



BURSA MALAYSIA'S 1H10 FINANCIAL RESULTS BRIEFING  
(Read in conjunction with PowerPoint Presentation)  
Kuala Lumpur  
Friday, 16 July 2010

**Dato' Yusli Mohamed Yusoff, Chief Executive Officer**  
**Pn. Nadzirah Abd Rashid, Chief Financial Officer**

**Dato' Yusli:**

Assalamualaikum and a very good afternoon to everyone. I would like to warmly welcome all our participants today including those joining by phone. Presentation slides have been emailed to our analysts and fund managers, and also can be downloaded from our website.

This afternoon's briefing will be divided into 3 parts. Firstly, we will go through an overview of our financial and market performance. Then, our CFO, Puan Nadzirah, will go through the financial numbers. I will then go on to cover the business review, after which we will take questions from the audience.

I'd like to start with an overview of the key numbers for the first half of 2010, and I'm pleased to say that we have seen sustainable performance.

In terms of operating revenue for the first half of the year, we've seen a 9% increase to RM158 million. Despite the fall of the European markets in early May, investor sentiment has remained moderately optimistic, this has helped drive the performance of our securities market. Net profit for 1H10 stood at RM56 million. This is mainly driven by the securities market trading activity. We remain committed in delivering sustainable shareholder value and overall business growth. The Board is pleased to declare a single tier interim dividend of 9.5 sen per share. So ladies and gentlemen, overall, we've had a very sound first half, with the securities market being a key driver for us.

In this slide, we can see that our benchmark index, the FBM KLCI, ended high at the end of June, at 1,314 points. Overall, this index has gone up by 3.2%, year to day.

Bursa Malaysia's market capitalisation has increased by 28% to be above RM1 trillion today, from about RM800 billion at the same period last year. Market velocity however fell to 31% as the growth in market capitalisation has been faster than the growth in the trading value in our securities market.

The daily average trading value in the market saw an increase from RM1.1 billion to RM1.4 billion. In fact we saw the daily trading value as high as RM1.4 billion in the 1<sup>st</sup> quarter of this year

We had a healthy number of IPOs and secondary offerings for the first half of this year, bringing the amount raised to RM13 billion. This represents a 14% increase compared to the corresponding period last year.

In total, there were 12 IPO listings compared to only 1 in the 1<sup>st</sup> half of last year, and we saw 86 new structured warrants listed, a good improvement from just 30 in the corresponding period last year.

Our derivatives market performance has been impacted by the lower volatility in both CPO prices as well as our equities market. We saw a 13% decline in the daily average derivatives contracts traded, down from 27,000 in the first half of last year to about 23,000 contracts in the first half of this year. Similar to the securities market, the daily average contracts traded was more active in the first quarter at more than 24,000 contracts traded compared to the second quarter where we had slightly less than 23,000 contracts. Both FCPO and FKLI volumes saw a decline from the first half of last year. The FKLI contracts growth has been flat mainly due to the lower volatility that we have seen in the underlying FBMKLCI Index. As for the FCPO contract, CPO prices have been trading in a narrower range from RM2,300 to RM2,700 to date, compared to a range of RM1,700 to RM2,800 during the whole of last year. However, we expect that when our derivatives products migrate to the Globex platform, we can look forward to greater interest, as there will be far more accessibility globally to our products in the future.

So that's a quick overview of our performance, now let me hand you over to Puan Nadzirah, who will go through the groups numbers in more detail.

**Puan Nadzirah:**

Thank you Dato'. A very good afternoon to all.

I'd like to start by taking a look at our overall performance for the 1<sup>st</sup> half of the year. We saw a profit after tax and minority interest of RM56 million. This is a good 10% higher than the profit in the corresponding period last year. EPS also improved by 9% to 10.5 sen per share. The improvement in profit was backed by higher operating revenue of RM158 million. The 9% increase in operating revenue is due to the better performing securities market in the 1<sup>st</sup> half of this year compared to the 1<sup>st</sup> half of last year. Other income remained fairly stable at RM148 million, while total operating expenses were 6% higher at RM94 million.

