

CORPORATE GOVERNANCE REPORT

Principle 1 : Board's Conduct of its Affairs

- 1.1 The board oversees SGX's business affairs. The key matters for board oversight include:
 - (a) approving broad policies, strategies and objectives of the company
 - (b) monitoring management performance
 - (c) overseeing the processes for evaluating the adequacy of internal controls, risk management, financial reporting and compliance
 - (d) approving annual budgets, major funding proposals, investment and divestment proposals
 - (e) assuming responsibility for corporate governance
- 1.2 Matters which are specifically reserved to the board for approval are:
 - (a) matters involving a conflict of interest for a substantial shareholder or a director
 - (b) material acquisitions and disposal of assets
 - (c) corporate or financial restructuring
 - (d) share issuances, dividends and other returns to shareholders
 - (e) matters which require board approval as specified under the company's interested person transaction policy
 - (f) any investments or expenditures exceeding \$5 million in total
- 1.3 To assist in the execution of its responsibilities, the board has established six board committees, namely, the Nominating Committee (NC), the Audit Committee (AC), the Compensation and Management Development Committee (CMD), the Appeals Committee, the Strategy Committee (SC) and the Conflicts Committee (CC). The terms of reference and composition of each board committee are available at www.sgx.com. The composition of each board committee is also found at page 124 of the annual report.
- 1.4 The board meets at least six (6) times a year. The frequency of meetings and the attendance of

each director at every board and board committee meeting is disclosed in this Report.

Director Training

- 1.5 SGX conducts a comprehensive orientation program to familiarise new directors with SGX's business and governance practices. The aim of the orientation program is to give directors a better understanding of SGX's business and allow them to assimilate into their new roles.
- 1.6 Each director is provided with an annually updated manual containing board and company policies relating to the disclosure of interests in securities, disclosure of conflicts of interest in transactions involving SGX, prohibition on dealings in SGX's securities and restrictions on the disclosure of price-sensitive information. Directors are also informed on regulatory changes initiated by or affecting SGX.
- 1.7 SGX has an on-going training budget for directors to receive further relevant training of their choice in connection with their duties - relevant courses include programs run by the Singapore Institute of Directors. Directors are also welcome to request further explanations, briefings, or information on any aspect of SGX's operations or business issues from management.

Principle 2 : Board Composition and Balance

- 2.1 The board comprises twelve (12) directors. The Chairman and the CEO are the only executive directors, while the remaining ten (10) directors are non-executive and independent of SGX.
- 2.2 Each director has been appointed on the strength of his caliber, experience and his potential to contribute to SGX and its business. Please refer to the "Board of Directors" section of the annual report for the individual directors' profiles.

- 2.3 The board considers that the present board size facilitates effective decision-making and is appropriate for the nature and scope of SGX's operations.

Principle 3 : Chairman and CEO

- 3.1 The roles of the Chairman and CEO are separate and their responsibilities are clearly defined to ensure a balance of power and authority within SGX.
- 3.2 The Chairman manages the business of the board and the board committees, and monitors the translation of the board's decisions and wishes into executive action.
- 3.3 The Chairman approves the agendas for board meetings, and exercises control over the quality, quantity and timeliness of information flow between the board and management.
- 3.4 The CEO manages the business of the company, and implements the board's decisions. The CEO has appointed an executive committee (EXCO), comprising senior management executives, to assist him. The CEO is chairman of the EXCO.

Principle 4 : Board Membership

- 4.1 The NC is chaired by Mr Low Check Kian, an independent and non-executive director (NED). It comprises six (6) directors, the majority of whom are independent.
- 4.2 The NC recommends all appointments and re-appointments of directors to the board and board committees. As an exchange holding company, all appointments and re-appointments to the board, the NC and the Conflicts Committee are subject to SGX's regulator's (MAS) prior approval.
- 4.3 The NC is also charged with determining the independence of directors. They have conducted

their annual review, using the Code's criteria for independence, and have ascertained that all NEDs are independent.

