TRADING

TRADING PROCESS

An investor wishing to conduct securities transactions shall first open an account with a broker, sign a contract granting the broker permission to act as his/her agent. After the account is approved, the investor may place an order in person, by phone, fax or internet. Currently only limit order is allowed. All outstanding orders are automatically canceled at the conclusion of the trading day.

Trading on the Exchange starts at 9:00 a.m. and closes at 1:30 p.m. The orders can be entered half an hour before the trading session starts. Buy/sell orders are in standard unit or multiples of standard units. One standard trading unit is 1,000 shares, which is applicable to all listed stocks. Orders below 1,000 shares are considered odd-lot and that over 500,000 shares are block trading.

The Exchange first installed TRW Datapoint computers in 1976 for the clearing process of the executed transactions. In August 1985, the Exchange launched Computer-Assisted Trading System (CATS) for most of Category B stocks. In the following years, securities traded through CATS expanded gradually. Up to September 1988, all equity shares were traded through CATS. Bond trading was computerized in November 1991.

CATS was upgraded to the Fully Automated Securities Trading (FAST) system on May 3, 1993. Currently, all stocks, bonds, beneficiary certificates and warrants are traded through this FAST system. When an order is placed by a customer or a dealer, the account number along with the volume, bid or offer price, and other required information, are entered via a terminal into the main computer of the Exchange. The order is processed and executed by the trading system in a price and time priority principle which can be summarized as follows:

1. Higher limit price buy order takes precedence over lower limit price buy order, and lower limit price sell order takes precedence over higher limit price sell order.
2. Priority of same-price orders is determined by their entering time stamps, or sequenced randomly by computer if the order is entered before the market opens.

   Starting July 1st, 2002, TSEC adopted a series of measures for its trading system to better reflect the interaction of the supply and demand of listed securities. The

ultimate goal is to enhance price integrity and market transparency. The measures include :

*** Eliminating the two up/down tick rule**

To ensure price continuity, intra-day continuous auction was subject to the two up/down tick rule where the execution price was limited to two up/down ticks of the last executed price. To better reflect the interaction of buying and selling force, every matched price is, under the new rules, allowed to fall anywhere in the price limit of the trading day, with the intra-day volatility interruption in force (see below).

*** Adopting intra-day volatility interruption**

With the two up/down tick rule having been eliminated, chances are that the traded price of securities will become too volatile. To remedy this foreseeable situation, intra-day volatility interruption is applied. Whenever the trading system detects that the potential execution price of a specific stock will fall out of a specified range (+/-3.5%) of the last traded price, matching for that stock will be postponed for two to three minutes. Market participants will be informed of that situation and can modify their existing orders or enter new orders to cope with the order imbalancing of that stock. However, volatility interruption is not applicable during the opening session and the last 10 minutes of regular trading hours (i.e. 1:20 p.m. to 1:30 p.m.). Those stocks whose reference price for the opening call auction is below 1 NT$ or whose matching is restricted to every 5 or 10 minutes are not subject to intra-day volatility interruption.

