

## Chapter 3

### Financial Status of SMEs

The data on the financial status of SMEs in the first and second sections of this chapter is based on data held by the Ministry of Finance Tax Data Center. As this data is derived from business income tax declarations, there is a one-year time lag compared to the data included in the other chapters. In other words, the data in this chapter relates to 2002 rather than 2003. Section III considers the state of Taiwan's banks, which have traditionally been the main source of financing for SMEs. The changes in the statistical data for the banking sector can be used to examine the interaction between banks and SMEs.

In 2002 more than 640,000 enterprises submitted business tax declarations. After extracting those enterprises that did not provide comprehensive data and where it was unclear as to which industry the enterprise belonged, or where there were inconsistencies in the data, we are left with a total of 311,971 enterprises, of which 298,112 were SMEs. Of these SMEs, 138,162 (46.35% of the total) were in the wholesale, retail and restaurant sector, 79,558 (26.69%) were in the manufacturing sector, and 34,835 (11.69%) were in the construction sector.

The definition of SMEs used in this chapter is the revised definition adopted by the Ministry of Economic Affairs in May 2000: firms in the mining and quarrying, manufacturing and construction sectors with capitalization of NT\$80 million or less, and firms in other sectors with annual sales revenue of NT\$100 million or less.

The year 2002 saw the unemployment rate rise, the stock market perform badly, industry suffer from inadequate investment, and the fiscal health of the government worsen. As a result, the overall level of demand in the economy was weak, and fixed capital investment declined by 2.04%. However, trade within the Asia region continued to flourish, and in the global economy overall demand continued to increase. As a result, Taiwan was able to achieve an economic growth rate of 3.59% in 2002. Every business enterprise in Taiwan had to deal with a depressed business climate and intense competition. Many enterprises found that not only was overall demand falling, but that many of their customers were moving their operations overseas. The negative impact of this trend was even more pronounced among SMEs than among large enterprises. Consequently, the financial status of Taiwan's SMEs worsened in 2002. Of the enterprises included in the sample, only 195,953 were in profit, with 37.19% making a loss; the percentages for large enterprises and SMEs were 25.36% and 37.74% respectively, indicating that SMEs suffered more from the economic downturn than large enterprises.

## I SMEs' Overall Financial Status

In this section, a consolidated balance sheet is used to examine enterprises' sources of funds, and their usage, with the figures converted into percentages of total assets (Table 3-1-1), whilst a consolidated profit and loss table is used to show overall profit and loss status for SMEs and large enterprises (Table 3-1-2).

**Table 3-1-1 Consolidated Financial Data for Taiwanese Enterprises, 2000 – 2002**

Unit: %

| Item  | Year | Large Enterprises |        |        | SMEs   |        |        |
|---|------|-------------------|--------|--------|--------|--------|--------|
|   |      | 2000              | 2001   | 2002   | 2000   | 2001   | 2002   |
| <b>Current Assets</b>                         |      | 56.17             | 60.20  | 64.10  | 60.92  | 59.39  | 56.04  |
| Cash  |      | 20.73             | 23.27  | 26.51  | 15.66  | 15.55  | 14.67  |
| Accounts Receivable                           |      | 24.68             | 22.70  | 29.16  | 17.30  | 16.53  | 16.04  |
| Inventory                                     |      | 7.82              | 10.59  | 5.28   | 23.94  | 23.54  | 21.81  |
| Advance Payments                              |      | 0.76              | 0.55   | 0.51   | 1.99   | 1.87   | 1.68   |
| Other Current Assets                          |      | 2.18              | 3.09   | 2.64   | 2.02   | 1.91   | 1.84   |
| <b>Funds and Long-term Investments</b>        |      | 23.74             | 24.76  | 19.81  | 9.22   | 9.74   | 13.38  |
| <b>Fixed Assets</b>                           |      | 15.77             | 11.36  | 12.03  | 26.68  | 27.51  | 27.16  |
| Land and Buildings                            |      | 8.06              | 6.50   | 6.44   | 14.34  | 15.78  | 16.20  |
| Machinery                                     |      | 6.08              | 3.76   | 4.65   | 10.32  | 9.65   | 8.94   |
| Other Fixed Assets                            |      | 1.64              | 1.10   | 0.94   | 2.02   | 2.08   | 2.02   |
| <b>Intangible and Other Assets</b>            |      | 4.32              | 3.68   | 4.07   | 3.18   | 3.36   | 3.42   |
| <b>Total Assets = Liabilities + Net Worth</b> |      | 100.00            | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| <b>Liabilities</b>                            |      | 75.83             | 79.55  | 80.73  | 65.43  | 66.23  | 66.33  |
| <b>Current Liabilities</b>                    |      | 55.69             | 57.19  | 61.76  | 59.05  | 59.58  | 58.95  |
| Short-term Loans Repayable                    |      | 33.77             | 41.91  | 43.20  | 17.72  | 17.24  | 17.27  |
| Accounts Payable                              |      | 14.73             | 9.27   | 12.26  | 14.96  | 14.92  | 14.93  |
| Income Received in Advance                    |      | 2.35              | 1.89   | 2.29   | 5.37   | 4.92   | 4.64   |
| Other Current Liabilities                     |      | 4.84              | 4.13   | 4.01   | 20.99  | 22.50  | 22.11  |
| <b>Long-term Liabilities</b>                  |      | 15.33             | 18.93  | 12.97  | 4.63   | 4.75   | 5.31   |
| Long-term Loans Repayable                     |      | 5.12              | 3.81   | 3.98   | 4.24   | 4.30   | 4.54   |
| Other Long-term Liabilities                   |      | 10.21             | 15.11  | 8.99   | 0.38   | 0.45   | 0.77   |
| <b>Other Liabilities</b>                      |      | 4.80              | 3.43   | 6.01   | 1.75   | 1.90   | 2.07   |
| <b>Net Worth</b>                              |      | 24.17             | 20.45  | 19.27  | 34.58  | 33.77  | 33.67  |
| Stockholders' Equity                          |      | 17.64             | 14.59  | 14.46  | 39.35  | 41.40  | 41.17  |
| Reserves and Operating Surplus                |      | 6.54              | 5.87   | 4.81   | -4.78  | -7.63  | -7.51  |

Note: For the definition of SMEs used in this table, see the appended Table B – “The Evolving Definition of SMEs in Taiwan.”

Source: Ministry of Finance Tax Data Center's business income tax data.

## 1. Analysis of Fund Usage by SMEs

### (1) A Significant Decrease in the Ratio of Current Assets to Total Assets

As can be seen from Table 3-1-1, for large enterprises in 2002 the share of total assets held by current assets increased by 3.9 percentage points compared to 2001. However, for SMEs the share in current assets declined by 3.35 percentage points. Inventory displayed the most pronounced decline, falling by 1.73 percentage points, followed by cash, which fell 0.88 percentage points, and accounts receivable, with 0.49 percentage points. With domestic demand still weak and consumer spending restrained, SMEs have been thinking defensively, working to bring their inventory levels down and becoming more cautious about entering into credit transactions.

### (2) A Dramatic Increase in the Share of Total Assets Held by Funds and Long-term Investments

For large enterprises, the share of total assets held by funds and long-term investments fell by 4.95 percentage points in 2002 compared to 2001. With the threat of deflation worldwide, large enterprises have become more cautious in their investment strategies. By contrast, for SMEs the share of total assets held by funds and long-term investments rose, increasing 3.64 percent compared to 2001. According to the *Monthly Bulletin of Investment Statistics* published by the Ministry of Economic Affairs, the number of Taiwanese investment projects in mainland China rose by 25.6% in 2002, up to 1,490 projects in 2002 from 1,186 projects in 2001. The amount of investment involved increased by 38.6%, to US\$3.86 billion. Investment in mainland China accounted for 53.4% of

Taiwan's total outward investment. According to the *Survey on Overseas Investment by Manufacturing Industry* published by the Statistics Department of the Ministry of Economic Affairs, SMEs account for a high degree of mainland China's share of outward investment, while large enterprises account for a large degree of outward investment to places other than mainland China. The economic environment in Taiwan continued to worsen in 2002, giving SMEs even greater incentive to invest overseas; this may explain the dramatic increase in the share of total assets held by funds and long-term investments.

### **(3) A Fall in the Share of Machinery as Total Assets, and a Slight Fall in the Share Held by Fixed Assets as a Whole**

For SMEs, the share of total assets held by fixed assets in 2002 was more or less the same as in 2001 – 27.16% compared to 27.51%, a decrease of 0.35 percentage points. Machinery's share in total assets continued to fall, declining by 0.71 percentage points. With the economic outlook still uncertain, SMEs, which tend not to have much capital, are continuing to delay investment in machinery.

## **2. Analysis of SME Funding Sources**

Overall, there was relatively little change in SME funding sources in 2002 compared to 2001. With no clear sign of an upturn in the economy, enterprises have continued to struggle, and there was no significant improvement in profitability.

### **(1) A Fall in the Current Liability Ratio Accompanied by an Increase in the Long-term Liability Ratio**

The economic downturn that began in the second half of 2000 has gradually worsened. SMEs' overall debt ratio increased from 55.64% in 1999 to 65.43% in 2000, then remained at around that level for the following two years (66.23% in 2001, and then 66.33% in 2002). The current liability ratio in 2002 was 58.95%, 0.63 percentage points down on 2001. However, the long-term debt ratio increased by 0.56 percentage points. These funds are being used either for long-term investment, to take advantage of the depressed state of the real estate market to purchase land, or to buy other types of fixed assets.

## **(2) Reserves and Operating Surplus Still a Negative Value**

By and large, the operational performance of Taiwan's SMEs in 2002 was unimpressive; of just over 310,000 enterprises included in the sample, 37.19% failed to make a profit. Among SMEs the percentage was 37.74%, creating a situation where accumulated losses were higher than accumulated surplus; reserves and operating surplus was thus a negative value. This situation was first observed in 2000, and has continued to worsen in 2001 and 2002.

## **3. Analysis of SME Profit and Loss**

### **(1) No Significant Change in Operating Costs Compared to the Previous Year**

In 2002 SMEs' operating costs accounted for 81.40% of net operating income (Table 3-1-2), representing an increase of only 0.08 percentage points compared to 2001; among large enterprises the increase was 0.34 percentage points. In the last few years SMEs' gross operating profit has hovered around the 18.5% mark; in 2002 it was 18.6%. In 2001 and 2002, with the

economy in a downturn, the overall business climate for large enterprises deteriorated significantly. Whereas in 2000 operating costs accounted for 90.57% of large enterprises' net operating income, this figure rose to 94.26% in 2001 and to 94.60% in 2002. As a result, gross operating profit fell to around 5.5%. These figures reflect the fact that SMEs usually operate in niche markets where price competition is less intense; they are thus able to maintain reasonably high gross operating profit margins even when the economic climate has deteriorated.

