

10. Stock Market

The weighted stock price index of the Taiwan Stock Exchange (TSE) in 2000 plunged 43.9 percent when compared with the index at the end of 1999. The total market value of companies listed on the TSE dropped by around 30 percent for the year. Average daily turnover in the TSE was NT\$112.6 billion for the year, which represented a slight increase from the figure recorded in the previous year.

The Over-the-Counter (OTC) market price index recorded an annual drop of 49.4 percent. The total market value of companies listed in the OTC market declined by 28 percent in 2000. Average daily turnover in the OTC reached NT\$16.5 billion, which represented a sharp increase of 132 percent from the figure recorded in the previous year.

The TSE Market

(1) Increase In Listed Companies

According to TSE statistics, there were a total of 531 listed companies at the end of 2000, representing an increase of 69 companies over the previous year. Total book value amounted to NT\$3.7 trillion at the end of the year, an increase of 19.4 percent over the end of 1999. Total market value was NT\$8.2 trillion at the end of the year, a reduction of 30.5 percent compared with the end of the previous year.

Major Statistics of the TSE Market

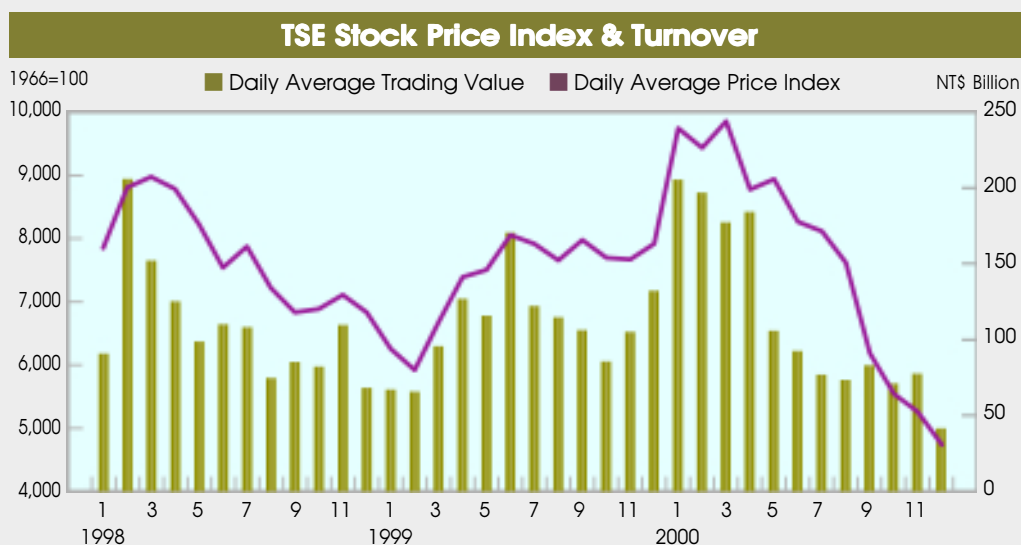
year / month	Stock Price Index* (1966=100)	Daily Average Trading Value (NT\$ Billion)	Margin Trading (NT\$ Billion)	Turnover Rate (%)	Market Capitalization* (NT\$ Billion)
1998	6,418.4	109.3	27,170	261.8	8,393
1999	8,448.8	110.1	26,011	237.6	11,787
2000	4,739.1	112.6	24,708	195.3	8,191
2000/ 1	9,744.9	205.4	4,028	28.7	13,986
2	9,435.9	196.8	2,233	24.2	13,551
3	9,855.0	177.2	3,376	24.8	14,223
4	8,777.4	184.1	3,351	20.4	12,650
5	8,939.5	105.8	2,078	15.1	12,271
6	8,265.1	92.5	1,750	11.3	11,423
7	8,114.9	76.9	1,407	12.3	11,151
8	7,617.0	73.4	1,500	10.8	10,751
9	6,185.1	83.0	1,591	11.8	9,252
10	5,544.2	71.1	1,260	13.0	9,468
11	5,256.9	77.5	1,397	13.9	9,057
12	4,739.1	41.5	737	8.9	8,191

Note:* Refers to year-end or month-end data.
Source: Taiwan Stock Exchange.

