HKEX

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

Quarterly Report 2006

For the three months ended 31 March

Stock Code: 388

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Independent Non-executive Chairman

ARCULLI, Ronald Joseph* GBS, JP
(appointment since 26 April 2006 and became Chairman effective 28 April 2006)

LEE Yeh Kwong, Charles* GBS, JP
(retired on 26 April 2006)

Executive Director, Chief Executive

CHOW Man Yiu, Paul SBS, JP

Independent Non-executive Directors

CHA May-Lung, Laura* SBS
(appointment effective 26 April 2006)

CHENG Mo Chi, Moses* GBS, JP
(appointment effective 26 April 2006)

CHEUNG Kin Tung, Marvin* SBS, JP

FAN Hung Ling, Henry* SBS, JP

FONG Hup*

FRESHWATER, Timothy George*
(retired on 26 April 2006)

KWOK Chi Piu, Bill

LEE Jor Hung, Dannis BBS
(retired on 26 April 2006)

LEE Kwan Ho, Vincent Marshall

LO Ka Shui* GBS, JP
(retired on 26 April 2006)

LOH Kung Wai, Christine
(elected on 26 April 2006)

STRICKLAND, John Estmond GBS, JP

WEBB, David Michael
(re-elected on 26 April 2006)

WONG Sai Hung, Oscar

* *Government Appointed Directors*

COMMITTEES

Audit Committee

STRICKLAND, John Estmond *(Chairman)*

FONG Hup *(Deputy Chairman)*

CHENG Mo Chi, Moses
(appointment effective 27 April 2006)

CHEUNG Kin Tung, Marvin

FAN Hung Ling, Henry
(resigned on 27 April 2006)

LEE Kwan Ho, Vincent Marshall

Executive Committee

ARCULLI, Ronald Joseph *(Chairman)*
(appointment effective 28 April 2006)

LEE Yeh Kwong, Charles *(ex-Chairman)*
(retired on 26 April 2006)

CHOW Man Yiu, Paul

CONROY, Patrick Kevin
(retired on 27 April 2006)

FONG Hup
(appointment effective 27 April 2006)

KWOK Chi Piu, Bill

LEE Jor Hung, Dannis
(retired on 26 April 2006)

LEE Kwan Ho, Vincent Marshall
(appointment effective 27 April 2006)

Investment Advisory Committee

FAN Hung Ling, Henry *(Chairman)*
(appointment effective 27 April 2006)

FRESHWATER, Timothy George *(ex-Chairman)*
(retired on 26 April 2006)

WONG Sai Hung, Oscar *(Deputy Chairman)*

CHA May-Lung, Laura
(appointment effective 27 April 2006)

SUN Tak Kei, David

WEBB, David Michael
(re-appointment effective 27 April 2006)

Nomination Committee

ARCULLI, Ronald Joseph *(Chairman)*
(appointment effective 27 April 2006)

LEE Yeh Kwong, Charles *(ex-Chairman)*
(retired on 26 April 2006)

FONG Hup

LEE Kwan Ho, Vincent Marshall

WEBB, David Michael
(re-appointment effective 27 April 2006)

WONG Sai Hung, Oscar

Panel Member Nomination Committee
(established on 12 April 2006)

CHA May-Lung, Laura
(appointment effective 27 April 2006)

FONG Hup

KWOK Chi Piu, Bill

LEE Jor Hung, Dannis
(retired on 26 April 2006)

LEE Kwan Ho, Vincent Marshall

WONG Sai Hung, Oscar

Remuneration Committee

CHEUNG Kin Tung, Marvin *(Chairman)*
(appointment effective 27 April 2006)

LO Ka Shui *(ex-Chairman)*
(retired on 26 April 2006)

CHENG Mo Chi, Moses
(appointment effective 27 April 2006)

FONG Hup
(appointment effective 27 April 2006)

LEE Jor Hung, Dannis
(retired on 26 April 2006)

LEE Kwan Ho, Vincent Marshall
(appointment effective 27 April 2006)

LOH Kung Wai, Christine
(appointment effective 27 April 2006)

Risk Management Committee
(established under Section 65 of the Securities and Futures Ordinance)

ARCULLI, Ronald Joseph *(Chairman)*
(appointment effective 28 April 2006)

LEE Yeh Kwong, Charles *(ex-Chairman)*
(retired on 26 April 2006)

CHAN Ka-lok**

FAN Hung Ling, Henry

FONG Hup**

HE Guangbei**
(appointment effective 20 January 2006)

KWOK Chi Piu, Bill

WHEATLEY, Martin**

WONG Tung-shun, Peter**
(retired on 19 January 2006)

YUE Wai Man, Eddie**

** *Appointed by the Financial Secretary*

COMPANY SECRETARY

MAU Kam Shing, Joseph

AUTHORISED REPRESENTATIVES

CHOW Man Yiu, Paul

MAU Kam Shing, Joseph

AUDITORS

PricewaterhouseCoopers

LEGAL ADVISERS

Allen & Overy

FINANCIAL HIGHLIGHTS

(Financial figures are expressed in Hong Kong Dollar)

	Three months ended 31 Mar 2006	Three months ended 31 Mar 2005	Change
KEY MARKET STATISTICS			
Average daily turnover value on the Stock Exchange	**$31.2 billion**	$18.4 billion	70%
Average daily number of derivatives contracts traded on the Futures Exchange	**87,755**	63,885	37%
Average daily number of stock options contracts traded on the Stock Exchange	**61,863**	26,583	133%

	Unaudited Three months ended 31 Mar 2006 $'000	Unaudited Three months ended 31 Mar 2005 $'000	
RESULTS			
Income	**854,127**	574,252	49%
Operating expenses	**292,527**	282,675	3%
Operating profit	**561,600**	291,577	93%
Share of profits less losses of associates	**3,220**	2,617	23%
Profit before taxation	**564,820**	294,194	92%
Taxation	**(85,981)**	(48,773)	76%
Profit attributable to shareholders	**478,839**	245,421	95%
Earnings per share	**$0.45**	$0.23	96%

	Unaudited at 31 Mar 2006 $'000	As restated Audited at 31 Dec 2005 $'000	
KEY BALANCE SHEET ITEMS			
Shareholders' funds	**4,839,614**	4,337,471 Φ	12%
Total assets *	**28,411,078**	22,930,916 Φ	24%
Net assets per share #	**$4.56**	$4.09 Φ	11%

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

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

Based on 1,062,462,846 shares as at 31 March 2006, being 1,063,422,846 shares issued and fully paid less 960,000 shares held for the HKEx Share Award Scheme (31 December 2005: 1,061,796,846 shares, being 1,062,754,846 shares issued and fully paid less 958,000 shares held for the HKEx Share Award Scheme)

MANAGEMENT DISCUSSION AND ANALYSIS

(Financial figures are expressed in Hong Kong Dollar)

BUSINESS REVIEW

Listing

Revision of Mechanisms for Disseminating Regulatory Information by Main Board Issuers

The Listing Committee and the GEM Listing Committee (collectively "Listing Committees") have considered market comments on the exposure paper on the abolition of the requirement for Main Board issuers to publish paid announcements in newspapers and approved the proposed related amendments to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (collectively "Listing Rules"). The proposed requirement to publish a notification in newspapers will be implemented subject to system and operational readiness and approval of the relevant rule amendments by the Securities and Futures Commission ("SFC").

New Structure for Listing Decision-Making

In February 2006, Hong Kong Exchanges and Clearing Limited ("HKEx") announced the conclusions to its consultation regarding a new structure for listing decision-making and the rule amendments for implementing phase 1 changes to the composition and structure of the Listing Committees. Conclusions on the balance of the consultation proposals were put on hold pending resolution of a judicial review concerning the procedures of the Listing Committees and the content of the proposed Securities and Futures (Stock Market Listing) Rules which will codify some of the obligations currently in the Listing Rules.

The judicial review of the case involving The Stock Exchange of Hong Kong Limited ("Stock Exchange") and New World Development Company Limited & Others was concluded in favour of the Stock Exchange on 6 April 2006. As part of the Court of Final Appeal ("CFA")'s judgement, the Stock Exchange was awarded recovery of its costs incurred in the hearings before the CFA and before the Court of Appeal and Court of First Instance. The total of these costs is in excess of $6 million and the Stock Exchange expects to recover most of the sum.

The Stock Exchange is studying the CFA's judgement and its implications on the second phase of the project which will commence once the proposal for legislating part of the Listing Rules has been resolved.

Review of the Growth Enterprise Market ("GEM")

HKEx published a discussion paper on 20 January 2006 to facilitate public discussion of the GEM for the purpose of enhancing its further development and ensuring that its objectives and functions appropriately align with the expectations and needs of various market stakeholders. So far, 12 submissions have been received and the submission deadline has been extended to the end of May 2006.

Processing of Initial Public Offerings ("IPOs")

In the first quarter of 2006, the IPO Transactions Department held a series of meetings with the 10 most frequent sponsors of IPO transactions in 2005 to discuss the administration of the IPO process. The Department has rotated certain staff to bring fresh perspective to the process review and adopted a revised standard format for comment letters to ensure that enquiries/issues are presented in a consistent manner.

Establishment of the China Affairs Team

A China Affairs Team ("Team") was established in February 2006 to lead the Listing Division's liaison with the China Securities Regulatory Commission ("CSRC") and other Mainland authorities and to co-ordinate training programmes for Mainland enterprises. In March 2006, the Team members attended the 35^{th} meeting in Shanghai pursuant to the Memorandum of Regulatory Cooperation entered into between HKEx, the SFC, the CSRC and the Shanghai and Shenzhen Stock Exchanges.

The Team is preparing a series of training seminars and workshops for Mainland enterprises to be held at HKEx's representative office in Beijing, with a view to enhancing their understanding of the regulatory requirements in Hong Kong.

Implementation of a Comprehensive Electronic Management System for the Listing Division

A Project Manager has been appointed to lead a comprehensive electronic management system project. A visit to the United Kingdom Listing Authority was made in February 2006 to better understand their business workflow and their Electronic Listing Management System.

Cash Market

Market Performance

In the first quarter of 2006, 12 companies were newly listed on the Main Board and three companies on the GEM. The total capital raised, including post-listing funds, reached about $33 billion. As at 31 March 2006, 940 and 201 companies were listed on the Main Board and the GEM respectively with a total market capitalisation of about $9,416 billion. In addition, there were 1,366 derivative warrants, eight Exchange Traded Funds, three Real Estate Investment Trusts and 165 debt securities listed as at the end of March 2006. The average daily turnover in the first quarter of 2006 was about $31 billion on the Main Board and about $204 million on the GEM.

Renovation of Trading Hall

The refurbished Trading Hall re-opened on 16 January 2006. Of the total 294 dealing desks set up in the trading area, 286 dealing desks have been subscribed by Exchange Participants ("EPs") for trading, four have been assigned for backup use and another four converted for internet access by EPs. Another 16 trading terminals for backup use are located outside the Trading Hall.

HKEx held a ceremony to mark the Grand Opening of the Exchange Trading and Exhibition Hall Complex, which was officiated by the Honourable Donald Tsang, the Chief Executive of Hong Kong Special Administrative Region, on 26 April 2006.

Trading System Enhancement

Due to technological obsolescence, the majority of the existing Open Gateways and Multi-workstation System servers and workstations have to be replaced. It is expected that the replacement work will be completed in early 2007.

Market Infrastructure Improvements

In February 2006, the Board approved the Phase 2 proposal for the reduction of minimum spreads, which applies to securities trading between \$0.25 and \$20. HKEx will carefully consider the implementation schedule to give EPs and other market participants sufficient time to make the necessary operational and system changes. Subject to approval of the relevant rule amendments by the SFC, the Phase 2 proposal is expected to be implemented in July this year.

HKEx welcomes the SFC's implementation of the Six-Point Plan proposed in its November 2005 Report on the Derivative Warrants Market in Hong Kong. Many of the proposals will require changes to the Listing Rules and hence approval of the Listing Committees. HKEx will work closely with the SFC and the industry to finalise and implement the initiatives deemed appropriate for further improving the derivative warrants market in Hong Kong.

In respect of the Six-Point Plan, the proposal to enhance investor education and information dissemination is already underway and will continue. HKEx is working on a web-based Derivative Warrants Resource Centre ("DWRC") for investors to increase their awareness of the risks and features of derivatives warrants and contribute to the development of a healthy market where informed investors may participate with confidence. It is expected that the DWRC will be ready for use in the second quarter of this year.

Product Development

HKEx has invited structured product issuers to issue Callable Bull/Bear Contracts. The product is expected to be launched in June this year and the relevant market infrastructure is being developed.

Derivatives Market

Market Performance

In the first quarter of 2006, the products that achieved record highs are highlighted as follows:

	Record High Daily Volume		Record High Open Interest	
Products	**Date**	**Number of Contracts**	**Date**	**Number of Contracts**
Hang Seng Index Futures	28 Mar	157,327	–	–
Hang Seng Index Options	9 Jan	27,197	–	–
Mini Hang Seng Index Futures	20 Jan	10,149	–	–
H-shares Index Futures	24 Feb	55,933	24 Feb	64,317
H-shares Index Options	9 Mar	6,476	29 Mar	73,106
Stock Options	27 Feb	144,596	29 Mar	2,028,227

Product and Market Development

The stock options market has been growing steadily with 41 option classes available for trading as at the end of March 2006 (37 as at the first quarter of 2005). The average daily turnover increased from 26,583 contracts in the first three months of last year to 61,863 contracts in the first quarter of 2006. Similarly, open interest at the end of the first quarter this year increased by 69 per cent from the corresponding period in 2005. To keep pace with market growth and development, in particular to meet the increasing trading and hedging needs of EPs and their clients, a new higher and simpler position limit for stock options was introduced on 10 February 2006.

To enable EPs to execute options strategies more efficiently, the standard combination order function currently used in futures trading on HKEx's Derivatives Market was extended to Hang Seng Index ("HSI") Options in March 2006.

On 31 March 2006, HKEx introduced three additional long-dated contract months to HSI Options with maximum maturities of up to 3.5 years and three new long-dated contract months to H-shares Index Options contracts with maximum maturities of up to 2.5 years, targeting over-the-counter trades and further building open interest.

Participant and Investor Education

A Joint Educational Programme of six months was started in January 2006 to increase retail investors' knowledge of stock options. HKEx also supported seminars organised by Options Trading EPs for the public and their staff by providing sponsorship and speakers.

In addition, training programmes on Hong Kong Futures Automated Trading System ("HKATS") are often conducted for EPs' traders to familiarise them with the system.

Clearing

Fee Review of the Central Clearing and Settlement System ("CCASS")

The scrip fee assessed on deemed book close dates was eliminated effective 1 January 2006.