**Table 3-1-2 Profit and Loss Structure of Taiwanese Enterprises, 2000 – 2002**

Unit: %

| Item                                   | Year | Large Enterprises |        |        | SMEs   |        |        |
|--|------|-------------------|--------|--------|--------|--------|--------|
|  |      | 2000              | 2001   | 2002   | 2000   | 2001   | 2002   |
| Net Operating Income                   |      | 100.00            | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| Minus: Operating Costs                 |      | 90.57             | 94.26  | 94.60  | 81.13  | 81.32  | 81.40  |
| Gross Operating Profit                 |      | 9.43              | 5.75   | 5.40   | 18.87  | 18.68  | 18.60  |
| Minus: Operating Expenses              |      | 7.40              | 4.93   | 4.89   | 17.62  | 18.51  | 18.38  |
| Net Operating Profit                   |      | 2.03              | 0.82   | 0.52   | 1.25   | 0.16   | 0.22   |
| Plus: Non-operating Income             |      | 1.24              | 0.78   | 0.71   | 1.88   | 1.87   | 1.62   |
| Minus: Interest Expenditure            |      | 0.65              | 0.41   | 0.42   | 0.75   | 1.09   | 0.93   |
| Minus: Other Non-operating Expenditure |      | 0.93              | 0.54   | 0.39   | 1.43   | 1.48   | 1.15   |
| Current Profit and Loss                |      | 1.69              | 0.64   | 0.41   | 0.95   | -0.53  | -0.24  |

Source: Ministry of Finance Tax Data Center's business income tax data.

## **(2) A Slight Fall in Operating Expenses, but SMEs' Operating Expense Ratios are Still Substantially Higher Than Those of Large Enterprises**

Operating expenses include all expenses arising from operations, including salaries, rental, advertising, depreciation, insurance, etc. In 2002 operating expenses amounted to 18.38% of net operating income, down from 18.51% in 2001,

but still significantly higher than the percentage for large enterprises (4.89%). Whether because of contractual requirements or because of the accounting methods used, it is generally very difficult to achieve an adjustment in rental, depreciation and salaries in line with the changes in the economic situation. SMEs find it much harder than large enterprises to achieve economies of scale, so operating expenses (as a percentage of net operating income) tend to be much higher for SMEs than for large enterprises.

### **(3) Erosion of Net Operating Profit by High Operating Expenses**

Operating costs and operating expenses combined account for 99.78% of SMEs' net operating income; net operating profit is thus very small. SMEs have much higher gross operating profit than large enterprises, but because they lack the bargaining power that large enterprises enjoy and cannot achieve the same economies of scale, operating expenses account for a very high percentage of SMEs' net operating income. High gross operating profit margins are thus eroded by high operating expenses, resulting in net operating profit performance that is inferior to that of large enterprises. In 2002 Taiwan's SMEs had a net operating profit margin of only 0.22%. Large enterprises have seen their gross operating profit fall, but they have been more successful at keeping operating expenses under control; as a result, although large enterprises had gross operating profit of only 5.4% in 2002, they were able to maintain a net operating profit margin of 0.52%.

### **(4) Current Profit and Loss Still a Negative Value**

Although net operating profit rose slightly in 2002, to 0.22%,



SMEs were not very successful at keeping operating expenses, interest expenditure and non-operating expenditure down. As a result, SMEs had current profit and loss of -0.24% in 2002, although this was still an improvement on the 2001 figure of -0.53%. Large enterprises also saw their net operating profit shrink because of the economic downturn, but they proved more adept at bringing operating expenses and non-operating expenditure under control, and were able to achieve current profit and loss of 0.41%.

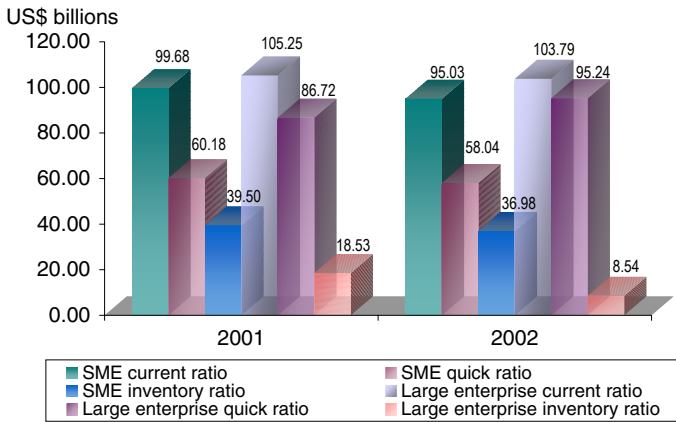
#### **4. Analysis of SMEs' Financial Ratios**

##### **(1) Declining Current Ratio, Quick Ratio and Inventory Ratio Compared to 2001**

Due to weak domestic demand, SMEs' short-term liquidity continued to deteriorate in 2002 (Figure 3-1-1), with the current ratio, quick ratio and inventory ratio all falling. It can be seen from the consolidated balance sheet that the main reason for the decline in short-term liquidity was the fact that the share of total assets held by current assets fell by 3.35 percentage points, while the ratio of current liabilities to total assets fell by only 0.63 percentage points. Reducing inventory and advance payments and bringing down the share of sales paid for other than in cash are normal behavior for enterprises during an economic downturn. However, if enterprises are unable to bring short-term liabilities under control, then their short-term solvency will be affected. In 2002 large enterprises saw their liquidity ratio fall by only 1.46 percentage points, but the quick ratio rose by 8.52 percentage points, indicating that the short-term solvency of large enterprise had improved substantially compared to 2001. Large enterprises' inventory ratio fell from 18.53% in 2001 to 8.54% in 2002; weak

domestic demand led large enterprises to reduce their inventory levels and resort to cut-price promotions to boost their inventory turnover.

**Figure 3-1-1 Short-term Liquidity of Enterprises, 2001 – 2002**



- Note: 1. Current Ratio = Current Assets ÷ Current Liabilities × 100 (Reference value = 200; ideally, the current ratio should be higher than reference value).  
 2. Quick Ratio = (Current Assets – Inventories) ÷ Current Liabilities × 100 (Reference value = 100; ideally, the quick ratio should be higher than the reference value).  
 3. Inventory Ratio = Inventories ÷ Current Liabilities × 100 (Reference value = 50; ideally, the inventory ratio should be higher than the reference value).

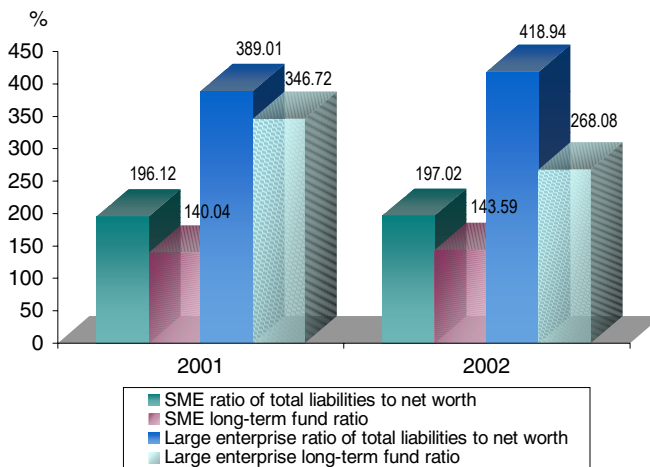
Source: Ministry of Finance Tax Data Center's business income tax data.

## **(2) A Rise in Both the Ratio of Total Liabilities to Net Worth and the Long-term Funds Ratio**

In 2002 Taiwan's SMEs had a ratio of total liabilities to net worth of 197.02%, 0.9 percentage points up on 2001. However, for large enterprises the ratio rose by 29.93 percentage points, climbing from 389.01% in 2001 to 418.94% in 2002. With the economic climate worsening over the last few years, large enterprises have become more heavily indebted than SMEs.

The ratio of total liabilities to net worth is a measure of an enterprise's long-term solvency; an increase in this ratio indicates a reduction in the enterprise's ability to guarantee that it will meet its obligations to creditors. SMEs' long-term funds ratio rose to 143.59%; although this was lower than the figure for large enterprises (268.08%), it remained within acceptable limits (Figure 3-1-2).

**Figure 3-1-2 Long-term Stability of Enterprises, 2001 – 2002**



Note: 1. Ratio of Total Liabilities to Net Worth =  $\text{Liabilities} \div \text{Net Worth} \times 100\%$  (Reference Value = 100; ideally, the ratio should be lower than the reference value).

2. Long-term Funds Ratio =  $(\text{Net Worth} + \text{Long-term Liabilities}) \div \text{Fixed Assets} \times 100\%$  (Reference value = 100; ideally, the ratio should be higher than the reference value).

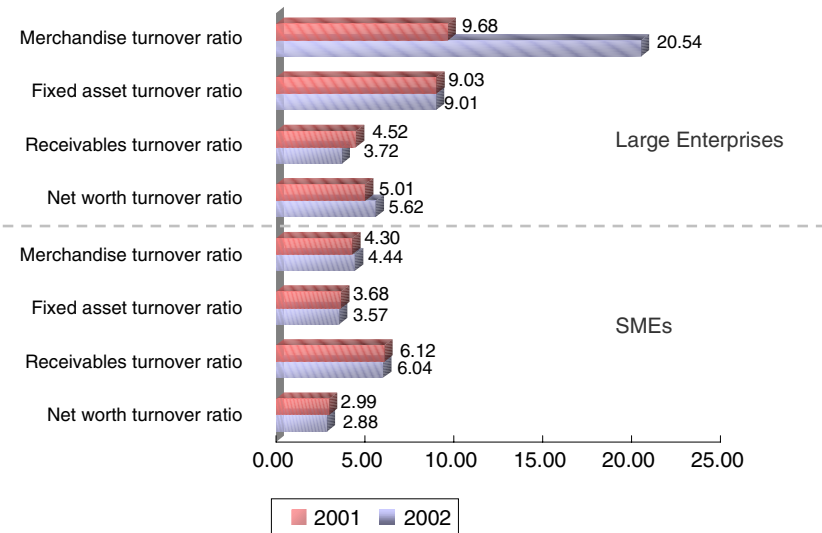
Source: Ministry of Finance Tax Data Center's business income tax data.

### **(3) A Slight Increase in Merchandise Turnover, Accompanied by a Fall in All Other Turnover Ratios**

An enterprise's operational performance depends on the efficient utilization of the different kinds of assets that the

enterprise possesses. Inventory levels reflect the extent to which assets are being used efficiently, the company’s credit sales policy, and its inventory policy. The receivables turnover ratio and inventory turnover ratio can be used to measure an enterprise’s management capability. If these ratios are high, this indicates superior management performance, effective monitoring of receivables and the avoidance of excessive inventory pressure. Looking at the data for 2002, SMEs’ receivables turnover fell from 6.12 turns to 6.04 turns (Figure 3-1-3), while merchandise turnover increased slightly, from 4.30 turns in 2001 to 4.44 turns in 2002.

**Figure 3-1-3 Managerial Capability of Enterprises, 2001 – 2002**



Note: Merchandise Turnover Ratio = Net Operating Income / Inventory.  
 Fixed Asset Turnover Ratio = Net Operating Income / Fixed Assets.  
 Receivables Turnover Ratio = Net Operating Income / Accounts Receivable.  
 Net Worth Turnover Ratio = Net Operating Income / Net Worth.  
 Source: Ministry of Finance Tax Data Center’s business income tax data.

The other two turnover ratios – net worth turnover ratio and fixed asset turnover ratio – are used to evaluate the efficiency of asset utilization. The higher these ratios are, the better able the enterprise is to make effective use of its assets and owned capital. In 2002 SMEs' net worth turnover ratio and fixed asset turnover ratio both fell slightly; the fixed asset turnover ratio declined from 3.68 turns in 2001 to 3.57 turns in 2002, while the net worth turnover ratio fell from 2.99 turns to 2.88 turns. The fall in domestic demand thus had a negative impact on SMEs' ability to make effective use of their fixed assets and owned capital.

