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

The SGX group was constituted on 1 December 1999 upon the demutualisation and merger of the SES and SIMEX. The financial information shown for the previous half year (1 July to 31 December 1999) is stated on a proforma basis to give effect to the merger as though it had happened on 1 July 1999. The financial information for both the current half year (1 July to 31 December 2000) and the previous half year (1 July to 31 December 1999) are unaudited.

SGX's business consists mainly of the Securities Market and the Derivatives Market. For the first six months of the financial year ended 31 December 2000, the group recorded a total operating revenue of $104.3 million, and a net after-tax profit of $18.8 million. This compares with total operating revenue of $119.1 million and net after-tax profit of $52.6 million for the six months ended 31 December 1999.

Operating Revenue

Total operating revenue decreased by 12.4% across the periods. This was due mainly to a 30.7% decrease in the volume of shares traded on the Securities Market, from 64.6 billion shares in the period July to December 1999 to 44.8 billion shares in the current half year, which resulted in a 28.1% decrease in the securities clearing fees from $53.3 million in the previous half year to $38.3 million in the current half year. Although trading volume in the derivatives market increased by 3.2% from 25.1 million lots in the previous half year to 25.9 million lots in the current half year, clearing fee decreased by 10% from $18.0 million to $16.2 million. This was due mainly to the lowering of the derivatives clearing fee on six contracts by 25% with effect from 1 November 1999.

Account maintenance and processing fees, which are also dependent on the level of market activity, decreased by 19.6% from $20.8 million in the previous half year to $16.7 million in the current half year.

Net After-Tax Profit

The net after-tax profit for July to December 2000 reflected the full impact of a $20.5 million loss arising from the liquidation of SGX's equity portfolio managed by independent fund managers. (Please see paragraph 4d). Staff costs also increased by 32.7% from $24.6 million in the previous half year to $32.7 million in the current half year due to payroll adjustments for existing staff and new hires, several of whom are senior executive staff.

As a result of the above, net after-tax profit for the current half year reflected a decrease of $33.8 million compared with the previous half year from $52.6 million for the previous half year to $18.8 million for the current half year.

Performance of the Securities Market

For the six months ended 31 December 2000, total revenue generated from the Securities Market amounted to $70.8 million, while segment results[1] were $42.3 million.

The turnover in this six-month period was 44.8 billion shares. Trading volume fell to a 20-month low in September as investors stayed on the sidelines amid rising oil prices and corporate profit warnings issued in the United States. The increased volatility and continued reduction in global equity values, particularly in the technology sector, slowing of the US economy, escalating oil prices and political uncertainties in the region had a negative impact on SGX-ST.

1 Segment results represent net operating profit of the segment before income taxes and unallocated costs.

Over the same 6-month period, there were a total of 41 IPO listings. Of the 41 listings, 31 companies were listed in the third calendar quarter. The reduction in the number of IPO listings during the fourth quarter was attributable to continued weakness of the market and the seasonal effect of the calendar year end. Altogether, there were a total of 83 IPO listings for the calendar year 2000.

The introduction of new membership rules on 1 July 2000 has drawn interest from a number of international companies. Under these rules, we accept new applications for membership of the Securities Market. We also allow a single entity to be a member of both the Securities and the Derivatives Market. As at the end of December 2000, HSBC Securities and SG Securities have received approval-in-principle for admission as new securities members.

Performance of the Derivatives Market

Total segment revenue generated from the Derivatives Market for the six months ended 31 December 2000 amounted to $27.4 million, while segment results were $6.7 million.

The six-month period ended December 2000 saw a total of 25.9 million lots transacted on SGX-DT. During this period, our MSCI Taiwan Stock Index futures contract contributed a strong performance, recording a total trading volume of 1.84 million contracts. In particular, the contract averaged more than 350,000 lots per month in October and November as sharp declines in the tech-heavy Nasdaq Composite Index coupled with political instability in Taiwan led to increased volatility in the Taiwan stock market.

The Eurodollar and the Euroyen futures contracts continued to be the two most actively traded contracts on SGX-DT. These two contracts accounted for more than 60% of the total volume traded over the period. Increased volatility fuelled by market speculation over the Bank of Japan's decision to end its "zero interest rate" policy resulted in more than 1.5 million Euroyen contracts traded in the months of August and September alone. Similarly, speculation on the possibility of a reduction in US interest rates amidst rising concerns of a rapidly slowing US economy brought about a surge in activity in the Eurodollar contract in December.

