HKEx 香港交易所

Hong Kong Exchanges and Clearing Limited
香港交易及結算所有限公司

(Incorporated in Hong Kong with limited liability)
(Stock Code: 388)

(Financial figures in this announcement are expressed in Hong Kong Dollar ("HKD"))

2006 Final Results

The Board of Directors ("Board") of Hong Kong Exchanges and Clearing Limited ("HKEx") submit the consolidated results of HKEx and its subsidiaries ("the Group") for the year ended 31 December 2006 as follows:

FINANCIAL HIGHLIGHTS

	2006	2005		Change
KEY MARKET STATISTICS				
Average daily turnover value on the Stock Exchange	**$33.9 billion**	$18.3 billion		85%
Average daily number of derivatives contracts traded on the Futures Exchange	**100,318**	68,157		47%
Average daily number of stock options contracts traded on the Stock Exchange	**73,390**	35,385		107%
	2006 $'000	As restated 2005 $'000		
RESULTS				
Income	**4,146,916**	2,694,068		54%
Operating expenses	**1,210,573**	1,145,483		6%
Operating profit	**2,936,343**	1,548,585		90%
Share of profits less losses of associates	**27,124**	18,433		47%
Profit before taxation	**2,963,467**	1,567,018		89%
Taxation	**(444,898)**	(227,460)		96%
Profit attributable to shareholders	**2,518,569**	1,339,558		88%
Basic earnings per share	**$2.37**	$1.26		88%
Diluted earnings per share	**$2.34**	$1.26		86%
Interim dividend per share	**$0.94**	$0.49		92%
Final dividend per share	**$1.19**	$0.64		86%
	$2.13	$1.13		88%
Dividend payout ratio	**90%**	90%		N/A
	2006 $'000	As restated 2005 $'000		
KEY BALANCE SHEET ITEMS				
Shareholders' funds	**5,257,586**	4,337,471	Φ	21%
Total assets *	**40,453,298**	22,930,916	Φ	76%
Net assets per share #	**$4.94**	$4.09	Φ	21%

Φ Audited and restated (shareholders' funds down by $30 million, total assets down by $30 million and net assets per share down by $0.02) due to the adoption of a revised Hong Kong Financial Reporting Standard ("HKFRS")

* The Group's total assets include the Margin Funds received from Participants on futures and options contracts.

Based on 1,064,190,346 shares as at 31 December 2006, being 1,065,448,346 shares issued and fully paid less 1,258,000 shares held for the Share Award Scheme (2005: 1,061,796,846 shares, being 1,062,754,846 shares issued and fully paid less 958,000 shares held for the Share Award Scheme)

BUSINESS REVIEW

Listing

- Effective May 2006, the Listing Committee and the GEM Listing Committee (collectively the "Listing Committees") comprise at least 28 members with a minimum of eight investor representatives. The maximum service term is set at six years.

- On 7 July 2006, HKEx published the Exposure Conclusion – Abolition of Requirement for Main Board Issuers to Publish Paid Announcements in Newspapers and Related Matters. Before the implementation of the proposal, a six-month transitional period will start in the middle of 2007, during which, Main Board issuers will have to publish notifications of their announcements in newspapers. Main Board issues will also need to post the full version on the HKEx website and their own websites. There will be a one-year transitional period for Main Board issuers to establish their own websites. An issuer without its own website during this period must publish the full announcement in newspapers as well as on the HKEx website. Effective 1 December 2006, issuers are no longer required to file with The Stock Exchange of Hong Kong Limited ("Stock Exchange") the Short-form Preliminary Results Announcements (Summary Forms). The Listing Division has revamped its internal operating procedures to support the new information dissemination regime and taken new measures to familiarise issuers and market practitioners with the new issuer information dissemination model.

- The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Main Board Listing Rules") were amended with effect from 30 September 2006 to implement the recommendations set out in the "Hong Kong's Derivative Warrants Market – the Way Forward, Results of the Consultation on the SFC's Six-Point Plan" of the Securities and Futures Commission ("SFC") to facilitate identical issues of structured products and ban commission rebates. The impact of the rule amendments will be reviewed after six months of operation.

- Amendments to the Main Board Listing Rules and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (collectively "Listing Rules") to coincide with the revised licensing and monitoring regimes of the SFC for sponsors and compliance advisers took effect from 1 January 2007.

- On 12 July 2006, HKEx published a summary of the 16 responses to the discussion paper that was issued in early 2006 to facilitate public discussion on the Growth Enterprise Market ("GEM"). HKEx has since been exploring a number of proposals with the SFC for further market consultation later in 2007.

- During the fourth quarter of 2006, the Listing Committees approved Australia and Canada (British Columbia) as acceptable jurisdictions of incorporation for the purpose of eligibility for listing as prescribed by the Listing Rules. On 7 March 2007, HKEx and the SFC published a joint policy statement setting out the approach to facilitate a greater range of overseas companies to list in Hong Kong.

- During 2006, a total of 120 listing applications were vetted and 81 first comment letters were issued to new listing applicants. A total of 75 applications were brought to the Listing Committees (or their delegates) for decisions. The Listing Division responded to 63 requests for guidance from listing applicants or their advisors seeking clarifications of the Listing Rules relevant to new listing applications.

- In 2006, out of the approximately 11,500 announcements vetted, more than 4,100 announcements were post-vetted. A total of more than 7,700 share price and trading volume monitoring actions were taken, and over 51,000 press articles on listed companies were reviewed. A total of 12 Main Board and four GEM long suspended companies resumed trading of their securities and two Main Board and four GEM long suspended companies cancelled their listings.

- The Court of Final Appeal decision handed down in April 2006 concluded the judicial review brought by New World Development Company Limited and Others. Full legal representation of the parties in disciplinary hearings is not a matter of right but may be determined to be warranted on a case-by-case basis taking into account the facts, the issues and all relevant circumstances of a case.

- During 2006, a number of investigations arising from serious breaches of the Listing Rules were completed leading to the imposition of public and private sanctions by the Listing Committees. HKEx also made recommendations to the Listing Committees in appropriate cases to direct correcting the ongoing breaches and improving corporate governance. A total of 17 cases were referred to the Listing Enforcement Department originating from a complaint, which might give rise, after investigation, to disciplinary proceedings. Three review cases in respect of sponsors were concluded.

Cash Market

- In 2006, 56 companies were newly listed on the Main Board and six on GEM. Total capital raised, including post-listing funds, reached about $525 billion. As at 31 December 2006, 975 and 198 companies were listed on the Main Board and GEM respectively, with a total market capitalisation of about $13,338 billion. There were also 1,959 derivative warrants, 180 debt securities, five Real Estate Investment Trusts, nine Exchange Traded Funds (“ETFs”), 24 Callable Bull/Bear Contracts (“CBBCs”) and other types of securities listed as at the end of 2006. The average daily turnover in 2006 was about $33.9 billion, of which $33.7 billion was on the Main Board and about $177 million on GEM.

- Since the launch in June 2006, 83 CBBCs were listed and the total turnover was $11.3 billion up to the end of the year. The number of Hong Kong stocks eligible for CBBC issuance has been increased from five to 28. The offer of CBBCs on overseas indices and on commodities is being facilitated in 2007. In addition to the publication of a CBBC leaflet and organisation of Continuing Professional Training courses, a CBBC product corner was established on the HKEx website www.hkex.com.hk/cbbc for the purpose of investor education.

- In response to market demand, HKEx facilitated the launch of derivative warrants over the shares of Industrial and Commercial Bank of China Limited (“ICBC”) on the same day that the shares were first listed. As a result, a total of 21 derivative warrants were listed on the listing day of ICBC with a turnover of $1.26 billion.

- HKEx will continue to facilitate the issuance of derivative warrants and other structured products on Mainland-related underlying assets in 2007, such as on the Renminbi, A-share Index, A-share ETF and A shares.

- Following the listing and trading of iShares SENSEX India ETF (“SENSEX India”) on the Stock Exchange on 2 November 2006, the total number of listed ETFs increased to nine as at 31 December 2006. The average daily turnover of SENSEX India from its launch to the end of 2006 was about $5.6 million. The total turnover of all the ETFs in 2006 was $58.3 billion, with an average daily turnover of $236 million. HKEx will continue to facilitate the launch of more ETFs.

- The Trading Hall underwent renovation between July 2005 and April 2006 to provide more efficient trading facilities for our Exchange Participants (“EPs”). There are 294 dealing desks in the new Trading Hall. An Exchange Exhibition Hall has been constructed to provide local and overseas visitors with more information on the Hong Kong securities and derivatives markets, and HKEx's products and services. Three newly constructed media booths have been reserved for designated television organisations to broadcast market news, and another is retained as common media area. The Exchange Auditorium is also open for use by listed issuers, Exchange and Clearing House Participants, Trading Right Holders and related professional bodies at a cost to hold events such as shareholder meetings, news conferences and seminars.

- In May 2006, HKEx introduced a new web-based Derivative Warrant Resource Centre which supports the SFC's initiative on investor education and information dissemination contained in its Six-Point Plan.

- In June 2006, the Board approved implementation of the Phase 2 reduction of minimum securities trading spreads in two stages, namely Phases 2A and 2B. Phase 2A covers securities priced between $2 and $20 while Phase 2B covers securities priced below $2. After reviewing trading and market data for the first six months following the Phase 2A implementation in July 2006 and taking into account the market comments received, the Board on 14 February 2007 decided not to proceed with Phase 2B.