#### **(4) Profitability Indicators All Negative, But Showing Some Improvement on 2001**

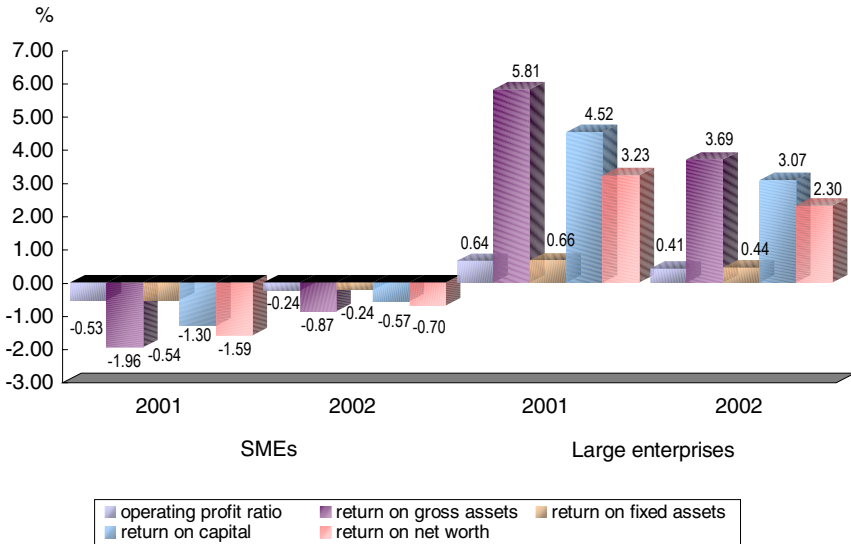
Profitability can be examined by looking at an enterprise's ability to use its funds and capital to produce a surplus. Taiwan's economic growth rate rose from -2.18% in 2001 to 3.59% in 2002, but domestic demand remained weak, the unemployment rate continued to rise, and consumer spending grew only slightly. SMEs' current profit and loss was negative, and consequently all of the profitability indicators were negative values. The operating profit ratio was -0.24%, the return on gross assets was -0.87%, the return on fixed assets was -0.24%, the return on capital was -0.57%, and the return on net worth was -0.70%. Nevertheless, these figures did represent an improvement compared to 2001 (Figure 3-1-4).

## **II Analysis of Financial Status by Industry**

The breakdown by industry of the 311,971 enterprises for which comprehensive financial data was available in 2002 is

shown in Table 3-2-1. Of the 298,112 SMEs, 112,504 (37.74%) failed to make a profit. The industries in which the percentage of SMEs failing to make a profit was higher than the overall average of 37.74% included the finance, insurance and real estate industries (57.95%), the business services industry (48.62%), the water, electricity and gas industries (45.49%), the commerce sector (44.89%), and the social and personal services industries (41.53%).

**Figure 3-1-4 Profitability of Enterprises, 2001 – 2002**



Note: Operating Profit Ratio = Current Profit or Loss / Net Operating Income.  
 Return on Gross Assets = Current Profit or Loss / Gross Assets.  
 Return on Fixed Assets = Current Profit or Loss / Fixed Assets.  
 Return on Capital = Current Profit or Loss / Capital.  
 Return on Net Worth = Current Profit or Loss / Net Worth.  
 Source: Ministry of Finance Tax Data Center's business income tax data.

The commerce sector accounted for the largest number of SMEs, at 138,162; of these, 62,017 failed to make a profit. The

manufacturing sector had the next largest number of SMEs, at 79,558, with 19,011 of these failing to make a profit; the construction industry had 34,835 SMEs, of which 11,339 failed to make a profit. In the finance, insurance and real estate industry, 57.95% of enterprises failed to make a profit, possibly reflecting the fall in profit margins. For Taiwanese industry as a whole, 37.74% of SMEs did not make a profit in 2002. When examining the financial status of SMEs by industry, the financial status of enterprises that failed to make a profit is bound to have a significant impact on the results.

**Table 3-2-1 Financial Status of SMEs by Industry, 2002**

Unit: %

| Industry \ Size                                | SMEs                         |                           | Large Enterprises         |                           |
|--|------------------------------|---------------------------|---------------------------|---------------------------|
|  | No. of Enterprises           | % failed to make a profit | No. of Enterprises        | % failed to make a profit |
| Agriculture, forestry and fisheries            | 977<br>(201)                 | 0.21                      | 32<br>(6)                 | 0.19                      |
| Mining and quarrying                           | 407<br>(61)                  | 0.15                      | 8<br>(5)                  | 0.63                      |
| Manufacturing                                  | 79,558<br>(19,011)           | 0.24                      | 2,008<br>(633)            | 0.32                      |
| Water, electricity and gas                     | 288<br>(131)                 | 0.46                      | 35<br>(7)                 | 0.20                      |
| Construction                                   | 34,835<br>(11,339)           | 0.33                      | 1,220<br>(481)            | 0.39                      |
| Commerce                                       | 138,162<br>(62,017)          | 0.45                      | 7,440<br>(1,500)          | 0.20                      |
| Transportation, warehousing and communications | 8,102<br>(2,384)             | 0.29                      | 556<br>(90)               | 0.16                      |
| Finance, insurance and real estate             | 7,916<br>(4,587)             | 0.58                      | 1,354<br>(543)            | 0.40                      |
| Business services                              | 16,914<br>(8,224)            | 0.49                      | 497<br>(124)              | 0.25                      |
| Social and personal services                   | 10,953<br>(4,549)            | 0.42                      | 409<br>(125)              | 0.31                      |
| <b>Total</b>                                   | <b>298,112<br/>(112,504)</b> | <b>0.38</b>               | <b>13,859<br/>(3,514)</b> | <b>0.25</b>               |

Note: Figures in parentheses represent the number of enterprises failing to make a profit.

Source: Ministry of Finance Tax Data Center's business income tax data.

## 1. Overall Financial Analysis by Industry

Considerable disparities are apparent between the financial structures of the different industries (Table 3-2-2a, Table 3-2-2b and Table 3-2-2c). These are summarized below:

### **(1) The Highest Ratio of Current Assets is Found in the Construction Industry, with the Social and Personal Services Industry Having the Lowest Ratio**

As in 2001, the construction industry had the highest ratio of current assets (current assets as a percentage of total assets), at 83.68%. Current assets account for the vast majority of building firms' assets, with inventory being a particularly significant item. Inventory is converted into cash, and if the enterprise feels that a reasonable return can be made it will continue to pour in cash to increase inventory. As shown in Table 3-2-2a, inventory accounts for nearly 50% of current assets in the construction industry. The main reason for this is the continuing slump in the real estate market, which has made it difficult for companies to get real estate products off their hands, leading to high inventory levels.

The lowest ratio of current assets is found in the social and personal services industry, where the ratio is only 27.01%, far lower than the average for Taiwanese industry as a whole. The reason is the nature of the social and personal services industry, in which enterprises mainly provide services, and where payment is normally made in cash, leading to a low level of accounts receivable. Services can be converted to cash immediately, with no need to accumulate inventory.



**Table 3-2-2a SMEs' Consolidated Financial Data for Individual Industries in 2002**

Unit: %

| Item \ Industry                               | Agriculture, Forestry and Fisheries | Mining and Quarrying | Manufacturing | Water, Electricity and Gas | Construction  | Commerce      | Transportation and Warehousing and Communication | Finance, Insurance and Real Estate | Business Services | Social and Personal Services |
|---|-------------------------------------|----------------------|---------------|----------------------------|---------------|---------------|--|------------------------------------|-------------------|------------------------------|
| <b>Current Assets</b>                         | 49.60                               | 43.52                | 60.18         | 37.43                      | 83.68         | 68.61         | 54.38  | 30.54                              | 46.14             | 27.01                        |
| Cash  | 13.18                               | 12.22                | 12.96         | 13.90                      | 15.19         | 17.01         | 21.86  | 11.50                              | 25.01             | 9.71                         |
| Accounts Receivable                           | 10.22                               | 17.52                | 21.72         | 10.17                      | 23.30         | 18.58         | 20.46  | 3.90                               | 11.74             | 6.92                         |
| Inventory                                     | 11.63                               | 10.06                | 22.74         | 9.70                       | 41.35         | 29.02         | 4.31   | 12.32                              | 5.18              | 6.01                         |
| Advance Payments                              | 11.43                               | 2.24                 | 1.44          | 0.99                       | 1.65          | 1.90          | 5.05   | 1.01                               | 1.94              | 2.17                         |
| Other Current Assets                          | 3.14                                | 1.48                 | 1.33          | 2.68                       | 2.18          | 2.11          | 2.70   | 1.81                               | 2.26              | 2.19                         |
| <b>Funds and Long-term Investments</b>        | 3.54                                | 1.17                 | 1.44          | 9.56                       | 1.28          | 7.32          | 4.63   | 42.60                              | 26.41             | 3.48                         |
| <b>Fixed Assets</b>                           | 42.52                               | 50.13                | 36.51         | 50.48                      | 11.84         | 20.84         | 35.89  | 21.97                              | 21.08             | 65.53                        |
| Land and Buildings                            | 12.13                               | 15.91                | 18.94         | 28.46                      | 5.08          | 13.18         | 12.25  | 17.98                              | 10.57             | 45.78                        |
| Machinery                                     | 24.95                               | 31.05                | 15.28         | 13.14                      | 6.20          | 6.43          | 21.93  | 1.88                               | 7.43              | 12.79                        |
| Other Fixed Assets                            | 5.44                                | 3.16                 | 2.29          | 8.89                       | 0.56          | 1.23          | 1.71   | 2.11                               | 3.08              | 6.97                         |
| <b>Intangible and Other Assets</b>            | 4.34                                | 5.18                 | 1.88          | 2.53                       | 3.20          | 3.22          | 5.11   | 4.89                               | 6.37              | 3.98                         |
| <b>Total Assets = Liabilities + Net Worth</b> | <b>100.00</b>                       | <b>100.00</b>        | <b>100.00</b> | <b>100.00</b>              | <b>100.00</b> | <b>100.00</b> | <b>100.00</b>                                    | <b>100.00</b>                      | <b>100.00</b>     | <b>100.00</b>                |
| <b>Liabilities</b>                            | 63.80                               | 60.58                | 68.36         | 62.29                      | 74.22         | 69.39         | 42.01  | 58.22                              | 64.44             | 75.69                        |
| <b>Current Liabilities</b>                    | 54.24                               | 50.78                | 61.88         | 47.50                      | 71.85         | 64.19         | 36.42  | 46.15                              | 59.72             | 54.64                        |
| Short-term Loans Repayable                    | 15.55                               | 13.02                | 18.50         | 9.68                       | 10.16         | 14.93         | 8.82   | 19.57                              | 31.99             | 12.76                        |
| Accounts Payable                              | 12.74                               | 13.65                | 19.50         | 17.70                      | 15.73         | 18.46         | 10.68  | 5.72                               | 11.74             | 11.68                        |
| Income Received in Advance                    | 1.03                                | 0.70                 | 1.43          | 0.91                       | 32.78         | 1.69          | 2.36   | 1.32                               | 3.47              | 3.21                         |
| Other Current Liabilities                     | 24.92                               | 23.41                | 22.45         | 19.20                      | 13.18         | 29.11         | 14.56  | 19.54                              | 12.52             | 26.99                        |
| <b>Long-term Liabilities</b>                  | 6.23                                | 7.68                 | 5.05          | 14.34                      | 1.30          | 3.73          | 2.90   | 8.80                               | 2.64              | 14.07                        |
| Long-term loans Repayable                     | 5.64                                | 4.36                 | 4.50          | 13.80                      | 1.15          | 3.35          | 2.70   | 6.92                               | 2.19              | 12.71                        |
| Other Long-term Liabilities                   | 0.59                                | 3.33                 | 0.55          | 0.54                       | 0.15          | 0.38          | 0.20   | 1.88                               | 0.44              | 1.36                         |
| <b>Other Liabilities</b>                      | 3.33                                | 2.11                 | 1.43          | 0.46                       | 1.08          | 1.46          | 2.69   | 3.27                               | 2.09              | 6.98                         |
| <b>Net Worth</b>                              | 36.20                               | 39.42                | 31.64         | 37.71                      | 25.78         | 30.62         | 57.99  | 41.78                              | 35.56             | 24.31                        |
| Stockholder's Equity                          | 42.33                               | 38.14                | 31.08         | 48.43                      | 32.23         | 46.04         | 70.80  | 46.42                              | 53.42             | 44.89                        |
| Reserves and Operating Surplus                | -6.14                               | 1.29                 | 0.56          | -10.72                     | -6.45         | -15.43        | -12.81   | -4.64                              | -17.86            | -20.57                       |

Source: Ministry of Finance Tax Data Center's business income tax data.

