

Message from the Chairman and the President

Taiwan's stock market experienced hard times in 2001. As a result of the global economic downturn, Taiwan recorded sharp falls in foreign trade and private investment, while private consumption was affected by record high unemployment and a bearish stock market. To deal with these challenges, the government moved to boost public investment and convened an economic development advisory committee that proposed several measures to stimulate the economy. However, Taiwan's economic condition worsened in the wake of autumn's devastating typhoons and the terrorist attacks in the U.S. on September 11. Fortunately, the stock market began to rebound by the end of the year thanks in part to an aggressive easing of monetary policy and a more stable political environment following December's legislative election.



Chairman Sean C. Chen

The Taiwan Stock Exchange Capitalization Weighted Index (TAIEX) rose from 2000's close of 4,739 to reach the year's highest point of 6,104 on February 15, but then declined sharply. The TAIEX closed at 5,551 on December 31, a gain of 812 points, or 17.1%, compared to 2000's close.

A selection of key market statistics for 2001 is highlighted here. A total of 584 companies were listed on the TSEC (Taiwan Stock Exchange Corporation) at the end of 2001, up by 53 from the end of 2000. The total amount of capital of these listed companies reached NT\$4.1 trillion in 2001, an increase of NT\$0.4 trillion compared to the previous year. Total market trading value was NT\$18.4 trillion in 2001, down by NT\$12.4 trillion compared to 2000. The average daily trading value was NT\$75.5 billion, which was a drop of NT\$38.2 billion from a year earlier. As regards market players, the number of securities brokerage houses (including branches) totaled 1,136, down by 47 compared to 2000. The number of investor accounts numbered 7.01 million which was a jump of 0.18 million compared to 2000. In sum, despite a slight increase in total market size, total trading value and trading amounts on the TSEC declined in 2001 due largely to the damaging impact of the economic recession.

TSEC accomplished a number of important measures to develop the securities market in 2001, as summarized below:

- In the primary market, TSEC continued to promote the listing of eligible companies and also helped firms to switch their listings from the OTC market to the Exchange. In addition, TSEC enhanced its supervisory management of listed companies by strengthening regular and spot audits, reinforcing spot-checks of significant event announcements, as well as assisting listed companies in establishing corporate governance systems. Moreover, TSEC devised new listing rules for newly-created financial holding companies following ratification of the Financial Holding Company Law.
- In the secondary market, TSEC extended daily trading hours by 90 minutes to four-and-a-half hours (9:00 a.m. to 1:30 p.m., Monday to Friday), beginning January 2, 2001. In addition, TSEC strengthened its supervision of Internet trading, implemented measures for opening discretionary accounts for high-value investors, continued to closely monitor market activities, and executed cross-market information sharing activities. TSEC also prepared plans for the implementation of a T+1 settlement system and a new trading system incorporating an alternative price-setting method.

- TSEC accomplished several other tasks in 2001, including preparations for a next-generation trading system, the development of a computer back-up system, improved transmission methods of information disclosure, a simplified process for brokers to report personnel changes through one-stop contact window, plans for a new data processing center at the TSEC's future head office, hosted international meetings such as the FIBV workshop, and conducted feasibility studies on new financial products such as Exchange Traded Funds (ETFs).

Looking ahead to the year 2002, TSEC aims to achieve four objectives: Increase Market Liberalization, Provide Innovative Services, Improve Market Administration and Enhance Operational Efficiency. These goals are summarized below:

- 1) Increase Market Liberalization. TSEC will continue to focus on adopting international rules for the primary market, encourage foreign companies to list in Taiwan, create tradable composite indexes in co-operation with leading international index compilers, and promote financial derivative products such as put warrants, warrant bonds and ETFs. Furthermore, TSEC will also strengthen its working relationships with international securities institutions and seek to forge strategic alliances.
- 2) Provide Innovative Services. TSEC will establish a next-generation trading system, promote the development of cross-border trading, improve margin trade and securities borrowing and lending systems, build up a comprehensive Internet reporting system that will allow listed companies to submit online their financial statements and other important information, establish an English web version of the "Stock Market Observation Post", and enhance investor education and protection activities.
- 3) Improve Market Administration. TSEC will shorten the period of time within which listed companies must submit their annual financial reports, establish an online surveillance system and a remote back-up computer system. In addition, TSEC will work to enhance the quality of the integrated credit information center for securities firms, better evaluate risks and control methods in the settlement process, and further improve risk-control mechanisms for the market as a whole.
- 4) Enhance Operational Efficiency. TSEC will promote the T+1 settlement system and study the potential applications of Straight-Through-Processing (STP), paperless stock transaction and block trade systems. TSEC will help brokers complete Internet certificate authentication and digital signature requirements. Furthermore, TSEC will establish a broadband video system, a data warehouse and an internal computer security system. TSEC will also renew its ISO 9000 certificate.

Although the TSEC was seriously affected by the global downturn in 2001, we anticipate better prospects in 2002 due to a recovery in the global and local economy, which the DGBAS predicts will grow by 2.29% after contracting by 1.91% in 2001. Because of competitive pressure from international securities institutions, TSEC will need to speed up reforms in terms of internationalization and liberalization and seek out strategic alliances with international exchanges. With your support, TSEC will endeavor to make further contributions to the prosperity and development of Taiwan's market in 2002.



President Fortune Ju

Chairman

A handwritten signature in black ink, appearing to be 'Sean C. Chen'.

President

A handwritten signature in black ink, appearing to be 'Fortune Ju'.