- In order to further improve the trading efficiency of EPs and order input capacity in The Third Generation Automatic Order Matching and Execution System ("AMS/3"), various proposals were reviewed in the fourth quarter of 2006, and will be implemented in the first quarter of 2007.

- HKEx is considering the introduction of a closing auction session for the Cash Market which allows the input of orders into AMS/3 for a single price auction after the completion of the continuous trading session. A public consultation paper will be issued for market comments in the first half of 2007.

- The proposal to open up the trading right regime was approved by the Board, under which, a trading right application will be opened for tender by all existing trading right holders, and the lowest auctioned price will be chosen. If no tender is received, HKEx will issue a new non-transferable trading right to the applicant at $500,000 each. A press release on the tender arrangement was issued on 28 February 2007.

Derivatives Market

- The total turnover increased 68 per cent to 42,905,915 contracts, and other new records were set in respect of daily volume and/or open interest of the majority of products. The average daily turnover of stock options rose by 107 per cent from the previous year to 73,390 contracts. The average daily volume of Hang Seng Index ("HSI") Futures also increased by 28 per cent to 51,491 contracts and the average daily volume of H-shares Index Futures was up by 146 per cent to 19,759 contracts.

- A higher position limit for stock options was introduced on 10 February 2006. Discussion with the SFC on the relaxation of the position limits for index products, in particular H-shares futures and options, is in progress.

- In March 2006, HKEx introduced the Standard Combination Order Books Function for selected HSI Option strategies in the Derivatives Market. Additional options strategies were introduced to the HSI Options market in October 2006.

- HKEx introduced additional long-dated contract months up to 3.5 years and 2.5 years respectively for HSI Options and H-shares Index Options on 31 March 2006, providing alternatives for investors to manage long-term market exposure.

- Market maker ("MM") obligations in the stock options market were revised effective 3 July 2006. HKEx also increased the number of option classes with continuous quote services in stock options. A new system throughput arrangement was implemented to facilitate the said continuous quote services, including that for additional stock futures contracts.

- On 26 September 2006, Hong Kong Futures Exchange Limited ("HKFE" or "Futures Exchange") received the no-action relief from the US Commodity Futures Trading Commission which enables the offer and sale of futures contracts based on the FTSE/Xinhua China 25 Index and the Hang Seng China Enterprises Index in the US.

- Options and futures on three listed H shares, namely Bank of China Limited ("BOC"), China Merchants Bank Co Ltd and ICBC, were introduced shortly after their listings in the second half of 2006. Additional options and futures contracts, especially those on popular underlying shares, can now be launched within a shorter time frame after the approval process was streamlined in October 2006.

- In 2006, a series of training courses and seminars on the Derivatives Market were conducted for staff of EPs and public investors, and sponsorship was provided to 10 Options Trading EPs to conduct public investor seminars on stock options. The interactive "Options Reference Educator" on the HKEx website was re-designed in December 2006 to provide a more user-friendly platform for investors to learn about options.

- HKEx is planning to introduce Renminbi futures contracts in mid-2007. A consultation paper on the proposed product specifications and operation has been sent to various regulatory authorities both in Hong Kong and in the Mainland to solicit their views.

- A new arrangement for market making services for HKFE products became effective on 1 February 2007, simplifying and improving the quality of market making services and allowing other qualified corporate entities to make markets through the EPs.

- The trading fee discount scheme for MMs trading in other stock index futures and options products was refined by offering adequate incentives for MMs in stock index futures and options markets. The revised scheme took effect from February 2007.

- HKEx is seeking qualified consultants to study the feasibility of trading of commodities derivatives and emissions-related products in Hong Kong.

Clearing

- The scrip fee assessed on deemed book close dates was eliminated effective 1 January 2006. The waiver of the Short Message Service fee and dormant account fee for the Investor Participant ("IP") account service was extended to 30 June 2007.

- With effect from 3 January 2006, a series of improvements were made to nominee services. As of 2 January 2007, non-IPs have been provided with an additional option to have certain Central Clearing and Settlement System ("CCASS") payments effected intra-day through the Real Time Gross Settlement payment mechanism during the same business day.

- Effective 3 January 2006, no less than 50 per cent of the total margin requirement of any participant of HKFE Clearing Corporation Limited ("HKCC") and The SEHK Options Clearing House Limited ("SEOCH") shall be in the form of cash and denominated in the relevant currency.

- Upon admission of the National Council for Social Security Fund of the People's Republic of China

("NCSSF") to CCASS as a Corporate IP since March 2006, it, as an IP, can deposit into CCASS the state-owned shares that it has received under the State Council's Provisional Measures on Management over the Reduction of State Shares to Raise Social Security Funds. IP admission has also been extended to Macau residents and incorporated companies as of 5 June 2006.

- Pursuant to the effectiveness of the Five-Day Clearing Week implemented by the banking industry from 4 September 2006, Hong Kong Securities Clearing Company Limited ("HKSCC") has re-scheduled certain securities settlement and nominee-related services previously provided on Saturdays via CCASS. The operation of the Derivatives Clearing and Settlement System ("DCASS") remains unaffected, since no clearing and settlement services are provided by HKCC and SEOCH on Saturdays.

- In October 2006, HKEx resolved on a one-off increase of the set aside amount from the shareholders' funds for the purpose of strengthening the risk management regime of the clearing houses and supporting their roles as central counterparties from $1.5 billion to $3.1 billion. HKEx also resolved to discontinue the insurance and guarantee facilities totalling $848 million upon their expiry on 31 December 2006 which will result in annual saving of approximately $10 million for the Guarantee and Reserve Funds of the three clearing houses.

- Effective 20 November 2006, the Capital Based Position Limit policy of SEOCH was aligned with that of HKCC. A review of risk management policies and arrangements for the derivatives clearing houses was completed in 2006.

- HKSCC has scheduled to enhance the Stock Segregated Account ("SSA") with Statement service in two phases. The first phase enhancements to provide, in addition to physical statements, access to the SSA via the Internet or through the CCASS phone system, email and Short Message Service alerts of account movements, as well as Chinese statements were introduced on 2 January 2007. The second phase enhancements to provide electronic voting, relaxation of the restriction on the number of SSAs, and addition of affirmation and money settlement features to Account Transfer Instructions will be launched in the second quarter of 2007.

- The outstanding debt in the sum of about $1.8 million owed by Tai Wah Securities Limited (in liquidation) to HKSCC will be recovered from the HKSCC Guarantee Fund upon completion of the liquidation process.

- HKSCC acted according to the restriction notice issued on Whole Win Securities Limited ("Whole Win") by the SFC in May 2006 and provided support to Whole Win's administrator in respect of the settlement under CCASS. All outstanding positions were settled in an orderly manner without loss to HKEx.

- HKSCC declared Tiffit Securities (Hong Kong) Limited and Wing Yip Company Limited defaulters and closed out their unsettled positions in CCASS following the issuance of restriction notices on them by the SFC in July and August 2006 respectively. HKSCC did not suffer any loss in either default case.

- In August 2006, HKCC filed a proof of debt of about $7.8 million against the assets of Yicko Futures Limited (in liquidation) which has failed to meet its obligations to HKCC. Any deficiencies from the liquidation process will be recovered from the HKCC Reserve Fund.

Business Development

- Marketing activities on promoting Hong Kong listings were further strengthened to cover a broader part of the Mainland in 2006. Substantial effort was also put into the development of a closer working relationship with the Mainland financial and governmental authorities and organisations. Promotional efforts were also extended to Taiwan, Japan, South Korea, Malaysia, Thailand, Vietnam, Kazakhstan, the Russian Federation and Ireland.

- During the year, HKEx co-organised three training programmes and delivered a total of eight training sessions in Hong Kong and in the Mainland to senior executives of Hong Kong listed Mainland issuers and their group of companies on the listing requirements in Hong Kong.

Information Services

- As at the end of 2006, there were 75 and 37 real-time information vendor licences for Cash Market data and Derivatives Market data respectively.

- In 2006, the monthly average amount of issuer news released on the HKEx website increased by 16 per cent from 2005 to 7,810 while the monthly average number of Disclosure of Interests filings increased by 21 per cent to 3,162.

- In 2006, the Mainland Discount Programme for real-time market data was well-received with a 50 per cent increase in the total number of Mainland subscribers from the previous year. Given its success, the programme has been extended to 2007, allowing investors in the Mainland to continue to subscribe to HKEx market data at a discounted fee of $80 per device per month.

- The review of the delayed market data policy was completed in the last quarter of 2006. The review recommended shortening the minimum delay for market data from 60 minutes and 30 minutes for the Cash and Derivatives Markets respectively to 15 minutes to enhance the reference value of delayed data to investors and which will take effect from 2 April 2007. A new standard licence fee of $5,000 per month will be imposed on vendors supplying delayed data on the Cash Market and the stock options market which will come into effect on 1 January 2008. Waiver of the fee will be given to real-time market data vendors and, in respect of stock options market data, those holding a licence for the dissemination of HKFE market data.

- Both the "Latest Listed Company Information" and "Listed Company Information Search" sections of the HKEx website were enhanced in September 2006 to improve user-friendliness. A "Futures and Options Price and Chart (Delayed)" section was introduced on the website to provide delayed intra-day prices and turnover of all futures and options contracts traded on the Derivatives Market.