A more modest but nonetheless significant development is the increase in trading activity of our Singapore Dollar Interest Rate futures contract that was launched in September 1999. With the support of a consortium of 15 banks as market makers, total volume of 51,903 contracts was traded over the six-month period ended 31 December 2000, compared to 18,725 contracts traded over the previous six months.

We added two new contracts, the S&P CNX Nifty Index futures contract (September 2000) and the Straits Times Index futures (August 2000) to our product line of stock index futures contracts as we continue to strive towards becoming the leading equity index derivatives trading centre of Asia.

In December 2000, we introduced a Negotiated Large Trade (NLT) facility. This allows members to register large-sized over-the-counter trades with the exchange for clearing. With the increased efficiency in which large orders can be executed through this new facility, we are confident that we will see an increase in large transactions in our market.

The third major development was the enhancement of the mutual offset system with the Chicago Mercantile Exchange Inc. such that participants of the two exchanges can now allocate trades to each other on a real time basis, hence giving market participants better risk management control and improving their operational efficiency.

In addition, to provide our market participants a wider range of alternatives to fund their trading activities, we launched new programmes to accept Japanese Government Bonds and Singapore stocks as margin collateral with our derivatives clearing house.

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 interval between the end of the financial period and the date of this report which would affect substantially the results of the operations of the company and of the Group for the financial period in which this report is made.

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, the number of new entity listings and the number of traders in the market have an impact primarily on future revenues.

Except as noted earlier with respect to global equity market conditions, we are not aware of any adverse business trends that are likely to affect the performance of the Group's main businesses. As such, and barring any unforeseen circumstances, we expect the second half-year results to continue to be profitable.

Securities Market

With the liberalisation of brokerage commissions locally, and the international trend towards lower transaction costs, we are reviewing our fee structure to ensure that we stay competitive. We currently charge a single fee for clearing, settlement and custody services, and for acting as central counter-party to all trades executed on the Exchange. It is the practice in many other markets to charge separate fees for clearing, settlement and custody services. This will be taken into consideration in our review.

To increase investment opportunities in the local market, we plan to introduce a broader range of products; to further automate the clearing and settlement procedures to reduce unit cost for industry participants; and to improve on the services provided to our market participants, thereby boosting the competitiveness and attractiveness of our market.

Set out below are some of the projects that we expect to launch in 2001:

- *Exchange Traded Funds*
  On 1 December 2000, SGX signed a Joint Venture Agreement with the American Stock Exchange to list ETFs on a Board. Trading of these ETFs is expected to commence in the first half of 2001. We also expect to list the local STI (Straits Times Index) ETF by the first half of 2001.

- *Securities Borrowing and Lending*
  We expect to offer a securities borrowing and lending facility by the third quarter of 2001. This facility will allow investors to hedge their positions and engage in various trading strategies, thereby boosting market liquidity.

- *Cross Border Linkage Infrastructure*
  In May 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 and the necessary information for clearing and settlement will be provided. We believe this facility can increase the liquidity of the covered securities and can serve as a model for regional cooperation. We expect to have this linkage facility operationally ready by the third quarter of 2001.

- *Straight Through Processing*
  We are in the process of developing an open settlement infrastructure that will allow member firms 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 not only reduce operating and business costs, but also lower the risk for market participants in securities settlement, and facilitate cross border settlement. Under the first phase of this project, we will develop common messaging standards for participants, determine the business and technical specifications, and promote market acceptance of the infrastructure. We expect to complete this phase by the third quarter of 2001.

  In the next phase which will take approximately two years, we, together with market participants, will build their systems based on the specifications developed.

Derivatives Market

The year 2001 started with about as much activity as the year 2000. Recent interest rate changes by the U.S. Federal Reserve Board have increased volatility in the Eurodollar contract. Continued interest rate changes would likely have a favorable impact on activity in this contract, at least in the near term.

We plan to introduce a new clearing system that incorporates real-time risk monitoring capabilities in the first half of the 2001. The new system would facilitate more efficient use of members' margin funds and hence decrease their funding cost. With the new system in place, SGX will become more competitive and hence a more attractive market place for investors to participate in.

The Derivatives Market also plans to launch three new contracts in the year 2001.