

6. Stock Market

The Taiwan Stock Exchange (TSE) weighted stock price index (TAIEX) closed the year 2005 with an increase of 6.6 percent from the previous year-end. Tourism and electronics and electric machinery shares posted strong gains, while other industrial group stock price indices decreased. The daily average trading value for the year was NT\$76.2 billion, 20.2 percent lower than that of the previous year.

The GreTai Securities Market (GTSM), an over-the-counter market, weighted stock price index finished the year with an increase of 15.2 percent from the previous year-end. Electronics and textile shares advanced, while other industrial groups declined. The daily average turnover for the year was NT\$12.8 billion, 7.9 percent lower than the previous year.

The TSE Market

Decrease in the Number of Listed Companies

There were a total of 691 listed companies at the end of 2005, representing a decrease of 6 companies from the previous year-end. During the same period, the par value of total shares issued increased by 5.9 percent to NT\$5.4 trillion, while total market capitalization rose 11.8 percent to NT\$15.6 trillion.

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 Net Buy/Sell	Securities Investment Trust Companies Net Buy/Sell	Securities Dealers Net Buy/Sell
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
2005	6,548.3	76.2	131.4	15,634	719.4	-86.3	16.9
2005/ 1	5,994.2	55.0	8.4	13,733	-1.8	-1.0	-0.5
2	6,207.8	86.1	7.9	14,253	114.5	-9.8	3.8
3	6,005.9	72.9	12.2	13,807	-29.7	-9.4	0.2
4	5,818.1	59.6	8.9	13,402	-24.7	-0.6	-1.4
5	6,011.6	62.3	9.4	13,872	126.6	-10.7	-3.0
6	6,241.9	82.8	12.6	14,455	131.5	-12.6	16.4
7	6,312.0	94.3	12.9	14,664	34.9	-9.2	-2.0
8	6,033.5	78.5	12.2	14,206	-8.7	-13.5	-5.6
9	6,118.6	65.2	9.5	14,442	-10.6	13.9	-5.8
10	5,764.3	70.8	10.3	13,685	-30.8	-2.3	-6.3
11	6,203.5	78.3	11.7	14,764	179.7	-9.0	6.2
12	6,548.3	110.2	15.5	15,634	238.7	-22.0	15.0

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

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

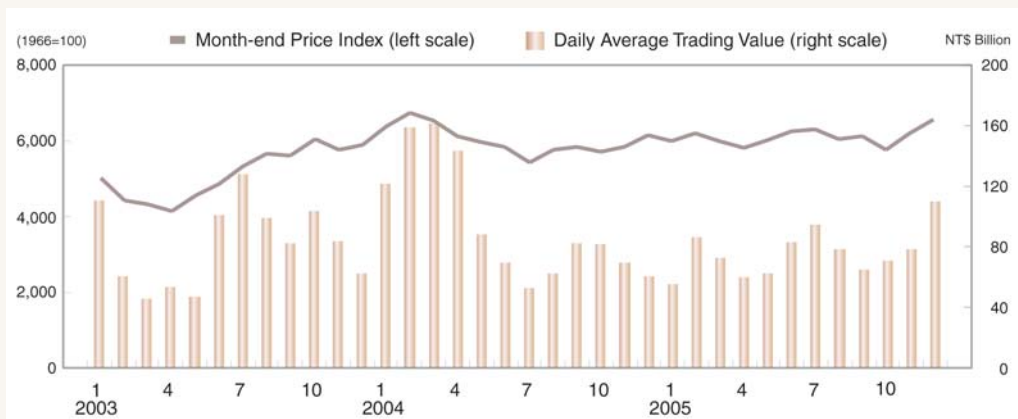
Source: Taiwan Stock Exchange Corporation.

