

10. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion of our more recent results over comparable periods of time. This discussion and analysis of our financial condition and results of operations has been prepared based on our unaudited consolidated financial statements as at and for the two (2) years ended December 31, 2001 and 2002, and the nine (9) months ended September 30, 2003 and our audited consolidated financial statements for the year ended December 31, 2003 and the nine (9) months ended September 30, 2004. Our unaudited consolidated financial statements as at and for the years ended December 31, 2001 and 2002 and the nine (9) months ended September 30, 2003 have been prepared from our financial records. The figures presented here have been prepared only to facilitate our discussion and analysis of our financial condition and results and do not contain adjustments for over and under provision of taxation as included in Section 9.1 (Selected Historical Financial Data — Income Statement Data) and Section 21 (Accountants' Report). Particularly, in respect of the year ended December 31, 2003, certain figures presented here are different as compared to the figures presented in Section 9.1 (Selected Historical Financial Data — Income Statement Data). See Section 13 of the Accountants' Report for details on the adjustments for the over/under provision of taxation. See Section 4.3.2 (Risk Factors — Other Risks — Our unaudited consolidated financial statements as at and for the years ended December 31, 2001 and 2002 may not accurately reflect what our results of operations or financial condition would have been had we had such financial year end during such periods).

This discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include, but are not limited to, those discussed below and elsewhere in this Prospectus, particularly in Section 4 (Risk Factors).

Consolidated Income Statements

| | Year ended December 31, | | | Nine (9) months ended September 30, | |
|--|-------------------------|----------|----------|--|----------|
| | 2001 | 2002 | 2003 | 2003 | 2004 |
| | RM 000 | RM 000 | RM 000 | RM 000 | RM 000 |
| Operating revenue | 143,738 | 156,823 | 201,499 | 135,777 | 167,317 |
| Other income | 56,441 | 70,608 | 81,354 | 61,359 | 52,168 |
| | 200,179 | 227,431 | 282,853 | 197,136 | 219,485 |
| Staff costs | (80,205) | (88,700) | (97,026) | (62,591) | (77,167) |
| VSS costs | (1,758) | (3,145) | - | - | (37,318) |
| Depreciation | (32,730) | (24,591) | (18,467) | (13,515) | (11,427) |
| Other operating expenses | (71,875) | (91,275) | (71,623) | (47,984) | (53,757) |
| Surplus/profit from operations | 13,611 | 19,720 | 95,737 | 73,046 | 39,816 |
| Finance costs | (226) | (164) | (187) | (138) | (112) |
| Surplus/profit before taxation | 13,385 | 19,556 | 95,550 | 72,908 | 39,704 |
| Taxation | (12,672) | (6,113) | (30,200) | (23,088) | (21,225) |
| Net surplus/profit after taxation | 713 | 13,443 | 65,350 | 49,820 | 18,479 |
| Minority interests | 453 | (3,390) | (5,476) | (3,336) | (2,578) |
| Net surplus/profit for the year/period | 1,166 | 10,053 | 59,874 | 46,484 | 15,901 |

10. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (cont'd)

Consolidated Cash Flow Statements

| | Year ended December 31, | | | Nine (9) months ended September 30, | |
|---|-------------------------|----------|----------|--|----------|
| | 2001 | 2002 | 2003 | 2003 | 2004 |
| | RM 000 | RM 000 | RM 000 | RM 000 | RM 000 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Surplus/profit before taxation..... | 13,385 | 19,556 | 95,550 | 72,908 | 39,704 |
| Adjustment for: | | | | | |
| Amortization of goodwill..... | 369 | 2,515 | 2,923 | 2,187 | 2,206 |
| Amortization of premium less accretion of discount..... | 284 | 461 | 508 | 525 | (74) |
| Bad debts written off..... | - | - | 1,404 | - | - |
| Depreciation..... | 32,730 | 24,591 | 18,467 | 13,515 | 11,427 |
| Grant income recognized..... | (170) | (120) | - | - | - |
| Impairment losses on property, plant and equipment..... | - | 28,245 | - | - | 5,512 |
| Interest expense..... | 74 | 40 | 57 | 32 | 74 |
| Interest income..... | (48,327) | (50,780) | (51,922) | (39,005) | (40,614) |
| Net provision for/(reversal of) bad and doubtful debts.... | 2,260 | (174) | (199) | (312) | 1,841 |
| Net gain on disposal of investment..... | (2,996) | (9,941) | (18,406) | (18,215) | (1,662) |
| Net gain on disposal of property, plant and equipment ... | (158) | (1,665) | (294) | (28) | (1,570) |
| Net gain on disposal of subsidiaries..... | - | - | - | - | (4,249) |
| Property, plant and equipment written off..... | 1,355 | 31 | 374 | 11 | - |
| Provision for retirement benefits..... | 5,174 | 11,240 | 4,826 | 3,906 | 5,793 |
| Provision for short term accumulating compensating absences..... | 228 | 637 | 1,272 | 2,005 | 333 |
| Waiver of loans..... | - | - | - | - | 221 |
| Write down/(reversal of write down) of short term investments..... | - | - | 2,987 | 1,695 | (1,493) |
| Operating surplus/profit before working capital changes..... | 4,208 | 24,636 | 57,547 | 39,224 | 17,449 |
| (Increase)/decrease in receivables..... | (4,687) | 2,878 | (12,562) | (15,225) | 7,150 |
| Increase/(decrease) in payables..... | 25,741 | (26,593) | 60,228 | 5,241 | 5,971 |
| Cash generated from operations..... | 25,262 | 921 | 105,213 | 29,240 | 30,570 |
| Retirement benefits paid..... | (2,273) | (2,456) | (4,534) | (3,396) | (11) |
| Interest paid..... | (74) | (40) | (57) | (32) | (74) |
| Net taxes (paid)/refunded..... | (52,274) | 16,830 | (64,096) | (62,400) | (30,571) |
| Net cash (used in)/generated from operating activities..... | (29,359) | 15,255 | 36,526 | (36,588) | (86) |

10. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (cont'd)

| | Year ended December 31, | | | Nine (9) months ended September 30, | |
|---|-------------------------|----------------|----------------|-------------------------------------|-----------------|
| | 2001 | 2002 | 2003 | 2003 | 2004 |
| | RM 000 | RM 000 | RM 000 | RM 000 | RM 000 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Net cash inflow from disposal of subsidiaries..... | - | - | - | - | 5,434 |
| Net cash inflow from acquisition of subsidiaries' net assets..... | 109,492 | - | - | - | - |
| (Purchase)/proceeds from disposal of unlisted bonds and Malaysian Government Securities, net..... | (143,504) | 22,388 | (66,233) | (22,972) | (70,022) |
| Acquisition of business operations of MESDAQ..... | - | (17,937) | - | - | - |
| Purchase of additional shares in subsidiaries from minority shareholders..... | - | (12,000) | (10,490) | (10,490) | - |
| Net (disbursement for)/repayment from staff loans..... | (8,300) | 5,471 | 3,084 | (1,602) | (3,852) |
| Interest received..... | 47,329 | 53,532 | 46,257 | 34,146 | 41,095 |
| Purchase of property, plant and equipment..... | (9,547) | (7,824) | (7,971) | (4,516) | (40,066) |
| Proceeds from disposal of property, plant and equipment..... | 197 | 5,405 | 1,403 | 1,059 | 1,841 |
| Net cash (used in)/generated from investing activities..... | (4,333) | 49,035 | (33,950) | (4,375) | (65,570) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | |
| Payment of dividend to minority shareholders | (1,548) | (648) | (720) | - | - |
| Transfer (to)/from Compensation Funds | (50,094) | - | - | - | - |
| Repayment of long term borrowings/liability | (539) | (977) | (758) | (539) | (539) |
| Preference shares issued | 600 | 600 | 200 | 200 | - |
| Demutualization cost | - | (13,158) | (2,836) | (1,569) | - |
| Net cash (used in)/generated from financing activities | (51,581) | (14,183) | (4,114) | (1,908) | (539) |
| NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS..... | (85,273) | 50,107 | (1,538) | (42,871) | (66,195) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR/PERIOD..... | 845,112 | 759,839 | 809,946 | 809,946 | 808,408 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD..... | 759,839 | 809,946 | 808,408 | 767,075 | 742,213 |
| CASH AND CASH EQUIVALENTS COMPRISE: | | | | | |
| Cash and bank balances..... | 6,085 | 12,060 | 16,087 | 8,336 | 10,454 |
| Bank overdrafts..... | (1,727) | (206) | - | (1,819) | - |
| Short term deposits..... | 755,481 | 798,092 | 792,321 | 760,558 | 731,759 |
| | <u>759,839</u> | <u>809,946</u> | <u>808,408</u> | <u>767,075</u> | <u>742,213</u> |

10. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (*cont'd*)

10.1 Background

Overview

We operate a fully integrated exchange, offering the complete range of exchange-related services, including trading, clearing, settlement and depository services. We also provide information services related to the Malaysian securities market.

Our group comprises an exchange holding company and various subsidiaries which own and operate our various businesses. We operate our businesses through the following three (3) business units:

- (i) Exchanges business unit, which comprises our Securities Exchange, Derivatives Exchange and Offshore Exchange (see Section 12.5 (Business — Exchange Business));
- (ii) Clearing, settlement and depository business unit, where clearing, settlement and depository services are offered through Bursa Securities Clearing, Bursa Derivatives Clearing and Bursa Depository (see Section 12.10 (Business — Clearing and Settlement) and Section 12.11 (Business — Bursa Depository)); and
- (iii) Information services business unit, through which we compile and disseminate comprehensive market information, both real time and historical, and develop and market information products, and services (see Section 12.15 (Business — Information Services)).

We were demutualized pursuant to the Demutualization Act and converted into a public company limited by shares on January 5, 2004. Immediately prior to our demutualization, we were a company limited by guarantee (See Section 12.4 (Business — History)).

10. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (cont'd)

Our total revenue increased from RM200.2 million for the year ended December 31, 2001 to RM282.9 million for the year ended December 31, 2003. Total revenue for the nine (9) months ended September 30, 2003 and 2004 was RM197.1 million and RM219.5 million, respectively. Net surplus increased from RM1.2 million for the year ended December 31, 2001 to RM59.9 million for the year ended December 31, 2003. Following our demutualization on January 5, 2004, we have commenced using the term "profit" in place of "surplus". Net surplus/profit for the nine (9) months ended September 30, 2003 and 2004 was RM46.5 million and RM15.9 million respectively. The significant decrease in net profit in the nine (9) months ended September 30, 2004 was a result of expenses associated with the VSS in 2004 ("2004 VSS") (amounting to RM37.3 million), which saw our headcount reducing from 1,033 as at December 31, 2003 (excluding employees of Malaysian Share Registration Services Sdn. Bhd., our former subsidiary) to 655 as at September 30, 2004. (see Section 10.2.4 (Management's Discussion and Analysis of Financial Condition and Results of Operations — Significant Factors Affecting Our Results of Operations — VSS costs)). The number of companies listed on our Securities Exchange increased from 812 (which excludes companies listed on the MESDAQ Market, the operations of which we acquired in March 2002) as at December 31, 2001 to 945 as at September 30, 2004 and the total market capitalization of our Securities Exchange increased from RM465.0 billion as at December 31, 2001 to RM673.0 billion as at September 30, 2004.

10.2 Significant Factors Affecting Our Results of Operations

Our results of operations are affected by a number of factors, the most significant of which are described below.

10.2.1 Market activity

Our revenues are highly dependent upon the level of market activity on our exchanges. The volume and value of securities and the volume of derivatives contracts traded on our exchanges have a direct impact on our revenues because clearing fees, SCORE fees and trade fees are calculated based on the value and volume of trades done on our exchanges. Clearing fees alone have comprised 27.4 per cent., 26.3 per cent. and 34.0 per cent. of our total revenue for the years ended December 31, 2001, 2002 and 2003, respectively, and 30.1 per cent. and 35.5 per cent. for the nine (9) months ended September 30, 2003 and 2004, respectively. The number of listed entities, the number of new entity listings, the number of market participants and market volatility are some of the key factors which affect the level of market activity. Generally, the greater the number of listed entities, new listings and market participants, the greater the amount of trading activity, which impacts our revenues. Greater market volatility also has a positive impact on trading activity, particularly on our Derivatives Exchange.

10. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (cont'd)

The level of market activity is largely outside our control. The level of trading on our Securities Exchange is dependent on the factors discussed above, and also more generally on factors such as economic conditions and the performance of markets in Malaysia and elsewhere, market sentiment and the prospects of companies listed on our Securities Exchange. Substantially all of the companies listed on our Securities Exchange have operations in Malaysia. The financial health and prospects of many of these companies are linked to the health of the Malaysian economy. The level of trading on our Derivatives Exchange is dependent upon, among other things, the volatility of the underlying assets as well as global and regional economic volatility.

We measure the level of market activity through market turnover, which is measured by the Ringgit value of trades. In 2001, the average daily value of on-market trades was RM349.8 million. The average daily value of on-market trades increased by 34.8 per cent. to RM471.6 million in 2002, and increased by a further 58.5 per cent. to RM747.5 million in 2003. Our total revenue correspondingly increased by RM27.3 million from 2001 to 2002, compared to a RM55.4 million increase from 2002 to 2003.

The first half of 2001 saw relatively subdued trading activity, primarily attributed to concerns over weak global economic conditions, due to a sharp contraction in investment and consumer demand within developed economies. In July 2001, however, sentiment improved and the market saw renewed trading activity, mainly due to developments in corporate mergers and acquisitions. However, the recovery was interrupted by the September 11, 2001 terrorist attacks in US. Trading activity slowed down thereafter in line with the fall in equity prices following the September 11 incident, before recovering in mid-November and December as sentiment gradually improved.

Market turnover improved in 2002 compared to 2001 as the market remained resilient despite uncertainty over global economic growth, exacerbated by rising tensions in the Middle East. Better sentiment in the first half of 2002 was largely attributed to an optimistic outlook for the Malaysian economy, positive corporate developments, corporate earnings recovery coupled with the upward re-rating of Malaysia by major international rating agencies. However, a slowdown in trading activity was felt in the second half of 2002 amidst increasing uncertainty over the global economic outlook as well as escalating geopolitical risks arising from the US-Iraq stand-off and from the Bali, Indonesia bomb blast.

10. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (cont'd)

Market turnover increased even further in 2003 compared to the previous year as the local market managed to sustain its momentum in the midst of continued global economic uncertainty caused by the war in Iraq, the outbreak of Severe Acute Respiratory Syndrome ("SARS") in Asia and terrorist attacks in Southeast Asia. The market was primarily supported by a combination of positive factors such as announcement by the Government of a RM7.3 billion economic stimulus package to address and assist the sectors of the economy that were affected by the Iraq war and SARS, the upgrade of Malaysia's long-term foreign currency sovereign credit rating from BBB+ to A-, by Standard & Poor's Ratings Services, and the swearing in of Prime Minister Datuk Seri Abdullah Ahmad Badawi as the fifth Prime Minister of Malaysia. Furthermore, the Government had also announced ten (10) market enhancement measures in March 2003 that also contributed to improving market turnover. These measures included the reduction in stamp duty, capped at RM200 per contract, the standardization of board lots into 100 shares and the reduction in processing time for initial public offerings. In addition, the reduction of Bank Negara Malaysia's intervention rate by 50 basis points to 4.5 percent in May 2003 had the effect of boosting domestic demand.

Market turnover continued to improve in the first nine (9) months of 2004, with the average daily value of on-market trades increasing to RM886.6 million in the first nine (9) months ended September 30, 2004, compared to RM605.0 million in the corresponding period in 2003. In the first quarter of 2004, a combination of factors helped to bolster investors' confidence in the local market. These included the appointments of the new Deputy Prime Minister and Minister of Finance II, the announcement by the California Public Employees' Retirement System (CalPERS) of its decision to re-instate Malaysia on its lists of permissible investments for 2004 after being withdrawn in February 2002, the upgrade of Malaysia's foreign currency ratings outlook from stable to positive by Moody's Investors Service, and the landslide victory by the ruling coalition, the Barisan Nasional, in Malaysia's 2004 elections. In tandem with major and regional markets, the market pulled back in April 2004. Three (3) major issues dominated market sentiment, namely, a rise in crude oil prices, fears of a sharper-than-expected US interest rate hike, and concerns over a hard landing in China as the Chinese government sought to contain growth at a more measured pace. The market broke out of its consolidation phase in September 2004 following positive news in respect of the economy, including further liberalization of the capital market as announced in the 2005 budget. These liberalization measures included allowing up to five (5) major foreign stockbroking companies and five (5) leading global fund managers to operate in Malaysia, and allowing 100.0 per cent. foreign ownership in futures broking companies and venture capital companies. In addition, initiatives announced in the middle of 2004 by the Government in the remaking of Malaysia Incorporated such as the restructuring of Khazanah Nasional Bhd and government-linked companies also boosted investors' interest in shares of these companies, thus contributing to increased market turnover.

10. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (cont'd)

10.2.2 Regulation of fees

Revenue from fees comprises a substantial proportion of our operating revenue. The following table sets forth our fees as a percentage of total revenue for the periods indicated:

| | For the year ended December 31, | | | For the nine (9) months ended September 30, | |
|--|---------------------------------|-----------------------------|-----------------------------|---|-----------------------------|
| | 2001 | 2002 | 2003 | 2003 | 2004 |
| | Percentage of total revenue | Percentage of total revenue | Percentage of total revenue | Percentage of total revenue | Percentage of total revenue |
| Clearing fees (net of SC levy)..... | 27.4 | 26.3 | 34.0 | 30.1 | 35.5 |
| Trade fees..... | 2.8 | 3.4 | 3.7 | 3.8 | 5.4 |
| SCORE fees..... | 2.8 | 2.6 | 3.4 | 2.8 | 3.8 |
| Participants' subscription..... | 7.0 | 1.7 | 1.3 | 1.6 | 1.1 |
| Listing fees..... | 4.5 | 4.9 | 4.8 | 4.7 | 4.6 |
| Broker services..... | 6.0 | 5.5 | 4.7 | 5.0 | 4.7 |
| Information services..... | 6.6 | 6.0 | 3.8 | 5.0 | 4.4 |
| Depository services..... | 8.4 | 10.7 | 8.8 | 9.6 | 9.6 |
| ISS fees | 1.7 | 2.2 | 1.8 | 1.7 | 2.6 |
| Perusal and processing fees ⁽¹⁾ | 1.2 | 1.7 | 1.6 | 1.6 | 2.7 |

Note:

⁽¹⁾ These are fees charged for perusing offering documents and shareholders' circulars.

For a further description of these fees, see Section 10.3.1 (Management's Discussion and Analysis of Financial Condition and Results of Operations — Overview of Revenues and Expenses — Total revenue). Most of these fees are regulated by the Securities Commission. For example, the Securities Commission reduced clearing fee rates charged by Bursa Securities Clearing for on-market transactions by 0.01 per cent. of the value of the contract as at July 1, 2001, and imposed a minimum and maximum cap for on-market transactions which did not exist prior to July 1, 2001. Any change in the fees we are entitled to charge would have a significant effect on our operating revenue.

In addition, we require the Securities Commission's approval for any change to our rates in respect of these fees. In most cases, the Securities Commission's approval is also required in introducing new products and services we offer and in determining the fees we propose to charge for such new products and services. See Section 4.1.9 (Risk Factors — Risk Relating to Our Business — Many of the changes that we plan to implement are subject to the approval of the Securities Commission and other relevant regulatory bodies) and Section 4.1.14 (Risk Factors — Risks Relating to Our Business — We may be unable to grow into new product lines and businesses).

10. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(cont'd)*

10.2.3 *Income from investments*

We have policies and guidelines which govern our investments. Our investment policy is to invest in fixed income bonds and money market instruments in Malaysia. In recent years, we have increased our investment in bonds and private debt securities, which may include debt securities issued by companies whose shares are listed on our Securities Exchanges. These investments have potential for higher yields than fixed deposits, but are subject to price fluctuations which are influenced primarily by the global and local economy and credit risks of the issuer, over which we have no control.

A significant portion of our total revenue since 2001 has been derived from interest income from our investments. For 2003, interest income was RM51.9 million or 18.4 per cent. of total revenue and for the nine (9) months ended September 30, 2004, interest income was RM40.6 million, or 18.5 per cent. of total revenue. We increased the amount of funds managed by external fund managers from RM156.2 million as at December 31, 2001 to RM292.5 million as at September 30, 2004. With respect to funds we manage ourselves, we increased our investment in private debt securities from RM234.7 million as at December 31, 2001 to RM249.0 million as at December 31, 2003, and RM256.0 million as at September 30, 2004. However, as a result of our capital reduction exercise immediately prior to the Initial Public Offering, we may reduce the amount of funds under external management and our holding of private debt securities if we liquidate investments to return capital to our shareholders.

We also obtain capital returns from the trading of securities in which we invest. As a result, our gains from the disposals of investments depend on market conditions. Our gains from the disposal of investments increased by RM6.9 million from RM3.0 million in 2001 to RM9.9 million in 2002 and by RM8.5 million from RM9.9 million in 2002 to RM18.4 million in 2003. Gains from disposal of investments decreased by RM16.5 million from RM18.2 million in the nine (9) months ended September 30, 2003 to RM1.7 million in the nine (9) months ended September 30, 2004 as bond prices were more favorable in 2003.

We take steps to ensure that no conflict of interest arises as a result of our investment activities and our regulatory functions. Our treasury operations and regulatory department are kept separate and distinct from each other. Our treasury department does not have access to non-public information and our regulation division does not have information about our portfolio of investments.

10.2.4 *VSS costs*

In 2004, VSS costs contributed substantially to total expenditure, accounting for 20.8 per cent. of total expenditure (excluding finance costs) for the nine (9) months ended September 30, 2004. For the years ended December 31, 2001 and 2002, VSS costs accounted for 0.9 per cent. and 1.5 per cent., respectively.

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In June 2001, the Kuala Lumpur Options and Financial Futures Exchange Sdn. Bhd. and COMMEMEX merged to form Bursa Derivatives. We implemented a VSS in June 2001 which applied to the employees of Bursa Derivatives. As a result, we reduced the total number of employees of Bursa Derivatives by 46 from 115 as at June 11, 2001 to 69 as at December 31, 2001. We put in place a VSS in the last quarter of 2002 for our clearing, settlement and depository business unit ("2002 VSS") and in May 2004 we implemented the 2004 VSS which applied to our group. The initiation of the 2002 VSS and the 2004 VSS was part of our reorganization initiative to improve our efficiency and equip ourselves to meet global market challenges and competition. As a result, we reduced the total number of our employees in our clearing, settlement and depository business unit by 94 from 277 on August 1, 2002. The 2002 VSS was completed on December 31, 2002. We further reduced the total number of our employees by 417 from 1,025 as at May 30, 2004. The 2004 VSS was completed on December 31, 2004. See Section 12.25 (Business — Employees). The reduction in staff numbers pursuant to the 2002 VSS and the 2004 VSS resulted in the payment of one-off separation benefits of RM3.1 million and RM37.3 million in 2002 and the nine (9) months ended September 30, 2004, respectively, and an additional RM3.9 million provisions for retirement benefits due to curtailment and settlement losses arising from the payment of benefits to staff who left our employment pursuant to the 2004 VSS in the nine (9) months ended September 30, 2004.

10.2.5 Depreciation

Our depreciation costs have decreased from RM32.7 million in 2001, to RM24.6 million in 2002 and to RM18.5 million in 2003, as we did not add significant fixed assets to our inventory during these three (3) years and the proportion of assets that were fully depreciated continued to rise.

However, in 2004 we started investing in our CTP. As the project is not in production mode yet, expenditure incurred up to September 30, 2004 amounting to RM21.3 million has been capitalized as work-in-progress. The total project cost is budgeted at RM75.2 million and the first phase of the project is expected to go "live" in the second quarter of 2005. As a result, we expect our depreciation expenses to increase from the third quarter of 2005. Our CTP assets will be depreciated on a straight line basis over five (5) years.