CCASS Nominee Services Improvements

With effect from 3 January 2006, a series of nominee services was improved. The services include the provision of a corporate action data download function, cancellation and re-input of authorised instructions, credit of scrip entitlement to participants' stocks accounts on a real-time basis and extension of the service hours of various nominee functions.

Expanding Admission of Investor Participants ("IPs") to the CCASS

The National Council for Social Security Fund of the People's Republic of China ("NCSSF") was admitted to the CCASS as a Corporate IP in March 2006. Upon the admission, the NCSSF as an IP can deposit 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.

After seeking legal advice on expanding admission of IPs to the CCASS to residents and corporations outside Hong Kong, it has been decided that admission will first be expanded to Macau residents and corporations.

Risk Management Measures

To strengthen risk management measures on non-contract currency cash collateral, no less than 50 per cent of the total margin requirement of any participant of the HKFE Clearing Corporation Limited ("HKCC") and The SEHK Options Clearing House Limited ("SEOCH") must be in the form of cash and denominated in the relevant contract currency with effect from 3 January 2006.

Default of Participants

In 2003, Tai Wah Securities Limited failed to meet its obligations to Hong Kong Securities Clearing Company Limited ("HKSCC") and it is now in liquidation. Partial recovery has been made and the balance currently stands at about $1.8 million. Upon completion of the liquidation process, any remaining balance will be recovered from the HKSCC Guarantee Fund.

The HKCC petition to wind-up Yicko Futures Limited ("Yicko") as a result of Yicko's failure to meet its obligations to HKCC was granted by the Court in April 2006. The Official Receiver was appointed as the provisional liquidator. HKCC will be filing a proof of debt against the assets of Yicko. Any deficiencies not recoverable from the liquidation process will be claimed from the HKCC Reserve Fund.

Business Development

Promotion Activities for Prospective Mainland Issuers

HKEx continues in its efforts to proactively promote Hong Kong as a listing and fund-raising venue of choice to prospective Mainland issuers. HKEx co-organised a seminar with the Hebei Provincial Government to introduce the advantages of listing in Hong Kong. It also participated in various conferences and seminars to promote Hong Kong in different cities in the Mainland and conducted one-to-one meetings with potential issuers.

In support of the Pan-Pearl River Delta ("PRD") Co-operation initiative of the Hong Kong Government, HKEx participated in the Pan-PRD Financial Services Forum to promote the world-class financial services available in Hong Kong to Pan-PRD provincial/regional governments as well as representatives from enterprises in the region.

Introducing the Stock Exchange to other Asian Potential Issuers

With the aim of making Hong Kong the preferred hub for raising capital in the region, HKEx has stepped up efforts to promote Hong Kong's strengths as an international financial centre and a major venue for raising funds to potential issuers outside Mainland China. In the first quarter of 2006, HKEx representatives visited Dubai and Jeddah in Saudi Arabia and delivered speeches and presentations in various listing conferences in Asian cities such as Tokyo, Taiwan and Bangkok and met with prospective issuers on an individual basis.

Information Services

System Enhancements

In anticipation of the continuous growth of the stock options market, HKEx has upgraded the system capacity of its real-time derivatives information feed to handle higher data throughput. HKEx also increased the throttle rate on derivatives feeds to 250 messages per second ("mps") for derivatives services with price depth and to 150 mps without price depth.

Publication of the HKEx Fact Book

The HKEx Fact Book 2005 was published in early March 2006 to provide market participants with a quick and comprehensive reference to recent developments in the Cash and Derivatives Markets in Hong Kong. The book includes market index movements, trading statistics and analysis, corporate activities of listed companies, fund-raising figures, historical statistics as well as market surveys on the investing community.

Service Improvements

HKEx changed the temporary programme for the Alternate Submission of Quote Meter Audit Report to a standing policy with effect from January 2006 to enable vendors to launch Usage Based Services in a more cost-effective way. Moreover, HKEx revised the Guideline for Switching the Fee Scheme for Usage Based Services Subscribers in February 2006 to provide more certainty and flexibility to information vendors and their subscribers, with a monthly flat fee instead of the higher capped fee with high data usage.

Information Technology

Production Systems Stability and Reliability

Up to the end of March 2006, all major trading, clearing and settlement and market data dissemination systems for the Cash and Derivatives Markets maintained 100 per cent operational system uptime. As a quality market can only be built on a stable, reliable and efficient market infrastructure, HKEx is committed to upholding this highest standard of system stability and reliability.

Capacity Planning and Upgrade

The capacity of the HKATS, Derivatives Clearing & Settlement System ("DCASS") and Price Reporting System was upgraded successfully in phases in January and February 2006 to keep pace with the further growth and development of the Derivatives Market.

Obsolescent Technology Replacement and System Upgrade

Due to technological obsolescence, HKEx is in the process of upgrading the middle-tier system software for the Latest Generation of the Central Clearing & Settlement System ("CCASS/3"). It expects to complete the upgrade by the second half of 2006.

HKEx is also upgrading the Third Generation Automatic Order Matching and Execution System ("AMS/3") Open Gateway and Multi-workstation hardware and system software to increase the trading device's processing capability and to secure quality maintenance and support from vendors. The upgrade will be conducted in phases until the fourth quarter of 2006. The system software for HKATS and DCASS Network Gateway will be upgraded to the latest version as well.

System Consolidation and Operation Efficiency

The second phase of the SDNet migration for CCASS/3 participants is in progress. The installation of optical fibre and network circuits has been completed. Production readiness tests and market rehearsals are being conducted as scheduled. The participants' circuits of CCASS/3 will be migrated onto the SDNet by the second quarter of 2006.

HKEx has completed the phase 1 redevelopment of the derivatives market risk management systems to further improve operational efficiency and proceeded with phase 2 work.

An improvement feasibility study on the AMS/3 trading system performance throughput has kicked off to explore practical ways to realise the benefits from the technological advancement of the HP Non-stop platform and to prepare for the migration of AMS/3 to a higher version of server technology. This feasibility study is targeted for completion in the second half of 2006.

Treasury

The Group's funds available for investment comprise Corporate Funds, Margin Funds and Clearing House Funds, totalling $22.4 billion on average for the three months ended 31 March 2006 (2005: $15.8 billion).

As compared with 31 December 2005, the overall size of funds available for investment as at 31 March 2006 increased by 17 per cent or $3.3 billion to $22.5 billion (31 December 2005: $19.2 billion). Details of the asset allocation of the investments as at 31 March 2006 against those as at 31 December 2005 are set out below.

	Investment Fund Size $ billion		Bonds		Cash or Bank Deposits		Global Equities	
	Mar 2006	Dec 2005	**Mar 2006**	Dec 2005	**Mar 2006**	Dec 2005	**Mar 2006**	Dec 2005
Corporate Funds	**5.2**	4.2	**45%**	56%	**48%**	37%	**7%**	7%
Margin Funds	**15.6**	13.6	**18%**	28%	**82%**	72%	**0%**	0%
Clearing House Funds	**1.7**	1.4	**6%**	17%	**94%**	83%	**0%**	0%
Total	**22.5**	19.2	**23%**	33%	**75%**	65%	**2%**	2%

Investments are kept sufficiently liquid to meet the Group's operating needs and possible liquidity requirements of the Clearing House Funds and Margin Funds. Excluding equities held under the Corporate Funds ($0.3 billion as at 31 March 2006 and 31 December 2005), which have no maturity date, the maturity profiles of the remaining investments as at 31 March 2006 ($22.2 billion) and 31 December 2005 ($18.9 billion) were as follows:

	Investment Fund Size $ billion		Overnight		>Overnight to 1 month		>1 month to 1 year		>1 year to 3 years		> 3 years	
	Mar 2006	Dec 2005	**Mar 2006**	Dec 2005	**Mar 2006**	Dec 2005	**Mar 2006**	Dec 2005	**Mar 2006**	Dec 2005	**Mar 2006**	Dec 2005
Corporate Funds	**4.9**	3.9	**20%**	14%	**29%**	23%	**21%**	23%	**16%**	24%	**14%**	16%
Margin Funds	**15.6**	13.6	**43%**	56%	**40%**	19%	**14%**	17%	**3%**	8%	**0%**	0%
Clearing House Funds	**1.7**	1.4	**82%**	77%	**10%**	7%	**2%**	9%	**6%**	7%	**0%**	0%
Total	**22.2**	18.9	**41%**	49%	**35%**	19%	**15%**	18%	**6%**	11%	**3%**	3%

Credit exposure is well diversified. The bond portfolio held is of investment grade and, as at 31 March 2006, had a weighted average credit rating of Aa2 (31 December 2005: Aa2) and a weighted average maturity of 1.5 years (31 December 2005: 1.3 years). Deposits are placed only with the note-issuing banks in Hong Kong, investment grade licensed banks and restricted licence banks approved by the Board from time to time.

Risk management techniques, such as Value-at-Risk ("VaR") and portfolio stress testing, are used to identify, measure, monitor and control market risks. VaR measures the expected maximum loss over a given time interval (a holding period of 10 trading days is used by the Group) at a given confidence level (95 per cent confidence interval is adopted by the Group) based on historical data (one year is used by the Group). The overall risk, as measured by the VaR methodology, during the first quarter of 2006 and the fourth quarter of 2005 was as follows:

	Average VaR $ million		**Highest VaR** $ million		**Lowest VaR** $ million	
	Jan-Mar 2006	Oct-Dec 2005	**Jan-Mar 2006**	Oct-Dec 2005	**Jan-Mar 2006**	Oct-Dec 2005
Corporate Funds	**13.5**	13.8	**14.4**	14.9	**12.3**	12.6
Margin Funds	**6.4**	11.9	**9.4**	13.8	**4.1**	9.8
Clearing House Funds	**0.4**	0.8	**0.6**	0.9	**0.3**	0.6

Details of the Group's investment income are set out in the Income section under the Financial Review and note 6 to the condensed consolidated accounts of this quarterly report.

Investments in Associates

Computershare Hong Kong Investor Services Limited ("CHIS")

As at 31 March 2006, the Group held a 30 per cent interest in CHIS. The cost of the investment in CHIS was $52 million (31 December 2005: $52 million) and the book value of the investment was $64 million (31 December 2005: $63 million).

ADP Wilco Processing Services Limited (In Liquidation) ("AWPS")

The Group acquired a 30 per cent interest in AWPS in May 2002 at a cost of $1.8 million. In March 2006, the Group received liquidation proceeds amounting to $1.3 million which were marginally higher than the book value of the investment. The final meeting of AWPS was held in April 2006 and AWPS will officially be dissolved in July 2006.

FINANCIAL REVIEW

Overall Performance

	Unaudited Three months ended 31 Mar 2006 $'000	Unaudited Three months ended 31 Mar 2005 $'000
RESULTS		
Income:		
Income affected by market turnover	**493,276**	307,934
Stock Exchange listing fees	**109,693**	96,703
Income from sale of information	**85,517**	78,990
Investment income	**112,959**	42,880
Other income	**52,682**	47,745
	854,127	574,252
Operating expenses	**292,527**	282,675
Operating profit	**561,600**	291,577
Share of profits less losses of associates	**3,220**	2,617
Profit before taxation	**564,820**	294,194
Taxation	**(85,981)**	(48,773)
Profit attributable to shareholders	**478,839**	245,421
Earnings per share	**$0.45**	$0.23

	Unaudited at 31 Mar 2006 $'000	As restated Audited at 31 Dec 2005 $'000
KEY BALANCE SHEET ITEMS		
Shareholders' funds	**4,839,614**	4,337,471ᶲ
Total assets *	**28,411,078**	22,930,916ᶲ
Net assets per share #	**$4.56**	$4.09ᶲ

ᶲ 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

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

Based on 1,062,462,846 shares as at 31 March 2006, being 1,063,422,846 shares issued and fully paid less 960,000 shares held for the HKEx Share Award Scheme (31 December 2005: 1,061,796,846 shares, being 1,062,754,846 shares issued and fully paid less 958,000 shares held for the HKEx Share Award Scheme)

The Group recorded a profit attributable to shareholders of $479 million for the first quarter of 2006 compared with $245 million for the same period in 2005.

The rise in profit in the first quarter of 2006 was primarily attributable to the higher turnover-related income resulting from the increase in level of activities in the Cash and Derivatives Markets, rise in Stock Exchange listing fees due to the higher number of newly listed derivative warrants during the period, and growth in investment income from an increase in fair value gains of corporate fund investments and higher interest income in 2006.

Total operating expenses increased by three per cent during the period mainly due to higher staff costs and premises expenses but partly offset by lower depreciation.

Income

(A) Income affected by market turnover

	Unaudited Three months ended 31 Mar 2006 $'000	Unaudited Three months ended 31 Mar 2005 $'000	Change
Trading fees and trading tariff	**297,553**	182,680	63%
Clearing and settlement fees	**154,620**	91,641	69%
Depository, custody and nominee services fees	**41,103**	33,613	22%
Total	**493,276**	307,934	60%

The increase in trading fees and trading tariff was mainly due to the higher market turnover of the Cash and Derivatives Markets in the first three months of 2006 against that of the corresponding period last year.

Clearing and settlement fees were derived predominantly from Cash Market transactions. Despite being mostly ad valorem fees, clearing and settlement fees were subject to a minimum and a maximum fee per transaction and did not always move linearly with changes in the Cash Market turnover.

Depository, custody and nominee services fees increased due to the higher stock withdrawal fees, corporate action fees and Electronic IPO service ("eIPO") handling charges but offset by lower scrip fee income in 2006 partly due to the abolition of deemed book close scrip fees from 1 January 2006 (2005 first quarter deemed book close scrip fees: $3 million). 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.

