

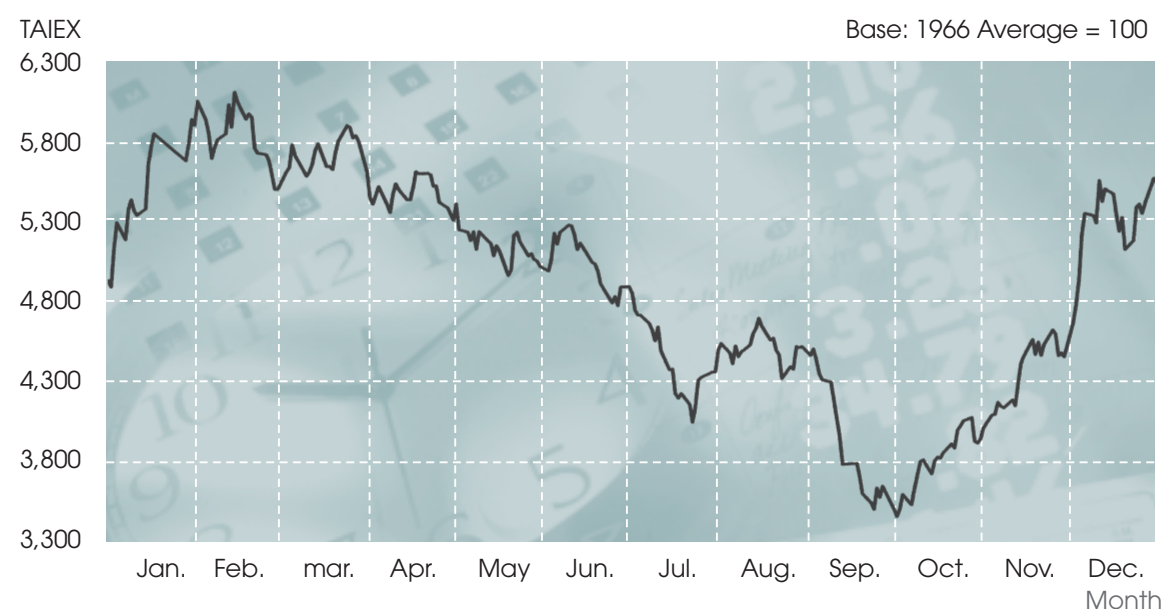
## THE YEAR 2001 IN REVIEW

### STOCK MARKET

In 2001, Taiwan Stock Exchange Corporation (TSEC) Capitalization Weighted Stock Index (TAIEX) closed at 5551.24 points on Dec. 31 posting a 17.14% gain, compared with the closing of 4739.09 points in 2000. TAIEX ranked one of the best performers in the world's stock markets in 2001.

With the extended trading hours beginning January 2 and disputes about construction of the fourth nuclear power plant finally coming to an end, the market greeted 2001 with a bull run. On February 15, TAIEX rebounded to 6,104.24, which set the highest index of the year. In the meantime, the average daily trading value was above NT\$100 billion and the total market capitalization of listed shares reached over NT\$10 trillion. However, the global economic recession and political uncertainty led TAIEX to slip after mid-February. The September 11 attack on the U.S. and disasters from typhoon intensified the market pessimism, forcing the index down to a low of 3,446.26 on October 3. In the fourth quarter, increasing liquidity resulting from the continuous interest rate cuts and prospect for a stable political situation after the legislative election boosted the market to a significant rebound.

#### TSEC Capitalization Weighted Stock Index (TAIEX) Daily Closing 2001



A rally in the fourth quarter of 1,914.30 points pulled the battered TAIEX up to positive territory, chalking up a gain of 812.15 points for the year.

To stimulate the securities market and the economy as a whole, the government took several major measures: The Ministry of Finance encouraged financial institutions to conduct mergers and establish financial holding companies to upgrade their competitiveness, and promoted the establishment of AMC and RTC asset management firms so as to settle non-performing loans. The Central Bank of China continued lowering domestic interest rates to keep a loose money policy. The Executive Yuan implemented the "NT\$810 billion Plan to Boost Domestic Demand" to expand public investments, and provided a fund of more than NT\$320 billion for low-interest home-purchase loans and guarantees to inject fresh vitality into the housing market. The Economic Development Advisory Council meeting was held in August and reached 322 consensuses on improving employment, cross-strait relation, financial situation, industry, and investment.

The number of listed companies increased by 53 to 584, and the total capital amount also increased by NT\$0.44 trillion to NT\$4.10 trillion at the end of 2001. Total market capitalization of listed shares expanded to NT\$10.25 trillion, up 25.15% from NT\$8.19 trillion as of the previous year. There were 7.01 million investors, an increase of 0.18 million from the preceding year. Nevertheless, inflicted by the worsening economic situation, market transactions dropped. Total trading value of securities in 2001 shrank to NT\$18.42 trillion, marking a sharp decrease of 40.22% from NT\$30.81 trillion in 2000. Average daily securities trading value also went down to NT\$ 75.49 billion, a decrease of NT\$ 38.2 billion from the year before. The number of brokers including branches, was 1,136, which was 47 less than that as of the end of last year.

In 2001, TSEC had 69 new listed companies that altogether raised NT\$13.08 billion through initial public offering, a dramatic decrease of 71.35% compared with that of the previous year. NT\$282.66 billion was raised through rights offering, increased by NT\$176.56 billion from 2000. NT\$1.0 billion of debt offering decreased slightly compared with NT\$1.5 billion in 2000.

## ECONOMY

Affected by the global economic recession and a series of unexpected events, Taiwan's economy in 2001 was in a most difficult position in the past 50 years. The U.S., Europe and Japan, the three major economic entities in the world, all declined sharply. The September 11 attack on the U.S. and the war in Afghanistan further impacted the slumped global economy and delayed the recovery, which originally is expected to rapidly bottom out in the second half of 2001. Several devastating typhoons also worsened Taiwan's weak economy. Besides, domestic political instability still deteriorated both consumer and investor confidence, and industrial relocation overseas and globalization has put aside domestic investments. Because of these domestic and international factors, Taiwan's economic growth rate in 2001 experienced an unprecedented negative number of -1.91%.

The weak economy, shrinking commodities' demand and continuous decline in real estate prices resulted in a decrease of 0.01% in consumer price index, which is for the first time to go down in the past 16 years. The export and import amounts were US\$ 122.9 billion and US\$ 107.24 billion, decreased 17.1% and 23.4%, respectively. The trade surplus continued to grow and reached US\$ 15.66 billion, up 88.4% compared with the previous year. Unemployment rate climbed to a record high of 5.22% at the end of 2001 due to domestic businesses' downsizing, shutdown, and relocation overseas. To stimulate the economy, the rediscount rate has been adjusted 11 times to a historical low of 2.125%.

The official estimation of the economic growth rate for 2002 is 2.29%. As a gradual recovery of the global economy is expected in 2002, domestic economic growth rate could bounce back. The pace of financial and investment environmental reforms, the new challenge for the export competitiveness of Taiwan after its joining the WTO, the progress in the development of cross-strait relations, and Taiwan's political parties which could get back on the right track, all play crucial roles in the local economic recovery.