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10.3 Overview of Revenues and Expenses

The following table sets forth our results of operations as a percentage of total revenue for the years/periods indicated:

| | For the year ended December 31, | | | For the nine (9) months ended September 30, | |
|---|--|--|--|---|--|
| | 2001 Percentage of total revenue | 2002 Percentage of total revenue | 2003 Percentage of total revenue | 2003 Percentage of total revenue | 2004 Percentage of total revenue |
| Operating revenue | | | | | |
| Clearing fees (net of SC levy) | 27.4 | 26.3 | 34.0 | 30.1 | 35.5 |
| Trade fees..... | 2.8 | 3.4 | 3.7 | 3.8 | 5.4 |
| SCORE fees..... | 2.8 | 2.6 | 3.4 | 2.8 | 3.8 |
| Participants' subscription. | 7.0 | 1.7 | 1.3 | 1.6 | 1.1 |
| Listing fee..... | 4.5 | 4.9 | 4.8 | 4.7 | 4.6 |
| Broker services..... | 6.0 | 5.5 | 4.7 | 5.0 | 4.7 |
| Information services..... | 6.6 | 6.0 | 3.8 | 5.0 | 4.4 |
| Depository services..... | 8.4 | 10.7 | 8.8 | 9.6 | 9.6 |
| Other income/fees derived from our operations..... | 6.2 | 7.8 | 6.7 | 6.4 | 7.1 |
| Other income..... | 28.2 | 31.0 | 28.8 | 31.1 | 23.8 |
| Total revenue..... | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Staff costs..... | 40.1 | 39.0 | 34.3 | 31.8 | 35.2 |
| VSS costs..... | 0.9 | 1.4 | - | - | 17.0 |
| Depreciation..... | 16.4 | 10.8 | 6.5 | 6.9 | 5.2 |
| Other operating expenses..... | 35.9 | 40.1 | 25.3 | 24.3 | 24.5 |
| Surplus/profit from operations ⁽¹⁾ | 6.8 | 8.7 | 33.8 | 37.1 | 18.1 |
| Finance costs..... | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |

Note:

(1) Following our demutualization on January 5, 2004, we have commenced using the term "profit" in place of "surplus".

10. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (cont'd)

10.3.1 Total revenue

Our total revenue consists of operating revenue and other income. Our operating revenue is categorized into clearing fees, trade fees, SCORE fees, participants' subscription, listing fees, broker services, information services, depository services and other income/fees derived from our operations. The following table sets forth our operating revenue for the years/periods indicated:

| | For the year ended December 31, | | | | For the nine (9) months ended September 30, | | |
|---|---------------------------------|-------------|-------------|--------|---|-------------|--|
| | 2001 | 2002 | 2003 | CAGR | 2003 | 2004 | Period on period increase/ (decrease) |
| | RM millions | RM millions | RM millions | (%) | RM millions | RM millions | (%) |
| Operating revenue | | | | | | | |
| Clearing fees (net of SC levy)..... | 54.9 | 59.8 | 96.2 | 32.4 | 59.3 | 78.0 | 31.5 |
| Trade fees..... | 5.5 | 7.6 | 10.4 | 37.5 | 7.4 | 11.9 | 60.8 |
| SCORE fees..... | 5.7 | 5.8 | 9.7 | 30.5 | 5.6 | 8.2 | 46.4 |
| Participants' subscription..... | 14.1 | 3.9 | 3.7 | (48.8) | 3.1 | 2.5 | (19.4) |
| Listing fees..... | 8.9 | 11.1 | 13.7 | 24.1 | 9.2 | 10.0 | 8.7 |
| Broker services..... | 12.0 | 12.5 | 13.2 | 4.9 | 9.8 | 10.3 | 5.1 |
| Information services..... | 13.2 | 13.7 | 10.7 | (10.0) | 9.9 | 9.7 | (2.0) |
| Depository services..... | 16.9 | 24.5 | 24.9 | 21.4 | 19.0 | 21.0 | 10.5 |
| Other income/fees derived from our operations..... | | | | | | | |
| ISS fees..... | 3.4 | 5.0 | 5.1 | 22.5 | 3.4 | 5.6 | 64.7 |
| Perusal and processing fees..... | 2.5 | 3.8 | 4.5 | 34.2 | 3.2 | 6.0 | 87.5 |
| Share registration services..... | 3.2 | 3.4 | 4.1 | 13.2 | 2.6 | - | * |
| Others..... | 3.3 | 5.6 | 5.2 | 25.5 | 3.4 | 4.0 | 17.6 |
| Sub-total..... | 12.4 | 17.8 | 18.9 | 23.5 | 12.6 | 15.6 | 23.8 |
| Total operating revenue..... | 143.7 | 156.8 | 201.5 | 18.4 | 135.8 | 167.3 | 23.2 |

Notes:

- (1) CAGR is computed as follows:

$$\left(\frac{Y}{X}\right)^{\frac{1}{n-1}} - 1 \times 100,$$
where,
Y : value at end year
X : value at base year
n : number of years from base year to end year, inclusive.

* Not meaningful.

10. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (cont'd)

Clearing fees are the largest component of our operating revenue. Clearing fees are greatly dependent on market trade volume and value. Prior to July 2, 2001, clearing fees for on-market transactions were charged at 0.05 per cent. of the value of the contract, with no cap. Since July 2, 2001, for on-market transactions, Bursa Securities Clearing has charged a clearing fee of 0.04 per cent. of the value of each contract traded on our Securities Exchange on both buyers and sellers, subject to a cap of RM200 per contract. Prior to January 2, 2002, clearing fees for direct business transactions were charged at 0.05 per cent. of the value of contract, subject to a minimum fee of RM25 and a maximum fee of RM250. Effective January 2, 2002, a clearing fee of 0.04 per cent. of the value of the contract traded on Bursa Securities is charged to both buyers and sellers, subject to a minimum fee of RM10 and a maximum fee of RM200. Generally, the effective rate of the clearing fee is approximately 0.027 per cent. of the value of the contract traded due to the maximum rate for both on-market transactions and direct business transactions. We pay a percentage of the clearing fees we collect to the Securities Commission, as required by applicable legislation. This levy is currently 0.0075 per cent. of the contract value limited to a sum of RM37.50 per contract, or 18.75 per cent. of clearing fees we collect. In our financial statements, we report clearing fees net of the Securities Commission's levy.

Trade fees are charged by Bursa Derivatives to trading participants for contracts traded on our Derivatives Exchange, with local trading participants being entitled to rebates of between RM1 to RM5 per contract. Trade fees charged range from RM2 to RM9 per contract.

Bursa Derivatives Clearing charges a clearing fee of RM1 per trade contract with rebates given for scratch (these are derivatives contracts bought and sold on the same day at the same price), day (these are contracts bought and sold within the same day) and spread (these are contracts which are settled in different months) trade. The rebates are to promote volume trading, particularly by local participants, and thereby increase liquidity in the market. Market trade volume has increased from 0.8 million contracts in the year ended December 31, 2001 to 2.0 million contracts in the year ended December 31, 2003. Trade volume in the nine (9) months ended September 30, 2004 was approximately 2.0 million trades.

Like clearing fees, SCORE fees are driven by trade market volume and value. From January 1, 2001 to June 30, 2001, the rate was 0.0050 per cent. of the trade value of the contract for on-market transactions. Since July 1, 2001, SCORE fees have been set at 0.0025 per cent. of the trade value of buy and sell contracts for on-market transactions.

Participants' subscriptions comprise subscription and application fees payable by participating organizations or members of Bursa Securities, Bursa Derivatives, LFX, Bursa Securities Clearing and Bursa Depository for their respective memberships. In September 2000, the brokerage fees that stockbrokers are permitted to charge their customers were reduced by regulation. To lessen the adverse impact on stockbrokers, the monthly subscription fee of RM250 payable by stockbroking companies in respect of each Dealers' Representatives engaged by them was abolished in July 2001. This resulted in a significant reduction in revenue from participants' subscription fees from the year ended December 31, 2001 to December 31, 2002. In addition, the total number of members paying subscription fees has decreased over the years following mergers among stockbroking companies, among other reasons.

10. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (cont'd)

Listing fees comprise annual listing fees payable by all public listed companies, initial listing fees for new listings of share capital and debt securities and additional listing fees for additional share capital raised by public listed companies.

Fees from broker services are derived from the rental of data communication equipment such as network routers and switches to participating organizations and members of Bursa Depository at a fixed monthly rate.

Revenue from information services includes fees which are charged to information vendors and participating organizations for the use of our share information system which disseminates market information in real-time to the industry (see Section 12.9.1 (Business — Trading Systems — Securities trading)), and access fees charged to brokers for use of WinSCORE or KLOFFE Automated Trading System, the systems through which brokers enter their trading orders on our Securities Exchange and Derivatives Exchange, respectively.

Depository fees comprise various charges by Bursa Depository for CDS transactions such as deposits and transfers of securities from CDS accounts, and CDS account openings by investors. Bursa Depository also charges issuers a fee when they request for records of depositors and for crediting of securities into CDS for additional share issues and initial public offers of securities.

Other income/fees derived from our operations includes ISS fees (being fees payable by non-trading clearing participants on each ISS confirmation or affirmation), perusal fees and share registration services income. We divested our interest in our share registration company in January 2004, hence there is no share registration services income for 2004.

Other income comprises mainly interest income, gain on disposal of investments, fine receipts and conference and exposition income. The following table sets forth our other income for the years/periods indicated:

| | For the year ended December 31, | | | | For the nine (9) months ended September 30, | | Period on period increase/ (decrease) (%) |
|--|---------------------------------|-------------|-------------|-------|---|-------------|---|
| | 2001 | 2002 | 2003 | CAGR | 2003 | 2004 | |
| | RM millions | RM millions | RM millions | (%) | RM millions | RM millions | |
| Other income | | | | | | | |
| Interest income | 48.3 | 50.8 | 51.9 | 3.7 | 39.0 | 40.6 | 4.1 |
| Gain on disposal of investments | 3.0 | 9.9 | 18.4 | 147.7 | 18.2 | 1.7 | (90.7) |
| Fine receipts | 1.4 | 3.7 | 2.2 | 25.4 | 0.8 | 0.5 | (37.5) |
| Conference and exposition income | - | 1.3 | 1.8 | * | 1.8 | 3.2 | 77.8 |
| Others | 3.7 | 4.9 | 7.1 | 38.5 | 1.6 | 6.2 | 287.5 |
| Total | 56.4 | 70.6 | 81.4 | 20.1 | 61.4 | 52.2 | (15.0) |

Note:

* Not meaningful.

10. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (cont'd)

Interest income is primarily derived from deposits placed with financial institutions, money market placements, unlisted bonds and Malaysian Government Securities ("MGS"). Gain on disposal of investments is mainly from disposal of investments in unlisted bonds and MGS. We divested all our investment in equity and equity-related products in 2000 and started investing in unlisted bonds and MGS in 2001. Fine receipts are primarily from penalties imposed on public listed companies and participating organizations for non-compliance with the Bursa Securities LR and Bursa Securities' and Bursa Depository's rules and regulations. Conference and exposition income is derived from organizing conferences.

10.3.2 Total Expenditure

Our total expenditure comprises staff costs, VSS costs, depreciation and other operating expenses.

(i) Staff costs

Staff costs consist of wages and salaries, social security costs, short-term accumulating compensated absences, pension costs from our defined contribution plan (EPF), a national pension scheme established by law) and our defined benefit plan (which is a retirement benefit scheme for our executive staff).

(ii) VSS costs

See Section 10.2.4 (Management's Discussion and Analysis of Financial Condition and Results of Operations — Significant Factors Affecting Our Results of Operations — VSS costs).

(iii) Depreciation

See Section 10.2.5 (Management's Discussion and Analysis of Financial Condition and Results of Operations — Significant Factors Affecting Our Results of Operations — Depreciation).

10. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (cont'd)

(iv) Other operating expenses

The following table sets forth our other operating expenses for the years/periods indicated:

| | For the year ended December 31, | | | | For the nine (9) months ended September 30, | | |
|--|---------------------------------|-------------|-------------|--------|---|-------------|---------------------------------------|
| | 2001 | 2002 | 2003 | CAGR | 2003 | 2004 | Period on period increase/ (decrease) |
| | RM millions | RM millions | RM millions | (%) | RM millions | RM millions | (%) |
| Other operating expenses | | | | | | | |
| Upkeep and maintenance charges | 23.6 | 23.7 | 23.8 | 0.4 | 19.0 | 17.5 | (7.9) |
| Advertising and public relations | 6.6 | 4.1 | 4.0 | (22.2) | 3.0 | 3.3 | 10.0 |
| Impairment of property, plant and equipment | - | 28.2 | - | * | - | 5.5 | * |
| Amortization of goodwill | 0.4 | 2.5 | 2.9 | 169.3 | 2.2 | 2.2 | 0.9 |
| Bad debts written off | - | - | 1.4 | * | - | - | * |
| Property, plant and equipment written off | 1.4 | - | 0.4 | (46.5) | - | - | * |
| Net provision/(reversal of provision) for bad and doubtful debts | 2.3 | (0.2) | (0.2) | * | (0.3) | 1.8 | * |
| Office rental | 3.0 | 1.0 | 1.3 | (34.2) | 0.8 | 0.6 | (25.0) |
| Write down of short term investments | - | - | 3.0 | * | 1.7 | (1.5) | * |
| Others | 34.6 | 32.0 | 35.0 | 0.6 | 21.6 | 24.4 | 13.0 |
| Total | 71.9 | 91.3 | 71.6 | 0.2 | 48.0 | 53.8 | 12.1 |

Note:

* Not meaningful.

Other operating expenses comprise mainly the following:

- (i) upkeep and maintenance charges for building, computer hardware and software and office equipment;
- (ii) advertising and public relations costs, which include expenses incurred for advertising new listings, promotion of products and services, and other public relations events;
- (iii) impairment of property, plant and equipment; and
- (iv) others, which include printing and stationery costs, telecommunications expenses, electricity and water charges, office rental, legal and professional fees and postage.

10. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (cont'd)

10.3.3 Recent Developments

We expect to announce our unaudited consolidated financial results for the quarter and the year ended December 31, 2004 shortly before our Listing.

Total revenue increased by 1.3 per cent. from RM282.9 million in 2003 to RM286.6 million in 2004. This increase was primarily driven by a 8.4 per cent. increase in operating revenue, from RM201.5 million in 2003 to RM218.4 million in 2004, partially offset by a 16.2 per cent. decrease in other income, from RM81.4 million in 2003 to RM68.2 million in 2004. However, operating revenue decreased by 22.2 per cent. from RM65.7 million in the last quarter of 2003 to RM51.1 million in the last quarter of 2004. This decrease was primarily due to a decrease of 28.1 per cent. in market turnover in the last quarter of 2004, as compared with the last quarter of 2003. The reduction in market turnover was mainly due to particularly high market turnover in October 2003 and lower market turnover in October 2004. In October 2003, the market reacted positively to the smooth change of leadership of the Government. In October 2004, the market reacted negatively to oil prices, which peaked at US\$55 per barrel.

The increase in operating revenue was primarily attributable to increases in revenue from income/fees derived from operations of the Group and from clearing fees. The increase in revenue from income/fees derived from operations of the Group was primarily due to increases in ISS fees and perusal fees received as a result of increased corporate activity. The increase in clearing fees was primarily due to an increase in market turnover.

Total expenditure did not change materially between 2003 and 2004, other than RM37.3 million in VSS costs incurred in 2004. There were no VSS costs incurred in 2003.

Largely due to the VSS costs incurred in 2004, PBT for 2004 was RM63.5 million or 33.6 per cent. lower than profit before taxation for 2003, which was RM95.6 million. Net profit for 2004 was RM35.1 million or 41.4 per cent. lower than net profit for 2003, which was RM59.9 million.

10. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (cont'd)

10.4 Nine (9) Months Ended September 30, 2004 Compared to Nine (9) Months Ended September 30, 2003**10.4.1 Total revenue**

Our total revenue increased by 11.4 per cent. from RM197.1 million in the nine (9) months ended September 30, 2003 to RM219.5 million in the nine (9) months ended September 30, 2004. This increase was primarily attributable to an increase in operating revenue.

(i) Operating revenue

Our operating revenue increased by 23.2 per cent. from RM135.8 million in the nine (9) months ended September 30, 2003 to RM167.3 million in the nine (9) months ended September 30, 2004. This increase was primarily attributable to increases in revenue from income/fees derived from our operations and from clearing fees.

Net clearing fees increased by 31.5 per cent. from RM59.3 million in the nine (9) months ended September 30, 2003 to RM78.0 million in the nine (9) months ended September 30, 2004. This increase was primarily due to an increase in market turnover. Total turnover for on-market trades, which is measured by the Ringgit value of trades, increased from RM111.9 billion in the nine (9) months ended September 30, 2003 to RM164.9 billion in the nine (9) months ended September 30, 2004 as a result of improved market conditions and growth in the number of listed companies.

Revenue from trade fees increased by 60.8 per cent. from RM7.4 million in the nine (9) months ended September 30, 2003 to RM11.9 million in the nine (9) months ended September 30, 2004. This increase was primarily due to an increase in turnover volume on Bursa Derivatives from 1.4 million contracts in the nine (9) months ended September 30, 2003 to 2.0 million contracts in the nine (9) months ended September 30, 2004. The increase in turnover volume was mainly due to the modification of the FKLI in September 2003. We halved the FKLI contract size, resulting in reduced initial margin requirements, thus making it less costly to trade FKLI contracts. The changes to the FKLI resulted in turnover improving from 117,585 FKLI contracts for the nine (9) months ended September 30, 2003 to 843,941 contracts for the nine (9) months ended September 30, 2004.

SCORE fees increased by 46.4 per cent. from RM5.6 million in the nine (9) months ended September 30, 2003 to RM8.2 million in the nine (9) months ended September 30, 2004. This increase was primarily due to the increase in market turnover and growth in the number of listed securities.

10. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (cont'd)

Revenue from participants' subscriptions decreased by 19.4 per cent. from RM3.1 million in the nine (9) months ended September 30, 2003 to RM2.5 million in the nine (9) months ended September 30, 2004. This decrease was primarily due to the reduction in the number of participating organizations and registered persons (these include directors, compliance officers, dealers representatives, trading clerks, corporate finance executives, supervisors and heads of departments) from 39 and 242, respectively, as at September 30, 2003 to 36 and 170, respectively, as at September 30, 2004, following mergers among stockbroking companies and a number of registered persons leaving the industry.

Listing fees increased by 8.7 per cent. from RM9.2 million in the nine (9) months ended September 30, 2003 to RM10.0 million in the nine (9) months ended September 30, 2004. This increase was primarily due to an increase in initial listing fees and annual listing fees received. There was an increase in the number of companies listed on our Securities Exchange, from 36 new listings in the nine (9) months ended September 30, 2003 to 49 new listings in the nine (9) months ended September 30, 2004, and an increase in the total number of public listed companies from 889 companies as at September 30, 2003 to 945 companies as at September 30, 2004. There were 12 de-listings in the nine (9) months ended September 30, 2003 and 10 de-listings in the nine (9) months ended September 30, 2004.

Revenue from broker services increased marginally by 5.1 per cent. from RM9.8 million in the nine (9) months ended September 30, 2003 to RM10.3 million in the nine (9) months ended September 30, 2004. This increase was primarily due to an increase in rent received from use of data communications equipment by participating organizations due to an increase in the number of branches and EAFPA. These increased from 54 branches and 42 EAFPA as at September 30, 2003, to 57 and 67, respectively, as at September 30, 2004.

Revenue from information services decreased marginally by 2.0 per cent. from RM9.9 million in the nine (9) months ended September 30, 2003 to RM9.7 million in the nine (9) months ended September 30, 2004.

Revenue from depository services increased by 10.5 per cent. from RM19.0 million in the nine (9) months ended September 30, 2003 to RM21.0 million in the nine (9) months ended September 30, 2004. This increase was mainly due to increased revenue from issue fees in connection with initial public offerings and additional issues and record of depositors fees following a general increase in corporate activities, such as rights and bonus issues and growth in the number of listed companies.

10. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (cont'd)

Revenue from other income/fees derived from our operations increased by 23.8 per cent. from RM12.6 million in the nine (9) months ended September 30, 2003 to RM15.6 million in the nine (9) months ended September 30, 2004. This increase was primarily due to an increase of RM2.2 million in ISS fees received and an increase of RM2.8 million in perusal fees received as a result of increased corporate activity, partially offset by a decrease in revenue from share registration services as we sold the relevant subsidiary.

(ii) *Other income*

Our other income decreased by 15.0 per cent. from RM61.4 million in the nine (9) months ended September 30, 2003 to RM52.2 million in the nine (9) months ended September 30, 2004. This decrease was primarily due to a decrease in gains from disposal of investments, from RM18.2 million in the nine (9) months ended September 30, 2003 to RM1.7 million in the nine (9) months ended September 30, 2004. Gains from disposal of investments decreased primarily due to the more favorable bond prices in 2003, when we liquidated more bonds. The decrease in gains from disposal of investments was partially offset by higher interest income from investments in unlisted securities and a net gain of RM4.2 million from disposal of subsidiaries in the nine (9) months ended September 30, 2004.

10.4.2 Total expenditure

Our total expenditure (excluding finance costs) increased by 44.8 per cent. from RM124.1 million in the nine (9) months ended September 30, 2003 to RM179.7 million in the nine (9) months ended September 30, 2004. This increase was due to VSS costs and other operating expenses, partially offset by a decrease in depreciation. The significant increase in VSS costs resulted from the 2004 VSS and associated expenses.

(i) *Staff costs*

Our staff costs increased by 23.3 per cent. from RM62.6 million in the nine (9) months ended September 30, 2003 to RM77.2 million in the nine (9) months ended September 30, 2004. This increase was primarily due to an increase in pension costs under both our defined contribution plan (EPF) and our defined benefit plan, from RM9.6 million in the nine (9) months ended September 30, 2003 to RM15.3 million in the nine (9) months ended September 30, 2004. The increase in pension costs under the EPF was due to an increase in our EPF contribution for executive staff effective September 1, 2003 following the implementation of a new scheme of service for such staff ("New Scheme"). Under the New Scheme, employees ceased to accrue benefits under our defined benefit plan in respect of pensionable service after August 31, 2003 in return for a 6.0 per cent. increase in employers' EPF contribution. The increase in defined benefit plan contributions was as a result of a higher provision being made for retirement benefits due to curtailment and settlement losses arising from the payment of benefits to staff who left our employment pursuant to the 2004 VSS.

10. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (*cont'd*)

Wages and salaries also increased by RM4.0 million in the nine (9) months ended September 30, 2004 compared to the nine (9) months ended September 30, 2003, due to salary increments, promotions and payment of RM1.9 million in sign-on fees to senior management whose services were converted to fixed term contracts of employment in the nine (9) months ended September 30, 2004.

(ii) *VSS costs*

VSS costs were RM37.3 million in the nine (9) months ended September 30, 2004. No VSS costs were incurred in the nine (9) months ended September 30, 2003 as we did not implement any VSS in that year. VSS costs in the nine (9) months ended September 30, 2004 comprised the accrual of one-off separation benefits of RM37.3 million.

(iii) *Depreciation*

Depreciation decreased by 15.6 per cent. from RM13.5 million in the nine (9) months ended September 30, 2003 to RM11.4 million in the nine (9) months ended September 30, 2004. This decrease was primarily due to a greater proportion of our assets being fully-depreciated in the nine (9) months ended September 30, 2004.