Share Prices Consolidated before Rising towards the Year-end

In January, as surging international oil prices led stock markets worldwide lower, the TAIEX also declined. In February, global stock markets rallied, and Morgan Stanley Capital International Inc. (MSCI) scheduled to increase Taiwan's weighting in its emerging market indices in May. The TAIEX rebounded on large purchases by foreign investors. However, in the two months that followed, foreign investors dumped TAIEX shares as US stock markets turned bearish, and merger cases among financial institutions in Taiwan stalled. The TAIEX declined as a result. From May onwards, the TAIEX rose on a decrease in oil prices, bullish US and Asian stock markets and the re-weighting of Taiwan in MSCI indices. The rising trend was reversed in August, as oil prices climbed again, stock markets worldwide declined and international capital returned to the US on the continuous rise in US interest rates. The TAIEX sank to an all-year low of 5,633 points on October 28. For the remainder of the year, the TAIEX staged a strong rally as falling oil prices and rebounding stock markets worldwide prompted foreign capital to flood into Taiwan. The TAIEX reached an annual high of 6,576 points on December 29 and concluded the year at 6,548 points, exhibiting a 6.6 percent increase over the previous year-end.

Of the industrial group stock price indices, shares of traditional industries and financial sectors declined, while tourism and electronics and electric machinery shares gained ground. Tourism stocks advanced strongly by 54.4 percent on expectations that restrictions on tourists from mainland China would be lifted. Electronics and electric machinery shares rose by 24.6 percent mainly because IT industries bottomed out in the second half of the year, leading foreign investors to increase holdings of related stocks. As traditional industries, including textile,

TSE Stock Price Index and Trading Value



Source: TSEC Monthly Review, Taiwan Stock Exchange Corporation.

Changes in Industrial Group Stock Price Indices in the TSE Market



Source: TSEC Monthly Review, Taiwan Stock Exchange Corporation.

steel and iron, transportation, and plastics and chemicals sectors, experienced a decline from the cyclical peak and saw their profitability shrink, prices of related shares fell. Steel and iron shares recorded the deepest decline of 32.3 percent. Financial shares decreased by 15.0 percent, mainly because financial reform progress appeared frustrated and a substantial increase in non-performing loans arising from credit and debit cards sapped banks' profitability.

Decrease in Turnover

The daily average turnover for the year decreased by 20.2 percent from the previous year to NT\$76.2 billion. Due to the prolonged period of consolidation, individual investors, usually with high turnover rates, stood on the sidelines. On the contrary, the share of stock holdings by foreign investors increased significantly. As the market rallied towards the year-end, however, turnover expanded to a daily average of NT\$110.2 billion in December. Because foreign investors tend to adopt a buy-and-hold strategy, the turnover rate for this year declined to 131.4 percent from the previous year's 177.5 percent.

Net Buying by Foreign Investors Hit a Historic High

Foreign investors registered a net purchase of NT\$719.4 billion in the TSE market, reaching a historic high. Local securities investment trust companies recorded a net sale of NT\$86.3 billion, while local securities dealers showed a net purchase of NT\$16.9 billion.

Foreign investors were attracted to Taiwan this year mainly because MSCI increased its weighting of Taiwan in May and because Taiwan lagged behind other Asian stock markets in rising. Local securities investment trust companies registered net sales every month except

September as they were pressured by investors who wished to redeem their holdings due to a lack of confidence in local stock markets. Local securities dealers usually engage in short-swing trading, and they often buy on rising prices and sell on falling prices to meet the hedging demand of stock warrants. Therefore, local securities dealers net sold in August, September and October amid gloomy market conditions, and net bought in June, November and December when the market rose.

The GTSM Market

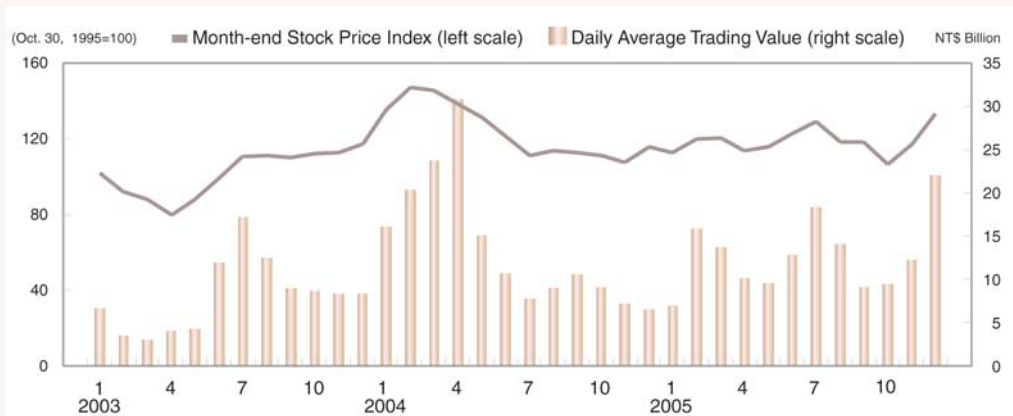
Increase in the Number of Listed Companies

