

## 5(a) **Review of the Performance of the Company and its Subsidiaries**

The SGX group's business comprises mainly the Securities Market and Derivatives Market. We present herewith the unaudited financial information for the quarters ended 30 September 2001 and 30 September 2000.

### ***Net Profit After Tax / Operating Profit***

The group recorded net profit after tax of \$14.5 million and operating profit of \$11.6 million for the current quarter ended 30 September 2001. This compared to net loss after tax of \$0.6 million and operating profit of \$20.5 million for the previous corresponding quarter.

### ***Operating Revenue***

The group generated operating revenue of \$48.6 million for the current quarter, compared to \$54.3 million for the previous corresponding quarter. The 10.3% decrease was mainly attributable to the decrease in income from the Securities Market.

Securities trading value dropped 16.7% to \$31.0 billion in the current quarter, from \$37.3 billion of the previous corresponding quarter. This resulted in 24.7% decrease in securities clearing fees to \$14.3 million from \$19.0 million, and 20.3% decrease in account maintenance and processing fees to \$8.1 million from \$10.2 million.

On the other hand, derivatives trading volume increased 17.9% to 8.0 million contracts in the current quarter from 6.8 million contracts in the previous corresponding quarter, largely due to the increase in Eurodollar trading volume. This resulted in 14.0% increase in derivatives clearing fees to \$9.5 million from \$8.3 million.

### ***Operating Costs***

Total operating costs increased by 9.5% to \$37.0 million in the current quarter from \$33.8 million of the previous corresponding quarter.

While staff costs decreased 3.2% to \$15.8 million from \$16.3 million on lower provision of variable bonus for the current quarter and a write-back of bonus provision related to last year, the system maintenance costs and occupancy costs increased by 41.2% and 29.9% respectively as a result of our capacity building effort for long-term growth.

### ***Performance of the Securities Market***

For the current quarter ended 30 September 2001, the Securities Market generated \$31.7 million of operating revenue and \$17.3 million of segment profit. This compared to \$37.5 million of operating revenue and \$22.5 million of segment profit for the previous corresponding quarter.

The current financial year began with a few challenges. The changing global economy adversely impacted global securities markets, including ours, as reflected in lower securities trading value mentioned above.

In addition, market conditions discouraged initial public offerings, which dropped to 8 in the current quarter from 30 of the previous corresponding quarter.

However, the number of Securities Market members stayed at 33 despite the recent consolidation and merger activities in the local brokerage industry.

### ***Performance of the Derivatives Market***

For the current quarter, the Derivatives Market generated \$14.2 million of operating revenue and \$3.7 million of segment profit. This compared to \$13.1 million of operating revenue and \$3.2 million of segment profit for the previous corresponding quarter.

Trading volume in our Derivatives Market registered 17.9% growth between the two quarters. In addition, September 2001 saw a record high trading volume of 3.4 million contracts, compared to the previous record high of 3.2 million contracts traded in June 1999.

The growth in trading volume was mainly attributable to the active trading in Eurodollar contracts on increased volatility of interest rates on the recent actions by the U.S. Federal Reserve Board. Our Eurodollar trading volume in the current quarter increased by 118% to 4.7 million contracts from 2.2 million contracts in the corresponding previous quarter, and represented 59% of our total derivatives volume for the current quarter. The Euroyen trading volume, in contrast, fell by 73% between the 2 quarters as a result of lower interest rate volatility on the ultra-low interest rate policy of the Bank of Japan.

On the domestic front, the Singapore Government Bond Futures contract, which started in June 2001, registered a total trade of 46,878 contracts for the current quarter. Meanwhile the more established Singapore Dollar Interest Rate Futures contract recorded a total trade of 33,635 contracts during the current quarter, an increase of 66% over the previous corresponding quarter.

Trading volume in our electronic market (ETS) increased by 31.6% to 364,098 contracts in the current quarter compared to 276,582 contracts in the previous corresponding quarter. This is mainly attributable to business development and marketing efforts on the Singapore equity index and the new Singapore-dollar government bond products.

### ***Investment Performance***

The investment portfolios managed by independent fund managers appreciated by \$5.6 million for the current quarter as a result of favourable fixed income market performance on lower interest rates. This compared to depreciation of \$2.2 million for the previous corresponding quarter.

The previous corresponding quarter also recorded \$15.7 million loss on the equity portfolios managed by independent fund managers, which were subsequently liquidated in October 2000 (please see paragraph 4d).

Interest from bank deposits amounted to \$1.7 million for the current quarter, \$1.1 million lower than the previous corresponding quarter due to lower average deposit balance and lower interest rates.

### ***Balance Sheet***

The Group remained debt-free and its major assets comprise \$307.4 million of investment placed with independent fund managers, \$237.9 million of cash and cash equivalents which were mainly in bank deposits, and the new premises at book value of \$214.4 million. The Group's net assets amounted to \$811.8 million as at 30 September 2001.