*** Adopting 5-minute closing call auction**

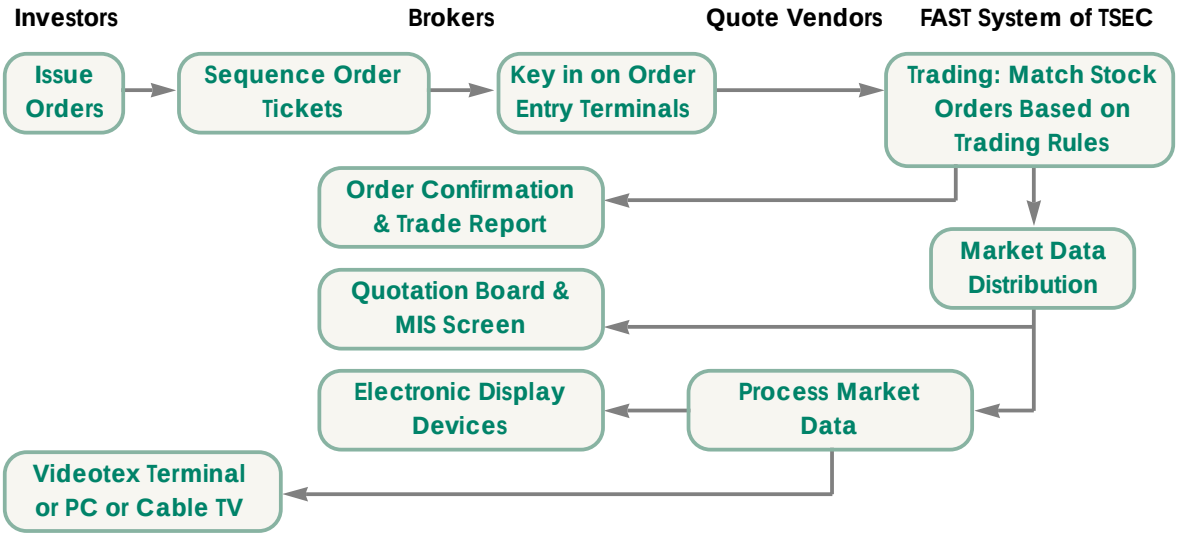
Under current trading rules, the closing price of a stock is simply the last traded price of the intra-day continuous auction of the trading day. Given that the closing price of securities is widely used by market participants as a benchmark for portfolio valuation as well as index calculation, the new system will accumulate orders for 5 minutes (from 1:25 p.m. to 1:30 p.m.) before the closing call auction.

*** Disclosing the price and volume of the best unexecuted bid/ ask**

With the exception that the unexecuted buying orders at daily price ceiling and selling orders at daily price floor are disclosed to the market, current order book is a black box

where no unexecuted orders is disclosed. Starting July 1st of this year, the price volume of unexecuted orders at the best bid and ask will be disclosed so that market participants can make an informed judgment when placing orders. Beginning 2003, prices and volumes of unexecuted orders at the 5 best bids/asks are disclosed as well.

Trading Mechanism under FAST System



When the Market opens each day, a call market mechanism is adopted. The opening price is chosen to result in a maximum trading volume possible. After the opening price is determined, an intra-day phase starts. To better reflect the interaction of buying and selling force, every matched price is allowed to fall anywhere in the price limit of the trading day, with the intra-day volatility interruption in force. Whenever the trading system detects that the potential execution price of a specific stock will fall out of a specified range (+/-3.5%) of the last traded price, a volatility interruption is initiated for

market price (P in NT$)	up / down tick (NT$)
p < 5	0.01
5 < = P < 15	0.05
15 < = P < 50	0.1
50 < = P < 150	0.5
150 < = P < 1000	1.0
P > = 1000	5.0

two or three minutes, then investors can be informed and have a chance to add, cancel or modify their existing orders. Five minutes before market ends, orders start to be gathered and at the end of market the closing price is executed in an auction mechanism.

For stocks or beneficiary certificates, the up/down tick varies with the price of the issue. Brokers/dealers will receive the trade report via printers installed in their offices immediately after a transaction is consummated. The report contains the trading details. Brokers will then notify their clients after receiving the trade report.

After-hour fixed-price trading orders are submitted to the Exchange between 2:00 p.m. and 2:30 p.m., Monday through Friday. The bid and offer prices of such orders are restricted to the closing prices of the regular trading session.

Buying and selling of odd-lot orders are submitted to the Exchange between 3:00 p.m. and 4:00 p.m., Monday through Friday. The bid and offer prices are restricted to the prices deducted 0.5% of the closing prices of the regular trading session.

Block trading orders are submitted to the Exchange between 2:30 p.m. and 3:30 p.m., Monday through Friday. The bid and offer prices of such orders are restricted to the closing prices of the morning trading session.

