GROWING FROM THE CORE
SUMMARY ANNUAL REPORT 2003

SGX

Corporate governance report

SGX is committed to maintaining high standards of corporate governance to enhance shareholder value. This report discusses SGX's corporate governance processes and activities.

1. Board of directors

1.1 *Responsibilities*

The board delegates day-to-day operations to management, while reserving certain key matters for its approval.

1.2 Key functions of the board include approving the broad policies, strategies and objectives of the company, monitoring the performance of management, approving the annual budget, and approving major funding, investment and divestment proposals.

1.3 *Board Composition*

This year, the incoming chief executive officer ("CEO"), Hsieh Fu Hua, and an independent director, Tang Wee Loke, were co-opted into the board. They will be standing for re-election at the Annual General Meeting ("AGM").

1.4 SGX has 12 directors, of which 10 are non-executive and independent. The executive directors are the Chairman and the CEO. Key information on directors can be found in the "Board of Directors" section of the annual report.

1.5 SGX believes that board renewal is desirable in order for fresh perspectives to be provided on the company's strategic direction and growth. To this end, the Nominating Committee ("NC") reviewed the qualifications of suitable candidates, and identified three persons for consideration by the board. The 3 proposed directors will be standing for election in the AGM. Their biodata may be found in the "Proposed Directors" section of the annual report.

1.6 As a matter of policy, non-executive directors are expected to serve for four to six years. In exceptional cases, the NC may recommend the extension of a director's service.

1.7 To comply with the requirement in the Singapore Code of Corporate Governance ("Code") that all directors should submit themselves for re-nomination and re-election at regular intervals, the company is proposing to amend its Articles in the Extraordinary General Meeting ("EGM") to be held on 22 October 2003 to require the CEO to submit himself for re-nomination and re-election.

1.8 *Chairman and the Chief Executive Officer*

The Chairman's principal role is to manage the business of the board and the board committees, and to preserve harmonious relations with the shareholders. Together with the Executive Committee ("Exco"), the CEO is responsible for making key decisions on the management and operation of the company.

1.9 *Directors' Training Needs*

The company conducts an orientation programme to familiarise new directors with the company's business and governance policies. Each director is provided with a manual, which is updated yearly, containing all board and company policies relating to disclosure of interests in securities, disclosure of conflicts of interest in a transaction involving the company, prohibitions on dealing in the company's securities and restrictions on disclosure of price-sensitive information. SGX has an on-going training budget for directors to receive further relevant training of their choice in connection with their duties as directors. Directors are also welcome to request further explanations, briefings, or informal discussions on any aspect of the company's operations or business issues from the management.

2. Board performance

2.1 This year, SGX commissioned an independent consultant, Egon Zehnder, to conduct a formal and independent assessment of the functions and effectiveness of the board. The consultant conducted a review of the board's processes and functions. Information was gathered through questionnaires to directors and senior management, followed by an interview with each director. The review found that, on the whole, the SGX board strived to embrace both the detail and spirit of the Code, and did so in a manner consistent with its responsibilities as a significant public company and a financial services regulator.

2.2 On board structure, the review found that the SGX board comprised competent directors, and that board committees were generally performing satisfactorily. It recommended that 2 to 3 new directors be appointed with skills and backgrounds to reflect the company's new strategies following the new CEO's appointment. (See paragraph 1.5 of this report on new appointments to the board.)

2.3 The review found that the conduct of board meetings and the decision-making processes appeared satisfactory. It recommended that the relationship between board and management be redefined, making management more clearly accountable for performance; and that the flow of information between management and the board should be upgraded in terms of its quality, strategic content and speed. (See further at paragraph 3.5 of this report.)

2.4 In their responses to the questionnaires, the directors indicated that board meetings were well run, and that they were encouraged to contribute in these meetings.

2.5 On strategy, the review recommended that a full strategic review be undertaken and that consistent with the agreed strategy, the organisation structure and the relationship between board and management be reviewed, with management development and succession plans put in place as a consequence. This recommendation is being implemented. (See paragraph 9.1 of this report.)

3. Board's conduct of its affairs

3.1 Information regarding the board's and board committees' terms of reference are available on the SGX website, www.sgx.com.

