

## 12. BUSINESS

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### 12.1 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. Many leading companies in Malaysia have their listings on our Securities Exchange. With 945 companies listed as at September 30, 2004 and 963 companies listed as at December 31, 2004, we believe we are the listing venue of choice for Malaysian companies.

On April 14, 2004, we changed our name from Kuala Lumpur Stock Exchange Berhad to Bursa Malaysia Berhad, as part of our re-branding exercise following our demutualization. The purpose of the demutualization was to enhance our competitive position and to respond to global trends in the exchange sector by making us more customer-driven and market-oriented. To this end, we are focusing on various initiatives aimed at increasing and improving our product and service offerings, increasing the liquidity and Turnover Velocity of our markets, improving the efficiency of our businesses and achieving economies of scale in our operations.

We have recently undertaken several initiatives to grow our businesses and achieve better efficiencies, including:

- (i) the ongoing implementation of our CTP scheduled to be completed by December 2006, which will replace our existing multiple trading platforms on our Securities Exchange and Derivatives Exchange with an integrated platform to trade securities on our Securities Exchange and Derivatives Exchange;
- (ii) the establishment of our Group Business Development division in April 2004 to coordinate our marketing and business development initiatives;
- (iii) the introduction in October 2004 of a new pricing model for our information services and products; and
- (iv) the implementation of a voluntary separation scheme which, together with staff resignations and hiring independent of the voluntary separation scheme, has resulted in a reduction of our headcount from 1,033 as at December 31, 2003 (excluding employees of Malaysian Share Registration Services Sdn. Bhd., our former subsidiary) to 591 as at January 1, 2005.

## 12. BUSINESS (cont'd)

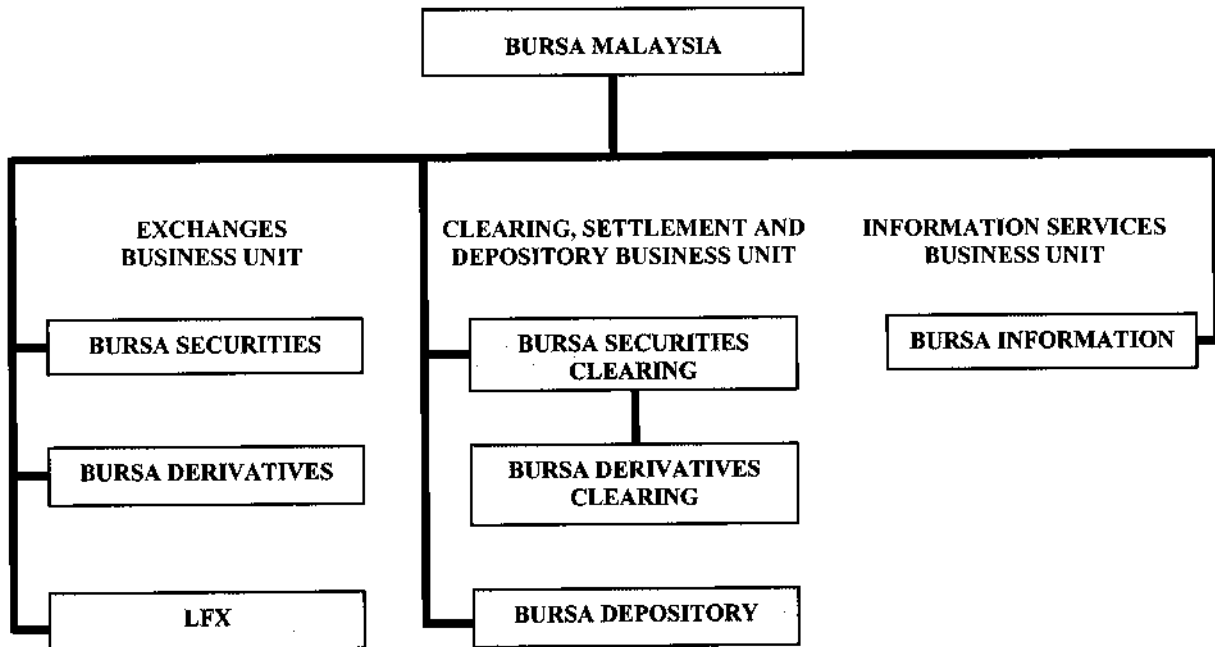
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Our group comprises an exchange holding company and various subsidiaries which own and operate our various businesses. We operate our businesses through the following three (3) business units:

- (i) *Exchanges business unit.* Our exchanges business unit comprises our three (3) exchanges.
  - (a) *Securities Exchange.* The markets which make up our Securities Exchange are our Main Board, Second Board and MESDAQ Market (see Section 12.5.1 (Business — Exchange Business — Securities Exchange)). The largest of these is our Main Board, with 613 companies and 10 call warrants listed as at September 30, 2004, and 622 companies and 10 call warrants listed as at December 31, 2004, representing a total market capitalization of RM644.9 billion and RM692.5 billion as at September 30, 2004 and December 31, 2004, respectively. Over the period from December 31, 1994 to December 31, 2004, the number of companies listed on our Securities Exchange grew at a CAGR of 7.3 per cent. This exchange is operated by Bursa Securities.
  - (b) *Derivatives Exchange.* Our Derivatives Exchange offers futures and options contracts covering financial, equity and commodity-related instruments (see Section 12.5.2 (Business — Exchange Business — Derivatives Exchange)). This exchange is operated by Bursa Derivatives. As at September 30, 2004 and December 31, 2004, seven (7) types of futures contracts and one (1) type of option contract were available for trading on our Derivatives Exchange. These represented a total open interest of 68,112 contracts as at September 30, 2004. The open interest decreased to 65,824 contracts as at December 31, 2004.
  - (c) *Offshore Exchange.* Our Offshore Exchange is an international offshore financial exchange based in Labuan, Malaysia's international offshore financial center. This exchange is operated by LFX. As at September 30, 2004 and December 31, 2004, 22 and 26 financial instruments, respectively, comprising debt, equity-linked and other securities, were listed on our Offshore Exchange, representing an aggregate principal amount of US\$9.1 billion and US\$10.1 billion as at September 30, 2004 and December 31, 2004, respectively. See Section 12.5.3 (Business — Exchange Business — Offshore Exchange).
- (ii) *Clearing, settlement and depository business unit.* We offer clearing, settlement and depository services through Bursa Securities Clearing (our clearing house for our Securities Exchange), Bursa Derivatives Clearing (our clearing house for our Derivatives Exchange) and Bursa Depository (the central depository for securities listed on our Securities Exchange). See Section 12.10 (Business — Clearing and Settlement) and Section 12.11 (Business — Bursa Depository).
- (iii) *Information services business unit.* We, through Bursa Information, 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).

## 12. BUSINESS (cont'd)

Our group comprises an exchange holding company and various subsidiaries which own and operate our various businesses. The following chart illustrates the corporate structure of our core businesses:

**Notes:**

- (1) All the companies in the business units are our wholly-owned subsidiaries except for Bursa Depository. We own 75.0 per cent. of the issued and paid-up share capital of Bursa Depository. The remaining 25.0 per cent. of Bursa Depository is owned by ABM-MCD Holdings Sdn. Bhd., a company controlled by the Association of Banks in Malaysia.
- (2) In addition to the subsidiaries named above, we have two (2) other wholly-owned operating subsidiaries, namely Bursa Property, Bursa IT, and one (1) other operating subsidiary, namely Bursa Depository (N), that carry out activities that support our core businesses.
- (3) Our dormant companies, KLOFFE INFO, Monetary Exchange and COMMEX, have not been included in the chart.

Each of our subsidiaries has the requisite approvals to operate its respective business. In addition, our Company has all the requisite approvals to operate each of our subsidiaries' businesses. Our Company provides support services to all our group companies and group regulation services to all our group companies other than the LFX. Our Company provides to each of our subsidiaries the services they require to operate their businesses.

## 12. BUSINESS (cont'd)

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Our business is significantly affected by the strength and growth of the Malaysian economy. Our principal place of business is Malaysia and all our assets are located in Malaysia. Malaysia's economy is one of the most developed in Southeast Asia. Over the last few years, Malaysia has experienced a period of steady economic growth. Malaysia's gross domestic product grew by 5.3 per cent. in 2003 as compared to 4.1 per cent. in 2002 and by 7.6 per cent. in the first nine (9) months of 2004 compared to 4.8 per cent. in the first nine (9) months of 2003 (*Source: Department of Statistics*). In addition, we believe that various Government policies have benefited us, such as the privatization of state-owned companies, support for small and medium sized enterprises, the focus on a knowledge-based economy, and the development of technology companies through the multimedia super corridor initiative. These factors have resulted in a significant increase in the number of companies listed on our Securities Exchange and contributed to the growth of Malaysia's capital markets.

The development of the Securities Commission's CMP (see Section 12.2(ii) (Business — Competitive Strengths — Capital market policy conducive to growth)) has also been a significant factor in charting the development and direction of our business.

As a result of the Capital Reduction, we reduced our share capital by the cancellation of RM750 million from our issued and paid-up share capital after a bonus issue by way of capitalization of retained profits of RM667.0 million, resulting in a liability of RM750.0 million due to our shareholders immediately prior to the Initial Public Offering. We will settle the liability by repaying these shareholders RM750.0 million in cash at a date which falls after the completion of the Listing (see Section 20.1 (Listing Scheme and Capital Reduction — Members' Scheme of Arrangement)).

### 12.2 Competitive Strengths

We believe our principal strengths are as follows:

- (i) *Strong correlation to the performance of the Malaysian economy and securities market.* We believe that we are the listing venue of choice for Malaysian companies. The wide range of companies listed on our Securities Exchange represents all key economic sectors of Malaysia. Since many leading companies in Malaysia are listed on our Securities Exchange, we believe that our growth is strongly correlated to the growth of these companies, which in turn is correlated to the overall growth of the Malaysian economy.

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**12. BUSINESS (cont'd)**

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- (ii) *Capital market policy conducive to growth.* We believe that the Government is committed to enhancing the Malaysian capital markets, and as a result we benefit from a regulatory environment that is conducive to growth. Among the steps taken by the Government to strengthen the capital markets were the introduction of the CMP in 2001, which charts the strategic positioning and future direction of the Malaysian capital markets for the next ten (10) years. The objectives of the plan include making Malaysia the preferred fund-raising center for Malaysian companies and promoting the development of an investment management industry and a more conducive environment for investors.

In 2003, the Government announced a package of ten (10) measures aimed at stimulating and further enhancing the Malaysian capital markets. These measures included steps to enhance liquidity and investor participation, such as standardization of board lots and a reduction in the processing time for new listing applications.

Under the Government's budget for 2005, the Government announced steps to increase foreign participation in the stockbroking and asset management industries. In addition, we believe that the Government's efforts to restructure Government-linked companies, which, as at December 31, 2004 accounted for approximately one-third of the total market capitalization of our Securities Exchange, will improve the overall quality of listed companies. The Government has also announced the possible divestment by Government-linked institutional shareholders of interests in listed companies, which would benefit us by increasing the free float of these companies, and the release of funds of up to RM6.0 billion by the EPF to local funds for management over the next three (3) years, which we believe would promote greater market activity and Turnover Velocity on our Securities Exchange.

- (iii) *Fully integrated exchange with diversified sources of revenue.* We operate as a one-stop center for the trading, clearing and settlement of listed securities on our Securities Exchange and Derivatives Exchange. We have a clearing house for each of our Securities Exchange and Derivatives Exchange designed to clear and settle their respective trades. Our Securities Exchange has three (3) markets for securities listing and trading, catering to companies at different stages of maturity and scales of operations; and to investors with different investment horizons and different risk appetites. Apart from equity securities, other instruments, such as convertible debt securities, warrants, call warrants and various debt instruments, are also traded on our Securities Exchange. Our Derivatives Exchange mainly offers KLCI futures and options contracts, interest rates futures, FCPO and FPKO.

As a result of our business model, we have diversified sources of revenue. In particular, we have a combination of revenue from recurring fees (such as listing fees, subscribers' fees for information services and depository fees) and from trading activities on our exchanges, such as clearing fees (which are less predictable). Within revenue from trading activities, we derive revenue from trading on our Securities Exchange and Derivatives Exchange, which tend to react differently to changes in economic conditions. This diversity mitigates volatility in our cash flows and results of operations, particularly as most of our costs are fixed. In addition, because we operate the only exchanges in Malaysia, we have exclusive access to market information, the use of which provides us with an additional source of revenue.

## 12. BUSINESS (cont'd)

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Further, our business model enables us to centralize certain functions such as marketing, support services and product development and allows us to operate more efficiently.

- (iv) *Financial strength.* Our strong financial position gives us the flexibility to pursue strategic initiatives and growth options that allow us to enhance our competitive positioning whilst maintaining the stability of our exchanges' operations. In addition, our cash flows from operations and existing cash resources allow us to undertake capital management initiatives, including paying dividends to shareholders, that are intended to maximize returns to shareholders.
- (v) *Niche markets.* We have certain niche markets where we are well-placed to capitalize on our strengths, namely in the plantations sector and Islamic investment products.

We attract investors looking for exposure to the plantations sector or to hedge exposure to it because of Malaysia's strength in this sector (particularly in palm oil). Malaysia is the world's largest producer of palm oil, and we operate the world's largest derivatives exchange dealing in palm oil futures contracts, namely FCPO and FPKO.

The Islamic Capital Market ("ICM") is a niche area where we believe Malaysia can capitalize on the existing domestic market infrastructure and the nation's comparative strengths in serving Islamic clientele and businesses. We offer Syariah-compliant securities and instruments based on Islamic principles on our Securities Exchange and Offshore Exchange. In 1999, we launched our Syariah index, which is used by investors who seek to benchmark the performance of Syariah-designated securities. We believe there is an increasing level of interest in the ICM.

### 12.3 Strategies

Our key objectives are to maintain and leverage on our existing strengths, grow and improve our business, and ultimately create value for our shareholders. Our key strategies to achieve these objectives are as follows:

- (i) *Increase the Turnover Velocity of our markets.* As trading revenues of exchanges are driven by Turnover Velocity, we intend to undertake initiatives to increase the Turnover Velocity of our markets by increasing participation from existing market participants on our exchanges as well as attracting new market participants, maximizing the new revenue opportunities that are available to us as a result of the new CTP infrastructure, and entering into strategic alliances that facilitate greater activity on our exchanges.
  - (a) *Increase participation in our exchanges.* In conjunction with the Government's efforts to develop the Malaysian capital markets, we intend to continue to focus on increasing participation on our exchanges from three (3) groups of market participants: listed companies and companies seeking listings, intermediaries such as participating organizations and trading participants, and institutional and retail investors.

## 12. BUSINESS (cont'd)

We believe that our regulatory function as an exchange will enable us to increase market participation of listed companies by encouraging more companies to list on our Securities Exchange. For example, we intend to improve the efficiency of the regulatory framework governing listed companies and have recently implemented a new framework for the perusal of circulars. The new framework is expected to significantly reduce the time-to-market for issuance of certain circulars thereby facilitating the expedient completion of corporate proposals by listed companies whilst preserving the standard of disclosure.

We believe that the CTP will facilitate greater market participation from intermediaries and investors on our exchanges through enhancing the range of products and services we offer. In addition, the CTP will enable intermediaries to access our infrastructure through new and enhanced methods, such as front-end access by our participants. We believe that, in addition to the revenue-generating benefits of the CTP, it will also facilitate better price discovery and lower transaction costs, which should encourage investor participation.

We intend to increase investor participation in our exchanges through our regulatory function, by encouraging companies listed on our exchanges to meet international best practice standards of corporate governance and transparency. We believe this will attract greater investor interest in Malaysian companies and the Malaysian capital markets.