(2) Declining Share Prices

The TSE weighted stock price index closed the year at 4,739.1 points, shedding 43.9 percent off the index at the end of the previous year.

The stock market was buoyant at the beginning of the year on upbeat market expectations and buying sprees by foreign investors. The price index shot to a peak of 10,202 points on February 17. Later, as the presidential election on March 18 evoked uncertainties and cross-Strait tensions were heightened, the stock price index reversed from its peak. After the presidential election, with cross-Strait tensions eased, the stock price index rallied to reach 10,186 points on April 5. During April and May, plummeting high-tech stock prices in the U.S. led to massive net selling by foreign investors in the local market. The price index fell to a low of 8,438 points on May 25. From June to August, as U.S. high-tech shares entered a phase of consolidation and the newly elected government's economic and financial policies raised doubts in the market, the price index fluctuated within a confined range. From September to December, the price index took a nose dive to a nadir of 4,615 points on December 27. The reasons for this included: (1) foreign investors registered large net selling in September; (2) soaring international oil prices in September and October deepened the fear of a global economic slowdown; (3) an increasing number of corporations suffered financial problems, coupled with a rise in the non-performing loan ratios of financial institutions; (4) the Cabinet formally suspended the construction of the Fourth Nuclear Power Plant in October, unsettling political stability; (5) a foreign media publication, *The Economist*, reported in November that Taiwan might be hit by a financial crisis in January 2001; and (6) the U.S. economic slowdown, compounded by earnings warnings issued by major electronics companies, resulted in the prices of U.S. high-tech shares continuously breaking historic lows.

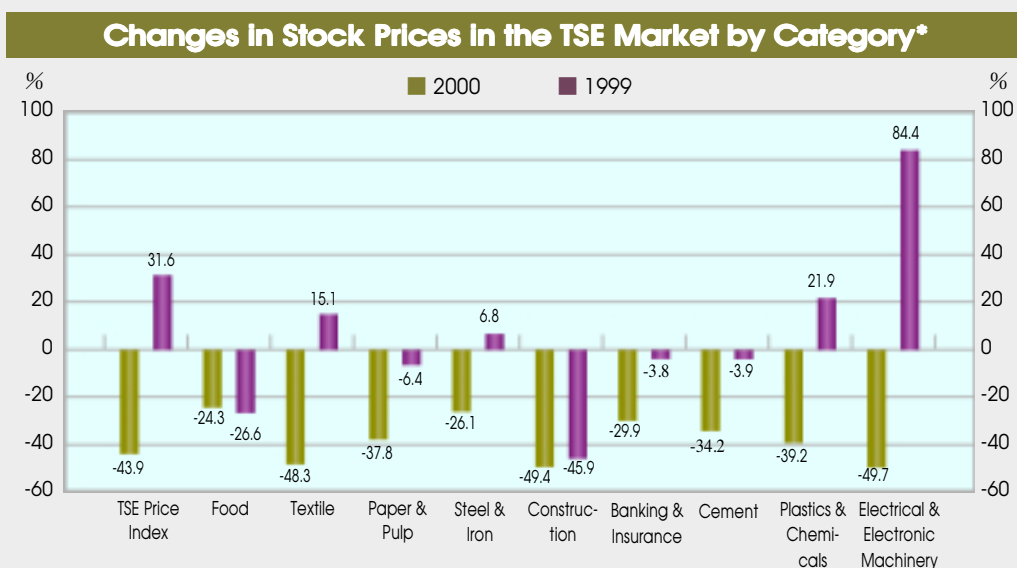


In terms of the movements in share prices, all categories of stocks fell in 2000. Electrical and electronic machinery stocks, construction stocks and textiles stocks registered the deepest declines of 49.7 percent, 49.4 percent and 48.3 percent, respectively. Prices of all other categories also plunged by more than 20 percent. The poor performance of electrical and electronic machinery stocks can be traced back to the over-optimistic sentiment in the electronics sector at the beginning of the year, which pushed electronics stock prices to excessively high levels. A headlong slide in electronics stock prices ensued as the electronics sector experienced a downturn and U.S. high-tech shares plunged. Banking and insurance stocks and stocks of other traditional sectors declined as well.