In order to maintain a stable stock market, the daily price fluctuation limits of stocks, beneficiary certificates and convertible bonds are set at 7% of the closing prices of the preceding business day. For bonds, the limits are set at 5%. Day trade is allowed only for investors with margin accounts.

MARGIN TRADING

Individual investors who meet certain qualifications of age, actual trading records and financial integrity can apply for margin accounts, which can be opened with eligible brokers or securities finance companies. The securities eligible for margin trading are common stocks and beneficiary certificates listed for more than six months, without being overly volatile or having too concentrated ownership.

Margin account customers buy or sell securities based on the margin requirements, of

which maintenance ratios are regulated by the Central Bank of China and the SFC. The securities bought on margin and the sale value received for short sale are held as collaterals. The collaterals are marked to market every day to see if they are above the maintenance ratio. For accounts failing to meet the maintenance ratio, margin calls are issued.

MARKET INFORMATION

Market data are packaged and generated by FAST system to disclose TAIEX and all listed securities information which include quotations, trade prices, and volumes, etc.. Information of listed companies, such as financial data and corporate action, is also available. These data are disseminated to contracted vendors and securities firms directly. TSEC introduced the Market Information System (MIS) in 1987 to display real-time trading data in a predefined format during trading session. Most vendors develop their own software packages for their subscribers. TSEC has no objection to vendors' subsequent charges to their subscribers.

Securities firms and information vendors are required to sign contracts with TSEC and pay the exchange fees to obtain such data. End-users can obtain TSEC data from market information vendors only. The respective rates are listed below. In order to disseminate TSEC market information overseas, an annual fixed charge of NT$720,000 shall be paid in advance.

Table 12. Fee of Market Data

a. Fixed Fee

Receiving Party	Location	Type or Units	Rate
Quote Vendors	Domestic	leased line	(note 1)
		non leased line	NT$60,000 / month
	Overseas		NT$720,000 / year

b. Securities Firms Usage Fee

Device Type	Units Installed	Rate
Display Unit	(note 2)	(note 2)
Ticker Tape	each	NT$1,000 / month
Wall Units	(note 3)	(note 3)
Quotation Board		Free of Charge

c. Variable Fee

Device Type	Fee	Rate
Internet	flat	NT$100,000 / month
Pager	flat	NT$100,000 / month
Mobil Data	flat	NT$100,000 / month
Mobil Phone	flat	NT$100,000 / month
Teletext / TV Mall	flat	NT$100,000 / month
FM Sub-Carrier	flat	NT$100,000 / month
Audio and / or Database Inquiry	by time	NT$0.10 / minute
Cable TV (Broadcast Only by Indirect Connection)	flat	NT$30,000 / month

Note 1 : A fixed amount per month ranging from NT$60,000 to NT$2,558,000 is levied for connection units ranging from less than 100 units to more than 5,000 units.
Note 2 : A fixed amount per month ranging from NT$600 to NT$2,000,000 is levied for display unit ranging from less than 5 units to more than 5,001 units amount to head office plus branch offices.
Note 3 : For Wall Units device, 12 units qualify as the equivalent of a display unit but less than 12 is free.

