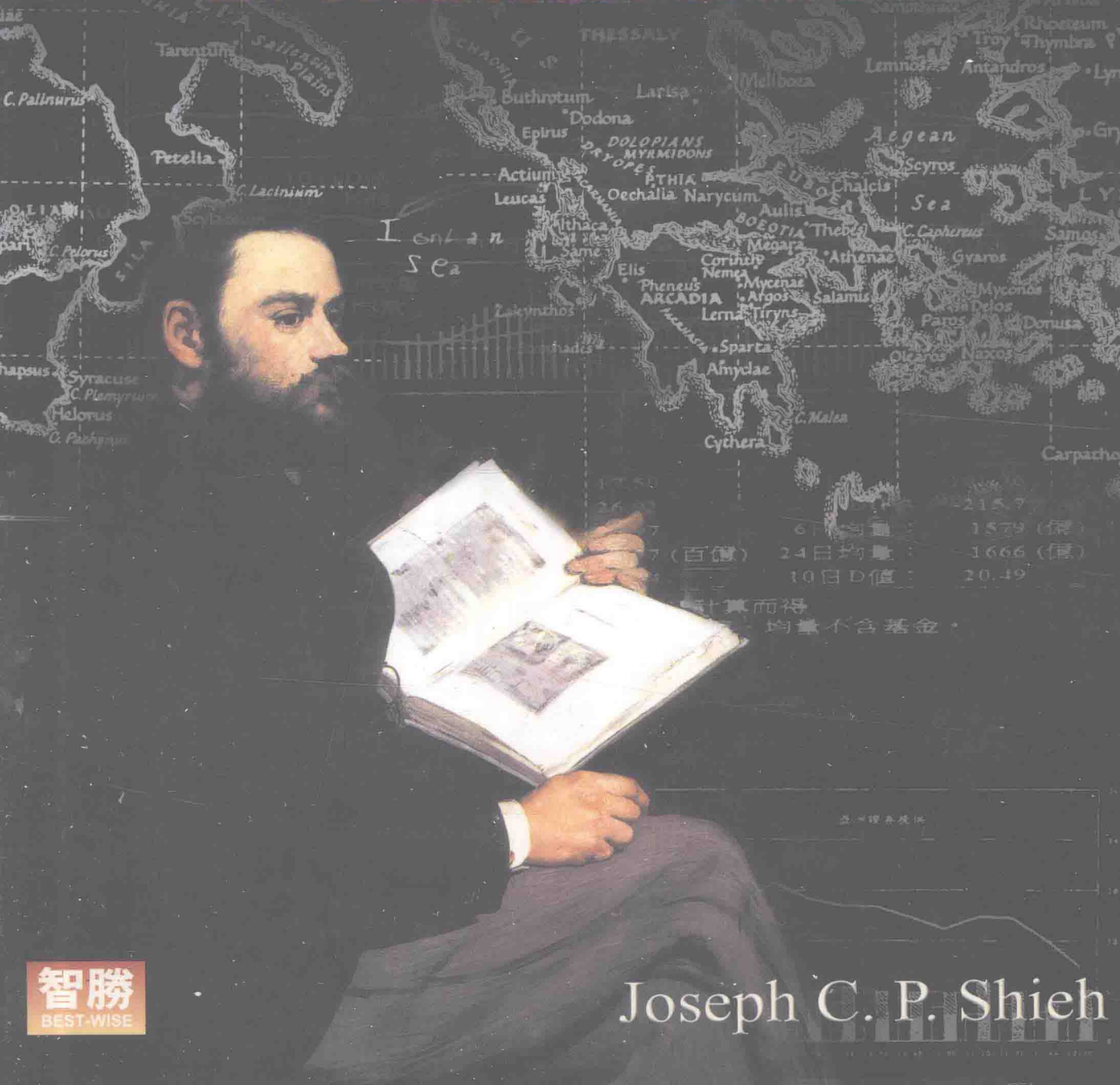


INVESTMENT BANKING

IN GREATER CHINA



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Preface

The global financial market has experienced a terrific shock over the past two years. This is especially true after the 911 attacks and the recent major corporate scandals in the US. These events have heavily affected the US market, which then triggered problems in the financial markets in Taiwan. Furthermore, the impact of the downward spiral in the global economy, the effect of the overheated Mainland investment trend along with Taiwan's accession into the WTO acted together to call into question the future competitiveness of Taiwan. The rapid change in the global economy in the year 2002 has led to two extreme developments: there are new fashions and trends for investors to follow; however there are also many new uncertainties. America dominated the growth of the global economy for almost ten years, but now her economy is experiencing a sluggish market burdened with overproduction and a high unemployment rate. The slower growth in the economy this year is expected to be a focal point for global investors after the year 2002. On the other hand, the Internet, telecommunications, biotechnology and other newly emergent industries in the securities market have successfully succeeded the position of the traditional PC industry. These industries, which were once doted on by global investors, disappointed investors within half a year. The Internet industry has changed from a star industry into a fallen star. In addition to rapid changes within industries, global financial and telecommunication companies are constantly merging, which along with a trend towards strategic investments leads me to believe that the financial markets are entering a complex new era.

