7(a) <u>Review of the Performance of the Company and its Subsidiaries</u>

The SGX group was constituted on 1 December 1999 upon the demutualisation and merger of the SES and SIMEX. SGX was listed on 23 November 2000, and the business comprises mainly the Securities Market and Derivatives Market.

We present herewith the unaudited financial information for the financial year ended 30 June 2001. The Group financial information for the previous financial year (1 July 1999 to 30 June 2000) is stated on a pro-forma basis as if the merger had taken place on 1 July 1999.

7(a)(i) Full Year Results – Year ended 30 June 2001 vs Year ended 30 June 2000

Net Profit After Tax / Operating Profit

The group recorded net profit after tax of $49 million and operating profit of $72.4 million for the current financial year. This compared to net profit after tax of $107.9 million and operating profit of $126.1 million for the previous financial year ended 30 June 2000.

Operating Revenue

The group generated operating revenue of $208.4 million for the current financial year, compared to $238.1 million for the previous financial year ended 30 June 2000. The 12.5% decrease was mainly attributable to the decrease in income from the Securities Market.

Securities trading value dropped 21.3% to $146.3 billion during the current financial year, from $186 billion of the previous financial year. This resulted in 29.4% decrease in securities clearing fees to $73.4 million from $104 million.

In line with the decrease in securities turnover, account maintenance and processing fees decreased by 23.5% to $31.6 million from $41.3 million.

On the other hand, with a 3.2% increase in derivatives trading volume to 28.1 million contracts from 27.2 million contracts between the two financial years, and a larger revenue derived from its market data, our Derivatives Market revenue increased by 12.9% to $55.4 million from $49.1 million.

Operating Costs and Exceptional Item

Total operating costs increased by 21.4% to $136 million from $112 million last financial year.

Staff costs increased by 25.1% to $62.5 million from $50 million. System maintenance costs and occupancy costs increased by 43.4% and 30.9% respectively. These increases resulted from our efforts to build capacity for long-term growth.

The current financial year results also included the $20.5 million exceptional loss arising from the liquidation of SGX's equity portfolio managed by independent fund managers (please see paragraph 5d).

Performance of the Securities Market

For the current year ended 30 June 2001, the Securities Market generated $140.7 million of total operating revenue and $83 million of operating profit before tax. This compared to $180.6 million of total operating revenue and $123.5 million of operating profit before tax for the previous year ended 30 June 2000.

The slowing global economy, worldwide concerns on economic growth, warnings on corporate profit, together with political uncertainties in the region, adversely impacted the Securities Market, in common with other equity markets.

In addition, the number of Initial Public Offerings (IPOs) dropped to 65 during the current financial year from 78 of the previous financial year, as a result of the change in global investor sentiments. A number of applicants have held back their plans to list on SGX-ST even after receiving in-principle approval, in view of the current market conditions.

With the liberalization of the financial industry, SGX introduced new membership rules on 1 July 2000 to accept new membership applications to the Securities Market and allow a single entity to be a member of both the Securities and the Derivatives Markets. We have admitted 5 new members in the current financial year. Our current membership is marginally higher at 32 compared to 31 in the previous financial year, principally due to consolidation and merger activities in the local brokerage industry.

In December 2000, we entered into a joint venture with the American Stock Exchange to develop an Exchange Traded Funds (ETFs) market in Singapore and to promote ETFs regionally. Trading of 5 ETFs commenced in May 2001. We are currently developing a local ETF based on the Straits Times Index (STI).

Performance of the Derivatives Market

For the current year ended 30 June 2001, the Derivatives Market generated $55.4 million of total operating revenue and $9.5 million of operating profit before tax. This compared to $49.1 million of total operating revenue and $7.8 million of operating profit before tax for the previous year ended 30 June 2000.