We also intend to continue promoting greater domestic and international investor participation in the Malaysian capital markets and our exchanges through initiatives such as reverse roadshows to introduce new investors to our exchanges, improving research coverage of the companies listed on our Securities Exchange, investor education programs and international roadshows. For example, we launched the CMDF — Bursa Research Scheme on January 17, 2005, towards which CMDF has provided a grant of RM7.5 million. Under the scheme, participating companies who subscribe for research will be covered by at least two (2) research firms. Research reports generated under the scheme will be published on our website and available to the public free of charge. The scheme has already attracted substantial interest. In addition, we believe that the announcement in September 2004 in the Government's budget for 2005 that foreign brokers and fund management houses will be given new licenses to operate in Malaysia has had a positive impact on market sentiment. We expect such participation will enhance the international profile of the companies listed on our Securities Exchange, promote international best practices and products development.

- (b) *Maximize new opportunities arising from implementation of the CTP.* In addition to increasing our product offerings, we believe that the CTP implementation will also provide us with other new opportunities to increase Turnover Velocity, such as by enabling front-end access by our participants, the introduction of program trading and market-making capabilities, and the extension of trading hours.

We believe that the enhanced range of product and service offerings facilitated by the CTP will attract more participation by intermediaries and investors on our exchanges.

**12. BUSINESS (cont'd)**

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We intend to continue to invest in new technologies and seek potential alliances with suitable technology vendors and/or partners to enhance the trading capabilities of our exchanges.

(c) *Enter into alliances with strategic partners.* We intend to enter into alliances and trading links with suitable strategic and business partners to increase our Turnover Velocity. We believe that the enhanced ease of trading and access that would result from such alliances and trading links will increase Turnover Velocity of our exchanges. We are planning to set up a cross-trading link with SGX-ST to enable participating organizations in Malaysia and brokers in Singapore to trade securities on both SGX-ST and our Securities Exchange. The linkage is expected to be launched by the end of 2006 after changes to each exchange's trading infrastructures are completed. The linkage is also expected to provide participating organizations and brokers access to market trading information and allow them to transmit orders through their local terminals directly to the electronic trading systems of the other exchange.

(ii) *Increase and improve our product and service offerings.* We intend to introduce new products and services that enhance our revenue growth in the future, and increase the attractiveness of our exchanges to a broader range of market participants. We believe this will further enhance our efforts to become one of the leading exchanges in the Asia Pacific region.

We intend to increase the number of equities and derivatives products offered. Examples of new products that we are currently considering include single stock futures and exchange-traded funds.

We also intend to capitalize on our position in niche markets such as the ICM and the plantations sector, by introducing new products such as Islamic exchange-traded funds. We intend to expand our derivatives clearing business by providing clearing and settlement facilities for the over-the-counter ("OTC") derivatives markets. We expect that the first OTC contract we will introduce will be ethylene contracts. If this initiative is successful, we believe that this can be extended to OTC derivatives contracts over other petrochemical products such as benzene, naphtha and liquefied natural gas.

We also seek to improve our product and service offerings. For example, our Information Services business unit introduced a refined distribution and pricing model on October 1, 2004, designed to better meet the growing demand from third party information vendors. Subject to us finalizing the logistics of a billing system to collect fees, we are targeting to commence charging a fee for real time prices available to our participating organizations who have e-broking facilities (currently 27) from April 1, 2005.

We believe the implementation of the CTP will provide an enhanced infrastructure that will facilitate our strategy of providing new and improved products and services.

(iii) *Improve efficiency of our businesses and achieve economies of scale in our operations.* We intend to continue to pursue opportunities to improve the efficiency of our businesses and achieve economies of scale across our operations.



## 12. BUSINESS (cont'd)

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For example, implementation of a Voluntary Separation Scheme in 2004 has enabled us to significantly reduce labor costs across our businesses. We also intend to improve efficiency of internal processes within our businesses, for example, through centralization of fund management functions within our group and centralization of internal review of rules.

We are currently re-engineering our business processes and functions and will continue to do so where necessary. For example, we are coordinating with the Securities Commission with respect to enhancing efficiency of regulatory processes and are considering the outsourcing of certain functions of our clearing, settlement and depository business.

- (iv) *Focus on capital management.* We will actively seek to optimize our capital structure and maximize returns to shareholders through dividend payments and other capital management initiatives, after ensuring that our minimum prudential requirements, future capital expenditure requirements and on-going business needs are met.

### 12.4 History

The first formal securities business organization in Malaysia was the Singapore Stockbrokers' Association, established in 1930. It was re-registered as the Malayan Stockbrokers' Association in 1937. In 1960, our predecessor, the Malayan Stock Exchange was established and the public trading of shares commenced in Malaya. The board system with trading rooms in Singapore and Kuala Lumpur, linked by direct telephone lines into a single market with the same shares listed at a single set of prices on both boards, was established in 1961.

In 1964, the Stock Exchange of Malaysia was established. With the secession of Singapore from Malaysia in 1965, the Stock Exchange of Malaysia became known as the Stock Exchange of Malaysia and Singapore. In 1973, currency interchangeability between Malaysia and Singapore ceased, and the Stock Exchange of Malaysia and Singapore was divided into KLSEB and SES. The Kuala Lumpur Stock Exchange which was incorporated on December 14, 1976 as a company limited by guarantee, took over the operations of KLSEB in the same year.

We were demutualized pursuant to the Demutualization Act and converted into a public company limited by shares on January 5, 2004. We were then known as Kuala Lumpur Stock Exchange Berhad pursuant to the demutualization. Upon the conversion, we vested and transferred our securities exchange business to our new wholly-owned subsidiary, Bursa Securities, and became an exchange holding company and were renamed Bursa Malaysia Berhad on April 14, 2004.

From the legal perspective, our demutualization essentially entailed our conversion from a not-for-profit "mutual" entity limited by the guarantee of its members into a company limited by shares. However, from the business strategy perspective, our demutualization, supported by business transformation initiatives, is intended to further enhance our corporate, organizational and governance structures. We believe that, pursuant to our demutualization, we are now better positioned to face current and future challenges under our new legal, corporate and organizational structure. In addition, we believe that our demutualization has permitted us to be more customer-driven and market-oriented.

## 12. BUSINESS (cont'd)

## 12.5 Exchange Business

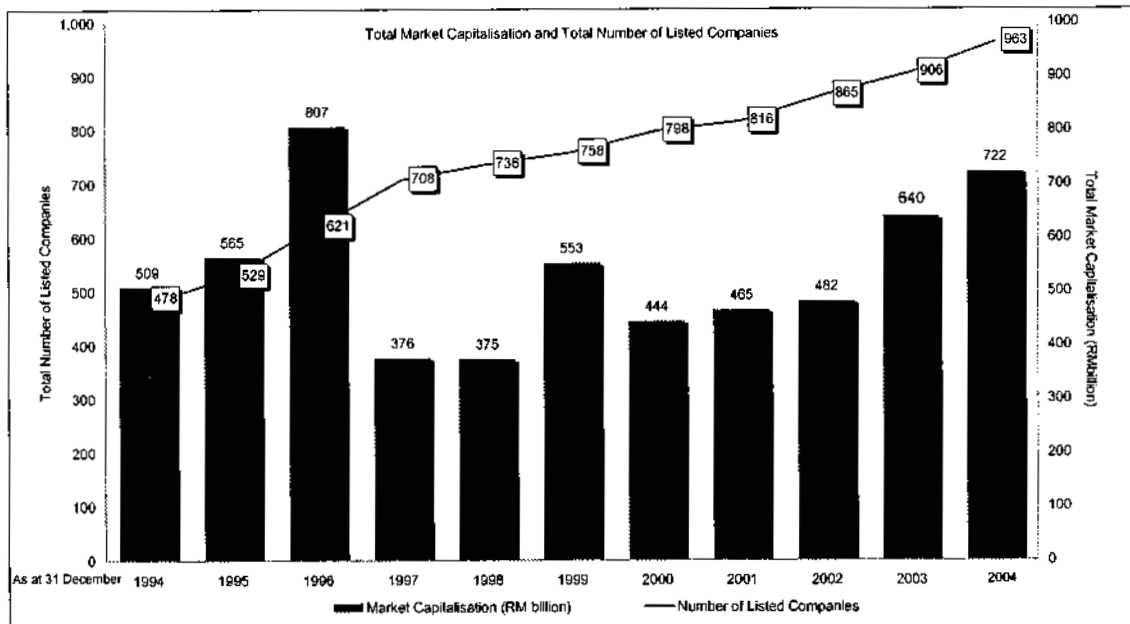
Our Securities Exchange consists of the Main Board, Second Board and MESDAQ Market. Derivatives are listed and traded on the Derivatives Exchange. We also own the Offshore Exchange in Labuan, Malaysia.

## 12.5.1 Securities Exchange

As at December 31, 2004, our Securities Exchange was the eighth largest exchange in Asia (excluding Japan) by market capitalization, and the third largest in Asia (excluding Japan) and largest in South East Asia by number of listed companies (*Source: World Federation of Exchanges*). As at September 30, 2004, 945 companies and ten (10) call warrants were listed on our Securities Exchange, representing a total market capitalization of RM672.6 billion. Of these 945 listed companies, 941 were domestic incorporated companies and four (4) were foreign incorporated companies. This increased to 963 companies and 10 call warrants as at December 31, 2004, representing a total market capitalization of RM722.0 billion. Of these 963 listed companies, 959 were domestic incorporated companies and four (4) were foreign incorporated companies.

We define market capitalization as the market value of all listed securities, including, shares, fixed income securities, call warrants and warrants.

The following chart sets forth the number of listed companies on our Securities Exchange and the total market capitalization as at December 31 for each of the past 11 years.



## 12. BUSINESS (cont'd)

We experienced a significant drop in total market capitalization in 1997 due to the effects of the Asian financial crisis. Our markets only started to recover in 1999, but suffered again in 2000 due to the global downturn in technology stock prices. From 2001 to 2004, our markets have shown steady improvement in terms of total market capitalization. Notwithstanding the volatility in total market capitalization throughout the 11 year period, the total number of companies listed on our Securities Exchange has continued to grow at a CAGR of 7.3 per cent between December 31, 1994 and December 31, 2004.

The following table sets out the breakdown of the total market capitalization and total number of listed companies by sector as at September 30, 2004 and December 31, 2004:

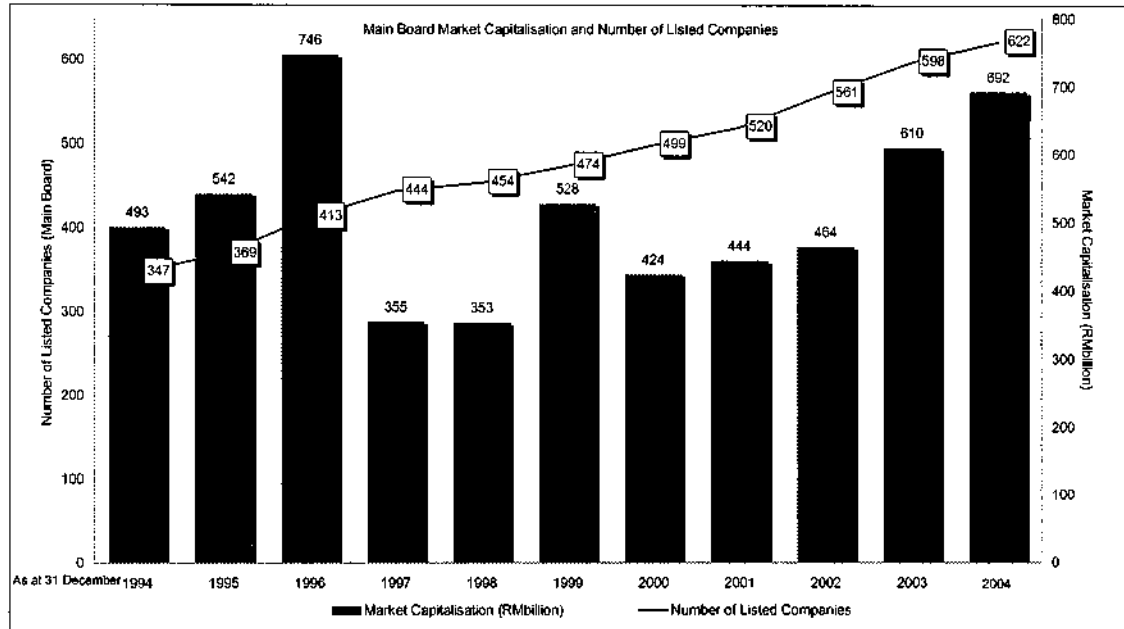
Sector	Percentage of total market capitalization (%)		Percentage of total number of listed companies (%)	
	As at September 30, 2004	As at December 31, 2004	As at September 30, 2004	As at December 31, 2004
Construction/Infrastructure .....	6.5	6.7	7.0	7.0
Consumer products .....	8.9	8.3	13.5	13.5
Finance.....	20.5	20.1	5.7	5.4
Industrial products .....	10.4	10.6	29.4	29.5
Plantation .....	5.9	5.7	4.6	4.4
Property/Hotels.....	5.8	5.9	10.6	10.5
Technology .....	1.5	1.6	5.7	6.4
Trading/Services .....	38.0	38.7	18.6	19.0
Others.....	2.5	2.4	4.9	4.3
<b>Total .....</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Key growth sectors over the past two (2) years in terms of number of listed companies include industrial products and technology stocks. Our Securities Exchange operates three (3) markets as described below.

*Main Board.* As at September 30, 2004 and December 31, 2004, 613 companies and 622 companies were listed on our Main Board, respectively, representing a total market capitalization of RM644.9 billion and RM692.5 billion, respectively. To be eligible for listing on the Main Board, companies must meet certain profit or market capitalization requirements as prescribed under the Securities Commission Guidelines. See Section 12.6 (Business — Listings). The ten (10) largest companies listed on the Main Board (measured by market capitalization as at September 30, 2004 and December 31, 2004) collectively represented approximately 35.9 per cent. of the total market capitalization of the Main Board as at September 30, 2004 and December 31, 2004.

## 12. BUSINESS (cont'd)

The following chart sets forth the number of listed companies on the Main Board and their total market capitalization as at December 31 for each of the past 11 years.

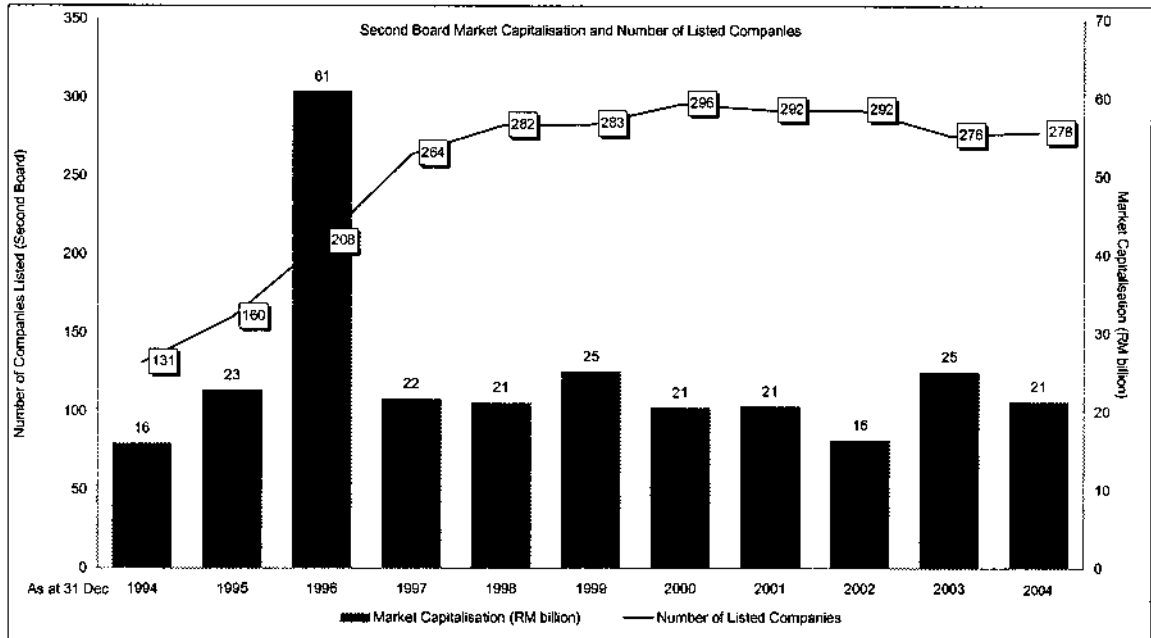


There were also call warrants listed on our Main Board. Their market capitalization during the period under review is as follows: RM117.0 million as at December 31, 1995; RM14.0 million as at December 31, 1996; RM984.0 million as at December 31, 2003; and RM1.6 billion as at December 31, 2004. There were no call warrants listed on our Main Board from December 31, 1997 to December 31, 2002.