3.2 The board conducts regular scheduled meetings on a bi-monthly basis. Ad-hoc meetings are convened when circumstances require. The attendance of the directors at meetings of the SGX board and board committees, as well as the frequency of such meetings, is disclosed at the end of this report.

3.3 Access to Information

Management provides directors with the monthly management accounts and other financial statements within 20 days after the month end. A quarterly report of the company's activities is also provided to the board. All analysts' reports on the company are forwarded to the directors on an on-going basis when received.

3.4 Should directors, whether as a group or individually, require independent professional advice the company secretary will appoint a professional adviser selected by the group or individual, and approved by either Chairman or the CEO, to render the advice. The cost of such professional advice will be borne by the company.

3.5 To implement the review's recommendation in paragraph 2.3, the Exco attends all board meetings, and the agenda and papers are scrutinised closely to upgrade the strategic content. Previously, the CEO and the President were the only management members who attended all board meetings. Informal contact is encouraged between management and individual directors, with directors being invited to attend discussions on specific business issues with management.

3.6 See the "Corporate Information" section of the annual report for the composition of the SGX board, board committees and the Exco.

3.7 To address the competing time commitments of directors who sit on multiple boards, board and board committee meeting dates are scheduled in advance at the beginning of every calendar year.

4. Board committees

4.1 The Company has 6 board committees:-

(a) Nominating Committee;
(b) Audit Committee;
(c) Compensation and Management Development Committee;
(d) Appeals Committee;
(e) Strategy Committee; and
(f) Conflicts Committee.

5. Nominating committee (NC)

5.1 All appointments to the NC are subject to the prior approval of MAS. The chairman of the NC, Mr George Teo, is an independent and non-executive director.

5.2 The NC makes recommendations to the board on all board appointments and re-appointments, and the appointment of the CEO. It also decides on the appointments of the members of the board committees.

5.3 The company is required to obtain the prior approval of MAS for the appointment or re-appointment of a SGX director.

5.4 The NC, through its annual review, has ascertained that all the non-executive directors are independent, using the Code's criteria for independence.

5.5 This year the NC convened 14 meetings on the following matters:

(a) search for a new CEO;

(b) review of the functions and effectiveness of the board; and

(c) board composition and renewal.

6. Audit committee (AC)

6.1 The AC comprises six members, all of whom are independent non-executive directors. The chairman of the AC, Mr Ho Tian Yee, is an investment fund manager.

6.2 The other members of the AC have many years of experience in managerial positions in the banking, finance and securities industries. 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.

6.3 The AC has explicit authority to investigate any matter within its terms of reference. Its main terms of reference are discussed in this report. It has full access to, and co-operation of, management and full discretion to invite any director or executive officer to attend its meetings.

6.4 Besides other functions that it performs, the AC reviews with the Chief Financial Officer and external auditor all audit matters including:-

- The company's quarterly and audited annual financial statements and related footnotes, and the integrity of financial reporting of the company and accounting principles, for recommendation to the board for approval; and
- The external auditor's audit of the annual financial statements and reports.

6.5 The AC conducts an annual review of the independence and objectivity of the external auditor, PricewaterhouseCoopers. For FY2003, the AC undertook a review of the volume of non-audit services provided by the external auditor. It assessed whether

the nature and extent of those services might prejudice the independence and objectivity of the auditor before confirming its re-nomination. It was satisfied that such services did not affect the independence of the external auditor. The AC also reviewed the cost-effectiveness of the audit conducted by the external auditor.

6.6 The AC met with the external and internal auditors during the year, in the absence of management, for the purpose of facilitating discussion of the responses by management on audit matters.

6.7 The FY2003 statutory audit included a review of the company's financial, operational and compliance controls, and management of risk. The AC has reviewed the audit report. The company's internal audit department ("IA") follows up on the external auditor's recommendations in respect of any non-compliance and internal control weaknesses noted during its audit.

6.8 The AC has reviewed the company's risk assessment processes on behalf of the board. Based on the IA audit reports and management controls in place, it is satisfied that there are adequate internal controls in the company. The AC expects the risk assessment process to be a continuing process, and will be introducing a program for the management to perform its own assessment of the company's internal controls.