Contract volume improved, with a total of 28.1 million contracts transacted on SGX-DT in the current year compared to 27.2 million contracts in the previous year. The growth was contributed primarily by trading in Eurodollar and MSCI Taiwan Index contracts. Eurodollar contracts, in particular, were active as a result of increased volatility of interest rates and the series of rate cuts by the U.S. Federal Reserve Board in the second half of the financial year. In fact, our Eurodollar trading volume in the second half of the financial year increased 48.7% over the same period last year and represented 54.6% of our total derivatives volume for the period January to June 2001. Trading in the MSCI Taiwan Index grew as a result of increased volatility of the underlying Taiwan Stock Market.

On the domestic front, the Singapore Dollar Interest Rate Futures contract which started in September 1999 grew by 288.4% to 109,239 contracts from 28,122 contracts in the previous financial year.

As part of our effort to become the leading equity index derivatives trading center of Asia, we introduced the S&P CNX Nifty Futures contract in September 2000. We also launched the Singapore Government Bond Futures contract in June 2001 to expand our futures product line. In addition, we introduced Negotiated Large Trade (NLT) Facility in December 2000 to enable members to attract and broker large-sized trades from the over-the-counter market. Major international institutions are now active users of NLTs, with increasing volume and wider acceptance by market participants.

Current financial year also saw the introduction of Japanese Government Bonds and certain Singapore stocks as acceptable margin collateral to be placed with our derivatives clearing house (SGX-DC). This increased the avenues available for market participants to fund their trading activities.

During the year, SGX-DT was awarded the "Derivatives Exchange of the Year 2000" by AsiaRisk Magazine and the "Best Derivatives Exchange" for the Year 2000 by Asset Magazine.

Investment Performance

Since October 2000 (please also see paragraph 5d), independent fund managers have been managing approximately $300 million of our surplus funds, which were invested in deposits and fixed income securities. For the financial year, the investment portfolio managed by the independent fund managers appreciated by $6.4 million as a result of realized and unrealized gains, excluding the equity loss referred to in paragraph 5d.

In addition, the group had $230.7 million of cash and cash equivalents at 30 June 2001 compared to $601.4 million at previous year end. This decrease of 61.6% was mainly attributable to the placement of funds with independent fund managers for investment purposes and the $100.9 million payment made for the new property.

Interest from bank deposits which amounted to $8.4 million for the current financial year, decreased by $7.8 million compared to the previous financial year mainly due to lower deposit balance and lower interest rates.

Balance Sheet

The shareholders' funds increased marginally to $798.5 million at 30 June 2001 from $797.4 million at 30 June 2000.

The non-current assets balance comprises mainly the new property, which amounted to $213 million as at 30 June 2001.

A substantial portion of our remaining assets, and an equivalent amount of our total liabilities, consist of margin funds and settlement variation relating to derivatives contracts and receivables related to daily settlements of securities trades as highlighted below:

(S$ Million)	**30 June 2001**	**30 June 2000**
Margin funds and settlement variation (derivatives contracts)	1,816	2,400
Receivables related to daily settlement of securities trades	290	320

The decrease in margin funds and settlement variation was mainly due to lower maintenance margin rates for Nikkei 225 (June 2001: Yen 350,000 per contract; June 2000: Yen 450,000 per contract) and MSCI Taiwan Index contracts (June 2001: US$2,000 per contract; June 2000: US$3,000 per contract).

Our clearing members and settlement agents also provide letters of credit and government securities to support their obligations, which are not included on our balance sheet.

Contingent Liabilities

Although the group was not indebted, we had, at the end of the financial year, unsecured contingent liabilities to banks for standby letters of credit issued to CME and the London Clearing House in the face amounts of US$43.5 million and US$1.6 million, respectively, in accordance with our mutual offset arrangement with CME. These letters of credit supported guarantees that were given by us on behalf of our clearing members as margin for their open positions. Our liabilities were in turn supported by the margin funds placed by our members with us.

We are planning to relocate most of our operations from the leased premises at the Singapore Exchange building to our new premises at Unity Tower in the next financial year. Based on the existing market rental rates in the Raffles Place area and the contractual rate of these operating leases, the directors do not expect significant loss to arise from the early vacation of these leased premises.