### ***Cash Flow***

The Group had net cash inflow of \$7.2 million for the current quarter. This compared to \$314.9 million net cash outflow for the previous corresponding quarter mainly as a result of the \$330 million placement with independent fund managers.

### ***Contingent Liabilities***

At the end of the current quarter, we had unsecured contingent liabilities to banks for standby letters of credit issued to Chicago Mercantile Exchange and London Clearing House of US\$53.5 million and US\$1.6 million respectively. These standby letters of credit provided guarantees as margin for the open positions of our clearing members, and were in turn supported by the margin funds placed with us by the latter.

We are planning to relocate most of our operations from the leased premises at the Singapore Exchange building to the new premises at Unity Tower by the end of 2001. We are currently negotiating with the landlord on the terms of early vacation of the leased premises, including a compensation payment to the landlord, which has not been determined at this stage.

## **5(b) Unusual Items After the Financial Period**

In the opinion of the directors, no item, transaction or event of a material and unusual nature has arisen in the period between 30 September 2001 and the date of this report which would affect substantially the results of the operations of the Company and the Group for the current quarter.

## **6 Current Year Prospects And Initiatives**

Our operating revenue is primarily dependent on the level of activity on our exchanges, including the volume and value of the securities and derivatives contracts traded. Other factors such as the number and market capitalization of listed entities, and the number of new listings also affect our revenue.

Global equity market conditions remain uncertain, especially in the wake of the tragic incident in New York and Washington on 11 September 2001. However, we are not aware of any other business factors, other than those disclosed in this announcement, that will have a substantially adverse impact on the Group's business performance.

We highlight below our business initiatives and the corresponding time frame on a calendar year basis.

### **6(a) Securities Market Initiatives**

Recognising the importance of maximising shareholders' value, we regularly review our fee structure to ensure our competitiveness in the global market. Currently we charge a single fee for clearing, settlement and custody services, and for acting as central counter-party to all securities transactions executed on the Exchange, subject to a fee cap of \$100 per trade. In a number of other markets, separate fees are charged for various services.

We announced on 8 October 2001 that we will raise the cap on the securities clearing fee to \$200, effective 1 December 2001. Based on the current business scenario, we expect this change to increase our operating revenue by two to seven per cent.

To ensure that our listing requirements suit market needs and practices, we have embarked on a comprehensive review of our listing manual. We have published a proposed new listing manual for public comments and are evaluating the responses.

To boost the competitiveness and attractiveness of the local market, we have been undertaking the following projects:

- ***SGXAccess***

On 29 March 2001, we launched SGXAccess, an open interface for securities trading which provides for wider and more direct distribution of products. SGXAccess uses a widely accepted international protocol (FIX 4.2) and allows brokers to differentiate their products to clients.

To date, 13 member companies have signed Memoranda of Intent to adopt SGXAccess. Two members have already adopted SGXAccess, and one of them is using it as its primary means of accessing our marketplace. We will continue to promote and market SGXAccess to other member companies, on-line brokers and potential overseas brokers and traders. We will also market SGXAccess to independent software vendors to create software solutions for member companies.

- ***Exchange Traded Funds (ETFs)***

ETFs are indexed funds or baskets of stocks that trade in the same way as individual stocks. Further to our launching of 5 ETFs in May 2001, we are now working closely with State Street Global Advisors (SSgA) on the development and marketing of an ETF based on the Straits Times Index (STI). SSgA has applied for the listing of STI Tracker on SGX-ST. We expect to launch the local STI ETF early next year.

- ***Securities Borrowing and Lending***

We have finalised the operating procedures for the establishment of the SGX Securities Lending programme. For a start, we have begun to build the lending pool by inviting participation from investors who hold at least 50,000 shares of any eligible stock from an initial list of two hundred S\$-denominated stocks listed on SGX Mainboard. We expect to start the borrowing and lending activities by the end of 2001. This facility will improve investment and hedging opportunities for market participants, and pave the way for the development of an active equity options market.

- ***Straight Through Processing***

We are developing an open settlement infrastructure that will allow member companies to connect their own settlement and risk management systems to the CDP settlement system, and facilitate Straight Through Processing (STP) to improve market efficiency. STP, which automates trade processing from order entry to settlement and custody, will reduce operating costs and lower the risk for market participants in securities settlement.

We will develop common messaging standards for participants and determine the business and technical specifications by the end of 2001.

- ***Cross Border Linkage Infrastructure***

In June 2000, we entered into an agreement with the Australian Stock Exchange (“ASX”) to design and establish an electronic co-trading and clearing system. This electronic linkage will allow brokers at each exchange to transmit orders through their existing trading terminals directly into the electronic trading system of the other exchange for execution. Information necessary for clearing and settlement will also be provided. We believe this facility will increase the liquidity of the securities covered by the link. The link may also serve as a model for regional cooperation. We anticipate having this linkage facility operationally ready by the end of 2001.

