



Market Analysis

The Development of the SITE Industry

Looking back at 2009, the global investment market had just experienced an unprecedented financial crisis. And just as the majority of investors are immersed in an atmosphere of despair, battered confidence and asset reduction, the global fund market bottomed out in the first quarter. Regardless of stock funds or bond funds, there was an overall upward trend, with the emerging market stocks and high yield bond funds performing above the rest and overcoming the shadows of the financial crisis in the previous year.

Up to December 2009, the number of domestic SITEs remained unchanged at 39. The number of onshore public offering funds was standing at 517, with a fund size of NTD1.975 trillion, and 1,796,262 million beneficiaries. In 2009, there were 38 new onshore funds with over 50% of them as international equity funds. The majority invested in red-chip stocks, H-shares, and Greater China funds. From the beginning till the end of the year, “China” fever was prevalent, and spread from domestic market to foreign markets, making China and related subjects the focus of the securities and trust subscription.

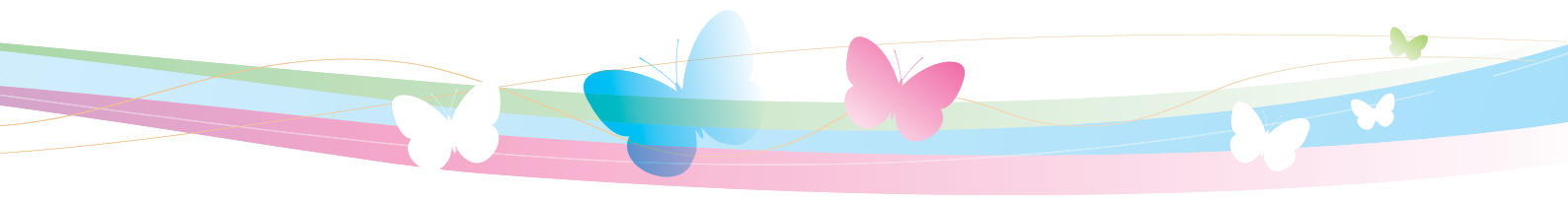
One thing worth mentioning is the first feeder fund tracking the performance of Chinese stocks – the W.I.S.E. Polaris CSI 300 Securities Investment Trust Fund. The fund

was listed on the Taiwan Stock Exchange on August 17th, 2009. This did not only give the Taiwanese investors a channel to invest products tracking A-shares, but also an important milestone in cross-strait financial cooperation. Furthermore, as the high yield bond market recovered in 2009, SITE followed suit and issued international fixed-income fund based on high-yield bonds and emerging market bonds. At the same time, they issued money market and short-term bond funds to match the risk tolerance of different investors.

Contrary to the popularity of public offering funds, the number and size of private offering funds has reduced. A total of 123 private offering funds were issued toward the end of 2009, with a fund size of NTD25.9 billion. The discretionary investment business, however, has not increased along with the improvement in the investment market. The number of contracts slightly increased to 268, with the investment amount slightly reduced to NTD657 billion.

The rise and popularity of regular saving plan among investors

The SITCA and its members have continuously and enthusiastically promoted the proper investment concept – regular saving plan (RSP), hoping local investors could utilize this principle to diversify investment risk and accumulate wealth. In 2009, the number of RSP participants has increased from 534,000 to 641,000, a 20%



increase. Monthly RSP amounts increased from NTD2.59 billion to NTD3.3 billion, with an increase of 27%. From the significant growth of the number of participants and the amount invested, regular saving plan, under the mutual efforts of SITCA and its members, has become one of the indispensable investment tool for Taiwanese investors.

The prospect of future cross-strait opportunities

In the past year, the SITCA has continued to strive to promote cross-strait exchanges and cooperation between the asset-management companies in Taiwan and China. Besides inviting CEO Hu of Guosen Securities Co. to visit Taiwan, the SITCA have organized many visits to Beijing and Shanghai to propose industry deregulation to the China Securities Regulatory Commission and China Banking Regulatory Commission as well as pushing for the relaxation of domestic investment restrictions.

On April 30th, 2009 the FSC allowed Mainland area investors to invest in securities and discretionary investments managed by the SITEs and SICEs. Besides increasing the capital in Taiwan market, it has also brought huge opportunities for the industry. Looking forward, the cross-strait negotiations and cooperation of the investment management industry must proceed without delay in 2010. Besides continuing our efforts in appealing to China for QFII quota on behalf of Taiwanese securities fund

wishing to invest in Chinese securities, we also hope to push for the cooperative sales of Taiwan funds with Chinese Banks, to increase domestic asset management scale.





