

## Analysis of the Current Market Status

### SITE Industry

To view 2005 global financial market as a whole, except the shining performance of domestic and foreign stock markets and NT dollar appreciation, the bond industry continued its bearish market with rising interest rates from the previous year, and constantly eroded the profits of fixed-income products.

In 2005, the fact that SITEs proceeded with disposing structured notes out of the bond funds holdings as a silent reformation, and absorbed all of the loss without damaging, the investors has completely shown the real core value and spirit of this business-"Trust". Consequently, the SITEs enterprise will re-classify the current bond funds into Quasi-Money-Market Funds and Real Bond Fund in accordance with categorization plan, aiming to improve transparency and bring stability to the market.

Furthermore, to accommodate with the implementation of "Securities Investment Trust and Consulting Act" passed in November 2004, up to the end of November 2004, there were 133 private placement funds issued, the total fund amount reached NT\$51.2 billion, it is estimated that within the near future, the business will show strong growth.

Besides that the "Securities Investment Trust and Consulting Act" allowing SITEs to issue private placement funds, moreover, on August 2<sup>nd</sup>, 2005 the governing organization issued related regulations for the enforcement of "Regulations Governing the Distribution of Offshore Funds", in the future offshore fund can only be distributed through domestic master agents, however, except the SITEs and SICEs can act as master agents, there are also securities firms and the trust enterprises which also operate with SICE licenses undertake this work. It is foreseeable that SITEs shall certain challenges while entering into the offshore fund market.

The decrease of onshore fund AUM, caused by the decline in bond fund size as the result of rising interest rates, along with the increase of new market players means that the SITEs will face more severe challenges. In the future, in order to stand firmly in the market, the SITEs not only need to enhance research and management capability, and increase self-regulatory mechanism, but also to find out the company niche and its own market segment.

### SICE Industry

The SICE securities investment consulting business have always been playing an important role on securities market with professionalism to satisfy the demands of investors, and since the enactment and enforcement of "Securities Investment Trust and Consulting Act (Act)" last year, the Financial Supervisory Commission (FSC) has constantly issued relevant rules and regulations laws to accommodate the Act. In addition to the launching of financial products innovation, expanding of business operation scope and enhancement of the protection on investor rights and interests, it also provided significant help both on the promotion of business for SICE, and the internationalization of domestic asset management market.

Up to the end of 2005, the Commission compiled statistics that there are 209 SICEs in total, among them there are 37 companies consulting offshore funds, and 855 offshore funds have been approved by the FSC; there are 38 companies engage in discretionary investment business, the contractual amount is NT\$14,033 million. To cope with the changing securities market, the FSC and the SICE industry are all engaging in the enhancement of industrial competitiveness with all strength, to enable the opening of more extensive operation space; the current development status of SICEs is described below:

#### Domestic monetary securities investment consulting business

To accommodate with market demands, and to follow the high self-regulatory membership spirit demonstrated by the foreign excellent business dealers, the Association accommodated has issued the "Self-auditing and Reporting Procedures for Securities Investment Consulting Enterprises to Perform Securities Investment Analysis Activities over Media" for SICEs to elaborate self-regulatory functions while performing securities investment analysis activities over media with self-auditing and reporting mechanism in advance, to enhance the entire business image, and to completely elaborate self-regulatory function to gain the trust of common investors and to seek for the prosperous development of securities market in whole; furthermore, at the same time co-operated with the amendments of relevant laws and regulations on the "The Code of Conduct for SICE Business Personnel" and "The Regulations Governing