- 4.4 As a matter of policy, NEDs are expected to serve for four (4) to six (6) years. In exceptional cases, the NC may recommend the extension of a director's service.
- 4.5 The board renewal process, which began last year, is continued this year by the retirement/resignation of three (3) directors who have each served on the board for a minimum of four years. The NC has reviewed the qualifications of suitable candidates and identified suitable proposed directors. The profiles of the proposed directors who will be standing for election in the AGM may be found in the "Proposed Directors" section of the annual report.

Principle 5 : Board Performance

- 5.1 For the second year running, SGX commissioned an independent consultant, Egon Zehnder to conduct a formal and independent assessment of the functions and effectiveness of the board as a whole. The assessment report was reviewed by the board and the recommendations duly noted.
- 5.2 The assessment concentrated on the qualitative factors in the functions and workings of the board instead of the financial performance indicators set out in the Code. SGX is of the view that such financial performance indicators are more appropriate as a measure of management's performance. The company's share price performance over a period of 5 years, adjusted for returns, against the benchmark index of the All-Sing Equities Index, and total shareholder return are considered to be relevant criteria for assessment. However, these criteria will be applied when SGX has passed 5 years as a listed company.

- 5.3 The assessment of each director's performance is undertaken by the Chairman and the results of the assessment are discussed with the NC chairman. The criteria for assessment include attendance record, intensity of participation at meetings, the quality of interventions and special contributions.
- 5.4 The assessment of the Chairman's performance is undertaken by the NEDs, led by the NC chairman.

Principle 6 : Access to Information

- 6.1 Board memos accompany each decision and mandate sought by management, and give the context, explanatory information and justification, where applicable, for relevant budgets, forecasts and projections. Additionally, all analyst reports on SGX are forwarded to the board on a regular basis in order for directors to keep abreast of analyst views on SGX's performance.
- 6.2 Board and board committee papers are distributed a week in advance of the meetings to directors. Staff who can provide additional insight into matters to be discussed will be present at the relevant time during the board and board committee meetings. Draft agendas for board and board committee meetings are circulated to EXCO and board committee members respectively in advance in order for them to add items to the agenda.
- 6.3 The Company Secretary's role is to advise the board through the Chairman on all governance matters, ensuring that board policies and procedures are complied with as well as facilitating director's induction and training. Where directors, whether individually or as a group, require independent professional advice, the Company Secretary will appoint a professional adviser with costs to be borne by SGX.
- 6.4 Board interaction and independent access to senior management is encouraged. All EXCO

members attend all board meetings. In addition, board members have the contact details of each EXCO member.

Principle 7 : Procedures for Developing Remuneration Policies

- 7.1 Mr Wong Ngit Liong, an independent and NED, chairs the CMDC. The majority of the CMDC are independent. No CMDC member or any director is involved in deliberations in respect of any remuneration, compensation, options or any form of benefits to be granted to him.
- 7.2 The CMDC approves the framework for remuneration of the entire organisation. The NC, together with the CMDC chairman, decides on the specific remuneration packages for executive directors and senior management upon recruitment. Thereafter, the CMDC will approve the annual increment and variable bonus budgets proposed by management.

Principle 8 : Level and Mix of Remuneration

- 8.1 NEDs are remunerated based on a framework of basic and attendance fees for serving on the board and board committees.
- The framework for directors' fees is as follows:
- (a) basic fee - \$30,000 per annum
 - (b) attendance fees - \$1,200 per meeting except for the AC
- 8.2 Fees for NEDs are subject to the approval of shareholders at the AGM. Executive directors do not receive director's fees. A breakdown of the fees payable to each director is given at the end of this Report.
- 8.3 The AC chairman and the AC members receive additional fees (of \$15,000 and \$7,500 respectively) to take into account the nature of

their responsibilities and the greater frequency of meetings in light of SGX's quarterly reporting practice. They do not receive attendance fees for AC meetings.

