

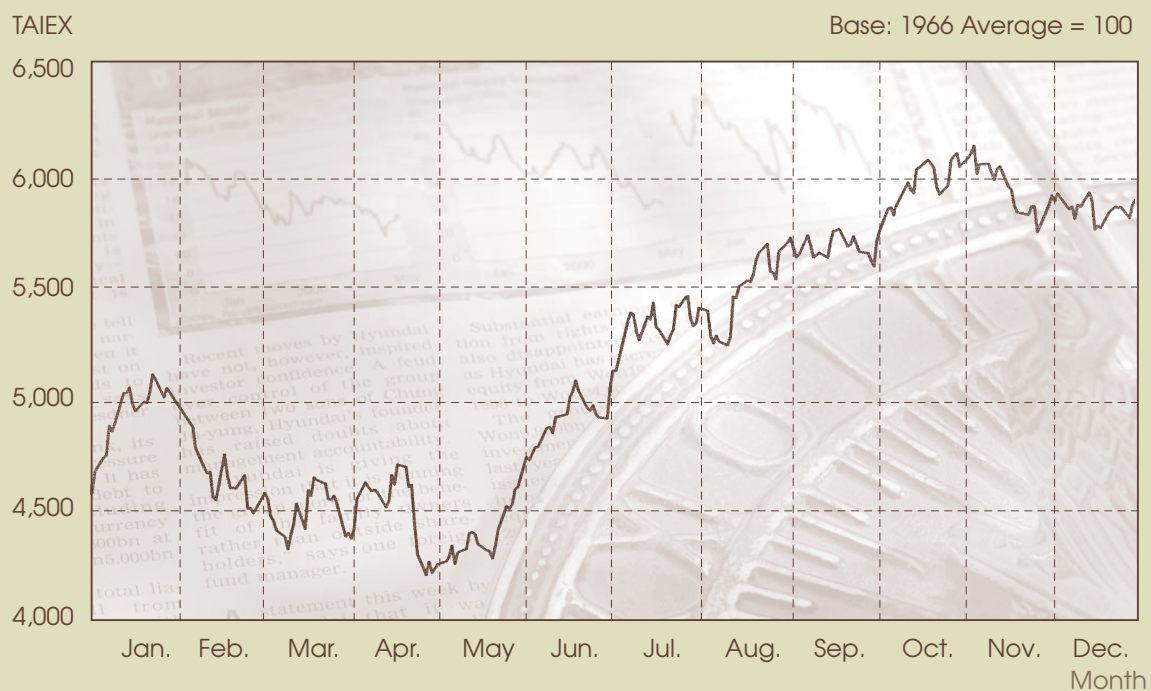
THE YEAR 2003 IN REVIEW

STOCK MARKET

The Taiwan Stock Exchange Corporation (TSEC) Capitalization Weighted Stock Index (TAIEX) closed at 5,890.69 on December 31, 2003, up 32.30% in comparison with the closing of 4,452.45 in 2002.

At the beginning of 2003, the market drifted amidst the uncertainty of war between the U.S. and Iraq. In the middle of April, while the conflict in Middle East ended swiftly, the outbreak of SARS (severe acute respiratory syndrome) in Taiwan set back the market once again. The stock market reached its low for 2003 on April 28 at 4,139.50. Fortunately, the market regained strength afterwards as the threat of SARS subsided and the global economic recovery became increasingly obvious. The upward trend accelerated with the encouragement of US market

TSEC Capitalization Weighted Stock Index (TAIEX) Daily Closing 2003



recovery and a double-digit growth rate in Taiwan's international trading. The strong growth rate in local investment and consumption also surprised many, in the meanwhile. The growth prospect and potential of the economy of Mainland China also added conviction to the market bulls. With these positive factors in place TAIEX finished the year with a 1,438.24 points gain. Accredited to the growth were market sectors such as construction, steel, and machinery sectors.

In order to deal with the challenges of globalization and fierce competition from international capital markets, the regulatory framework in Taiwan underwent dramatic change in 2003. The QFII (qualified foreign institutional investor) system was gradually relaxed in 2003, until it was finally abolished in October. Under the new rules, foreigners and overseas Chinese no longer need to seek approval but solely register with TSEC to be able to invest in the Taiwan capital market. The new rules are in line with the trend of globalization and deregulation in connection with the local capital market. To extend global visage, TSEC and FTSE International Limited (FTSE) launched a new tradable index, the TSEC Taiwan 50 Index in 2002. On June 30, 2003, the first ETF based on Taiwan 50 index was listed on TSEC. The listing and trading of this ETF product have been proved to be very successful.

The number of listed companies increased in 2003 to 669, up from 638 a year ago. Total market capitalization of listed shares was NT\$12.87 trillion, up 41.58% from NT\$9.09 trillion of the previous year. There were 7.39 million investors, an increase of 0.14 million from the preceding year. However, the total trading value of securities in 2003 was NT\$20.51 trillion, marking a decrease of 6.69% from NT\$21.98 trillion in 2002. Average daily securities trading value also went down to NT\$ 82.38 billion, a reduction of NT\$ 6.26 billion from the year before. The number of brokers including branches was 1,121, eight more than that at the end of the preceding year.

ECONOMY

Taiwan economy registered a growth rate of 3.53% in the first quarter of 2003. However, the SARS outbreak dampened the prospect in the second quarter of 2003. The growth rate in export and import shrank to 3.6% and 5.0% in the second quarter, down from 11.4% and 19.9% in the first quarter, respectively. The Economic growth rate in the second quarter was a negative 0.08%. Thanks to global recovery of the information and communication industries, the economic growth rate in the third and fourth quarters resumed a positive note. The global and local economy boosted the confidence of both domestic consumers and investors.

In 2003, the unemployment rate has slightly improved to 4.99%, compared with a record high of 5.17% in 2002. The annual consumer price growth rate dropped to 0.28% and that of annual wholesale price increased to 2.48%. The export and import were US\$144.24 billion and US\$127.26 billion, rising 10.37% and 13.07%, respectively, than those a year before. The trade surplus reached US\$16.98 billion, down 5.93%, compared with the previous year. China (including Hong Kong) has become the largest export market for Taiwan, accounting for 34.52% of total exports, and played a key role in affecting the domestic economy. As the corporate demand for capital fell short of domestic savings, the rediscount rate has been adjusted from 1.625% to a historical low of 1.375% in 2003. As a whole, Taiwan's economic growth rate in 2003 reached 3.24%.