

Corporate Governance Report

SGX is committed to high standards of corporate governance. This Report describes SGX's corporate governance processes and activities. The SGX-ST's Listing Manual requirement (the "listing requirement"), introduced in April 2001, requires that an issuer which holds its Annual General Meeting ("AGM") on or after 1 January 2003 (the "effective date") should describe its corporate governance practices with specific reference to the Code of Corporate Governance ("Code") in its annual report.

This Report describes SGX's corporate governance processes with specific reference to the Code. For ease of reference, the relevant provision of the Code under discussion is identified in italics. However, other sections of this Report may also have an impact on the disclosures as this Report is meant to be read as a whole, instead of being compartmentalised under the different principles of the Code. SGX believes that it is in full compliance with the listing requirement in advance of its effective date.

Board of Directors

Principle 1 : Board's Conduct of its Affairs

The principal functions of the Board are:

- 1) Approving the broad policies, strategies and financial objectives of the Company and monitoring the performance of management;
- 2) Overseeing the processes for evaluating the adequacy of internal controls, risk management, financial reporting and compliance;
- 3) Approving the nominations of board directors and appointment of key personnel;
- 4) Approving annual budgets, major funding proposals, investment and divestment proposals; and
- 5) Assuming responsibility for corporate governance.

Matters which are specifically reserved to the full Board for decision are those involving a conflict of interest for a substantial shareholder or a director, material acquisitions and disposal of assets, corporate or financial restructuring and share issuances, dividends and other returns to shareholders and matters which require Board approval as specified under the Company's interested person transaction policy. Specific Board approval is required for any investments or expenditures exceeding S\$5 million in total.

The above information regarding the Board's functions and details of the respective Board committees' terms of reference are available on the SGX website, www.sgx.com.

The Board conducts regular scheduled meetings on a bi-monthly basis. Ad-hoc meetings are convened when circumstances require. The Company's Articles of Association (the "Articles") allow a board meeting to be conducted by way of a tele-conference. The attendance of the directors at meetings of the Board and Board committees, as well as the frequency of such meetings, is disclosed in this Report.

The Company has initiated programmes for directors to meet their relevant training needs. An orientation programme will be organised for new directors to ensure that incoming directors are familiar with the Company's business and governance policies, disclosure of interests in securities, disclosure of any conflict of interest in a transaction involving the Company, prohibitions on dealing in the Company's securities and restrictions on disclosure of price-sensitive information. Each director is provided with a manual, which is updated yearly, containing all relevant board and company policies relating to the above matters.

The Company also has an on-going training budget for the existing directors to fund the directors' participation at industry conferences and seminars, and to fund directors' attendance at any course of instruction/training programme in connection with their duties as directors. This budget may be utilised by each director subject to approval by the Chairman. The Company has adopted a policy that directors are also welcome to request further explanations, briefings or informal discussions on any aspects of the Company's operations or business issues from the management. The Chairman or the CEO will make the necessary arrangements for the briefings, informal discussions or explanations required by the director.

Principle 2 : Board Composition and Balance

Presently, the Board comprises nine non-executive and independent directors, and two executive directors. The independence of each director is reviewed annually by the nominating committee ("NC"). The NC adopts the Code's definition of what constitutes an independent director in its review. As a result of the NC's review of the independence of each director for FY2002, the NC is of the view that the non-executive directors of SGX are independent directors, and further, that no individual or small group of individuals dominate the Board's decision making process. Key information regarding the directors is given in the "Board of Directors" section of the annual report. The NC is of the view that the current Board comprise persons who as a group, provide core competencies necessary to meet the Company's targets.

While the Company's Articles allow for the appointment of a maximum of 13 directors, the NC is of the view that the current board size of 11 directors is appropriate, taking into account the nature and scope of the Company's operations.

Principle 3 : Role of Chairman and Chief Executive Officer

The Company has a separate Chairman and CEO. Both are executive directors.

Notwithstanding that the Chairman was designated as an executive and non-independent director on 16 August 2001, the change in status does not affect the division of responsibilities between the Chairman and the CEO. The CEO is the most senior executive in the Company and bears executive responsibility for the Company's business, while the Chairman bears responsibility for the workings of the Board. The Chairman and the CEO are not related.