If we take a look at Operating Revenue in more detail, we see that the key contributor to growth in the 1<sup>st</sup> half of the year is the equities trading revenue, which grew by 13% or RM9 million to RM76 million. The improvement in equities trading revenue was driven by the recovery of trading activity compared to the 1<sup>st</sup> half of last year. As Dato' Yusli mentioned earlier, the average daily trading value on the securities market in the 1<sup>st</sup> half of this year was RM1.4 billion compared to the RM1.1 billion in the 1<sup>st</sup> half of last year.

Trading activity on the derivatives market was not as buoyant, with only 2.9 million contracts traded in the 1<sup>st</sup> half of this year compared to 3.3 million contracts traded in the previous corresponding period. This resulted in a 17% drop in derivatives trading revenue to RM18 million.

Stable revenue on the other hand saw positive movement, from RM46 million to RM53 million. The improvement in stable revenue was largely due to the high number of IPOs and structured warrant

listings, as highlighted by Dato' earlier. The secondary market was also more active in the 1<sup>st</sup> half of this year. The activity on the primary and secondary markets contributed to the increase in our listing and depository fees to RM18 million and RM16 million respectively.

Information services dropped marginally to RM8.2 million due to the reduced number of subscriptions for variable information feed. Broker services, access fees and participants' fees were fairly stable in both periods.

Other operating revenue increased by 15% to RM11 million. Following the revamped regulatory framework undertaken in the 2<sup>nd</sup> half of last year, there was a transfer of certain functions from Securities Commission to Bursa Malaysia. This gave us a new source of income. We also saw more interest and participation in our POC event this year, resulting in higher conference income.

Overall, we did see some good growth in our Revenues.

Turning now to look at our costs, as I mentioned earlier, total operating expenses rose by 6% to RM94 million. Staff costs increased by 11% to RM44 million. This is in line with our talent development initiatives to develop competent skills to build the market.

Depreciation was higher at RM22 million, as we have accelerated the depreciation for our Bursa Trade Derivatives platform. This was done in view of the planned migration of our derivatives products over to CME's Globex trading platform. This is targeted to happen before the end of the year.

IT maintenance saw a drop of 11% to RM7 million. This is very much due to our optimisation efforts which started last year. These efforts resulted in a more efficient way of maintaining our IT infrastructure.

Market development cost decreased to RM6 million. The higher market development cost in the 1<sup>st</sup> half of last year was because of our CME project expenses which we concluded in November last year. This year, in addition to the RM6 million market development costs, we have also spent and committed a total of RM37 million CAPEX for building the market infrastructure. Key commitments include establishing the trading link to CME's Globex trading platform and replacement of our derivatives clearing system. We are also working on making our infrastructure more efficient and friendly, such as e-Dividend.

Other OPEX are higher at RM15 million mainly due to the reversal of bond impairment loss in the previous corresponding period.

Moving on to our performance ratios, there were marginal increases in our operating EBITDA margin and net profit margin, which stood at 54% and 32% respectively.

ROE was however a little lower than the previous corresponding period. The drop to 13.2% was due to the increase in shareholders' funds as a result of the capital gain made towards the end of 2009.

The coverage of expenses by stable and derivatives trading revenue also dropped marginally to 74.6%, mainly due to lower activity on the derivatives market.

We saw an increase in our shareholders' funds to RM852 million in the first 6 months of the year. Our financial resources available for use are sufficient at RM496 million. From this amount, we need to set aside cash for our CGF and derivatives clearing fund commitments, an amount for our mid term capital expenditure and working capital requirements, as well as for our upcoming dividend distribution. After taking all these into consideration, we will then have excess cash balance of just under RM150 million.

Our 1<sup>st</sup> dividend this year is a single tier dividend of 9.5 sen. We will be distributing this dividend on 13 August, based on an entitlement date of 2 August. This is equivalent to a payout of 91%, once again over and above our payout policy of 75%.

With this, I will hand the session back to Dato' Yusli for him to share with you Bursa Malaysia's business review and strategy.

**Dato' Yusli:**

I'd like to now take you through our key building blocks in 2010. We continue to focus on growing our core business via:

- 1) Ongoing enhancements to market efficiency;
- 2) Building a quality market;
- 3) Internationalising our products and market; and
- 4) Most importantly, strengthening liquidity in our market

Let me go through each of these in more detail. To enhance the efficiency of our markets, investors can now opt for e-dividend services on top of the e-research and e-trading facilities currently available. We're also seeing the admission requirement being relaxed for licensed equity brokers who want to sit for the dual licensing programme, which will enable them to handle the derivatives business as well.