Information Technology

- All major trading, clearing and settlement, and market data dissemination systems for the Cash and Derivatives Markets operated by HKEx continued to maintain 100 per cent operational system uptime during the year.

- During 2006, capacity upgrade was completed for various major systems, including the Hong Kong Futures Automated Trading System ("HKATS"), DCASS and the Price Reporting System ("PRS"). The Latest Generation of Central Clearing and Settlement System ("CCASS/3") Middle-tier system software upgrade is in progress and will be completed in early 2007 and the CCASS/3 Mainframe system will be upgraded to the latest technology.

- The HKEx website capacity and its network infrastructure were substantially upgraded to handle the rapid increase in website visits and enquires from the investing public. HKEx has been focusing on upgrading substantially the capacity of the e-Submission System, Electronic Publication System and Issuer Information *feed* Service System to cater for the new information dissemination regime. Furthermore, a disaster recovery arrangement will be put in place to ensure high availability of the services.

- All trading devices, trading facilities and local area network (LAN) cabling infrastructure were fully replaced and upgraded in conjunction with the Trading Hall renovation. The upgrade of AMS/3 Open Gateway ("OG") and Multi-workstation System ("MWS") hardware was completed in December 2006 to address hardware obsolescence and to prepare for future AMS/3 system capacity expansion. In early 2007, HKEx commenced the software upgrade of the OG and MWS.

- The Derivatives Market's backbone network was upgraded to optical ethernet to capitalise on the latest technology with proven reliability for future capacity growth. The HKATS and DCASS Network Gateways installed at Participants' premises were also upgraded to the latest version of system software to secure continued vendor support with high system reliability.

- The first three phases of the SDNet (a new Optical Ethernet network for the securities and derivatives markets) migration were successfully completed (Phase 1: HKATS / DCASS / PRS circuits migrated in October 2005; Phase 2: CCASS/3 circuits migrated in June 2006; and Phase 3: Market Datafeed circuits migrated in December 2006). The last phase of the AMS/3 circuits migration is in progress and will be completed in mid-2007.

- The AMS/3 performance throughput improvement feasibility study was completed, and suitable technologies and application system improvements have been identified to help prepare for further enhancements of the AMS/3 capacity and processing efficiency as needed.

- HKEx conducted in late January 2007 a market-wide rehearsal to verify that AMS/3 is capable of handling 1.5 million trades in a trading day within the benchmark response time of one second.

- Effective 29 January 2007, the maximum number of outstanding orders per price queue in AMS/3 was increased to 20,000, for both pre-opening and continuous trading sessions. The market data broadcast rate was also increased to ensure that market participants are updated on the latest status of the central order book in a timely manner.

- Redevelopment of Cash and Derivatives Markets' participant information system ("PIS") and finance management information system ("FMIS") were completed to further strengthen the quality of management information to support HKEx's business operations, formulation of policies and development of business strategies. Further enhancements to PIS and FMIS will continue in 2007.

Treasury

- The Group's funds available for investment comprise Corporate Funds, Margin Funds and Clearing House Funds, totalling $25.6 billion on average in 2006 (2005 average: $17.6 billion). The overall size of funds available for investment as at 31 December 2006 increased by 56 per cent or $10.8 billion to $30.0 billion (2005: $19.2 billion). Investments are kept sufficiently liquid to meet the Group's operating needs and liquidity requirements of the Clearing House Funds and Margin Funds.

- Credit exposure is well diversified. The bond portfolio held is of investment grade and, as at 31 December 2006, had a weighted average credit rating of Aa2 (2005: Aa2) and a weighted average maturity of 0.7 year (2005: 1.3 years). Risk management techniques, such as Value-at-Risk and portfolio stress testing, are used. Investment income increased by 100 per cent to $601 million against that for 2005.

Investments in Associates

- As at 31 December 2006, the Group had a 30 per cent interest in Computershare Hong Kong Investor Services Limited ("CHIS").

- The Group received liquidation proceeds in respect of ADP Wilco Processing Services Limited ("AWPS") amounting to $1.3 million which were marginally higher than the book value of the investment. AWPS was officially dissolved in July 2006.

FINANCIAL REVIEW

Overall Performance

	2006 $'000	As restated 2005 $'000
RESULTS		
Income:		
Income affected by market turnover	**2,390,846**	1,437,218
Stock Exchange listing fees	**465,445**	413,000
Income from sale of information	**391,213**	322,713
Investment income	**601,080**	300,120
Other income	**298,332**	221,017
	4,146,916	2,694,068
Operating expenses	**1,210,573**	1,145,483
Operating profit	**2,936,343**	1,548,585
Share of profits less losses of associates	**27,124**	18,433
Profit before taxation	**2,963,467**	1,567,018
Taxation	**(444,898)**	(227,460)
Profit attributable to shareholders	**2,518,569**	1,339,558
Basic earnings per share	**$2.37**	$1.26
Diluted earnings per share	**$2.34**	$1.26
Interim dividend per share	**$0.94**	$0.49
Final dividend per share	**$1.19**	$0.64
	$2.13	$1.13
Dividend payout ratio	**90%**	90%

The Group achieved record high profit for the third consecutive year in 2006. Profit attributable to shareholders increased by 88 per cent to $2,519 million for the year ended 31 December 2006, compared with $1,340 million for 2005 mainly due to higher turnover-related income and investment income.

Due to the positive market sentiment stimulated by the large Initial Public Offerings ("IPOs") and the sustained economic growth in the Mainland, activity on the Stock Exchange and the Futures Exchange increased substantially. Several new records were achieved in the Cash and the Derivatives Markets in 2006, including the highest total equity capital raised and highest IPO equity capital raised, record annual turnover of the Cash Market and the highest number of contracts traded on the Derivatives Market. As a result, total turnover-related income of the Group increased significantly.

Investment income doubled due to the increase in net interest income and fair value gains of Corporate Fund investments.

Total operating expenses increased by six per cent during the year mainly due to higher staff costs and premises expenses driven by the buoyant job and property markets but were partly offset by the decrease in depreciation.

The accounts have been prepared in accordance with HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which have been aligned with the requirements of International Financial Reporting Standards ("IFRSs") in all material respects as at 31 December 2006.

Income

(A) Income affected by market turnover

	2006 $'000	2005 $'000	Change
Trading fees and trading tariff	**1,340,355**	793,247	69%
Clearing and settlement fees	**674,373**	384,019	76%
Depository, custody and nominee services fees	**376,118**	259,952	45%
Total	**2,390,846**	1,437,218	66%

Key market indicators

	2006	2005	Change
Average daily turnover value on the Stock Exchange	**$33.9 billion**	$18.3 billion	85%
Average daily number of derivatives contracts traded on the Futures Exchange	**100,318**	68,157	47%
Average daily number of stock options contracts traded on the Stock Exchange	**73,390**	35,385	107%

Trading fees and trading tariff

The increase in trading fees and trading tariff from the Cash Market was mainly due to the significant increase in turnover of the Cash Market, in particular, H shares. Several new records were achieved in the Cash Market in 2006, including the highest total market turnover, and the highest trading turnover of H shares and derivative warrants.

The increase in trading fees and trading tariff from the Derivatives Market was mainly driven by the increase in the number of contracts traded on the Derivatives Market. Total number of futures, options, HSI Futures and stock options traded was at record high in 2006.

Clearing and settlement fees

Clearing and settlement fees are derived predominantly from Cash Market transactions. Despite being mostly ad valorem fees, clearing and settlement fees are subject to a minimum and a maximum fee per transaction. Clearing and settlement fees did not increase linearly with the Cash Market turnover as a higher proportion of the value of transactions was subject to the maximum fee and a lower proportion of the value of transactions was subject to the minimum fee in 2006.

Depository, custody and nominee services fees

Depository, custody and nominee services fees mainly comprised scrip fees, stock custody fees, electronic IPO service ("eIPO") handling charges, dividend collection fees, stock withdrawal fees and corporate action fees. Despite the abolition of scrip fees on deemed book close effective 1 January 2006 (2005 deemed book close scrip fees: $41 million), depository, custody and nominee services fees increased due to higher scrip fees, stock withdrawal fees, corporate action fees, dividend collection fees and eIPO handing charges resulting from increased activity of the Cash Market. The fees were influenced by the level of Cash Market activities but did not move proportionately with changes in the

Cash Market turnover as they varied mostly with the board lots rather than the value of the securities concerned and many were subject to a maximum fee. Moreover, scrip fee was only chargeable on the net increase in individual Participants' aggregate holdings of the securities on book closing dates.

(B) Stock Exchange listing fees

	2006 $'000	2005 $'000	Change
Annual listing fees	**274,586**	263,945	4%
Initial and subsequent issue listing fees	**184,601**	142,075	30%
Others	**6,258**	6,980	(10%)
Total	**465,445**	413,000	13%

The increase in annual listing fees was attributable to the higher number of listed securities. The increase in initial and subsequent issue listing fees was primarily due to the increase in the number of newly listed derivative warrants.

