

Message from the Chairman and the President



Chairman

First we want to thank all of you, our shareholders, for the strong support and encouragement with which you have given over the past year. It is this support and encouragement that have enabled the Taiwan Stock Exchange Corp. (TWSE) to grow from strength to strength. In this report we describe the results of our operations over the past year, and our prospects for the future.

The Taiwan Securities Market experienced high volatility in 2008. With the global economy maintaining a steady pace of growth and cross-straits economic and trade relations gradually opening up in the first half of the year, Taiwan Stock Exchange Capitalization Weighted Stock Index (TAIEX) rose from 8506.28 points at closing day in 2007 to a high of 9295.20 on May 19, 2008; after that it suffered from the impact of the global financial turmoil and gradually declined, reaching 4591.22 at the year's close. Over the year as a whole, the TAIEX fell by 46.02%. This drop forced the average daily trading value down to NT\$104.9 billion, a drop of 21.08% compared with the average of NT\$135.7 billion recorded in 2007. Still, with the daily average above NT\$100 billion, the market remained active.

Looking back at the past year, we see that, despite the large fluctuations in the securities market, thanks to the support of our shareholders and the concerted efforts of our entire staff, the TWSE set a number of historic records in 2008. The number of listed companies at the end of the year reached 718 and the number of listed exchange-traded funds (ETFs) rose to 11, both new records. In addition, the company continued its cooperation with the competent authority in taking the stock market in the direction of liberalization and internationalization. In both share issuance and trading, measures were instituted to upgrade market efficiency and service quality, and to bring the Taiwan stock market into line with international norms. Our performance in some major areas of business is reviewed below:

1. Promotion of Listing by Taiwanese and Foreign Companies

31 companies were newly listed during the year, exceeding the goal of 30 new listings contained in the "Executive Yuan's Financial Market Package Project." Educational seminars to promote Taiwan listing by foreign companies were held in Southeast Asian countries, including Vietnam, Thailand, and Malaysia. 50 Taiwanese companies and foreign enterprises were visited, and 7 of them have already applied for assistance to list. Secondary listings of 2 TDRs have also been approved by the competent authority

2. Development of New Financial Products and Enhancement of Service Standards

To provide investors with a diverse range of investment options, the TWSE aggressively promoted the stock-market listing and trading of exchange-traded funds (ETFs). 4 new ETFs were added in 2008: the Fubon MSCI Taiwan ETF, Fubon Taiwan Eight Industries ETF, Fubon Taiwan Finance ETF, and Polaris/P-Shares TSEC Taiwan Non-tech 50 ETF. The issuance and listing of warrants was also promoted, and the number of ETFs allowed to serve as underlying assets for warrants was increased from 2 to 10. The indices announced by the TWSE were also included among underlying assets for warrants. More than 3,500 warrant issues, with a total value in excess of NT\$95 billion, were carried out in 2008.

3. Upgrading Taiwan to an Internationally Recognized Developed Capital Market

Numerous market reforms and openings were carried out in 2008, including adjustment of the block trading system, promotion of a continuous trading system for trading hours, and implementation on Feb. 2, 2009 of the T+2 DVP (delivery versus payment) system. Adjustments were also carried out to other trading systems, including the liberalization of asset transfer operations, institution of the liquidity provider system in the ETF market, and implementation of the new capital adequacy system for securities firms.

4. Integration of the Capital Market and Reinforcement of International Competitiveness

To enhance the synergies and competitiveness of Taiwan's capital market, the spot market, derivatives market, and custodian institutions should not just each strive to improve its own operating structure but should also integrate their resources so as to reduce operating costs, and speed up the island's coming into line with the world.

The TWSE joined the Central Counterparty Global Conference (CCP12) in 2008, thereby strengthening our interchange with major clearing houses and carrying out further system reforms. In addition, the TWSE strengthened its interchange with other stock exchanges by signing memorandums of understanding for cooperation with the HoChiMinh Stock Exchange, Warsaw Stock Exchange, International Securities Exchange, and Philadelphia Stock Exchange.

The TWSE will continue to implement its major tasks in the coming years. The foremost of these is the broadening and deepening of market scale using such means as encouraging primary listings in Taiwan, or secondary listings via the issue of TDRs, by eminent domestic companies, overseas Taiwanese enterprises, and prominent foreign companies. This will expand the market and fulfill the funding platform function. To enhance overall operating efficiency and speed up the pace of stock market linkage with international norms, the TWSE will also work toward readjustment of organizational structure, form and integration of business resources.

To develop new financial products, the TWSE will encourage the trading in Taiwan of offshore ETFs, the promotion of ETF market internationalization, and the planning for the issuance of new warrant products and the use of foreign stock exchange indices, listed stocks, and ETFs as underlying assets for warrants. The exchange will pursue the establishment of a trading system and trading environment that conforms to international standards, including stronger implementation of the switch to a continuous trading system for warrants during trading hours and the assurance of trading security and order.

After suffering the impact of the global financial turmoil, economic conditions in Taiwan and abroad are gradually bottoming out and beginning to recover. At this juncture the TWSE will work harder than ever to carry out the reform of market systems and to enhance service efficiency, to maintain strong, active trading in the market, to progress toward the vision of a strong market and prosperous economy, and advance toward the goal of developing an internationally competitive market.



President