Relative to many emergent industries, investment banking is a traditional business. Traditional investment banking is an industry that chiefly serves

customers and their demands, and whose needs are generally restricted to limited financial tools and geographical network systems. Conversely, ever since the development of the IT field, which was accompanied by massive usage of derivative products (this includes futures and options etc.) on the capital market and the spread of the modern telecommunications network, the financial market has revolutionized. A competitive investment bank not only has to specialize in stocks and bonds, but must also possess professional expertise in globalized products, technology and marketing. In fact, Merrill Lynch, Goldman Sachs, Morgan Stanley and many other professional global investment banks are preparing themselves to utilize these new aptitudes to expand their businesses onto the global stage. Conversely, these expansions will pose new threats to our domestic securities firms and commercial banks.

Our domestic securities have undergone various mergers and acquisitions ever since last year. Perhaps these actions are the beginning of the modernization of investment banking in Taiwan. Industries have begun to integrate, which generally implies a new change. Traditional brokerage and underwriting businesses are completely jam-packed. Therefore, if we hope to approach the global stage, breaking into the global market is the only way to survive. Nevertheless, insufficient professionalism and product expansion will burden the competition. Furthermore, a persistent pessimistic market has forced the financial authorities to undergo a series of changes with prompt actions on financial innovation and restructuring. Within the past two years the government has already amended the laws on brokerage operation, which enables individual trust functions to be applied easily. In addition, the Ministry of Finance continues to promote futures and options restructuring as well as the popularity of the warrant and index futures, and so the asset management market will soon experience greater competition, which will also lead to greater challenges in the financial market. Finally, as more financial products are developed, the risk management businesses underlying investment banking are now more important than ever. This includes

evaluation, hedging, active operation and other techniques that will all require greater levels of professionalism. For example, now that the financial asset securitization rules have been passed by the legislature, investors can anticipate the first financial asset securitization product to be introduced by the first quarter of the year 2003. This will assist in product innovation and allow bankers and investors to hedge on interest rate fluctuation. The purpose of this book is to provide readers with materials on modern investment banking and its necessary financial functions requirements. I anticipate readers of this book can assist our domestic businesses in enhancing their competitiveness. The arrangement of this book will begin from traditional underwriting business and lead the reader in detail over future developments of financial consultation, asset and risk management and other functions.

The features of this book include the following:

1. Abundant Information

This book includes information from both domestic and foreign markets, which can serve as references for both academics and businesspeople. Compared to other professional financial books, the simple illustrations and wording of this book will assist readers' understanding and enhance their reading efficiency.

2. Timely Knowledge

Changes within industries have been speeding up ever since we entered the 21st century. More often than not, these changes have already exceeded the scope of traditional knowledge. This book will introduce e-finance, evaluation of the Internet industry, hedge funds, VaR and other innovations. This book consists of knowledge that corresponds with current events in the financial world. In addition, to increase the interest of readers, the book also includes some interesting factual cases.

3. Localization

All my books are related to domestic financial markets and development.

The content of this book also includes many factual cases and illustrations.

4. Combination with Other Works

Although this book falls into the field of investment banking, the content of this book is closely related to all my other works. The primary purpose of this book is centered on illustration and operation technique. Supplementary details of these issues can be found in my other works, including "Financial Management," "Contemporary Investments," "Fixed Income Securities," and "Futures and Options."

Because I have been working in the industry for years, I believe that my acquisition of new knowledge will not be inhibited by my new managerial role. In my opinion, to prepare oneself for the torrent of change in the global economy, constant reading is essential to sharpen professional knowledge and enable oneself to make correct strategic decisions. This accumulation and improvement is reflected in my recent works, which include the new edition of "Contemporary Investments," "Futures and Options," and "Investment Banking in Greater China." When I took over the position of the president of Chung Hsing Securities Corporation and executive vice president of the Mega Financial Holding Co. Ltd, I experienced the extreme competitiveness of the securities market, and for this reason it has become difficult to compose this book at the same time. Fortunately, I have had the opportunity to satisfy my aspiration and make it a reality. This book is written to fulfill the demands of readers. Upon the completion of this book, a special thanks goes to one of my assistants: Ti-Yun Jenny Tsai, who not only provided finance expertise, but also her language skills, which have made an immense contribution to this English version. In addition, many thanks go to my other assistants: Frank Wu, Jason Liu, Wilson Lin, Jeff Chang, Pei-Ling Peggy Tu and Chen-Che Ho, who possess abundant theoretical and practical experience. Furthermore, I would like to thank the former Finance Minister Yen Ching-Chang with many other senior financial experts along with President Benjamin Wan, Mark Hammons and all the other colleagues that work in Best-Wise