One of this market's key strengths is its level of quality and integrity, and this is something that we will continue to focus on. To build quality, we need to constantly engage with our market participants. To that end, we have on-going education and engagement programmes, targeting the investors and intermediaries, for both our equities and futures market.

On the regulatory side, we continue with efforts to build greater understanding of the importance of high corporate governance standards. We've issued a Corporate Governance Guide, as well as conducted awareness programmes for directors of listed companies. In terms of disclosure, we've recently issued out public consultation papers to seek public's feedback on proposals to strengthen requirements and disclosure standards.

With the advent of our derivatives products migrating to the Globex platform, CME is setting up an international hub in Kuala Lumpur to facilitate inbound and outbound trades, thereby, opening up greater accessibility.

We announced recently that we received approval from the United States Commodity Futures Trading Commission (US CFTC) permitting member brokers of Bursa Malaysia Derivatives Berhad to accept orders and customer funds directly from US customers. I'll touch a little more on this in the next slide.

One of our ongoing efforts is to expand our reach and profile as one of the leading Islamic finance and investment centres. This, can be seen from our efforts in promoting the use of Bursa Suq Al-Sila', our end-to-end Shariah commodity trading platform to markets like the Middle East. Bursa Suq Al-Sila' is expected to attract greater participation from international Islamic financial institutions. On top of that, we're pleased that Malaysia continues to hold the top spot as the world's largest sukuk listing destination.

At the regional level, as you may be aware, we are currently working on the ASEAN link project. This is an initiative to link up ASEAN exchanges and explore cross border trading of ASEAN securities.

Our core focus though, will still be in the area of strengthening liquidity to sustain investors' interest. To achieve this, we're increasing the breadth of offerings through new products. We're happy to see 2 new ETF listings earlier this month - the CIMB FTSE ASEAN 40 MALAYSIA, as well as CIMB FTSE Xinhua China 25.

We are also seeing new products coming to the market, with the listing of CIMB's callable bull/bear certificate, which is a product under the structured warrants segment. I am told that 3 of the 4 CBBCs which were launched today are amongst the top 20 active stocks in today's morning trading session.

We've also had a couple more REITs listed, including one this morning. We hope that investors will appreciate the greater choice of asset classes for their portfolio.

To spur cross border trades and increase global exposure on our derivatives products, we look forward to the migration of our derivatives products to the CME Group's GLOBEX platform. This is aimed at driving visibility of our products globally and increasing reach to more investors.

At the same time, we're approaching our investor base from two angles. We're promoting easy access via DMA to institutional investors, and at the same time, we're trying to regain retail investors interest through market education and awareness programmes such as "Talk Futures" on derivatives segment as well as "Market Chat" for the securities market. Both are aimed at engaging, educating, and subsequently attracting retail participation. We're also working with various organisations to put on joint roadshows and investors expositions.

I will continue to touch on some of the items here in a later slide.

For the rest of the year, we'll still concentrating on growing our core businesses, which are the equities and derivatives markets, and we aspire to build and expand Malaysia's strength in Islamic markets.

The end objective for us is to build a market that's attractive for investment, that's attractive for listing and that's attractive for the raising of funds.

Our efforts to build a quality market have been gaining some global recognition.

Recently, China recognised Malaysia as an approved investment destination under China's Qualified Domestic Institutional Investor or QDII scheme. This recognition marks a major step forward for the Malaysian Capital Market, as it will facilitate the flow of Chinese funds into Malaysia and open up big opportunities for our intermediaries. Malaysia is the second ASEAN country to be recognised, and we

see this recognition as an acknowledgement of this market's potential and attractiveness as a destination for investment and capital raising platform.

We're also hoping that our partnership with the world's premier derivatives player, CME Group will help to further develop our derivatives market. Futures Trading Participants, or TPs, are now granted approval by CFTC to trade CME's products, as well as deal with the US customers. This is a significant achievement and shows that CFTC recognises and is satisfied that the regulatory requirements in Malaysia are comparable to the regulatory requirements in the US. This is a new added opportunity for our brokers to capitalise to increase their trading base.