*Second Board.* As at September 30, 2004 and December 31, 2004, 280 companies and 278 companies were listed on the Second Board, respectively, representing a total market capitalization of RM20.7 billion and RM21.3 billion, respectively. Our Second Board was established in 1988 to enable small to medium-sized companies with growth potential, but which are unable to qualify for listing on the Main Board, to seek a listing on our Securities Exchange, based on lower quantitative requirements. See Section 12.6 (Business — Listings). A company listed on the Second Board may eventually seek to transfer its listing to the Main Board when it meets the requirements for listing on the Main Board.

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The following chart sets forth the number of listed companies on the Second Board and their total market capitalization as at December 31 for each of the past 11 years.

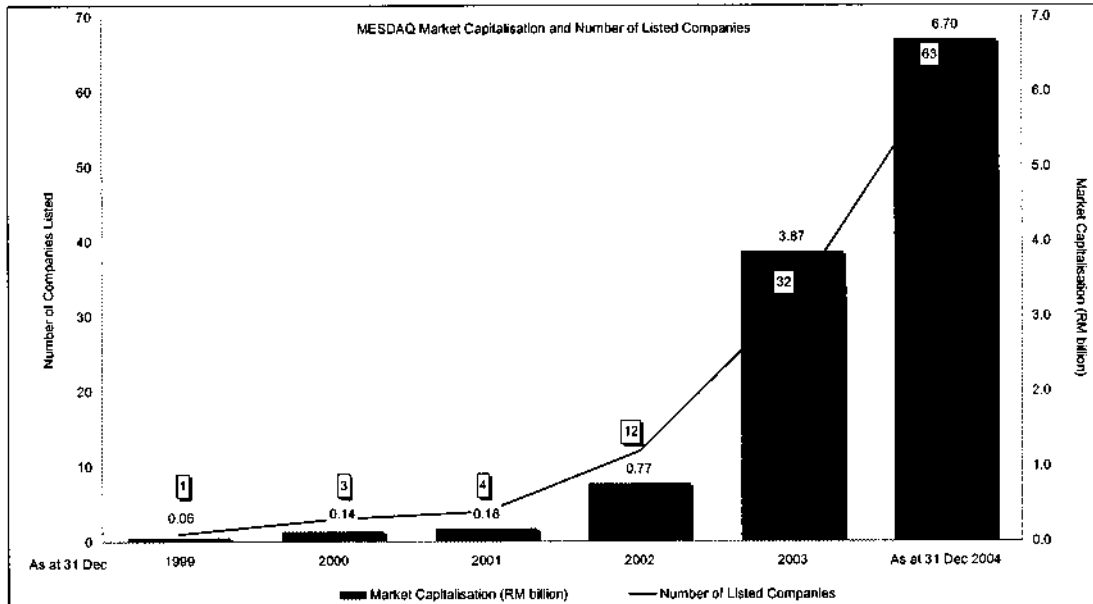


Since 1997, an increasing number of companies that were listed on the Second Board sought to transfer to the Main Board. As a result, the number of listed companies on the Second Board has not increased substantially. From January 1, 1997 to December 31, 2004, a total of 148 companies that were listed on the Second Board achieved listing on the Main Board.

**MESDAQ Market.** As at September 30, 2004 and December 31, 2004, 52 companies and 63 companies were listed on the MESDAQ Market, respectively, representing a total market capitalization of RM5.7 billion and RM6.7 billion, respectively. The predecessor of our MESDAQ Market, Malaysian Exchange of Securities Dealing and Automated Quotation Bhd., was established in 1997 to provide an avenue for technology and high growth companies to raise capital from the capital markets. On March 18, 2002, we acquired the operations of this exchange and rebranded it as the MESDAQ Market of the Securities Exchange. At the time of the acquisition, there were only five (5) companies listed on MESDAQ which were transferred to our new MESDAQ Market. A separate set of listing requirements apply to companies seeking to list or which are listed on our MESDAQ Market.

## 12. BUSINESS (cont'd)

The following chart sets forth the number of listed companies on the MESDAQ Market and their total market capitalization as at December 31 for each of the past six (6) years.



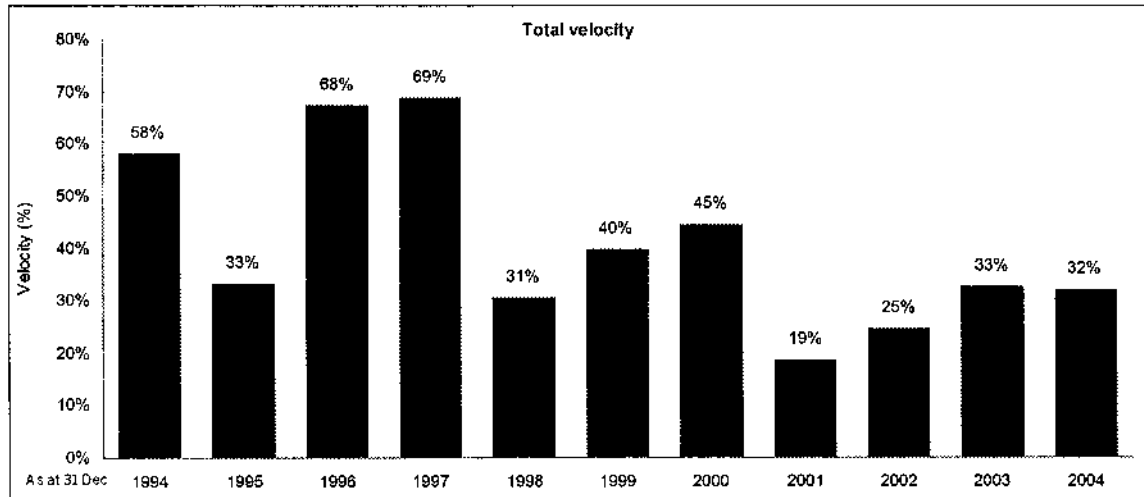
*Liquidity and Turnover Velocity.* Liquidity and Turnover Velocity are important indicators of a market's attractiveness. Turnover Velocity measures, in percentage terms, the total market value of securities traded on the exchange relative to the average total market value of securities listed on the exchange over a specified time period. See "Definitions — Turnover Velocity".

The total value of securities traded on our exchanges has increased. The following table sets forth the total value of securities traded on our Securities Exchange, and the percentage of such value that is attributable to retail and institutional investors, and foreign and domestic investors, for the periods indicated.

	For the year ended December 31,		
	2002	2003	2004
Total value of securities traded (RM billion) .....	131.9	206.3	243.9
Percentage of total value of securities traded (%)			
Retail investors .....	40.1	50.1	41.7
Institutional investors .....	54.4	45.0	55.4
Foreign investors .....	32.3	24.0	30.5
Domestic investors .....	67.7	76.0	69.5

## 12. BUSINESS (cont'd)

The following chart sets forth the Turnover Velocity of our Securities Exchange for each of the past 11 years ended December 31, 2004.



Our Securities Exchange had relatively high level of Turnover Velocity in 1996 due to the increased trading activity arising from rising technology stock prices (particularly on our Second Board). The level of Turnover Velocity remained at a relatively high level in 1997 due to the significant decline in the market capitalization of our Securities Exchange in the latter part of 1997 as a result of the Asian financial crisis. Rising technology stock prices again fuelled the increase in Turnover Velocity we experienced in 1999, and the global downturn in technology stock prices accounted for the relatively high levels of Turnover Velocity in 2000.

### 12.5.2 Derivatives Exchange

In the nine (9) months ended September 30, 2004 and the year ended December 31, 2004, a total of 2.02 million contracts and 2.63 million contracts respectively, were traded on our Derivatives Exchange.

As at September 30, 2004 and December 31, 2004, seven (7) types of futures contracts and one (1) option contract were available for trading on our Derivatives Exchange. Our Derivatives Exchange offers commodity futures, equity futures and options and financial futures contracts. 65,824 contracts remained open as at December 31, 2004, 68,112 contracts remained open as at September 30, 2004 and 49,296 contracts remained open as at December 31, 2003. Substantially all the contracts traded on our Derivatives Exchange are futures contracts. A futures contract is an agreement to purchase or sell a specific quantity of a financial instrument or commodity at a particular price on a stipulated future date. All futures and options contracts traded on our Derivatives Exchange are settled in cash, except for commodities futures contracts which can also be settled by physical delivery of the underlying commodity. Derivatives trading is conducted on an electronic platform.

**12. BUSINESS (cont'd)**

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*Commodity Futures.* The commodity futures listed on our Derivatives Exchange are FCPO, which were introduced in October 1980 and FPKO, which were introduced in February 2004. FCPO are the most actively traded futures contracts listed on our Derivatives Exchange, representing approximately 52.0 per cent. and 52.3 per cent. of all derivatives traded on our Derivatives Exchange for the nine (9) months ended September 30, 2004 and year ended December 31, 2004, respectively. Commodity futures represented approximately 52.4 per cent. of all derivatives traded on our Derivatives Exchange in 2004. They contributed RM4.7 million, RM5.5 million and RM5.4 million in revenue for the years ended December 31, 2002, 2003 and 2004 respectively. Our commodity futures are primarily used by palm oil producers and refiners to hedge against future movements in palm oil and palm kernel oil prices. Our Derivatives Exchange operates the largest palm oil futures market in the world.

*Equity Futures and Options.* Our Derivatives Exchange's equity futures and options contracts include the KLCI Futures ("FKLI"), introduced in December 1995 and the KLCI Options ("OKLI"), introduced in December 2000. After the FCPO, the FKLI is the most actively traded futures contracts listed on our Derivatives Exchange, representing approximately 41.8 per cent. and 41.3 per cent. of all derivatives traded on our Derivatives Exchange for the nine (9) months ended September 30, 2004 and year ended December 31, 2004, respectively. Equity futures and options represented approximately 41.3 per cent. of all derivatives traded on our Derivatives Exchange in 2004. They contributed RM5.7 million, RM4.1 million and RM9.5 million in revenue for the years ended December 31, 2002, 2003 and 2004 respectively. The underlying stock index of FKLI and OKLI contracts is the KLCI, which is a market capitalization weighted index of 100 stocks listed on the Main Board. These equity futures and options contracts are used by investors to hedge their equity portfolios, to gain exposure to the 100 KLCI components without huge capital costs, and to take advantage of different trading strategies.

*Financial Futures.* The financial futures include the 3-Month Kuala Lumpur Interbank Offered Rate ("KLIBOR") Futures ("FKB3"), which were introduced in May 1996, the 5-Year Malaysian Government Securities (MGS) Futures ("FMG5") that were introduced in March 2002 as well as the 3-Year MGS Futures ("FMG3") and 10-Year MGS Futures ("FMGA"), both introduced in September 2003. Financial futures represented approximately 6.3 per cent. of all derivatives traded on our Derivatives Exchange in 2004. They contributed RM0.5 million, RM0.8 million and RM0.7 million in revenue for the years ended December 31, 2002, 2003 and 2004 respectively.

*New Products.* We regularly consider introducing new derivative products to better serve our customers. To this end, we look at new products introduced by other exchanges and assess if sufficient interest exists for such products in our markets. However, we generally require regulatory approvals before we can introduce new products. There is no guarantee we will be able to obtain regulatory approval for such products or that if introduced, the products will be successful. See Section 4.1.14 (Risk Factors — Risks Relating to Our Business — We may be unable to grow into new product lines and businesses).



## 12. BUSINESS (cont'd)

*Market Liquidity.* As with other derivative exchanges, liquidity is an important measure of the attractiveness and efficiency of derivatives markets and is generally measured by the volume transacted and the level of open contract interest (that is, the number of contracts that have not been exercised, closed or allowed to expire). The following table sets forth the total number of contracts traded on our Derivatives Exchange for each of the past 11 years ended December 31, 2004 and for the nine (9) months ended September 30, 2003 and 2004 and the open interest as at the end of the periods indicated.

<u>Year</u>	<u>Exchange Volume <sup>(1)</sup></u>	<u>Average Daily Volume <sup>(1)</sup></u>	<u>Open Interest as at period end <sup>(1)</sup></u>
1994	567,901 <sup>(2)</sup>	2,290 <sup>(2)</sup>	8,110 <sup>(2)</sup>
1995	525,331	2,153	10,537
1996	616,332	2,485	14,371
1997	943,681	3,805	17,345
1998	1,149,521	4,673	9,339
1999	854,605	3,446	17,393
2000	720,725	2,954	18,802
2001	822,805	3,386	23,488
2002	1,287,663	5,192	44,739
2003	2,000,263 <sup>(3)</sup>	8,131	49,296
2004	2,632,992	10,617	65,824
2003 (first 9 months)	1,424,251	7,699	52,265
2004 (first 9 months)	2,019,398	10,857	68,112

*Notes:*

- (1) *By number of contracts traded.*
- (2) *Consists of FCPO contracts only.*
- (3) *In 2003, we halved the size of the FKLI contracts on our Derivatives Exchange, which led to an increase in the number of contracts traded.*

**12.5.3 Offshore Exchange**

Our Offshore Exchange was established in November 2000 and is based in Labuan, Malaysia's international offshore financial center. Labuan was designated as an offshore financial center in 1990. As at September 30, 2004 and December 31, 2004, 22 and 26 issues, respectively, comprising debt, equity-linked and other securities issued by foreign issuers, such as the Kingdom of Bahrain and the Government of Qatar, as well as domestic issuers, were listed on our Offshore Exchange, representing an aggregate principal amount of US\$9.1 billion and US\$10.1 billion, respectively. Eight (8) were primary listings and the rest were secondary listings. All the issues are denominated in foreign currencies.

Our Offshore Exchange is a fully-fledged self-regulated exchange designed to promote Labuan as an international offshore financial center. We established it to complement the various financial services offered in Labuan.

Our Offshore Exchange's goal is to facilitate the mobilization of funds and capital raising through the listing and trading of a wide range of multi-currency (other than the Ringgit) financial instruments based on conventional or Islamic (Syariah) principles.

## 12. BUSINESS (cont'd)

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Besides the benefits of being in an offshore financial center, our Offshore Exchange also represents a one-stop financial exchange thus enabling speedy approvals of listing applications by the exchange's listing committee. However, in addition to listing approvals, issuers may be required to obtain other regulatory approvals that are not related to the listing process. Unlike our Securities Exchange and Derivatives Exchange which are primarily regulated by the Securities Commission, the LFX comes under the regulatory purview of LOFSA. The primary pieces of legislation which govern the LFX are the OCA and the Labuan Offshore Securities Industry Act, 1998.

There is generally no trading activity on our Offshore Exchange, with all trading being done OTC. We are working on initiatives to improve the performance of our Offshore Exchange which involve, among other things, increasing the number of listings, expanding the number of listing sponsors and advisors on our Offshore Exchange, having a straight through processing system with international custodian and clearing houses and developing strategic alliances with other offshore exchanges for dual listing purposes.