The average price-earnings ratio for the TSE market was 56 times at the end of January 2000. It rose to 58 times in March and then declined month by month to 15 times in December, far lower than the 48 times recorded in December 1999.

(3) Shrinking Trend in Turnover

Turnover contracted gradually along with declining stock prices throughout 2000. Average daily turnover for the year as a whole was NT\$112.6 billion, slightly higher than the NT\$110.1 billion recorded in 1999. In January, as share prices surged ahead, reflecting economic heating, average daily turnover reached a high level of NT\$205.4 billion. In May, due to the deep corrections of share prices, average daily turnover dropped to NT\$105.8 billion. In October, the government reduced the 7 percent daily down limit on share prices, which was followed by a further shrinkage in turnover to NT\$71.1 billion. In December, as the stock price index fell below the 5,000-point resistance, the government again reduced the daily down limit. Average daily turnover declined



further to NT\$41.5 billion.

Because share prices declined persistently on thin trading throughout the final three quarters of the year, the turnover rate declined from 238 percent recorded in 1999 to 195 percent.

(4) Net Purchase or Sale by Institutional Investors

Net purchases by foreign investors amounted to NT\$147.4 billion in 2000, while net sales of shares on the part of local securities investment and trust companies and dealers were NT\$29.3 billion and NT\$66.1 billion, respectively. The main reasons for the net purchase by foreign investors were as follows: (1) Taiwan's favorable economic prospects attracted massive buying from foreign investors during the first quarter of the year; (2) Morgan Stanley Capital International Inc. (MSCI) increased Taiwan's weighting in its emerging-markets indices in May; (3) foreign investors recommended Taiwan's semiconductor industry with its promising outlook in August; and (4) foreign investors were active buyers on bargain-hunting in Taiwan shares during the fourth quarter of 2000.

By contrast, the main reasons for the net sale by securities investment and trust companies included: (1) as share prices soared, securities investment and trust companies sold shares on profit-taking at the beginning of the year; (2) the "wake-up calls" response caused by the plunge in U.S. high-tech shares in April; (3) securities investment and trust companies were confronted with redemption pressures due to the mid-year settlements of their institutional clients; and (4) the suspension of the Fourth Nuclear Power Plant construction evoked political dispute. The major reasons for the net sale by local dealers were: (1) cross-strait tensions; (2) domestic political instability; and (3) increasing cases of corporate defaults and a great deal of speculative worries about systemic risk in the financial sector.