Malaysia has also been on the Watch List of FTSE to move from the Secondary Emerging to Advanced Emerging status. This acknowledgement is rewarding, and it is indeed a reflection of the efforts Malaysia and all our stakeholders have taken to increase efficiency of the marketplace.

We've received a number of awards recently. The IRGR awarded Bursa with the Best Corporate Governance Practices Award, as well as Best Online Annual Report Award in the Asia Pacific category. We also bagged the Asset Triple A award on Market Innovation for Bursa Suq Al-Sila'. All these are a testament of our ongoing efforts to build a quality market.

We have continually worked towards ensuring that the business remains healthy and profitable. In order to attract investors interest and elevate the quality of our market, we need to continue:

1. efforts to ensure a strong reliable infrastructure;
2. emphasis on market integrity through our benchmarked regulatory framework to protect investors' interest' and
3. enhancing diverse offerings and high quality products.

I'd like to reiterate that we will continue with our work to create a vibrant and high quality market, one that offers good potential; against the backdrop of the country's efforts to propel itself to the next stage.

So ladies and gentlemen, thank you very much for your attention, we would now like to move on to Questions and Answers.

**Question:** Can you please explain why second quarter profits have declined?

**Dato Yusli:** The revenue from trading activity has been lower in the second quarter as compared to the first quarter, and that has been in both equities and derivatives markets. Our costs have remained fairly stable, so its been mainly in the area of revenue. Operating revenue has gone down from just below RM87 million in the first quarter, to just under RM77 million in the second quarter. Our expenses have been quite flat, around RM46 million for both quarters.

**Khairul Rifaie (UBS):** Looking at the derivatives market slide, I notice that YTD 30 June, foreign participation is at its high of 22%, how much of that would you attribute to the CME partnership? Second question, can you comment on the IPO pipeline, do you think there will be year on year growth from last year?

**Dato Yusli:** As you know, the partnership with CME is still in its early days, and although it has generated quite a lot of interest amongst the participants and industry, we hope to see much more growth from this partnership in the future. As you know, we are in the process of moving of derivatives contracts onto the Globex platform later this year, but we have already seen a lot more enquiries, for example, from brokers who are considering setting up shop in our market, because they can see the potential of this industry growing, especially in view of the partnership that we have with CME.

Foreign interest in our contracts, I think that we have seen a reduction in the FKLI, that's been in line with the trend in our equities market, but we hope that this will improve in the coming months.

As far as the IPO pipeline is concerned, today we already have 16 so far, so that's already more than the 14 that we had last year, and we have a few more months to go, so I'm hoping that if market conditions continue to improve, then we will see more IPOs coming in the later part of this year.

**Question:** Are we going to have more than 12 in the second half?

**Dato Yusli:** Well, we know for a fact we have had some approved by our regulator, but as you know, companies will decide as to whether market conditions are good enough for them to come, so, if all of them come, we should see quite a significant number in the second half of the year.

**Yvonne Voon (Credit Suisse):** I'd like to get your views on capital management, you do have quite a substantial net cash position, are you looking at paying out a special dividend? Secondly, looking at the disposal of the building, would you be looking to do that? Lastly, there will be a financial hub sometime down the line. Would you be looking to relocate there?

**Dato Yusli:** Thank you, yes, we do have some excess cash at the moment, it's something that the board will continue to look at, as to whether we would be considering paying out any additional dividend. As you know, we have not paid out any special dividend for about two years now. When we stopped paying special dividends about two years ago, we said that we wanted to see how the global financial crisis settled down. I think that, hopefully, we will see everything stabilise in the not too distant future and we will be in a position to consider paying more dividends.

As far as the building is concerned, we are not actively looking to sell it at this point in time, although we did look at it some time back. The board then wanted to see the market conditions improve, because with the recent crisis, it was thought we would not get the best price. So it is something that we will keep looking at in the future. Related to that, we are aware of some plans to build what will be a new financial centre in Kuala Lumpur. Certainly, we will take a look at that. If it makes sense for us, we will consider, but so far, we have not made any firm plans on that front.