### 12.6 Listings

#### 12.6.1 Securities Exchange

A company seeking a listing on our Securities Exchange must appoint a merchant bank or Universal Broker (see Section 12.7.1 (Business — Participantship — Securities Exchange Participantship)) as its adviser and must, through its adviser, file an application together with the requisite documentation with the Securities Commission for its approval. A listing on our Securities Exchange must be approved by the Securities Commission. The applicant is also required to file an application for listing and quotation with Bursa Securities. The prospectus must be registered and approved by the Securities Commission and a copy furnished to us and filed with the Registrar of Companies.

A company seeking to list on the Main Board or Second Board must satisfy, among other things, the following quantitative requirements: it must have (i) a minimum issued and paid-up capital of RM60.0 million (in the case of a listing on the Main Board) or a minimum of RM40.0 million (in the case of a listing on the Second Board); and (ii) at least 25.0 per cent. of the total number of shares for which listing is sought must be held by a minimum of 1,000 public shareholders, each holding not less than 100 shares. In addition, a company must meet certain historical profit requirements or (in the case of a Main Board applicant) be of a certain size with respect to market capitalization. The qualitative criteria include, among other things, requirements relating to the quality of management of the applicant company and its future growth prospects.

A company seeking to list on the MESDAQ Market must meet, among other things, the following listing requirements: it must have (i) involvement in a technology-based activity or must be a high growth company; (ii) its issued and paid-up share capital upon listing must be not less than RM2.0 million; and (iii) at least 25.0 per cent. but not more than 49.0 per cent. of the total number of shares for which listing is sought must be held by at least 200 public shareholders at the time of its admission to the MESDAQ Market. Applicants must also fulfil certain qualitative criteria.

**12. BUSINESS (cont'd)**

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Once a company is listed, we require it to issue financial statements to the market, including unaudited quarterly consolidated accounts and audited annual consolidated accounts within the timeframes stipulated in the Bursa Securities LR. In addition, pursuant to our Securities Exchange's corporate disclosure policy, listed companies are required to make immediate public announcement of any information which is reasonably expected to have a material effect on the price, value or market activity of the listed companies' securities or the investment decision of an investor. Certain transactions or events are specifically required to be announced immediately, including transactions exceeding a certain size measured by prescribed ratios, information in relation to changes in the composition of the board of directors, recommendations in relation to dividends and commencement of winding-up proceedings against the listed company.

Some of the key corporate governance requirements that listed companies are required to comply with under the Bursa Securities LR are the following:

- (i) an audit committee, comprising at least three (3) members, a majority of whom shall be independent shall be established. The chairman of the audit committee must also be independent;
- (ii) the board of directors must have a prescribed minimum number of independent directors;
- (iii) directors are to be able to take independent professional advice, where necessary and reasonable for the performance of their duties;
- (iv) a restriction on the number of directorships that may be held by directors; and
- (v) mandatory training for directors.

Companies listed on the Main Board or Second Board are also required to disclose in their annual reports, the extent of their application of the principles of corporate governance in the Malaysian Code on Corporate Governance and their compliance with the best practices recommended therein. These companies are required to give reasons for any non-compliance with such practices, to disclose the state of internal control of their companies as a group, and their audit committee activities.

Separate rules apply to the listing of securities other than ordinary shares on our Securities Exchange. Under the Bursa Securities LR for Main Board and Second Board, a listed issuer seeking listing of its warrants, preference shares or debt securities (including convertible debt securities) must have not less than 100 holders of such securities. Each holder must hold not less than one (1) board lot of the securities.

The continuing disclosure obligations of listed issuers of debt and equity-linked securities for the Main Board and Second Board include a requirement to announce, among other things, a change in the terms of such security, a call of securities for redemption, and to publish a notice of maturity/expiry of any listed debt security or convertible debt security.

We charge fees for the initial listing and subsequent listing of additional securities. In addition, we charge annual listing fees in respect of securities listed.

## 12. BUSINESS (*cont'd*)

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A company listed on the Main Board or Second Board may voluntarily request a withdrawal of its listing as long as it, among other things, obtains shareholders' approval and offers shareholders a reasonable cash or other alternative offer. We have the power to grant such request and impose any additional conditions as we deem fit. We may also de-list a company listed on our Securities Exchange under certain circumstances, including where the listed company fails to comply with the Bursa Securities LR or where the financial condition of the listed company does not, in our opinion, warrant continued listing. In 2003, we de-listed a total of 17 companies, 10 from the Main Board and seven (7) from the Second Board. In 2004, we de-listed a total of 15 companies; 12 from the Main Board and three (3) from the Second Board.

A company listed on the MESDAQ Market may also voluntarily request for a withdrawal of its listing, as long as it provides us with amongst others, full and detailed reasons for the withdrawal and evidence of proper authority of the representative of the company making the request. Similar to the Main Board and Second Board, we have the power to grant such request and impose any additional conditions as we deem fit. We may also de-list a company listed on the MESDAQ Market under certain circumstances as provided in the Bursa Securities LR of the MESDAQ Market. To date, we have not de-listed any company on the MESDAQ Market.

### 12.6.2 Offshore Exchange

A company seeking a listing of its equity or financial instruments on our Offshore Exchange must appoint a licensed listing sponsor. The licensed listing sponsor must ensure that the applicant company complies with all requirements of our Offshore Exchange in relation to the listing and acts as the applicant company's principal channel of communication with our Offshore Exchange during the listing period and thereafter. Applications for listing on our Offshore Exchange are approved by the LFX's listing committee, and there is no requirement for any additional listing approval.

A company seeking to list its financial instrument on our Offshore Exchange needs to satisfy certain criteria including requirements relating to the denomination and free transferability of the financial instrument to be listed. There are also quantitative and qualitative requirements. The quantitative requirements include: (i) issuances of not less than US\$2 million for equity securities, US\$50 million for investment funds and US\$100 million for debt securities; (ii) a shareholding spread of not less than 250 holders for equity securities and 25 holders for debt securities; and (iii) (in the case of equity listings) the applicant company should have been in operation for at least two (2) years.

Once the relevant instrument of the applicant company is listed on our Offshore Exchange, the applicant company has certain continuing post-listing obligations, such as timely disclosure to our Offshore Exchange of any changes in the rights attaching to the listed financial instrument, any redemption or cancellation of the listed financial instrument and of the presentation of any winding-up proceedings in respect of the listed company, its holding company or any major subsidiary.

We charge fees for the initial listing of the financial instruments and annual listing fees in respect of the listed financial instruments.

## 12. BUSINESS (cont'd)

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### 12.7 Participantship

#### 12.7.1 Securities Exchange Participantship

The business of dealing in securities in Malaysia is carried out by stockbroking companies which are participating organizations (previously referred to as "voting members") of our Securities Exchange.

As at September 30, 2004 and December 31, 2004, there were 36 and 33 participating organizations (including six (6) Universal Brokers), respectively, in operation, with a network of 58 and 59 branches, respectively. The six (6) Universal Brokers had eight (8) EAF and 66 EAFPA as at September 30, 2004 and December 31, 2004. Participating organizations which are Universal Brokers are permitted to carry out (i) corporate finance activities; (ii) custodial services and fund management services; (iii) the business of dealing in futures and derivatives provided they comply with the rules of the relevant exchange(s); and (iv) the business of dealing in debt securities. Universal Brokers and participating organizations that have merged with one (1) or more stockbroking firms may establish branch offices or electronic access facilities (with or without permitted activities such as front and back office operations and the use of CDS terminals, namely EAFPA and EAFs respectively) subject to the approval of the Securities Commission and Bursa Securities.

Pursuant to the rules of Bursa Securities, a participating organization shall at all times:

- (i) be a company or corporation that is carrying on or is incorporated or established in Malaysia with the primary object of carrying out the business of dealing in securities;
- (ii) be the holder of a valid dealer's license issued by the Securities Commission pursuant to the Securities Industry Act and shall have satisfied or will satisfy upon registration, the terms and conditions of, or imposed by the Securities Commission related to, such license;
- (iii) satisfy all the financial requirements prescribed in the rules of Bursa Securities, as may be amended, varied, modified, supplemented or substituted therefore from time to time. The minimum paid-up capital of a Universal Broker is RM100.0 million with effect from November 1, 2004, while for a non-Universal Broker, it is RM20.0 million;
- (iv) unless otherwise permitted by the Securities Commission, have as its principal business, that of dealing in securities, and shall not carry on any other business save for those activities which are normally ancillary and closely related thereto as envisaged in the rules of Bursa Securities;
- (v) maintain facilities and personnel adequate for the expeditious and orderly carrying out of its business of dealing in securities (including those activities which are normally ancillary and closely related thereto as envisaged in the rules of Bursa Securities) and such other businesses as may be permitted by the Securities Commission from time to time;
- (vi) have all directors, including at least two (2) executive directors or in the case of a Universal Broker, at least three (3) executive directors, registered with Bursa Securities in accordance with the rules of Bursa Securities; and

**12. BUSINESS (cont'd)**

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- (vii) comply with such other requirements as prescribed in the rules of Bursa Securities and/or as may be prescribed by Bursa Securities from time to time.

**12.7.2 Derivatives Exchange Participantship**

Participantship in our Derivatives Exchange consists of trading participants (namely equity financial participants, non-equity financial participants and commodity participants), local participants, associate participants, trading permit holders and market makers. A trading participant of our Derivatives Exchange can trade for itself and for its clients by charging a commission on trades transacted on their behalf. Only companies incorporated in Malaysia with a minimum paid-up share capital of RM5.0 million can qualify as a trading participant. A trading participant must hold a valid futures broker's license issued by the Securities Commission pursuant to the Futures Industry Act. As at September 30, 2004 and December 31, 2004, there were 43 trading participants of our Derivatives Exchange, 15 of whom were active.

Trading participants are required to subscribe for one (1) or more of the preference shares of Bursa Derivatives. The class and subscription price of the preference share or shares to be subscribed depends on whether the trading participant is an equity financial participant, non-equity financial participant or commodity participant. These preference shares do not entitle the trading participants to voting rights or dividends.

A local participant can only trade options or futures contracts for himself. Local participantships are only granted to individuals who have fulfilled the selection criteria of Bursa Derivatives. An associate participant can only trade for itself on our Derivatives Exchange via a trading participant. Associate participants must be corporations with minimum paid-up share capital of RM2.0 million and do not carry on the business of futures broking within Malaysia.

A trading permit holder is an individual issued with a trading permit by us to trade options or futures contracts for a specified term of either six (6) months or 12 months, whilst a market maker is an individual or a corporation that we approve to undertake the obligation of quoting upon request a bid and an offer in respect of any contract or contracts for which the individual or corporation is an appointed market maker, subject to certain conditions such as a minimum quote size and maximum spread.

**12.7.3 Licensing Requirements**

Agents or employees of participating organizations or trading participants must qualify as dealer's representatives or futures broker's representatives, as the case may be, in order to deal on our exchanges. This involves, among other things, obtaining a dealer's representative or futures broker's representatives license, as the case may be. Executive directors of participating organizations who are responsible for the activities related to dealing in securities are also required to obtain such license.

## 12. BUSINESS (cont'd)

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### 12.8 Market Safeguards

Market safeguards are generally a blend of risk management and surveillance techniques designed by us for the protection of our intermediaries and their customers. We seek to ensure that the integrity of the marketplace is maintained at the highest levels and the systemic risks of the marketplace are contained within tolerable levels to create a sustainable business environment. The market safeguards adopted by us seek to ensure sufficient resources are reserved by the intermediaries to meet their future obligations, prevent the accumulation of losses, promptly detect financial and operational weaknesses of intermediaries and protect the clearing systems and the marketplace from any undesirable events.

Our market safeguards are embodied in our rules so as to provide the necessary enforcement powers to regulate the market in a structured manner.

#### 12.8.1 Capital Adequacy Safeguards

- (i) *Bursa Securities.* We impose capital adequacy requirements ("CAR") on participating organizations, requiring them to have sufficient liquid capital to meet their total risk requirements based on its risk exposure. Our CAR comprises minimum levels of financial resources or liquid capital to be maintained by a participating organization given the levels of its exposure to operational, proprietary position, counterparty, large exposure and underwriting risks. Each participating organization is required to maintain a liquid capital of more than 120.0 per cent. of its total risk requirements based on its risk exposure.
- (ii) *Bursa Derivatives.* Trading participants of Bursa Derivatives are also required to meet minimum CAR on an adjusted net capital ("ANC") basis. ANC essentially comprises permitted assets less total liabilities and certain additional deductions, in each case as prescribed by the rules of our Derivatives Exchange. The minimum ANC requirement for trading participants is RM0.5 million or 10.0 per cent. of aggregate margin requirement, whichever is higher.

#### 12.8.2 Margin Trading Safeguards

Under the rules of Bursa Securities, participating organizations may extend credit facilities to their clients for the purchase of securities, subject to certain restrictions and for a period of three (3) months only, with rollover, if necessary.

If the value of the equity falls below 150.0 per cent. of the outstanding balance in the margin account, the participating organization must immediately request its client to top-up the equity so as to restore it to not less than 150.0 per cent. within three (3) Market Days of such request. If the equity falls below 130.0 per cent. of the outstanding balance in the margin account, the rules of Bursa Securities give the participating organization absolute discretion to liquidate the margin position immediately, so that the equity is not less than 150.0 per cent. of such outstanding balance.

**12. BUSINESS (cont'd)**

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The aggregate outstanding balance in the margin accounts maintained by all clients of the participating organization shall not exceed the adjusted capital of the relevant participating organization. Adjusted capital essentially comprises shareholders' funds less all clients' realized losses, proprietary unrealized losses not provided for and shortfall in clients' margin accounts, adding back subordinated debt, as prescribed by the rules of Bursa Securities. A participating organization is not allowed to extend margin facilities to any single client in excess of 30.0 per cent. of its adjusted capital. Margin accounts are not permitted to be used to subscribe for any new issue of securities.

**12.8.3 Call Margin Safeguards**

Bursa Derivatives requires its trading participants to collect outstanding margin call payments from clients within T+3 (being the trade date plus three (3) Market Days), failing which the trading participants are not allowed to accept new orders from the relevant clients which would further increase the margin exposure of those clients.

**12.8.4 Position Limits**

Bursa Derivatives has the ability to impose and enforce compliance with position limits on trading participants in respect of their proprietary positions and positions held in respect of clients. Position limits are determined with reference to the proportion of trading participants' positions to total open positions, net current assets available to a trading participant and the exposure of a trading participant to a single client. Position limits are designed for the purpose of managing liquidity risk as well as a trading participant's susceptibility to default.

**12.8.5 Circuit Breaker**

We introduced a circuit breaker mechanism in March 2002, with the main objective of enhancing market stability and investor confidence. The circuit breaker provides a market-wide approach to manage excessive downward movement of our barometer index, the KLCI, by temporarily halting trading on our Securities Exchange and certain contracts traded on our Derivatives Exchange (the FKLI and OKLI). Other exchanges which have instituted similar market safeguards include the New York Stock Exchange, Sao Paulo Stock Exchange, Korea Stock Exchange and the Stock Exchange of Thailand. The main benefit of the circuit breaker is to provide the opportunity for greater information dissemination for all market participants, including investors, to make well-considered investment decisions.