Key drivers for annual listing fees

	As at 31 Dec 2006	As at 31 Dec 2005	Change
Number of companies listed on Main Board	**975**	934	4%
Number of companies listed on GEM	**198**	201	(1%)
Total	**1,173**	1,135	3%

Key drivers for initial and subsequent issue listing fees

	2006	2005	Change
Number of newly listed derivative warrants	**2,823**	1,682	68%
Number of newly listed CBBCs	**83**	-	N/A
Number of newly listed companies on Main Board	**56**	57	(2%)
Number of newly listed companies on GEM	**6**	10	(40%)
Number of other newly listed securities on Main Board and GEM	**93**	85	9%
Total number of newly listed securities	**3,061**	1,834	67%

	2006 $ billion	2005 $ billion	Change
Total equity funds raised on Main Board	**516.0**	298.7	73%
Total equity funds raised on GEM	**8.5**	3.0	183%
Total	**524.5**	301.7	74%

(C) Income from sale of information

	2006 $'000	2005 $'000	Change
Income from sale of information	**391,213**	322,713	21%

Income from sale of information rose as demand for information increased in tandem with the activity on the Cash and Derivatives Markets.

(D) Investment income

	2006 $'000	As restated 2005 $'000	Change
Gross investment income	**1,043,750**	426,380	145%
Interest expenses	**(442,670)**	(126,260)	251%
Investment income	**601,080**	300,120	100%

The average amount of funds available for investment was as follows:

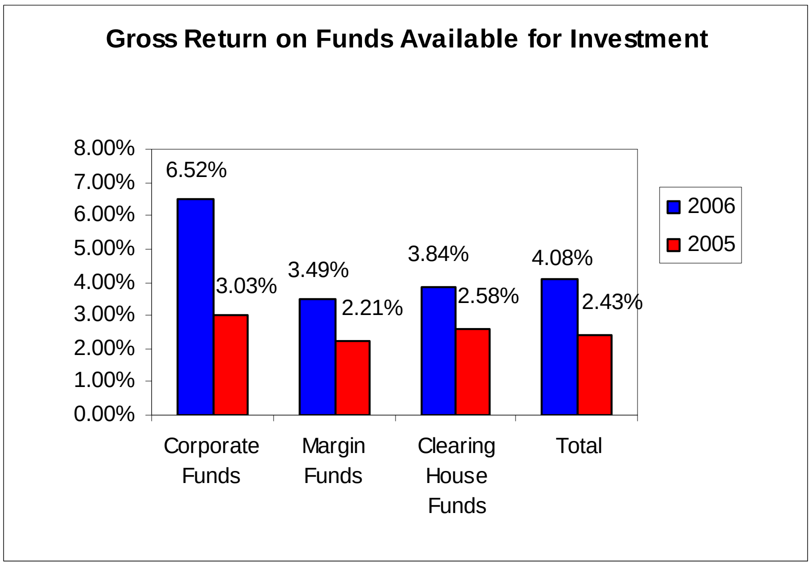
	2006 $ billion	2005 $ billion	Change
Corporate Funds	**4.8**	4.0	20%
Margin Funds	**18.8**	12.1	55%
Clearing House Funds	**2.0**	1.5	33%
Total	**25.6**	17.6	45%

The increase in average amount of Corporate Funds was mainly due to the profit net of dividends paid.

Average amount of Margin Funds increased primarily on account of the increased open interest in futures and options contracts.

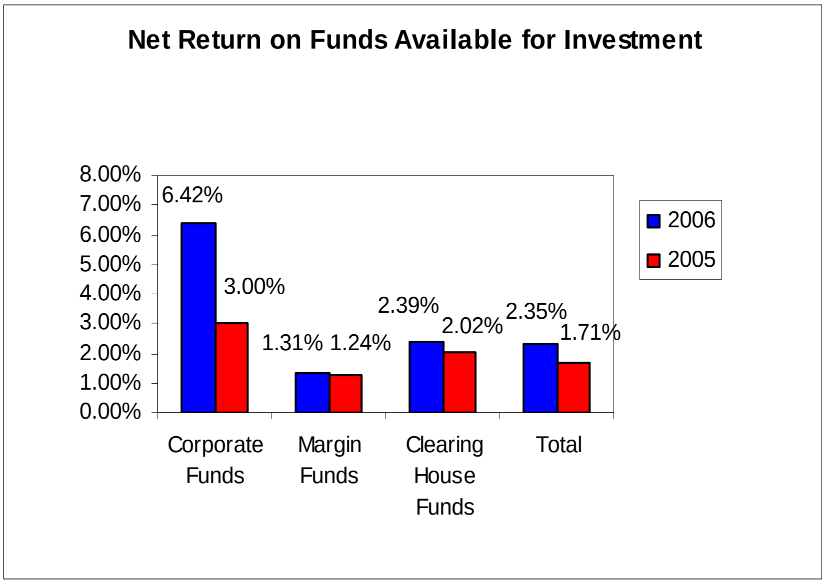
The increase in average amount of Clearing House Funds was mainly due to the increase in additional contributions from Participants in response to market fluctuations and changes in risk exposure.

The gross return on funds available for investment is set out below:



The return on Corporate Funds increased due to the rise in fair value gains of Corporate Fund investments, reflecting market movements, and the increase in interest rates. The return on Margin Funds and Clearing House Funds increased mainly as a result of rising interest rates in 2006. The return on Margin Funds was lower than that of the Clearing House Funds as part of the margin deposits was denominated in Japanese Yen, which generated very low interest income.

The net return on funds available for investment after the deduction of interest expenses was as follows:



Interest was payable on all margin deposits, certain part of Clearing House Fund contributions and a small portion of Corporate Funds. The net return on Margin Funds in 2006 was only marginally higher than that of 2005 as the increase in gross return in 2006 was mostly offset by a substantial increase in interest payable to the Participants due to higher interest rates and a change in the benchmarked interest rate payable on cash margin deposits from 1 June 2005 onwards. In 2006, interest was paid on cash margin deposits based on the savings rate. Prior to 1 June 2005, interest was not always paid to Participants as the interest rates payable on the cash margin deposits were often lower than the retention rates charged by HKCC and SEOCH on such cash margin deposits. The increase in net return on Clearing House Funds in 2006 was lower than the increase in gross return as a higher proportion of the Clearing House Fund contributions was entitled to interest in 2006.

(E) Other income

	2006 $'000	2005 $'000	Change
Network, terminal user, dataline and software sub-license fees	**180,372**	129,733	39%
Participants' subscription and application fees	**33,927**	34,351	(1%)
Brokerage on direct IPO applications	**57,066**	34,123	67%
Trading booth user fees	**9,162**	-	N/A
Fair value gain of an investment property	**1,600**	4,400	(64%)
Accommodation income on cash margin deposits in non-contract settlement currencies and securities deposited by Participants as alternatives to cash deposits of Margin Funds	**3,164**	2,154	47%
Miscellaneous income	**13,041**	16,256	(20%)
Total	**298,332**	221,017	35%

Network, terminal user, dataline and software sub-license fees rose due to the increase in sales of OG and AMS/3 terminals (as most Participants replaced their outdated network equipment) and related user fees.

Brokerage on direct IPO applications increased in line with funds raised by IPOs, in particular ICBC, the largest IPO in the world in 2006 and BOC.

Despite the abolition of accommodation charges on cash margin deposits and the reduction in accommodation fees charged on utilised non-cash collateral by HKCC and SEOCH from 1 June 2005 onwards, accommodation income increased mainly due to the increase in utilisation of non-cash collateral by Participants to meet their margin obligations.

Miscellaneous income decreased due to an exchange gain on accounts payable denominated in foreign currencies caused by the strengthening HKD and interest on late payment levied on information vendors in 2005 which were not repeated in 2006.

Operating Expenses

	2006 **$'000**	As restated 2005 $'000	Change
Staff costs and related expenses	**654,806**	586,034	12%
Information technology and computer maintenance expenses	**218,608**	201,725	8%
Premises expenses	**119,167**	80,679	48%
Product marketing and promotion expenses	**11,270**	10,065	12%
Legal and professional fees	**7,996**	13,641	(41%)
Depreciation	**99,888**	150,995	(34%)
Other operating expenses	**98,838**	102,344	(3%)
Total	**1,210,573**	1,145,483	6%

Staff costs and related expenses increased by $69 million, primarily due to the increase in salary costs and contribution to provident funds as a result of the increase in headcount and salary adjustment, and an increase in performance bonus on account of the improved performance of the Group in 2006.

Information technology and computer maintenance expenses of the Group, after excluding goods and services directly consumed by the Participants of $85 million (2005: $55 million), were $133 million (2005: $147 million). The reduction was mainly due to lower license fees and network costs. The increase in costs directly consumed by Participants was primarily due to purchases of OG and AMS/3 terminals by the Participants to replace their outdated network equipment. Costs consumed by Participants were mostly recovered from the Participants and the income was included as part of network, terminal user, dataline and software sub-license fees under Other income.

Premises expenses rose due to increases in rental upon the renewal of certain leases.

Product marketing and promotion expenses increased due to promotional activities relating to the opening of the new Exchange Trading and Exhibition Hall Complex.

Legal and professional fees decreased mainly due to legal costs incurred in 2005 on the New World judicial review case.

Depreciation decreased as certain fixed assets largely IT-related became fully depreciated.

Share of Profits less Losses of Associates

	2006 $'000	2005 $'000	Change
Share of profits less losses of associates	**27,124**	18,433	47%

Share of profits less losses of associates increased due to the higher profitability of one of the associates, CHIS, and the acquisition of a further six per cent interest in CHIS in May 2005.

