits denominated in foreign currencies are translated into NT dollars at the rates of exchange prevailing at the balance sheet date. Exchange gains or losses are credited or charged to income in the year of actual conversion or settlement.

(12) Receipt and Disbursement of Entrusted Projects

The TaiwanICDF receives funds for entrusted projects from government agencies or other agencies. When the funds are used, the expenditure is charged to Contracted Project Expenditure accounts by project. At the end of each month the amount of accumulated fund expenditures are deducted from the Received in an Advance-contracted Project Funds Account and charged to the Revenue from a Contracted Project Account.

3. APPROVAL AND ADJUSTMENT OF FINANCIAL STATEMENTS

The Ministry of Audit should review the receipt and disbursement accounts of government special funds of this foundation. After its review and approval, the receipt and disbursement accounts of government special funds are then settled. If there are any adjustments, the adjustment will be booked in the following year.

4. CASH AND CASH EQUIVALENTS

	December 31, 2004	December 31, 2003
Petty cash	\$ 110,000	\$ 120,000
Demand deposits	143,095,367	1,951,417,784
Checking deposits	100,000	91,000
Time deposits	4,909,259,216	4,212,670,503
Cash equivalents - Short-term notes	879,216,053	449,631,104
Total	\$5,931,780,636	\$6,613,930,391

5. SHORT-TERM INVESTMENTS

	December 31, 2004	December 31, 2003
Commercial promissory notes	\$ —	\$ 319,177,985
Company bonds	2,527,790,989	1,307,673,055
Government bonds	114,419,221	261,732,734
Beneficiary certificates	3,547,455	179,272,589
Marketable stock	155,992,599	22,754,139
Total	2,801,750,264	2,090,610,502
Less: Allowance for reduction of short-term investment to market	—	—
Net	\$2,801,750,264	\$2,090,610,502

6. OTHER RECEIVABLES

	December 31, 2004	December 31, 2003
Interest receivable	\$ 81,548,754	\$ 90,129,509
Retained money receivable	18,573,911	36,227,088
Receivable due to sale of shares	57,164,097	82,262,160
Other receivables	128,988,048	85,868,528
Total	286,274,810	294,487,285
Less: Allowance for uncollectible accounts	(1,364,255)	(1,604,201)
Net	\$ 284,910,555	\$ 292,883,084

- (1) The loan interest dues amounting to US\$7,084,661.69 of the Subic Bay Industrial Park Development Project -- Phase I & II and the Paraguay Industrial Park loans reclassified to suspend accounts receivables and bad debts write-off of the Nauru Parkview Hotel (as of December 31, 2004) pursuant to the Regulations for the TaiwanICDF's Dealings with Past-due/Non-performing Loans and Bad Debts should also be noted.
- (2) As of December 31, 2004, other receivables amounting to NT\$87,066,590 belong to the fund used by the MOFA for investment into the Skopje Development Management Co., Ltd. in the FYR of Macedonia. However, after the ROC and the FYR of Macedonia cut diplomatic ties, the MOFA terminated the development project. Therefore, pursuant to MOFA instructions, the TaiwanICDF transferred the funds from "long-term loan investment" to "other receivables." In addition, as we had been commissioned by MOFA to deal with the Paraguay Industrial Park's Reimbursement Project, we also temporarily paid the sum of NT\$40,893,838 necessary for the auction, including guarantee money and auctioneer's fee.

(3) Bad debts from long-term loan interest receivable are computed based on the payment collection probability evaluation of each loan case pursuant to the Regulations for the TaiwanICDF's Dealings with Past-Due/Non-Performing Loans and Bad Debts.

7. LONG-TERM LENDING

	December 31, 2004	December 31, 2003
Long-term lending	\$4,580,590,368	\$5,455,654,797
Less: Allowance for uncollectible accounts	(231,402,597)	(254,943,340)
Total	<u>\$4,349,187,771</u>	<u>\$5,200,711,457</u>

(1) The TaiwanICDF conducts long-term lending in accordance with the Regulations Governing the TaiwanICDF in Loans and Investments," approved by Executive Yuan.

To the end of December 31, 2004, actual loans were US\$180,510,703.54 and annual interest rates were less than two percent.

(2) Allowances for uncollectible accounts were based the collection probability of each individual lending plan, which was evaluated pursuant to the Regulations for the TaiwanICDF's Dealings with Past-due/Non-performing Loans and Bad Debts.

(3) The overdue lending plans involving in the long-term lending cased as of December 31, 2004, are detailed below: (Unit: US\$)

Country	Plan	Date Prescribed for Repayment	Principal	Interest	Promise Fee	Deferred Interest	Total	Remarks
Haiti	Drinking Water Distribution Project in Petion-Ville, Port- au-Prince (Lot I)	2004/11/15	\$ —	\$ 16,866.67	\$ —	\$ 87.88	\$ 16,954.55	Negotiation in process

PS: The above-mentioned plan does not include cases written off and reclassified to suspend accounts receivable.

