

6. Stock Market

The Taiwan Stock Exchange (TSE) weighted stock price index (TAIEX) closed the year 2004 with an increase of 4.2 percent from the previous year-end. Most of the industrial group stock price indices went up, with construction shares posting the biggest gain for the second consecutive year. The daily average trading value for the year was NT\$95.5 billion, 16.9 percent higher than that of the previous year.

The GreTai Securities Market (GTSM, an over-the-counter market) weighted stock price index finished the year with a slight decrease of 1.3 percent from the year-ago level. Of all the industrial groups, construction shares recorded the biggest gain, while electronic shares registered the largest decline. The daily average turnover for the year reached NT\$13.9 billion, 68.1 percent higher than the previous year.

The TSE Market

Increase in the Number of Listed Companies

There were a total of 697 listed companies at the end of 2004, representing an increase

Major Statistics of the TSE Market

	Stock price Index* (1966=100)	Daily Average Trading Value (NT\$ Billion)	Turnover Rate (%)	Market Capitalization* (NT\$ Billion)	Net Buying / Sale Positions** (NT\$ Billion)		
					Foreign Investors	Securities Investment and Trust Companies	Securities Dealers
2002	4,452.5	88.2	217.4	9,095	27.9	6.9	2.3
2003	5,890.7	81.7	190.8	12,869	549.0	-5.7	29.8
2004	6,139.7	95.5	177.5	13,989	284.0	-14.1	-15.4
2004/ 1	6,375.4	121.8	13.1	13,910	95.8	-5.9	10.0
2	6,750.5	158.9	21.5	14,760	30.2	-9.7	7.6
3	6,522.2	161.6	26.0	14,283	-18.4	-11.1	-10.0
4	6,117.8	143.3	23.5	13,427	-16.2	-4.5	-12.8
5	5,977.8	88.2	14.1	13,129	-72.1	-3.7	-2.9
6	5,839.4	69.4	11.5	12,641	5.5	3.2	-15.9
7	5,420.6	53.0	9.9	11,766	-10.1	-3.6	-6.7
8	5,765.5	62.1	10.0	12,439	57.5	14.5	1.1
9	5,845.7	82.4	13.5	12,867	32.8	8.5	0.1
10	5,705.9	81.9	12.9	12,710	47.0	-6.3	-0.4
11	5,844.8	69.4	11.5	13,281	114.5	1.4	2.3
12	6,139.7	60.4	9.9	13,989	17.4	3.2	12.2

Notes: * Refers to end-of-period data.

** Minus sign "-" indicates net sale positions.

Source: Taiwan Stock Exchange Corporation.

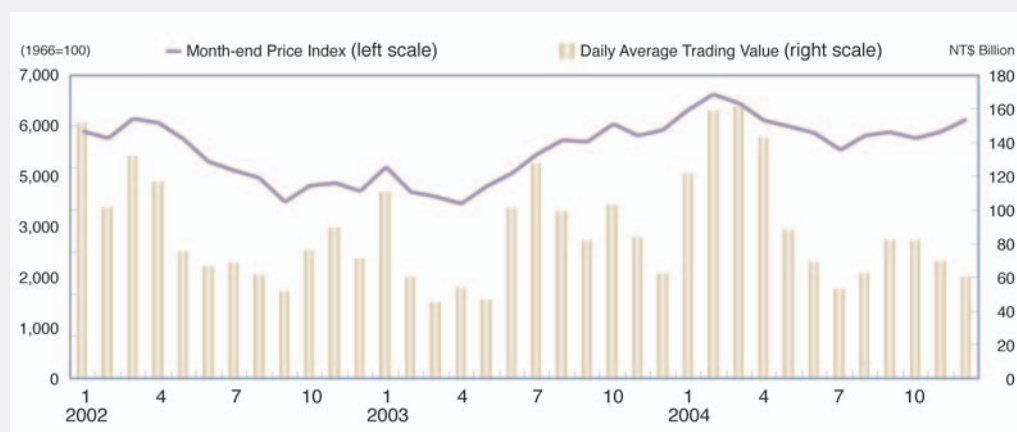
of 28 companies from the previous year-end. During the same period, the par value of total shares issued increased by 7.0 percent to NT\$5.1 trillion, while total market capitalization rose 8.7 percent to NT\$14 trillion.

