

## **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. 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 2 nine-month periods. The financial information for the previous nine months (1 July 1999 to 31 March 2000) is stated on a pro-forma basis as if the merger had taken place on 1 July 1999.

### **5(a)(i) Year-to-date Results - 9 Months ended 31 March 2001 vs 9 Months ended 31 March 2000**

The group recorded operating revenue of \$155.8 million, and net after-tax profit of \$36.5 million for the current 9 months. This compares with operating revenue of \$182.8 million and net after-tax profit of \$81.8 million for the previous 9 months ended 31 March 2000.

#### ***Operating Revenue***

Total operating revenue decreased by 14.7% between the 2 periods. This was mainly attributable to the decrease in income from both Securities and Derivatives Markets.

Securities trading value dropped 23.2% to \$111.2 billion during the current period, from \$144.8 billion during the previous period. This resulted in 33.9% decrease in securities clearing fees to \$55.3 million from \$83.8 million.

In line with the decrease in securities turnover, account maintenance and processing fees decreased by 25.7% to \$22.9 million from \$30.8 million.

On the other hand, despite the 6% increase in derivatives trading volume to 20.7 million contracts from 19.5 million contracts between the 2 periods, derivatives clearing fees decreased 5.3% to \$25.2 million from \$26.6 million due to lower net clearing fee rate.

#### ***Operating Costs and Exceptional Item***

Total operating cost increased by 21.2% to \$100.5 million from \$82.9 million between the 2 periods.

Staff costs increased by 33.5% to \$49.4 million from \$37 million. Equipment maintenance costs and occupancy costs increased by 22.8% and 20.4% respectively. These increases highlight our efforts on capacity building for long-term growth.

The current period 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 4d).

**5(a)(ii) Third Quarter Results - 3 Months ended 31 March 2001 vs 3 Months ended 31 March 2000**

***Group Financial Highlights – 3Q FY2001 vs 3Q FY2000***

<b>(S\$'000)</b>	<b><u>3Q FY2001</u></b>	<b><u>3Q FY2000</u></b>
<b>Operating Revenue</b>		
Clearing Fees	25,935	39,063
Rental of Computer Terminals	6,906	6,670
Account Maintenance & Processing Fees	6,220	10,050
Listing & Membership Fees	5,054	3,573
Price Information Fees	2,996	1,529
Other Operating Revenue	4,464	2,842
	<u>51,575</u>	<u>63,727</u>
Investment Income	3,229	315
Other income including interest income	857	3,664
Profit before income tax, minority interests, extraordinary items, interest on borrowings, depreciation and amortisation, foreign exchange gain/(loss) and exceptional items and after charging:-	26,604	46,537
Staff Costs	(16,778)	(12,421)
Occupancy Costs	(4,138)	(3,084)
Equipment Maintenance & Rental	(5,230)	(2,463)
Other Operating Expenses	(2,911)	(3,201)
Interest on borrowings	-	-
Depreciation and amortisation	(4,878)	(5,158)
Foreign exchange gain/(loss)	205	(88)
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	21,931	41,291
Income derived from associated companies	-	-
Less Income Tax	(4,207)	(12,082)
Profit After Tax before deducting minority interests	17,724	29,209

The group recorded operating revenue of \$51.6 million, and net after-tax profit of \$17.7 million for the current quarter. This compares with operating revenue of \$63.7 million and net after-tax profit of \$29.2 million for the previous quarter ended 31 March 2000.

### ***Operating Revenue***

Total operating revenue decreased by 19.1% between the 2 quarters, mainly due to decrease in Securities Market activities.

Securities trading value decreased 36% to \$35 billion in the current quarter, from \$54.7 billion during the previous quarter. This resulted in 44.5% decrease in securities clearing fees to \$16.9 million from \$30.4 million.

In line with the decrease in securities turnover, account maintenance and processing fees decreased by 38.1% to \$6.2 million from \$10.1 million between the 2 quarters.

In contrast, derivatives trading volume increased 11.1% to 7.8 million contracts from 7 million contracts between the 2 quarters. As a result, derivatives clearing fees increased 4.9% to \$9.1 million from \$8.6 million.

### ***Operating Costs***

Total operating cost increased by 27.7% to \$33.7 million from \$26.4 million between the 2 quarters.

Our capacity building efforts entail investment in our human resources and systems. Between the 2 quarters, staff costs increased 35.1% to \$16.8 million from \$12.4 million, while equipment maintenance costs and occupancy costs increased 112.4% and 34.2% respectively.