12. BUSINESS (*cont'd*)

The circuit breaker is triggered automatically when the KLCI declines 10.0 per cent., 15.0 per cent. and/or 20.0 per cent. below its closing index of the previous Market Day. The circuit breaker will be triggered under the following conditions:

<b>Circuit Breaker Trigger Conditions and Trading Halt Duration</b>				
<b>KLCI Decline</b>	<b>9.00 a.m. - before 11.15 a.m.</b>	<b>11.15 a.m.- before 12.30 p.m.</b>	<b>2.30 p.m.- before 3.45 p.m.</b>	<b>3.45 p.m. - 5.00 p.m.</b>
1. KLCI falls by an aggregate of 10.0 per cent. or more but less than 15.0 per cent. of the previous Market Day's closing index.	1 hour	Rest of the trading session	1 hour	Rest of the trading session
2. KLCI falls by an aggregate of or to more than 15.0 per cent. but less than 20.0 per cent. of the previous Market Day's closing index.	1 hour	Rest of the trading session	1 hour	Rest of the trading session
3. KLCI falls by an aggregate of or to more than 20.0 per cent. of the previous Market Day's closing index.		Rest of the trading day		Rest of the trading day

**Note:**

*Trading is done in two (2) trading sessions from 9.00 a.m. to 12.30 p.m. (morning session) and from 2.30 p.m. to 5.00 p.m. (afternoon session).*

The circuit breaker mechanism will only halt trading temporarily when it is triggered. All clearing, settlement and depository operations will function as normal. All unmatched orders keyed in prior to a trading halt will continue to be matched when trading resumes until the trading session closes. As a matter of course, all unmatched orders are removed from the system at the end of a trading session, including where trading is halted for the rest of the trading session. All matched orders will remain valid. No new market orders, with the exception of limit orders (being orders which specify a maximum buy price or minimum sell price) may be entered into SCORE during a halt in trading. Market orders are orders to be executed at any price within the upper and lower limit price. As at January 31, 2005, being the latest practicable date prior to the registration of the Prospectus with the Securities Commission, the circuit breaker has not been triggered since it was introduced in March 2002.

**12.8.6 Market Suspension, Stock Suspension and Price Limits**

- (i) *Market suspension.* Bursa Securities has the power to halt or suspend trading of all securities traded on the market in the event of significant changes to the KLCI, based on the circuit breaker levels as prescribed in Section 12.8.5 (Business — Market Safeguards — Circuit Breaker).
- (ii) *Stock suspension.* Bursa Securities may suspend the trading of listed securities in certain circumstances as specified under its rules, including, in the event of any substantial corporate exercise or capital restructuring of a listed company, or where the listed company makes a material announcement during or before trading hours, in order to maintain an orderly or fair market in securities traded on our Securities Exchange. A listed company may also voluntarily request a suspension of its securities. Examples of situations that warrant a request for suspension of its securities include situations where the listed company intends to make a material announcement or hold a press conference to make a material announcement before the close of trading. The period of suspension that may be approved by Bursa Securities typically ranges from one (1) to three (3) Market Days.

## 12. BUSINESS (cont'd)

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- (iii) *Price limits.* Securities can only be traded within a price range ("Price Limit") during each trading session. The Price Limit is used to control fluctuations in prices of securities due to market forces. For securities traded below RM1.00, the upper and lower price limits are 60 bids to 30 sen rounded to the lowest bid. For securities traded above RM1.00, the upper and lower price limit is 30.0 per cent. higher or lower than the reference price, which is determined based on the time of day that the security is traded and whether it has traded in two (2) consecutive sessions in one (1) trading day. For newly listed securities, the upper and lower limit will be 500.0 per cent. of the listing price.

### 12.8.7 Enforcement Teams and Supervision

We also have in place dedicated teams in charge of compliance, inspection and capital adequacy, that constantly monitor and supervise intermediaries for compliance with our rules and regulations. The teams execute the regulatory functions by means of off-site monitoring and on-site inspection activities. These teams also work closely with the Securities Commission in the enforcement of rules and laws.

### 12.8.8 Other Prescribed Safeguards – Bursa Securities

Bursa Securities also requires participating organizations to comply with several other safeguards as stipulated under its rules. Among these are:

- (i) *Clients' Asset Protection.* All clients' assets are required to be segregated from the participating organization's own assets so as to preserve clients' assets in the event a participating organization is in financial distress.
- (ii) *Dealings with Clients' Monies.* We monitor participating organizations' dealings with clients' monies to enhance investors' confidence. In this regard, the participating organizations are required to establish and keep in licensed banking institutions one (1) or more trust accounts designated or evidenced as such into which the participating organizations shall pay all such amounts held on behalf of clients not later than the next bank business day on which the monies were received.
- (iii) *Establishment of Compensation Fund.* We have set up a compensation fund to be applied for the purpose of compensating a person suffering a monetary loss as a result of a defalcation, or of fraudulent misuse of monies or other property, by a director, officer, employee or representative of a licensed dealer that is at that time a participating organization or in case of an insolvency of a participating organization. Participating organizations contribute a specified sum annually towards the compensation fund. See Section 12.14(i) (Business — Compensation Funds — Compensation Fund of Bursa Securities).
- (iv) *Gearing Ratio.* We impose gearing ratio requirements whereby a participating organization is required to maintain a gearing ratio of not more than 2.5 times on the basis of the participating organizations' level of borrowings measured against its adjusted capital. The gearing ratio prescribed above shall not apply to a Universal Broker provided that the Universal Broker shall at all times maintain a core capital of not less than RM500.0 million.

**12. BUSINESS (cont'd)**

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- (v) *Maximum Exposure Limits.* We impose a maximum exposure limit on a participating organization's exposure to any particular security in respect of trading and margin financing as well as exposure to any particular client in respect of trading and margin financing.
- (vi) *Proper Supervisory Program and Internal Controls.* We require participating organizations to implement a supervisory and compliance system and internal controls to generally supervise the overall running of their business activities and to supervise the activities of each registered dealer's representative, agent and other personnel. It is envisaged that the implementation of proper management controls and diligent management practices by participating organizations will enhance the credibility and reputation of all intermediaries and protect investors.
- (vii) *Compliance Officer.* In tandem with a supervisory program, the rules of Bursa Securities require participating organizations to engage a compliance officer to ensure that their activities are in compliance with the provisions of applicable laws, rules and regulations. It is envisaged that the compliance officer will act as a deterrent against wrongdoing by participating organizations and provide the necessary foundation for the protection of investors' interests in the market.
- (viii) *Internal Audit Department.* Participating organizations are also required to maintain an independent internal audit department and have adequate audit policies and resources for the purposes of examining, evaluating and reporting on the adequacy and efficiency of the participating organization's management, operations and internal controls. In maintaining its independence, the internal audit department, (which can also be maintained at the participating organization's holding company level for participating organizations that are not Universal Brokers), is required to report directly to the audit committee of the participating organization or its holding company.
- (ix) *Prescribed Standard Treatment of Interest in Suspense and Provision for Bad and Doubtful Debts.* These standards set an objective approach to ensure consistency in the recognition of interest income on non-performing accounts and the provision for bad and doubtful debts. They also require compliance by participating organizations with a set of minimum standards for classification of non-performing accounts, the treatment of interest charged on non-performing accounts, specific provisions for bad and doubtful debts, general provisions for bad and doubtful debts, and re-classification of non-performing accounts.

**12.8.9 Other Prescribed Safeguards – Bursa Derivatives**

The rules of Bursa Derivatives also have similar provisions and safeguards to that of Bursa Securities with regard to the matters set out above under the headings "Clients' Asset Protection, Dealings With Clients' Monies, Establishment of Compensation Fund (called a "Fidelity Fund" in the case of Bursa Derivatives (see Section 12.14(ii) (Business — Compensation Funds — Fidelity Fund of Bursa Derivatives)), Proper Supervisory Program and Internal Controls and Compliance Officer".

**12. BUSINESS (cont'd)**

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**12.9 Trading Systems**

We introduced computerization to our trading systems in 1987, when our Securities Exchange first started to broadcast the buy, sell and last done prices electronically from the trading floor. Prior to that, buy, sell and last done information was relayed from the trading floor to stockbroking offices by telephone. In 1989, our Securities Exchange introduced a semi-automated trading system. Securities previously traded through open-outcry environment on our Securities Exchange's trading floor were phased into the semi-automated trading system in stages. The last group of securities migrated from the open-outcry to the semi-automated trading system in January 1990. In the last quarter of 1992, we implemented a fully automated trading system to replace the semi-automated trading system. Our fully automated trading system is known as SCORE.

We have also developed or assisted in the development of a number of automated systems to facilitate trading, with the key systems being the WinSCORE system (broker front-end trading system) and the LINK system (online and web-enabled company disclosure system). Furthermore, we allow connectivity to WinSCORE by brokers so long as they comply with our guidelines, which is known as the Electronic Client Ordering System Code ("ECOS 2 Code").

We are planning to set up a cross-trading link with the SGX-ST to enable participating organizations in Malaysia and brokers in Singapore to electronically trade shares listed on both the SGX-ST and our exchanges. The linkage is expected to be launched by the end of 2006. We are also exploring derivatives trading links with the SGX-ST and the sharing of information technology services such as data centers and back-up facilities.

We are in the process of implementing our CTP, which will replace the technology of our existing disparate trading platforms. The CTP comprises both new hardware and application software that provide an integrated platform to trade on our Securities Exchange and Derivatives Exchange. The CTP will also support ancillary systems such as market surveillance and access systems.

CTP implementation relating to our exchanges is being done in three (3) major phases. They are as follows:

- (i) *Phase 1.* We expect our new derivatives trading system to be implemented by the second quarter of 2005. Upon implementation, our existing derivatives trading system (KATS) will be replaced by the CTP trading system.
- (ii) *Phase 2.* We expect our new securities trading system to be implemented by the fourth quarter of 2005. Upon implementation, we will have a common trading system for derivatives and securities. However, trading participants and participating organizations will continue to have separate derivatives and securities front-end trading systems.
- (iii) *Phase 3.* We are targeting implementation of our new common broker front-end system for both derivatives and securities trading in 2006.

**12. BUSINESS (cont'd)**

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AtosEuronext, one (1) of the leaders in IT systems for exchanges, is the supplier and licensor of our CTP software and advises on the implementation of the CTP. AtosEuronext is co-owned by AtosOrigin and Euronext. AtosOrigin is one (1) of the largest IT consulting firms in the world. Euronext is one (1) of the largest exchanges in the world and operates the exchanges of Paris, Brussels, Amsterdam, Lisbon and LIFFE.

We believe that the CTP, once implemented, will be comparable to the trading technology and systems in place at leading exchanges in the world and will:

- (i) provide us with new opportunities to increase Turnover Velocity;
- (ii) standardize the trading platforms for securities and derivatives;
- (iii) allow potential new revenue streams through the introduction of new services and products; and
- (iv) permit participating organizations to keep pace with global practices through the use of the front end trading systems of their choice.

There are certain risks involved in the implementation of our CTP. See Section 4.1.7 (Risk Factors — Risks Relating to Our Business — There are risks associated with the implementation of our CTP). To minimize the risks arising from the implementation of our new CTP, we will be performing extensive testing on our CTP, which includes both external and internal users, prior to implementing the CTP.

**12.9.1 Securities trading**

Trading on our Securities Exchange takes place on a fully automated trading system known as SCORE. Our Securities Exchange has no trading floor. Working alongside our SCORE system is our real-time price dissemination system known as Maklumat Saham (“MASA”) which is responsible for the real-time dissemination of market information to the industry. Investors place orders through their respective participating organizations who in turn enter the orders through WinSCORE systems installed in their respective offices. The WinSCORE system is the participating organizations front-end trading system for securities trading. WinSCORE workstations are located at all participating organizations sites and are linked directly to our central computers located at our main and disaster recovery data centers. Orders entered into WinSCORE workstations are electronically routed to the central SCORE system via the exchange operated Wide Area Network infrastructure. These orders are matched automatically in SCORE and the trade confirmations are sent to the respective participating organizations’ WinSCORE systems on a real-time basis. SCORE maintains an order book for every traded security and matches buy and sell orders. Each order in the order book has a limit price which is the highest price (for a buy order) or lowest price (for a sell order) at which an order can be executed. When entering an investor’s order, participating organizations must key in the investor’s trading account which has been opened with the participating organization. Each investor’s trading account is linked to its CDS account. See Section 12.10.1 (Business — Clearing and Settlement — Bursa Securities Clearing). Investors are not restricted to a single participating organization but may trade with any of our participating organizations.

## 12. BUSINESS (cont'd)

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The WinSCORE system comprises several modules which allow a dealer to enter and confirm orders and to view the status of orders, real-time market information and trades done, among other things. The system also has a comprehensive credit limit checking capability and has trading operation control features which help the participating organizations to manage their trading risk. As at September 30, 2004 and December 31, 2004, there were approximately 8,900 and 9,000 WinSCORE workstations, respectively, installed nationwide.

In 2002, board lots were standardized to 100 units from previous multiple board lots of 1,000 units, 200 units and 100 units. This initiative was implemented to reduce confusion among investors and enable easier computation of prices for investors and comparisons of portfolio value. As a result, the number of odd lots was reduced significantly. Odd lot orders may be entered on a separate odd lot screen.

As to the effect of CTP on our securities trading, see Section 12.9.3 (Business — Trading Systems — Effect of CTP).

### 12.9.2 Derivatives trading

Trading on our Derivatives Exchange currently takes place on a fully automated trading platform known as the KLOFFE Automated Trading System, or KATS. Our Derivatives Exchange has no trading floor. As with trading on our Securities Exchange, trading participants enter orders into KATS front-end computer workstations installed in their offices which are linked directly to our computer systems. The orders are matched electronically in KATS, and confirmations are sent to the trading participants immediately. KATS maintains an order book for every type of instrument traded and matches buy and sell orders. When entering an investor's order, the trading participants must key in the investor's trading account which has been opened with the trading participant.

Derivatives are traded on a per contract basis. The KATS screen displays the quantities of options and futures on offer at the various prices on the buy and the sell side. Quantities over the full range of prices are displayed so that trading participants have a full picture of demand for the type of contract. Only the aggregate demand at each price, and not quantities ordered by individual trading participants, are displayed on the KATS screen. Price increments vary based on the price of the options or futures contract. At a given price, orders to purchase at market price have priority over orders subject to a price limit. Thereafter, matches are done on a first-come first-served basis.

The KATS screen also includes other information about each type of option and futures, such as the day's cumulative volume, the last traded price and recent price highs and lows. Because of the amount of information available on KATS, the system also functions as an on-line reference source accessible by market participants.

Trading participants generally have a number of KATS terminals, each of which operates independently. As at September 30, 2004 and December 31, 2004, our KATS system supported simultaneous access by more than 286 and 282 users, respectively. Trading participants are charged for the access.

## 12. BUSINESS (cont'd)

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### 12.9.3 Effect of CTP

Following the implementation of CTP, there will be one (1) common trading system and real-time dissemination system that supports the securities and derivatives markets. Although initially the broker front-end trading system will remain separate for derivatives and securities, we expect that there will be an integrated front-end trading system by the end of 2006. By the end of 2006, we plan to implement an Open Application Programmable Interface concept where participating organizations will be able to implement an access system of their choice where they presently cannot do so. Thus the WinSCORE and KATS workstations and terminals will eventually be replaced. The new system, besides providing us with the ability to introduce new products in a relatively short period of time, also has additional trading control functionalities not currently available to us, such as the ability to set dynamic price limits. This will help us in our aim to maintain a fair and orderly market.

### 12.9.4 Fees and Charges

We charge brokers a fixed fee based on the number of WinSCORE workstations they have. In relation to derivatives trading, we charge brokers a fixed fee on a "per session" basis. A broker may choose to buy a pre-set number of sessions, which represent the number of traders that may be linked to our trading system at any one (1) time.