Taxation

	2006 $'000	2005 $'000	Change
Taxation	**444,898**	227,460	96%

Taxation increased mainly attributable to an increase in operating profit, but partly offset by an increase in non-taxable investment income.

Liquidity, Financial Resources, Gearing and Capital Commitment

Working capital rose by $914 million or 27 per cent to $4,271 million as at 31 December 2006 (2005: $3,357 million). The increase was primarily due to the profit generated during the year of $2,519 million and the proceeds from issuing shares upon the exercise of employee share options less shares purchased for the Employees' Share Award Scheme ("Share Award Scheme") of $10 million, which was partly offset by payment of the 2005 final dividend of $681 million and 2006 interim dividend of $1,000 million, and the increase in other net current assets of $66 million.

Although the Group has consistently maintained a very liquid position, banking facilities have nevertheless been put in place for contingency purposes. As at 31 December 2006, the Group's total available banking facilities amounted to $1,558 million (2005: $1,608 million), of which $1,500 million (2005: $1,500 million) represented repurchase facilities to augment the liquidity of the Margin Funds.

Borrowings of the Group have been rare and are mostly event driven, with little seasonality. As at 31 December 2006 and 31 December 2005, the Group had no bank borrowings, and therefore had zero gearing.

As at 31 December 2006, 97 per cent (2005: 99 per cent) of the Group's cash and cash equivalents (comprising cash on hand, bank balances and time deposits within three months of maturity when acquired) were denominated in HKD or US Dollar ("USD").

The Group's capital expenditure commitments as at 31 December 2006, mainly related to the development and purchases of computer systems, amounted to $92 million (2005: $137 million, mainly related to the refurbishment of the Trading Hall and development and purchases of computer systems). The Group has adequate internal resources to fund its commitments on capital expenditures.

Charges on Assets

None of the Group's assets was pledged as at 31 December 2006 and 31 December 2005.

Significant Investments Held and Material Acquisitions and Disposals of Investments and Subsidiaries

There were no material acquisitions or disposals of investments and subsidiaries during the year.

Exposure to Fluctuations in Exchange Rates and Related Hedges

When seeking to optimise the returns on its funds available for investment, the Group may invest in non-HKD securities from time to time. Forward foreign exchange contracts and foreign currency cash and bank deposits have been used to hedge the currency exposure of the Group's non-HKD investments, highly probable forecast transactions and liabilities to mitigate risks arising from fluctuations in exchange rates.

As at 31 December 2006, the aggregate net open foreign currency positions amounted to HK$2,210 million, of which HK$213 million were non-USD exposures (2005: HK$2,031 million, of which HK$160 million were non-USD exposures), and the maximum gross nominal value of outstanding forward foreign exchange contracts amounted to HK$281 million (2005: HK$275 million). All forward foreign exchange contracts would mature within one month (2005: one month).

Foreign currency margin deposits received by the Group are hedged by investments in the same currencies.

Contingent Liabilities

The Unified Exchange Compensation Fund ("Compensation Fund") is a fund set up under the repealed Securities Ordinance ("SO") for the purpose of compensating any person (other than a Stock Exchange Participant) dealing with a Stock Exchange Participant for any pecuniary losses suffered as a result of a default by the Stock Exchange Participant. According to section 109(3) of the repealed SO, the maximum compensation amount is $8 million for each Stock Exchange Participant's default. Under section 113(5A) of the repealed SO, the Stock Exchange may, upon satisfying certain conditions, and with the approval of the SFC, allow an additional payment to successful claimants before apportionment. Under section 107(1) of the repealed SO, the Stock Exchange has contingent liabilities to the Compensation Fund as it is obligated to replenish the Compensation Fund upon the SFC's request. The amounts to be replenished should be equal to the amount paid in connection with the satisfaction of the claims, including any legal and other expenses paid or incurred in relation to the claims but capped at $8 million per default. As at 31 December 2006, there were outstanding claims received in respect of two Stock Exchange Participants (2005: five, two of which had resigned their participantship in 2004).

Pursuant to the Securities and Futures Ordinance ("SFO"), the Stock Exchange issued a notice on 3 April 2003 inviting claims against the Compensation Fund in relation to any default of a Stock Exchange Participant occurring before 1 April 2003. The claims period expired on 3 October 2003 and no claims were received in response to that notice. Claims made after the claims period are, unless the Stock Exchange otherwise determines, barred. As at 31 December 2006, no such claims had been received in response to the said notice.

Following the implementation of the new compensation arrangements under the SFO, an Investor Compensation Fund has been established to replace the existing Compensation Fund, the Commodity Exchange Compensation Fund and the Dealers' Deposit Schemes for non-exchange participant dealers. Pursuant to the SFO, EPs are no longer required to make deposits to the Investor Compensation Fund and the Stock Exchange is not required to replenish the Investor Compensation Fund. Hence, deposits to the Commodity Exchange Compensation Fund were returned to the Futures Exchange by the SFC in January 2004. The Futures Exchange had in turn reimbursed holders of Futures Exchange Trading

Rights their contributions to the Commodity Exchange Compensation Fund. Similarly, deposits to the Compensation Fund would be returned to the Stock Exchange in accordance with the SFO pending completion of any determination of outstanding claims and replenishment to the Compensation Fund.

The Stock Exchange has undertaken to indemnify the Collector of Stamp Revenue against any loss of revenue resulting from any underpayment or default or delay in payment of stamp duty by its Participants, up to $200,000 in respect of the default of any one Participant. In the unlikely event that all of its 425 trading Participants as at 31 December 2006 (2005: 429) defaulted, the maximum contingent liability of the Stock Exchange under the indemnity would amount to $85,000,000 (2005: $85,800,000). The carrying amount of the financial guarantee contract recognised in the consolidated balance sheet in accordance with HKAS 39 and HKFRS 4 (Amendments) was $19,909,000 (2005: $19,909,000). HKEx had, on 24 January 2007, written to the Collector of Stamp Revenue seeking its permission to abolish the undertaking arrangement.

HKEx gave an undertaking on 6 March 2000 in favour of HKSCC to contribute an amount not exceeding $50 million in the event of HKSCC being wound up while it is a wholly-owned subsidiary of HKEx or within one year after HKSCC ceases to be a wholly-owned subsidiary of HKEx, for payment of the debts and liabilities of HKSCC contracted before HKSCC ceases to be a wholly-owned subsidiary of HKEx, and for the costs, charges and expenses of winding up.

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	**2006** **$'000**	As restated 2005 $'000
INCOME	2		
Trading fees and trading tariff		**1,340,355**	793,247
Stock Exchange listing fees		**465,445**	413,000
Clearing and settlement fees		**674,373**	384,019
Depository, custody and nominee services fees		**376,118**	259,952
Income from sale of information		**391,213**	322,713
Investment income	3	**601,080**	300,120
Other income	4	**298,332**	221,017
	2	**4,146,916**	2,694,068
OPERATING EXPENSES			
Staff costs and related expenses		**654,806**	586,034
Information technology and computer maintenance expenses		**218,608**	201,725
Premises expenses		**119,167**	80,679
Product marketing and promotion expenses		**11,270**	10,065
Legal and professional fees		**7,996**	13,641
Depreciation		**99,888**	150,995
Other operating expenses	5	**98,838**	102,344
	2	**1,210,573**	1,145,483
OPERATING PROFIT	2	**2,936,343**	1,548,585
SHARE OF PROFITS LESS LOSSES OF ASSOCIATES	2	**27,124**	18,433
PROFIT BEFORE TAXATION	2	**2,963,467**	1,567,018
TAXATION	2/6	**(444,898)**	(227,460)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	2	**2,518,569**	1,339,558
DIVIDENDS	7	**2,266,694**	1,200,117
Earnings per share			
Basic	8(a)	**$2.37**	$1.26
Diluted	8(b)	**$2.34**	$1.26
Dividends per share			
Interim dividend paid		**$0.94**	$0.49
Final dividend proposed/declared		**$1.19**	$0.64
		$2.13	$1.13
Dividend payout ratio		**90%**	90%

