

10. Stock Market

The Taiwan Stock Exchange (TSE) weighted average price index (TAIEX) closed at 5,551.2 points at the end of 2001, an increase of 17.1 percent from the previous year-end. Average daily turnover for the year posted a 33 percent drop from the figure recorded in the previous year to NT\$75.2 billion.

The Over-the-Counter (OTC) weighted average stock price index advanced by 29.8 percent in 2001. The average daily turnover decreased to NT\$ 9.5 billion in 2001, a sharp decline of 42 percent over the previous year.

The TSE Market

Increase in Listed Companies

There were a total of 584 listed companies at the end of 2001, representing an increase of 53 companies over the previous year-end. Market capitalization amounted to NT\$10.2 trillion, a 25 percent increase compared with the end of the previous year.

Major Statistics of the TSE Market

Unit:NT\$ Billion

	Price Index* (1966=100)	Daily Average Turnover	Turnover Rate (%)	Foreign Investors Net Buy/Sell**	Securities Investment and Trust Companies Net Buy/Sell**	Dealers Net Buy/Sell**	Market Capitalization*
1999	8,448.8	110.1	237.6	333.2	-34.4	30.5	11,787
2000	4,739.1	112.6	195.3	147.4	-16.1	-66.1	8,191
2001	5,551.2	75.2	159.6	306.6	-9.0	9.1	10,239
2001/ 1	5,936.2	113.3	15.5	71.4	9.4	9.2	10,259
2	5,674.7	120.7	17.7	13.6	-16.7	-1.7	9,817
3	5,797.9	100.0	16.7	13.4	5.8	5.4	10,048
4	5,381.7	71.3	10.7	12.2	-3.5	-2.3	9,494
5	5,048.9	50.9	9.4	54.9	2.4	-0.3	8,674
6	4,883.4	47.3	7.9	22.7	3.1	-1.4	7,960
7	4,353.0	42.2	8.7	23.1	4.2	-1.0	7,189
8	4,509.4	50.4	12.6	0.0	0.2	-1.1	7,678
9	3,636.9	38.5	7.6	-16.5	-1.8	-1.9	6,503
10	3,903.5	47.0	10.7	39.5	-0.2	0.5	7,038
11	4,441.1	84.4	17.5	65.7	-4.6	2.5	8,106
12	5,551.2	143.4	24.7	6.7	-7.3	1.1	10,239

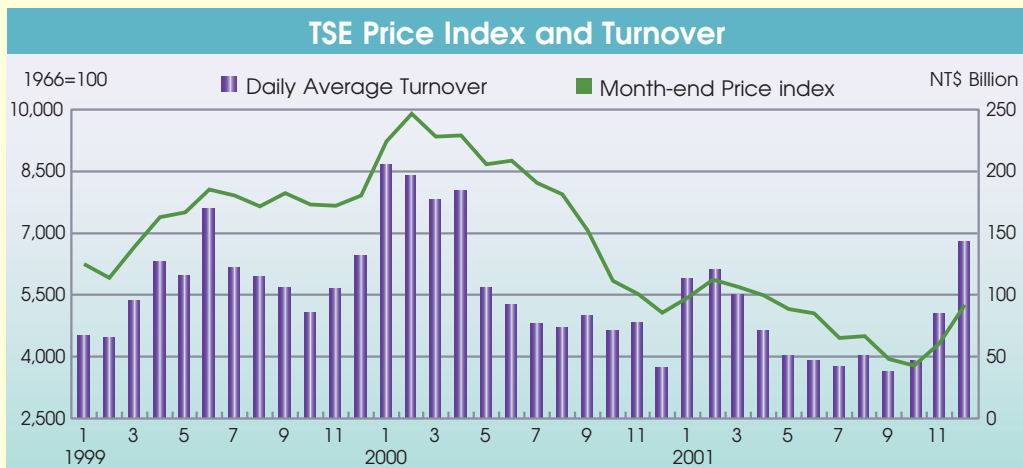
Notes: * Refers to year-end or month-end data.

** "-" sign indicates net sell.

Source: Taiwan Stock Exchange.