### ***Performance of the Securities Market***

For the current quarter ended 31 March 2001, the Securities Market generated \$33.5 million of total revenue and \$19.4 million of operating profit before tax.

Global concerns over the anticipated slowdown in the United States economy dominated the market sentiments. Investors stayed on the sidelines, which led to a downward trend in the major regional markets, including Japan and Hong Kong. This downward trend particularly impacted the retail segment volume in local market.

In Singapore, the turnover in the current quarter was \$35 billion, 36% lower than the previous quarter. IPO listings dropped to 12 from 14 between the 2 quarters.

SGX introduced new membership rules on 1 July 2000, accepting new membership applications to the Securities Market and also allowing a single entity to be a member of both the Securities and the Derivatives Markets. We granted 2 in-principle approvals in the current quarter.

### ***Performance of the Derivatives Market***

For the current quarter ended 31 March 2001, the Derivatives Market reported \$14.9 million of total revenue and \$2.4 million of operating profit before tax.

Performance improved between the 2 quarters, with a total of 7.8 million contracts transacted on SGX-DT in the current quarter as compared to 7 million contracts transacted during the previous quarter, mainly due to recent interest rate cuts by the U.S. Federal Reserve Board, which increased the volatility in the Eurodollar contract.

Trading on the SGX-DT Electronic Trading System (ETS) grew by 34.1% to 336,171 contracts in the current quarter, from 250,701 contracts in the previous quarter. This was mainly contributed by the increased trading activities in MSCI Taiwan Index Futures and Euroyen Libor Futures contracts.

A more modest but nonetheless significant development is the increase in trading activities of our Singapore Dollar Interest Rate futures contract that was launched in September 1999. Total volume of 28,793 contracts was traded in the current quarter, compared to 5,228 contracts traded in the previous quarter.

## **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 from 31 March 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.

## **6 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 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 fourth quarter results to continue to be profitable.

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

### ***Securities Market Initiatives***

With the liberalisation of brokerage commissions in Singapore, and the international trend towards lower transaction costs, we are reviewing our fee structure to ensure our competitiveness. Currently we are charging 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.

To boost the competitiveness and attractiveness of the local market, we need to increase investment opportunities in the market. 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.

Below 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, 12 member companies have signed Memoranda of Intent to adopt SGXAccess by second half of 2001.

- ***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 also expect to list the local STI (Straits Times Index) ETF by 3Q 2001.
- ***Securities Borrowing and Lending***  
We are currently finalising the operating procedures for the set up of a securities borrowing and lending facility in 3Q 2001 to boost market liquidity. This facility will improve investment 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 can increase the liquidity of the covered securities and can serve as a model for regional cooperation. We anticipate to have this linkage facility operationally ready in second half 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 2 years.

### ***Derivatives Market Initiatives***

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 and Corporate Members to develop third party interfaces to the ETS. SGX-DT products on ETS can then be directly accessed through third party front-ends globally through internet and other leased or network lines. Currently, one Corporate Member has successfully developed third party connectivity to the ETS.

- ***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 distribution network to provide our members and their customers easy global 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 and S&P CNX NIFTY Index Futures.

- ***Singapore Government Bond Futures***

Activity for the underlying Singapore Government Securities Market has experienced good growth in the past year and this bodes well for the forthcoming introduction of the Singapore Government Bond Futures Contract. When launched, the product would complement our Singapore Dollar Interest Rate Futures Contract to enable SGX-DT to offer risk management instruments on Singapore interest rates over a wider yield curve from short to medium term. The contract development work has been completed. We expect trading to commence in first half of 2001.

- ***Single Stock Futures***

This will initially be based on stocks listed on SGX-ST, and will include stocks listed on other bourses subsequently. The integration of the securities and derivatives market 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 programme will be conducted during the launch period. We expect trading to commence in 3Q 2001, subject to approval from the Monetary Authority of Singapore.

### ***IT Solutions (SGX-ITS) Initiatives***

- ***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 new company aims to increase operational efficiency and reduce transactional costs by allowing brokerages to focus on core competencies and enjoy economies of scale. Efforts will be concentrated on developing a system which includes multi-market, multi-product, multi-currency platforms and real time analysis. This new system will ultimately enable straight-through processing for the entire securities process, integrating both front end and back end. 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 and the Client Accounting System.