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2006

	Note	2006 $'000	As restated 2005 $'000
NON-CURRENT ASSETS			
Fixed assets		**210,161**	257,876
Investment property		**19,300**	17,700
Lease premiums for land		**93,575**	94,123
Investments in associates		**68,377**	64,581
Clearing House Funds		**2,270,531**	1,340,410
Compensation Fund Reserve Account		**40,535**	38,410
Time deposit with maturity over one year		**38,886**	38,768
Deferred tax assets		**3,330**	3,060
Other financial assets		**18,583**	17,162
Other assets		**3,212**	3,212
		2,766,490	1,875,302
CURRENT ASSETS			
Accounts receivable, prepayments and deposits	9	**10,201,562**	3,286,835
Lease premiums for land		**548**	547
Taxation recoverable		**-**	108
Margin Funds on derivatives contracts		**21,666,474**	13,648,581
Financial assets at fair value through profit or loss		**2,878,224**	2,643,788
Available-for-sale financial assets		**539,132**	-
Time deposits with original maturities over three months		**185,611**	116,622
Cash and cash equivalents		**2,215,257**	1,359,133
		37,686,808	21,055,614
CURRENT LIABILITIES			
Margin deposits from Clearing Participants on derivatives contracts		**21,666,474**	13,648,581
Accounts payable, accruals and other liabilities	10	**11,107,200**	3,641,071
Financial liabilities at fair value through profit or loss		**7,505**	1,443
Participants' admission fees received		**1,700**	2,550
Deferred revenue		**318,468**	284,851
Taxation payable		**287,368**	92,628
Provisions		**26,712**	27,145
		33,415,427	17,698,269
NET CURRENT ASSETS		**4,271,381**	3,357,345
TOTAL ASSETS LESS CURRENT LIABILITIES		**7,037,871**	5,232,647
NON-CURRENT LIABILITIES			
Participants' admission fees received		**79,750**	80,150
Participants' contributions to Clearing House Funds		**1,642,495**	751,751
Deferred tax liabilities		**14,003**	20,770
Financial guarantee contract		**19,909**	19,909
Provisions		**24,128**	22,596
		1,780,285	895,176
NET ASSETS		**5,257,586**	4,337,471
CAPITAL AND RESERVES			
Share capital		**1,065,448**	1,062,755
Share premium		**185,942**	150,405
Shares held for Share Award Scheme		**(51,297)**	(30,028)
Employee share-based compensation reserve		**52,119**	34,980
Revaluation reserves		**10,569**	(37,086)
Designated reserves		**668,262**	700,641
Retained earnings	11	**2,060,156**	1,776,254
Proposed/declared dividends	11	**1,266,387**	679,550
SHAREHOLDERS' FUNDS		**5,257,586**	4,337,471
SHAREHOLDERS' FUNDS PER SHARE		**$4.94**	$4.09

Notes:

1. These consolidated accounts have been prepared in accordance with HKFRSs issued by the HKICPA, which have been aligned with the requirements of IFRSs in all material respects as at 31 December 2006.

   In 2006, the Group adopted the revised HKAS 27: Consolidated and Separate Financial Statements, which was the only new / revised HKFRS effective in 2006 relevant to its operations.

   The adoption of the revised HKAS 27 has resulted in a change in accounting policy relating to the consolidation of special purpose entities (including trusts) of the Group. Trusts could not be consolidated under the previous HKAS 27 prior to 2006 as they were not considered as subsidiaries under the Hong Kong Companies Ordinance. The Companies (Amendment) Ordinance 2005, effective for accounting periods beginning on or after 1 January 2006, has removed the legal constraint that prevented a Hong Kong incorporated company from consolidating in its group accounts special purpose entities (including trusts) that are required to be consolidated under HKFRSs but did not meet the legal definition of a subsidiary under the then Hong Kong Companies Ordinance, and HKAS 27 has been revised accordingly.

   In 2005, the Board of HKEx approved the Share Award Scheme, under which shares of HKEx ("Awarded Shares") may be awarded to an Executive Director and employees of the Group. The Group has set up a trust, The HKEx Employees' Share Award Scheme ("HKEx Employee Share Trust"), for the purpose of administering the Share Award Scheme and holding the Awarded Shares before they vest. As HKEx has the power to govern the financial and operating policies of the HKEx Employee Share Trust and derives benefits from the contributions of the employees who have been awarded the Awarded Shares through their continued employment with the Group, the Group is required to consolidate the HKEx Employee Share Trust under the revised HKAS 27 in 2006.

   Further, in the fourth quarter of 2006, the Group early adopted all HKFRSs issued up to 31 December 2006 which were pertinent to its operations where early adoption is permitted. The only applicable HKFRS is HK(IFRIC)-INT 10: Interim Financial Reporting and Impairment.

   The early adoption of HK(IFRIC)-INT 10 does not have any financial impact on the Group in 2006 or prior years. In accordance with HK(IFRIC)-INT 10, the Group has changed its accounting policy relating to the reversal of impairment losses on goodwill and available-for-sale equity financial assets recognised in interim period. Under the new policy, impairment reported in the profit and loss account in the interim period will also be reported in the profit and loss account for the full financial year which includes that interim period, irrespective of whether conditions have improved at the year-end balance sheet date.

   The adoption of the revised HKAS 27 has the following impact on the consolidated profit and loss account:

	2006 **$'000**	2005 $'000
Increase in investment income	**6**	11
Increase in staff costs and related expenses	**(20)**	(1)
Total (decrease)/increase in profit	**(14)**	10
(Decrease)/increase in basic earnings per share	**(0.00 cents)**	0.00 cents
(Decrease)/increase in diluted earnings per share	**(0.00 cents)**	0.00 cents

   The adoption of the revised HKAS 27 has the following impact on the consolidated balance sheet as at 31 December 2006 and 31 December 2005:

	2006 **$'000**	2005 $'000
Increase/(decrease) in assets		
Contributions to HKEx Employee Share Trust	**(49,825)**	(30,037)
Cash and cash equivalents	**53**	20
Increase/(decrease) in liabilities/equity		
Accounts payable, accruals and other liabilities	**3**	1
Shares held for Share Award Scheme	**(51,297)**	(30,028)
Retained earnings	**1,522**	10

2. The Group's turnover comprises trading fees and trading tariff from securities and options traded on the Stock Exchange and derivatives contracts traded on the Futures Exchange, Stock Exchange listing fees, clearing and settlement fees, depository, custody and nominee services fees, income from sale of information, investment income (including investment income net of interest expenses of Clearing House Funds) and other income, which are **disclosed as Income** in the consolidated profit and loss account.

The Group's income is derived solely from business activities in Hong Kong. An analysis of the Group's income, results, assets, liabilities, capital expenditures and non-cash expenses for the year by business segment is as follows:

	2006					
	Cash Market $'000	**Derivatives Market $'000**	**Clearing Business $'000**	**Information Services $'000**	**Others $'000**	**Group $'000**
Income	**1,822,011**	**661,305**	**1,269,840**	**393,760**	**-**	**4,146,916**
Operating expenses						
Direct costs	**441,233**	**118,456**	**328,529**	**41,860**	**-**	**930,078**
Indirect costs	**129,091**	**39,745**	**92,250**	**19,409**	**-**	**280,495**
	570,324	**158,201**	**420,779**	**61,269**	**-**	**1,210,573**
Segment results	**1,251,687**	**503,104**	**849,061**	**332,491**	**-**	**2,936,343**
Share of profits less losses of associates	**1**	**-**	**27,123**	**-**	**-**	**27,124**
Segment profits before taxation	**1,251,688**	**503,104**	**876,184**	**332,491**	**-**	**2,963,467**
Taxation						**(444,898)**
Profit attributable to shareholders						**2,518,569**
Segment assets	**2,803,226**	**22,782,430**	**14,715,139**	**80,796**	**3,330**	**40,384,921**
Investments in associates	**-**	**-**	**68,377**	**-**	**-**	**68,377**
	2,803,226	**22,782,430**	**14,783,516**	**80,796**	**3,330**	**40,453,298**
Segment liabilities	**831,567**	**21,698,925**	**12,286,695**	**35,808**	**342,717**	**35,195,712**
Segment capital expenditures	**31,719**	**3,050**	**15,717**	**1,775**	**-**	**52,261**
Segment depreciation and amortisation	**25,538**	**9,633**	**61,112**	**4,152**	**-**	**100,435**
Segment (reversal of provision for)/provision for impairment losses	**146**	**(51)**	**(138)**	**(29)**	**-**	**(72)**
Segment other non-cash expenses	**13,306**	**3,291**	**7,416**	**1,119**	**-**	**25,132**

	2005 (As restated)					
	Cash Market $'000	Derivatives Market $'000	Clearing Business $'000	Information Services $'000	Others $'000	Group $'000
Income	1,172,854	441,758	753,699	325,757	-	2,694,068
Operating expenses						
Direct costs	429,042	111,812	305,821	46,703	-	893,378
Indirect costs	115,915	36,149	79,089	20,952	-	252,105
	544,957	147,961	384,910	67,655	-	1,145,483
Segment results	627,897	293,797	368,789	258,102	-	1,548,585
Share of profits less losses of associates	(3)	-	18,436	-	-	18,433
Segment profits before taxation	627,894	293,797	387,225	258,102	-	1,567,018
Taxation						(227,460)
Profit attributable to shareholders						1,339,558
Segment assets	2,157,514	14,616,310	6,028,404	60,939	3,168	22,866,335
Investments in associates	1,305	-	63,276	-	-	64,581
	2,158,819	14,616,310	6,091,680	60,939	3,168	22,930,916
Segment liabilities	608,183	13,697,352	4,106,773	35,451	145,686	18,593,445
Segment capital expenditures	68,364	2,875	12,416	2,148	-	85,803
Segment depreciation and amortisation	64,263	13,192	65,870	8,218	-	151,543
Segment provision for impairment losses	73	102	261	7	-	443
Segment other non-cash expenses	12,619	3,141	8,281	1,315	-	25,356

The **Cash Market** business mainly refers to the operations of the Stock Exchange, which covers all products traded on the Cash Market platforms, such as equities, debt securities, unit trusts, CBBCs, warrants and rights. Currently, the Group operates two Cash Market platforms, the Main Board and GEM. The major sources of income of the business are trading fees, trading tariff and listing fees. Costs of the Listing Function are treated as segment costs under the Cash Market.

The **Derivatives Market** business refers to the derivatives products traded on the Futures Exchange and stock options traded on the Stock Exchange, which includes the provision and maintenance of trading platforms for a range of derivatives products, such as equity and interest rate futures and options. Its income mainly comprises trading fees and investment income on the Margin Funds invested.