Key market indicators

	Three months ended 31 Mar 2006	Three months ended 31 Mar 2005	Change
Average daily turnover value on the Stock Exchange	**$31.2 billion**	$18.4 billion	70%
Average daily number of derivatives contracts traded on the Futures Exchange	**87,755**	63,885	37%
Average daily number of stock options contracts traded on the Stock Exchange	**61,863**	26,583	133%

(B) Stock Exchange listing fees

	Unaudited Three months ended 31 Mar 2006 $'000	Unaudited Three months ended 31 Mar 2005 $'000	Change
Annual listing fees	**66,775**	65,390	2%
Initial and subsequent issue listing fees	**41,540**	29,798	39%
Others	**1,378**	1,515	(9%)
Total	**109,693**	96,703	13%

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

Key drivers for annual listing fees

	As at 31 Mar 2006	As at 31 Mar 2005	Change
Number of companies listed on the Main Board	**940**	891	5%
Number of companies listed on the GEM	**201**	205	(2%)
Total	**1,141**	1,096	4%

Key drivers for initial and subsequent issue listing fees

	Three months ended 31 Mar 2006	Three months ended 31 Mar 2005	Change
Number of newly listed derivative warrants	**546**	303	80%
Number of newly listed companies on the Main Board	**12**	5	140%
Number of newly listed companies on the GEM	**3**	2	50%
Total equity funds raised on the Main Board	**$30.5 billion**	$32.4 billion	(6%)
Total equity funds raised on the GEM	**$2.3 billion**	$0.6 billion	283%

(C) Income from sale of information

	Unaudited Three months ended 31 Mar 2006 $'000	Unaudited Three months ended 31 Mar 2005 $'000	Change
Income from sale of information	**85,517**	78,990	8%

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

(D) Investment income

	Unaudited Three months ended 31 Mar 2006 $'000	Unaudited Three months ended 31 Mar 2005 $'000	Change
Investment income	**112,959**	42,880	163%

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

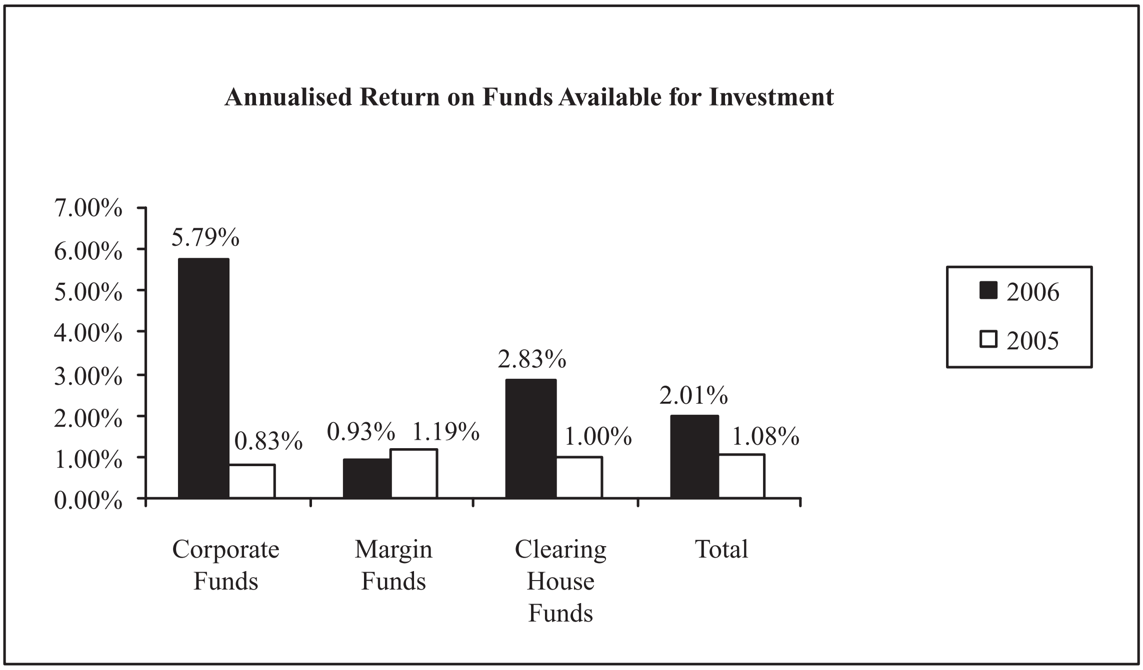
	Three months ended 31 Mar 2006 $ billion	Three months ended 31 Mar 2005 $ billion	Change
Corporate Funds	**4.4**	4.0	10%
Margin Funds	**16.5**	10.2	62%
Clearing House Funds	**1.5**	1.6	(6%)
Total	**22.4**	15.8	42%

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

The rise in average amount of Margin Funds available for investment during the period was primarily due to the increased open interest in futures and options contracts.

The higher investment income was primarily due to an increase in fair value gains of corporate fund investments, reflecting market movements, and higher interest income arising from an increase in margin fund size and rising interest rates during the first quarter of 2006 as compared with the corresponding period in 2005.

The performance of funds available for investment during the first quarter was as follows:



The return on Margin Funds in 2006 was lower than that in 2005 as there was a significant increase in margin deposits denominated in Japanese Yen.

More details of the investment portfolio are set out in the Treasury section under the Business Review.

(E) Other income

	Unaudited Three months ended 31 Mar 2006 $'000	Unaudited Three months ended 31 Mar 2005 $'000	Change
Network, terminal user, dataline and software sub-license fees	**35,198**	30,938	14%
Participants' subscription and application fees	**8,515**	8,706	(2%)
Brokerage on direct IPO applications	**3,264**	4,665	(30%)
Trading booth user fees	**1,980**	–	N/A
Fair value gain of an investment property	**600**	–	N/A
Accommodation income	**358**	710	(50%)
Miscellaneous income	**2,767**	2,726	2%
Total	**52,682**	47,745	10%

Network, terminal user, dataline and software sub-license fees rose due to the increase in open gateway and AMS/3 terminal user and installation fees.

Accommodation income (i.e. retention interest charged on cash margin deposits in non-contract settlement currencies and securities deposited by Participants as alternatives to cash deposits of the Margin Funds) decreased as accommodation charges on cash margin deposits were abolished and accommodation fee on utilised non-cash collateral charged by HKCC and SEOCH were reduced from 1.2 per cent and 2 per cent respectively to 0.5 per cent from 1 June 2005 onwards.

Operating Expenses

	Unaudited Three months ended 31 Mar 2006 $'000	Unaudited Three months ended 31 Mar 2005 $'000	Change
Staff costs and related expenses	**159,126**	141,384	13%
Information technology and computer maintenance expenses	**46,464**	48,906	(5%)
Premises expenses	**26,633**	19,794	35%
Product marketing and promotion expenses	**2,861**	1,687	70%
Legal and professional fees	**4,847**	2,893	68%
Depreciation	**24,940**	44,231	(44%)
Payment to SFC under dual filing regime	**5,000**	5,000	0%
Other operating expenses	**22,656**	18,780	21%
Total	**292,527**	282,675	3%

Staff costs and related expenses increased by $18 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 in 2006, and an increase in performance bonus accruals on account of the improved performance of the Group. Employee share-based compensation costs also rose due to the amortisation of the fair value of shares granted under the Employees' Share Award Scheme ("HKEx Share Award Scheme") in December 2005.

Premises expenses rose due to the increase 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 trading hall and higher publication costs.

Legal and professional fees climbed primarily due to the judicial review of the New World case.

Information technology and computer maintenance expenses of the Group, after excluding goods and services directly consumed by the Participants of $14 million (2005: $12 million), were $32 million (2005: $37 million). The decrease was mainly due to lower license fees and network costs.

Depreciation decreased as certain fixed assets became fully depreciated.

Other operating expenses increased, mainly attributable to higher bank charges due to increased eIPOs and higher index license fees as a result of the rise in derivative transactions.

Share of Profits Less Losses of Associates

	Unaudited Three months ended 31 Mar 2006 $'000	Unaudited Three months ended 31 Mar 2005 $'000	Change
Share of profits less losses of associates	**3,220**	2,617	23%

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

Taxation

	Unaudited Three months ended 31 Mar 2006 $'000	Unaudited Three months ended 31 Mar 2005 $'000	Change
Taxation	**85,981**	48,773	76%

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

Working Capital

Working capital increased by $508 million or 15 per cent to $3,865 million as at 31 March 2006 (31 December 2005: $3,357 million) mainly due to the profit generated during the first quarter of 2006 and the increase in other net current assets of $29 million.

Exposure to Fluctuations in Exchange Rates and Related Hedges

Details of the Group's exposure to fluctuations in exchange rates and related hedges are included in note 33(a)(i) – Foreign exchange risk to the condensed consolidated accounts of this quarterly report.

Contingent Liabilities

Details of contingent liabilities are included in note 30 to the condensed consolidated accounts of this quarterly report.

Changes since 31 December 2005

There were no other significant changes in the financial position or from the information disclosed under Management Discussion and Analysis in the annual report for the year ended 31 December 2005.

It is the Group's plan to declare dividend only at the half-year and year-end. Therefore, no dividend will be proposed for the first quarter ended 31 March 2006 (first quarter of 2005: $Nil).

Due to fluctuations in market conditions and changes in operating environment, certain categories of income and operating expenses may vary from quarter to quarter. Therefore, quarterly results should not be extrapolated to project the Group's full-year performance.

PROSPECTS

Trading activity continued to be strong in the Hong Kong Cash and Derivatives Markets. The capitalisation of the Cash Market reached a high of $10,009 billion on 3 May 2006. In the first quarter of 2006, market turnover in the Cash Market surged to about $1,933 billion, and in the Derivatives Market over 9 million contracts were traded. Both were record quarterly levels. The figures reflect Hong Kong's position as one of the most vibrant and dynamic financial markets in the world.

Looking ahead, there is potential for Hong Kong's financial markets to grow in terms of fund-raising and capital investments. In the first quarter of 2006, Mainland issuers continued to contribute significantly to the growth of the securities market in Hong Kong. More than 40 per cent of the total market capitalisation and 55 per cent of the total equity market turnover were attributable to Mainland issuers. As more and more state-owned enterprises are now undergoing restructuring and as private Mainland enterprises continue to grow, more of them are expected to seek listings in Hong Kong. The recent announcement of the progressive implementation of the Qualified Domestic Institutional Investors scheme should further facilitate the inflow of funds to Hong Kong from the Mainland. The scheme is expected to provide significant business opportunities for market participants and further advance Hong Kong's financial markets.

Despite the strong financial results for the first quarter, HKEx is cautious over uncertainties on the global front, such as sustained high oil and commodity prices, interest rate movements in the Mainland and the US, as well as valuation of the Renminbi. These factors could affect market activities and hence HKEx's profitability. Nonetheless, HKEx will continue to capitalise on opportunities arising from the Mainland's robust and sustained economic growth by strengthening market quality and relationships with the Mainland.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

(Financial figures are expressed in Hong Kong Dollar)

	Note	**Unaudited Three months ended 31 Mar 2006 $'000**	Unaudited Three months ended 31 Mar 2005 $'000
INCOME	2		
Trading fees and trading tariff	4	**297,553**	182,680
Stock Exchange listing fees	5	**109,693**	96,703
Clearing and settlement fees		**154,620**	91,641
Depository, custody and nominee services fees		**41,103**	33,613
Income from sale of information		**85,517**	78,990
Investment income	6	**112,959**	42,880
Other income	7	**52,682**	47,745
	3	**854,127**	574,252
OPERATING EXPENSES			
Staff costs and related expenses	8	**159,126**	141,384
Information technology and computer maintenance expenses	9	**46,464**	48,906
Premises expenses		**26,633**	19,794
Product marketing and promotion expenses		**2,861**	1,687
Legal and professional fees		**4,847**	2,893
Depreciation		**24,940**	44,231
Payment to SFC under dual filing regime		**5,000**	5,000
Other operating expenses	10	**22,656**	18,780
	3	**292,527**	282,675
OPERATING PROFIT	3	**561,600**	291,577
SHARE OF PROFITS LESS LOSSES OF ASSOCIATES	3, 15(c)	**3,220**	2,617
PROFIT BEFORE TAXATION	3	**564,820**	294,194
TAXATION	3/11	**(85,981)**	(48,773)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	3/27	**478,839**	245,421
Earnings per share	12	**$0.45**	$0.23

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Financial figures are expressed in Hong Kong Dollar)

	Unaudited					
	Share capital, share premium and shares held for HKEx Share Award Scheme (note 23) $'000	**Employee share-based compensation reserve (note 24) $'000**	**Revaluation reserves (note 25) $'000**	**Designated reserves (note 26) $'000**	**Retained earnings (note 27) $'000**	**Total equity $'000**
At 1 Jan 2006, as previously reported	**1,213,160**	**34,980**	**(37,086)**	**700,641**	**2,455,794**	**4,367,489**
Effect of initial adoption of the revised HKAS 27	**(30,028)**	–	–	–	**10**	**(30,018)**
At 1 Jan 2006, as restated	**1,183,132**	**34,980**	**(37,086)**	**700,641**	**2,455,804**	**4,337,471**
Change in fair value of available-for-sale financial assets	–	–	**9,151**	–	–	**9,151**
Realisation of change in fair value of available-for-sale financial assets on maturity and disposal	–	–	**2,414**	–	–	**2,414**
Deferred tax arising from realisation of change in fair value of available-for-sale financial assets on maturity and disposal	–	–	**(15)**	–	–	**(15)**
Net gain recognised directly in equity	–	–	**11,550**	–	–	**11,550**
Profit attributable to shareholders	–	–	–	–	**478,839**	**478,839**
Total recognised profit	–	–	**11,550**	–	**478,839**	**490,389**
Shares issued under employee share option schemes	**4,596**	–	–	–	–	**4,596**
Shares purchased for HKEx Share Award Scheme	**(71)**	–	–	–	–	**(71)**
Employee share-based compensation benefits	–	**7,220**	–	–	–	**7,220**
Share of reserves of an associate	–	**9**	–	–	–	**9**
Transfer of reserves	–	–	–	**(54,932)**	**54,932**	–
At 31 Mar 2006	**1,187,657**	**42,209**	**(25,536)**	**645,709**	**2,989,575**	**4,839,614**

	Unaudited (As restated)					
	Share capital and share premium $'000	Employee share-based compensation reserve $'000	Revaluation reserves $'000	Designated reserves $'000	Retained earnings $'000	Total equity $'000
At 1 Jan 2005, as previously reported	1,160,673	17,061	18,829	680,996	2,174,584	4,052,143
Effect of initial adoption of HKAS 39 and HKFRS 4 (Amendment)	–	–	–	–	(19,909)	(19,909)
At 1 Jan 2005, as restated	1,160,673	17,061	18,829	680,996	2,154,675	4,032,234
Change in fair value of available-for-sale financial assets	–	–	(78,639)	–	–	(78,639)
Realisation of change in fair value of available-for-sale financial assets on maturity and disposal	–	–	38	–	–	38
Deferred tax arising from change in fair value of available-for-sale financial assets	–	–	3,161	–	–	3,161
Net loss recognised directly in equity	–	–	(75,440)	–	–	(75,440)
Profit attributable to shareholders	–	–	–	–	245,421	245,421
Total recognised (loss)/profit	–	–	(75,440)	–	245,421	169,981
Shares issued under employee share option schemes	9,797	–	–	–	–	9,797
Employee share-based compensation benefits	–	5,360	–	–	–	5,360
Transfer of reserves	–	–	–	(280)	280	–
At 31 Mar 2005, as restated	1,170,470	22,421	(56,611)	680,716	2,400,376	4,217,372

CONDENSED CONSOLIDATED BALANCE SHEET

(Financial figures are expressed in Hong Kong Dollar)