- ***Strategic Alliance With Tokyo Stock Exchange***

On 1 October 2001, SGX and Tokyo Stock Exchange (TSE) announced plans to pursue a strategic alliance with the aim of broadening distribution and enhancing the liquidity of products traded on both markets.

The two exchanges will explore initiatives relating to cross access arrangements for the co-trading and clearing of products listed on both exchanges, new product development, marketing, information technology development, and information sharing. The cross access arrangements will enhance members’ access to each other’s markets, and expand the range of financial instruments available to participants in both markets.

- ***Real-time Market Data Feed***

To add value for our customers and end users, we are developing a multi-level data feed dissemination system. We expect to finalize the pricing of the data feed in November 2001, and embark on a marketing programme on this new service thereafter.

- ***Customer Relationship Management System***

We introduced CDP Internet Access on 28 September 2001 to provide securities account holders with secure online access to information regarding their shareholdings and portfolio value. Towards the end of 2001, we will also launch an automated information system to respond to phone access to information on CDP services, corporate actions and personal shareholdings.

## ***6(b) Derivatives Market Initiatives***

Following are highlights of major projects:

- ***Global Access to SGX-DT Electronic Trading System (ETS)***

We have been actively working with independent software vendors (ISVs) and Corporate Members to develop direct interfaces to the ETS. SGX-DT products on ETS can then be accessed directly through such ISVs/proprietary front-ends globally through internet and other leased or private network lines. Several ISVs and member companies are already successfully connected to the ETS from several major overseas markets.

- ***Palm/Pocket PC Access to Derivatives Trading***

The ETS has been accessible globally from palm/pocket PCs since 26 October 2001. The SGX derivatives contracts which can be traded via palm/pocket PCs include Euroyen Futures, Japanese Government Bond Futures, Nikkei 225 Futures, Nikkei 300 Futures, MSCI Taiwan Index Futures, MSCI Singapore Index Futures, Straits Times Index Futures,

S&P CNX NIFTY Index Futures, 5-year Singapore Government Bond futures and the recently launched Single Stock Futures.

- ***Singapore Dollar Interest Rate Futures***

Singapore Dollar Interest Rate Futures (SD) will be available for trading via the ETS with effect from 23 November 2001. SGX members, traders and customers may therefore trade SD electronically through ETS terminals, or terminals provided by independent software vendors such as Bloomberg, GL Net, patsystem, EasyScreen, or through palm/pocket PCs.

- ***Single Stock Futures***

Single Stock Futures (SSFs) based on 15 selected stocks listed on SGX-ST were launched on 26 October 2001. They can be traded electronically on ETS terminals and SESOPS terminals. SSFs based on major stocks listed in the key regional, European and US stock markets will be listed at a later stage. These instruments will increase arbitrage opportunities and market liquidity.

The introduction of SSFs represents a true synergy of our securities and derivatives markets, and we expect to see increased inter-market trading and hedging activities involving the two markets.

We continue to conduct extensive marketing and education programmes on this new product and have received excellent responses to our SSFs seminars.

- ***Clearing Operations and Risk Evaluation (CORE) System***

Launched in April 2001, CORE is a new clearing system developed in-house for monitoring intra-day risk by providing timely and accurate assessment of members' accumulated exposure. CORE employs a new settlement algorithm, thus reducing SGX-DC's dependence on settlement banks to confirm margin calls on clearing members. Information is also provided to clearing members electronically to enable them to implement straight through processing for trade settlement.

We will be implementing the second phase of our CORE system to enable our members to manage their margin collateral lodged with DC electronically.

## **6(c) IT Solutions (SGX-ITS) Initiatives**

- ***Securities Processing & Settlements Outsourcing Services – Megatrex Trading Pte Ltd***

On 27 March 2001, SGX-ITS signed an agreement to form a joint venture company, Megatrex Trading Pte Ltd, with DBS Securities and OCBC Securities to provide securities processing and settlement outsourcing services.

This company expects to increase client brokers' operational efficiency and reduce transaction costs by providing technology (Application Service Provider, or ASP) and operational (Business Service Provider, or BSP) outsourcing services for securities processing. These services will cover the whole value chain of securities processing – from order entry to order management, trade enrichment, settlement, and custody, and will be offered on a modular basis.

We will also be developing a system which includes multi-market, multi-product, multi-currency and real time analysis capabilities. The solution will ultimately enable straight

through processing for the entire chain of securities processes by integrating the front-end with the back-end of a securities transaction.

We have presented the product offering and indicative pricing to brokers, and two interested parties have signed non-binding Letters of Intent.

In September 2001, SGX-ITS injected \$4.1 million into Megatrex Trading Pte Ltd and retained a 51% equity interest in it. The joint venture company is scheduled to have its official launch before the end of 2001.

In the meantime, ITS will continue to service its current customers on the on-line trading system, Vision Broker I, Vision Broker III and the Client Accounting System.