The OTC Market

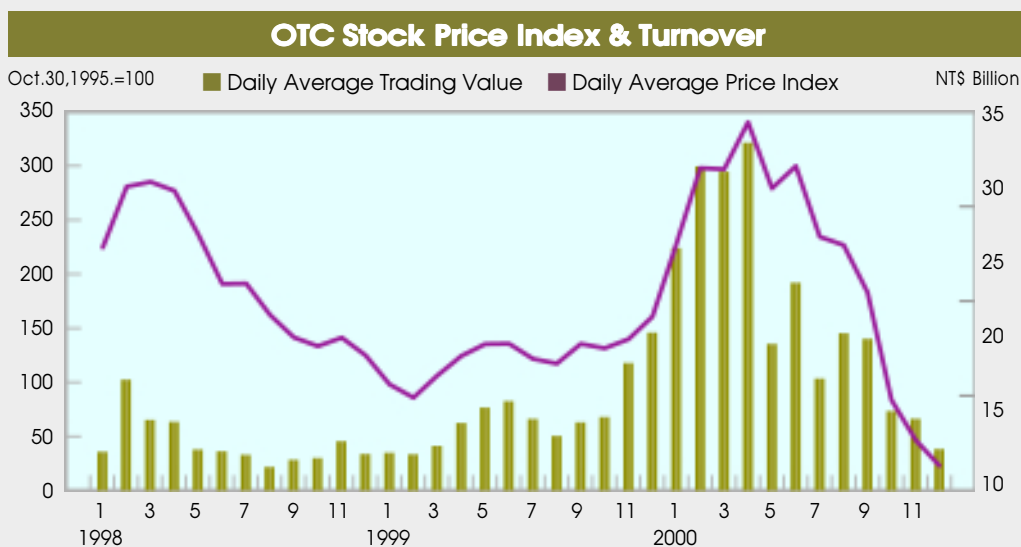
(1) Increase In Listed Companies

At the end of 2000, a total of 300 companies were listed in the Taiwan OTC market, an increase of 36 companies over the corresponding figure at the end of the previous year. Total book value amounted to NT\$677.2 billion at the end of the year, an increase of 31.8 percent over the end of 1999. Total market value reached NT\$1,050.6 billion at the end of the year, a decline of 28 percent over the end of the previous year.

(2) Plunging Share Prices

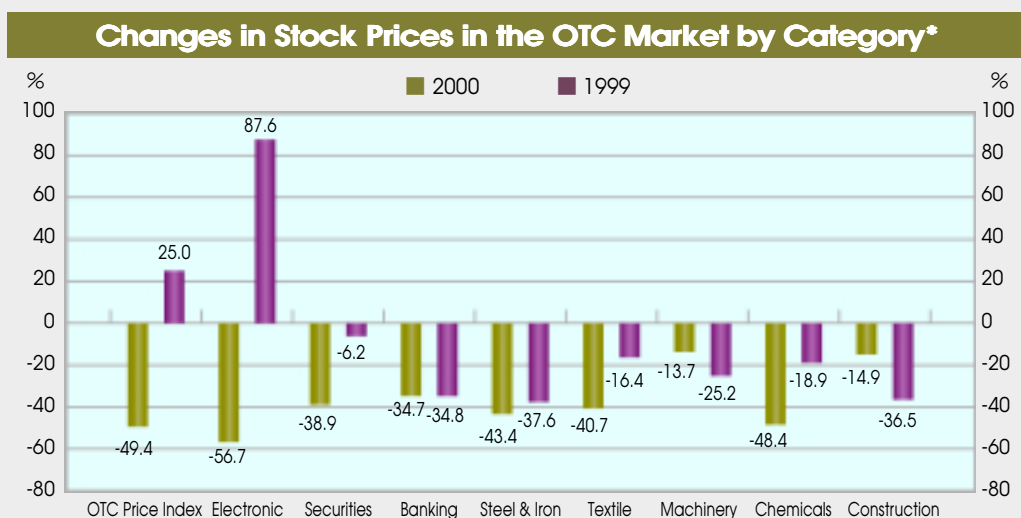
The OTC market price index closed the year 2000 at 104.9 points, dropping 49.4 percent from the 207.2 points recorded at the end of the previous year. In terms of share prices, all categories

declined. Electronics stocks topped the list of declines with 56.7 percent, while chemical stocks dropped 48.4 percent and steel and iron stocks 43.4 percent.



(3) Sharp Increase in Annual Turnover

Average daily turnover in the OTC market reached NT\$16.5 billion in 2000, showing a sharp increase of 132 percent over the previous year. The increase was mainly attributable to active transactions during the first half of the year spurred on by rising share prices. Average daily turnover hit a high of NT\$32.3 billion in April. However, share prices plummeted during the second half of the year, accompanied by shrinking trading volume. As a result, average daily turnover contracted to NT\$3.8 billion in December.



Note: *End-of-the-year comparison.