	Note	**Unaudited at 31 Mar 2006 $'000**	As restated Audited at 31 Dec 2005 $'000
NON-CURRENT ASSETS			
Fixed assets	13	**240,668**	257,876
Investment property	14	**18,300**	17,700
Lease premiums for land		**93,986**	94,123
Investments in associates	15	**63,504**	64,581
Clearing House Funds	16	**1,685,008**	1,340,410
Compensation Fund Reserve Account	17	**38,875**	38,410
Time deposit with maturity over one year		**38,799**	38,768
Deferred tax assets		**3,671**	3,060
Other assets		**21,764**	20,374
		2,204,575	1,875,302
CURRENT ASSETS			
Accounts receivable, prepayments and deposits	18	**5,514,843**	3,286,835
Lease premiums for land		**548**	547
Taxation recoverable		**–**	108
Margin Funds on derivatives contracts	19	**15,532,039**	13,648,581
Financial assets at fair value through profit or loss	20	**2,714,819**	2,643,788
Time deposits with original maturities over three months		**65,809**	116,622
Cash and cash equivalents		**2,378,445**	1,359,133
		26,206,503	21,055,614
CURRENT LIABILITIES			
Margin deposits from Clearing Participants on derivatives contracts	19	**15,532,039**	13,648,581
Accounts payable, accruals and other liabilities	21	**6,408,029**	3,641,071
Financial liabilities at fair value through profit or loss	20	**3,123**	1,443
Participants' admission fees received		**2,750**	2,550
Deferred revenue		**240,866**	284,851
Taxation payable		**127,744**	92,628
Provisions	22	**26,490**	27,145
		22,341,041	17,698,269
NET CURRENT ASSETS		**3,865,462**	3,357,345
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,070,037**	5,232,647

	Note	**Unaudited at 31 Mar 2006 $'000**	As restated Audited at 31 Dec 2005 $'000
NON-CURRENT LIABILITIES			
Participants' admission fees received		**79,850**	80,150
Participants' contributions to Clearing House Funds	16	**1,087,934**	751,751
Deferred tax liabilities		**18,272**	20,770
Financial guarantee contract	30(b)	**19,909**	19,909
Provisions	22	**24,458**	22,596
		1,230,423	895,176
NET ASSETS		**4,839,614**	4,337,471
CAPITAL AND RESERVES			
Share capital	23	**1,063,423**	1,062,755
Share premium	23	**154,333**	150,405
Shares held for HKEx Share Award Scheme	23	**(30,099)**	(30,028)
Employee share-based compensation reserve	24	**42,209**	34,980
Revaluation reserves	25	**(25,536)**	(37,086)
Designated reserves	26	**645,709**	700,641
Retained earnings	27	**2,309,599**	1,776,254
Proposed/declared dividends	27	**679,976**	679,550
SHAREHOLDERS' FUNDS		**4,839,614**	4,337,471

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

(Financial figures are expressed in Hong Kong Dollar)

	Note	**Unaudited Three months ended 31 Mar 2006 $'000**	Unaudited Three months ended 31 Mar 2005 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net cash inflow from operating activities	28(a)	**952,540**	309,205
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for purchases of fixed assets		**(18,361)**	(6,843)
Proceeds from sales of fixed assets		**333**	–
Decrease in time deposits with original maturities more than three months		**50,782**	805
Proceeds from liquidation of an associate		**1,312**	–
Dividends received from an associate		**5,284**	4,800
Interest received from available-for-sale financial assets		**22,997**	19,909
Net cash inflow from investing activities		**62,347**	18,671
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares under employee share option schemes		**4,596**	9,797
Purchase of shares for HKEx Share Award Scheme		**(71)**	–
Admission fees refunded to less receipts from Participants		**(100)**	(650)
Net cash inflow from financing activities		**4,425**	9,147
Net increase in cash and cash equivalents		**1,019,312**	337,023
Cash and cash equivalents at 31 Dec 2005, as previously reported/31 Dec 2004		**1,359,113**	1,035,045
Effect of initial adoption of the revised HKAS 27		**20**	–
Cash and cash equivalents at 31 Mar 2006/31 Mar 2005		**2,378,445**	1,372,068
Analysis of cash and cash equivalents			
Time deposits with original maturities within three months		**1,730,359**	1,221,825
Cash at bank and in hand		**648,086**	150,243
Cash and cash equivalents at 31 Mar 2006/31 Mar 2005		**2,378,445**	1,372,068

1. Basis of Preparation and Accounting Policies

These unaudited condensed consolidated accounts are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34: Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants.

These unaudited condensed consolidated accounts should be read in conjunction with the 2005 annual accounts.

The accounting policies and methods of computation used in the preparation of these accounts are consistent with those used in the annual accounts for the year ended 31 December 2005 except that the Group has adopted the revised HKAS 27 – Consolidated and Separate Financial Statements, which is effective for accounting periods beginning on or after 1 January 2006.

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 Hong Kong Financial Reporting Standards ("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 an Employees' Share Award Scheme ("HKEx 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 HKEx 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 derive 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.

1. Basis of Preparation and Accounting Policies (continued)

The effects of adopting the revised HKAS 27 on the condensed consolidated profit and loss account for the three months ended 31 March 2006 and three months ended 31 March 2005 were as follows:

	Three months ended 31 Mar 2006 $'000	Three months ended 31 Mar 2005 $'000
Increase in staff costs and related expenses	**2**	–
Total decrease in profit	**2**	–
Decrease in earnings per share	**0.00 cents**	–

The effects of adopting the revised HKAS 27 on the condensed consolidated balance sheet as at 31 March 2006 and 31 December 2005 were as follows:

	At 31 Mar 2006 $'000	At 31 Dec 2005 $'000
Increase/(decrease) in assets		
Contributions to HKEx Share Award Scheme	**(30,091)**	(30,037)
Cash and cash equivalents	**–**	20
Increase/(decrease) in liabilities/equity		
Accounts payable, accruals and other liabilities	**–**	1
Shares held for HKEx Share Award Scheme	**(30,099)**	(30,028)
Retained earnings	**8**	10

Following the adoption of the revised HKAS 27, the accounting policies of the Group have been revised as follows:

(a) Subsidiaries

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies generally accompanying a holding of more than one half of the voting rights or issued share capital.

(b) Shares held for HKEx Share Award Scheme

Where the HKEx Employee Share Trust purchases shares issued by HKEx, the consideration paid, including any directly attributable incremental costs, is presented as "Shares held for HKEx Share Award Scheme" and deducted from total equity.

1. Basis of Preparation and Accounting Policies (continued)

(c) Dividends

Dividends disclosed in the consolidated profit and loss account represent interim dividend paid and final and special dividends proposed/declared for the year (based on the issued share capital less the number of shares held for the HKEx Share Award Scheme as at the balance sheet date).

Dividends declared are recognised as liabilities in the Group's accounts in the year the dividends are approved by the shareholders.

Further, as disclosed in the 2005 annual accounts, the Group adopted HKAS 39 and HKFRS 4 (Amendment): Financial Guarantee Contracts in the fourth quarter of 2005. The adoption of the Amendment had the following impact on equity as at 31 March 2005:

	$'000
Decrease in equity	
Retained earnings	(19,909)

The Group manages a significant portfolio of investments. Securities and derivative financial instruments (i.e. forward foreign exchange contracts) held for trading purposes (such as those of the Corporate Funds), and securities or bank deposits with embedded derivatives of the Margin Funds and the Corporate Funds whose economic characteristics and risks are not closely related to the host investments ("structured securities" or "structured deposits") are classified as financial assets/liabilities at fair value through profit or loss with changes in fair value recognised in the profit and loss account. Securities not held for trading (such as those held for the Clearing House Funds, Compensation Fund Reserve Account and Margin Funds (other than structured securities or structured deposits)) are classified as available-for-sale financial assets with changes in fair value recognised in the investment revaluation reserve.

2. Turnover

Turnover comprises trading fees and trading tariff from securities and options traded on The Stock Exchange of Hong Kong Limited ("Stock Exchange") and derivatives contracts traded on Hong Kong Futures Exchange Limited ("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 condensed consolidated profit and loss account.

3. Segment Information

The Group's income is derived solely from business activities in Hong Kong. An analysis of the Group's income and results for the period by business segment is as follows:

	Three months ended 31 Mar 2006				
	Cash Market $'000	**Derivatives Market $'000**	**Clearing Business $'000**	**Information Services $'000**	**Group $'000**
Income	**397,373**	**129,383**	**241,006**	**86,365**	**854,127**
Operating expenses					
Direct costs	**105,224**	**29,185**	**78,996**	**10,856**	**224,261**
Indirect costs	**32,007**	**9,492**	**21,764**	**5,003**	**68,266**
	137,231	**38,677**	**100,760**	**15,859**	**292,527**
Segment results	**260,142**	**90,706**	**140,246**	**70,506**	**561,600**
Share of profits less losses of associates	**1**	**–**	**3,219**	**–**	**3,220**
Segment profits before taxation	**260,143**	**90,706**	**143,465**	**70,506**	**564,820**
Taxation					**(85,981)**
Profit attributable to shareholders					**478,839**

	Three months ended 31 Mar 2005				
	Cash Market $'000	Derivatives Market $'000	Clearing Business $'000	Information Services $'000	Group $'000
Income	263,325	91,246	139,961	79,720	574,252
Operating expenses					
Direct costs	105,069	28,763	76,119	12,061	222,012
Indirect costs	28,397	8,717	18,074	5,475	60,663
	133,466	37,480	94,193	17,536	282,675
Segment results	129,859	53,766	45,768	62,184	291,577
Share of profits less losses of associates	(4)	–	2,621	–	2,617
Segment profits before taxation	129,855	53,766	48,389	62,184	294,194
Taxation					(48,773)
Profit attributable to shareholders					245,421

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, warrants and rights. Currently, the Group operates two Cash Market platforms, the Main Board and the Growth Enterprise Market ("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. Costs of the Listing Function are further explained in note 5.

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.

3. Segment Information (continued)

The **Clearing Business** refers to the operations of the three Clearing Houses, namely Hong Kong Securities Clearing Company Limited ("HKSCC"), The SEHK Options Clearing House Limited ("SEOCH") and HKFE Clearing Corporation Limited ("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.

4. Trading Fees and Trading Tariff

	Three months ended 31 Mar 2006 $'000	Three months ended 31 Mar 2005 $'000
Trading fees and trading tariff were derived from:		
Securities traded on the Cash Market	**216,090**	123,743
Derivatives contracts traded on the Derivatives Market	**81,463**	58,937
	297,553	182,680

5. Stock Exchange Listing Fees

Stock Exchange listing fees and costs of Listing Function comprised the following:

	Three months ended 31 Mar 2006				Three months ended 31 Mar 2005			
	Equity		Debt		Equity		Debt	
	Main Board	GEM	& Derivatives	Total	Main Board	GEM	& Derivatives	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Income								
Annual listing fees	**60,146**	**6,196**	**433**	**66,775**	58,451	6,479	460	65,390
Initial and subsequent issue listing fees	**11,297**	**1,280**	**28,963**	**41,540**	12,066	1,340	16,392	29,798
Prospectus vetting fees	**585**	**135**	**10**	**730**	415	60	90	565
Other listing fees	**542**	**106**	**–**	**648**	690	260	–	950
Total income	**72,570**	**7,717**	**29,406**	**109,693**	71,622	8,139	16,942	96,703
Costs of Listing Function								
Direct costs								
Staff costs and related expenses	**27,899**	**8,222**	**1,383**	**37,504**	23,643	6,423	1,303	31,369
Information technology and computer maintenance expenses	**364**	**95**	**–**	**459**	371	93	–	464
Premises expenses	**3,012**	**889**	**170**	**4,071**	1,594	437	98	2,129
Legal and professional fees	**2,619**	**240**	**–**	**2,859**	461	425	–	886
Depreciation	**1,141**	**354**	**14**	**1,509**	1,914	554	80	2,548
Payment to SFC under dual filing regime	**4,117**	**883**	**–**	**5,000**	4,067	933	–	5,000
Other operating expenses	**1,270**	**617**	**93**	**1,980**	1,329	394	72	1,795
Total direct costs	**40,422**	**11,300**	**1,660**	**53,382**	33,379	9,259	1,553	44,191
Indirect costs	**6,532**	**1,468**	**1,079**	**9,079**	6,787	1,332	954	9,073
Contribution	**25,616**	**(5,051)**	**26,667**	**47,232**	31,456	(2,452)	14,435	43,439

Listing fee income is fees paid by issuers to enable them to gain access to the Stock Exchange and enjoy the privileges and facilities by being admitted, listed and traded on the Stock Exchange.

The direct costs listed above are regulatory in nature, which comprise costs of the Listing Function on vetting Initial Public Offerings ("IPOs") and enforcing the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, disseminating information relating to listed companies, and payments to the Securities and Futures Commission ("SFC") under the dual filing regime. Indirect costs comprise costs of support services and other central overheads attributable to the Listing Function.

6. Investment Income

	Three months ended 31 Mar 2006 $'000	Three months ended 31 Mar 2005 $'000
Interest income		
– bank deposits	**130,918**	20,070
– listed available-for-sale financial assets	**3,379**	1,611
– unlisted available-for-sale financial assets	**19,618**	18,298
	153,915	39,979
Interest expenses (note a)	**(90,390)**	(2,904)
Net interest income	**63,525**	37,075
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	**40,574**	10,590
– unlisted securities	**7,634**	(8,794)
– exchange differences	**35**	2,623
	48,243	4,419
	48,243	4,685
Dividend income		
– listed financial assets at fair value through profit or loss	**1,111**	981
Other exchange differences on loans and receivables	**80**	139
Total investment income	**112,959**	42,880
Total investment income was derived from:		
Corporate Funds (note b)	**63,811**	8,368
Margin Funds	**38,319**	30,635
Clearing House Funds	**10,829**	3,877
	112,959	42,880

(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. In 2006, interest was paid on cash margin deposits based on the savings rate. In 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 Corporate Funds included investment income of Compensation Fund Reserve Account of $455,000 (2005: $186,000).

