



In 2007, the Taiwan stock market has made fair gains, although the market encountered greater volatility throughout the year. In the first quarter of the year, the market slid slightly as the sub-prime mortgage defaults began to spread. During the middle of the year, the market rebounded and maintained steady growth, which reflected improvements in both economic indicators and foreign investment. In the second half of the year, however, the market again suffered extreme volatility due to multiple effects brought about by the expanded sub-prime crisis, the plunge of major international stock markets and a hefty US interest rate cut. During 2007, the Taiwan Stock Exchange Capitalization Weighted Stock Index (TAIEX), representing market performance as a whole, reached its peak at 9809.88 on Oct. 29<sup>th</sup>, and closed at 8506.28, up by 682.56 points, or 8.72%, from 2006.

Despite this volatility, the Taiwan Stock Exchange (TWSE) was still able to deliver superior performance under the regulatory authority's supervision. Both in the primary and secondary markets, many indicators broke records and reached historic highs. In the primary market, the numbers of listed companies and Exchange Traded Funds (ETFs) were 698 and 7, respectively. New warrant issuance increased by 2,666 over the year, and the total number of listed warrants was 2,085 at the end of the year. They have all reached historic highs since TWSE launched those various products. Furthermore, there were 30 initial public offerings in 2007, surpassing five more than the target of 25 set by the Executive Yuan.

In the secondary market, items that hit records include: the daily average trading value (US\$4.13 billion) and accumulated investors opening accounts (8.15 million). In addition, the total market trading value in 2007 was US\$1.02 trillion, an increase of US\$283.19 billion from the previous year, and the highest turnover value for 10 years.

Another point worth noting is that the trend of Foreign Institutional Investors' (FINI) investment in the Taiwan stock market is still continuing, and historic highs have also been reached in the following areas: FINI's market capitalization (US\$216.81 billion), FINI's trading value (US\$199.76 billion), and FINI's trading percentage (19.7%). By the end of 2007, the remittance inward fund had accumulated around USD\$137.6 billion, indicating that the Taiwan stock market is very attractive to foreign investors.

Reviewing last year's activities, TWSE continued to work with the regulatory authority, the Financial Supervisory Commission (FSC), to reform the securities market in order to transform the Taiwan securities market into a more liberal and international marketplace. The listing and trading segments have, in many aspects, greatly improved their operational efficiency and service quality, bringing the market in line with international standards. Here are some of the significant reforms.

In order to address the importance of information disclosure by listed companies, we invited regulators, corporate issuers and scholars to discuss this issue thoroughly in many seminars throughout the year. For the purpose of gauging corporate governance in listed companies, we developed self-examination indicators and held corporate governance forums and related promotional activities.

Chairman

In addition, we established a "Financial Indicators Area" on TWSE's website, making it easier for investors to instantly review the operational and financial conditions of listed companies. The TWSE has re-classified the industrial sectors of listed companies from 20 to 29, and reorganized the sector indices accordingly.

We implemented many market reforms in 2007. These reforms include modification of the block trading system, simplification of the foreign investor registration process, new mechanisms for ensuring the capital adequacy of security firms, the improvement of securities market settlement flexibility and the launching of Direct Market Access. In addition, we have also revised some market trading rules, such as exempting short sale up-ticks for shares of the largest 150 companies, improving the securities lending business, allowing securities firms to conduct money lending for securities business, and initiating a liquidity provider system in the ETF market.

In addition, TWSE has been devoted to developing a service-driven culture as well as to providing many new services. The most important task is to refurbish our website in some specific areas, making it more convenient for investors and market participants to search for relevant information. The changes include: building a "Securities Firm's Capital Adequacy Ratio and Risk Management Information Area," a "Financial Indicators Area" and an "Individualized Financial Information Database." At the same time, TWSE has also completed the Fully Automated Securities Trading (FAST) System Renewal Project, greatly enhanced the capabilities of computer applications and computerized information services.

In the arena of international cooperation and communication, 2007 was a full year for TWSE. Taiwan Investment Forums were held in New York, London, Abu Dhabi and Dubai, to which international institutional investors were invited. MoUs were signed with the Osaka Stock Exchange, the Bombay Stock Exchange, the Deutscher Börse and the Abu Dhabi Stock Exchange, sharing ideas on products, employee training and technology cooperation. TWSE also participated in the WFE 47<sup>th</sup> annual conference in Shanghai, and hosted the "AOSEF Market Data & Technology Collaboration Workshop" near Taipei, which greatly contributed to enhancing the international cooperation of the exchanges community.

In terms of our future direction, in addition to expanding and deepening the scope of the market and encouraging overseas Taiwanese and foreign businesses to list on TWSE, we will continue to promote and develop the international competitiveness of the market. Strategies for achieving this include integrating market resources and providing full-scale market services. There is a global trend for exchanges to adjust their internal organizations and integrate market resources. This improves the entire operational efficiency, and helps the market to share experience and cooperate with other exchanges for mutual benefits. Moreover, TWSE constantly improves its full-scale services for market participants, builds trading systems and investment environments in line with international standards so as to attract domestic and international issuers and investors, and expands its primary and secondary markets. It is hoped that these efforts will enhance the core competitiveness of the entire securities industry, making TWSE an internationally significant capital market.

President

