GENERAL REVIEW

THE YEAR 2002 IN REVIEW

2002 TSEC MARKET HIGHLIGHTS

STOCK MARKET

In 2002, Taiwan Stock Exchange Corporation (TSEC) Capitalization Weighted Stock Index (TAIEX) closed at 4,452.45 points on Dec. 31 posting a 19.79% drop, compared with the closing of 5,551.24 points in 2001.

With gradual recovery of the global economy, Taiwan economy has steadily recovered since the beginning of 2002. The stock market reflected the budding economic recovery and demonstrated an upward trend. On April 22, TAIEX rebounded to 6,462.30, a high of the year. In the meantime, the average daily trading value was above NT$130 billion and the total market capitalization of listed shares reached over NT$11 trillion. However, the unceasing bad news of US stock market weakened investors' confidence and led TAIEX to slip after the peak in April. The hardest hit electronics sector dragged the TAIEX down to a low of the year on October 11 to 3,850.04. Afterwards, local

TSEC Capitaliztion Weighted Stock Index (TAIEX) Daily Closing 2002

institutional investors started to fight in traditional sectors. In view of the growth potential of investment in Mainland China, the "China Concept Stocks" grabbed the preference of Taiwan investors and boosted the market to a moderate rebound. The TAIEX finished the year by losing 1,098.79 points, marked by huge losses in the electronics sector.

In order to deal with the challenges of globalization and fierce competition from international capital markets, TSEC took some measures to reform the market: The "Corporate Governance Best Practice" was published as a guide for the listed companies to protect the equities of shareholders and interested parties. A series of measures were adopted for the trading system to enhance price integrity and market transparency. A securities lending system has been planned to facilitate the follow-up operations of promoting new derivative products. A cooperation agreement with FTSE was entered into for compiling a new tradable index, TSEC Taiwan 50 Index, as the underlying target of developing index related derivative products. And the listing and trading of ETFs have been promoted to diversify domestic investment tools.

The number of listed companies increased by 54 to 638, and the total capital amount also increased by NT$0.35 trillion to NT$4.44 trillion at the end of 2002. Total market capitalization of listed shares decreased to NT$9.09 trillion, down 11.32% from NT$10.25 trillion as of the previous year. There were 7.25 million investors, an increase of 0.24 million from the preceding year. Total trading value of securities in 2002 expanded to NT$21.98 trillion, marking an increase of 19.33% from NT$18.42 trillion in 2001. Average daily securities trading value also went up to NT$ 88.64 billion, up by NT$ 13.15 billion from the year before. The number of brokers including branches was 1,113, which were 23 less than that as of the end of last year.

In 2002, TSEC had 85 new listed companies that altogether raised NT$22.63 billion, increased by NT$9.55 billion compared with that of the previous year, through public offering before their listings to meet the requirement of shareholdings dispersion. NT$ 36.85 billion was raised through rights offering, decreased by NT$ 2.19 billion from 2001. NT$1.4 billion of debt offering increased slightly compared with NT$1.0 billion in 2001.

ECONOMY

Following the unprecedented negative annual economic growth rate of - 2.18% in 2001, the declining Taiwan economy was close to bottoming out and resumed positive growth in the first quarter of 2002, thanks to a global recovery of information and communication industries. However, some adverse factors such as US accounting scandals, the lockout of US West Coast ports, the increasing tension between the US and Iraq, shadow of terrorist attacks and lack of clear prospect for high-tech industries led to the resurfacing of uncertainties in the global economy after the first quarter of 2002 and deteriorated both the domestic consumers' and investors' confidence.

The persistent rising unemployment rate has climbed to a record high of 5.17%. The annual consumer price growth rate dropped 0.20% and annual wholesale price growth rate grew 0.1% revealed stagnation in prices. The export and import amounts were US$ 130.64 billion and US$ 112.59 billion, increased 6.3% and 5.0%, respectively. The trade surplus continued to grow and reached US$ 18.05 billion, up 15.3%, compared with the previous year. China (including Hong Kong) has become the largest export market of Taiwan, accounting for 31.2% of the total exports, and played the key role to twist the economy recession. As the corporate demand for capital continued to weaken and the domestic financial institutions kept being extremely cautious when approving loans in order to clear up non-performing loans, the rediscount rate has been adjusted 14 times to a historical low of 1.625% since the end of 2000. As a whole, Taiwan's economic growth rate in 2002 reached 3.54%.

In forecasting the year 2003, the risk of global economy uncertainties is still high and thus restrains Taiwan's economic growth. Taiwan's exports are expected to continue expanding, driven by the persistent buoyant exports to Mainland China. With the anxiety about unemployment and the expectation of limited income increase, private consumption will remain conservative. Private investment will gradually recover vitality under the implementation of high-speed railway project, "Challenge 2008—Six-Year National Development Plan" and promotion of setting up corporate operations or R&D headquarters in Taiwan. The economy is expected to recover slowly and its estimated growth rate is 3.68% in 2003.