- 8.4 NEDs do not have service contracts and their terms of appointment are specified in the Articles. They are required to seek nomination and re-election at regular intervals. No compensation is payable for the early termination of an NED. The CEO has a 3-year service contract, terminating on 28 February 2006. As with the market practice for fixed term contracts, should the CEO's contract be terminated on a "no fault basis" before the expiry of the 3-year term, compensation will be payable up to the expiry of the contract.
- 8.5 The Chairman has a service contract for the duration of his appointment as a director. There are no compensation provisions for the termination of the Chairman's contract. Both the CEO and the Chairman's service contracts have a variable component linked to performance. The amount of the variable component is decided by the CMDC against the achievement of the respective goals and targets set. No director is allowed to participate in proceedings to decide his own remuneration.
- 8.6 The CMDC administers and is responsible for the allocation of options under the Employee Share Option Scheme (ESOS). Although the ESOS rules allow grants to NEDs, none of the NEDs has been granted share options. Accordingly, the CMDC is able to exercise impartial and objective judgment in the grant of share options under the ESOS as there is no self-interest involved.

Principle 9 : Disclosure on Remuneration

- 9.1 Please refer to the "Remuneration Report" section of the annual report for disclosure of the remuneration of the executive directors and the EXCO.

Principle 10 : Accountability

- 10.1 Management provides directors with the monthly management accounts and other financial statements within 20 days of the month-end.
- 10.2 Results for the first three quarters are released to shareholders within 30 days of the end of the quarter. Annual results are released within 45 days of the financial year end. It is the aim of the board, in presenting SGX's annual and quarterly financial statements to shareholders, to provide shareholders with a balanced and understandable assessment of SGX's position and prospects.

Principle 11 : Audit Committee

- 11.1 The AC is chaired by Mr Ho Tian Yee and comprises seven members, all of whom are independent and NEDs.
- 11.2 The other members of the AC have many years of experience in financial or investment positions. The NC is of the view that the members of the AC have sufficient financial management expertise and experience to discharge the AC's functions.
- 11.3 The AC has explicit authority to investigate any matter within its terms of reference. It has full access to, and the co-operation of, management and full discretion to invite any director or executive officer to attend its meetings.
- 11.4 The responsibilities of the AC include:
 - (a) to review and approve, on behalf of the board, the company's quarterly financial statements
 - (b) to review the annual financial statements prior to submission to the board for approval
 - (c) to review the scope and results of the external and internal audits, and to evaluate with the internal and external auditors, the adequacy of the systems of internal and accounting controls, risk management and compliance

- (d) to review the cost effectiveness of the external audit and where the external auditors provide a substantial volume of non-audit services to the company, to review the nature, extent and costs of such services to achieve a balance between the independence and objectivity of the external auditors and the value for money for such services
- (e) to recommend to the board the nomination of the external auditors and their compensation
- (f) to review the interested person transactions, and improper activities of the company, if any

11.5 In the review of the financial statements for the year ended 30 June 2004, the AC discussed with management and the external auditors the accounting principles that were applied and their judgments of items that might affect the financial statements. Based on the review and discussions, the AC is of the view that the financial statements are fairly presented in conformity with the relevant Singapore accounting standards in all material aspects.

11.6 Once a year, the AC meets with the internal and external auditors without the presence of management to review any matters that might be raised privately.

11.7 The AC has received the requisite information from the external auditors evidencing the latter's independence. It has also reviewed the volume and nature of non-audit services provided by the external auditors during the current financial year. Based on these, the AC is satisfied that the financial, professional and business relationships between the company and the external auditors will not prejudice the independence and objectivity of the external auditors. Their re-nomination is therefore recommended by the AC.