6.9 Internal Audit

IA's functions are independent of the activities it audits. IA provides objective opinion and assurance to the AC and the management as to the adequacy of the internal processes and controls within SGX. IA is staffed by 9 persons, including a Chief Internal Auditor. IA reports directly to the chairman of the AC on audit matters, and to the CEO on administrative matters.

6.10 The AC reviews IA's reports on a quarterly basis. The AC also reviews and approves the annual IA plan and resources. The AC is satisfied that IA has adequate resources to perform its functions, and has appropriate standing within the company.

6.11 The Chief Internal Auditor is a Certified Internal Auditor with The Institute of Internal Auditors, Inc. ("IIA"). The Chief Internal Auditor has adopted the Standards for Professional Practice of Internal Auditing set by the IIA.

7. Compensation and management development committee (CMDC)

7.1 The CMDC is chaired by Mr Wong Ngit Liong, an independent and non-executive director.

7.2 The CMDC obtains expert advice in respect of remuneration matters, when required, from the company's human resources department.

7.3 The NC, together with the chairman of the CMDC, decides on the specific remuneration packages for an executive director or senior management staff upon recruitment. Thereafter, the CMDC reviews subsequent increments, award of share options under the SGX Share Option Plan ("ESOS") and variable bonuses.

7.4 *Non-executive director compensation*

Non-executive directors receive fees which are set in accordance with a remuneration framework comprising basic fees and attendance fees. Executive directors do not receive director's fees. Directors' fees are subject to shareholders' approval at the AGM.

7.5 The framework of the director's fees is as follows:

(a) A basic fee of $20,000 per annum; and

(b) An attendance fee of $800 per meeting.

A breakdown of the fees paid to each director is given at the end of this report.

7.6 The chairman of the AC and members of the AC receive additional fees ($15,000 and $7,500 respectively) to take into account the nature of their responsibilities and the greater frequency of meetings in light of the company's quarterly reporting practice. They do not receive an attendance fee for AC meetings.

7.7 Non-executive directors have no service contracts and their terms are specified in the Articles. The CEO has a 3-year service contract. As is normal for fixed term contracts, should the CEO's contract be terminated before the expiry of the fixed term on a "no fault basis", compensation is payable up to the expiry date. The Chairman has a service contract, the duration of which is dependent on his continued appointment as director under the Articles. There are no compensation provisions for his termination. Both the CEO and Chairman's service contracts have a variable component which is linked to performance.

7.8 *Remuneration of the executive directors and key management*

See the "Remuneration Report" section in the annual report for the remuneration of each executive director and the Exco. There are both fixed and variable components to executive pay. The variable components are tied to organisational performance.

7.9 *ESOS*

The CMDC administers the ESOS. No director, whether executive or non-executive, currently has share options under the ESOS although the rules of the ESOS allow such grants. Details of the share options granted pursuant to the ESOS are in the Directors' Report. Details of share options committed to the CEO are in note 12(e) of the Notes to the Financial Statements.

7.10 The CMDC met 3 times this year to consider the following matters:

(a) variable bonus for FY2002;
(b) key performance indicators – the targets, thresholds and weightage to determine the variable bonus pool for FY2003;
(c) amendments to the ESOS;
(d) the CEO's remuneration and performance targets;
(e) re-structuring the Chairman's compensation to include a performance-based component;
(f) award of stock options under the ESOS; and
(g) amount of fees payable to the directors.

7.11 As none of the CMDC members have been awarded options under the ESOS, any decision by the CMDC on the re-pricing of share options (an item which will be raised for shareholders' consideration at the EGM on 22 October 2003) would be objective and impartial. The members do not have any self interest at stake in the options granted under the ESOS.

8. Appeals committee

8.1 The Appeals committee decides on appeals against the decisions of the disciplinary tribunals of the securities and derivatives exchanges, and the securities and derivatives clearing houses. Although there were no physical meetings, the Appeals committee decided on a total of 6 appeals for the financial period ending 30 June 2003. It based its decisions on the documents submitted to it by the appellants, SGX-ST and SGX-DT, and the disciplinary tribunals.

8.2 All decisions based on documentary submissions alone must be unanimous. If there is disagreement, a physical meeting of the Appeals committee will be convened.