7. Other Income

	Three months ended 31 Mar 2006 $'000	Three months ended 31 Mar 2005 $'000
Network, terminal user, dataline and software sub-license fees	**35,198**	30,938
Participants' subscription and application fees	**8,515**	8,706
Brokerage on direct IPO applications	**3,264**	4,665
Trading booth user fees	**1,980**	–
Fair value gain of an investment property (note 14)	**600**	–
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	**358**	710
Miscellaneous income	**2,767**	2,726
	52,682	47,745

8. Staff Costs and Related Expenses

Staff costs and related expenses comprised the following:

	Three months ended 31 Mar 2006 $'000	Three months ended 31 Mar 2005 $'000
Salaries and other short-term employee benefits	**138,594**	123,390
Employee share-based compensation benefits	**7,220**	5,360
Termination benefits	**160**	–
Retirement benefit costs (note a):		
– ORSO Plan	**13,060**	12,570
– MPF Scheme	**92**	64
	159,126	141,384

(a) The Group has sponsored two defined contribution post-retirement benefit plans – the Hong Kong Exchanges and Clearing Provident Fund Scheme ("ORSO Plan") and the AIA-JF Premium MPF Scheme ("MPF Scheme"). The retirement benefit costs charged to the condensed consolidated profit and loss account represent contributions paid and payable by the Group to the ORSO Plan and the MPF Scheme and related fees. No contribution payable was outstanding as at 31 March 2006 and 31 December 2005.

9. Information Technology and Computer Maintenance Expenses

	Three months ended 31 Mar 2006 $'000	Three months ended 31 Mar 2005 $'000
Costs of services and goods:		
– consumed by the Group	**32,447**	36,731
– directly consumed by Participants	**14,017**	12,175
	46,464	48,906

10. Other Operating Expenses

	Three months ended 31 Mar 2006 $'000	Three months ended 31 Mar 2005 $'000
Provision for/(reversal of provision for) impairment losses of trade receivables	**115**	(440)
Insurance	**4,007**	4,098
Financial data subscription fees	**1,139**	1,559
Custodian and fund management fees	**2,019**	1,943
Bank charges	**1,979**	745
Repair and maintenance expenses	**1,692**	1,762
Other miscellaneous expenses	**11,705**	9,113
	22,656	18,780

11. Taxation

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

	Three months ended 31 Mar 2006 $'000	Three months ended 31 Mar 2005 $'000
Provision for Hong Kong Profits Tax for the period (note a)	**89,105**	52,624
Deferred taxation	**(3,124)**	(3,851)
	85,981	48,773

(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 period.

12. Earnings Per Share

The calculation of basic earnings per share is based on the profit attributable to shareholders of $478,839,000 (2005: $245,421,000) and the weighted average of 1,062,111,757 shares in issue less shares held for the HKEx Share Award Scheme (2005: 1,056,924,490 shares) during the three-month period.

The employee share options and Awarded Shares outstanding as set out in note 24 did not have a material dilutive effect on the basic earnings per share.

13. Fixed Assets

The total cost of additions to fixed assets of the Group during the three months to 31 March 2006 was $8,744,000 (2005: $5,493,000) which mainly represented costs incurred in the renovation of the Trading Hall. The total cost and net book value of disposals and write-offs of fixed assets during the three months to 31 March 2006 were $10,857,000 and $1,012,000 respectively (2005: $280,000 and $Nil respectively).

14. Investment Property

The Group's investment property was revalued as at 31 March 2006 on the basis of its open market value by Jones Lang LaSalle, an independent firm of qualified property valuers. The fair value gain during the three months ended 31 March 2006 of $600,000 (2005: $Nil) was credited to the condensed consolidated profit and loss account under other income (note 7).

15. Investments in Associates

	At 31 Mar 2006 $'000	At 31 Dec 2005 $'000
Share of net assets of associates	**13,297**	14,374
Goodwill (note a)	**50,207**	50,207
	63,504	64,581

(a) Goodwill

	At 31 Mar 2006 $'000	At 31 Dec 2005 $'000
At 1 Jan	**50,207**	24,941
Further acquisition of 6% interest in Computershare Hong Kong Investor Services Limited on 3 May 2005	**–**	25,266
At 31 Mar 2006/31 Dec 2005	**50,207**	50,207
Represented by:		
Opening value upon adoption of HKFRS 3	**24,941**	25,321
Cost	**25,266**	25,266
Accumulated impairment	**–**	(380)
	50,207	50,207

(b) Details of the unlisted associates as at 31 March 2006 were as follows:

Name	Place of incorporation	Principal activities	Particulars of shares held	Interest held
Computershare Hong Kong Investor Services Limited ("CHIS")	Hong Kong	Provision of share registration services	7,317 Class A ordinary shares	30%
ADP Wilco Processing Services Limited (in liquidation) ("AWPS")	Hong Kong	Provision of transaction processing services to Stock Exchange Participants	6 Class B ordinary shares	30%

AWPS has an accounting year end of 30 June, which is not coterminous with the Group's accounting year end. In March 2006, liquidation proceeds of $1,312,000 were received from the dissolution of AWPS and the amount was offset against the share of net assets of the associate. The gain on liquidation of $6,000 was credited to other income in the condensed consolidated profit and loss account. The final meeting of AWPS was held in April 2006 and AWPS will officially be dissolved in July 2006.

(c) Share of profits less losses of associates

	Three months ended 31 Mar 2006 $'000	Three months ended 31 Mar 2005 $'000
Share of profits less losses of associates before taxation	**3,907**	3,163
Share of taxation of associates	**(687)**	(546)
	3,220	2,617

16. Clearing House Funds

	At 31 Mar 2006 $'000	At 31 Dec 2005 $'000
Net assets of the Clearing House Funds were as follows:		
HKSCC Guarantee Fund	**341,931**	342,679
SEOCH Reserve Fund	**420,524**	376,758
HKCC Reserve Fund	**922,553**	620,973
	1,685,008	1,340,410
Net assets of the Clearing House Funds were composed of:		
Available-for-sale financial assets, at fair value		
– listed debt securities	**98,012**	98,896
– unlisted debt securities	**–**	125,241
Time deposits with original maturities over three months	**30,421**	30,290
Cash and cash equivalents	**1,557,375**	1,091,233
	1,685,808	1,345,660
Less: Other liabilities	**(800)**	(5,250)
	1,685,008	1,340,410
The Clearing House Funds were funded by:		
Clearing Participants' cash contributions (note a)	**1,087,934**	751,751
Designated reserves (note 26):		
– Clearing houses' contributions	**320,200**	320,200
– Forfeiture of a defaulted Clearing Participant's contributions	**1,928**	1,928
– Accumulated investment income net of expenses attributable to:		
– Clearing Participants' contributions	**210,196**	204,213
– Clearing houses' contributions	**65,793**	63,635
	598,117	589,976
Revaluation reserve (note 25(c))	**(1,043)**	(1,317)
	1,685,008	1,340,410
The maturity profile of the net assets of the Clearing House Funds was as follows:		
Amounts maturing after more than twelve months	**98,012**	98,896
Amounts maturing within twelve months	**1,586,996**	1,241,514
	1,685,008	1,340,410

(a) Amount included Participants' additional deposits of $728,484,000 (31 December 2005: $393,701,000).

(b) The HKSCC Guarantee Fund provides resources to enable HKSCC to discharge the liabilities and obligations of defaulting Broker Participants in Central Clearing and Settlement System ("CCASS") arising from their Stock Exchange trades accepted for settlement on the Continuous Net Settlement ("CNS") basis and defective securities deposited into CCASS. The SEOCH Reserve Fund and the HKCC Reserve Fund were established for the exclusive purpose of supporting SEOCH and HKCC to fulfil their counterparty obligations in the event that one or more of their Clearing Participants fail to meet their obligations to SEOCH and HKCC respectively.

17. Compensation Fund Reserve Account

	At 31 Mar 2006 $'000	At 31 Dec 2005 $'000
Net assets of the Compensation Fund Reserve Account were composed of:		
Available-for-sale financial assets, at fair value		
– unlisted debt securities	**–**	18,488
Cash and cash equivalents	**49,140**	30,240
	49,140	48,728
Less: Other liabilities	**(10,265)**	(10,318)
	38,875	38,410
The Fund represented:		
Accumulated investment and other income net of expenses included in designated reserves (note 26)	**38,875**	38,420
Revaluation reserve (note 25(c))	**–**	(10)
	38,875	38,410
The maturity profile of the net assets of the Compensation Fund Reserve Account was as follows:		
Amounts maturing within twelve months	**38,875**	38,410

The SFC is responsible for maintaining the Unified Exchange Compensation Fund ("Compensation Fund"). By virtue of Schedule 10 of the Securities and Futures Ordinance ("SFO"), the Stock Exchange's obligation under the repealed Securities Ordinance ("SO") to deposit with the SFC and keep deposited $50,000 in respect of each Stock Exchange Trading Right in the Compensation Fund remains. The Stock Exchange maintains an account known as the Compensation Fund Reserve Account for all receipts and payments in relation to the Compensation Fund under the Rules of the Exchange, in particular the following:

(i) The interest received from the SFC on the statutory deposits paid in respect of each Stock Exchange Trading Right into the Compensation Fund maintained by the SFC;

(ii) Amounts received or paid out in relation to each of the Stock Exchange Trading Rights granted or revoked by the Stock Exchange respectively; and

(iii) Amounts reserved for the replenishment to the Compensation Fund.

The Compensation Fund is further explained in note 30(a).

18. Accounts Receivable, Prepayments and Deposits

The Group's accounts receivable, prepayments and deposits amounted to $5,514,843,000 (31 December 2005: $3,286,835,000). These mainly represented the Group's CNS money obligations receivable under the T+2 settlement cycle, which accounted for 92 per cent (31 December 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.

19. Margin Funds on Derivatives Contracts

	At 31 Mar 2006 $'000	At 31 Dec 2005 $'000
The Margin Funds comprised:		
SEOCH Clearing Participants' Margin Funds	**1,259,223**	1,506,962
HKCC Clearing Participants' Margin Funds	**14,272,816**	12,141,619
	15,532,039	13,648,581
The assets of the Margin Funds comprised:		
Available-for-sale financial assets, at fair value		
– listed debt securities	**404,726**	438,542
– unlisted debt securities	**2,352,776**	3,390,291
Time deposits with original maturities over three months	**50,000**	100,018
Cash and cash equivalents	**12,724,515**	9,686,026
Margin receivable from Clearing Participants	**22**	33,704
	15,532,039	13,648,581
The Group's liabilities in respect of the Margin Funds were as follows:		
Margin deposits from SEOCH and HKCC Participants on derivatives contracts	**15,532,039**	13,648,581
The maturity profile of the assets of Margin Funds was as follows:		
Amounts maturing after more than twelve months	**495,989**	1,114,326
Amounts maturing within twelve months	**15,036,050**	12,534,255
	15,532,039	13,648,581

20. Financial Assets/Liabilities at Fair Value through Profit or Loss

	At 31 Mar 2006 $'000	At 31 Dec 2005 $'000
Analysis of financial assets at fair value through profit or loss:		
Held for trading		
Equity securities, at fair value		
– listed in Hong Kong	**154,859**	139,220
– listed outside Hong Kong	**178,165**	173,349
	333,024	312,569
Held for trading		
Debt securities, at fair value		
– listed in Hong Kong	**79,605**	86,509
– listed outside Hong Kong	**1,094,395**	1,070,100
– unlisted	**1,198,036**	1,172,015
	2,372,036	2,328,624
Held for trading		
Derivative financial instruments, at fair value		
– forward foreign exchange contracts	**9,759**	2,595
	2,714,819	2,643,788
Analysis of financial liabilities at fair value through profit or loss:		
Held for trading		
Derivative financial instruments, at fair value		
– forward foreign exchange contracts	**3,123**	1,443

21. Accounts Payable, Accruals and Other Liabilities

The Group's accounts payable, accruals and other liabilities amounted to $6,408,029,000 (31 December 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 79 per cent (31 December 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.

22. Provisions

	Reinstatement costs $'000	**Employee benefit costs $'000**	**Total $'000**
At 1 Jan 2006	**24,128**	**25,613**	**49,741**
Provision for the period	**2,180**	**10,494**	**12,674**
Amount used during the period	**(1,850)**	**(9,341)**	**(11,191)**
Amount paid during the period	**–**	**(276)**	**(276)**
At 31 Mar 2006	**24,458**	**26,490**	**50,948**

	At 31 Mar 2006 $'000	At 31 Dec 2005 $'000
Analysis of provisions:		
Current	**26,490**	27,145
Non-current	**24,458**	22,596
	50,948	49,741

23. Share Capital, Share Premium and Shares Held for HKEx Share Award Scheme

	At 31 Mar 2006 $'000	At 31 Dec 2005 $'000
Authorised:		
2,000,000,000 shares of $1 each	**2,000,000**	2,000,000

Issued and fully paid:

	Number of shares of $1 each	Share capital $'000	Share premium $'000	Shares held for HKEx Share Award Scheme (note b) $'000	Total $'000
At 1 Jan 2005	1,056,638,846	1,056,639	104,034	–	1,160,673
Shares issued under employee share option schemes (note a)	6,116,000	6,116	41,263	–	47,379
Transfer from employee share-based compensation reserve	–	–	5,108	–	5,108
Shares purchased for HKEx Share Award Scheme	(958,000)	–	–	(30,028)	(30,028)
At 31 Dec 2005, as restated	1,061,796,846	1,062,755	150,405	(30,028)	1,183,132
At 1 Jan 2006, as previously reported	**1,062,754,846**	**1,062,755**	**150,405**	**–**	**1,213,160**
Initial adoption of the revised HKAS 27	**(958,000)**	**–**	**–**	**(30,028)**	**(30,028)**
At 1 Jan 2006, as restated	**1,061,796,846**	**1,062,755**	**150,405**	**(30,028)**	**1,183,132**
Shares issued under employee share option schemes (note a)	**668,000**	**668**	**3,928**	**–**	**4,596**
Shares purchased for HKEx Share Award Scheme	**(2,000)**	**–**	**–**	**(71)**	**(71)**
At 31 Mar 2006	**1,062,462,846**	**1,063,423**	**154,333**	**(30,099)**	**1,187,657**

(a) During the period, employee share options granted under the Pre-Listing Share Option Scheme ("Pre-Listing Scheme") and the Post-Listing Share Option Scheme ("Post-Listing Scheme") were exercised to subscribe for 668,000 shares (year ended 31 December 2005: 6,116,000 shares) in HKEx at an average consideration of $6.88 per share (year ended 31 December 2005: $7.75 per share), of which $1.00 per share was credited to share capital and the balance was credited to the share premium account.

(b) During the period, the HKEx Employee Share Trust acquired 2,000 HKEx shares (year ended 31 December 2005: 958,000 shares) through purchases on the Stock Exchange and held the shares for the HKEx Share Award Scheme (note 24(c)). The total amount paid to acquire the shares during the period was $71,000 (year ended 31 December 2005: $30,028,000) and has been deducted from shareholders' equity.