**Claire Chin (CLSA):** Firstly, on the IPO pipeline, we have some approved for the second half, does that include the upcoming ones from Petronas? Second Question is on QDII, just wondering what sort of impact you would expect to have on the local equity market.

**Dato' Yusli:** Thank you Claire. Well, the Petronas subsidiaries are still being worked on, I don't think they've been submitted yet for regulatory approval. We don't have clear sight on the timeline for this, but our expectation is that at least one will probably be listed later this year, if not both.

On the QDII, we will have to see how we can attract the QDII funds to come to Malaysia. Although they have been given approval to invest in Malaysia, I think that it will still require some work and effort on

our part from all of us here in Malaysia, to market to them the investment opportunities available in Malaysia. I believe that we have some interesting stocks for them to look at, and I understand that there will be events starting from as early as next month, where we will begin interaction with some of these QDII funds.

**Su Yin (Deutsche Bank):** Could you give us some colour on the ASEAN link, how does it work and who is spearheading this project? Secondly, looking into 2011, do you think that market volumes as well as new products could see sustainable growth in your earnings?

**Dato Yusli:** On the ASEAN link project, this is still ongoing, as you know, four of the ASEAN exchanges have signed a letter of intent with the NYSE group to help us develop the system, to link the different trading engines. We've divided the work up between the different exchanges, so each exchange is looking at a different area within the whole project, so decisions are made together. The plan is that we hope to finalise details with the NYSE later this year. At the moment, the current plan is to look at having the first link completed by the end of next year. That's the current timeline that we are working towards.

For next year, we are quite optimistic, that as global markets recover, with the kind of products that are being launched in our markets, as well as the strong performance of our own listed companies, then we will see continuing and growing interest from investors. We would like to see more foreign investors coming back, as well as more retail investors participating more in the market, because we believe that the fundamentals of the investment opportunities that we have on offer are quite good.

**Su Yin (Deutsche Bank):** If I could just follow up on the first question, on the first link, does that mean between two specific countries by 2011, or is this the first phase of the entire platform taking off?

**Dato Yusli:** I've mentioned in the past that initially we are looking at Thailand and Malaysia being the first two markets that are going to be linked. We are now having discussions as to whether we can also add on Singapore to be part of the first link up. So currently discussions are ongoing. Obviously, for all of us, the earlier we start with as many markets as possible the better, so one of the things we are trying to do is get all of the brokers from the different countries to be in touch with each other, so we can start planning to create this new business, investors within ASEAN trading each others markets.

**Question:** Besides your financials, I just want to know, how do you go about improving the quality of companies?

**Dato Yusli:** We have put a lot of effort into issues such and corporate governance, recently we have just launched a public consultation on some of the amendments that we are proposing to make to our listing requirements. Basically, in terms of enhancing the quality of our companies, a lot has to do with the quality of disclosures, quality of reporting, and you can see from the consultation paper, the direction we are looking at, we want to have more timely disclosures, and the types of information that we want to have also. We are trying to learn from some of the cases that we have seen in the marketplace, seeing where the risk areas are. For example, the proposal to have major shareholders declare shares which are pledged, is arising from some of the cases that we have seen, where problems arising from the major shareholder can flow into a listed company. So, if investors are aware that a major shareholder has a lot of his shareholdings being pledged to a bank, at least they can consider whether they want to invest in such a company, because in the event that major shareholder gets into financial trouble, the company itself may face problems. So basically, we want investors to have more



information, so they can make a more informed investment decision. This is the direction we are heading towards. But obviously, we have to be careful, we do not want to have too onerous requirements on our listed companies, so we need to strike a balance all the time. But, most of these things are with a view to enhancing investor protection, in light of some of the things that we see happening in the marketplace.

**Question:** Financial statements are only audited once. What about interim or half yearly audited reports to specific areas, which has been suggested by some accountants?

**Dato Yusli:** Yes, these are the kind of things that could end up in companies having to pay more. But as part of the feedback process, we will take these comments into account. Currently, if we have companies who have not complied with our rules, then we have a requirement for them to have their interim accounts audited. So we do it on a case to case basis, but we have not applied it to all companies yet.