## 12.10 Clearing and Settlement

### 12.10.1 Bursa Securities Clearing

Bursa Securities Clearing clears and settles equities transactions executed on our Securities Exchange. Such transactions are subject to the following fees:

- (i) for each on-market transaction ("OMT"), being a trade executed on SCORE, the Securities Exchange automated trading system, we charge an OMT clearing fee payable by both buyer and seller. The fee is 0.04 per cent. of the contract value, subject to a maximum of RM200 per contract. For the year ended December 31, 2004 and the nine (9) months ended September 30, 2004, the effective OMT clearing fee rate was 0.0266 per cent. and 0.0269 per cent., respectively;
- (ii) for each direct business transaction ("DBT"), being a trade executed outside SCORE, the Securities Exchange automated trading system, we charge a DBT clearing fee payable by both buyer and seller. The fee is 0.04 per cent. of the contract value, subject to a minimum of RM10 and a maximum of RM200 per contract. For the year ended December 31, 2004 and the nine (9) months ended September 30, 2004, the effective DBT clearing fee was 0.0096 per cent. and 0.0097 per cent., respectively; and
- (iii) an ISS fee of RM25 is payable by non-trading clearing participants on each ISS confirmation and/or affirmation.

**12. BUSINESS (cont'd)**

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A proportion of the OMT and DBT clearing fees we collect are payable to the Securities Commission. The rest of the fees are shared between Bursa Securities, Bursa Securities Clearing and Bursa Depository. Based on the percentage of such fee income that the applicable legislation requires us to pay to the Securities Commission, the effective proportion of our clearing fee income currently payable to the Securities Commission is 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. ISS fees are shared between Bursa Securities Clearing and Bursa Depository. A substantial portion of our clearing fee income comes from OMT clearing fees, as there are fewer DBTs.

*Clearing process.* Bursa Securities Clearing has two (2) categories of clearing participants: trading clearing participants (comprising stockbroking companies, which are participating organizations of Bursa Securities) and non-trading clearing participants. Non-trading clearing participants must be ADMs of Bursa Depository that include financial institutions and resident custodian banks that are allowed to report, clear and settle securities directly with Bursa Securities Clearing.

Bursa Securities Clearing operates on an “assured payment” environment for OMTs where securities delivered are assured of payment by the clearing house. Bursa Securities Clearing is potentially exposed to financial losses should a clearing participant default although this exposure is generally limited by the ability of the clearing house to net off amounts payable to and due from each clearing participant. Netting efficiency for the year ended December 31, 2004 and the nine (9) months ended September 30, 2004 was maintained at approximately 83.0 per cent. On March 18, 1998, a clearing participant defaulted on a payment of RM9.7 million to Bursa Securities Clearing. However, this loss caused no market disruption and was subsequently recovered in full from the clearing participant on October 17, 2000, following its acquisition by another company. There have not been any other cases of payment default since Bursa Securities Clearing commenced operations in 1984.

*Settlement process.* Trades transacted on Bursa Securities on a “ready basis” are settled by Bursa Securities Clearing on the third Market Day following the date of contract (T+3). Trades matched on Bursa Securities are locked-in on trade day, and trading clearing participants are only permitted to amend errors relating to a client’s securities account number up to 8.00 p.m. on trade day.

Not later than 9.00 a.m. on T+3, Bursa Depository performs book-entry delivery of securities between CDS accounts of affected buyers and sellers. In the event the seller account does not have sufficient securities for settlement, Bursa Securities Clearing institutes automatic buying-in on T+3. Bursa Securities Clearing pays the net selling clearing participants by 10.00 a.m. on T+3. The net buying clearing participants also make payment to Bursa Securities Clearing by 10.00 a.m. on T+3.



**12. BUSINESS (cont'd)**

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*Safeguards to maintain integrity.* Bursa Securities Clearing is responsible for ensuring the integrity of the clearing and settlement system. To achieve this, various risk management measures have been incorporated into its business and operational processes, such as:

- (i) *Stringent admission criteria.* As the first level of protection, prospective clearing participants must meet the minimum criteria set, which include financial integrity and systems capability, before being admitted as a clearing participant.
- (ii) *Comprehensive participation standards.* Upon meeting the admission criteria, the clearing participants must conform at all times to the minimum participation standards, which include financial integrity and operational capabilities.
- (iii) *Regular compliance audits.* Regular audits are conducted to ensure that the clearing participants conform to the participation standards.
- (iv) *Clearing Guarantee Fund.* Subject to approval by the Securities Commission, a clearing guarantee fund will be set up to provide Bursa Securities Clearing with the necessary financial resources to eliminate or mitigate systemic risk in the event of default in settlement obligations by clearing participants. See Section 12.14(iv) (Business — Compensation Funds — Other Funds).

*Clearing and settlement cycle.* We implemented a T+3 settlement cycle in December 2000. Prior to that it was T+5 and prior to 1997, it was T+7.

*Buying-in market.* Bursa Securities institutes automatic buying-in, on behalf of Bursa Securities Clearing when a defaulting clearing participant does not meet its delivery obligations on settlement date. On the day of buying-in, Bursa Securities enters a list of securities to be bought-in into SCORE at 8.30 a.m., naming the security, the number to be bought, the trade and the price. The price bid begins at 10 minimum bids above the closing price of the previous day, or the closing price of the previous trading session whichever is the higher. The delivery of securities which have been bought-in occurs on the date of buying-in itself. Cash settlement for buy-in trades occurs on the next Market Day following the date of the buying-in contract. Trades that were subjected to buying-in for 2003 and 2004 were less than 0.1 per cent. of total trades in terms of both value and volume traded.

Bursa Securities Clearing will charge the defaulting clearing participant the purchase consideration for the securities purchased under the buying in. Bursa Securities imposes a levy on the relevant participating organization in respect of its failure to discharge its delivery obligations.

## 12. BUSINESS (cont'd)

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### 12.10.2 Bursa Derivatives Clearing

Bursa Derivatives Clearing clears and settles derivatives transactions executed on our Derivatives Exchange. Such transactions are subject to the following fees:

- (i) a clearing fee payable by the buyer and seller of RM1 for each contract;
- (ii) a tender fee of RM20 per contract for physical settlement of FCPO; and
- (iii) a cash settlement fee of RM1 per contract at expiry.

In addition, Bursa Derivatives Clearing also charges:

- (i) a 2.0 per cent. per annum deduction from the interest earned on clearing participant's cash deposits with Bursa Derivatives Clearing; and
- (ii) a guarantee fee equal to 0.5 per cent. per annum of a clearing participant's margin requirements.

*Clearing process.* Bursa Derivatives Clearing has two (2) categories of clearing participants: general clearing participants (comprising futures brokers who are allowed to execute and clear futures and options trades for their own account and on behalf of clients) and direct clearing participants (which can clear proprietary positions directly with Bursa Derivatives Clearing). Direct clearing participants must however execute their trades through a futures broker. Derivatives trades executed on Bursa Derivatives are cleared through the Derivatives Clearing System ("DCS"). The clearing process begins with the matching of trades. Once the trades are matched, the trades are registered with the DCS and Bursa Derivatives Clearing, through novation, becomes a counterparty to each side of the transaction, thus guaranteeing performance to the participants on each side of the trade. By providing a counterparty guarantee to its clearing participants, Bursa Derivatives Clearing is potentially exposed to financial losses should a clearing participant default. We have not had any occurrence of such financial loss to date.

*Margin.* The collection of margin on all positions held by a clearing participant is fundamental to the operations of Bursa Derivatives Clearing to protect itself against losses arising from a clearing participant's default. The margin level is set to cover the maximum reasonably foreseeable one (1) day's price movement with a confidence factor of at least 99.0 per cent.. It is based on historical price volatility, current and anticipated market conditions, and other risk factors. The level is monitored daily and may be adjusted to reflect changes in contract prices, movements in prices of underlying assets and other factors.

Bursa Derivatives Clearing adopts a gross margining concept where each client account of a clearing participant is margined separately, whereas the proprietary position of a clearing participant is margined on a net basis. Bursa Derivatives Clearing also allows margin offsets for spread positions within the same account.

**12. BUSINESS (cont'd)**

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The DCS separately accounts for a clearing participant's cash, collateral and position from those of the clearing participant's clients. This is in compliance with the Futures Industry Act, which requires clients' funds to be segregated and separately accounted for from the futures brokers' own funds.

Bursa Derivatives Clearing uses the TIMS developed by the Options Clearing Corporation in Chicago, US to generate the margin obligation for each account of a clearing participant. TIMS calculates margins on a portfolio of contracts using a risk-based formula, which allows offsets against futures and options positions on the same underlying asset or different underlying assets with high price correlation.

Bursa Derivatives Clearing has on January 28, 2005 established an infrastructure for the lodging of shares as margin collateral for derivatives trading on our Derivatives Exchange. The designation of selected shares as approved collateral to be lodged by clearing participants enabled clients to lodge these shares with the clearing participants as margin collateral for derivatives trading. This facility widens the breadth of non-cash collateral that can be used for derivatives trading and complements the investment objectives and strategies of various investors by allowing investors to deposit a mixture of liquid and non-liquid assets as initial margin collateral.

*Settlement-to-market.* All open contracts are revalued daily against a settlement price determined by Bursa Derivatives Clearing and the resulting profits and losses are immediately posted to the accounts of the clearing participants. Amounts due from clearing participants arising from this process are required to be paid by the respective clearing participants in cash before the start of trading on the next Market Day. Bursa Derivatives Clearing's exposure to risk is thus limited to a maximum one-day price movement, which, in turn, is addressed through the collection of margin.

*Security Deposit and Clearing Fund.* Bursa Derivatives Clearing has recourse to security deposits which may be used if the clearing participant defaults in making any payment to Bursa Derivatives Clearing. Each clearing participant is required to lodge a security deposit of at least RM1.0 million in the form of cash or letter of credit with Bursa Derivatives Clearing. The total amount of security deposits held by Bursa Derivatives Clearing amounted to RM14.0 million as at September 30, 2004 and December 31, 2004.

Bursa Derivatives Clearing also maintains a clearing fund as further protection against losses suffered by it as a result of the failure or omission by any clearing participant, bank or clearing house organization to perform any of its financial obligations. Currently, the clearing fund consists of clearing participants' fixed contributions of RM1.0 million each, amounting to RM14.0 million as at September 30, 2004 and December 31, 2004. In addition to the fixed contributions, Bursa Derivatives Clearing may require the clearing participants to make a variable contribution which is determined on a monthly basis based on the size of the derivatives market. To date, Bursa Derivatives Clearing has not requested any variable contribution to the clearing fund. A clearing participants' variable contribution will be calculated based on its total margin obligations as a proportion of the sum of all clearing participants' margin obligations.

## 12. BUSINESS (cont'd)

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*Default and emergency actions.* Under its rules and pursuant to the Futures Industry Act, Bursa Derivatives Clearing has a number of recourses available to it in dealing with default or emergency situations. These include the right to liquidate and/or novate rights and obligations under the open contracts of clearing participants and the right to liquidate and apply any approved collateral, margin deposits, clearing fund, securities deposit, and all other assets of the defaulting clearing participant available to Bursa Derivatives Clearing. We have not exercised these powers to date.

In the event that the defaulting clearing participants' assets are insufficient to cover such participants' obligations to Bursa Derivatives Clearing, Bursa Derivatives Clearing may draw on the following financial resources in the following order to satisfy such obligations:

- (i) funds of Bursa Derivatives Clearing as determined by it to be in excess of funds required for normal operations; and
- (ii) the clearing fund of Bursa Derivatives Clearing as set out in "Security Deposit and Clearing Fund" above.

### 12.10.3 Effect of Insolvency Laws

Existing insolvency laws would ordinarily have an impact on the enforceability of our clearing houses' rules in the context of the insolvency of a clearing participant and a participating organization. The most pervasive impact of insolvency laws is with regard to the validity of transactions entered into by an insolvent clearing participant and an insolvent participating organization. In Malaysia however, legislation has been put in place to allow the rules of securities clearing entities (but not derivatives clearing entities) to take precedence over provisions of insolvency laws relating to the distribution of the assets of a person and appointment of a relevant office holder over the assets of a person. The legislation in place also prohibits the application of certain provisions relating to bankruptcy and insolvency of companies, in particular, provisions dealing with disclaimer of property and rescission of contracts. See Section 4.1.18 (Risk Factors — Risks Relating to Our Business — We are exposed to the risk of default by clearing participants and our rights in an insolvency of a clearing participant may be subject to insolvency laws).

### 12.11 Bursa Depository

As at September 30, 2004, 99.8 per cent. of all securities listed on our Securities Exchange are immobilized. Bursa Depository is our central depository for securities listed on our Securities Exchange and holds securities in custody on behalf of its depositors. It is mandatory for such listed securities to be deposited with Bursa Depository. Securities eligible for deposit in the CDS are registered in the name of our nominee, Bursa Depository (N) which acts as bare trustee of the securities. Other depository services provided by Bursa Depository include issuance of periodic statements to account holders on securities account balances; entries made to their securities account; deposit of securities; transfer of securities; withdrawal of securities; and book-entry for trade settlement. Bursa Depository also facilitates crediting of securities for initial public offerings, rights and bonus issues; effects the redemption of debt securities; and issues records of depositors to share registrars or issuers of securities upon request.

## 12. BUSINESS (cont'd)

All investors who wish to trade on our Securities Exchange must open an account with Bursa Depository, through an ADA. ADAs are participating organizations appointed by Bursa Depository to provide CDS facilities and services to the investing public. In addition to ADAs, certain institutions are permitted to open and operate their CDS accounts directly with

Bursa Depository as ADMs. Institutions such as banks, finance and insurance companies can opt to become ADMs. As at December 31, 2004 and September 30, 2004, there were 3.4 million CDS accounts.

One of Bursa Depository's current initiatives is the proposed new E-Rapid service. E-Rapid will allow internet-based interface between our CDS, ADAs, ADMs, share registrars, issuing houses and public listed companies. Subject to the Securities Commission's approval, this will replace the current system of transferring data manually by computer tapes for corporate exercises (such as rights and bonus issues), which will enable us to shorten the current processing time, reduce human error and will allow us to increase the fees we charge for certain depository services. Following the introduction of E-Rapid, we will consider the implementation of other ancillary services.

For our depository services, we currently charge, among other things, the following fees:

- (i) a record of depositors fee payable by issuers of securities of RM0.10 per CDS account holder per request;
- (ii) a CDS fee payable by ADMs and ADAs of RM0.04 per 1,000 securities per year, calculated on the average monthly closing balance of accounts. We have waived payment of this fee by ADAs since 1996. However, we intend to reinstate CDS fee charged to ADAs' principal and wholly-owned nominees accounts effective April 2005;
- (iii) a transfer fee payable by depositors of RM10 per transfer, with a 25.0 per cent. rebate to ADAs;
- (iv) an initial public offering fee payable by issuers of securities of RM2 for each CDS account holder allotted securities pursuant to the initial public offering; and
- (v) an additional issue fee payable by issuers of securities of RM2 for each CDS account holder allotted new securities (including pursuant to rights issues and bonus issues).

The fees we receive for records of depositors are the largest contributor to the aggregate fees we receive for depository services, comprising 36.5 per cent. of such fees for the year ended December 31, 2003, 38.1 per cent. of such fees for the nine (9) months ended September 30, 2004 and 36.0 per cent. of such fees for the year ended December 31, 2004.

## 12. BUSINESS (cont'd)

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### 12.12 Regulation and Compliance

The Securities Commission is the primary regulator of the securities and futures markets. Empowered by a body of legislation, the Securities Commission has supervisory, investigative and enforcement functions to promote and maintain a secure and transparent securities and futures market. The Securities Commission also advises the Minister of Finance on all matters relating to the securities and futures industry. See Section 13 (Regulation).

We have a statutory duty to ensure an orderly and fair market in the securities that are traded through our facilities. We monitor the conduct of our participants and enforce the rules of our subsidiaries against them for any detected non-compliance. We also enforce the Bursa Securities LR which stipulate, among other things, the listing and disclosure standards to be maintained by companies listed on our Securities Exchange. We are also responsible for the surveillance of the securities and derivatives market to monitor compliance with our rules.