(iv) *Other operating expenses*

Our other operating expenses increased by 12.1 per cent. from RM48.0 million in the nine (9) months ended September 30, 2003 to RM53.8 million in the nine (9) months ended September 30, 2004. This increase was primarily attributable to the RM5.5 million provision for impairment of property, plant and equipment in the nine (9) months ended September 30, 2004 due to the book value of two buildings that we own, namely, Exchange Square, Kuala Lumpur and Wisma John Hancock, Penang, being greater than their market values by RM5.2 million and RM0.3 million, respectively. In addition, our provision for doubtful debts increased. Our policy is to provide fully for trade debts which have been outstanding for more than six months. We had a write-back of RM0.3 million in the nine (9) months ended September 30, 2003 compared to an additional provision of RM1.8 million in the nine (9) months ended September 30, 2004. We also had a one-off cash settlement of RM2.8 million in favor of Hong Leong Bank Berhad in August 2004 with respect to its claim against one of our subsidiaries which allegedly breached the terms of a letter of undertaking issued by the subsidiary to the bank. We sold our shares in this subsidiary to a third party on January 5, 2004. Expenditure on professional fees also increased in the nine (9) months ended September 30, 2004 compared to the nine (9) months ended September 30, 2003 as we undertook more projects. These included professional fees incurred with respect to our CTP project, the mobilization of resources in respect of the framework for our enterprise risk management system (see Section 12.19 (Business — Risk Management)) and the supply and installation of our capital adequacy requirements system.

10. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (cont'd)

10.4.3 Surplus from operations

As a result of the foregoing, surplus from operations decreased by 45.5 per cent. from RM73.0 million in the nine (9) months ended September 30, 2003 to RM39.8 million in the nine (9) months ended September 30, 2004.

10.4.4 Finance costs

Our finance costs decreased marginally from RM0.14 million in the nine (9) months ended September 30, 2003 to RM0.11 million in the nine (9) months ended September 30, 2004. This decrease was primarily due to lower utilization of overdraft facilities by Bursa Securities Clearing for clearing activities.

10.4.5 Surplus before taxation

As a result of the foregoing, our surplus before taxation decreased by 45.5 per cent. from RM72.9 million in the nine (9) months ended September 30, 2003 to RM39.7 million in the nine (9) months ended September 30, 2004.

10.4.6 Taxation

Taxation decreased by 8.2 per cent. from RM23.1 million in the nine (9) months ended September 30, 2003 to RM21.2 million in the nine (9) months ended September 30, 2004. This decrease was primarily due to a reduction in our profit before taxation. This decrease was partially offset by increased taxes due to retirement benefits payments which were not allowable for deductions and provision for impairment of property, plant and equipment.

10.4.7 Net surplus after taxation

As a result of the foregoing, net surplus after taxation decreased by 62.9 per cent. from RM49.8 million in the nine (9) months ended September 30, 2003 to RM18.5 million in the nine (9) months ended September 30, 2004.

10.4.8 Minority interest

Minority interest decreased by 21.2 per cent. from RM3.3 million in the nine (9) months ended September 30, 2003 to RM2.6 million in the nine (9) months ended September 30, 2004. This decrease was primarily due to a lower net profit recorded by Bursa Depository in 2004. We owned 55.0 per cent. of Bursa Depository until April 2003, when we increased our holding to 75.0 per cent.

10. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (cont'd)

10.4.9 Net surplus for the period

As a result of the foregoing, net surplus for the period decreased by 65.8 per cent. from RM46.5 million in the nine (9) months ended September 30, 2003 to RM15.9 million in the nine (9) months ended September 30, 2004.

10.5 Year Ended December 31, 2003 Compared to Year Ended December 31, 2002**10.5.1 Total revenue**

Our total revenue increased by 24.4 per cent. from RM227.4 million in 2002 to RM282.9 million in 2003. This increase was primarily attributable to an increase in operating revenue.

(i) Operating revenue

Our operating revenue increased by 28.5 per cent. from RM156.8 million in 2002 to RM201.5 million in 2003. This increase was primarily attributable to increases in revenue from clearing fees.

Net clearing fees increased by 60.9 per cent. from RM59.8 million in 2002 to RM96.2 million in 2003. This increase was primarily due to an increase in market turnover. Total turnover for on-market trades increased from RM117.0 billion in 2002 to RM183.9 billion in 2003 primarily due to positive measures undertaken by the Malaysian Government in 2003 which helped to counteract the market uncertainties created by the war in Iraq, the outbreak of severe acute respiratory syndrome in Asia and terrorist attacks in Southeast Asia. See Section 10.2.1 (Management's Discussion and Analysis of Financial Condition and Results of Operations — Significant Factors Affecting Our Results of Operations — Market activity).

Revenue from trade fees increased from RM7.6 million in 2002 to RM10.4 million in 2003. This increase was primarily due to an increase in turnover volume on Bursa Derivatives from 1.3 million contracts in 2002 to 2.0 million contracts in 2003 mainly due to volatile crude palm oil markets in 2003.

SCORE fees increased by 67.2 per cent. from RM5.8 million in 2002 to RM9.7 million in 2003. This increase was primarily due to the increase in market turnover.

Revenue from participants' subscription fees decreased by 5.1 per cent. from RM3.9 million in 2002 to RM3.7 million in 2003. This decrease was primarily due to the reduction in the number of participating organizations from 40 as at December 31, 2002 to 38 as at December 31, 2003, following mergers among stockbroking companies.

10. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (cont'd)

Listing fees increased by 23.4 per cent. from RM11.1 million in 2002 to RM13.7 million in 2003. This increase was primarily due to an increase in the number of companies listed on our Securities Exchange, from 51 new listings in 2002 to 58 new listings in 2003, and an increase in the total number of public listed companies from 865 companies as at December 31, 2002 to 906 companies as at December 31, 2003. There were three de-listings in 2002 and 17 de-listings in 2003.

Revenue from broker services increased by 5.6 per cent. from RM12.5 million in 2002 to RM13.2 million in 2003. This increase was primarily due to an increase in rent received from use of data communications equipment by participating organizations due to the opening of three new branches, six (6) new EAF and 14 new EAFPA in 2003.

Revenue from information services decreased by 21.9 per cent. from RM13.7 million in 2002 to RM10.7 million in 2003. In 2003, KLOFFE data feed income of RM2.3 million was recorded as other income while such income was recorded as information services in 2002. Had the KLOFFE data feed income been recorded as information services in 2003, revenue from information services would have decreased by 5.1 per cent., instead of 21.9 per cent. This decrease of 5.1 per cent. was due to a decrease in the total number of subscribers, resulting from the mergers of our participating organizations.

Revenue from depository services increased by 2.0 per cent. from RM24.4 million in 2002 to RM24.9 million in 2003. This increase was primarily due to an increase in revenue from issue fees in connection with initial public offerings and additional issues and record of depositors fees following a general increase in corporate activities such as rights and bonus issues, and growth in the number of listed companies.

Revenue from other income/fees derived from our operations increased by 6.2 per cent. from RM17.8 million in 2002 to RM18.9 million in 2003 primarily due to an increase of RM0.7 million in perusal fees received and an increase of RM0.7 million in share registration services income as a result of increased corporate activity, including public offerings as at December 31, 2003, partially offset by a decreased in miscellaneous income.

(ii) *Other income*

Our other income increased by 15.3 per cent. from RM70.6 million in 2002 to RM81.4 million in 2003. This increase was primarily due to an increase in gains from disposal of investments, from RM9.9 million in 2002 to RM18.4 million in 2003. Gains from disposal of investments increased primarily as a result of increased investments in bonds and private debt securities. RM374.4 million was invested in private debt securities as at December 31, 2002, compared to RM455.7 million as at December 31, 2003.

10. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (*cont'd*)

10.5.2 Total expenditure

Our total expenditure (excluding finance costs) decreased by 9.9 per cent. from RM207.7 million in 2002 to RM187.1 million in 2003. This decrease was primarily due to a decrease in other operating expenses and depreciation, partially offset by an increase in staff costs.

(i) *Staff costs*

Our staff costs increased by 9.4 per cent. from RM88.7 million in 2002 to RM97.0 million in 2003. This increase was primarily due to an increase in wages and salaries from RM49.3 million in 2002 to RM56.4 million in 2003. We conducted a review of our employees' remuneration and reward structure and implemented a revised scheme of service for employees on September 1, 2003. The New Scheme resulted in increased wages and salaries and defined contribution plan expenses partially offset by lower defined benefit plan expenses.

As a result of the New Scheme, there have been no new entrants to the defined benefit plan.

(ii) *VSS costs*

VSS costs were RM3.1 million in 2002. No VSS costs were incurred in 2003. This was because of the payment of one-off separation benefits of RM3.1 million in the last quarter of 2002 pursuant to the 2002 VSS, while no separation benefits were paid in 2003.

(iii) *Depreciation*

Depreciation decreased by 24.8 per cent. from RM24.6 million in 2002 to RM18.5 million in 2003. This decrease was primarily due to the majority of our assets being fully-depreciated in 2003, and no significant addition of fixed assets in 2003.

(iv) *Other operating expenses*

Our other operating expenses decreased by 21.6 per cent. from RM91.3 million in 2002 to RM71.6 million in 2003. This decrease was primarily attributable to the provision of RM28.2 million for impairment loss in relation to our real property assets in 2002. Commercial property prices were generally depressed in 2002 due to over-supply.

10.5.3 Surplus from operations

As a result of the foregoing, surplus from operations increased from RM19.7 million in 2002 to RM95.7 million in 2003.

10. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (cont'd)

10.5.4 Finance costs

Our finance costs increased by 18.8 per cent. from RM0.16 million in 2002 to RM0.19 million in 2003. This increase was primarily due to higher utilization of overdraft facilities by Bursa Securities Clearing for clearing activities.

10.5.5 Surplus before taxation

As a result of the foregoing, our surplus before taxation increased from RM19.6 million in 2002 to RM95.6 million in 2003.

10.5.6 Taxation

Taxation increased from RM6.1 million in 2002 to RM30.2 million in 2003. This increase was primarily due to an increase in taxable income. The increase was also partially offset by a reversal of RM14.9 million in taxes in 2002 due to overprovisions in previous years.

10.5.7 Net surplus after taxation

As a result of the foregoing, net surplus after taxation increased from RM13.4 million in 2002 to RM65.4 million in 2003.

10.5.8 Minority interest

Minority interest increased by 61.8 per cent. from RM3.4 million in 2002 to RM5.5 million in 2003. This increase was primarily due to an increase in income recorded by Bursa Depository in 2003. We owned 55.0 per cent. of Bursa Depository until April 2003, when we increased our holding to 75.0 per cent.

10.5.9 Net surplus for the period

As a result of the foregoing, net surplus for the period increased from RM10.1 million in 2002 to RM59.9 million in 2003.

10. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(cont'd)*

10.6 Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

10.6.1 Total revenue

Our total revenue increased by 13.6 per cent. from RM200.2 million in 2001 to RM227.4 million in 2002. This increase was primarily attributable to an increase in operating revenue and other income.

(i) Operating revenue

Our operating revenue increased by 9.1 per cent. from RM143.7 million in 2001 to RM156.8 million in 2002. This increase was primarily attributable to increases in revenue from depository fees, clearing fees and listing fees, partially offset by decreases in revenue from participants' subscriptions.

Net clearing fees increased by 8.9 per cent. from RM54.9 million in 2001 to RM59.8 million in 2002. This increase was primarily due to an increase in market turnover. Total turnover for on-market trades increased from RM85.0 billion in 2001 to RM117.0 billion in 2002 due to positive corporate developments, corporate earnings recovery and the upgrading of Malaysia's sovereign rating by international rating agencies. Further, at the beginning of 2002, EPF announced its intention to increase its exposure to the equity markets by RM8.0 billion to RM50.0 billion, because of the low interest rate environment. With effect from July 1, 2001, clearing fees were reduced from a rate of 0.05 per cent. to 0.04 per cent. of the value of the contract, and subjected to a cap of RM200 per contract. As a result, the increase in our revenue from clearing fees was not directly proportional to the increase in market turnover.