**Table 3-2-2b Large Enterprises' Consolidated Financial Data for Individual Industries in 2002**

Unit: %

| Industry<br>Item                              | Agriculture,<br>Forestry<br>and<br>Fisheries | Mining<br>and<br>Quarrying | Manu-<br>facturing | Water,<br>Electricity<br>and Gas | Con-<br>struction | Com-<br>merce | Transportation<br>Warehousing<br>and Commu-<br>nication | Finance,<br>Insurance<br>and Real<br>Estate | Business<br>Services | Social<br>and<br>Personal<br>Services |
|---|--|----------------------------|--------------------|----------------------------------|-------------------|---------------|---|---|----------------------|---------------------------------------|
| <b>Current Assets</b>                         | 57.86  | 61.58                      | 36.03              | 18.07                            | 79.15             | 66.23         | 32.68   | 70.08                                       | 47.02                | 23.46                                 |
| Cash  | 27.10  | 7.75                       | 9.22               | 8.39                             | 9.42              | 13.06         | 16.74   | 32.20                                       | 14.29                | 9.50                                  |
| Accounts Receivable                           | 6.62   | 46.49                      | 13.24              | 5.44                             | 13.56             | 31.67         | 12.11   | 33.46                                       | 19.64                | 6.84                                  |
| Inventory                                     | 9.91   | 4.82                       | 10.83              | 2.71                             | 50.69             | 17.12         | 0.52  | 1.47  | 9.83                 | 2.67                                  |
| Advance Payments                              | 11.82  | 0.41                       | 1.05               | 0.51                             | 2.04              | 1.87          | 0.94  | 0.17  | 1.17                 | 1.55                                  |
| Other Current Assets                          | 2.40   | 2.11                       | 1.69               | 1.03                             | 3.44              | 2.50          | 2.37  | 2.78  | 2.10                 | 2.89                                  |
| <b>Funds and Long-term Investments</b>        | 12.92  | 19.59                      | 10.72              | 8.27                             | 4.94              | 6.20          | 29.85   | 23.11                                       | 19.19                | 8.31                                  |
| <b>Fixed Assets</b>                           | 18.71  | 16.70                      | 48.84              | 67.28                            | 10.43             | 23.71         | 33.20   | 2.93  | 30.27                | 61.01                                 |
| Land and Buildings                            | 10.19  | 13.34                      | 17.63              | 9.03                             | 6.81              | 17.37         | 15.60   | 2.50  | 12.18                | 39.47                                 |
| Machinery                                     | 6.88   | 2.37                       | 29.23              | 52.92                            | 3.21              | 3.61          | 14.65   | 0.24  | 9.61                 | 11.98                                 |
| Other Fixed Assets                            | 1.64   | 0.99                       | 1.98               | 5.33                             | 0.41              | 2.73          | 2.95  | 0.19  | 8.48                 | 9.57                                  |
| <b>Intangible and Other Assets</b>            | 10.51  | 2.13                       | 4.41               | 6.38                             | 5.48              | 3.87          | 4.28  | 3.88  | 3.53                 | 7.22                                  |
| <b>Total Assets = Liabilities + Net Worth</b> | <b>100.00</b>                                | <b>100.00</b>              | <b>100.00</b>      | <b>100.00</b>                    | <b>100.00</b>     | <b>100.00</b> | <b>100.00</b>   | <b>100.00</b>                               | <b>100.00</b>        | <b>100.00</b>                         |
| <b>Liabilities</b>                            | 40.56  | 68.67                      | 54.16              | 59.72                            | 77.34             | 72.72         | 43.18   | 87.69                                       | 67.55                | 64.67                                 |
| <b>Current Liabilities</b>                    | 37.71  | 63.76                      | 32.34              | 11.12                            | 73.93             | 63.76         | 22.36   | 68.02                                       | 46.84                | 35.75                                 |
| Short-term Loans Repayable                    | 16.27  | 57.07                      | 15.19              | 3.69                             | 10.70             | 20.46         | 9.02  | 53.71                                       | 13.03                | 13.04                                 |
| Accounts Payable                              | 8.09   | 2.84                       | 12.10              | 5.67                             | 13.78             | 31.47         | 10.41   | 10.46                                       | 18.25                | 10.61                                 |
| Income Received in Advance                    | 9.79   | 0.19                       | 1.38               | 1.20                             | 45.45             | 1.85          | 0.53  | 0.30  | 11.67                | 7.08                                  |
| Other Current Liabilities                     | 3.56   | 3.66                       | 3.67               | 0.55                             | 4.00              | 9.98          | 2.40  | 3.55  | 3.90                 | 5.02                                  |
| <b>Long-term Liabilities</b>                  | 1.21   | 4.19                       | 18.95              | 43.27                            | 2.23              | 6.88          | 11.08   | 12.84                                       | 14.97                | 18.71                                 |
| Long-term Loans Repayable                     | 1.15   | 4.19                       | 15.04              | 4.71                             | 2.18              | 6.20          | 8.06  | 1.65  | 11.53                | 15.82                                 |
| Other Long-term Liabilities                   | 0.06   | 0.00                       | 3.91               | 38.55                            | 0.04              | 0.68          | 3.02  | 11.19                                       | 3.44                 | 2.90                                  |
| <b>Other Liabilities</b>                      | 1.64   | 0.71                       | 2.88               | 5.34                             | 1.18              | 2.09          | 9.74  | 6.84  | 5.73                 | 10.20                                 |
| <b>Net Worth</b>                              | 59.44  | 31.33                      | 45.84              | 40.28                            | 22.67             | 27.28         | 56.82   | 12.31                                       | 32.45                | 35.33                                 |
| Stockholder's Equity                          | 48.72  | 24.58                      | 33.48              | 33.03                            | 25.90             | 22.83         | 48.68   | 8.41  | 26.58                | 29.35                                 |
| Reserves and Operating Surplus                | 10.72  | 6.76                       | 12.36              | 7.25                             | -3.23             | 4.45          | 8.14  | 3.90  | 5.87                 | 5.98                                  |

Source: Ministry of Finance Tax Data Center's business income tax data.

**Table 3-2-2c SMEs' Consolidated Financial Data for Individual Industries – Increase or Decrease in 2002 Compared to 2001**

Unit: %

| Industry<br>Item                              | Agriculture,<br>Forestry<br>and<br>Fisheries | Mining<br>and<br>Quarrying | Manu-<br>facturing | Water,<br>Electricity<br>and Gas | Con-<br>struction | Com-<br>merce | Transportation<br>Warehousing<br>and Commu-<br>nication | Finance,<br>Insurance<br>and Real<br>Estate | Business<br>Services | Social<br>and<br>Personal<br>Services |
|---|--|----------------------------|--------------------|----------------------------------|-------------------|---------------|---|---|----------------------|---------------------------------------|
| <b>Current Assets</b>                         | 2.56   | -3.76                      | 0.60               | -0.75                            | 1.60              | -0.94         | -0.30   | -9.68                                       | -7.96                | -2.79                                 |
| Cash  | -1.69  | -1.14                      | -0.01              | -6.66                            | -0.68             | -0.71         | -0.36   | -2.67                                       | 1.65                 | -1.33                                 |
| Accounts Receivable                           | 0.84   | -0.76                      | 0.89               | 2.38                             | -1.09             | -0.09         | 0.28  | 0.41  | -4.12                | -0.48                                 |
| Inventory                                     | 1.84   | 0.84                       | -0.30              | 2.19                             | 3.45              | -0.11         | 0.53  | -6.59                                       | -4.79                | -0.68                                 |
| Advance Payments                              | 1.02   | -2.84                      | 0.03               | 0.22                             | -0.33             | -0.17         | -0.56   | -0.38                                       | -0.04                | -0.11                                 |
| Other Current Assets                          | 0.54   | 0.13                       | 0                  | 1.12                             | 0.24              | 0.14          | -0.19   | -0.44                                       | -0.67                | -0.21                                 |
| <b>Funds and Long-term Investments</b>        | -3.99  | -0.15                      | 0.15               | 9.18                             | -0.38             | 0.50          | 0.31  | 11.25                                       | 6.29                 | -0.22                                 |
| <b>Fixed Assets</b>                           | 1.44   | 2.38                       | -0.77              | -9.24                            | -0.84             | -0.27         | -0.28   | -1.05                                       | 2.22                 | 4.40                                  |
| Land and Buildings                            | 0  | 4.45                       | 0.24               | 2.83                             | -0.19             | 0.51          | 1.40  | -1.59                                       | 1.49                 | 6.13                                  |
| Machinery                                     | 2.2  | -2.33                      | -0.96              | -6.82                            | -0.63             | -0.38         | -1.59   | 0.48  | 0.22                 | -2.09                                 |
| Other Fixed Assets                            | -0.77  | 0.25                       | -0.05              | -5.25                            | -0.02             | -0.39         | -0.09   | 0.05  | 0.52                 | 0.36                                  |
| <b>Intangible and Other Assets</b>            | -0.01  | 1.53                       | 0.03               | 0.81                             | -0.38             | 0.69          | 0.28  | -0.51                                       | -0.56                | -1.38                                 |
| <b>Total Assets = Liabilities + Net Worth</b> | 0  | 0                          | 0                  | 0                                | 0                 | 0             | 0   | 0   | 0                    | 0                                     |
| <b>Liabilities</b>                            | 7.95   | 1.70                       | 0.94               | 14.64                            | 2.89              | 1.93          | 0.29  | -6.25                                       | 7.44                 | -1.42                                 |
| <b>Current Liabilities</b>                    | 6.97   | -2.59                      | 0.71               | 12.69                            | 2.76              | 1.29          | 0.74  | -7.90                                       | 9.10                 | -2.08                                 |
| Short-term Loans Repayable                    | 0.53   | -4.87                      | -1.05              | -0.79                            | -0.51             | -0.18         | -0.73   | -4.71                                       | 24.07                | -1.42                                 |
| Accounts Payable                              | 3.86   | 2.51                       | 1.78               | 7.68                             | 0.60              | 1.14          | -0.77   | -0.81                                       | -7.83                | 0.05                                  |
| Income Received in Advance                    | 0.1  | 0.21                       | -0.13              | -0.35                            | 3.37              | -0.45         | 1.22  | -0.70                                       | -4.42                | 1.04                                  |
| Other Current Liabilities                     | 2.48   | -0.44                      | 0.11               | 6.14                             | -0.70             | 0.79          | 1.02  | -1.68                                       | -2.74                | -1.75                                 |
| <b>Long-term Liabilities</b>                  | 0.74   | 3.98                       | 0.10               | 2.19                             | -0.19             | 0.55          | -1.74   | 1.69  | -0.80                | -0.37                                 |
| Long-term Loans Repayable                     | 0.17   | 0.83                       | -0.04              | 2.91                             | -0.08             | 0.48          | -1.60   | 0.50  | -0.99                | -0.05                                 |
| Other Long-term Liabilities                   | 0.57   | 3.16                       | 0.14               | -0.71                            | -0.12             | 0.07          | -0.14   | 1.19  | 0.18                 | -0.32                                 |
| <b>Other Liabilities</b>                      | 0.25   | 0.30                       | 0.13               | -0.24                            | 0.34              | 0.07          | 1.29  | -0.04                                       | -0.85                | 1.03                                  |
| <b>Net Worth</b>                              | -7.95  | -1.71                      | -0.95              | -14.64                           | -2.89             | -1.92         | -0.29   | 6.25  | -7.44                | 1.42                                  |
| Stockholder's Equity                          | -5.61  | -2.89                      | -0.70              | -13.92                           | -1.92             | -0.41         | -0.28   | 2.38  | -5.32                | 0.02                                  |
| Reserves and Operating Surplus                | -2.35  | 1.20                       | -0.25              | -0.72                            | -0.97             | -1.53         | 0   | 3.87  | -2.12                | 1.41                                  |