Generally, our activities are supervised and monitored by the Securities Commission, including with respect to listing, trading, clearing, settlement and depository operations and regulation. We are required by law to submit to the Securities Commission an annual regulatory report on compliance under the Securities Industry Act during each financial year. See Section 13 (Regulation).

Our regulatory activities are independent of our commercial activities so as to limit potential or perceived conflicts of interest. We have established the following five (5) committees (the members of which are appointed by our Board of Directors annually) to make significant regulatory decisions, other than those related to our Offshore Exchange, which has its own committees that are independent of the committees below. See Section 13.2 (Regulation – LFX):

- (i) *Listing Committee.* Our listing committee is responsible for, among other things, hearing cases and making decisions relating to Bursa Securities LR and making other major regulatory decisions related to listing and comprises one (1) public interest director, our Chief Executive Officer, one (1) independent non-executive director, one (1) non-independent non-executive director and four (4) independent individuals with relevant experience.
- (ii) *Participation Committee.* Our participation committee is responsible for matters relating to the registration of our participants and certain regulatory matters in relation to rules of our subsidiaries (other than enforcement actions) and comprises one (1) public interest director, one (1) independent non-executive director, one (1) non-independent non-executive director, our Chief Executive Officer, our Chief Financial Officer and our Chief Regulatory Officer.
- (iii) *Disciplinary Committee.* Our disciplinary committee is responsible for hearing cases and making decisions relating to rules of our subsidiaries other than Bursa Securities LR and comprises one (1) public interest director, one (1) independent non-executive director and three (3) independent individuals with relevant experience.
- (iv) *Compensation Committee.* Our compensation committee is responsible for deciding on claims made against our compensation funds and comprises two (2) public interest directors, one (1) independent non-executive director and two (2) non-executive shareholder directors. See Section 12.14 (Business — Compensation Funds).

## 12. BUSINESS (cont'd)

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- (v) *Appeals Committee.* Our appeals committee (whose members must not be involved in any of the regulatory committees described above) is responsible for hearing and deciding on appeals from decisions of the regulatory committees described above with the exception of decisions made by the compensation committee in relation to claims made under the compensation funds for Bursa Securities and Bursa Derivatives. Our appeals committee comprises the chairman of our Board of Directors, one (1) public interest director, one (1) independent non-executive director, one (1) non-independent non-executive director and two (2) distinguished individuals with relevant experience.

Fines collected pursuant to enforcement actions form part of our revenue. From such revenue, we make an equivalent provision for expenditures for education and training provided to industry participants and the maintenance of public information centers.

### 12.13 Other Divisions

#### 12.13.1 Group regulation

In line with our statutory duties to ensure an orderly and fair market in the securities that are traded through our facilities and to ensure compliance by intermediaries and listed companies with the rules of our subsidiaries, we have established a group regulation division. Among other things, the division is responsible for:

- (i) overseeing the listing approval process of companies and monitoring their compliance with the Bursa Securities LR;
- (ii) taking enforcement actions for breaches of the Bursa Securities LR;
- (iii) supervising and monitoring activities of intermediaries in the Securities Exchange and Derivatives Exchange; and
- (iv) carrying out surveillance and investigation of trading and market activities on both Securities Exchange and Derivatives Exchange.

#### 12.13.2 Legal Advisory and Corporate Legal Affairs

Our legal advisory and corporate legal affairs division is involved in rule development, general advisory functions and enforcement. In particular, it is responsible for:

- (i) development of rules and policies relating to listing, trading, clearing, settlement, depository and participating eligibility in respect of the securities and futures markets operated by us;
- (ii) provision of legal advice on regulatory matters;
- (iii) taking enforcement actions for breaches of the rules of our subsidiaries other than the Bursa Securities LR;

## 12. BUSINESS (cont'd)

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- (iv) processing of certain applications/claims made pursuant to the securities laws and rules;
- (v) provision of corporate legal services; and
- (vi) provision of corporate secretarial and compliance services.

### 12.14 Compensation Funds

We maintain three (3) compensation funds, namely the Compensation Fund of Bursa Securities, the Fidelity Fund of Bursa Derivatives and the Compensation Fund of Bursa Depository, to compensate investors who have suffered losses falling within circumstances specified in the Securities Industry Act, the Futures Industry Act and the Rules of Bursa Depository, respectively. The funds are administered by our Compensation Committee (see Section 12.12(iv) (Business — Regulation and Compliance — Compensation Committee)). Other than the Compensation Fund of Bursa Depository, the other funds are accounted for separately from our own assets.

- (i) *Compensation Fund of Bursa Securities.* This fund comprises contributions from participating organizations and Bursa Securities and a pledge by the Securities Commission. As at September 30, 2004 and December 31, 2004, the fund totaled RM247.1 million and RM251.8 million, respectively (excluding the pledge which may be made available by the Securities Commission). Criteria for compensation are that (i) the claimant has suffered a monetary loss; (ii) such loss is due to a defalcation or the fraudulent misuse of monies or other property by a director, officer, employee or representative of a participating organization or the insolvency of a participating organization; (iii) such loss is suffered in respect of monies or other property relating to such participating organization's dealing in securities; and (iv) such monies or other property was entrusted to or received by such participating organization (or its director, officer, employee or representative) for or on behalf of such claimant or another person or because such participating organization was trustee of such monies or property. The maximum compensation payable to a claimant is RM0.1 million per claim, however we have the absolute discretion to increase this amount on a case to case basis. A total of RM0.2 million was paid out of the Compensation Fund of Bursa Securities in 2003 and 2004.
- (ii) *Fidelity Fund of Bursa Derivatives.* This fund comprises contributions from trading participants. As at September 30, 2004 and December 31, 2004, the fund totaled RM11.0 million. There is no obligation on Bursa Derivatives to consider a claim unless it is satisfied that the claimant has made all efforts (other than court action) to recover his loss from the relevant trading participant. Criteria for compensation are that (i) the claimant has suffered a monetary loss; (ii) such loss is due to a defalcation or the fraudulent misuse of monies or other property by a director, officer, employee or representative of a trading participant; (iii) such loss suffered is in respect of monies or other property relating to such trading participant's trading in futures contracts; and (iv) such monies or other property were entrusted to or received by such trading participant (or its director, officer, employee or representative) for or on behalf of such claimant or another person or because such trading participant was a trustee of such monies or property. The maximum compensation payable in respect of a trading participant is RM0.5 million provided that if the aggregate of all claims against a trading participant exceeds RM0.5 million the compensation shall be apportioned between claimants.



## 12. BUSINESS (cont'd)

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- (iii) *Compensation Fund of Bursa Depository.* This fund comprises cash assets, which are currently capped at RM50.0 million. Compensation may be made for (i) computer crimes involving theft or criminal damage to computer systems; (ii) theft, damage, falsification or alteration of records or data within such computer systems; (iii) stolen or missing scrips under Bursa Depository's physical control; (iv) fire or theft of records in vaults, premises or warehouses of Bursa Depository; (v) professional negligence of Bursa Depository's employees or servants; (vi) public liability claims; and (vii) infidelity of Bursa Depository's employees through dishonest or fraudulent acts, among other matters. The maximum compensation payable to a claimant is RM0.1 million per claim, subject to increase at our absolute discretion on a case to case basis.
- (iv) *Other Funds.* We intend to establish a clearing guarantee fund for Bursa Securities Clearing to be applied in respect of the obligations and liabilities of Bursa Securities Clearing arising out of market contracts. The fund is proposed to be in the amount of RM100.0 million and to be established by the end of 2005, subject to approval by the Securities Commission. Pending establishment of this proposed fund, we have committed a stand-by facility of up to RM200.0 million to meet Bursa Securities Clearing's clearing obligations.

See also Section 12.10.2 (Business — Clearing and Settlement — Bursa Derivatives Clearing — Security Deposit and Clearing Fund) for a description of the clearing fund of Bursa Derivatives Clearing.

Monetary Exchange ceased operations on December 7, 1998 following the merger of its futures exchange operations with the operations of its then holding company, COMDEX. Monetary Exchange has remained a dormant company since then and we are considering winding-up the company by means of a voluntary winding-up process. The voluntary winding up process is expected to commence in the second quarter of 2005. The fidelity fund of Monetary Exchange amounting to RM1.1 million as at September 30, 2004 and December 31, 2004, will upon the completion of the winding-up, be transferred to the fidelity fund of Bursa Derivatives. There are no pending claims against the fidelity fund of Monetary Exchange and it is no longer possible to lodge any claims against the fund due to the time bar imposed by the Futures Industry Act.

### 12.15 Information Services

Bursa Information aims to leverage and maximize the potential of our intellectual resources. Bursa Information compiles and disseminates comprehensive market information, both real time and historical, and develops and markets information products and services. It offers:

- (i) information on prices, volumes and indices for securities listed on our exchanges on a real time or delayed basis;
- (ii) historical data services and products, including company database information, stock indices, market valuation data, financial ratios, as well as announcements by listed companies; and
- (iii) periodic updating services for subscribers.

## 12. BUSINESS (cont'd)

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Target customers include participating organizations, institutional investors, private investors, academia, the media, news information vendors, government bodies and the investing public. Bursa Information is also developing a range of new information products and services, including a group information portal offering e-commerce real time and value added market information services, e-data services and investor relations platform services for companies listed on our Securities Exchange.

### 12.16 Grants

In 1998, the Securities Commission gave a grant of RM8.0 million to Bursa Derivatives Clearing to undertake various developmental activities, particularly on the enhancement of the risk management capabilities of Bursa Derivatives Clearing to promote the financial integrity of the Malaysian derivatives market. As at September 30, 2004, approximately RM2.8 million of the grant has yet to be recognized as revenue.

### 12.17 Competition

We currently operate the only exchanges, clearing houses and depository in Malaysia. Consequently, we do not face any direct competition for listing applicants or for investors in listed securities in Malaysia. Beyond Malaysia however, we do compete to some extent with regional exchanges such as the SGX-ST, for listing applicants.

We compete to a greater extent with other exchanges for investors. In the case of investors in securities, competition for investors is largely a factor of how attractive the securities listed on our exchanges are, and is also dependent on prospects for Malaysia as a whole. Although these are factors beyond our control, we seek to attract investors to our exchanges by aligning our practices, and those of the companies listed on our Securities Exchange, with international standards and best practices.

Our lower market liquidity and Turnover Velocity relative to other comparable exchanges is partly due to the lower free float of some of our largest listed companies, lower participation from retail investors and the negative effect that capital controls implemented in 1998 continue to have on prospective foreign investors.

While barriers to entry are high in relation to our Securities Exchange business (including our clearing and settlement and depository businesses), our derivatives exchange business is more open to competition. We therefore focus on maintaining the attractiveness of our key derivative products and regularly consider the introduction of new products to maintain our competitiveness. See Section 4.1.15 (Risk Factors — Risks Relating to Our Business — We may face increased competition in the future) and Section 12.3(ii) (Business — Strategies — Increase and improve our product and service offerings).

## 12. BUSINESS (cont'd)

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### 12.18 Internal Audit

Our Internal Audit function is an independent, objective assurance and consulting division which adopts a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes. The Internal Audit division aims to ensure that there are adequate controls within the organization and that these controls are working as intended. One of the value-added roles that the internal auditors carry out is to highlight instances where operations and projects are not being carried out in an efficient and effective manner.

Our internal auditors are responsible for assessing our various functions and control systems and advising our Management concerning their condition. Internal Audit is also responsible for:

- (i) appraising the effectiveness and application of our management, administrative, operating and financial controls and the reliability of financial records;
- (ii) evaluating sufficiency of and adherence to corporate plans, policies and procedures and compliance with laws and regulations;
- (iii) ascertaining the adequacy of controls for safeguarding our assets and verifying the existence of such assets;
- (iv) conducting appraisals for effectiveness and efficiency in the use of our resources and making appropriate recommendations;
- (v) reviewing our information system management and administrative function to examine the adequacy and effectiveness of planning, organization and operating procedures;
- (vi) conducting periodic audits of computer data processing centers (both in-house and external processing facilities) to determine whether general controls are adequate; and
- (vii) conducting periodic audits of physical securities over computer facilities, evaluating the adequacy of logical security access and environmental controls, and assuring the continuity of operations.

Internal Audit also monitors our staff's adherence to share trading guidelines stipulated in the Code of Ethics which applies to all our employees.

Our internal auditors report functionally to our Audit Committee and administratively to our Chief Executive Officer. The Internal Audit division communicates its findings and provides recommendations to our Chief Executive Officer, our Audit Committee and our Board of Directors and to key management, as appropriate. Audit Committee meetings are held at a minimum on a quarterly basis. In cases where our Audit Committee so decides, the findings and recommendations of the audits relating to our subsidiaries are tabled to their respective boards of directors. The division also performs ad-hoc reviews as requested by our Chief Executive Officer, our Audit Committee and key management personnel.

## 12. BUSINESS (cont'd)

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All internal audits are to be conducted in compliance with our objectives and policies. In addition, the internal auditors, in the performance of their audit, are guided by the Professional Practices Framework issued by the Institute of Internal Auditors Inc. and the Guidelines on Internal Audit Function issued by the Institute of Internal Auditors Malaysia.

In carrying out its duties, our Internal Audit division has full, free and unrestricted access to all of our activities, functions, records, property and personnel. The division has the authority to request a written response to any findings and recommendations contained in its audit. Though business units may provide suggestions as to areas for audit coverage, the actual scope of work, the auditable areas to be audited, the frequency of audits and the timing of such audits are at the discretion of our Internal Audit division and/or our Chief Executive Officer and our Audit Committee.

### 12.19 Risk Management

Our Group Risk Management division is primarily responsible for the development and implementation of risk management policies and guidelines to ensure that we achieve an appropriate balance between realizing opportunities for gains in meeting corporate objectives while minimizing potential adverse impact. Among other things, the division is implementing a comprehensive risk management framework which we expect to be operational by the middle of 2005. Our Group Risk Management division also provides independent assessments of, and recommendations to, improve our risk management capabilities and develops and implements risk identification, measurement, management and reporting methodology and tools. Our Group Risk Management division maintains and administers our Enterprise Risk Management intranet site to disseminate risk management information.

Our Group Risk Management division works with our Risk Management Committee to develop and monitor key risk parameters, facilitate risk profiling and risk assessments at a strategic level in conjunction with our annual strategic planning exercise and develop and monitor implementation of action plans to mitigate strategic risks. (See Section 12.12 (Business — Regulation and Compliance)). It assists our Risk Management Committee in discharging its functions pertaining to risk management and compliance with regulatory requirements by ensuring appropriate risk management policies are implemented. The division also provides advice, as necessary, to business and support units on risk management issues. It may also liaise with the relevant regulatory authorities such as the Securities Commission and Bank Negara Malaysia on risk management matters affecting us.

Our Group Risk Management division prepares monthly reports for our Chief Executive Officer on the status of our risk management activities. It also prepares a quarterly risk management report for our Risk Management Committee focusing on key risk profile and status of mitigating action plans.

## 12. BUSINESS (cont'd)

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### 12.20 Disaster Recovery

Our Business Continuity Plan (“BCP”) was implemented in 1994 to fulfil a requirement of the Securities Industry Act. Since its establishment the plan has gone through more than 15 revisions and more than 20 major exercises. The objective of the BCP is to minimize disruption to services provided by us, including trading, clearing and settlement and depository operations in the event of a disaster affecting our infrastructure that disables our ability to operate our business from our primary site. The BCP is a contingency plan to ensure continuous business operations in the event of the destruction of our main office facilities; denial of access to such premises; and failure of critical computing and data communications facilities at such premises. Our Securities Exchange, Derivatives Exchange, and clearing, settlement and depository functions are covered by BCP. Currently, the Offshore Exchange is not covered by our BCP. However, it has its own backup system located outside the primary site. We are in the process of establishing a new BCP for our Offshore Exchange.