The Development of the SICE Industry

Since the establishment of the SICE in 1983, up to the end of 2009, the SITCA has a total of 109 SICE members, and of those, 20 are offshore master agents, 22 are discretionary investment operators, with a total of 319 contracts. Although in recent years SICE members have gradually reduce, but the industry image has shown signs of improvement, evident of the industry's healthy development. In the future, the question of how to improve the industry's competitiveness and expand the market is still the challenge that the industry needs to face. The current 3 development trends of the SICE business activities are, consultation of domestic securities investment ,master agents and distributors for offshore funds, and discretionary investment business. The analyses of the current SICE industry and its challenges are as follows:

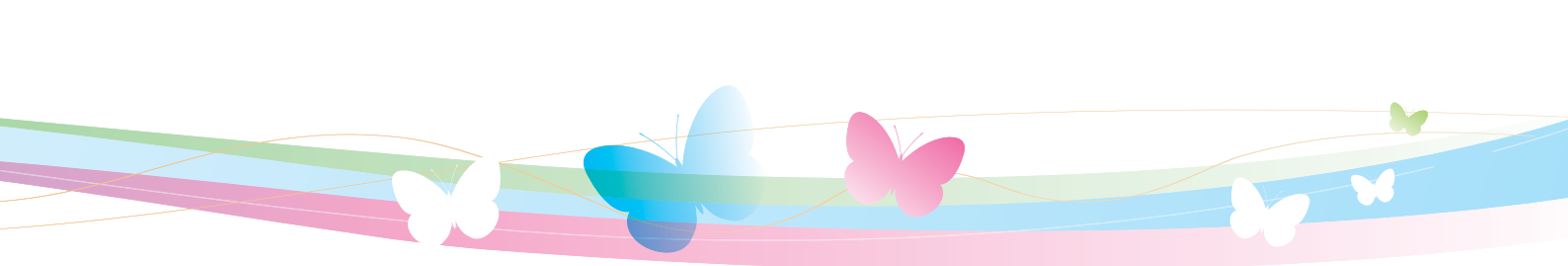
Expansion of the discretionary investment business

Up to the end of 2009, the total investment amount under the SICEs discretionary investment (including concurrent business) is at NTD 65.5 billion, an increase of 21% compared to the end of 2008. The majority of the contracts is still dominated by individual investors, leaving plenty of room for growth with institutional investors. Additionally, the SITEs and SICEs offering trust-type discretionary investment services was allowed, with the SITCA amending the

relevant rules, including "Guidelines for Reviewing the Discretionary Investment Business", "Directions Governing the Handling of Operating Bonds for Offshore Funds", the "Standards for Calculating Discretionary Investment Assets", the "Regulations Dealing with Disputes Arising from the Discretionary Investment Business". These amendments have been approved and issued by the FSC and we hope to assist the members to expand their discretionary investment business.

Improving the image of domestic SICE

The SICE industry has always aimed to provide proactive consulting services while complying with business activity requirements and developing it self-regulatory functions. The SITCA has continuously promoted and educated the SICE members on self-regulation compliance through handbooks, e-newsletters in the hope that the overall SICE industry may pursue an upgrade on the quality of its personnel and maintain a stable growth for its consulting business while enhancing investor rights protection. According to the survey conducted by SITCA at the end of 2009, 19.7% investors expressed their improved perception of those research analysts making public and TV appearance in particular compared to a year before. However, there is room for improvement in this regard.



Additionally, the current activities from illegal SICEs pose a serious threat not only to the investors' rights and interests, but also to those members which act in accordance to the laws and regulations. The SITCA will maintain its vigilant watch on illegal SICEs and facilitate the prosecution of their illegal activities in order to protect both the professional SICEs and the investors.

Prosperous development for offshore funds

With the financial liberalization and development trends in international investment, up to 2009, the accumulated amount of offshore funds reached 976, and total capital held by domestic investors increased to NTD1,942.622 billion. This is indicative of domestic investors actively extend their investments to overseas markets for diversified investment alternatives. Additionally, this also gave an opportunity to domestic securities investment institutions to learn from foreign asset management institutions. This constructive interaction not only allowed domestic asset management institutions to compete with the world's best asset management companies, and also gave an opportunity to foreign institutions to develop Taiwan market. Ultimately, the investors are the ones to benefit with more choices in the market.