Principle 12 : Internal Controls

12.1 SGX's system of internal controls includes the following:

- (a) a management framework that sets out clearly the control environment to enhance the control consciousness of SGX staff. Roles and responsibilities of management and staff are clearly defined. Delegated authorities, policies and procedures are documented and disseminated to staff. Staff are also made aware of the need to comply with SGX's core corporate values
- (b) regular reviews of the system of internal controls by the internal and external auditors. Significant internal control weaknesses are brought to the attention of the AC and to senior management for remedial action
- (c) a compliance function to strengthen the compliance culture in SGX

12.2 An enterprise-wide risk management framework will be implemented shortly to enhance risk and control management at the enterprise level as well as to instill greater awareness and ownership of risks and controls by the relevant business and support functions. SGX's Internal Audit department (IA) will perform independent reviews of the risks and controls identified to provide reasonable assurance to management and the AC that the risks and controls have been adequately addressed.

12.3 Based on the information provided to the AC, nothing has come to the AC's attention to cause the AC to believe that the system of internal controls and risk management is inadequate.

Principle 13 : Internal Audit

13.1 IA is an independent function within SGX which reports directly to the AC on audit matters, and to the CEO on administrative matters.

- 13.2 IA operates within the framework stated in its Internal Audit Charter which is approved by the AC. Its mission is to provide independent and reasonable assurance to the AC and management that SGX's risk management, controls and governance processes are adequate and effective. In addition, IA is guided by the philosophy of adding value to the work that it does.
- 13.3 IA has adopted the Standards for the Professional Practice of Internal Auditing set by the Institute of Internal Auditors and has incorporated these standards into IA's audit practices.
- 13.4 IA plans its internal audit schedules annually in consultation with, but independent of, management and its plan is submitted to and approved by the AC. The audit scope is driven primarily from a risk approach with audit resources being focused on higher risk assignments. IA also participates in major systems development activities as well as new product and services and outsourcing projects to evaluate the risks, and to ensure that adequate mitigating controls are in place.
- 13.5 IA reports are distributed to the AC, management and the external auditors as and when issued. These reports are discussed with senior management periodically, and with the AC quarterly.
- 13.6 IA works closely with the external auditors to discuss IA's audit scope and findings as well as to co-ordinate both their audit efforts to achieve maximum synergies. IA also works closely with MAS and shares its findings with them.
- 13.7 Supervisory and/or reports issued by MAS, external auditors and IA are actively followed up for implementation based on the agreed timelines.
- 13.8 The AC is satisfied that IA has adequate resources to perform its functions, and has appropriate standing within SGX.

Principle 14 : Communication with Shareholders

- 14.1 SGX adopts the practice of regularly communicating major developments in its business and operations through MASNET and where appropriate, also directly to shareholders, other investors, analysts, the media, the public and its employees.
- 14.2 SGX issues announcements and news releases on an immediate basis where required under the Listing Manual. Where an immediate announcement is not possible, the announcement is made as soon as possible to ensure that stakeholders and the public have fair access to the information.
- 14.3 SGX does not practise selective disclosure of material information. Material information is excluded from any briefing or is publicly released either before SGX meets with investors or analysts or concurrently with such meetings. All materials on SGX's financial results, released every quarter, and webcasts of SGX's half-year and full-year results briefings for analysts and media are available on SGX's website.
- 14.4 For details on SGX's communication with its shareholders, please refer to the "Investor Relations" section of the "Operating and Financial Review" in the annual report.

Principle 15 : Greater Shareholder Participation

- 15.1 The Articles allow a shareholder to appoint one or two proxies to attend and vote in his place at general meetings. SGX plans to set up an online channel to facilitate communication with shareholders.
- 15.2 The board and management are on hand at general meetings to address any questions that shareholders may have concerning SGX. The

external auditors are also present to assist the board in answering the relevant shareholder queries.

- 15.3 Additionally, shareholders may view the minutes of general meetings and a summary of the questions (and answers) raised at general meetings on the SGX website.

16. Code on Share Dealing and Interested Person Transaction (IPT) Policy

- 16.1 SGX has adopted an internal code which prohibits dealings in SGX's securities by directors and employees while in the possession of price-sensitive information, as well as during the period beginning one month prior to the announcement of SGX's annual and quarterly results and ending on the date of such announcement. SGX believes

that it has complied with the SGX-ST Best Practices Guide.