Revenue from trade fees increased from RM5.5 million in 2001 to RM7.6 million in 2002. This increase was primarily due to an increase in turnover volume on Bursa Derivatives from 0.8 million contracts in 2001 to 1.3 million contracts in 2002.

SCORE fees increased by 1.8 per cent. from RM5.7 million in 2001 to RM5.8 million in 2002. This increase was primarily due to the increase in market turnover, partially offset by the reduction in SCORE fees from 0.005 per cent. to 0.0025 per cent. of the value of the contract with effect from July 1, 2001.

Revenue from participants' subscription fees decreased by 72.3 per cent. from RM14.1 million in 2001 to RM3.9 million in 2002. This decrease was primarily due to the abolishment in July 2001 of the monthly subscription fee of RM250 payable by stockbroking companies in respect of each Dealers Representative engaged by them.

10. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(cont'd)*

Listing fees increased by 24.7 per cent. from RM8.9 million in 2001 to RM11.1 million in 2002. This increase was primarily due to an increase in the number of companies seeking to be listed on our Securities Exchange, from 20 new listings (excluding new listings on the MESDAQ Market, the operations of which we acquired in March 2002) in 2001 to 51 new listings in 2002, and an increase in the total number of public listed companies from 812 companies (excluding the number of companies listed on the MESDAQ Market) as at December 31, 2001 to 865 companies as at December 31, 2002.

There were three (3) de-listings in 2001 and 2002, and the number of newly listed companies on the Main Board of Bursa Securities increased greatly from six (6) in 2001 to 22 in 2002.

Revenue from broker services increased by 4.2 per cent. from RM12.0 million in 2001 to RM12.5 million in 2002. This increase was primarily due to an increase in rent received from use of data communications equipment by participating organizations due to the opening of 23 new branches, one new EAF and 34 new EAFPA in 2002.

Revenue from information services increased by 3.8 per cent. from RM13.2 million in 2001 to RM13.7 million in 2002.

Revenue from depository services increased by 45.0 per cent. from RM16.9 million in 2001 to RM24.5 million in 2002. This was mainly due to an increase in revenue from transfer fees issue fees in connection with initial public offerings and additional issues and record of depositors fees following increases in corporate activities such as rights and bonus issues, and growth in the number of listed companies.

Revenue from other income/fees derived from our operations increased by 43.5 per cent. from RM12.4 million in 2001 to RM17.8 million in 2002. This increase was primarily due to an increase in ISS fees and perusal and processing fees.

(ii) *Other income*

Our other income increased by 25.2 per cent. from RM56.4 million in 2001 to RM70.6 million in 2002. This increase was primarily due to an increase in gains from disposal of investments, from RM3.0 million in 2001 to RM9.9 million in 2002, and an increase in interest income from fixed deposits and private debt securities from RM43.9 million in 2001 to RM45.4 million in 2002. Gains from disposal of investments increased primarily as a result of more favorable bond prices in 2002. Interest income from fixed deposits and private debt securities increased as a result of our policy to increase investment in fixed income securities by allocating more to external fund managers. Our fund managers managed RM156.2 million worth of funds as at December 31, 2001 compared to RM166.3 million worth of funds as at December 31, 2002. In addition, we received income of RM1.3 million from the Palm and Lauric Oil Conference organized by us, and a gain of RM2.5 million from the disposal of all our vehicles following the change in our policy on car entitlement for managerial staff in March 2002.

10. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (cont'd)

10.6.2 Total expenditure

Our total expenditure (excluding finance costs) increased by 11.3 per cent. from RM186.6 million in 2001 to RM207.7 million in 2002. This increase was primarily due to increases in operating expenses and staff costs, partially offset by a decrease in depreciation and finance costs.

(i) Staff costs

Our staff costs increased by 10.6 per cent. from RM80.2 million in 2001 to RM88.7 million in 2002. This increase was primarily due to an increase in provisions in respect of our defined benefit plan from RM5.2 million in 2001 to RM11.2 million in 2002, and an increase in wages and salaries from RM46.9 million in 2001 to RM49.3 million in 2002. Provisions in respect of our defined benefit plan increased as we revalued the plan's assets against its liabilities. Wages and salaries increased in 2002 as a result of annual salary increments and promotion and the introduction of a car allowance amounting to RM2.0 million in 2002 in substitution for cars previously provided to Management.

(ii) VSS costs

VSS costs were RM1.8 million in 2001 as compared to RM3.1 million in 2002 due to the implementation of the 2001 VSS and the 2002 VSS, respectively.

(iii) Depreciation

Depreciation decreased by 24.8 per cent. from RM32.7 million in 2001 to RM24.6 million in 2002. This decrease was primarily due to more assets being fully depreciated and no significant addition of fixed assets in 2002.

(iv) Other operating expenses

Our other operating expenses increased by 27.0 per cent. from RM71.9 million in 2001 to RM91.3 million in 2002. This increase was primarily attributable to the provision of RM28.2 million for impairment for loss of property in 2002, as we reviewed the carrying amounts of our real property assets in compliance with the requirements under the MASB Standard No. 23.

This increase was partially offset by a reduction in legal and professional fees from RM7.2 million in 2001 to RM0.5 million in 2002. This reduction was due primarily to fewer projects being undertaken in 2002 as compared to 2001. In 2001, an IT review study was commissioned at a cost of RM3.9 million.

10. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (cont'd)

10.6.3 Surplus from operations

As a result of the foregoing, our surplus from operations increased from RM13.6 million in 2001 to RM19.7 million in 2002.

10.6.4 Finance costs

Our finance costs decreased by 30.4 per cent. from RM0.23 million in 2001 to RM0.16 million in 2002. This decrease was primarily due to lower utilization of overdraft facilities by Bursa Securities Clearing for clearing activities.

10.6.5 Surplus before taxation

As a result of the foregoing, our surplus before taxation increased by 46.3 per cent. from RM13.4 million in 2001 to RM19.6 million in 2002.

10.6.6 Taxation

Taxation decreased by 52.0 per cent. from RM12.7 million in 2001 to RM6.1 million in 2002, primarily due to a reversal of RM14.9 million in taxes in 2002 due to overprovisions in previous years. This decrease was partially offset by an increase in taxable income in 2002 compared to 2001.

10.6.7 Net surplus after taxation

As a result of the foregoing, net surplus after taxation increased substantially from RM0.7 million in 2001 to RM13.4 million in 2002.

10.6.8 Minority interest

Minority interest was RM0.5 million for 2001 compared to RM3.4 million reduction for 2002. This was primarily due to a decrease in net loss from Malaysian Share Registration Services Sdn. Bhd. (a former subsidiary in which we held 51.0 per cent.) from RM1.1 million in 2001 to RM0.1 million in 2002.

10.6.9 Net surplus for the period

As a result of the foregoing, net surplus for the period increased from RM1.2 million in 2001 to RM10.1 million in 2002.

10. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(cont'd)*

10.7 Liquidity and Capital Resources

10.7.1 Working Capital

Our principal source of liquidity is cash from operations. We also have certain surplus funds in short-term deposits that we may use for any unforeseen capital or other requirements. As at September 30, 2004, we had RM742.2 million in cash and short-term deposits. We also had short-term investments and other investments of RM530.9 million as at September 30, 2004. In addition, as at September 30, 2004, we had an aggregate of RM1.5 billion of available credit facilities.

As at December 31, 2003, net working capital, defined as the difference between current assets and current liabilities, was a surplus of RM859.5 million. Our net working capital as at September 30, 2004 was RM846.8 million. As a result of the capital reduction, net working capital will initially be reduced by RM750.0 million, which will increase by at least RM380.0 million after the proceeds from the Initial Public Offering are received. See Section 20 (Listing Scheme and Capital Reduction).

We are of the opinion that, after taking into consideration the funds generated from our existing operations and banking facilities currently available to us, the capital to be paid out pursuant to the Capital Reduction and proceeds from the Initial Public Offering, we have sufficient working capital for a period of 12 months from January 31, 2005 (being the latest practicable date prior to the registration of the Prospectus with the Securities Commission) to meet our needs and foreseeable requirements.

10.7.2 Cash Flows

The following table sets forth our cash flows with respect to operating activities, investing activities and financing activities for the years/periods indicated:

| | For the year ended December 31, | | | For the nine (9) months ended September 30, | |
|------------------------------------|---------------------------------|-------------|-------------|---|-------------|
| | 2001 | 2002 | 2003 | 2003 | 2004 |
| | RM millions | RM millions | RM millions | RM millions | RM millions |
| Net cash (used in)/generated from: | | | | | |
| Operating activities | (29.4) | 15.3 | 36.5 | (36.6) | (0.1) |
| Investing activities | (4.3) | 49.0 | (34.0) | (4.4) | (65.6) |
| Financing activities | (51.6) | (14.2) | (4.1) | (1.9) | (0.5) |
| Net (decrease)/increase in cash | (85.3) | 50.1 | (1.5) | (42.9) | (66.2) |

10. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (cont'd)

(i) Nine (9) months ended September 30, 2004 compared to nine (9) months ended September 30, 2003

Net cash used in operating activities decreased by RM36.5 million from RM36.6 million in the nine (9) months ended September 30, 2003 to RM0.1 million in the nine (9) months ended September 30, 2004 primarily due to a RM31.8 million decrease in net taxes paid and a decrease in receivables. Net taxes paid in the nine (9) months ended September 30, 2003 was higher due to the payment of RM48.5 million in taxes for the tax assessment year 2000. There was a RM15.2 million increase in receivables in the nine (9) months ended September 30, 2003, compared to a RM7.2 million decrease in receivables in the nine (9) months ended September 30, 2004.

Net cash used in investing activities increased by RM61.2 million from RM4.4 million in the nine (9) months ended September 30, 2003 to RM65.6 million in the nine (9) months ended September 30, 2004. This increase was primarily due to an increase in purchase of property, plant and equipment and investment in unlisted bonds and MGS. Purchase of property, plant and equipment increased by RM35.6 million primarily due to the purchase of RM21.3 million worth of computer equipment relating to the CTP project. Net cash used for the purchase of unlisted bonds and MGS increased by RM47.1 million as we increased our investment in unlisted bonds. The cash outflows from these investing activities were partially offset by a RM6.9 million increase in interest income received.

Net cash used in financing activities decreased by RM1.4 million, from RM1.9 million in the nine (9) months ended September 30, 2003 to RM0.5 million in the nine (9) months ended September 30, 2004. The net cash used in the nine (9) months ended September 30, 2003 was higher primarily due to RM1.6 million incurred for the demutualization exercise.

(ii) Year ended December 31, 2003 compared to year ended December 31, 2002

Net cash generated from operating activities increased by RM21.3 million from RM15.3 million in 2002 to RM36.5 million in 2003. This increase was primarily due to a RM76.0 million increase in surplus/profit before taxation and a net increase of RM71.4 million in other working capital (payables and receivables). Payables decreased by RM26.6 million in 2002 compared to an increase of RM60.2 million in 2003. The increase of payables in 2003 was mainly due to a RM39.6 million increase in the margins collected by Bursa Derivatives Clearing from futures brokers. Receivables increased by RM12.6 million in 2003 compared to a decrease of RM2.9 million in 2002. The increase in receivables in 2003 was primarily as a result of a RM16.0 million increase in trade receivables and a RM5.0 million increase in interest receivables. This was partially offset by higher net taxes paid in 2003 of RM64.1 million compared to a net refund of RM16.8 million in 2002. Taxes paid in 2003 were higher compared to 2002 as a result of a payment of RM48.5 million in taxes in 2003 for the tax assessment year 2000 for Bursa Malaysia and a tax refund of RM22.9 million to Bursa Securities Clearing in 2002, from the Inland Revenue Board, as a result of the overpayment of taxes in the tax assessment year 2000 for Bursa Securities Clearing.

10. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (cont'd)

Net cash generated from investing activities was RM49.0 million in 2002 compared to net cash used of RM34.0 million 2003. This was primarily due to a net sale of unlisted bonds and MGS amounting to RM22.4 million in 2002 as compared to a net purchase of unlisted bonds and MGS amounting to RM66.2 million in 2003, and interest received from investment activities of RM53.5 million in 2002 compared to RM46.3 million in 2003. The higher cash flow from investing activities in 2002 was partially offset by a RM17.9 million cash outflow arising from the acquisition of business operations of MESDAQ.