8. LONG-TERM INVESTMENTS

	December 31, 2004		December 31, 2003	
	Investment Cost	Shareholding Ratio	Investment Cost	Shareholding Ratio
Equity method:				
Latin America Development Company	\$ 5,214,042	28.57%	\$ 9,709,742	28.57%
Cost method:				
Overseas Investment & Development Corporation	130,000,000	14.44%	130,000,000	14.44%
Micro-Credit National S.A.	2,895,918 (US\$ 91,368)	5%	2,895,918 (US\$ 91,368)	5%
Foundation investment				
European currency funds	297,536,800 (US\$8,500,000)		297,536,800 (US\$8,500,000)	—
Total	<u>\$ 435,646,760</u>		<u>\$ 440,142,460</u>	

- (1) The TaiwanICDF conducts long-term investment in accordance with the Regulations Governing the TaiwanICDF in Loans and Investments approved by Executive Yuan.
- (2) The TaiwanICDF commissioned the EBRD to manage special funds for dealing with investment and lending plans with private companies in Central and Eastern Europe by offering funds mutually. According to the contract, US\$12,500,000 must be put in the investment. US\$8,500,000 has been invested as of December 31, 2004.
- (3) The Latin America Development Company used the equity method starting from 2003. As of December 31, 2004 and 2003, pursuant to the 2004 and 2003 Independent Auditor's Report of the Latin America Development Company, investment losses amounted to NT\$1,759,074 and NT\$93,026,884, respectively.
- (4) The above investments projects in foreign currencies took the amount actually converted at the exchange rate on the day when the exchange was actually settled as the investment costs.

9. FIXED ASSETS

	December 31, 2004		
	Cost	Accumulated Depreciation	Net
Information equipment	\$ 17,109,719	\$ 8,481,328	\$ 8,628,391
Communication & transportation equipment	1,734,370	754,965	979,405
Miscellaneous equipment	3,720,397	2,050,284	1,670,113
Lease Improvement	19,470,073	19,222,648	247,425
Total	\$ 42,034,559	\$ 30,509,225	\$ 11,525,334
	December 31, 2003		
	Cost	Accumulated Depreciation	Net
Information equipment	\$ 14,725,296	\$ 7,373,765	\$ 7,351,531
Communication & transportation equipment	1,808,970	1,252,485	556,485
Miscellaneous equipment	3,486,367	1,866,573	1,619,794
Lease Improvement	19,470,073	15,328,587	4,141,486
Total	\$ 39,490,706	\$ 25,821,410	\$ 13,669,296

Depreciation for 2004 and 2003 are NT\$6,527,146 and NT\$6,485,236, respectively.

10. SUSPEND ACCOUNTS RECEIVABLE

	December 31, 2004		December 31, 2003	
	Loans (US\$)	Loans (NT\$)	Loans (US\$)	Loans (NT\$)
Nauru Parkview Hotel Building Loan Project	\$ 145,386.37	\$ 5,000,000	\$13,076,511.94	\$ 384,357,363
Industrial Park Development Project in Paraguay	11,003,488.32	355,803,957	11,003,488.32	355,803,957
Subic Bay Industrial Park Development Project--Phase I	21,561,678.55	601,960,282	—	—
Subic Bay Industrial Park Development Project--Phase II	4,410,097.25	138,453,324	—	—
Total	37,120,650.49	1,101,217,563	\$24,080,000.26	\$ 740,161,320
Less: Allowance for uncollectible accounts		(82,513,932)		(509,331,844)
Net		\$1,018,703,631		\$ 230,829,476

- (1) The balance of the loan borrowed by the Nauru Parkview Hotel (inclusive of interest receivable) was US\$13,076,511.94. After the amount of NT\$5,000,000, which had been estimated to be collected, was deducted from the said balance, the rest of the said balance has been transferred to bad debts, which was approved at the Joint Board of Directors and Supervisors Conference in 2004.
- (2) After evaluating the substantial situation about the guarantees in the above urgently-demanded-loan cases and reporting the result at the 33rd Joint Board Conference for their determination based on the Regulations for the TaiwanICDF's Dealings with Past-due/Non-performing Loans and Bad Debts, we allocated 20 percent of the urgently demanded loan of the Paraguay Industrial Park Project and one percent of Phase I & II loans of the Subic Bay Industrial Park Development Project as allowances for bad debts.
- (3) Loan cases for debt arrangement are detailed as follows: (Unit: US\$)