The Chairman ensures that board meetings are held when necessary and sets the board meeting agenda in consultation with the CEO. The Chairman reviews most board papers before they are presented to the Board and ensures that board members are provided with complete, adequate and timely information. As a general rule, board papers are sent to directors at least five days in advance in order for directors to be adequately prepared for the meeting. Management staff who have prepared the papers, or who can provide additional insight into the matters to be discussed, are invited to present the paper or attend at the relevant time during the board meeting. The Chairman assists to ensure that procedures are introduced to comply with the Code.

Both the Chairman's and CEO's appointments require the prior approval of the Monetary Authority of Singapore ("MAS") by law.

Principle 6 : Access to Information

In order to ensure that the Board is able to fulfill its responsibilities, management provides the board members 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 as and when received. The directors have also been provided with the phone numbers and e-mail particulars of the Company's senior management and company secretary to facilitate access.

Should directors, whether as a group or individually, need independent professional advice, the company secretary will, upon direction by the Board, appoint a professional advisor selected by the group or the individual, and approved by either the Chairman or the CEO, to render the advice. The cost of such professional advice will be borne by the Company.

The company secretary attends all board meetings and is responsible to ensure that board procedures are followed. It is the company secretary's responsibility to ensure that the Company complies with the requirements of the Companies Act. Together with the other management staff of SGX, the company secretary is responsible for compliance with all other rules and regulations which are applicable to the Company.

Please refer to the "Corporate Information" section of the annual report for the composition of the Company's Board of Directors, Board committees and the management committee.

Board Committees

Nominating Committee (NC)

Principle 4 : Board Membership

The NC's establishment is mandated by Article 84 of the Articles. All appointments to

the NC are subject to the prior approval of MAS. The chairman of the NC, Mr George Teo, is an independent director.

The NC's principal functions are:

- 1) to identify candidates and review all nominations for the appointment or re-appointment of members of the Board of Directors; the Chief Executive Officer of the Company and the wholly-owned subsidiary of the Company; the senior executive staff; and the members of the various Board committees, for the purpose of proposing such nominations to the Board for its approval;
- 2) to determine the criteria for identifying candidates and reviewing nominations for the appointments referred to in paragraph 1. One of the criteria for the appointment of a director is the independence status of the candidate;
- 3) to decide how the Board's performance may be evaluated and propose objective performance criteria for the Board's approval; and
- 4) to assess the effectiveness of the Board as a whole, and the contribution by each individual director to the effectiveness of the Board.

New directors are at present appointed by way of a board resolution, after the NC approves their appointment. Such new directors must submit themselves for re-election at the next AGM of the Company. Article 99 of the Articles requires one third of the Board to retire by rotation at every AGM.

Principle 5 : Board Performance

The NC, in considering the re-appointment of any director, evaluates the performance of the director. On an annual basis, the Chairman will assess each director's contribution to the Board, and discuss the results with the chairman of the NC. An assessment on each director's performance was duly carried out this year. The assessment parameters includes attendance record at meetings of the Board and Board committees, intensity of participation at meetings, the quality of interventions and special contributions.

The NC evaluated the Board's performance as a whole. The assessment process adopted both quantitative and qualitative criteria, such as return on equity, the success

of the strategic and long-term objectives set by the Board, and the effectiveness of the Board in monitoring management's performance against the goals that have been set by the Board. The Company's share price performance over a period of five years, adjusted for returns, against the benchmark index of the All-Sing Equities Index, is considered to be a relevant criterion for assessment. However, this criterion will be applied when SGX has passed five years as a listed company.

Audit Committee (AC)

Principle 11 : Audit Committee

Principle 12 : Internal Controls

The AC comprises five members, all of whom are independent non-executive directors. The chairman of the AC, Mr Ho Tian Yee, is by profession an investment fund manager. The other members of the AC have many years of experience in managerial positions in the banking and finance industry. 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.