Net cash used in financing activities was RM14.2 million in 2002, compared to 2003, where a net cash of RM4.1 million was used in financing activities. This was largely due to a higher demutualization advisory expense of RM13.2 million incurred in 2002 as compared to RM2.8 million incurred in 2003.

(iii) *Year ended December 31, 2002 compared to year ended December 31, 2001*

Net cash used in operating activities was RM29.4 million in 2001, compared to net cash generated from operating activities of RM15.3 million in 2002 primarily due to higher net taxes of RM52.3 million paid in 2001 compared to a net tax refund of RM16.8 million in 2002 and a RM2.9 million decrease in receivables in 2002 compared to a RM4.7 million increase in receivables in 2001. The net tax refund of RM16.8 million in 2002 was due to the tax refund of RM22.9 million to Bursa Securities Clearing mainly as a result of overpayment of taxes in the tax assessment year 2000. Receivables increased in 2001 as a result of greater trading volumes. The higher net taxes paid in 2001 compared to the net refund in 2002, and the decrease in receivables in 2002 was partially offset by the RM26.6 million decrease in payables in 2002, compared to the RM25.7 million increase in payables in 2001.

Net cash used in investing activities was RM4.3 million in 2001 compared to cash generated from investing activities of RM49.0 million in 2002. This was primarily due to a net purchase of unlisted bonds and MGS of RM143.5 million in 2001 compared to a net sale of unlisted bonds and MGS of RM22.4 million in 2002. In addition, interest received from investment activities was lower at RM47.3 million in 2001 compared to RM53.5 million in 2002. The net purchase of unlisted bonds and MGS and the lower net cash from interest received in 2001 was partially offset by a RM109.5 million cash inflow from the acquisition of the net assets of COMMEX and Bursa Derivatives Clearing in 2001, being cash deposits of those companies. In addition, there was a RM17.9 million cash outflow arising from the acquisition of business operations of MESDAQ in 2002.

Net cash used in financing activities decreased by RM37.4 million from RM51.6 million in 2001 to RM14.2 million in 2002. This decrease was primarily due to the transfer of RM50.1 million by Bursa Depository to its Compensation Fund following our decision to segregate the Compensation Fund's assets from our assets. This decrease was partially offset by demutualization advisory expenses of RM13.2 million incurred in 2002.

10. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (cont'd)

10.8 Capital Expenditure

Since 2001, most of our capital expenditure was in relation to computers and office automation. In January 2004, we commenced implementing our new CTP, which represents our most significant ongoing capital expenditure project. See Section 12.9 (Business — Trading Systems). The table below shows our principal capital expenditure incurred for the years/periods indicated:

| | For the year ended December 31, | | | For the nine (9) months ended September 30, | |
|---|---------------------------------|-------------|-------------|---|---------------------|
| | 2001 | 2002 | 2003 | 2003 | 2004 |
| | RM millions | RM millions | RM millions | RM millions | RM millions |
| Computers and office automation | 6.9 | 7.0 | 3.6 | 3.4 | 38.2 ⁽¹⁾ |
| Office equipment, electrical installation, furniture & fittings | 2.0 | 0.6 | 2.7 | 0.2 | 0.3 |
| Renovations | 0.0 | 0.0 | 1.7 | 0.9 | 0.4 |
| Motor vehicles | 0.6 | 0.2 | 0.0 | 0.0 | 1.2 |

Note:

(1) RM21.3 million was incurred in connection with the implementation of our new CTP.

Our budgeted capital expenditure for the year ending December 31, 2005 is summarized in the following table:

| | Budgeted capital expenditure for the year ending December 31, 2005 |
|--|--|
| | RM millions |
| CTP ⁽¹⁾ and other IT projects | 76.9 |
| Renovations and office equipment | 3.4 |
| Total | 80.3 |

Note:

(1) The first phase of our CTP is expected to be implemented by the second quarter of 2005 (see Section 12.9 (Business — Trading Systems)).

10.9 Contractual Obligations and Contingent Liabilities

10.9.1 Capital Commitments

As at December 31, 2004, we had known capital commitments as set forth below:

| | As at December 31, 2004 |
|---------------------------------------|-------------------------|
| | RM millions |
| Approved and contracted for | 29.1 |
| Approved but not contracted for | 33.1 |
| Total | 62.2 |

The above capital commitments are payable within one (1) year from December 31, 2004.

10. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (*cont'd*)

10.9.2 *Contingent Liabilities*

We had the following contingent liabilities which have not been provided for in our audited consolidated financial statements as at September 30, 2004 and our unaudited consolidated financial statements as at December 31, 2004:

| | RM 000 |
|---|----------------|
| Amount due to in respect of leased line charges | <u>3,700.0</u> |

The amounts owed were previously in dispute and are currently being verified with the service provider. Amounts to be verified would mostly be recoverable from participating organizations.

10.10 **Market Risk**

We are not currently exposed to any material extent to any of the following risks.

10.10.1 *Foreign currency exchange rate risk*

Almost 100.0 per cent. of our revenues and approximately 98.0 per cent. of our expenses were denominated in Malaysian Ringgit for 2001, 2002, 2003 and for the nine (9) months ended September 30, 2004. As the Malaysian Ringgit is currently pegged to the US dollar, we are not exposed to fluctuations between the two (2) currencies.

10.10.2 *Interest rate risk*

Our only borrowing is a non-interest bearing loan made by the Government in 1994 of which RM1.3 million was outstanding as at September 30, 2004.

10.11 **Taxation**

The corporate tax rate in Malaysia is 28.0 per cent. Based on Management's estimates, our Company's effective corporate tax rate was approximately 92.4 per cent. in 2001, more than 100.0 per cent. in 2002 and 31.1 per cent. in 2003. The significant difference between our Company's effective corporate tax rate in 2001 and the corporate tax rate of 28.0 per cent. was mainly due to losses incurred by some subsidiaries which were not available for set-off. In 2002 and 2003, certain major expenses were not deductible for tax, such as the provision for impairment loss of property in 2002 and the write down of short-term investments in 2003.

10. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (cont'd)

We are required to submit our tax estimates each financial year prior to the commencement of our basis period. Because tax estimates are submitted in advance, they are prepared based on forecast results. Based on tax estimates, we make instalment payments which commence in the second month of the following basis period. Our tax submission however is done seven (7) months after the close of our financial year end, based on actual results, and our final tax liability is only known then. By then, we would have paid the tax estimate in full. In the event our final tax liability is lower than our tax estimate, a tax credit or tax recoverable position will exist and a tax refund is made once the Inland Revenue Board has confirmed the amount. Alternatively, the tax credit or tax recoverable sum can also be used to off-set against future tax instalments. Conversely, should the amount of tax liability exceed our tax estimates by more than 30.0 per cent., a penalty of 10.0 per cent. is imposed on the amount understated.

10.12 Inflation

We do not believe that inflation has had a material impact on our business, financial condition or results of operations. Inflation in Malaysia was 1.3 per cent. for the year ended December 31, 2003. If Malaysia were to experience significant inflation, we may not be able to fully offset the resulting higher costs through fee increases, which are subject to the approval of the Securities Commission. Our failure or inability to do so could adversely affect our business, financial condition and results of operations.

10.13 Critical Accounting Policies

In accounting for certain transactions and operations of our business, our Management establishes policies for the recognition of revenue and expense, some of which require our Management to develop estimates and expectations regarding future events, including estimates for the useful lives of assets, the ability to generate revenue and the likelihood of receiving payments from third parties. The assumptions underlying these recognition standards are, of necessity, subjective in nature. The ability to effectively and accurately establish, monitor and adjust these standards may have a material impact on the accuracy and quality of the financial information reported by us. It is important to understand the underlying assumptions and policies adopted by us when analyzing our financial condition and results of operations.

10. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (cont'd)

10.13.1 Goodwill

Goodwill is stated at cost less accumulated amortization and any impairment losses. Goodwill or negative goodwill is amortized or credited to the income statement on a straight line basis over 20 years. Where indications of impairment exist, their effects are assessed for any impairment loss, and the carrying value of goodwill is written down to its recoverable amount.

There is currently no issued guideline under Malaysian approved accounting standards ("MAAS") on the treatment of goodwill. In estimating the useful life of goodwill, we have estimated useful life of goodwill does not exceed 20 years. See however Section 10.14.1 (Management's Discussion and Analysis of Financial Condition and Results of Operations — Potential Changes to Malaysian Accounting Standards — MASB ED 40: Business Combination)).

The carrying value of goodwill as at September 30, 2004 was RM48.4 million (December 31, 2003: RM51.1 million).

10.13.2 Property, plant and equipment

As at September 30, 2004, we had RM333.5 million worth of property, plant and equipment including RM294.0 million of land and buildings and RM37.0 million of computer and office automation equipment. Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation of property, plant and equipment is provided for on a straight line basis to write-off the cost of each asset to its residual value over the estimated useful life of the assets.

Our land and buildings mainly comprise leasehold building and office lots (RM224.7 million), leasehold land (RM51.1 million) and freehold building and office lots (RM16.5 million). The leasehold land is depreciated over the period of the lease of 99 years, while freehold and leasehold building and office lots are depreciated at 2.0 per cent. per annum. See Section 10.14.2 (Management's Discussion and Analysis of Financial Condition and Results of Operations — Potential Changes to Malaysian Accounting Standards — MASB ED 43: Leases)

We have estimated the useful life of our computers and office automation equipment as three (3) to five (5) years. In estimating the useful life of computers and office automation equipment, we have primarily relied on actual and industry experience.

10. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (cont'd)

10.13.3 Defined benefit plan

We operate a partially funded defined benefit retirement scheme ("Retirement Scheme") for eligible employees. Effective September 1, 2003, the Retirement Scheme was closed to new entrants.

Our obligations under the Retirement Scheme, calculated using the Projected Unit Credit Method, are determined based on actuarial computations by independent actuaries, through which the benefit that employees have earned in return for their service in the current and prior years is estimated. We discount that benefit in order to determine its present value. We recognize actuarial gains or losses as income or expense over 10 years when the cumulative unrecognized actuarial gains or losses for the Retirement Scheme at the end of the previous financial year exceed 10.0 per cent. of the higher of the present value of the defined benefit obligation and the fair value of plan assets. We recognize past service cost immediately to the extent that the benefits are already vested, and otherwise amortize such costs on a straight-line basis over the average period until the amended benefits become vested.

Prior to the financial year ended December 31, 2003, actuarial gains or losses were recognized in full as income or expense in the financial year in which they arose.

The amount recognized in the balance sheet represents the present value of the defined benefit obligations adjusted for unrecognized actuarial gains and losses and unrecognized past service cost, reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to the net total of any unrecognized actuarial losses and past service cost, and the present value of any economic benefits in the form of refunds or reductions in future contributions to the plan.

10.13.4 Deferred Taxation

We recognize deferred tax liabilities for all taxable temporary differences and deferred tax assets for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilized.

As at September 30, 2004, our subsidiary, Bursa Derivatives, had significant amounts of brought forward capital allowances and unused tax losses amounting to RM49.1 million and RM24.7 million, respectively. We assess at each year end, whether there is sufficient convincing evidence that these potential credits, or a portion thereof, are capable of reversal and utilization in future periods. Where it is probable that future taxable profit will be available against which the tax benefits can be utilized, we will recognize these benefits as deferred tax assets in our financial statements. Unutilized tax losses are available indefinitely to offset against future taxable profits subject to agreement by the Inland Revenue Board.

10. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (cont'd)

Prior to the financial year ended December 31, 2003, deferred tax was provided for using the liability method in respect of significant timing differences, and deferred tax assets were not recognized unless there was reasonable expectation of their realization.

10.13.5 Impairment

At each balance sheet date, we review the carrying amounts of our assets to determine whether there is any indication of impairment. If any such indication exists, impairment is measured by comparing the carrying values of the assets with their recoverable amounts. The recoverable amount is the higher of net selling price and value in use, which is measured by reference to discount future cash flows. An impairment loss is recognized as an expense in the income statement immediately.