Table 13. Stock Trading Volume and Value 1997-2002

Year & Month	No. of Trading Days	Volume (Unit:Million Shares)			Value (Unit:NT$ Million)		
		Total	Daily Average	Turnover Rate(%)*	Total	Daily Average	Turnover Rate(%)**
1997	286	654,201	2,287	368.50	37,241,150	130,214	407.10
1998	271	612,010	2,258	261.70	29,618,970	109,295	314.10
1999	266	678,064	2,549	237.57	29,291,529	110,119	291.10
2000	271	630,868	2,328	195.28	30,526,566	112,644	259.13
2001	244	606,420	2,485	159.58	18,354,936	75,225	206.57
2002	248	856,190	3,452	205.22	21,873,951	88,201	217.39
Jan.	22	101,996	4,636	25.12	3,337,920	151,724	30.71
Feb.	12	37,594	3,133	9.24	1,222,272	101,856	11.55
Mar.	21	97,395	4,638	24.03	2,772,202	132,010	23.91
Apr.	21	104,825	4,992	25.93	2,461,936	117,235	21.56
May	22	68,216	3,101	16.81	1,666,380	75,745	15.57
Jun.	20	58,527	2,926	14.41	1,327,307	66,365	13.94
Jul.	23	64,098	2,787	15.67	1,581,684	68,769	17.47
Aug.	22	52,532	2,388	12.31	1,357,766	61,717	14.75
Sep.	20	41,351	2,068	9.53	1,026,598	51,330	12.47
Oct.	22	69,848	3,175	15.88	1,670,499	75,932	18.18
Nov.	21	82,702	3,938	18.80	1,878,515	89,453	20.00
Dec.	22	77,106	3,505	17.49	1,570,873	71,403	17.28

* Based on total number of listed shares
** Based on total market value of listed shares.

Table 14. Ten Most Active Stocks 2002 (in Volume and in Value)

a. in Volume

Rank	Name of Stock	Volume (Thousand Shares)	% of Market Total
1	AUO	22,143,430	2.59
2	Winbond Electronics	20,119,270	2.35
3	UMC	17,456,746	2.04
4	Nanya Technology	16,572,272	1.94
5	Chunghwa Picture Tubes	15,941,161	1.87
6	Macronix International	13,765,012	1.61
7	TSMC	12,069,378	1.41
8	Mosel Vitelic Inc.	10,501,657	1.23
9	Yageo	9,060,681	1.06
10	China Steel	8,338,904	0.98

b. in Value

Rank	Name of Stock	Value (NT$ Thousand)	% of Market Total
1	TSMC	770,055,945	3.53
2	AUO	746,408,900	3.42
3	UMC	652,923,495	2.99
4	Nanya Technology	589,218,901	2.70
5	MediaTek	560,753,295	2.57
6	Winbond Electronics	459,585,527	2.11
7	Benq Corporation	421,547,165	1.93
8	Chunghwa Picture Tubes	407,810,344	1.87
9	Via Technologies	362,730,302	1.66
10	Macronix International	292,520,535	1.34

Table 15. Stocks with Largest Price Changes Year-end 2002

Rank	Up	
	Name of Stock	Rise from End of 2001(%)
1	Yieh Phui Enterprise	619.24
2	Chih Lien Industrial	612.12
3	Hsin Kuang Steel	374.97
4	Chien Shing Stainless Steel	353.13
5	Kenda Rubber Ind.	286.95
6	Sheng Yu Steel	285.89
7	Shin Yih Fiber	280.00
8	Chia I Industrial	278.79
9	Yieh Hsing Enterprise	270.11
10	Wi Chih Steel Industrial	253.47

Rank	Down	
	Name of Stock	Fall from End of 2001(%)
1	First Hotel	-78.81
2	ABIT	-75.65
3	Pacific Const.	-75.07
4	Mosel Vitelic Inc.	-70.65
5	Ding Ing	-69.12
6	Procomp	-67.80
7	Jean	-67.78
8	Via Technologies	-67.32
9	SIS	-66.67
10	Chunghwa Picture Tubes	-64.60

Table 16. Price Earnings Ratio (PE Ratio) Year-end 2002

Industry	PE Ratio
All Listed Stocks	41.77
Cement	122.29
Foods	62.37
Plastics	27.22
Textiles	31.29
Electric & Machinery	23.29
Electric Appliance & Cable	-
Chemicals	16.94
Glass & Ceramics	38.99
Paper & Pulp	-
Steel & Iron	19.32
Rubber	15.43
Automobile	17.08
Electronics	25.94
Construction	-
Transportation	51.92
Tourism	79.43
Finance	-
Wholesale & Retail	50.79
Others	18.39
Cement & Ceramics	74.07
Plastics & Chemicals	22.73
Electrical	27.60