Source: Ministry of Finance Tax Data Center's business income tax data.

**(2) The Highest Ratio of Fixed Assets to Total Assets is Found in the Social and Personal Services Industry; the Lowest in the Construction Industry**

The situation with the ratio of fixed assets to total assets is a mirror image of the situation with the ratio of current assets; the social and personal services industry has the highest fixed asset ratio, at 65.53%, while the construction industry has the lowest, at 11.84%.

**(3) In the Construction Industry and Social and Personal Services Industry the Ratio of Total Liabilities to Net Worth is Nearly 80%**

In most industries, the ratio of total liabilities to net worth has remained at around 50–60%. However, in the construction industry and social and personal services industry the ratio is 74.22% and 75.69% respectively. The construction industry has a higher current liability ratio than any other industry, at 71.85%. The construction industry's ratio of current assets to total assets is also very high, at 83.68%; these figures reflect the fact that the construction industry "relies on cash to create more cash." Although the ratio of current assets to total assets is significantly higher than the ratio of current liabilities to total assets, because the construction industry's liquid assets consist mainly of inventory, the level of short-term liquidity risk is relatively high. Income received in advance accounts for 30% of the construction industry's current assets; this situation reflects production needs, the sale of pre-sale housing products, and advance payments for construction work. With advance payments, there is usually a contractual requirement that the work be completed on schedule; if progress is not monitored properly, there is a risk of incurring high breach of contract

penalties.

The second highest ratio of total liabilities to net worth is found in the commercial sector, where the ratio is 64.19%. The ratio of current assets to total assets in the commercial sector is 68.61%, so the situation here is similar to that in the construction industry; however, the transaction types used in the commercial sector are different, leading to a very low level of income received in advance. In the social and personal services industry the ratio of current liabilities to net worth is 54.64%, but the ratio of current assets to total assets is 27.01%. Clearly, there is an excessive reliance on short-term borrowing in the social and personal services industry; companies in this sector need to pay more attention to working capital management and receipts and expenses in order to keep credit risk to a minimum.

#### **(4) Negative Operating Surplus and Reserves in Most Industries**

With 37.74% of all enterprises failing to make a profit in 2000, all industries (with the exception of mining and quarrying and manufacturing) reported negative reserves and operating surplus. Five industries had accumulated loss in excess of 10%: social and personal services (-20.57%), business services (-17.86%), the commercial sector (-15.43%), finance, insurance and real estate (-12.81%), and water, electricity and gas (-10.72%).

#### **(5) A Reasonably High Level of Gross Operating Profit, But Poor Cost Control and Unsatisfactory Current Profit and Loss**

Looking at the profit and loss structure of Taiwan's SMEs in 2002 (Table 3-2-3), it can be seen that, of the 10 industry categories, only four – agriculture, forestry and fisheries, mining and quarrying, manufacturing and construction – made a profit; for all other industries current profit and loss was a negative value. Gross operating profit was around 20% for all industries. Only SMEs in the agriculture, forestry and fisheries sector had gross operating profits lower than large enterprises in the same industry; in all other industries the reverse was true. This situation reflects the tendency for SMEs to focus on niche markets. However, despite their impressive performance in terms of gross operating profit, SMEs' ability to keep operating expenses and costs under control is far inferior to that of large enterprises. After deducting operating expenses, only half of the industry categories achieved a positive value for net operating profit. Deducting non-operating expenses, there were only four industries in which SMEs as a whole made a profit.

While SMEs' gross operating profit is far higher than that of large enterprises, after deducting costs and expenses their current profit and loss performance is significantly worse than that of large enterprises. This probably reflects the fact that SMEs' ability to control costs and non-operating expenses is inferior to that of large enterprises, but there may also be some deliberate reporting of extra expenditure on the part of SMEs in order to reduce their tax burden.

The industry whose SMEs made the biggest loss in 2002 was the finance, insurance and real estate industry. Its current profit and loss was -25.26%; while this was an improvement over the figure of -32.09% posted in 2001, it was still unimpressive. In the last few years, many banks and insurance

**Table 3-2-3 Profit and Loss Structure by Industry in 2002**

Unit: %

| Item \ Industry                        | Agriculture, Forestry and Fisheries | Mining and Quarrying | Manufacturing | Water, Electricity and Gas | Construction | Commerce     | Transportation, Warehousing and Communication | Finance, Insurance and Real Estate | Business Services | Social and Personal Services |
|--|-------------------------------------|----------------------|---------------|----------------------------|--------------|--------------|---|------------------------------------|-------------------|------------------------------|
| <b>SMEs</b>                            |                                     |                      |               |                            |              |              |   |                                    |                   |                              |
| Net Operating Income                   | 100.0                               | 100.0                | 100.0         | 100.0                      | 100.0        | 100.0        | 100.0   | 100.0                              | 100.0             | 100.0                        |
| Minus: Operating Costs                 | 85.78                               | 76.93                | 83.76         | 77.22                      | 86.24        | 80.09        | 65.72   | 86.23                              | 51.93             | 57.17                        |
| Gross Operating Profit                 | 14.22                               | 23.07                | 16.24         | 22.78                      | 13.76        | 19.91        | 34.28   | 13.77                              | 48.07             | 42.84                        |
| Minus: Operating Expenses              | 12.63                               | 18.97                | 13.48         | 24.65                      | 12.45        | 21.97        | 33.71   | 28.34                              | 56.33             | 49.56                        |
| Net Operating Profit                   | 1.59                                | 4.11                 | 2.76          | -1.87                      | 1.31         | -2.06        | 0.56  | -14.57                             | -8.25             | -6.73                        |
| Plus: Non-operating Income             | 2.47                                | 0.97                 | 1.37          | 2.43                       | 0.60         | 1.67         | 1.52  | 8.32                               | 3.35              | 2.89                         |
| Minus: Interest Expenditure            | 1.21                                | 0.92                 | 0.76          | 0.75                       | 0.52         | 0.62         | 1.44  | 9.24                               | 1.98              | 1.34                         |
| Minus: Other Non-operating Expenditure | 1.88                                | 0.77                 | 1.22          | 1.37                       | 0.45         | 0.61         | 0.79  | 9.77                               | 1.06              | 2.89                         |
| <b>Current Profit and Loss</b>         | <b>0.97</b>                         | <b>3.39</b>          | <b>2.15</b>   | <b>-1.55</b>               | <b>0.95</b>  | <b>-1.62</b> | <b>-0.14</b>                                  | <b>-25.26</b>                      | <b>-7.95</b>      | <b>-8.08</b>                 |
| <b>Large Enterprises</b>               |                                     |                      |               |                            |              |              |   |                                    |                   |                              |
| Net Operating Income                   | 100.0                               | 100.0                | 100.0         | 100.0                      | 100.0        | 100.0        | 100.0   | 100.0                              | 100.0             | 100.0                        |
| Minus: Operating Costs                 | 79.24                               | 81.94                | 84.43         | 77.85                      | 94.79        | 86.09        | 82.11   | 97.97                              | 76.81             | 60.12                        |
| Gross Operating Profit                 | 20.76                               | 18.06                | 15.57         | 22.15                      | 5.21         | 13.91        | 17.89   | 2.03                               | 23.19             | 39.88                        |
| Minus: Operating Expenses              | 10.61                               | 22.57                | 9.42          | 9.47                       | 4.78         | 12.38        | 16.07   | 2.38                               | 20.76             | 34.69                        |
| Net Operating Profit                   | 10.15                               | -4.50                | 6.15          | 12.67                      | 0.43         | 1.53         | 1.82  | -0.35                              | 2.43              | 5.19                         |
| Plus: Non-operating Income             | 3.03                                | 2.95                 | 2.32          | 2.35                       | 1.60         | 1.25         | 2.97  | 0.32                               | 1.64              | 5.37                         |
| Minus: Interest Expenditure            | 2.55                                | 10.97                | 1.71          | 3.04                       | 1.27         | 0.58         | 0.80  | 0.21                               | 1.36              | 1.76                         |
| Minus: Other Non-operating Expenditure | 2.06                                | 5.91                 | 1.88          | 4.66                       | 1.06         | 0.67         | 1.58  | 0.10                               | 1.25              | 3.51                         |
| <b>Current Profit and Loss</b>         | <b>8.57</b>                         | <b>-18.43</b>        | <b>4.89</b>   | <b>7.33</b>                | <b>-0.29</b> | <b>1.54</b>  | <b>2.42</b>                                   | <b>-0.33</b>                       | <b>1.47</b>       | <b>5.28</b>                  |

Source: Ministry of Finance Tax Data Center's business income tax data.

companies have been making a loss because of the high levels of non-performing loans that banks are encumbered with and the need for the insurance companies to conform to new regulatory requirements. The data in the table show that SMEs in this industry are inferior to large enterprises when it comes to cost control. Although large enterprises in the finance, insurance and real estate industry have an operating cost ratio of 97.97%, effective control of costs and expenses enabled them to achieve a pre-tax profit and loss performance of -0.33%. There is clearly considerable room for improvement in cost control among SMEs in this industry.

## 2. Financial Ratios by Industry

The indicators used in this section are the same as in Section I, but they have been recalculated to give financial ratios for each individual industry so as to examine the changes in the financial status of the enterprises in these industries (Tables 3-2-4 and 3-2-5).