Cash Flow

SGX had net cash outflow of $370.7 million for the year ended 30 June 2001 compared to $77.4 million net cash inflow for the previous year. The variance mainly comprised $315 million investments which were placed with fund managers in the current year; $69.7 million increase in payment for the new property; and $60.1 million decrease in cash inflow generated from operations.

Performance Between 2H FY2001 and 1H FY2001

The following summarizes the Group's operating performance in 2H FY2001 and 1H FY2001:

(S$'000)	**2H FY2001**	**1H FY2001**
Operating Revenue	104,092	104,271
Operating Expenses	69,257	66,732
Operating Profit	34,835	37,539
Non-Operating Profit / (Loss)	5,350	(8,828)
Net Profit After Tax	30,265	18,760

Operating Revenue

The group recorded operating revenue of $104.1 million for 2H FY2001 compared to $104.3 million for 1H FY2001.

Securities trading value decreased 7.9% to $70.2 billion in 2H FY2001 from $76.2 billion in 1H FY2001. This resulted in 9% decrease in securities clearing fees to $35 million from $38.4 million.

On the other hand, derivatives trading volume increased 17% to 15.1 million contracts in 2H FY2001 from 12.9 million contracts in 1H FY2001, largely due to the increase in Eurodollar trading volume referred to earlier. This resulted in 8.9% increase in derivatives clearing fees to $17.6 million from $16.2 million.

In addition, computer services income, including sale of application softwares and system implementation for member firms, increased 11.6% to $2.8 million from $2.5 million. Listing and membership fees also increased 8.8% to $9 million from $8.3 million.

Operating Costs

Total operating costs increased 3.8% to $69.3 million for 2H FY2001 from $66.7 million for 1H FY2001.

Staff costs decreased 8.6% to $29.8 million from $32.7 million between the two periods mainly due to adjustments to staff benefit accruals. However, system maintenance costs and occupancy costs increased by 51.5% and 26.9% respectively as a result of system improvement and development, as well as service charges and property taxes for our new premises.

Non-Operating Profit / (Loss)

The group recorded $5.4 million non-operating profit for 2H FY2001, compared to $8.8 million non-operating loss for 1H FY2001. This was mainly due to the $20.5 million exceptional loss arising from the liquidation of SGX's equity portfolio managed by independent fund managers in 1H FY2001 (please see paragraph 5d), partially offset by $2.6 million decrease in investment income from the managed funds and $3.8 million decrease in interest and other income between the two periods.

7(a)(ii) Fourth Quarter Results - 3 Months ended 30 June 2001 vs 3 Months ended 30 June 2000

Group Financial Highlights – 4Q FY2001 vs 4Q FY2000

(S$'000)	**4Q FY2001**	**4Q FY2000**
Operating Revenue		
Clearing Fees	26,647	29,466
Rental of Computer Terminals	7,054	6,750
Account Maintenance & Processing Fees	8,688	10,502
Listing & Membership Fees	3,958	3,412
Price Information Fees	2,615	2,494
Sale of Softwares & Other Computer Services	1,295	494
Other Operating Revenue	2,260	2,137
	52,517	55,255
Investment Income	(440)	692
Other income including interest income	1,704	3,942
Profit before income tax, minority interests, extraordinary items, interest on borrowings, depreciation and amortisation, foreign exchange gain/(loss) and exceptional items and after charging:-	23,312	35,525
Staff Costs	(13,067)	(12,911)
Occupancy Costs	(3,968)	(2,329)
System Maintenance & Rental	(7,398)	(3,569)
Other Operating Expenses	(6,036)	(5,555)
Interest on borrowings	-	-
Depreciation and amortisation	(5,073)	(5,110)
Foreign exchange gain/(loss)	15	389
Exceptional items	-	-
Profit before income tax, minority interests and extraordinary items but after interest on borrowings, depreciation and amortisation, foreign exchange gain/(loss) and exceptional items	18,254	30,804
Income derived from associated companies	(449)	-
Less Income Tax	(5,264)	(4,767)
Profit After Tax before deducting minority interests	12,541	26,037

Net Profit After Tax / Operating Profit

The group recorded net profit after tax of $12.5 million and operating profit of $17 million for the current quarter. This compared to net profit after-tax of $26 million and operating profit of $26 million for the quarter ended 30 June 2000.