The AC performs the following main functions:

- 1) recommends to the Board of Directors the external auditors to be nominated, approves the compensation of the external auditors, and reviews, the scope and results of the audit, and its cost-effectiveness;
- 2) reviews (with the other committees, management, the Chief Internal Auditor and the external auditors) significant risks or exposures that exist and assesses the steps management has taken to minimise such risk to the Company;
- 3) reviews with the Chief Financial Officer and external auditors at the completion of the quarterly reviews and annual examination:
 - the Company's quarterly and audited annual financial statements and related footnotes, and the integrity of financial reporting of the Company including accounting principles for recommendation to the Board for approval;
 - the external auditor's audit of the annual financial statements and reports thereon;
 - the adequacy of the Company's system of accounting controls;

- the assistance given by management to external auditors;
 - any related significant findings and recommendations of the external auditors and internal auditors together with management's responses thereto; and
 - any significant changes required in the external auditors' audit plan, any serious difficulties or disputes with management encountered during the course of the audit and their resolution, and other matters related to the conduct of the audit;
- 4) considers and reviews with management and the Chief Internal Auditor annually the following major items:
- significant internal audit observations during the year and management's responses thereto;
 - the effectiveness of the Company's internal controls over management, business and technology systems and practices; and
 - any changes required in the planned scope of the Chief Internal Auditor's audit plan and any difficulties encountered in the course of their audits, including any restrictions on the scope of internal audit's work or access to required information;
- 5) reviews legal and regulatory matters that may have a material impact on the financial statements, related exchange compliance policies, and programmes and reports received from regulators;
- 6) meets with the Chief Internal Auditor, the external auditors, other committees, and management in separate executive sessions to discuss any matters that these groups believe should be discussed privately with the AC; and
- 7) reports actions and minutes of the AC to the Board of Directors with such recommendations as the AC considers appropriate.

The AC has the express power to conduct or authorise investigations into any matters within its terms of reference. Minutes of the AC meetings are regularly submitted to the Board for its information and review.

The AC has conducted an annual review of the volume of non-audit services to satisfy itself that the nature and extent of such services will not prejudice the independence and objectivity of the auditors before confirming their re-nomination. The AC also conducts a review of interested person transactions. The AC also conducts a review to ensure that there are no improper activities of the Company (if any).

The AC meets with the external and internal auditors, without the presence of management, at least once a year.

The Company's external auditors, PriceWaterhouseCoopers ("PwC"), carry out, in the course of their statutory audit, a review of the effectiveness of the Company's material internal controls, including financial, operational and compliance controls, and risk management annually to the extent of their scope as laid out in their audit plan. Material non-compliance and internal control weaknesses noted during their audit, and the auditors' recommendations, are reported to the AC. The Internal Audit department ("IA") follows up on PwC's recommendations as part of its role in the review of the Company's internal control systems.

The AC has reviewed the Company's risk assessment, and 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.

Principle 13 : Internal Audits

IA is staffed by nine persons, including the Chief Internal Auditor. IA reports directly to the chairman of the AC on audit matters, and to the CEO on administrative matters. The AC reviews IA's reports on a quarterly basis. The AC also reviews and approves the annual IA plans and resources to ensure that the IA has the necessary resources to adequately perform its functions. The Chief Internal Auditor has adopted the Standards for Professional Practice of Internal Auditing set by The Institute of Internal Auditors.

To ensure the adequacy of the internal audit function, the AC reviews the IA's activities on a quarterly basis.

This year, the IA, with the oversight of the AC, has facilitated the development of the business continuity plan in order to ensure the Company's recovery strategies for the Company's critical business functions are in place in the event of a disaster.

Compensation and Management Development Committee (CMDC)

Principle 7 : Procedures for Developing Remuneration Policies

Principle 8 : Level and Mix of Remuneration

Principle 9 : Disclosure on Remuneration

The CMDC comprises seven directors, of whom a majority are non-executive and independent directors.

The CMDC is chaired by an independent and non-executive director. The head of the Human Resources Division is secretary to the CMDC.