The number of listed companies in the GTSM market increased to 503 at the end of 2005, an increase of 37 companies from the previous year-end. The par value of total shares issued amounted to NT\$643.2 billion at the end of 2005, 2.7 percent higher than that of the previous year-end. Market capitalization was valued at NT\$1.3 trillion at the end of 2005, recording a rise of 18.2 percent when compared with the previous year-end.

Share Prices Consolidated before Rising

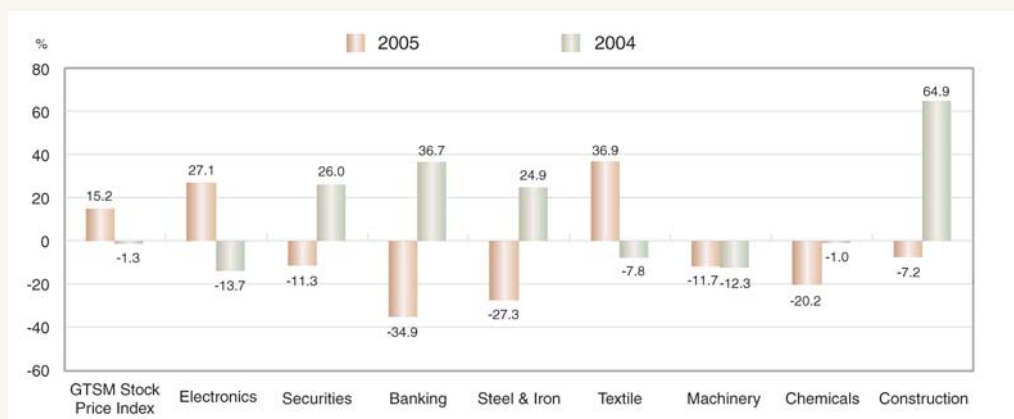
The GTSM stock price index declined in January on surging oil prices and bearish international sentiments, and rebounded in February together with stock markets worldwide. It then trended downwards as cross-Strait tensions eroded investor confidence. Starting in May, a decrease in oil prices and strong performance in US and Asian stock markets prompted the index to rise. A falling trend followed from August onwards as oil prices rose again and the US Federal Reserve continuously raised interest rates. The GTSM stock price index hit an all-year low of

GTSM Stock Price Index and Trading Value



Source: GTSM Monthly Review, GreTai Securities Market.

Changes in Industrial Group Stock Price Indices in the GTSM Market



Source: GTSM Monthly Review, GreTai Securities Market.

104 points on October 28. After that, the index rallied on the back of strengthening global stock markets and large purchases by foreign investors to close the year at an all-year high of 133 points, up by 15.2 percent from the previous year-end.

Foreign investors recorded a large net purchase of NT\$71.1 billion, while local securities investment trust companies and securities dealers sold a net of NT\$4.8 billion and NT\$4.1 billion, respectively, for the year.

Decrease in Turnover

The daily average turnover in the GTSM market for the year was NT\$12.8 billion, a decrease of 7.9 percent from the previous year. The daily average turnover in January was a mere NT\$7.0 billion due to sluggish market conditions. Daily turnover expanded to NT\$15.9 billion in February, shrank to NT\$9.6 billion in May, and generally moved in the same direction as price trends throughout the year. Towards the year-end, as the market became bullish on strong buying by foreign investors, daily turnover rose sharply to NT\$22.0 billion in December.