**Question:** Can I ask regarding suspension of shares?

**Dato Yusli:** We take suspension of shares as a very serious issue, because as a market operator, one of our top priorities is to ensure that the market remains open and that people can trade, because some people may want to sell, some may want to buy, so we always have to have a balance. Our emphasis is to ensure that whatever information needs to go out, does go out, so that the public can then make an informed decision as to whether they want to sell the shares, or even buy more shares. So it's important that once all these issues are out, then trading of the shares should continue.

**Question:** So far this year, half of the IPO's have opened below the IPO price, do you think that would affect future IPO's? Do you think that the pricing of the IPO's should come down a bit?

**Dato Yusli:** Under the current way of doing things, we allow the pricing of the IPO's to be done by market forces. Obviously for issuers, they would want to get the best possible price, when they offer the shares to the public. This is different from the way it was done several years ago when we specified what kind of range the IPO's can be priced at. So it's probably not surprising that you are going to get IPO's priced at the higher range, and if market sentiment is not as positive as it could be, say for example in these market conditions, we would not be surprised if some IPO's remain at the same level, or they move slightly up or slightly down. Obviously, when most companies come, they will test the market, there will always be some anchor investors who they know will take up the shares, and the companies will be guided by the price that is achieved when they bring in these kind of investors. When investors buy shares in an IPO, they should look at it more for the longer term, it's an opportunity to buy shares in a company that was not previously available in the market, so investors will need to take a view, whether the price that is being offered is a fair price or not. If they don't think that it's a fair price, they always have the option to come in the aftermarket. But, you take the risk if the price has gone up in the aftermarket, then you will not have been able to pick it up at the IPO price. So these are all choices down to the investors, and goes down to the basics of making sure they do their homework, if you believe a company is worth a certain price, then in the longer run it will achieve that price, and if not go higher. But if they go in without doing their homework, then they only have themselves to blame, if the price is not what they expect it to be.

**Question:** Q2 net profit went down, mainly because of lower trading activity, the main cause of that was because of the Europe crisis? Going forward, are you concerned about it? In the second half do you see the economy recovering?

**Dato Yusli:** I think its going to be a combination of many factors, we had the World Cup in June, which affected trading activity. The volatility in Europe is obviously causing some concern, in terms of global economic recovery. However, I believe that the fundamentals in our country and region remain very strong, and it's only a matter of time before investors come back. I'm confident that as long as we focus on the quality aspects of our economy and our market, then investors will come back, because at some point in time, they will realise there is value. So that's why, in our earlier presentation, I emphasised a lot on the area that we are focusing on – quality. We think that there is a lot of resilience in our economy, in the performance of our companies, which you may not see in some other more volatile places.

**Question:** Do you mean that you think the economy has stabilised somewhat already?

**Dato Yusli:** I think we are fairly ok. The fact that Bank Negara has been raising interest rates recently sends a signal that they are confident the economy is strong. I don't think they would do it if they felt the economy was not strong enough to handle those interest rate increases.

**Question:** Does it mean that you will be highly likely to be paying a special dividend by year end?

**Dato Yusli:** If business prospects look very encouraging, then I'm sure the board would look at it favourably. But at the moment, although our economic data looks good, we have not seen investors come back in a big way yet.

**Question:** What measures are we taking to ensure foreign shareholders are somewhat contactable? What can Bursa do to ensure greater investor confidence that foreign shareholders will remain contactable when times are tough for the company?

**Dato Yusli:** These are some of the issues that we want to address in our ongoing review of our rules. As I said earlier, we always have to have some balance, we do not want to make our rules too onerous, because then these kind of companies will not come to our market. You have to remember, that for foreign companies especially, they have a choice which market they go to, so we need to make sure our rules are fairly in line with our competitors. At the same time, we do not want to expose ourselves to higher risk. Ultimately, its going to be down to how effective the boards are, that's why we emphasise having effective independent directors on boards. Effective independent directors means those who are on the ball as to what's going on the company, so that if the managing director is going to disappear, we would expect the independent director to be aware of that and how to get hold of that person.

**Question:** Have you identified any candidate to replace the position of COO?

**Dato Yusli:** Yes. The Board is looking at some names and will make the appropriate announcement in due course.