CMDC's principal responsibilities are to:

- 1) recommend to the Board base pay levels, benefits and incentive opportunities, and identify components of pay which can best be used to focus management staff on achieving corporate objectives, including identifying equity-based incentives such as stock options;
- 2) approve the structure of the compensation programme for directors and senior management to ensure that the programme is competitive and sufficient to attract, retain and motivate senior management of the required quality to run the Company successfully;
- 3) review directors' and senior management's compensation annually and determine appropriate adjustments; and review and recommend the CEO's pay adjustments; and
- 4) administer the SGX Share Option Plan (the "Plan"). Any matter pertaining or pursuant to the Plan and any dispute and uncertainty as to the interpretation of the Plan, any rule, regulation or procedure thereunder or any rights under the Plan shall be determined by the CMDC.

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 Plan and variable bonuses where these payments are discretionary.

The CEO's remuneration package includes a variable bonus element which is performance-related, and also stock options which have been designed to align his interests with those of the shareholders. Under the terms of his agreement, the Chairman's remuneration is paid as a flat fee and there is no performance-related element. The CMDC will be reviewing this for the next financial year.

Directors' fees are set in accordance with a remuneration framework comprising basic fees and attendance fees. Executive directors do not receive directors' fees. Non-executive directors are paid directors' fees, subject to approval at the AGM. A breakdown, showing the level and mix of each individual director's remuneration payable for FY2002 is as follows:

Directors' Remuneration

Name	Fees** (\$)	Salary (\$)	Bonus (\$)	Other Benefits* (\$)
J Y Pillay	-	602,640	-	96,152
Thomas A. Kloet	-	1,357,125	1,069,725	406,592
George Teo Eng Kim	28,800	-	-	-
Wong Ngit Liong	32,300	-	-	-
Victor Liew Cheng San	35,500	-	-	-
Ho Tian Yee	42,200	-	-	-
Hidetoshi Mine	32,300	-	-	-
Richard Gnodde	24,800	-	-	-
Goh Yew Lin	28,000	-	-	-
Low Check Kian	29,600	-	-	-
Robert Stein	32,300	-	-	-

* excluding share options which are disclosed in the Directors' Report.

** these fees are subject to approval by shareholders as a lump sum at the AGM for FY2002.

The chairman of the AC and members of the AC receive additional fees to take into account the nature of their responsibilities and the greater frequency of meetings in the light of the Company's quarterly reporting practice.

Non-executive directors have no service contracts and their terms are specified in the Articles. The CEO has a three-year service contract which expires on 23 April 2003. 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.

The CMDC administers the Plan established on 1 November 2000, in accordance with the rules as approved by shareholders. No director, whether executive or non-executive, has been granted share options under the Plan although the rules of the Plan allow such grants. The Company holds the view that, at this point in its development, the interests of maintaining the objectivity and independence of the non-executive directors is best served by a cash-based remuneration package. The CMDC will regularly examine this view while monitoring the Company's development and local market practices. Details of the share options granted pursuant to the Plan and CEO's share options are in the Directors' Report. The share options will be valued with reference to their market value if exercised on 30 June 2002, and in accordance with the Black-Scholes model. The CEO has been granted options under his employment contract and not under the Plan.

Disclosure of the top five executives' remuneration (executives who are not directors) in bands of S\$150,000 is also disclosed at page 92. The Company has decided against the inclusion of an annual remuneration report in this Report as the matters required to be disclosed therein have been disclosed in the Directors' Report and the notes to the financial statements.

The Company adopts a remuneration policy for staff comprising a fixed component and a variable component. The fixed component is in form of a base salary. The variable component is in the form of a variable bonus that is linked to the Company and individual performance. The bonus pool is determined by the achievement of corporate key performance indicators ("KPIs") that have been approved by CMDC at the beginning of each financial year. The CMDC will evaluate the extent to which the KPIs have been achieved based on the Company's performance, and approve the bonus pool for distribution to staff based on individual performance. Another element of the variable

component is the grant of share options to staff under the Plan. This seeks to align the interests of staff with that of the shareholders.