The **Clearing Business** refers to the operations of the three Clearing Houses, namely HKSCC, SEOCH and HKCC, which are responsible for clearing, settlement and custodian activities and the related risk management of the Cash and Derivatives Markets operated by the Group. Its income is derived primarily from investment income earned on the Clearing House Funds and fees from providing clearing, settlement, depository, custody and nominee services.

The **Information Services** business is responsible for developing, promoting, compiling and sales of real-time, historical as well as statistical market data and issuer information. Its income comprises primarily income from sale of Cash Market and Derivatives Market data.

In addition to the above, central income (mainly investment income of the Corporate Funds) and central costs (mainly costs of the support functions that centrally provide services to all of the business segments) are allocated to the business segments and included in the segment income and costs.

Assets and liabilities under **Others Segment** represent mainly taxation recoverable and payable, deferred tax assets and liabilities and unclaimed dividends declared by HKEx.

3. Investment income

	2006 $'000	As restated 2005 $'000
Interest income		
- bank deposits	**516,468**	246,740
- listed available-for-sale financial assets	**24,755**	11,852
- unlisted available-for-sale financial assets	**267,227**	78,064
	808,450	336,656
Interest expenses (note a)	**(442,670)**	(126,260)
Net interest income	**365,780**	210,396
Net realised and unrealised gains/(losses) and interest income on financial assets and financial liabilities at fair value through profit or loss		
On designation		
- bank deposits with embedded derivatives	**-**	266
Held for trading		
- listed securities	**163,640**	84,644
- unlisted securities	**49,521**	15,513
- exchange differences	**15,824**	(17,928)
	228,985	82,229
	228,985	82,495
Dividend income		
- listed financial assets at fair value through profit or loss	**6,115**	7,630
Other exchange differences on loans and receivables	**200**	(401)
Total investment income	**601,080**	300,120
Total investment income was derived from:		
Corporate Funds (note b)	**305,729**	119,198
Margin Funds	**246,732**	150,209
Clearing House Funds	**48,619**	30,713
	601,080	300,120

(a) The significant increase in interest expenses was mainly attributable to the increase in Margin Fund size, rising interest rates and a change in the benchmarked interest rate payable on cash margin deposits from 1 June 2005 onwards. In 2006, interest was paid on cash margin deposits based on the savings rate. Prior to 1 June 2005, interest was not always paid to the Participants as the interest rates payable on the cash margin deposits were often lower than the retention interest rates charged by HKCC and SEOCH on such cash margin deposits.

(b) Investment income derived from the Corporate Funds included investment income of the Compensation Fund Reserve Account of $2,026,000 (2005: $1,286,000).

4. Other income

	2006 $'000	2005 $'000
Network, terminal user, dataline and software sub-license fees	**180,372**	129,733
Participants' subscription and application fees	**33,927**	34,351
Brokerage on direct IPO applications	**57,066**	34,123
Trading booth user fees	**9,162**	-
Fair value gain of an investment property	**1,600**	4,400
Accommodation income on cash margin deposits in non-contract settlement currencies and securities deposited by Participants as alternatives to cash deposits of the Margin Funds	**3,164**	2,154
Miscellaneous income	**13,041**	16,256
	298,332	221,017

5. Other operating expenses

	2006 $'000	As restated 2005 $'000
Provision for/(reversal of provision for) impairment losses of trade receivables	**350**	(389)
(Reversal of provision for)/provision for impairment losses of leasehold buildings – revaluation (gain)/deficit	**(422)**	837
Insurance	**15,338**	16,187
Financial data subscription fees	**4,274**	4,954
Custodian and fund management fees	**8,420**	7,887
Bank charges	**11,476**	4,420
Repair and maintenance expenses	**7,821**	8,476
License fees	**8,857**	6,279
Communication expenses	**4,878**	4,659
Other miscellaneous expenses	**37,846**	49,034
	98,838	102,344

6. Taxation charge/(credit) in the consolidated profit and loss account represented:

	2006 $'000	2005 $'000
Provision for Hong Kong Profits Tax for the year (note a)	**454,121**	245,043
Over provision in respect of prior years	**(5)**	(8,845)
	454,116	236,198
Deferred taxation	**(9,218)**	(8,738)
	444,898	227,460

(a) Hong Kong Profits Tax has been provided for at 17.5 per cent (2005: 17.5 per cent) on the estimated assessable profit for the year.

7. Dividends

	2006 $'000	As restated 2005 $'000
Interim dividend paid:		
$0.94 (2005: $0.49) per ordinary share	**1,001,219**	520,567
Less: Dividend for shares held by HKEx Employee Share Trust	**(912)**	-
	1,000,307	520,567
Final dividend proposed/declared (notes a and b):		
$1.19 (2005: $0.64) per ordinary share based on issued share capital as at balance sheet date	**1,267,884**	680,163
Less: Dividend for shares held by HKEx Employee Share Trust as at balance sheet date	**(1,497)**	(613)
	1,266,387	679,550
	2,266,694	1,200,117

(a) Actual 2005 final dividend paid was $680,588,000 (after eliminating $614,000 paid for shares held by HKEx Employee Share Trust of which $1,000 relates to shares acquired by HKEx Employee Share Trust in January 2006), of which $1,039,000 was paid for shares issued for employee share options exercised after 31 December 2005.

(b) The final dividend proposed after balance sheet date has not been recognised as a liability at the balance sheet date.

8. Earnings per share

The calculation of the basic and diluted earnings per share is as follows:

(a) Basic earnings per share

	2006	As restated 2005
Profit attributable to shareholders ($'000)	**2,518,569**	1,339,558
Weighted average number of ordinary shares in issue less shares held for Share Award Scheme	**1,063,493,204**	1,060,349,075
Basic earnings per share	**$2.37**	$1.26

(b) Diluted earnings per share

	2006	As restated 2005
Profit attributable to shareholders ($'000)	**2,518,569**	1,339,558
Weighted average number of ordinary shares in issue less shares held for Share Award Scheme	**1,063,493,204**	1,060,349,075
Effect of employee share options	**11,592,735**	6,598,114
Effect of Awarded Shares	**956,325**	27,616
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**1,076,042,264**	1,066,974,805
Diluted earnings per share	**$2.34**	$1.26

9. The Group's accounts receivable, prepayments and deposits amounted to $10,201,562,000 (2005: $3,286,835,000). These mainly represented the Group's Continuous Net Settlement ("CNS") money obligations receivable under the T+2 settlement cycle, which accounted for 94 per cent (2005: 88 per cent) of the total accounts receivable, prepayments and deposits. CNS money obligations receivable mature within two days after the trade date. Fees receivable are due immediately or up to 30 days depending on the type of services rendered. The majority of the remaining accounts receivable, prepayments and deposits would mature within three months.

10. The Group's accounts payable, accruals and other liabilities amounted to $11,107,200,000 (2005: $3,641,071,000, as restated). These mainly represented the Group's CNS money obligations payable under the T+2 settlement cycle, which accounted for 86 per cent (2005: 79 per cent) of the total accounts payable, accruals and other liabilities. CNS money obligations mature within two days after the trade date. The majority of the remaining accounts payable, accruals and other liabilities would mature within three months.

11. Retained earnings (including proposed/declared dividends)

	2006 $'000	As restated 2005 $'000
At 1 Jan, as previously reported		
Retained earnings	**1,775,631**	1,658,055
Proposed/declared dividends	**680,163**	496,620
	2,455,794	2,154,675
Effect of initial adoption of revised HKAS 27	**10**	-
At 1 Jan, as restated	**2,455,804**	2,154,675
Profit attributable to shareholders (note a)	**2,518,569**	1,339,558
Surplus of investment income net of expenses of Clearing House Funds transferred to Clearing House Funds reserves	**(37,840)**	(29,350)
Investment and other income net of expenses of Compensation Fund Reserve Account transferred to Compensation Fund Reserve Account reserve	**(2,026)**	(1,303)
Transfer from Development reserve	**72,245**	11,008
	32,379	(19,645)
Unclaimed dividend forfeited	**686**	-
Dividends:		
2005/2004 final dividend	**(679,549)**	(496,620)
Dividend on shares issued for employee share options exercised after 31 Dec 2005/31 Dec 2004	**(1,039)**	(1,597)
	(680,588)	(498,217)
2006/2005 interim dividend	**(1,000,050)**	(519,988)
Dividend on shares issued for employee share options exercised after 30 Jun 2006/30 Jun 2005	**(257)**	(579)
	(1,000,307)	(520,567)
At 31 Dec	**3,326,543**	2,455,804
Representing:		
Retained earnings	**2,060,156**	1,776,254
Proposed/declared dividends	**1,266,387**	679,550
At 31 Dec	**3,326,543**	2,455,804

(a) The Group's profit attributable to shareholders included a net profit attributable to investment and other income net of expenses after taxation of the Clearing House Funds and Compensation Fund Reserve Account for an aggregate amount of $39,866,000 (2005: $30,653,000).

PROSPECTS

The improving local economy and rapid economic growth of our country should continue to drive the development of the financial markets in Hong Kong. The increasing economic integration between the Mainland and Hong Kong provides favourable conditions for our business growth and development.