### **(1) A Worsening in the Short-term Repayment Ability of SMEs in All Industries in 2002, with the Water, Electricity and Gas Industry and the Business Services Industry being Particularly Serious**

With no sign of the global economy starting to pick up again, short-term repayment ability worsened in most industries. As can be seen from Table 3-2-4, there were seven industries that had current ratios lower than 100%. Regarding the quick ratio, only the transportation, warehousing and communications industry had a quick ratio higher than 100% (137.44%). For all other industries the quick ratio was under 70%, indicating a



**Table 3-2-4 Financial Ratios for Individual Industries in 2002**

| Industry<br>Item                           | Unit: %                                      |                            |                    |                                  |                   |               |  |   |                      |                                       |
|--|--|----------------------------|--------------------|----------------------------------|-------------------|---------------|--|---|----------------------|---------------------------------------|
|  | Agriculture,<br>Forestry<br>and<br>Fisheries | Mining<br>and<br>Quarrying | Manu-<br>facturing | Water,<br>Electricity<br>and Gas | Con-<br>struction | Com-<br>merce | Transportation,<br>Warehousing<br>and Commu-<br>nication | Finance,<br>Insurance<br>and Real<br>Estate | Business<br>Services | Social<br>and<br>Personal<br>Services |
| <b>SMEs</b>                                |  |                            |                    |                                  |                   |               |  |   |                      |                                       |
| Current Ratio                              | 91.50  | 85.70                      | 97.30              | 78.07                            | 116.51            | 106.82        | 149.28   | 66.04                                       | 77.18                | 49.41                                 |
| Quick Ratio                                | 70.04  | 65.89                      | 60.54              | 57.84                            | 58.93             | 61.65         | 137.44   | 39.40                                       | 68.52                | 38.41                                 |
| Inventory Ratio                            | 21.45  | 19.81                      | 36.76              | 20.23                            | 57.57             | 45.18         | 11.84  | 26.65                                       | 8.67                 | 11.00                                 |
| Ratio of Total Liabilities<br>to Net Worth | 176.26                                       | 153.65                     | 216.10             | 165.18                           | 287.93            | 226.64        | 72.44  | 139.36                                      | 181.22               | 311.31                                |
| Long-term Funds Ratio                      | 99.74  | 93.98                      | 100.44             | 104.09                           | 228.61            | 164.90        | 169.75   | 230.56                                      | 181.41               | 58.59                                 |
| Net Worth Turnover                         | 2.01   | 3.21                       | 4.83               | 1.52                             | 4.17              | 3.93          | 1.35   | 0.24  | 1.12                 | 1.73                                  |
| Receivables Turnover                       | 7.12   | 7.22                       | 7.04               | 5.70                             | 4.61              | 6.48          | 3.82   | 2.58  | 3.40                 | 6.07                                  |
| Fixed Assets Turnover                      | 1.71   | 2.52                       | 4.19               | 1.15                             | 9.07              | 5.78          | 2.18   | 0.46  | 1.90                 | 0.64                                  |
| Merchandise Turnover                       | 6.25   | 12.57                      | 6.72               | 5.98                             | 2.60              | 4.15          | 18.14  | 0.82  | 7.71                 | 6.99                                  |
| Operating Profit Ratio                     | 0.97   | 3.39                       | 2.15               | -1.55                            | 0.95              | -1.62         | -0.14  | -25.26                                      | -7.95                | -8.08                                 |
| Return on Gross Assets                     | 1.66   | 8.54                       | 9.00               | -1.79                            | 8.61              | -9.35         | -0.30  | -11.57                                      | -15.07               | -5.18                                 |
| Return on Fixed Assets                     | 0.71   | 4.28                       | 3.29               | -0.89                            | 1.02              | -1.95         | -0.11  | -2.54                                       | -3.17                | -3.39                                 |
| Return on Capital                          | 1.67   | 11.23                      | 10.57              | -1.84                            | 3.16              | -4.23         | -0.15  | -5.47                                       | -5.94                | -7.56                                 |
| Return on Net Worth                        | 1.95   | 10.86                      | 10.39              | -2.37                            | 3.95              | -6.36         | -0.19  | -6.08                                       | -8.92                | -13.95                                |
| <b>Large Enterprises</b>                   |  |                            |                    |                                  |                   |               |  |   |                      |                                       |
| Current Ratio                              | 153.44                                       | 96.58                      | 111.40             | 162.56                           | 106.98            | 103.87        | 146.16   | 103.03                                      | 100.41               | 65.61                                 |
| Quick Ratio                                | 127.17                                       | 89.02                      | 77.91              | 138.21                           | 38.47             | 77.01         | 143.84   | 100.87                                      | 79.42                | 58.13                                 |
| Inventory Ratio                            | 26.28  | 7.56                       | 33.50              | 24.35                            | 68.51             | 26.85         | 2.32   | 2.16  | 20.99                | 7.48                                  |
| Ratio of Total Liabilities<br>to Net Worth | 68.22  | 219.13                     | 118.15             | 148.29                           | 341.21            | 266.61        | 75.98  | 712.58                                      | 208.13               | 183.03                                |
| Long-term Funds Ratio                      | 324.16                                       | 212.70                     | 132.68             | 124.18                           | 238.73            | 144.10        | 204.53   | 857.07                                      | 156.64               | 88.58                                 |
| Net Worth Turnover                         | 0.93   | 0.39                       | 1.58               | 1.37                             | 2.43              | 7.41          | 1.12   | 9.02  | 2.97                 | 1.28                                  |
| Receivables Turnover                       | 8.32   | 0.26                       | 5.46               | 10.17                            | 4.06              | 6.38          | 5.24   | 3.32  | 4.90                 | 6.62                                  |
| Fixed Assets Turnover                      | 2.95   | 0.72                       | 1.48               | 0.82                             | 5.28              | 8.52          | 1.91   | 37.84                                       | 3.18                 | 0.74                                  |
| Merchandise Turnover                       | 5.56   | 2.50                       | 6.67               | 20.43                            | 1.09              | 11.80         | 122.53   | 75.56                                       | 9.80                 | 16.95                                 |
| Operating Profit Ratio                     | 8.57   | -18.43                     | 4.89               | 7.33                             | -0.29             | 1.54          | 2.41   | -0.33                                       | 1.47                 | 5.28                                  |
| Return on Gross Assets                     | 25.25  | -13.31                     | 7.23               | 6.02                             | -1.53             | 13.14         | 4.61   | -12.46                                      | 4.66                 | 3.92                                  |
| Return on Fixed Assets                     | 4.73   | -2.22                      | 3.53               | 4.05                             | -0.16             | 3.12          | 1.53   | -0.37                                       | 1.41                 | 2.39                                  |
| Return on Capital                          | 9.70   | -9.05                      | 10.55              | 12.26                            | -0.62             | 13.64         | 3.15   | -4.35                                       | 5.31                 | 8.16                                  |
| Return on Net Worth                        | 7.95   | -7.10                      | 7.70               | 10.06                            | -0.71             | 11.42         | 2.70   | -2.97                                       | 4.35                 | 6.78                                  |

Source: Ministry of Finance Tax Data Center's business income tax data.

**Table 3-2-5 Financial Ratios for Individual Industries – Increase or Decrease in 2002 Compared to 2001**

|   |          | Unit: %                             |                      |               |                            |              |          |  |                                    |                   |                              |
|---|----------|-------------------------------------|----------------------|---------------|----------------------------|--------------|----------|--|------------------------------------|-------------------|------------------------------|
| Item                                    | Industry | Agriculture, Forestry and Fisheries | Mining and Quarrying | Manufacturing | Water, Electricity and Gas | Construction | Commerce | Transportation Warehousing and Communication | Finance, Insurance and Real Estate | Business Services | Social and Personal Services |
|   |          | <b>SMEs</b>                         |                      |               |                            |              |          |  |                                    |                   |                              |
| Current Ratio                           |          | -8.01                               | -2.74                | -0.10         | -31.93                     | -2.24        | -3.82    | -4.15  | -8.33                              | -29.65            | -3.13                        |
| Quick Ratio                             |          | -8.77                               | -5.28                | 0.81          | -30.53                     | -4.98        | -2.65    | -5.38  | 0.01                               | -18.61            | -2.34                        |
| Inventory Ratio                         |          | 0.75                                | 2.54                 | -0.90         | -1.39                      | 2.74         | -1.15    | 1.23   | -8.33                              | -11.02            | -0.79                        |
| Ratio of Total Liabilities to Net Worth |          | 49.77                               | 10.49                | 9.21          | 74.17                      | 39.15        | 19.36    | 0.85   | -42.10                             | 48.65             | -25.56                       |
| Long-term Funds Ratio                   |          | -21.11                              | -0.03                | -0.25         | -3.60                      | -9.44        | -4.26    | -3.96  | 45.24                              | -64.93            | -2.49                        |
| Net Worth Turnover                      |          | 0.40                                | 0.33                 | 0.11          | 0.52                       | 0.24         | 0.26     | 0.02   | -0.08                              | 0.21              | -0.36                        |
| Receivables Turnover                    |          | -0.48                               | 0.74                 | -0.34         | -0.99                      | -0.01        | 0.09     | -0.01  | -0.72                              | 0.93              | -0.39                        |
| Fixed Assets Turnover                   |          | -0.03                               | 0.04                 | 0.07          | 0.28                       | 0.19         | 0.13     | 0.04   | -0.04                              | -0.17             | -0.14                        |
| Merchandise Turnover                    |          | -1.03                               | -0.26                | 0.05          | -0.96                      | -0.37        | 0.06     | -2.29  | 0.21                               | 3.79              | -0.16                        |
| Operating Profit Ratio                  |          | 2.53                                | 1.30                 | -0.22         | 2.12                       | 0.15         | 0.28     | 0.34   | 6.83                               | 7.11              | 0.72                         |
| Return on Gross Assets                  |          | 4.36                                | 3.37                 | -0.79         | 1.41                       | 1.53         | 1.37     | 0.72   | 4.49                               | 16.16             | 1.70                         |
| Return on Fixed Assets                  |          | 1.82                                | 1.81                 | -0.36         | 1.03                       | 0.12         | 0.31     | 0.26   | 1.16                               | 2.72              | 0.81                         |
| Return on Capital                       |          | 3.99                                | 5.22                 | -0.92         | 1.23                       | 0.53         | 0.64     | 0.37   | 2.92                               | 4.08              | 1.81                         |
| Return on net worth                     |          | 4.46                                | 4.87                 | -0.81         | 1.29                       | 0.82         | 0.60     | 0.44   | 4.32                               | 4.77              | 4.41                         |
| <b>Large Enterprises</b>                |          |                                     |                      |               |                            |              |          |  |                                    |                   |                              |
| Current Ratio                           |          | 71.25                               | -183.54              | -0.87         | 26.84                      | -8.35        | 1.12     | -8.26  | -1.24                              | -12.95            | 13.25                        |
| Quick Ratio                             |          | 58.40                               | -88.63               | -2.48         | 14.71                      | -8.89        | 1.06     | -4.83  | 11.22                              | -22.46            | 10.79                        |
| Inventory Ratio                         |          | 12.85                               | -94.91               | 1.62          | 12.13                      | 0.54         | 0.05     | -3.42  | -12.45                             | 9.50              | 2.46                         |
| Ratio of Total Liabilities to Net Worth |          | -59.96                              | 196.24               | 8.70          | 30.86                      | 95.79        | 16.01    | 18.86  | 58.84                              | 22.53             | 3.23                         |
| Long-term Funds Ratio                   |          | 196.55                              | -18.66               | -11.44        | 2.62                       | -77.94       | 4.98     | -23.55                                       | -168.63                            | -32.41            | 2.71                         |
| Net Worth Turnover                      |          | -0.97                               | -0.05                | -0.18         | 0.67                       | 0.70         | 0.81     | -3.08  | 1.85                               | 0.37              | 0                            |
| Receivables Turnover                    |          | -1.41                               | -4.44                | -0.15         | 6.00                       | 0.83         | -0.07    | -34.46                                       | -0.56                              | 1.13              | 0.44                         |
| Fixed Assets Turnover                   |          | 0.65                                | -0.21                | -0.46         | 0.31                       | 0.31         | 1.47     | -6.29  | 9.82                               | -0.02             | -0.01                        |
| Merchandise Turnover                    |          | -7.35                               | -1.12                | -0.95         | 2.27                       | -0.02        | 0.17     | -87.79                                       | 65.02                              | -9.54             | -8.44                        |
| Operating Profit Ratio                  |          | -1.85                               | -3.47                | 2.83          | -4.88                      | -0.65        | 0.42     | 1.82   | -0.69                              | -1.35             | 5.79                         |
| Return on Gross Assets                  |          | 1.34                                | 0.52                 | 3.23          | -0.19                      | -3.30        | 5.23     | -0.26  | -22.58                             | -4.36             | 4.30                         |
| Return on Fixed Assets                  |          | -3.94                               | 3.12                 | 1.80          | 0.12                       | -0.34        | 1.01     | -0.06  | -0.71                              | -1.16             | 2.62                         |
| Return on Capital                       |          | -15.77                              | -1.92                | 5.67          | 2.04                       | -1.25        | 4.73     | 0.29   | -8.62                              | -4.71             | 8.91                         |
| Return on net worth                     |          | -11.84                              | -0.54                | 4.08          | 1.52                       | -1.32        | 4.02     | 0.21   | -5.56                              | -2.98             | 7.43                         |