24. Employee Share-based Compensation Reserve

	At 31 Mar 2006 $'000	At 31 Dec 2005 $'000
At 1 Jan	**34,980**	17,061
Employee share-based compensation benefits (note a)	**7,220**	22,955
Transfer to share premium upon exercise of employee share options	**–**	(5,108)
Share of reserve of an associate	**9**	72
At 31 Mar 2006/31 Dec 2005	**42,209**	34,980

(a) Employee share-based compensation benefits represent the fair value of employee services estimated to be received in exchange for the grant of the relevant options and Awarded Shares over the relevant vesting periods, the total of which is based on the fair value of the options and Awarded Shares at grant date. The amount for each period is determined by spreading the fair value of the options and Awarded Shares over the relevant vesting periods and is recognised as staff costs and related expenses (note 8) with a corresponding increase in the employee share-based compensation reserve.

(b) Share options

(i) Share options were granted to an Executive Director and employees of the Group to subscribe for shares in HKEx in accordance with the terms and conditions of the Share Option Schemes approved by the shareholders of HKEx at an extraordinary general meeting held on 31 May 2000. Share options granted are subject to a vesting scale in tranches of 25 per cent each per annum starting from the second anniversary and fully vested in the fifth anniversary of the date of grant, providing that the grantees remain under the employ of the Group. The vested share options are exercisable within ten years of the grant date.

During 2005, options for the subscription of 5,884,000 shares were granted under the Post-Listing Scheme to a number of employees on 26 January 2005 which are exercisable between 26 January 2007 and 25 January 2015 at an exercise price of $19.25 per share.

Shares are issued when options are exercised. The Group has no legal or constructive obligations to repurchase or settle the options in cash.

24. Employee Share-based Compensation Reserve (continued)

(b) Share options (continued)

(ii) Movements in the number of shares issuable under options granted and their related weighted average exercise prices were as follows:

	Three months ended 31 Mar 2006		Year ended 31 Dec 2005	
	Average exercise price per share $	**Number of shares issuable under options granted**	Average exercise price per share $	Number of shares issuable under options granted
Pre-Listing Scheme				
Outstanding at 1 Jan	**6.88**	**2,126,000**	6.88	6,680,000
Exercised	**6.88**	**(668,000)**	6.88	(4,554,000)
Outstanding at 31 Mar 2006/ 31 Dec 2005	**6.88**	**1,458,000**	6.88	2,126,000
Post-Listing Scheme				
Outstanding at 1 Jan	**15.80**	**16,574,000**	13.78	13,218,000
Granted	–	–	19.25	5,884,000
Exercised	–	–	10.27	(1,562,000)
Forfeited	**18.19**	**(26,000)**	18.05	(966,000)
Outstanding at 31 Mar 2006/ 31 Dec 2005	**15.80**	**16,548,000**	15.80	16,574,000
Total	**15.08**	**18,006,000**	14.79	18,700,000

(iii) Had all the outstanding employee share options been fully exercised on 31 March 2006, the Group would have received $271,484,000 in proceeds. The market value of the shares issued based on the closing price of $46.80 per share on that date would have been $842,681,000. The theoretical gains made by the employees or Executive Director concerned would have been as follows:

	Number of shares issuable under options granted at 31 Mar 2006	**Exercise price $**	**Gain per share $**	**Aggregate gain $'000**
Pre-Listing Scheme				
– granted to employees on 20 Jun 2000	**1,458,000**	**6.88**	**39.92**	**58,203**
Post-Listing Scheme				
– granted to an Executive Director on 2 May 2003	**2,460,000**	**8.28**	**38.52**	**94,759**
– granted to an employee on 14 Aug 2003	**844,000**	**12.45**	**34.35**	**28,991**
– granted to an employee on 18 Aug 2003	**1,476,000**	**12.49**	**34.31**	**50,642**
– granted to an employee on 15 Jan 2004	**1,094,000**	**17.30**	**29.50**	**32,273**
– granted to employees on 31 Mar 2004	**5,062,000**	**16.96**	**29.84**	**151,050**
– granted to an employee on 17 May 2004	**200,000**	**15.91**	**30.89**	**6,178**
– granted to employees on 26 Jan 2005	**5,412,000**	**19.25**	**27.55**	**149,101**
	18,006,000			**571,197**

24. Employee Share-based Compensation Reserve (continued)

(c) Awarded Shares

(i) On 14 September 2005, the Board of HKEx approved the HKEx Share Award Scheme under which Awarded Shares may be awarded to an Executive Director and employees of the Group in accordance with the terms and conditions of the HKEx Share Award Scheme. Awarded Shares awarded are subject to a vesting scale in tranches of 25 per cent each per annum starting from the second anniversary and fully vested in the fifth anniversary of the date of award, providing that the awardees remain under the employ of the Group.

Pursuant to the rules of the HKEx Share Award Scheme, upon awarding of the Awarded Shares, the number of HKEx shares awarded will be acquired from the market at the cost of HKEx by the trustee of the HKEx Employee Share Trust, which has been set up for the purpose of administering the HKEx Share Award Scheme. The Awarded Shares will be held by the trustee until the end of each vesting period.

960,000 Awarded Shares were awarded in 2005 to a number of employees which will be transferred to the employees at nil consideration upon vesting between 19 December 2007 and 19 December 2010.

(ii) Movements in the number of Awarded Shares awarded and their related average fair value were as follows:

	Three months ended 31 Mar 2006		Year ended 31 Dec 2005	
	Average fair value per share $	**Number of Awarded Shares awarded**	Average fair value per share $	Number of Awarded Shares awarded
Outstanding at 1 Jan	**31.20**	**960,000**	–	–
Awarded	**–**	**–**	31.20	960,000
Forfeited	**31.20**	**(5,200)**	–	–
Outstanding at 31 Mar 2006/ 31 Dec 2005	**31.20**	**954,800**	31.20	960,000

The fair value of the Awarded Shares awarded was based on the fair value (i.e. market value) of HKEx shares at award date, taking into account the expected dividends during the vesting periods.

(iii) Had all the outstanding Awarded Shares been fully vested on 31 March 2006, the theoretical gains of the employees based on the closing price of $46.80 per share on that date would have been $44,685,000.

25. Revaluation Reserves

	At 31 Mar 2006 $'000	At 31 Dec 2005 $'000
Leasehold buildings revaluation reserve (note b)	**2,225**	2,225
Investment revaluation reserve (note c and note d)	**(27,761)**	(39,311)
	(25,536)	(37,086)

(a) The revaluation reserves are segregated for their respective specific purposes and are stated net of applicable deferred taxes.

(b) Leasehold buildings are revalued on a six-monthly basis at the end of June and December each year.

(c) Included gross investment revaluation deficits of $1,043,000 and $Nil which were attributable to investments of the Clearing House Funds and the Compensation Fund Reserve Account respectively (31 December 2005: $1,317,000 and $10,000 respectively). The revaluation deficit is not expected to have any impact to the Group's profit and loss account as the available-for-sale financial assets are expected to be held till maturity and the deficit will gradually reduce to zero.

(d) Included share of investment revaluation reserve of an associate of $21,000 (31 December 2005: $21,000).

26. Designated Reserves

	At 31 Mar 2006 $'000	At 31 Dec 2005 $'000
Clearing House Funds reserves		
– HKSCC Guarantee Fund reserve	**251,718**	250,444
– SEOCH Reserve Fund reserve	**59,398**	56,346
– HKCC Reserve Fund reserve	**287,001**	283,186
	598,117	589,976
Compensation Fund Reserve Account reserve	**38,875**	38,420
Development reserve (note b)	**8,717**	72,245
	645,709	700,641

(a) These reserves are segregated for their respective purposes.

(b) Development reserve was set aside for systems development for the Stock Exchange and the betterment of the securities market. During the three months ended 31 March 2006, $63,528,000 (2005: $1,985,000) of the reserve was utilised and transferred to the Group's retained earnings (note 27) for funding projects that were for the betterment of the securities market.

27. Retained Earnings (Including Proposed/Declared Dividends)

	At 31 Mar 2006 $'000	As restated At 31 Dec 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 the revised HKAS 27	**10**	–
At 1 Jan, as restated	**2,455,804**	2,154,675
Profit for the period/year (note a)	**478,839**	1,339,558
Surplus of investment income net of expenses of Clearing House Funds for the period/year transferred to Clearing House Funds reserves	**(8,141)**	(29,350)
Investment and other income net of expenses of Compensation Fund Reserve Account for the period/year transferred to Compensation Fund Reserve Account reserve	**(455)**	(1,303)
Transfer from Development reserve	**63,528**	11,008
	54,932	(19,645)
Dividends paid:		
2004 final dividend	–	(496,620)
Dividend on shares issued for employee share options exercised after 31 Dec 2004	–	(1,597)
	–	(498,217)
2005 interim dividend	–	(519,988)
Dividend on shares issued for employee share options exercised after 30 Jun 2005	–	(579)
	–	(520,567)
At 31 Mar 2006/31 Dec 2005	**2,989,575**	2,455,804
Representing:		
Retained earnings	**2,309,599**	1,776,254
Proposed/declared dividends	**679,976**	679,550
At 31 Mar 2006/31 Dec 2005	**2,989,575**	2,455,804

(a) The Group's profit for the period/year 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 $8,596,000 (year ended 31 December 2005: $30,653,000).

28. Notes to the Condensed Consolidated Cash Flow Statement

(a) Reconciliation of profit before taxation to net cash inflow from operating activities:

	Three months ended 31 Mar 2006 $'000	Three months ended 31 Mar 2005 $'000
Profit before taxation	**564,820**	294,194
Adjustments for:		
Net interest income	**(63,525)**	(37,075)
Net realised and unrealised gains and interest income on financial assets and financial liabilities at fair value through profit or loss	**(48,243)**	(4,685)
Amortisation of lease premiums for land	**136**	136
Fair value gain of an investment property	**(600)**	–
Depreciation	**24,940**	44,231
Employee share-based compensation benefits	**7,220**	5,360
Provision for/(reversal of provision for) impairment losses of trade receivables	**115**	(440)
Changes in provisions	**(973)**	925
Share of profits less losses of associates	**(3,220)**	(2,617)
Gain on liquidation of an associate	**(6)**	–
Loss on disposal of fixed assets	**679**	–
Net (increase)/decrease in financial assets and financial liabilities at fair value through profit or loss	**(29,703)**	86,612
Settlement of amount transferred from retained earnings to Clearing House Funds and Compensation Fund Reserve Account	**(8,596)**	(1,705)
(Increase)/decrease in accounts receivable, prepayments and deposits	**(2,222,632)**	298,003
Increase/(decrease) in other current liabilities	**2,722,514**	(305,687)
Net cash inflow from operations	**942,926**	377,252
Interest received	**130,918**	20,070
Cash received on financial assets at fair value through profit or loss	**23,023**	21,991
Interest paid	**(90,446)**	(2,880)
Hong Kong Profits tax paid	**(53,881)**	(107,228)
Net cash inflow from operating activities	**952,540**	309,205

(b) The net assets of the Clearing House Funds, Compensation Fund Reserve Account and Margin Funds are held in segregated accounts for specific purposes. Movements in individual items of the net assets of the funds during the period therefore did not constitute any cash or cash equivalent transactions to the Group.

29. Commitments

Commitments in respect of capital expenditures:

	At 31 Mar 2006 $'000	At 31 Dec 2005 $'000
Contracted but not provided for	**13,572**	18,130
Authorised but not contracted for	**110,887**	118,838
	124,459	136,968

The commitments in respect of capital expenditures were mainly for the refurbishment of the Trading Hall and the development and purchases of computer systems.

30. Contingent Liabilities

(a) The Compensation Fund is a fund set up under the repealed 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 SO, the maximum compensation amount is $8 million for each Stock Exchange Participant's default. Under section 113(5A) of the 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 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 March 2006, there were outstanding claims received in respect of 4 defaulted Stock Exchange Participants (31 December 2005: 5).

Pursuant to the 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 March 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, Exchange Participants 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.

30. Contingent Liabilities (continued)

(b) 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 427 trading Participants as at 31 March 2006 (31 December 2005: 429) defaulted, the maximum contingent liability of the Stock Exchange under the indemnity would amount to $85 million (31 December 2005: $86 million).

The carrying amount of the financial guarantee contract recognised in the Group's balance sheet in accordance with HKAS 39 and HKFRS 4 (Amendment) was $19,909,000 (31 December 2005: $19,909,000).

(c) 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.

31. Non-cash Collateral Received from Participants

Under existing rules of the clearing houses, Participants may lodge cash or approved non-cash collateral to satisfy their Clearing House contributions and Margin Fund obligations. In accordance with HKAS 39, only cash collateral is recognised as assets and liabilities on the balance sheet.

As at 31 March 2006, the amount of non-cash collateral received from Participants and the amount utilised for covering part of their Clearing House Fund contributions and Margin Fund obligations were as follows:

	At 31 Mar 2006		At 31 Dec 2005	
	Amount received $'000	**Amount utilised $'000**	Amount received $'000	Amount utilised $'000
Clearing House Funds				
Bank guarantees	**346,810**	**135,634**	333,900	58,603
Margin Funds				
Equity securities, listed in Hong Kong	**1,367,126**	**32,059**	439,591	–
US Treasury Bills	**266,256**	**192,512**	191,965	141,086
Bank guarantees	**149,000**	**93,912**	100,000	–
	1,782,382	**318,483**	731,556	141,086
	2,129,192	**454,117**	1,065,456	199,689

32. Material Related Party Transactions

Certain Directors of HKEx are investor participants of HKSCC ("Investor Participants") or directors and/or shareholders of (i) Stock Exchange Participants and Futures Exchange Participants ("Exchange Participants"), Clearing Participants and Investor Participants; (ii) companies listed on the Stock Exchange; and (iii) Exchange Participants for buying shares on behalf of HKSCC. Securities and derivatives contracts traded by, and fees levied on, these Exchange Participants, Clearing Participants and Investor Participants, fees levied on these listed companies and fees paid to these Exchange Participants for buying shares on behalf of HKSCC are all undertaken in the ordinary course of business of the Group on the standard terms and conditions applicable to all other Exchange Participants, Clearing Participants, Investor Participants, listed companies and Exchange Participants for buying shares on behalf of HKSCC.

In addition to the above, the Group has entered into the following transactions with related parties:

(a) Related companies with common directors

	Three months ended 31 Mar 2006 $'000	Three months ended 31 Mar 2005 $'000
Rental payments (including air conditioning and cleaning service charges) to Shine Hill Development Limited ("Shine Hill")	**1,371**	1,331

On 16 February 2005, the Futures Exchange as the tenant renewed the lease in respect of the tenancy of an office premises ("Lease") with Shine Hill as the landlord for a term of two years commencing 1 January 2005. The Futures Exchange is a wholly-owned subsidiary of HKEx. Shine Hill is a subsidiary of Great Eagle Holdings Limited ("Great Eagle"). Dr LO Ka Shui was an Independent Non-executive Director of HKEx prior to his resignation on 26 April 2006 and is the deputy chairman, managing director and substantial shareholder of Great Eagle. The Lease was an arm's length transaction entered into on normal commercial terms.