V-shaped Recovery in Share Prices

The TAIEX closed the year of 2001 at 5,551.2 points, a gain of 812 points or 17.1 percent from the previous year-end. The TAIEX rallied at the beginning of the year, following the US equity market's rebound fueled by the Fed's aggressive interest rate cuts. The TAIEX also gained strong momentum from the domestic factors, as foreign investors built up huge net buying positions in the local market and merger deals among local banks started to surface. These factors helped push the TAIEX upwards to reach its yearly high of 6,104 points on February 15. However, the TAIEX soon reversed its upward trend due to the disappointing earnings reports of listed companies and the downward revisions of financial forecasts by major local electronics manufacturers. Compounded by the September 11 terrorist attacks in the US and heavy losses across the country caused by Typhoon Nari a week later, the TAIEX continued to trend down and fell to its annual low of 3,446 points on October 3. The TAIEX later reclaimed much of its losses as a result of smooth progress of the anti-terrorist war in Afghanistan, booming US high-tech stock prices, massive buying by foreign investors in the local market, and the ruling party's winning of the legislative elections in December. The TAIEX continued to gain momentum and rebounded to end the year at 5,551.2 points.

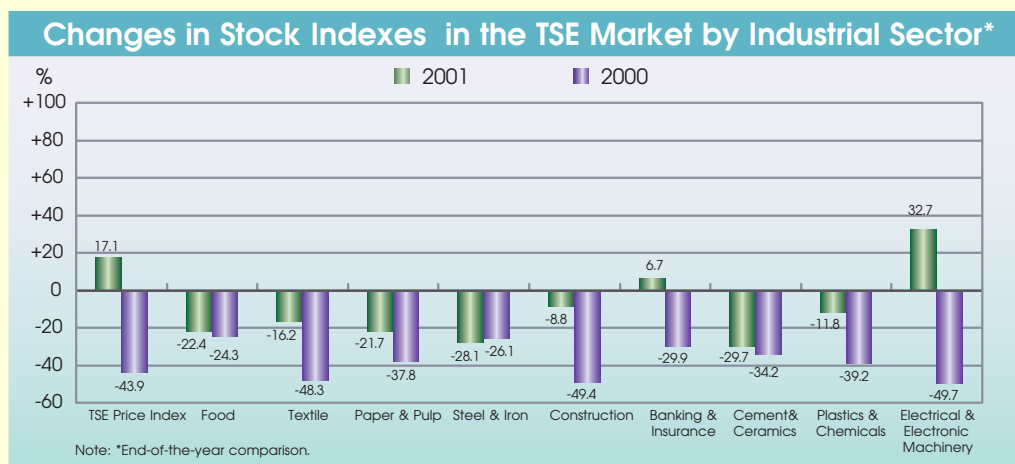


Among all industrial sub-indexes, electrical and electronic machinery stocks and banking and insurance stocks, which added 32.7 percent and 6.7 percent, respectively, outperformed other stocks for the year. The electrical and electronic machinery stocks were pushed higher mainly by foreign investors' aggressive buying. The rise of banking and insurance stocks was attributable to attempted mergers among local financial institutions and optimistic sentiment

in the sector following the introduction of the *Financial Holding Company Law*. Stocks of all other traditional sectors registered declines, mainly owing to the rapid slowdown of domestic economic activity, which exacerbated the poor business environment of traditional industries. Of these sectors, the cement and ceramics, steel and iron, and food sectors registered declines of 29.7 percent, 28.1 percent, and 22.4 percent, respectively.

Significant Drop in Turnover

Turnover significantly dropped in 2001. The average daily turnover for the year was merely NT\$75.2 billion, a huge drop when compared with the previous year's figure of NT\$112.6 billion. As a result of thin trading volumes, the turnover rate declined from 195 percent in 2000 to 160 percent in 2001.



Net Buying Positions for Institutional Investors

For the year 2001, foreign investors bought a net of NT\$ 306.6 billion worth of shares. Local securities dealers also registered a net purchase of NT\$ 9.1 billion, while local securities investment and trust companies posted a net sale of NT\$ 9 billion.