- 16.2 SGX has put in place an internal policy in respect of any interested person transactions of SGX (IPT Policy). There was an IPT transaction during the financial year concerning Mr Robert Stein, a former director of SGX, involving \$298,795. This amount was below the threshold limit for reporting or immediate disclosure under the Listing Manual.

17. Conflicts Committee

- 17.1 The CC was constituted as a result of the company's listing in November 2000. The appointment of the members is subject to the prior approval of the MAS. Its principal responsibility is to identify conflicts of interest

21. Attendance Report of Directors

Name	SGX Board		Audit Committee		Nominating Committee		
	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended	
J Y Pillay	7	6	-	-	4	4	
Hsieh Fu Hua	7	7	-	-	*1	*1	
Richard Gnodde	7	5	-	-	-	-	
Goh Yew Lin	7	6	3	3	4	3	
Ho Tian Yee	7	6	4	4	4	2	
Victor Liew Cheng San	7	7	4	4	4	3	
Low Check Kian	7	6	-	-	4	4	
Tang Wee Loke	7	6	4	4	-	-	
Wong Ngit Liong	7	6	1	1	-	-	
Loh Boon Chye	5	5	3	2	-	-	
Ng Kee Choe	5	5	3	3	3	2	
Geoffrey Wong Ee Kay	5	4	3	2	-	-	
George Teo Eng Kim	2	2	-	-	1	1	
Robert Stein	2	1	1	0	-	-	
Hidetoshi Mine	2	1	1	0	-	-	

Note: a) Loh Boon Chye, Ng Kee Choe and Geoffrey Wong Ee Kay appointed as a board member with effect from 22 October 2003
b) George Teo Eng Kim, Hidetoshi Mine and Robert Stein resigned as a board member with effect from 22 October 2003

* By invitation

The Appeals Committee decided on total of one appeal by written decision on 7 January 2004

or possible conflicts of interest which may arise in the course of the performance of regulatory functions in relation to the listing of the company's shares on SGX-ST. No conflicts have been identified to date.

18. Appeals Committee

18.1 The Appeals Committee decides on appeals against the decisions of the disciplinary tribunals of the company. Two appeals against the decisions of SGX's disciplinary tribunals were heard.

19. Strategy Committee

19.1 The SC reviews and considers SGX's overall strategic direction and material new strategic developments.

20. Directors' Fees

	Amount (\$)
Richard Gnodde	39,600
Goh Yew Lin	49,500
Ho Tian Yee	57,000
Victor Liew Cheng San	51,900
Low Cheek Kian	49,200
Tang Wee Loke	48,300
Wong Ngit Liong	49,500
Loh Boon Chye [#]	34,700
Ng Kee Choe [#]	38,300
Geoffrey Wong Ee Kay [#]	34,700
George Teo Eng Kim [*]	13,600
Robert Stein [*]	12,400
Hidetoshi Mine [*]	11,200
Total	489,900

* pro-rated fees (rounded up to the nearest hundred) paid to these directors who resigned with effect from 22 October 2003

pro-rated fees (rounded up to the nearest hundred) paid to these directors who were appointed with effect from 22 October 2003

	Compensation & Management Development Committee		# Appeals Committee		Strategy Committee		Conflicts Committee	
	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended
	3	2	1	1	2	2	0	0
	3	3	-	-	2	2	0	0
	3	3	-	-	-	-	-	-
	-	-	-	-	2	1	-	-
	-	-	-	-	2	2	-	-
	-	-	1	1	*1	*1	-	-
	3	3	1	1	2	2	-	-
	-	-	1	1	2	2	-	-
	3	3	-	-	1	1	0	0
	-	-	-	-	1	1	-	-
	2	2	-	-	-	-	-	-
	-	-	1	1	1	1	-	-
	-	-	0	0	-	-	-	-
	1	1	-	-	1	0	0	0
	1	0	-	-	-	-	-	-