Operating Revenue

Total operating revenue decreased 5% to $52.5 million from $55.3 million between the two quarters, mainly due to decreases in Securities Market revenue.

Securities trading value decreased 14.6% to $35.2 billion in the current quarter from $41.2 billion in the previous corresponding quarter. This resulted in 10.7% decrease in securities clearing fees to $18.1 million from $20.3 million.

In line with the decrease in securities turnover, account maintenance and processing fees decreased by 17.3% to $8.7 million from $10.5 million between the two quarters.

Derivatives trading volume decreased 3.8% to 7.4 million contracts from 7.6 million contracts between the two quarters. As a result, derivatives clearing fees decreased 7.1% to $8.5 million from $9.2 million.

Operating Costs

Total operating costs increased by 22.1% to $35.5 million from $29.1 million between the two quarters, primarily due to capacity building in our systems and premises referred to earlier. In particular, system maintenance costs and occupancy costs increased 107.3% and 70.3% respectively.

Performance of the Securities Market

For the current quarter ended 30 June 2001, the Securities Market generated $36.3 million of total revenue and $21.3 million of operating profit before tax.

Notwithstanding poor market sentiments, securities trading volume increased 26.4% to 28 billion shares from 22.1 billion shares between the two quarters, mainly driven by news of mergers and acquisitions during the current quarter. However, securities trading value decreased 14.6% to $35.2 billion for the current quarter from $41.2 billion for the previous corresponding quarter. IPO listings also dropped to 11 from 28 in the previous corresponding quarter.

Performance of the Derivatives Market

For the current quarter ended 30 June 2001, the Derivatives Market reported $13.1 million of total revenue and $0.4 million of operating profit before tax.

A total of 7.4 million contracts were transacted on SGX-DT in the current quarter compared to 7.6 million contracts in the previous corresponding quarter, mainly due to a drop in trading volume of the Euroyen Tibor contract as the Bank of Japan reverted to its "zero-interest rate" policy.

Investment Performance

During the current quarter, our investments placed with fund managers depreciated by $0.4 million. In addition, interest from bank deposits, bonds and Singapore government securities, which amounted to $1.8 million, decreased by $3.1 million compared to the previous corresponding quarter on reduced bank deposit balance.

7(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 from 30 June 2001 to the date of this report which would affect substantially the results of the operations of the Company and the Group for the financial period in which this report is made.

8 Current Year Prospects And Initiatives

Our operating revenue is primarily dependent on the level of activities 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 listings and the number of participants in the market also have an impact on future revenue.

In addition to the successful completion and implementation of the major initiatives outlined below, our current year prospects are directly related to the general economic environment of Singapore, the Asia-Pacific region and global investor sentiments. While we regularly review our ongoing operating costs, we expect these major initiatives and other capacity building efforts initiated by the Group to increase our operating costs (including depreciation) by about 15% over the operating costs for the financial year ended 30 June 2001.

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

8(a) Securities Market Initiatives

Recognising the importance of maximising shareholders' value, we regularly review our fee structure to ensure its competitiveness in the global market we operate in. Currently we charge a single fee for clearing, settlement and custody services, and for acting as central counter-party to all trades executed on the Exchange. In many other markets, separate fees are charged for clearing, settlement and custody services.

In our efforts to remain market-oriented, SGX-ST is also reviewing the Listing Manual and plans to broaden our membership base by attracting new international members as well as by expanding the classes of membership in our market divisions.

To boost the competitiveness and attractiveness of the local market, we need to increase investment opportunities. Apart from broadening our product range, we also plan to further automate the clearing and settlement process and improve on the services provided to our market participants.

Following are highlights of major 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 by the end of 2001. 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. In addition, we will market SGXAccess to independent software vendors to create software solutions for member companies.

- ***Exchange Traded Funds (ETFs)***
  On 1 December 2000, SGX signed a Joint Venture Agreement with the American Stock Exchange to develop an ETFs market in Singapore and to promote ETFs regionally. Trading of 5 ETFs commenced on 4 May 2001.