32. Material Related Party Transactions (continued)

(b) Transactions with associates

	Three months ended 31 Mar 2006 $'000	Three months ended 31 Mar 2005 $'000
Income received and receivable from/(expenses paid and payable to) associates:		
CHIS		
– Dividend income	**3,000**	4,800
– Share registration service fees	**(123)**	(158)
AWPS		
– Liquidation proceeds	**1,312**	–

(c) Key management personnel compensation

	Three months ended 31 Mar 2006 $'000	Three months ended 31 Mar 2005 $'000
Salaries and other short-term employee benefits	**13,171**	12,615
Employee share-based compensation benefits	**2,372**	2,359
Retirement benefit costs	**1,388**	1,377
	16,931	16,351

(d) Amounts due from/(to) related parties

	At 31 Mar 2006 $'000	At 31 Dec 2005 $'000
Amounts due from:		
– An associate	**3,000**	5,284
– Related companies with common directors	**867**	867
Amounts due to:		
– An associate	**(103)**	(14)
– Related companies with common directors	**(146)**	(113)

(e) Post-retirement benefit plans

Details of transactions with the Group's post-retirement benefit plans are included in note 8.

(f) Save as aforesaid, the Group has entered into other transactions in the ordinary course of business with companies where there are common directors but the amounts were immaterial.

33. Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, equity price risk and interest rate risk), liquidity risk and credit risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's performance.

The Group's investment policy is to prudently invest all funds managed by the Group in a manner which will satisfy liquidity requirements, safeguard financial assets and manage risks while optimising return on investments.

Investment and fund management is governed by investment policies and risk management guidelines approved by the Board. Investment restrictions and guidelines form an integral part of risk control. Fund-specific restrictions and guidelines are set according to the investment objectives of each fund. In addition, specific limits are set for each fund to control risks (e.g. permissible asset type, asset allocation, liquidity, credit, counterparty concentration, maturity, foreign exchange and interest rate risks) of the investments.

(a) Market risk

Market risk is the risk of loss arising from movements in observable market variables such as foreign exchange rates, equity and commodity prices and interest rates. The Group is exposed to market risk primarily through its investments held.

Funds available for investment comprise three main categories: Corporate Funds (mainly share capital and retained earnings of the Group), Clearing House Funds and Margin Funds received (which exclude non-cash collateral and contributions receivable from Participants).

An Investment Advisory Committee, comprised of Non-executive Directors of HKEx and an external member from the financial community, advises the Board on portfolio management and monitors the risk and performance of HKEx's investments. A Treasury team in the Finance Department is dedicated to the day-to-day management and investment of the funds. Three external fund managers have also been appointed to manage part of the Corporate Funds since July 2001. The external fund managers are stable and financially strong financial institutions and each has a worldwide aggregate fund size of a minimum of US$10 billion under management.

33. Financial Risk Management (continued)

(a) Market risk (continued)

(i) Foreign exchange risk

Foreign exchange risk is the risk of loss due to adverse movements in foreign exchange rates relating to investments and transactions denominated in foreign currencies. 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 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 March 2006, the aggregate net open foreign currency positions amounted to HK$2,067 million, of which HK$201 million were non-USD exposures (31 December 2005: HK$2,031 million, of which HK$160 million were non-USD exposures), and the total nominal value of outstanding forward foreign exchange contracts amounted to HK$399 million (31 December 2005: HK$275 million). All forward foreign exchange contracts would mature within one month (31 December 2005: one month).

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

In 2005, the Group has designated a bank deposit of 8,500,000 Swedish Krona ("SEK") as a cash flow hedge for hedging the foreign exchange risk of forecast expenses of SEK 8,500,000 from August to December 2005. Part of the balance was paid during the period ended 31 March 2006. The fair value of the remaining deposit as at 31 March 2006 was $5,450,000 (31 December 2005: $8,281,000).

In 2005, the Group designated a bank deposit of SEK11,000,000 as a fair value hedge to hedge against the foreign exchange risk of a financial liability of the Group of SEK11,000,000. Part of the balance was paid during the period ended 31 March 2006. The fair value gain on the bank deposit designated as hedging instrument during the period was $299,000 (2005: $Nil) whereas the fair value loss on the financial liability being hedged was $299,000 (2005: $Nil) during the period. The fair value of the deposit as at 31 March 2006 was $3,429,000 (31 December 2005: $10,717,000).

(ii) Equity and commodity price risk

The Group is exposed to equity price risk as equities are held as part of the Corporate Fund's investments. Equity price risk is capped by an asset allocation limit. The Group is not exposed to commodity price risk as investment in commodities is not permitted under the Group's Investment Policy.

33. Financial Risk Management (continued)

(a) Market risk (continued)

(iii) Interest rate risks

There are two types of interest rate risk:

- Fair value interest rate risk – the risk that the value of a financial instrument will fluctuate because of changes in market interest rates; and
- Cash flow interest rate risk – the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group is exposed to both fair value and cash flow interest rate risks as the Group has significant assets and liabilities which are interest-bearing.

(iv) Risk management

Risk management techniques, such as Value-at-Risk ("VaR") based on historical simulation and portfolio stress testing, are used to identify, measure and control foreign exchange risk, equity price risk and interest rate risks of the Group's investments. VaR measures the expected maximum loss over a given time interval (a holding period of 10 trading days is used by the Group) at a given confidence level (95 per cent confidence interval is adopted by the Group) based on historical data (one year is used by the Group). The Board sets a limit on total VaR of the Group and VaR is monitored on a weekly basis.

VaR is a statistical measure of risks and has limitations associated with the assumptions employed. Historical simulation assumes that actual observed historical changes in market indices, such as interest rates, foreign exchange rates and equity prices reflect possible future changes. This implies that the approach is vulnerable to sudden changes in market behaviour. The use of a 10-day holding period assumes that the positions can be unwound in 10 trading days and the holding period may be insufficient at times of severe illiquidity. Also, VaR does not necessarily reflect all aspects of risks that affect the price of financial instruments and may underestimate real market risk exposure. In addition, VaR does not factor in the possibility of catastrophic risk but the use of stress testing for abnormal market conditions can mitigate this limitation.

33. Financial Risk Management (continued)

(a) Market risk (continued)

(iv) Risk management (continued)

The VaR for each risk factor and the total VaR of the investments of the Group during the period were as follows:

	Three months ended 31 Mar 2006			Three months ended 31 Mar 2005		
	Average $million	**Highest $million**	**Lowest $million**	Average $million	Highest $million	Lowest $million
Foreign exchange risk	**5.9**	**6.7**	**4.9**	5.4	6.1	4.9
Equity price risk	**11.5**	**13.0**	**9.9**	7.7	8.3	6.6
Interest rate risk	**11.5**	**13.9**	**9.0**	22.8	24.0	21.2
Total VaR	**17.3**	**19.7**	**15.9**	25.3	26.9	23.5

VaR for each risk factor is the independently derived largest potential loss due to fluctuations solely in that risk factor. The individual VaRs did not add up to the total VaR as there was diversification effect due to correlation amongst the risk factors. Moreover, in respect of the highest and lowest VaRs during the period, the highest and lowest VaRs in each market did not necessarily occur on the same day.

(b) Liquidity risk

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due, and it results from amount and maturity mismatches of assets and liabilities. Investments of the Group are kept sufficiently liquid to meet the operating needs and possible liquid requirements of the Clearing House Funds and Margin Funds. The Group also sets a limit on the minimum level of cash or bank deposits held for the Corporate Funds, and the minimum level of investments to be held that would mature the same day and the next day for the Clearing House Funds and Margin Funds.

33. Financial Risk Management (continued)

(b) Liquidity risk (continued)

The financial liabilities of the Group as at 31 March 2006 are analysed into relevant maturity buckets based on their contractual maturity dates in the table below:

	At 31 Mar 2006					
	Up to 1 month $'000	**> 1 month to 3 months $'000**	**> 3 months to 1 year $'000**	**> 1 year to 5 years $'000**	**Not Determinable $'000**	**Total $'000**
Current liabilities						
Margin deposits from Clearing Participants on derivatives contracts	**15,532,039**	–	–	–	–	**15,532,039**
Accounts payable, accruals and other liabilities	**6,338,377**	**670**	**54,696**	**144**	**14,142**	**6,408,029**
Financial liabilities at fair value through profit or loss (note i)	**94,690**	–	–	–	–	**94,690**
Participants' admission fees received	**850**	**1,150**	**450**	–	**300**	**2,750**
	21,965,956	**1,820**	**55,146**	**144**	**14,442**	**22,037,508**
Non-current liabilities						
Participants' admission fees received	–	–	–	–	**79,850**	**79,850**
Participants' contributions to Clearing House Funds	–	–	–	–	**1,087,934**	**1,087,934**
Financial guarantee contract (note ii)	–	–	–	–	**85,400**	**85,400**
	–	–	–	–	**1,253,184**	**1,253,184**
Total	**21,965,956**	**1,820**	**55,146**	**144**	**1,267,626**	**23,290,692**

	At 31 Dec 2005 (as restated)				
	Up to 1 month $'000	> 1 month to 3 months $'000	> 3 months to 1 year $'000	Not Determinable $'000	Total $'000
Current liabilities					
Margin deposits from Clearing Participants on derivatives contracts	13,648,581	–	–	–	13,648,581
Accounts payable, accruals and other liabilities	3,596,565	30,405	191	13,910	3,641,071
Financial liabilities at fair value through profit or loss (note i)	153,973	–	–	–	153,973
Participants' admission fees received	900	150	1,300	200	2,550
	17,400,019	30,555	1,491	14,110	17,446,175
Non-current liabilities					
Participants' admission fees received	–	–	–	80,150	80,150
Participants' contributions to Clearing House Funds	–	–	–	751,751	751,751
Financial guarantee contract (note ii)	–	–	–	85,800	85,800
	–	–	–	917,701	917,701
Total	17,400,019	30,555	1,491	931,811	18,363,876

33. Financial Risk Management (continued)

(b) Liquidity risk (continued)

(i) The amount disclosed is based on the gross contractual amounts to be exchanged under the forward foreign exchange contracts under financial liabilities at fair value through profit or loss, which is different from the carrying amount (i.e. fair value) in the condensed consolidated balance sheet. The corresponding gross contractual amounts receivable under these forward foreign exchange contracts were $91,567,000 (31 December 2005: $152,530,000).

(ii) The amount disclosed for financial guarantee contracts represented the amount of contingent liabilities at the balance sheet date.

The Group employs projected cash flow analysis to manage liquidity risk by forecasting the amount of cash required and monitoring the working capital of the Group to ensure that all liabilities due and known funding requirements could be met. In addition, banking facilities have been put in place for contingency purposes. As at 31 March 2006, the Group's total available banking facilities amounted to $1,611 million (31 December 2005: $1,608 million), of which $1,500 million (31 December 2005: $1,500 million) were repurchase facilities to augment the liquidity of the Margin Funds.

(c) Credit risk

(i) Investment and accounts receivable-related risk

The Group is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. It arises primarily from the Group's investments and trade receivables. Impairment provisions are made for losses that have been incurred at the balance sheet date. The Group limits its exposure to credit risk by rigorously selecting the counterparties (i.e. deposit-takers, bond issuers and debtors) and by diversification. As at 31 March 2006, the bonds held were of investment grade and had a weighted average credit rating of Aa2 (31 December 2005: Aa2), and there were no financial assets whose terms were renegotiated (31 December 2005: Nil). Deposits are placed only with the note-issuing banks in Hong Kong, investment grade licensed banks and restricted licence banks approved by the Board from time to time. All investments are subject to a maximum concentration limit approved by the Board and there was no significant concentration risk to a single counterparty. The Group mitigates its exposure to risks relating to accounts receivable from its Participants by requiring the Participants to meet the Group's established financial requirements and criteria for admission as Participants.

33. Financial Risk Management (continued)

(c) Credit risk (continued)

(ii) Clearing and settlement-related risk

In the normal course of business, the clearing houses of the Group, HKSCC, SEOCH and HKCC, act as the counterparties to eligible trades concluded on the Stock Exchange and the Futures Exchange through the novation of the obligations of the buyers and sellers. HKSCC is also responsible for the good title to the securities deposited and accepted in the CCASS depository. As a result, the Group has considerable market risk and credit risk since the Participants' ability to honour their obligations in respect of their trades and securities deposited may be adversely impacted by economic conditions affecting the Cash and Derivatives Markets. If the Participants default on their obligations on settlement or there are defects in the title of securities deposited and accepted in the CCASS depository, the Group could be exposed to potential risks not otherwise accounted for in these accounts.

The Group mitigates its exposure to risks described above by requiring the Participants to meet the Group's established financial requirements and criteria for admission as Participants, monitoring compliance with risk management measures such as position limits established by the Group and requiring Clearing Participants to contribute to the Clearing House Funds set up by HKSCC, SEOCH and HKCC. HKSCC also retains recourse against those Participants whose securities are deposited and accepted in the CCASS depository. Moreover, insurance has been taken out by the Group to cover the risks.

Position limits are imposed by HKCC to regulate or limit the maximum number or value of gross and net positions which can be held or controlled by the Participants based on their liquid capital. Bank guarantees may also be accepted to extend Participants' position limits. As of 31 March 2006, bank guarantees of $997,500,000 (31 December 2005: $915,400,000) were accepted for such purpose.

In addition to the above, the Group has set aside $1,500 million of retained earnings for the purpose of strengthening the risk management regime of the clearing houses and supporting their roles as central counterparties.

33. Financial Risk Management (continued)

(c) Credit risk (continued)

(iii) Exposure to credit risk

As at 31 March 2006, the financial assets and financial liabilities of the Group that were exposed to credit risk and their maximum exposure were as follows:

	At 31 Mar 2006		As restated At 31 Dec 2005	
	Carrying amount in balance sheet $'000	**Maximum exposure to credit risk $'000**	Carrying amount in balance sheet $'000	Maximum exposure to credit risk $'000
Financial assets				
Clearing House Funds:				
Available-for-sale financial assets	**98,012**	**98,012**	224,137	224,137
Time deposits with original maturities over three months	**30,421**	**30,421**	30,290	30,290
Cash and cash equivalents	**1,557,375**	**1,557,375**	1,091,233	1,091,233
Compensation Fund Reserve Account:				
Available-for-sale financial assets	**–**	**–**	18,488	18,488
Cash and cash equivalents	**49,140**	**49,140**	30,240	30,240
Time deposit with maturity over one year	**38,799**	**38,799**	38,768	38,768
Other assets	**18,553**	**18,553**	17,162	17,162
Accounts receivable and deposits#	**5,479,181**	**5,479,181**	3,250,197	3,250,197
Margin Funds on derivatives contracts:				
Available-for-sale financial assets	**2,757,502**	**2,757,502**	3,828,833	3,828,833
Time deposits with original maturities over three months	**50,000**	**50,000**	100,018	100,018
Cash and cash equivalents	**12,724,515**	**12,724,515**	9,686,026	9,686,026
Margin receivable from Clearing Participants	**22**	**22**	33,704	33,704
Financial assets at fair value through profit or loss	**2,714,819**	**2,714,819**	2,643,788	2,643,788
Time deposits with original maturities over three months	**65,809**	**65,809**	116,622	116,622
Cash and cash equivalents	**2,378,445**	**2,378,445**	1,359,133	1,359,133
Financial liabilities				
Undertaking to indemnify the Collector of Stamp Revenue	**(19,909)**	**85,400**	(19,909)	85,800

Certain debtors were required to place cash deposits with the Group to mitigate the maximum exposure to credit risk.