China's 11th Five-Year Plan laid down the roadmap for the sustainable economic development of the Mainland in the coming five years. Mainland enterprises of all sizes are seeking to raise additional capital for their expansion plans and they, after their primary offerings, are expected to continue their fund-raising activities in order to buttress their business development. Meanwhile, through listing in Hong Kong, improvement in their governance structure has been escalated by the adoption of international standards and best practices, and it also raises their international profile. Mainland listings will remain an important source of growth for the Hong Kong securities market in the foreseeable future although the need for equity funding may come from different sectors of the economy, and may be of a different scale and complexity.

The relaxation of limitations on offshore investments through the Qualified Domestic Institutional Investor (QDII) scheme in April 2006 is likely to induce capital outflow from the Mainland to overseas markets. As Hong Kong has a geographical advantage, and is in the same time zone, a substantial portion of the Mainland funds is expected to be invested in our financial products. As a result, Hong Kong's role as the Mainland's global investment platform will grow further.

As the convenor of the Securities Market Sub-group under the Focus Group on Financial Services of the Economic Summit on "China's 11th Five-Year Plan and the Development of Hong Kong", I am pleased to have the support of my group members who are experts and professionals in the Cash and Derivatives Markets in Hong Kong. The Sub-group conducted an in-depth examination of specific issues relating to the development of our markets, and submitted our recommendations to the Government in December 2006.

While China's continued economic ascension offers us the opportunity to further prosper, we have to prepare well for keener competition arising from the further opening of the Mainland markets. In tandem with share structure reforms and progressive moves towards international regulatory and accounting standards, the Mainland has revived the A-share market to provide capital formation services. However, some concerns have been expressed over the price differential between A and H shares in the same listed company, which in some instances see the A share price some 60 per cent higher than its H equivalent. This difference may well account for some of the volatility that we have experienced in our market as well as the calls for products or mechanisms to enable arbitrage between the Hong Kong and Mainland markets. Obviously any move in that direction will require agreement in both markets particularly as the Renminbi is not yet freely convertible. Furthermore, doubts have also been expressed as to the effectiveness of any such measures. In the end, each market will be left to decide what may be in its own best interest that may of course include measures to avoid excessive volatility and price differentials. In addition, the gradual liberalisation of the Renminbi, the resumption of financial futures trading in a dedicated exchange on the Mainland and the potential launch of a new growth enterprise market all point to the need for Hong Kong not to be complacent.

Competition for Mainland listings from overseas exchanges is also intensifying, and there is a growing trend for the listing and trading of derivatives and structured products based on China's underlying securities in the global market. Additionally, consolidation and formation of alliances among international exchanges is actively underway, with the aim of creating cross-border synergies. While HKEx will closely monitor the development of exchange mergers and acquisitions, we remain focused on our existing core businesses and expansion of our international profile by allowing overseas companies, particularly those incorporated in other Asian countries, to list in Hong Kong.

However, we must not forget that beyond the Mainland and Hong Kong there are other potential IPO issuers that may find Hong Kong attractive as an international financial centre, including for post IPO fund-raising. We believe that in the Asian time zone Hong Kong's capital market is fair, transparent and properly regulated and governed, and has the depth to make it comparable to the markets of New York and London.

Our mission is to be a leading international marketplace for securities and derivatives products focused on Hong Kong, Mainland China and the rest of Asia. The Strategic Plan for 2007 – 2009 lays down the direction for HKEx ahead in pursuing our mission. We look forward to the continuing active involvement and crucial support of market participants and the investing community in our plan to further develop Hong Kong's financial markets and reinforce Hong Kong's status as an international financial centre.

FINAL DIVIDEND

The Board recommends a final dividend of $1.19 per share (2005: $0.64) for the year ended 31

December 2006 to be paid to shareholders of HKEx ("Shareholders"). Together with the interim dividend of $0.94 per share, this will bring the total dividend distribution for the year to $2.13 per share (2005:$1.13).

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Monday, 23 April 2007 to Thursday, 26 April 2007, both dates inclusive, during which period, no transfer of shares will be registered. Dividend warrants will be despatched to Shareholders on or about Tuesday, 8 May 2007. In order to qualify for the proposed final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with HKEx's registrar, Hong Kong Registrars Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 pm on Friday, 20 April 2007.

ANNUAL GENERAL MEETING

The annual general meeting ("AGM") will be held at the Exchange Auditorium in the Exchange Exhibition Hall of the Stock Exchange on 1st Floor, One and Two Exchange Square, Central, Hong Kong on Thursday, 26 April 2007 at 4:30 pm. The Notice of AGM will be published in the *South China Morning Post* and *Hong Kong Economic Times* and despatched to Shareholders on or about Wednesday, 28 March 2007.

APPOINTMENT AND ELECTION OF DIRECTORS

The Board currently consists of 13 Directors, including six Directors appointed by the Financial Secretary of Hong Kong ("Government Appointed Directors"), six Directors elected by Shareholders ("Elected Directors") and one *ex-officio* Director.

The terms of office of three Government Appointed Directors, namely Dr Marvin K T Cheung, Mr Henry H L Fan and Mr Fong Hup, will expire at the conclusion of the AGM. The Financial Secretary has not yet informed HKEx of the persons whom he intends to appoint or re-appoint as Directors upon the retirement of the aforesaid three Directors. An announcement will be made once HKEx has received the notices of appointment from the Financial Secretary.

Additionally, the terms of office of two Elected Directors, namely Mr John E Strickland and Mr Oscar S H Wong, will expire at the conclusion of the AGM. Pursuant to Article 93(5) of the Articles of Association of HKEx ("Articles of Association"), both of them are eligible for re-appointment. The Nomination Committee has nominated, and the Board has recommended Mr John E Strickland and Mr Oscar S H Wong to stand for re-election as Directors at the AGM.

Shareholders are invited to elect up to two Directors at the AGM to fill the vacancies available due to the retirement of the two said Elected Directors. According to Article 90(1A) of the Articles of Association, the two Directors to be elected at the AGM will be appointed for a term of not more than approximately three years expiring at the conclusion of HKEx's annual general meeting to be held in 2010.

A circular containing, inter alia, the Notice of AGM and further information concerning nomination and election of Directors will be sent to Shareholders on or about 28 March 2007.

CORPORATE GOVERNANCE

The Articles of Association were amended in 2005 to specify that all Directors (Government Appointed Directors and Elected Directors), other than the Chief Executive who is an ex-officio

Director and whose term of service on the Board is subject to the term of his employment contract with HKEx, are appointed for a term of not more than three years, but shall be eligible for re-appointment upon retirement.

As governed by Section 77 of the SFO, the Government Appointed Directors are not subject to election or re-election by Shareholders. As governed by the Articles of Association, the Chief Executive in his capacity as a Director is not subject to election or re-election by Shareholders. Saved as disclosed in this paragraph, HKEx fully complied with all the provisions set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 to the Main Board Listing Rules, and where appropriate, adopted the recommended best practices throughout the review period.

HKEx has developed a Corporate Governance Section on its corporate website. Details of HKEx's key governance principles, practices and a complete checklist summarising HKEx's achievements in complying with the provisions under the CG Code are available on the website.

REVIEW OF ACCOUNTS

The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2006, including the accounting principles and practices adopted by the Group, in conjunction with HKEx's external auditors and internal auditors.

PURCHASE, SALE OR REDEMPTION OF HKEx'S LISTED SECURITIES

During the year ended 31 December 2006, HKEx had not redeemed, and neither had HKEx nor any of its subsidiaries purchased or sold, any of HKEx's listed securities, except that the trustee of the Share Award Scheme had, pursuant to the terms of the rules and trust deed of the Share Award Scheme, purchased from the market a total of 274,500 shares of HKEx ("Shares") being the Awarded Shares (2,000 of which related to the Shares awarded in 2005 and the remaining balance was acquired with the sum approved by the Board on 13 December 2006) and a further 25,500 Shares with the dividend income received during the year in respect of the Shares held under the trust. The total amount paid to acquire these 300,000 Shares during the year was about $21,269,000.

PUBLICATION OF THE FINAL RESULTS AND ANNUAL REPORT

This results announcement is published on HKEx's corporate website at http://www.hkex.com.hk/relation/relation.htm and the website of the Stock Exchange. The 2006 Annual Report will be despatched to Shareholders on or about Wednesday, 28 March 2007 and will be available at HKEx's corporate website at the same time.

BOARD OF DIRECTORS

As at the date of this announcement, the Board of Directors of Hong Kong Exchanges and Clearing Limited comprises 12 Independent Non-executive Directors, namely Mr ARCULLI, Ronald Joseph (Chairman), Mrs CHA May-Lung, Laura, Mr CHENG Mo Chi, Moses, Dr CHEUNG Kin Tung, Marvin, Mr FAN Hung Ling, Henry, Mr FONG Hup, Dr KWOK Chi Piu, Bill, Mr LEE Kwan Ho, Vincent Marshall, Dr LOH Kung Wai, Christine, Mr STRICKLAND, John Estmond, Mr WEBB, David Michael and Mr WONG Sai Hung, Oscar, and one Executive Director, Mr CHOW Man Yiu, Paul, who is also the Chief Executive.

By Order of the Board
Hong Kong Exchanges and Clearing Limited
Ronald Joseph Arculli
Chairman

Hong Kong, 8 March 2007

Please also refer to the published version of this announcement in the South China Morning Post on 9 March 2007.