Source: Ministry of Finance Tax Data Center's business income tax data.

very low ability to convert assets into cash to meet repayment needs. As shown in Table 3-2-5, the situation is particularly serious in the water, electricity and gas industries and the business services industry. In 2002, both of these industries experienced negative growth in their current ratio and quick ratio; their current ratios fell by 31.93 percentage points and 29.65 percentage points respectively, while their quick ratios fell by 30.53 percentage points and 18.61 percentage points. There was thus a significant deterioration in short-term repayment ability. The short-term repayment ability of the finance, insurance and real estate industry and the social and personal services industry was not impressive either. These two industries ranked lowest in terms of both current ratio and quick ratio, with quick ratios of just 39.40% and 38.41%, respectively.

## **(2) A Deterioration in the Long-term Repayment Ability of Eight Industries**

The ratio of total liabilities to net worth (also known as the “leverage ratio”) provides a measurement of a company’s long-term repayment ability and whether the company has an excessively high level of debt. As shown in Table 3-2-5, in 2002 the finance, insurance and real estate industries and the social and personal services industries were the only industries that did not experience a worsening in their long-term repayment ability. The water, electricity and gas industries, agriculture, forestry and fisheries industries, and commercial sector and construction industries all had leverage ratios that were at least 40 percentage points higher than in 2001. The data in Table 3-2-4 also shows that the transportation, warehousing and communications industries was the only industry whose SMEs had a leverage ratio lower than 100%,

indicating that it had sufficient capital to cover all of its liabilities. Every other industry had a leverage ratio higher than 100%, indicating an unsatisfactory long-term repayment ability and an excessively high level of debt.

### **(3) Little Change in Turnover Ratios for All Industries, with the Finance, Insurance and Real Estate Industries Displaying the Lowest Turnover Ratios**

As regards management capability and efficiency of asset utilization, broadly speaking 2002 saw little change compared to 2001. For all four turnover ratios, the finance, insurance and real estate industries had lower ratios than any other industry, with net worth turnover of 0.24, receivables turnover of 2.58, fixed assets turnover of 0.46 and inventory turnover of 0.82. As can be seen from Table 3-2-5, half of the industry categories saw their receivables turnover ratio and merchandise turnover ratio fall slightly in 2002. However, for most industries the net worth turnover ratio and fixed assets turnover ratio rose slightly, indicating that the downturn in the economy is starting to ease off, leading to a gradual improvement in asset utilization.

### **(4) Manufacturing Has Higher Profitability Than Any Other Industry, But Its Performance is Inferior to 2001**

In 2002, the profitability of SMEs in the manufacturing sector was superior to that of any other sector; however, profitability was slightly down on 2001. For all other industries, the profitability indicators showed an improvement on 2001. Current profit and loss was a negative value for six industries – water, electricity and gas, the commercial sector, transportation, warehousing and communications, finance, insurance and real

estate, business services, and social and personal services – but the loss these industries made was smaller than in 2001.

SMEs in the finance, insurance and real estate industries had an operating profit rate of -25.26% in 2002. This was markedly inferior to SMEs in other industries and to large enterprises in the finance, insurance and real estate industry. With the gap between deposit rates and lending rates narrowing, and with the Ministry of Finance insisting that banks get serious about tackling their non-performing loans, the weaker SMEs in this sector have experienced a dramatic worsening in their profitability.

### **III Financial Institutions and SME Financing**

Financing is the lifeblood of a business enterprise, and this is particularly true for SMEs, which tend to have inadequate capital. Smooth access to funding and the ability to manage working capital effectively are among the keys to success in an SME operation. With the rapid development of Taiwan's capital markets in the last few years, direct financing has become more important; as of the end of 2003 it accounted for 28.75% of all financing. Nevertheless, bank loans remain the most important source of financing for SMEs.

#### **1. Seven Leading Banks Provide a Particularly Large Amount of Financing to SMEs**

Taiwan Cooperative Bank has always been the main source of financing for SMEs; by the end of 2002 its outstanding loans to SMEs totaled NT\$536.7 billion (NT\$14.7 billion up on the end of 2001), giving it market share of 19.08%. Taiwan Business

Bank, one of the specialist SME banks, was in second place with NT\$341.8 billion in outstanding loans to SMEs; this gave it market share of 12.15%, but was NT\$3 billion lower than at the end of 2001. Chang Hwa Commercial Bank had outstanding loans to SMEs of NT\$338.8 billion, representing market share of 12.04%. Seven banks – Taiwan Cooperative Bank, Taiwan Business Bank, Chang Hwa Commercial Bank, First Commercial Bank, Hua Nan Commercial Bank, Land Bank of Taiwan and the Bank of Taiwan – accounted for a particularly high share of all bank financing to SMEs (Table 3-3-1).

**Table 3-3-1 The 10 Banks Providing the Largest Amount of Loans to SMEs, End of 2003**

Units: NT\$ millions ; %

| Bank                       | Outstanding Loans | Market Share | Loans to SMEs as Percentage of Total Loans |
|----------------------------|-------------------|--------------|--|
| Taiwan Cooperative Bank    | 536,737           | 19.08        | 43.93                                      |
| Taiwan Business Bank       | 341,765           | 12.15        | 49.87                                      |
| Chang Hwa Commercial Bank  | 338,809           | 12.04        | 43.90                                      |
| First Commercial Bank      | 248,575           | 8.84         | 31.99                                      |
| Hua Nan Commercial Bank    | 183,521           | 6.52         | 22.49                                      |
| Land Bank of Taiwan        | 104,214           | 3.70         | 8.29                                       |
| Bank of Taiwan             | 97,143            | 3.45         | 9.54                                       |
| Hsinchu International Bank | 77,381            | 2.75         | 33.39                                      |
| Tainan Business Bank       | 69,252            | 2.46         | 67.03                                      |
| Chiao Tung Bank            | 65,287            | 2.32         | 17.06                                      |
| <b>Total</b>               | <b>2,062,684</b>  | <b>73.71</b> |  |

Source: Bureau of Monetary Affairs, Ministry of Finance, *Summary of Financial Statistics*, February 2004.

These seven banks had NT\$217,880 million worth of non-performing loans on their books in 2002, falling to NT\$114,727 million in 2003. The non-performing loan totals for individual banks in 2003 were: Bank of Taiwan, NT\$7,296 million; Land Bank of Taiwan, NT\$19,035 million; Taiwan Cooperative Bank, NT\$18,346 million; First Commercial Bank, NT\$39,538 million; Hua Nan Commercial Bank, NT\$9,302 million; Chang Hwa Commercial Bank, NT\$17,306 million; Taiwan Business Bank, NT\$3,844 million. Despite the efforts that these seven banks have been making to write off non-performing loans, total outstanding loans to SMEs actually increased by NT\$16.2 billion in 2003, rising from NT\$1,834.6 billion at the end of 2002 to NT\$1,850.8 billion at the end of 2003.

## **2. A High Level of Market Concentration in the Provision of Loans to SMEs by Regular Banks**

As of the end of 2003 there were 50 domestic banks (including 45 regular banks and 5 specialist SME banks) and 36 foreign banks operating in Taiwan. The total value of all outstanding bank loans to SMEs was NT\$2.81 trillion, NT\$7.8 billion down on the end of 2002. The 10 banks providing the largest amount of loans to SMEs had a combined market share of 73.31% (Table 3-3-1); this represents a very high level of concentration. The combined value of outstanding loans to SMEs by all foreign banks was NT\$16.7 billion, giving the foreign banks market share of just 0.59%, roughly unchanged from 2002.

In the last two years, although the Shanghai Commercial & Savings Bank has dropped out of the list and been replaced by Chiao Tung Bank, the other nine members of the top 10

banks providing the largest amount of loans to SMEs are unchanged. The biggest changes in the share of total financing going to SMEs were found at Chang Hwa Commercial Bank, where the share of loans going to SMEs fell by 3.36 percentage points (7.1%), and at Hsinchu International Bank, where the percentage rose by 2.32 percentage points (7.5%). For the other eight banks, the share of all loans going to SMEs changed only very slightly.

### **3. Specialist Small Business Banks Providing a Higher Proportion of Loans to SMEs**

There are only five specialist small business banks in Taiwan. As one might expect given their policy goals, these banks provide a larger share of their total loans to SMEs than other banks do. Of the 10 banks in which the proportion of loans provided to SMEs was highest, the specialist small business banks occupied the top five places. In the last two years the financial health of Kaohsiung Business Bank continued to worsen. On January 28, 2002, the Ministry of Finance ordered the Central Deposit Insurance Corporation (CDIC) to take over the management of the bank; as of the end of 2003 the bank was still under CDIC's administration. By the end of 2003 Kaohsiung Business Bank's outstanding loans to SMEs totaled only NT\$7.8 billion, NT\$27.5 billion less than at the end of 2002, and SMEs' share of all outstanding loans had fallen from 70.33% to 36.71% over the same period, a decline of 33.62 percentage points (Table 3-3-2). With the exception of Taiwan Business Bank and Tainan Business Bank the other specialist small business banks tend to be smaller than regular commercial banks; they are thus limited in the total amount of loans that they can make available to SMEs.



**Table 3-3-2 The 10 Banks with the Highest Proportion of Total Loans Provided to SMEs, 2002 – 2003**

Units: % ; NT\$ millions

| Bank                       | 2002                                       |             | 2003                                       |             |
|----------------------------|--|-------------|--|-------------|
|                            | Loans to SMEs as Percentage of Total Loans | Total Loans | Loans to SMEs as Percentage of Total Loans | Total Loans |
| Tainan Business Bank*      | 66.26                                      | 66,076      | 67.03                                      | 69,252      |
| Hualien Business Bank*     | 60.98                                      | 18,031      | 60.37                                      | 15,236      |
| Taitung Business Bank*     | 60.15                                      | 21,650      | 60.04                                      | 24,839      |
| Taiwan Business Bank*      | 50.88                                      | 344,740     | 49.87                                      | 341,765     |
| Taiwan Cooperative Bank    | 43.24                                      | 522,010     | 43.93                                      | 536,737     |
| Chang Hwa Commercial Bank  | 47.26                                      | 347,451     | 43.90                                      | 338,809     |
| Kaohsiung Business Bank*   | 70.33                                      | 35,301      | 36.71                                      | 7,802       |
| Hsinchu International Bank | 31.07                                      | 68,803      | 33.39                                      | 77,381      |
| First Commercial Bank      | 32.32                                      | 252,678     | 31.99                                      | 248,575     |
| En Tie Commercial Bank     | 30.66                                      | 44,532      | 28.72                                      | 42,800      |

Note: \* indicates a specialist small business bank.