  We are working closely with State Street Global Advisors (SSgA) on the development and marketing of an ETF based on STI (Straits Times Index). We expect to list the local STI ETF by the end of 2001.

  While trading in the initial group of ETFs has been modest, we expect interest in these products to increase with additional educational efforts and the implementation of an ETF on the local benchmark index.

- ***Securities Borrowing and Lending***
  We are currently finalising the operating procedures for the establishment of a securities borrowing and lending facility in 3Q 2001 to boost market liquidity. This facility will improve investment and hedging opportunities for market participants, and pave the way for the creation of an equity options market.

- ***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 covered securities. The link may serve as a model for regional cooperation. We anticipate having this linkage facility operationally ready by the end of 2001.

- ***Straight Through Processing***
  We are 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 3Q 2001. The second phase will be completed with the live system in place, in approximately another two years.

8(b) ***<u>Derivatives Market Initiatives</u>***

Below are highlights of major projects:

- ***Global Access to SGX-DT Electronic Trading System (ETS)***
  SGX-DT has been actively working with independent software vendors (ISVs) and its Corporate Members to develop direct interfaces to the ETS. SGX-DT products on ETS can then be directly accessed through such ISVs / proprietary front-ends globally through internet and other leased or private network lines. Several ISVs and Member firms are already successfully connected to the ETS from several major overseas markets.

- ***Derivatives Trading via Bloomberg Terminals***
  On 23 April 2001, SGX-DT and Bloomberg L.P. announced that derivatives contracts on the SGX ETS are accessible via Bloomberg terminals. This partnership allows SGX to leverage on Bloomberg's extensive and global distribution network to provide our members and their customers a convenient and low cost access to SGX-DT's contracts, thereby adding liquidity to our market. This initiative, together with the recent opening of internet access to ETS, is a significant step in SGX's efforts to extend the global reach of our derivatives products.

  SGX derivatives contracts which can be traded via Bloomberg terminals 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 and the recently launched 5-year Singapore Government Bond futures.

- ***Singapore Government Bond Futures***
  The underlying Singapore Government Securities Market has experienced good growth in the past year and this bodes well for the newly launched Singapore Government Bond Futures Contract. The product will complement our Singapore Dollar Interest Rate Futures Contract to enable SGX-DT to offer risk management instruments on Singapore interest rates over a longer yield curve up to 6 to 7 years out. Launched in June 2001, the Singapore Government Bond Futures Contract has been well received and used by primary and secondary dealers in Singapore Government Securities and other financial institutions.

- ***Single Stock Futures***
  We expect to launch Single Stock Futures, which parallels their introduction in other global derivatives markets, by the end of this year. They will initially be based on stocks listed on SGX-ST. These instruments will widen SGX's product range, increase arbitrage opportunities and market liquidity. As the nature of the product is new to retail investors, extensive marketing and education programmes will be conducted.

- ***Mutual Offset System (MOS 21)***
  Launched in September 2000, MOS 21 is a real time trade allocation system with the Chicago Mercantile Exchange Inc. that enables participants of the two exchanges to allocate trades to each other on a real time basis, giving market participants better risk management and operational efficiency.

- ***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. This clearing information is also provided to clearing members electronically to enable them to implement straight through processing for trade settlement.

8(c) ***<u>IT Solutions (SGX-ITS) Initiatives</u>***

- ***Securities Processing & Settlements Outsourcing Services***
  On 27 March 2001, SGX-ITS signed an agreement to form a joint venture company with DBS Securities and OCBC Securities to provide securities processing and settlements outsourcing services. This company aims to increase client brokers' operational efficiency and reduce transaction costs by providing technology (ASP) and operational (Business Service Provider or BSP) outsourcing services for securities processing. These services will cover the provision of the whole value chain of securities processing – from order entry to order management, trade enrichment, settlement, custody and will be offered on a modular basis. Efforts will be concentrated on 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. The joint venture company is expected to announce its first suite of products by 3Q 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.