Loan Case	Year of Debt Arrangement	Amount as Creditor's Right before Debt Arrange	Amount as Creditor's Right after Debt Arrange	Amendment Condition	Amount as Creditor's Right on Dec. 31, 2004
Subic Bay Industrial Park Development Project- Phase I	2004	\$ 21,157,894.32	\$ 21,157,894.32	Loan was extended for two years from 2004, interest rate was charged to 3.3% from 3.5%	\$ 21,561,678.55
Subic Bay Industrial Park Development Project- Phase II	2004	4,351,900.71	4,351,900.71	Received guarantee Letter of credit, interest rate was changed to 5.3% from 5.5%	4,410,097.25

11. FUNDS AND CURRENT SURPLUS AND DEFICIT

The Fund took the net worth (NT\$11,614,338,576) of the International Economic Cooperation Development Fund, Ministry of Economic Affairs, on June 30, 1996, as the founding fund (NT\$11,634,131,427 in total assets, NT\$19,792,851 as the total liabilities). In the registration with the court for judicial person, the total assets as shown in account closing (NT\$11,634,131,427) of the International Economic Cooperation Development Fund, MOE, were registered as the total property value.

The donated amounts in the Fund include NT\$4,423,541 of Overseas Technological Cooperation Commission of the MOFA for overseas technological cooperation consolidated in the TaiwanICDF on July 1, 1997, the NT\$600,000,000 sum donated by the MOFA on January 16, 2000, and the US\$6,000,000 sum, equivalent to NT\$197,820,000, provided by the MOFA on April 3, 2001, for investment in the Skopje Development & Management Co., Ltd. in the FYR of Macedonia. However, the subsequent ROC-Macedonia diplomatic tie cut also led to the MOFA's cancellation of this development plan. Hence, the TaiwanICDF returned the remaining unused funds (US\$3,489,285.55) for this investment to the MOFA in April 2003. The utilized fund amounting to US\$2,510,714.45 was declared as a long-term loan and investment, and pursuant to the MOFA's instructions, the amount was reclassified from "donated funds" to "other receivables," and the related "long-term loan and investment" was reclassified to "receivables – other receivables. The NT\$250,075,955 sum provided by the MOFA on December 31, 2001, as required for Regulations for the TaiwanICDF in Providing Guarantees for Credit Facilities Extended to Private Enterprises who Invest in Countries with Formal Diplomatic Relationships; totaling NT\$854,499,496.

12. RETIREMENT FUNDS

The special account for employees' retirement funds allocated by the TaiwanICDF is detailed below:

	2004	2003
Balance at the beginning of this term	\$ 19,933,874	\$ 17,216,149
Allocation of this term	4,531,230	4,673,718
Interest income	86,719	110,199
Payment of this term	(3,347,800)	(2,066,192)
Balance at the end of this term	<u>\$ 21,204,023</u>	<u>\$ 19,933,874</u>

13. OTHER REVENUES

	2004	2003
Reverse on allowance for bad debt	\$ 71,241,238	\$ —
Other	314,149	2,739,014
Total	<u>\$ 71,555,387</u>	<u>\$ 2,739,014</u>

14. COMMITMENTS

(1) Pursuant to Regulations Governing the TaiwanICDF in Loans and Investments, the Fund had signed contracts with foreign governments amounting to US\$439,030,312.15 as of December 31, 2004. The loans having been granted as of the said dates amounted to US\$363,030,429.74, with US\$75,999,882.41 committed balances.

(2) The assets under the TaiwanICDF's custody and operation as consigned by the government do not belong to the Fund. The TaiwanICDF entered these funds into account as Properties Under Custody and Custody Property Payable.

The Properties Under Custody were entered at cost. Expenditures for major additions, renewals and improvements were entered as revenues and expenditures of consigned projects. Upon scrapping, the cost was deducted from the book amount. As of December 31, 2004, the Properties Under Custody showed NT\$724,574,594 in book value.

(3) As of December 31, 2004, pursuant to the MOFA-approved Regulations for the TaiwanICDF in Providing Guarantees for Credit Facilities Extended to Private Enterprises who Invest in Countries with Formal Diplomatic Relationships, the TaiwanICDF had provided guarantees for credit facilities extended to private enterprises amounting to US\$175,270 and NT\$22,266,087.

(4) The CAEDF under the Fund's management as consigned by the MOFA does not belong to the Fund. The Fund entered into account in equivalent asset titles and collections for third party. As of December 31, 2004 and 2003, the assets are detailed below:

	December 31, 2004		December 31, 2003	
	United States Dollar	New Taiwan Dollar	United States Dollar	New Taiwan Dollar
Cash in bank	\$ 5,774,251.20	\$ 182,813,435	\$ 3,390,836.85	\$ 115,126,962
Time deposits	102,196,138.93	3,235,529,758	107,933,412.97	3,684,822,755
Interest receivable	687,068.00	21,752,573	655,844.39	22,246,242
Clearing account	573,028.29	19,141,899	144,449.81	4,942,802
Total	<u>\$109,230,486.42</u>	<u>\$ 3,459,237,665</u>	<u>\$112,124,544.02</u>	<u>\$ 3,827,138,761</u>