8.3 Two of the Appeals committee members, Mr Lucien Wong and Mr Colin Ng, are not board members. As well-known and respected lawyers practising in the securities and futures industry, they bring the benefit of their legal expertise to the committee.

9. Strategy committee (SC)

9.1 A full strategic review was undertaken by the new CEO. The redefined strategy for the organisation to adopt a customer-focused and demand-driven approach was considered and endorsed by the SC.

9.2 Consequent to the approval of the redefined strategy, a reorganisation plan has been introduced. The plan addresses leadership and succession plans for the company as well.

9.3 The SC held 2 meetings this year to consider, in addition to the strategic review, the following matters:

(a) SGX's listing strategy;

(b) SGX's strategic alliances; and

(c) SGX's trading and clearing systems.

10. Conflicts committee (CC)

10.1 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 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.

11. Executive Committee

11.1 The Exco is not a board committee. It is a management committee and was formed by the CEO to oversee management of SGX and its group companies. Its principal responsibilities are to implement the board's strategic policies; make key decisions on management and operation of the group; and make recommendations to the board as to the group's broad policies, strategies and financial objectives.

12. Communication with shareholders

12.1 Quarterly results are released within 60 days of the end of the quarter of the financial year. Next year quarterly results will be released within 45 days. For details on SGX's communications with its shareholders, see the "Investor Relations" section of the annual report.

12.2 SGX makes sure that it does not practise selective disclosure of material information. Material information is excluded from any briefing or is first publicly released, either before the company meets with investors or analysts or simultaneously with such meetings. Results and annual reports are announced or issued within the mandatory period and are available on the company's website.

12.3 The Articles allow a shareholder of the company to appoint one or two proxies to attend and vote in place of the shareholder.

12.4 The chairmen of the AC, the NC and the CMDC were present together with the external auditors at the FY2002 AGM to answer questions raised by shareholders.

13. Dealings in securities

13.1 The company has implemented a policy prohibiting its employees from dealing in the company's shares during the period commencing one month before the announcement of the company's quarterly results and ending on the date of the announcement of the results. The company believes that it has complied with the SGX-ST Best Practices Guide.

14. Interested person transactions

14.1 The company has also put in place an internal policy in respect of any interested person transactions of the company ("IPT policy"). All division heads are required to familiarise themselves with the IPT policy, and highlight any such transactions to the company's finance department. The finance department is in charge of keeping a register of the company's interested person transactions. The IPT policy also sets out the levels and procedures to obtain approval for the transaction. For FY2003, there were no interested person transactions.

15. Attendance report of directors

	SGX Board		Audit Committee		Nominating Committee		
Name	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	8	8			14	14	
Hsieh Fu Hua	3	3			*2	2	
Richard Gnodde	8	6					
Goh Yew Lin	8	6			14	13	
Ho Tian Yee	8	6	4	4	14	12	
Victor Liew	8	8	4	4	14	14	
Low Check Kian	8	7			14	12	
Hidetoshi Mine	8	6	4	3			
Robert Stein	8	5	4	2			
Tang Wee Loke	5	4	0	0			
George Teo	8	7			14	14	
Wong Ngit Liong	8	4	4	2	*3	2	

Note:
a) Tang Wee Loke appointed as a board member with effect from 19 December 2002
b) Hsieh Fu Hua appointed as a board member with effect from 1 March 2003
* By invitation
\# The Appeals Committee decided on a total of 6 appeals by written decisions on 2 September 2002 (2 appeals), 26 December 2002, 15 April 2003 (2 appeals) and 28 April 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	3	0	0	2	2	0	0
	*1	1			*1	1	0	0
	3	2						
					2	2		
					2	2		
			0	0	*1	1		
	3	2	0	0	2	2		
	3	3						
	3	2			2	1	0	0
			0	0	*1	1		
	3	3					0	0

16. Directors' fees

Name	(S$)
Richard Gnodde	26,400
Goh Yew Lin	36,800
Ho Tian Yee	51,000
Victor Liew	45,900
Low Check Kian	38,400
Hidetoshi Mine	34,700
Robert Stein	33,900
Tang Wee Loke	30,700
George Teo	37,600
Wong Ngit Liong	34,700
Total	370,100

The Chairman and the CEO do not receive any directors' fees as they are executive directors. Their remuneration is disclosed in the Remuneration Report.