Our BCP enables us to operate all our mission critical services within 24 hours in the event of a major infrastructure disaster at our primary site. We own and manage our own disaster recovery center, with an area size of 36,000 sq. feet comprising 12,000 sq. feet for a data center and 24,000 sq. feet for business. With these facilities, we are able to replicate all critical business data from all the mission critical systems from the primary site to the disaster recovery center on a real-time basis.

Apart from the above, we also keep all critical data including application source codes and business data on a third site, which is owned and managed by a third party vendor. With this facility in place, we expect to be able to resume our business within a reasonable period even in the event of a total loss of both the primary and disaster sites.

### 12.21 Intellectual Property

As our business is heavily dependent on IT, we rely on a large number of licensed software. Among these, the key licenses we rely on include non-exclusive and non-transferable licenses to use AtosEuronext’s software for the CTP, the DTB Software (used for the development of KATS) and the TIMS software for margining purposes (see Section 12.10.2 (Business — Clearing and Settlement — Bursa Derivatives Clearing — Margin)). The license to use AtosEuronext’s software is perpetual (subject to mutual agreement to terminate, breach by either party or insolvency of either party) for a license fee of RM16.0 million. In addition, we entered into a non-core product license agreement with AtosEuronext, entitling us to make enhancements and developments to the software for a payment of RM1.00. Our license to use the DTB Software is perpetual (subject to mutual agreement to terminate, breach by either party or insolvency of either party) for a total fee of Deutsche Marks 7.5 million, while the license to use the TIMS Software is perpetual (subject to termination for breach or insolvency). We also hold non-transferable, non-exclusive and perpetual licenses to various other software used for, among other things, our clearing and settlement system. We further rely on a combination of trademarks, servicemarks, copyright protection and contractual restrictions to establish and protect our brand names and logos, and our intellectual property works eligible for copyright.

## 12. BUSINESS (cont'd)

*Trademarks and Servicemarks.* Brand names and logos used in our businesses are at various stages of application for registration as trademarks and servicemarks in Malaysia. Our most significant brand names and logos relate to “Kuala Lumpur Stock Exchange”, “KLSE”, “Bursa Saham Kuala Lumpur” and “Yayasan BSKL”, all of which have been registered as our trademarks and servicemarks in Malaysia. We are in the process of registering the trademarks and servicemarks in Malaysia in relation to the new names of our Company and each of our subsidiaries.

*Copyright.* Our copyrights relate principally to Kuala Lumpur Composite Index (also known as “KLCP”), “KLSE Syariah Index”, “Emas Index”, and real-time and historical market information and the commercial use of such information.

*Domain names.* The domain names “bursamalaysia.com” and “klse.com.my” are registered in our Company’s name.

## 12.22 Insurance

We maintain the following key insurance policies, which are material to our operations:

<u>Policy Type</u>	<u>Insurer</u>	<u>Insured</u>	<u>Coverage Period</u>	<u>Sum Insured</u>	<u>Territorial Limit</u>
Electronic Equipment Insurance Policy	MCIS Zurich Insurance Berhad	Bursa Malaysia and/or subsidiaries	01.01.05-31.12.05	RM60,801,083	Within Malaysia
All Risks Insurance Policy	MCIS Zurich Insurance Berhad	Bursa Malaysia and/or subsidiaries	01.01.05-31.12.05	RM19,236,801	Within Malaysia
Fire Insurance Policy	MCIS Zurich Insurance Berhad	Bursa Malaysia and/or subsidiaries	01.01.05-31.12.05	RM330,999,082	Within Malaysia
Combined Directors and Officers Liability and Professional Indemnity Insurance Policy	AIG and Lloyds Syndicates	Bursa Malaysia and/or subsidiaries	01.01.05-31.12.05	*	Worldwide excluding US/Canada
Combined Crime/ Professional Indemnity	Mitsui Sumimoto Insurance (M) Berhad	Bursa Depository and its wholly owned subsidiaries	01.01.05-31.12.05	RM25,000,000 each and every loss and in the aggregate	Within Malaysia
Public Liability Policy	MCIS Zurich Insurance Berhad	Bursa Malaysia and/or subsidiaries	01.01.05-31.12.05	RM5,000,000	Within Malaysia

*Note:*

- \* Total aggregate for all loss arising out of all insurance covers combined (including defense costs) is RM50,000,000 (Combined Directors & Officers / Professional Indemnity). Employer’s Practices Liability Limit is RM2,000,000.

In addition to the material policies described above, we maintain other policies. We believe that the types and amounts of insurance coverage we currently maintain are adequate for the conduct of our business. However, we cannot assure you that all risks are covered or are adequately insured against.

**12. BUSINESS (cont'd)**

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**12.23 Properties**

Our principal office is located at Geran No. 28936 and 28938 Lot No. 520 and 522 (*formerly P.T. 8 and 10*), Section 19, Town and District of Kuala Lumpur, Wilayah Persekutuan, with the postal address of Exchange Square, Bukit Kewangan, 50200 Kuala Lumpur ("Land") and occupies a total land area of approximately 4.13 acres. The registered owner of the Land is the Federal Lands Commissioner ("FLC"). The Land is divided by two (2) separate land titles. One (1) piece of land measures 1.75 acres, upon which our main building (Exchange Square) has been built and the other, 2.38 acres, upon which our annex building (Exchange Square Annexe) is located. The Land has been leased to us by FLC for a period of 99 years ("Principal Lease") by way of two (2) separate lease agreements dated October 1, 1996 (collectively "Principal Lease Agreement"). There are different rental payments and lease periods for both pieces of land. The land measuring 1.75 acres incurs an annual rental payment of RM224,400.00 and has a lease period commencing April 15, 1993 and expiring April 14, 2092. The land measuring 2.38 acres incurs an annual rental payment of RM314,160.61 and has a lease period commencing March 1, 1996 and expiring February 28, 2095.

Our interest in the land under the Principal Lease is registered under the National Land Code, 1965 ("NLC"). Pursuant to the provisions of the NLC, such registration ensures that we have a protected interest in the Land against any competing third party interest.

The total built-up area of our buildings on the Land is 109,955.74 square meters. The main building was completed in August 1997 and the annex building was completed in March 1998. The certificate of occupation was obtained for both buildings on August 5, 1999.

We own four (4) office units and accessory parcels for car park bays in a commercial building known as Wisma Chase Perdana in Kuala Lumpur. We also own, through our wholly-owned subsidiary Bursa Securities Clearing, the entire building of Wisma John Hancock in Penang consisting of eight (8) floors. The purchase of this property was effected by two (2) separate sale and purchase agreements. The first purchase was for five (5) parcels of property forming five (5) floors in 1994 and the second purchase was for three (3) parcels of property forming three (3) floors in 1997. In addition, we own a plot of land in Ipoh. A sale and purchase agreement dated August 1, 2003 was executed for the sale of this land to a purchaser company. The full purchase price for this land was paid to our solicitors on January 31, 2005 and as at January 31, 2005 (being the latest practicable date prior to the registration of this Prospectus with the Securities Commission), we are currently in the process of transferring the ownership of the land to the purchaser company.

## 12. BUSINESS (cont'd)

The details of the properties we own are set out in the table below:

Location	Postal address	Registered/ beneficial owner	Existing use	Tenure	Approximate age of building years	Land area/ built-up area sq. meters	Date of issuance of Certificate of Fitness	Net book value as at 30.09.04 RM
Lot 5.0 to 8.0, No. Bertaftar Gran 17768/M1/4/5 to 8 Bangunan No. M1 Lot No. 51452, Mukim of Kuala Lumpur Daerah Wilayah Persekutuan	4th Floor Wisma Chase Perdana Off Jalan Semantan Damansara Heights 50490 Kuala Lumpur	Bursa Malaysia	Four (4) office units on the 4 <sup>th</sup> floor of a 12 storey office building. These office units are currently used for our operations	Freehold	21 years	N/A/3,355	15.05.1994	12,008,427
Grant First Grade no. 17375/M1/1/1, M1/1/2, M1/2/1, M1/4/1, M1/5/1, M1/6/1, M1/7/1 and M1/8/1, Petak 1, Tingkat G-7, Bangunan M1, Daerah Timur Laut, Bandar Georgetown, Sek 19, Lot 000782, Pulau Pinang	Wisma John Hancock 43, Green Hall Georgetown 10200 Pulau Pinang	Bursa Securities Clearing	8-storey office building which include two (2) car park levels on the 1 <sup>st</sup> and 2 <sup>nd</sup> floors. The office building is currently vacant	Freehold	19 years	1,085/4,928	13.08.1985	4,500,000
PN 147624, Lot No. 9458 N, Bandar Ipoh, Daerah Kinta, Perak Darul Ridzuan	N/A	Bursa Malaysia	Vacant commercial land	99-year leasehold expiring on November 21, 2094	N/A	8,094/ N/A	N/A	3,828,906

Save for Wisma Chase Perdana in Kuala Lumpur, which is encumbered by four (4) private caveats lodged by a financial institution, we are not aware of any encumbrances on our land and buildings. We are unaware of any restriction in interest for the abovementioned land and buildings. None of our land and buildings were acquired during the two (2) years preceding September 30, 2004.

In order to minimize the potential damage caused by a breakout of fire, we have ensured that our physical assets have adequate insurance coverage and that proper fire safety procedures are implemented and practiced at our premises.

## 12.24 Legal Proceedings

We may be party to legal proceedings from time to time in the ordinary course of business. For example, where we take action to de-list companies from our Securities Exchange, we may be (and have been) the subject of proceedings for judicial review of our decision to de-list the relevant company. Subject to us acting in good faith in the discharge of our regulatory duties, no civil liability will be incurred by us in connection with such regulatory duties. However, this statutory protection has not yet been tested in the Malaysian courts. As at January 31, 2005, being the latest practicable date prior to the registration of this Prospectus with the Securities Commission, our Management does not know of any pending or threatened proceeding that is likely to have material adverse effect on our financial condition, results of operations, business or prospects. In addition, our Management is not aware of any fact likely to give rise to such proceedings.



## 12. BUSINESS (cont'd)

**12.25 Employees**

As at January 1, 2005, we had 591 employees. The following is a breakdown of our employees:

	Average years of service	Contract <sup>(1)</sup>	Permanent <sup>(2)</sup>	Total
Managerial .....	8.64	28	265	293
Executive .....	9.38	4	153	157
Clerical.....	9.73	2	139	141
Total (Average).....	9.09	34	557	591

*Notes:*

- (1) *These employees (which mainly comprise key management personnel) are hired under fixed-term contracts which typically range from two (2) to three (3) years.*
- (2) *These employees may not be dismissed (without cause) until their retirement at 55 years of age.*

Other than 80 clerical employees, who belong to the National Union of Commercial Workers ("NUCW"), our employees do not belong to any other union. We have on January 27, 2005 signed a new collective agreement with the NUCW which will expire in June 2007. We believe that our relationship with our employees is good. There have been no instances of strike action by our employees since we started operations.

*Voluntary Separation Scheme.* We implemented a Voluntary Separation Scheme on May 6, 2004 in order to reduce the number of surplus employees in our organization which arose as a result of the various mergers and acquisitions of our predecessor businesses. The scheme provides for a separation package, consisting of two (2) months' salary for each year of service up to a maximum of 36 months' salary, notice pay, any goodwill bonus or ex-gratia payment accrued, a retraining incentive, encashment of unutilized leave, as well as transition support.

As at December 31, 2004, 417 employees had accepted the separation terms of the scheme and left our employment under the scheme, comprising 249 executive staff and 168 non-executive staff.

*Training and Development.* Our Training and Development department has a charter to provide a structured approach for training and development for our employees. The department aims to link the capabilities required to implement our business strategies to individual training needs, to ensure that our employees have the requisite skills and that knowledge gaps are bridged. The department also facilitates succession planning for key positions within our group.

A Training Council was formed in early August 2004 involving senior management from every division with the objectives of reviewing, recommending and assessing the effectiveness of our corporate learning program. Council members are empowered to identify and develop our training plan based on current training needs. Our Training and Development department facilitates the sourcing and delivery process and the development of the training calendar. In 2005, we expect to spend an amount equal to approximately 4.0 per cent. of total salary expenses (RM1.52 million) towards training and development.

## 12. BUSINESS (cont'd)

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*Benefits.* We comply with the Malaysian statutory requirement to contribute to the Employees' Provident Fund, which is governed by the Employees' Provident Fund Act, 1991, by deducting 11.0 per cent. or at the prevailing rate set by the Employees' Provident Fund of our employees' salaries and matching this with a contribution of 12.0 per cent. of such salaries. We also make a voluntary additional contribution of 6.0 per cent. which replaces payments we used to make into our funded, defined benefit retirement scheme ("Retirement Scheme"). Our Retirement Scheme applies to executive and management personnel who were in our employment prior to August 31, 2003, other than key management personnel who have moved to fixed term employment contracts. Our Retirement Scheme is separately administered by an independent trustee company and vesting continues for employees who are still in the scheme. Upon an employee's resignation, we pay a lump sum calculated in accordance with a stipulated formula, into the relevant employee's Employees' Provident Fund account. When an employee retires, we pay the lump sum directly to the relevant employee.

We also make a monthly contribution of between 0.5 per cent. and 1.8 per cent. of total payroll or RM34.15 per employee, whichever is lower, to the Social Security Organisation ("SOCSO") (as established under the Employee's Social Security Act, 1969) to which employees contribute part of their own salary to insure against work-related accidents resulting in injury or death. The rate of contribution to SOCSO by the employees and us is determined under the Employees' Social Security Act, 1969.

In addition, we provide various benefits to our employees, including life and personal accident insurance, medical, dental and hospitalization benefits and home, car and other loans. The benefits vary according to each employee's grade. We also offer employees the flexibility of varying the benefits they receive. Certain grades of senior management also receive from us reimbursement of club membership subscription fees and travel benefits. Key management personnel who are on fixed term contracts receive a gratuity of two (2) months' salary for every year of service under the contract at the end of the contract period.

### 12.26 Employees' Share Option Scheme

Prior to our Listing, we will implement our ESOS for employees and Directors of our group. The duration of the ESOS is five (5) years, subject to extension or earlier determination in accordance with our Bye-Laws. It allows for the granting of Options to subscribe for our Shares of up to 13.0 per cent. of our issued and paid-up share capital at any point in time in the duration of the ESOS. The ESOS will be administered by our Option Committee (who will comprise the same members as the Nomination and Remuneration Committee), which will have, among other things, discretion to decide the eligibility criteria and bases of allotment. The subscription price, in respect of Options offered in conjunction with our Listing will be the Final Retail Price. The subscription price of Options granted subsequent to Listing will be based on the five (5)-day weighted average market price of Shares before the offer for Options, subject to a discount of not more than 10.0 per cent., in accordance with the provisions of our Bursa Securities LR.

Our shareholders have approved the grant in the extraordinary general meeting held on December 11, 2004. See Section 25 (Draft ESOS Bye-Laws) for detailed information on the ESOS.

**12. BUSINESS (cont'd)**

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In conjunction with our Listing, we intend to offer Options over 55,992,600 Shares to our employees, including the Options over 6,000,000 Shares to our Chief Executive Officer, Yusli bin Mohamed Yusoff. All such offers are subject to our Listing. There are exercise restrictions on the Options over a majority of the Shares, to be released based on, among other things, the performance of the grantees during the term of the Options. See Section 25 (Draft ESOS Bye-Laws).

**12.27 Interruption in Operations**

Our business has not experienced any interruption which may have a significant effect on our operations during the 12 months preceding January 31, 2005, being the latest practicable date prior to the registration of the prospectus with the Securities Commission.

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