Foreign investors were active buyers in January, stimulated by the heating US stock market in response to the Fed's unexpected rate cut on January 3rd. They recorded a smaller net purchase of shares during the February-April period. From May to July, low shares prices and improving prospects for the semiconductor industry prompted massive bargain-hunting deals by foreign investors. Later, however, the September 11 terrorist attacks triggered heavy

redemption pressure, and foreign investors therefore registered a net sale of stocks in September. Massive buying by foreign investors appeared again in October and November, mainly buoyed by bargain prices and the smooth progress of the anti-terrorist war in Afghanistan. They recorded a small net purchase in December.

Local securities investment and trust companies registered a net sale in February based on profit-taking trades. The unsatisfactory performances of certain listed companies in the first quarter triggered heavy selling by securities investment and trust companies. From May to August, these companies posted a small net purchase of shares on bargain-hunting. However, the September 11 incident, along with their bearish views on the local stock market amid worldwide sagging economic fundamentals, caused a net sale of shares by these companies during the last four months of the year.

Local securities dealers posted a net purchase of shares in the first quarter of the year, mainly stimulated by the buying spree from foreign investors. However, as signals of further aggravation of the gloomy economic situation continued to surface, they turned bearish regarding the local stock market and therefore posted net sales for the second and third quarters. Conversely, in the fourth quarter, heavy bargain buying of undervalued shares contributed to their net purchase of shares.

The OTC Market

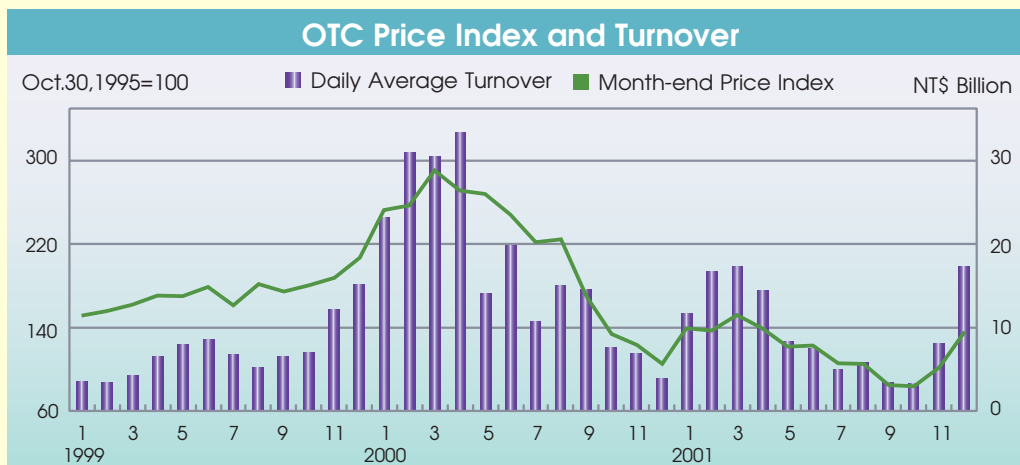
Increase in Listed Companies

The number of listed companies in the OTC market increased by 33 to 333 at the end of 2001. Market capitalization expanded by 34.4 percent over the previous year to NT\$ 1,412.2 billion.

Marked Rise in Share Prices

The OTC weighted average stock price index closed at 136.2 points in 2001, indicating a 29.8 percent advance from the previous year-end.

The OTC index experienced large fluctuations throughout the year 2001. The index started the year with a rally, reflecting foreign investors' active buying positions during the first quarter, and reached its all-year high of 152.5 points on March 29. Beginning in April, however, the index slipped amid concerns over domestic economic prospects. The September 11 incident exerted extra pressure on the index and forced the index down to its annual low of 78.2 points on October 8. With the help of foreign investors' buying spree, the index recovered some of its lost ground following the ruling party's victory in the legislative election later in the year.



Of the various sectors of shares, the securities sector achieved the best performance with a rise of 60.7 percent, followed by the electronics sector with a 42.3 percent increase over the previous year. Such sectors as banking, machinery, and chemicals all registered advances while other sectors, including steel and iron, textiles and construction, posted declines. Among all laggards, construction stocks posted the largest drop of 50.2 percent for the year.

Sharp Decline in Turnover

Average daily turnover sharply declined by 42 percent to NT\$9.5 billion in 2001, over the previous year's NT\$ 16.5 billion. The decrease was mainly due to the shrinking trading volume caused by plummeting stock prices during the April-October period.