10.14 Potential Changes to Malaysian Accounting Standards

The MASB is currently reviewing some of its MASB standards as part of its policy of convergence with the International Financial Reporting Standards ("IFRS"). As part of this process, Exposure Drafts ("EDs") are issued by the MASB for comments from professional accounting bodies, regulators, users and other interested individuals and organizations. The recommendations in the EDs may be modified in the light of comments received before being issued in the form of a MASB Standard. We would like to highlight some of the EDs that may potentially have significant impact on our financial statements if these EDS were eventually issued as a MASB Standard without any changes.

10.14.1 MASB ED 40: Business Combination

ED 40 has been issued for comments up to February 28, 2005 and is intended to be applied to financial periods beginning on or after July 1, 2005, ED 40 prohibits amortization of goodwill. Instead, goodwill is required to be tested for impairment annually or more frequently if there is an indication of impairment. The ED requires the Standard to be applied prospectively to goodwill acquired in a business combination for which the agreement date was before July 1, 2005, and a reporting entity is required to discontinue amortizing such goodwill beginning on or after July 1, 2005. The carrying value of goodwill as at September 30, 2004 was RM48.4 million (December 31, 2003 : RM51.1 million).

10.14.2 MASB ED 43: Leases

ED 43 has been issued for comments up to February 28, 2005, and is intended to be applied to financial periods beginning on or after July 1, 2005. In this ED, the existing provision under MASB Standard No. 10 that leasehold land and buildings are treated as property, plant and equipment in Malaysia is not retained. Leasehold land may in the future be required to be classified as operating lease and buildings as property, plant and equipment. As at September 30, 2004, we have recognized leasehold land amounting to RM51.1 million as part of property, plant and equipment.

11. INDUSTRY OVERVIEW

11.1 Trends and Dynamics in the Global Exchange Sector

Stock exchanges around the world have traditionally enjoyed the advantage of being national monopolies. Many exchanges have benefited from recent global economic growth, on-going economic liberalization in their home jurisdiction and increased globalization of capital markets. They have also benefited from the advent of the Internet and advances in exchanges-related technologies, the effects of which have resulted in significant reduction in transaction costs and facilitated greater market access by investors and market participants.

However, the past few years have also witnessed some of the most dynamic and challenging periods for exchange operators around the globe. Responding to increasing forces of globalization, the exchanges - including the national exchanges in Asia - have been repositioning themselves due to greater competition, especially from Electronic Communications Networks ("ECNs") and Alternative Trading Systems ("ATS"). Whilst these competitive forces, among other things, have increased demand for securities and derivatives from investors and market participants, they also present a more competitive and challenging environment for the exchange operators.

At the heart of the industry's dynamic transformation are the following three (3) forces:

(i) *Globalization of international capital markets*

The globalization of capital markets has resulted in greater capital mobility across international boundaries and increased participation by international investors in any given country's markets. This has also given rise to greater needs from investors and market participants for cross-border trading access and clearing and settlement facilities. With the objective of enhancing competition and efficiency, a number of governments and regulators have undertaken deregulation measures aimed at attracting foreign investment flows such as the lifting of restrictions on foreign ownership of state-owned enterprises and the adoption of international standards as part of their regulatory frameworks.

(ii) *Consolidation and internationalization of securities and derivatives market participants*

The rapid growth of the global investment and mutual funds industry, coupled with the consolidation and internationalization of securities and derivatives market participants, has accelerated the demand for more liquidity in the international capital markets, including the provision of trading, clearing and settlement across products and markets in different time zones. As investors worldwide, particularly institutions that manage an ever increasing volume of retail and institutional savings and reserves, become more adept at cross-border trading, competition among global exchanges has become more intense and has resulted in increased pressures for linkages, alliances and consolidation of trading venues.

11. INDUSTRY OVERVIEW (cont'd)

(iii) Technology

Advances in IT have led to significant changes in the securities and exchange industry. The advent of the Internet has allowed for greater and quicker dissemination of information to a wider audience. Such technological developments coupled with the low costs of communications technology have facilitated the proliferation of ECNs and cross-border ATS. It has also precipitated a shift from floor-based trading to electronic trading, in the process, reducing the need for close physical location and proximity of intermediaries.

The use of ECNs and ATS has grown rapidly to encompass a broad range of securities and derivatives instruments across many countries as ECNs and ATS provide the flexibility to allow the execution of trades at any hour of the day and across national boundaries. Market participants can also choose from a wide array of order-driven and hybrid electronic and market-maker specialist systems. The choice of trading system therefore has a direct influence over execution efficiency and transaction costs. The competitive threats posed by ECNs and ATS have prompted many traditional exchanges to improve their technology in order to support the demand by investors and market participants for "faster, better, cheaper" access through reduced connectivity costs and enhanced ability to bundle service offerings.

11.1.1 Market Focus and Profit Orientation

In reaction to the changes in the economic, technological and competitive dynamics facing national exchanges, mainly exchanges have responded by improving efficiencies and enhancing capabilities to deliver value-added services to investors and market participants.

Exchanges have sought to achieve this through various strategies, including:

- (i) mergers of cash and derivatives markets;
- (ii) demutualizations and transformation from a member ownership structure to a "for profit" and market oriented organization;
- (iii) initial public offerings;
- (iv) mergers, alliances and technological linkages with other exchanges; and
- (v) co-operation among exchanges to enhance market surveillance.

11.1.2 Enhanced Product and Service Offerings

Institutional investors, who have access to increasingly larger pools of capital, seek strategies that can allow them to diversify their investment portfolios and achieve better price discovery at lower execution costs. This has led them to increasingly trade across national boundaries and in different markets and time zones, with added emphasis on innovative products and services that can allow them to maximize returns, match investment horizons and hedge risk exposures.

11. INDUSTRY OVERVIEW *(cont'd)*

Consequently, many exchanges around the world have adopted initiatives to lower costs and expand product offerings in order to encourage greater investor participation and generate more liquidity in the markets. In addition, many exchanges have also sought to reduce earnings volatility by promoting domestic and foreign listings, providing technology-related solutions and information related services to third parties.

Some of the more significant of these initiatives have included promotion of exchange-traded derivatives and increased linkages among cash equities and derivatives products to support more efficient trading and hedging, ease of connectivity and capital efficiency.

11.1.3 *Alliances and Consolidation of Exchanges*

Increased competition among exchanges and between exchanges and non-traditional trading alternatives such as ECNs and ATS, has led to the concept of a national exchange that is restricted to its national borders to become less relevant. The increased demand for cost efficiency, greater functionalities and ease of access across different markets and time zones from investors and market participants has highlighted the potential strategic and economic benefits of consolidation and cooperation between exchanges, such as economies of scale, increased product breadth and increased market share of these growing markets.

11.2 Trends and Dynamics in the Capital Market Sector in Malaysia

11.2.1 *The Malaysian Economy and Market in 2004*

The Malaysian economy accelerated its growth momentum in the first half of 2004, after a strong take-off in 2003, and is expected to surpass earlier expectations with higher growth of 7.0 per cent. for the whole year. Positive signs of a firm economic recovery at the global front, particularly in the first six (6) months as well as higher commodity prices, reinforced the 'feel-good' factor that contributed to further improvement in consumer and business sentiments. Growth has become more broad-based with all sectors registering positive growth. Domestic demand, particularly private consumption, continued to sustain growth for five (5) consecutive years, while private investment, which picked up in 2003, became more entrenched, resulting in a private sector-led growth.

Since the Asian financial crisis, the economy has been overly dependent on the public sector to drive growth, which includes employing expansionary budgets and private sector incentives. In response to these measures, private investment turned around in 2003 and increased pace in 2004 amidst improving external demand. The improved performance of the stock market attracted active foreign participation, with foreign trading accounting for approximately 30.0 per cent. of total turnover.

11. INDUSTRY OVERVIEW (*cont'd*)

The KLCI breached the 900-point level to close at 901.85 points at end-March 2004, registering a sharp gain of 107.9 points or 13.6 per cent. (end 2003: 793.94 points). The stock market also performed better in the first eight (8) months of the year, with the KLCI peaking at 908.96 points on March 22, 2004. Market capitalization rose to RM724.2 billion while daily average turnover volume was higher at 651 million units during the first three (3) months of 2004 compared with 214 million units in the first quarter of 2003.

The upward trend, however, was not sustained as investor sentiment was dampened by concerns including the impact of a slower Chinese economy on regional economies, hike in US interest rates and higher global oil prices.

(Sources: Securities Commission Annual Report 2003 and Economic Report 2004/2005)

During the last quarter of 2004, there was a reversal in the downward trend experienced during the middle of 2004. Towards the end of 2004, the KLCI once again breached the 900-point. The KLCI closed at 907.43 points on December 31, 2004.

11.2.2 **Malaysian Capital Market: Outlook**

The Malaysian economy is projected to grow by 6.0 per cent. in 2005 in line with the moderation in world growth. Strong private consumption and steadily rising investment will drive domestic economic activity, while public spending gradually consolidates. The stronger capital market is also well positioned to complement the banking system in financing private sector initiatives. Private debt securities issuance is anticipated to increase, albeit more moderately, with the bulk to be utilized for funding of business expansion and new investments, a trend seen since the first half of 2004. Meanwhile, efforts to further broaden and deepen the capital market are expected to accelerate, supported by recent key measures. Among these initiatives include the automatic approval for private placements up to a limit of 10.0 per cent. of issued capital, the securitization of housing loans of civil servants, as well as allowing the issuance of ringgit denominated bonds by multilateral development banks and multilateral financial institutions.

(Sources: Securities Commission Annual Report 2003 and Economic Report 2004/2005)

11.2.3 **Malaysian Capital Market: Masterplan**

The needs of the growing Malaysian economy and its constituents demand a comprehensive yet systematic approach towards the future development of the Malaysian capital market and its components. In addition, new IT, globalization and demographic changes are also giving rise to new opportunities and challenges in the Malaysian capital market.

11. INDUSTRY OVERVIEW *(cont'd)*

In response to these challenges, the Securities Commission launched the CMP on February 22, 2001. The CMP comprises 24 strategic initiatives and 152 recommendations and is aimed at ensuring that the domestic capital market enhances its role in supporting economic growth. The recommendations are being implemented over three (3) phases from 2001 to 2010. The first phase (2001 to 2003) of the implementation of the CMP (which essentially focused on strengthening domestic market players, building market capacity, as well as developing strategic sectors of the capital market) was completed in 2003.

A major focus of the Securities Commission's efforts was to promote greater efficiency in the capital markets, which included the successful completion of the consolidation and demutualization of the securities exchange. Various capital market processes were also streamlined and simplified.

The Securities Commission pushed forth with the development of the Islamic capital market. 2003 saw, among other things, the launch of the first institutional Islamic stockbroking service, the listing of Malaysia's Global Sukuk on the Bahrain Stock Exchange and the listing of the first Islamic Asset Backed Security.

In addition, the Securities Commission increased its focus on international promotion and communication initiatives to further enhance the international profile of the Malaysian capital market. An important step in this direction, endorsed by the Government, was the establishment of the high-level Committee on International Communication for the capital market to provide holistic, co-ordinated and strategic advice on international communication and promotion initiatives.

It is envisaged that the Malaysian capital market should be internationally competitive in all core areas necessary to support the country's basic capital and investment needs, as well as its longer-term economic objectives. To achieve this, it must also be a highly efficient conduit for the mobilization and allocation of funds. Underpinning these characteristics should be a strong and facilitative regulatory framework that enables the capital market to perform its functions effectively and provides a high degree of confidence to its users.

This vision as laid down in the CMP is intended to drive the development and strategic positioning of a vibrant and competitive Malaysian capital market and lay a strong foundation for further growth.

(Sources: CMP and Securities Commission's website which details the update on the implementation of the CMP as at March 31, 2004 (www.sc.com.my/eng/html/cmp/cmp_implementationupdate0304.html))