Share Prices Decline After Early Gains

The TAIEX climbed higher early in the year, boosted by a recovery in both domestic and global economies, merger cases associated with financial holding companies, and a strong rebound in US technology shares. Stimulated by large net purchases by foreign investors, the TAIEX reached an annual high of 7,034 points on March 4. Afterwards, political uncertainties after the presidential election led to severe fluctuations in the stock market. From April to July, bearish sentiments overshadowed the stock market with China's macroeconomic tightening, surging international oil prices and a downgrade of the semiconductor sector by foreign securities firms all exerting downward pressure on the market. The TAIEX sank to an all-year low of 5,317 points on August 4. From then to the end of the year, international oil prices underwent a deep downward correction and Taiwan's weighting in the emerging market indices of Morgan Stanley Capital International Inc. (MSCI) was increased, both feeding through to large purchases by foreign investors in the local stock market. Furthermore, institutional investors actively engaged in year-end window dressing for their financial statements. All of these factors made the TAIEX gradually rally to conclude the year at 6,140 points, exhibiting a 4.2 percent increase when compared with the 5,891 points recorded at the end of the preceding year.

Most of the industrial group stock price indices advanced during the year. Construction shares, which recorded a gain of 39.7 percent, outperformed other shares due to a firm

TSE Stock Price Index and Trading Value



Source: TSEC Monthly Review, Taiwan Stock Exchange.

Changes in Industrial Group Stock Price Indices in the TSE Market



Source: TSEC Monthly Review, Taiwan Stock Exchange.

recovery in the property market. Steel and iron share prices recorded the second largest increase of 32.7 percent, reflecting a continuous rise in international steel prices. Transportation share prices advanced by 20.5 percent because a rise in international ocean freight rates increased profitability. Raw material-related shares, such as textile, paper and pulp, and cement and ceramics shares, performed well due to high international raw material prices. Banking and insurance share prices increased by 20 percent, mainly because of rising profitability after a substantial reduction of non-performing loan ratios and on-going mergers involving financial holding companies. In contrast, electrical and electronic machinery share prices fell by 6.4 percent, mainly because the prospects of this sector declined from its peak in the second half of the year, financial statement frauds successively occurred, and a sharp appreciation of the NT dollar in the fourth quarter caused foreign exchange losses in this export-driven sector.

Increase in Turnover

The daily average turnover for the year rose by 16.9 percent from the previous year's NT \$81.7 billion to NT\$95.5 billion, boosted by economic expansion and the expulsion of the severe acute respiratory syndrome (SARS) epidemic.

Net Buying Positions for Institutional Investors

Foreign investors registered a net purchase of NT\$284 billion in the TSE market, while local investment and trust companies and local securities dealers recorded a net sale of NT\$14.1 billion and NT\$15.4 billion, respectively.

In January and February, a rise in US technology shares and expectations of an NT dollar

appreciation led to large net purchases by foreign investors. The buying positions reversed between March and May due to China's macroeconomic tightening, mounting international oil prices, and the possibility of an earlier-than-expected US rate hike. Foreign investors returned to the TSE market in June due to a rebound in US technology shares and MSCI's announcement to increase Taiwan's weighting in two phases. However, a downgrade of the semiconductor sector and a plunge in US technology shares led to a net sale by foreign investors in July. For the five succeeding months from August, foreign investors remained net buyers mainly owing to a strong rally in US shares and lingering effects of MSCI's re-weighting of Taiwan.

Local investment and trust companies remained relatively conservative during the year, exhibiting net sales in seven months. In January and February, as share prices rose to a relatively high level, local investment and trust companies posted net sales on profit-taking. Net sales continued to May due to domestic political uncertainties, China's macroeconomic tightening and surging oil prices. June saw net purchases due to quarter-end window-dressing for financial statements. In July, the outlook of the electronics sector was dim, and investment and trust companies sold stocks to meet the cash demand for an upsurge of bond fund redemption, both leading to net sales. Investment and trust companies were net buyers of shares in August and September when share prices hovered around low levels, and net sellers again on profit-taking in October as the TAIEX approached 6,000 points. In November and December, encouraged by massive buying by foreign investors and motivated by the need of year-end window-dressing, local investment and trust companies showed net buying positions.