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Joseph C. P. Phieh

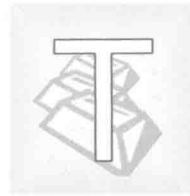
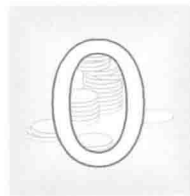
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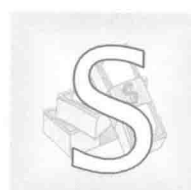
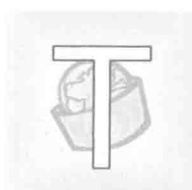
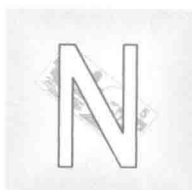
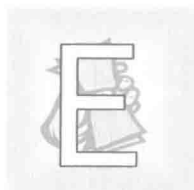
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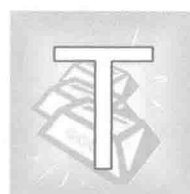
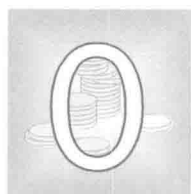
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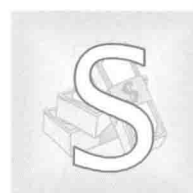
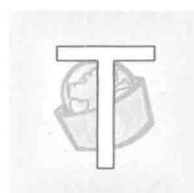
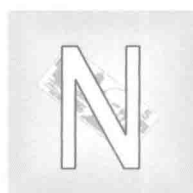
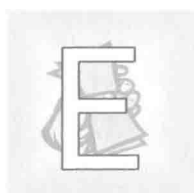
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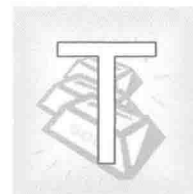
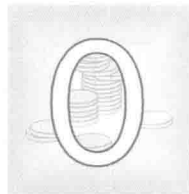
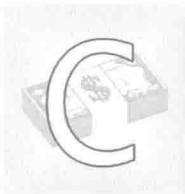
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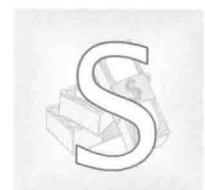
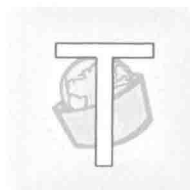
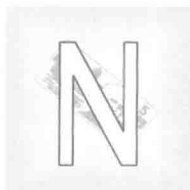
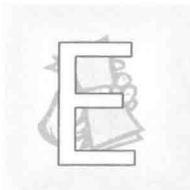
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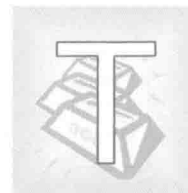
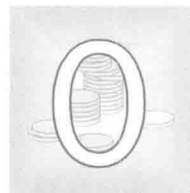
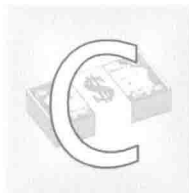
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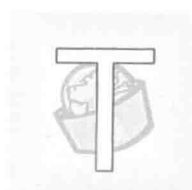
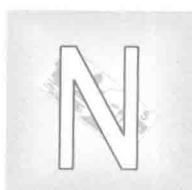
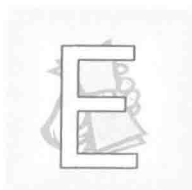
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An Introduction to Investment Banking

The rapid growth and development of the global financial market has expedited significant changes in financial activities in all countries.

The improvement of the financial market in Taiwan began by the diversification of its financial system. Although traditional commercial banks are still among the most important financial institutions in the economy, the gradual emergence of the “anti-agency in the market” is an indication that, nevertheless, a new era of investment banking has finally arrived. Traditional bankers and those bill financing companies that live off commercial business can no longer continue as in the past because indirect access to loans has increased more rapidly than direct access. For this reason, traditional bankers are no longer the major credit source provider today. Moreover, direct finance has driven and expedited the development of the investment banking industry. The attention of the public was captured by the popularization of the idea of investment banking and relative financial supervision. The majority of people are unfamiliar with the term “investment banking,” and most of them consider to be a new kind of banking industry. In fact, investment banking is not a new type of business, but is rather generally involved in an extensive