Source: Ministry of Finance, *Summary of Financial Statistics*, February 2004.

#### 4. A Significant Increase in Outstanding Loans to SMEs by Banks Owned by Financial Holding Companies

With the aim of facilitating the provision of a wider range of operations of the individual players in the financial sector, improving their operational performance and boosting their international competitiveness, the *Financial Holding Companies Law* was approved by the Legislative Yuan and signed into law by the President on July 9, 2001, taking effect as of November 1, 2001. So far, a total of 14 financial holding companies have been established. As of the end of 2003 the 14 domestic banks controlled by these holding companies had a combined total of NT\$774.3 billion in outstanding loans to SMEs on their books, accounting for 27.53% of all outstanding

loans to SMEs (Table 3-3-3). These 14 banks' outstanding loans to SMEs had increased by NT\$76.7 billion (10.99%) compared to the end of 2002; this was a higher rate of increase than that found among other banks, indicating that, despite their now being subsidiaries of financial holding companies, these banks are still lending aggressively to SMEs.

**Table 3-3-3 Outstanding Loans to SMEs by Banks Owned by Financial Holding Companies, 2002 – 2003**

Units: NT\$ millions ; %

| Bank                                 | 2002           |  | 2003           |  | Increase or Decrease in Loans to SMEs | Growth Rate  |
|--------------------------------------|----------------|--|----------------|--|---------------------------------------|--------------|
|                                      | Loans to SMEs  | Loans to SMEs as Percentage of Total Loans | Loans to SMEs  | Loans to SMEs as Percentage of Total Loans |                                       |              |
| First Commercial Bank                | 252,678        | 32.32                                      | 248,575        | 31.99                                      | -4,103                                | -1.62        |
| Hua Nan Commercial Bank              | 172,451        | 22.54                                      | 183,521        | 22.49                                      | 11,070                                | 6.42         |
| Chiao Tung Bank                      | 59,465         | 16.03                                      | 65,287         | 17.06                                      | 5,822                                 | 9.79         |
| International Commercial Bank        | 44,756         | 12.49                                      | 57,418         | 15.53                                      | 12,662                                | 28.29        |
| Chinatrust Bank                      | 24,261         | 5.00                                       | 42,265         | 7.30                                       | 18,004                                | 74.21        |
| Taishin International Bank           | 21,267         | 6.42                                       | 37,843         | 9.94                                       | 16,576                                | 77.94        |
| Taipei Bank                          | 36,196         | 10.03                                      | 32,362         | 8.87                                       | -3,834                                | -10.59       |
| United World Chinese Commercial Bank | 22,910         | 6.08                                       | 31,021         | 5.84                                       | 8,111                                 | 35.40        |
| Fubon Commercial Bank                | 14,601         | 10.45                                      | 20,455         | 15.08                                      | 5,854                                 | 40.09        |
| E. Sun Commercial Bank               | 15,814         | 10.41                                      | 18,627         | 10.21                                      | 2,813                                 | 17.79        |
| Jihsun International Commercial Bank | 14,391         | 9.63                                       | 16,009         | 9.69                                       | 1,618                                 | 11.24        |
| Fuhwa Bank                           | 13,821         | 12.17                                      | 15,048         | 9.41                                       | 1,227                                 | 8.88         |
| China Development Industrial Bank    | 3,956          | 5.03                                       | 4,116          | 6.57                                       | 160                                   | 4.04         |
| Bank SinoPac                         | 1,106          | 0.64                                       | 1,798          | 0.96                                       | 692                                   | 62.57        |
| <b>Total</b>                         | <b>697,673</b> | <b>15.05</b>                               | <b>774,345</b> | <b>15.20</b>                               | <b>76,672</b>                         | <b>10.99</b> |

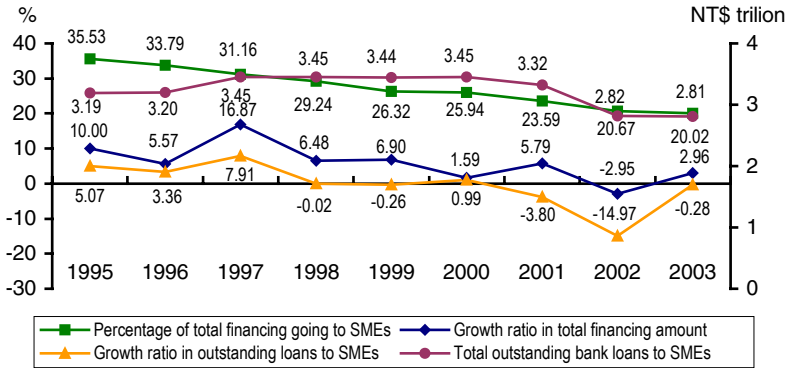
Source: Ministry of Finance, *Summary of Financial Statistics*, February 2004.

## 5. Overall, Banks Loans to SMEs Remained at Roughly the Same Level as at the End of 2002

In order to conform to the requirements of the government's "2-5-8 financial reform program" (which requires banks to reduce their non-performing loans to 5% and increase their capital adequacy ratio to 8% within two years), banks have been working to clean up their NPLs; they have become more aggressive in payment prompting, and have been selling off non-performing assets and writing off bad debts in order to bring their NPL ratios down. According to statistics produced by the Bureau of Monetary Affairs, in 2003 Taiwanese banks wrote off a total of NT\$236.8 billion in bad debts. Nevertheless, total outstanding loans at end-2003 were still 2.96% higher than at end-2002 (Figure 3-3-1). Outstanding loans to SMEs fell, but only by 0.28%, from NT\$2.82 trillion to NT\$2.81 trillion, and the share of total bank loans going to SMEs declined only very slightly, from 20.67% to 20.02%. The fact that outstanding loans to SMEs remained at roughly the same level as in the previous year despite all the NPLs that were being written off implies that the amount of new bank loans granted to SMEs grew significantly in 2003.

The financial health of SMEs is often rather unsatisfactory, which makes banks less willing to lend to them. In the last few years, however, the government has been allocating additional funds to increase the net value of the SME Credit Guarantee Fund, with the aim of compensating for the difficulty that SMEs experience in providing adequate collateral, thereby making banks less cautious about extending loans to SMEs. The SME Credit Guarantee Fund's "Credit Guarantee Utilization Rate" (i.e., financing extended to SMEs through the

**Figure 3-3-1 Proportion of Financing Granted to SMEs by All Financial Institutions**



Source: Ministry of Finance, *Summary of Financial Statistics* (consecutive years).

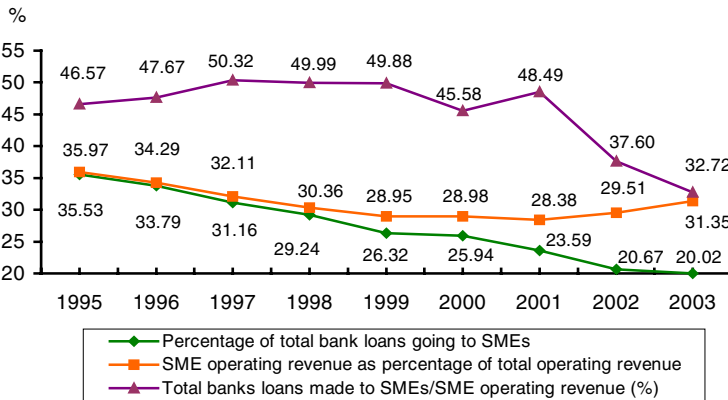
provision of credit guarantees as a percentage of all financing granted to SMEs) rose from 8% in late 2002 to 10.23% in late 2003. In this new era of low interest rates, the profits that banks can make on lending to large corporations are now very limited; they are therefore starting to make consumer finance and SME financing the main focus of their operations. It can be anticipated that the share of bank loans going to SMEs will continue to increase in the future, making it easier for SMEs to secure the financing they need.

### 6. A Continuing Fall in the Amount of Financing Secured by SMEs for Every NT\$100 of Operating Revenue

The total amount of outstanding bank loans to SMEs in 2003 was NT\$2.81 trillion, and loans to SMEs accounted for 20.02% of all outstanding bank loans; these figures were roughly the same as in 2002 (Figure 3-3-2). 2003 saw financial institutions continuing to write off NPLs, reduce the level of overdue loans

and bring their NPL ratio down in an effort to improve their financial health. By the end of 2003 the NPL ratio had fallen to 4.33%, total overdue loans had fallen to NT\$630.6 billion, and the NPL ratio had fallen by 3.71 percentage points from its historic high of 8.04% in the first quarter of 2002. Overdue loans had fallen by NT\$516.9 billion compared to the Q1 2002 total of NT\$1,147.5 billion. Clearly, the overall health of Taiwan’s banking system was gradually improving, making it appear more likely that the banks would be able to play their role as financial intermediaries effectively in the future, and making it easier for SMEs to secure financing.

**Figure 3-2 Comparison of SME Operating Revenue and Bank Loans**



Note: The definition of SMEs was adjusted in 2000 (see appended Table B).  
 Source: 1. Ministry of Finance, *Summary of Financial Statistics*, February 2004.  
 2. Small and Medium Enterprise Administration, *White Paper on Small and Medium Enterprises in Taiwan* (consecutive years).

In 2003 SMEs accounted for 31.35% of the total operating revenue of all enterprises in Taiwan; this figure was 1.84 percentage points higher than in 2002. However, the amount of

loans extended to SMEs for every NT\$100 of operating revenue fell, declining from NT\$37.6 in 2002 to NT\$32.72 in 2003. As can be seen from Table 3-1-1, the ratio of total liabilities to net worth for SMEs as a whole was more or less the same in 2003 as in 2002. Thus, although the amount of financing that SMEs have been able to secure from banks has fallen, they have been able to compensate for this by obtaining funding from other sources, for example by direct participation in the financial bill and bond markets.

## **7. The Cost of Financing Has Gradually Fallen over the Last Few Years**

In the first half of 2003 Taiwan's economy was affected by the war in Iraq, the Severe Acute Respiratory Syndrome (SARS) epidemic and other factors that could not have been predicted. With the unemployment rate still high, consumer spending and private sector investment growth were lower than expected. In the second half of the year, although the impact of the above factors had diminished and the global economy had begun to recover, Taiwan achieved an economic growth rate for the whole of 2003 of just 3.59%, while domestic demand remained weak and private-sector investment remained low. Both private-sector capital investment and overall capital investment continued to display negative growth, and as a result demand for funding was weak. Central Bank data showed that the average interest rate on new loans extended by the Bank of Taiwan, Taiwan Cooperative Bank and the three leading commercial banks had fallen steadily from 8.73% in 1994 to 2.36% in December 2003. From the point of view of business enterprises, therefore, the cost of bank funding has fallen steadily in the last few years.