Appeals Committee

The Appeals Committee conducts hearings on appeals against the decisions of the Singapore Exchange Securities Trading Limited (“SGX-ST”) with regard to the cancellation of contracts transacted on the securities market, disciplinary actions taken against members of the securities and derivatives market for breaches of SGX-ST’s rules, and matters relating to admission or rejection of applications for membership.

The Appeals Committee also conducts hearings on appeals against the decisions of the Business Conduct Committee, the Clearing House Committee and the Disciplinary Committees of the Company’s securities and derivatives trading markets.

Minutes of the Appeals Committee’s meetings are kept and are to be produced to MAS upon request.

The Appeals Committee heard a total of four appeals for the year. The Appeals Committee has also met to approve certain changes to the disciplinary and appeals procedures to be introduced.

Strategy Committee (SC)

The SC serves as an advisory committee, making recommendations to the Board on corporate policies and strategies pertaining to any area of the Company’s activities.

Its principal responsibilities are to periodically review the overall strategic direction of the Company, to review and consider material new strategic developments of the Company, and to review and consider material new businesses for the Company. The SC will consider ideas generated by the Board, or management.

Conflicts Committee

The Conflicts Committee was constituted as a consequence of the Company’s listing in November 2000 and the appointment of members of the Conflicts Committee is subject to the prior approval of MAS.

The Conflicts Committee's 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.

Where it determines that a conflict of interest or possible conflict of interest does or may arise, the Conflicts Committee:

- 1) shall notify MAS of all relevant facts including any proposals for resolving the matter in a manner which assures the proper performance of any relevant regulatory functions; and
- 2) shall provide any further particulars that may be reasonably required by MAS for the purpose of determining whether the regulatory function can be discharged without MAS's intervention.

The Conflicts Committee has met and concluded that there are no conflicts that have been identified to date.

Communication with Shareholders

Principle 10 : Accountability and Audit

Principle 14 : Communication with Shareholders

Principle 15 : Greater Shareholder Participation

The Company has adopted quarterly results reporting ever since its listing. The Company holds a media and analysts briefing of its half-year and full-year results. This briefing is simultaneously webcast to the public and all shareholders via the Company's website. Quarterly results are published through the MASNET, news releases and the Company's website. All information on the Company's new initiatives are first disseminated via MASNET followed by a news release, which is also available on the website.

The Company does not practise selective disclosure. Price sensitive information is first publicly released, either before the Company meets with any group of 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.

The Company has an investor relations team which communicates with its investors on a regular basis and attends to their queries. All shareholders of the Company receive the summary annual report and notice of AGM. The notice is also advertised in newspapers and made available on the website. At AGMs, shareholders are given the opportunity to air their views and ask directors or management questions regarding the Company.

The Articles allow a member of the Company to appoint one or two proxies to attend and vote instead of the member.

Dealings in Securities

The Company has adopted internal codes pursuant to the SGX-ST Best Practices Guide applicable to all its officers in relation to dealings in the Company's securities. Its officers are not allowed to deal 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.

Directors' Attendance at Board and Board Committee Meetings

	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	7	7			2	2	
Thomas A. Kloet	7	7					
Richard Gnodde	7	6					
Goh Yew Lin	7	7			2	2	
Ho Tian Yee	7	7	5	4	2	1	
Victor Liew Cheng San	7	6	5	5	2	2	
Low Check Kian	7	5			2	2	
Hidetoshi Mine	7	6	5	2			
Robert Stein	7	5	5	2			
George Teo Eng Kim	7	7			2	2	
Wong Ngit Liong	7	4	5	3			

Interested Person Transactions Policy

The Company has adopted an internal policy in respect of any transactions with interested persons and has set out the procedures for review and approval of the Company's interested person transactions. For FY2002, there were no interested person transactions.

Best Practices Guide

The Company has complied with the Best Practices Guide issued by SGX-ST.

Joyce Fong Foong Chao (Ms)

Company Secretary

	Appeals Committee		Compensation & Management Development 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
	2	2	2	2	1	1		
			2	2	1	1	1	1
			2	0				
					1	1		
					1	1		
	2	2						
	2	2	2	2	1	1		
			2	0				
			2	0	1	0	1	1
	2	2						
			2	2			1	0