The GTSM Market

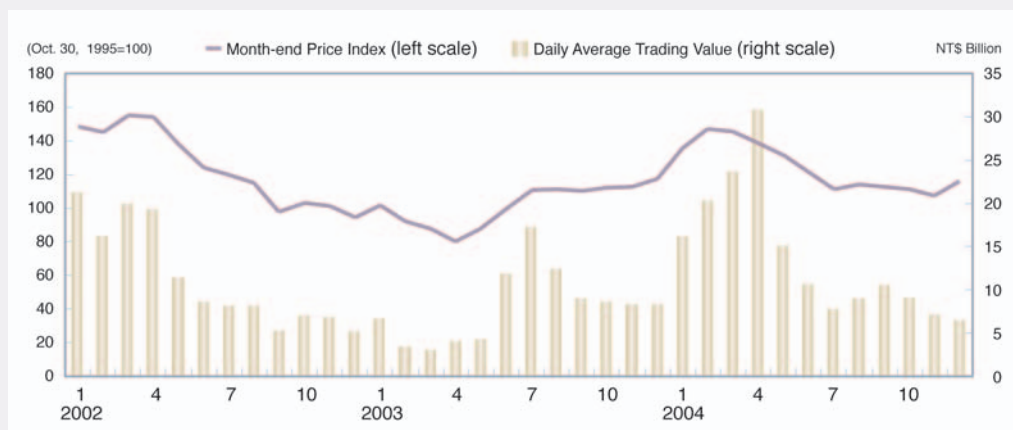
Increase in the Number of Listed Companies

The number of listed companies in the GTSM market increased to 466 at the end of 2004, an increase of 43 companies from the previous year-end. The par value of total shares issued amounted to NT\$626.1 billion at the end of 2004, 2.1 percent lower than that of the previous year-end. Market capitalization was valued at NT\$1.1 trillion at the end of 2004, recording a decline of 6.5 percent when compared with the previous year-end.

Share Prices Decline After Early Rally

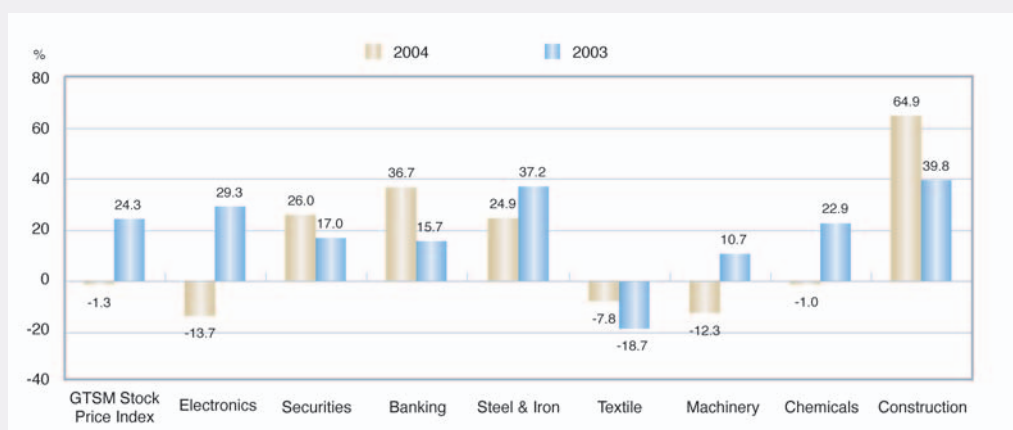
The GTSM stock price index rose early in the year and declined afterwards. From January to mid-April, a favorable economic outlook, government stimulus and continuous purchases by investment and trust companies drove up the index to an all-year high of 160.1 points on

GTSM Stock Price Index and Trading Value



Source: GTSM Monthly Review, Gre Tai Securities Market.

Changes in Industrial Group Stock Price Indices in the GTSM Market



Source: GTSM Monthly Review, Gre Tai Securities Market.

April 14. From then to mid-August, the index trended down on China's macroeconomic tightening, surging oil prices and defaults of several technology companies, hitting an annual low of 105.2 points on August 17. Thereafter, as purchases by foreign investors offset selling by domestic ones, the index entered a consolidation phase. In December, driven by year-end window-dressing needs, all institutional investors recorded net buying. The GTSM stock index closed the year at 115.8 points, down by 1.3 percent from the previous year-end.

Foreign investors and local securities dealers sold a net of NT\$12.7 billion and NT\$8.5 billion, respectively. On the other hand, local investment and trust companies bought a net of NT\$4.9

billion for the year.

Sharp Increase in Turnover

The daily average turnover in the GTSM market for the year was NT\$13.9 billion, a sharp increase of 68.1 percent from the previous year. The main reasons were the low base caused by the US-Iraq War and the outbreak of SARS during the previous year, as well as the domestic economic expansion during 2004.