33. Financial Risk Management (continued)

(c) Credit risk (continued)

(iv) Financial assets that were past due but not impaired

As at 31 March 2006, the age analysis of the trade receivables of the Group that were past due but not determined to be impaired according to the period past due was as follows:

	At 31 Mar 2006 $'000	At 31 Dec 2005 $'000
Up to 6 months	**42,160**	141,277
Over 6 months to 1 year	**–**	–
Over 1 year to 3 years*	**8,510**	8,521
Over 3 years	**142**	142
Total	**50,812**	149,940

* No provision for impairment losses has been made against trade receivables amounting to $8,510,000 (31 December 2005: $8,521,000) as the balances can be recovered from the Clearing House Funds.

The fair value of cash deposits placed by the related trade debtors with the Group was $1,712,000 (31 December 2005: $3,600,000).

(v) Financial assets that were impaired at balance sheet date

As at 31 March 2006, trade receivables of the Group amounting to $4,444,000 (31 December 2005: $4,329,000) were determined to be impaired and full provision had been made. These receivables were outstanding for over 180 days as at the balance sheet date. The factors the Group considered in determining whether the financial assets were impaired were disclosed in the 2005 annual accounts. No cash deposits had been placed by the related trade debtors with the Group (31 December 2005: $Nil).

(vi) Outstanding balances from debtors which were not recognised as Income

As soon as a loan or receivable becomes impaired, the Group may continue to provide services or facilities to the debtors concerned but no further accounts receivable will be recognised on balance sheet as economic benefits may not flow to the Group. The revenue concerned is not recognised but tracked as doubtful deferred revenue and will only be recognised as income when received. As at 31 March 2006, the amount of doubtful deferred revenue amounted to $37,425,000 (31 December 2005: $37,643,000).

33. Financial Risk Management (continued)

(d) Fair values of financial assets and financial liabilities not reported at fair values

Summarised in the following table are the carrying amounts and fair values of financial assets and financial liabilities not presented in the Group's balance sheet at their fair values. The carrying amounts of short-term receivables (i.e. accounts receivable, deposits and cash and cash equivalents) and short-term payables (i.e. accounts payable and other liabilities) approximated their fair values, and accordingly no disclosure of the fair values of these items is presented.

	Carrying amount in balance sheet		**Fair value**	
	At 31 Mar 2006 $'000	At 31 Dec 2005 $'000	**At 31 Mar 2006 $'000**	At 31 Dec 2005 $'000
Financial assets				
Time deposit with maturity over one year	**38,799**	38,768	**36,284**	36,659
Other financial assets included in other non-current assets (note i)	**18,553**	17,162	**16,575**	15,550
Financial liabilities				
Participants' admission fees received included in non-current liabilities (note i)	**79,850**	80,150	**76,317**	76,732
Participants' contributions to Clearing House Funds:				
– Minimum contributions (note i)	**359,450**	358,050	**343,544**	342,779
– Participants' additional deposits	**728,484**	393,701	**728,484**	393,701
Financial guarantee contract (note ii)	**19,909**	19,909	**18,646**	20,526

(i) The fair values are based on cash flows discounted using Hong Kong Government bond rates of a tenor similar to the contractual maturity of the respective assets/liabilities, adjusted by an estimated credit spread. Assets/liabilities without a contractual maturity are assumed to mature exactly one year after the balance sheet date. The discount rates used range from 4.63 per cent to 4.83 per cent as at 31 March 2006 (31 December 2005: 4.46 per cent to 4.64 per cent).

(ii) The fair values are based on the fees charged by financial institutions for granting such guarantees discounted using a ten-year Hong Kong Government bond rate to perpetuity. The discount rate was 4.58 per cent as at 31 March 2006 (31 December 2005: 4.18 per cent).

OTHER INFORMATION

(Financial figures are expressed in Hong Kong Dollar)

Board of Directors

Dr Loh Kung Wai, Christine and Mr David Michael Webb were successfully elected and re-elected respectively by shareholders at the Annual General Meeting held on 26 April 2006 ("2006 AGM") and their service terms will be approximately three years from 26 April 2006 until the conclusion of the annual general meeting to be held in 2009. On the same day, the Financial Secretary appointed Mr Ronald Joseph Arculli, Mrs Cha May-Lung, Laura and Mr Cheng Mo Chi, Moses as Government Appointed Directors to succeed Mr Lee Yeh Kwong, Charles, Mr Tim Freshwater and Dr Lo Ka Shui, who retired after the conclusion of the 2006 AGM. All of them were appointed for a term of approximately two years from 26 April 2006 until the conclusion of the annual general meeting to be held in 2008. The Board had subsequently on 27 April 2006 appointed Mr Ronald Joseph Arculli as the Chairman of the Board and whose appointment was approved by the Chief Executive of Hong Kong Special Administrative Region on 28 April 2006.

We would like to take this opportunity to record our thanks and sincere appreciation to our ex-Chairman, Mr Lee Yeh Kwong, Charles, for his steadfast leadership and distinct contributions to Hong Kong Exchanges and Clearing Limited ("HKEx") over the past years. His devoted commitment and tireless efforts have been instrumental in steering HKEx to become one of the most successful international publicly-owned exchange operators. Amidst our appreciation to our ex-Chairman, the Board would also like to express its sincere appreciation to Mr Tim Freshwater, Mr Lee Jor Hung, Dannis and Dr Lo Ka Shui for their contributions, invaluable advice, and support rendered to HKEx over the past six years.

Committees and Consultative Panels

Following the changes in the Board membership that took effect after the conclusion of the 2006 AGM, the Board appointed members to various Committees and Consultative Panels on 27 April 2006.

Audit Committee

Mr Cheng Mo Chi, Moses was appointed a member to succeed Mr Fan Hung Ling, Henry who has resigned from the Audit Committee.

Executive Committee

Mr Lee Kwan Ho, Vincent Marshall was appointed a member to succeed Mr Lee Jor Hung, Dannis. Mr Fong Hup was appointed as a member upon the Board's approval of changing the composition of the Executive Committee to comprise solely of Board members. Mr Ronald Joseph Arculli assumed chairmanship pursuant to the Executive Committee's terms of reference effective 28 April 2006.

Investment Advisory Committee

Mr Fan Hung Ling, Henry was appointed the chairman to succeed Mr Tim Freshwater. Mrs Cha May-Lung, Laura was appointed as an additional member.

Nomination Committee, Disciplinary Appeals Committee and Listing Nominating Committee

Mr Ronald Joseph Arculli was appointed the chairman of the Nomination Committee of HKEx and a member of the Disciplinary Appeals Committee and the Listing Nominating Committee of The Stock Exchange of Hong Kong Limited ("Stock Exchange") to succeed Mr Lee Yeh Kwong, Charles.

Remuneration Committee

Dr Cheung Kin Tung, Marvin was appointed the chairman to succeed Dr Lo Ka Shui. Mr Cheng Mo Chi, Moses, Mr Fong Hup, Mr Lee Kwan Ho, Vincent Marshall and Dr Loh Kung Wai, Christine were appointed as members following the retirement of Mr Lee Jor Hung, Dannis after the conclusion of the 2006 AGM and upon the Board's approval to increase the number of committee members from three to five.

Risk Management Committee

Mr Ronald Joseph Arculli was appointed the chairman of the Risk Management Committee pursuant to Section 65 of the Securities and Futures Ordinance ("SFO") effective 28 April 2006.

Cash Market Consultative Panel ("CMCP")

Mr Lee Kwan Ho, Vincent Marshall and Dr Cheung Kin Tung, Marvin were appointed the chairman and deputy chairman respectively to succeed Mr Lee Jor Hung, Dannis and Mr Tim Freshwater respectively.

Clearing Consultative Panel ("CCP")

Mr Fong Hup, the former deputy chairman, was appointed the chairman to succeed Mr Lee Kwan Ho, Vincent Marshall who has taken up the position as the chairman of the CMCP and Mr Wong Sai Hung, Oscar was appointed the deputy chairman to succeed Mr Fong Hup.

Derivatives Market Consultative Panel ("DMCP")

Dr Loh Kung Wai, Christine was appointed the deputy chairman to succeed Dr Cheung Kin Tung, Marvin who was appointed the deputy chairman of the CMCP.

Panel Member Nomination Committee ("PMNC")

The Board established the PMNC on 12 April 2006 for the purpose of identifying and selecting nominees for the CMCP, CCP and DMCP (collectively the "Consultative Panels") for the Board's consideration and approval. The PMNC consists of five members, including the chairmen of the Consultative Panels and two Directors appointed by the Board. Mrs Cha May-Lung, Laura was appointed a member to succeed Mr Fong Hup after the latter has taken up the position as the chairman of the CCP. Mr Wong Sai Hung, Oscar is another member appointed by the Board.

The term of service of each Director with each Committee or Consultative Panel shall be coterminous with individual's term of directorship with HKEx.

Other members of the Committees and Consultative Panels remain unchanged. The membership information is available on HKEx's corporate website.

Share Option Schemes

HKEx operates two share option schemes, the Pre-Listing Share Option Scheme ("Pre-Listing Scheme") and the Post-Listing Share Option Scheme ("Post-Listing Scheme"), under which the Board of Directors of HKEx may, at its discretion, offer any employee (including any executive director) of HKEx or its subsidiaries, options to subscribe for shares in HKEx subject to the terms and conditions stipulated in the two schemes. Both schemes were approved by the shareholders of HKEx on 31 May 2000 and have a life of 10 years until 30 May 2010. Amendments to the Post-Listing Scheme, including, inter alia, the abolition of granting options at discounted price, were approved by the shareholders on 17 April 2002 so as to comply with the new requirements of Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Main Board Listing Rules") which came into effect on 1 September 2001.

Details of the share options outstanding as at 31 March 2006 under the Pre-Listing Scheme and the Post-Listing Scheme were as follows:

Pre-Listing Scheme

		Number of shares issuable under the options				
Date of grant	**Exercise price**	**As at 1 Jan 2006**	**Issued upon subscription during the three months ended 31 Mar 2006**	**Lapsed during the three months ended 31 Mar 2006**	**As at 31 Mar 2006**	**Exercise period**
Employees *(note 1)*						
20 Jun 2000	$6.88	2,126,000	668,000 *(note 2)*	–	1,458,000	6 Mar 2002 – 30 May 2010 *(note 3)*

No further options can be, or have been, issued under the Pre-Listing Scheme from 27 June 2000, the date of listing of HKEx on the Stock Exchange.

Post-Listing Scheme

Date of grant	Exercise price	Number of shares issuable under the options: As at 1 Jan 2006	Issued upon subscription during the three months ended 31 Mar 2006	Lapsed during the three months ended 31 Mar 2006	As at 31 Mar 2006	Exercise period *(note 5)*
Director *(note 4)*						
2 May 2003	$8.28	2,460,000	–	–	2,460,000	2 May 2005 – 1 May 2013
Employees *(note 1)*						
14 Aug 2003	$12.45	844,000	–	–	844,000	14 Aug 2005 – 13 Aug 2013
18 Aug 2003	$12.49	1,476,000	–	–	1,476,000	18 Aug 2005 – 17 Aug 2013
15 Jan 2004	$17.30	1,094,000	–	–	1,094,000	15 Jan 2006 – 14 Jan 2014
31 Mar 2004	$16.96	5,074,000	– *(note 6)*	12,000	5,062,000	31 Mar 2006 – 30 Mar 2014
17 May 2004	$15.91	200,000	–	–	200,000	17 May 2006 – 16 May 2014
26 Jan 2005	$19.25	5,426,000	–	14,000	5,412,000	26 Jan 2007 – 25 Jan 2015

Since the adoption of the Employees' Share Award Scheme by the Board of Directors of HKEx in September 2005, no further options have been granted under the Post-Listing Scheme.

No options granted under these two share option schemes were cancelled during the three months ended 31 March 2006.

Notes:

1. *Employees working under employment contracts that were regarded as "continuous contracts" for the purpose of the Employment Ordinance of Hong Kong.*

2. *The weighted average closing price immediately before the dates on which the options were exercised was $38.41.*

3. *Options granted are exercisable between 6 March 2002 and 30 May 2010, subject to a vesting scale in tranches of 25 per cent each per annum reaching 100 per cent as from 6 March 2005.*

4. *The option was granted to Mr Chow Man Yiu, Paul, a Director and the Chief Executive of HKEx.*

5. *Options granted are subject to a vesting scale in tranches of 25 per cent each per annum starting from the second anniversary and fully vested in the fifth anniversary of the date of grant.*

6. *80,000 shares were exercised on 31 March 2006 with the allotment of these shares being made on 3 April 2006. The closing price immediately before the date of exercise was $47.25.*

7. *HKEx adopts the Binomial Option Pricing Model for estimating the fair value of options issued under the Post-Listing Scheme. The assumptions used in the model for the following factors are:*

   - *Risk-free rate of return – the yield of 10-year Exchange Fund Notes*
   - *Expected volatility of share price – annualised volatility for one year immediately preceding the grant date*
   - *Expected dividend yields – annual dividend (excluding special dividend) of the most recent financial year and the closing price on grant date*

   The amortised fair value of the share options charged to the profit and loss account for the three months ended 31 March 2006 was $5,199,000 (31 March 2005: $5,360,000).

   The Binomial Option Pricing Model was developed to estimate the fair value of American style options. It is one of the commonly used models to estimate the fair value of an option which can be exercised before the expiry of the option period. The value of an option varies with different variables of certain subjective assumptions. Any change in variables so adopted may materially affect the estimation of the fair value of an option.

Employees' Share Award Scheme

On 14 September 2005 ("Adoption Date"), the Board of HKEx adopted an Employees' Share Award Scheme ("HKEx Share Award Scheme") in which all employees (including without limitation any executive directors) of HKEx and its subsidiaries ("Group") will be entitled to participate. The purposes and objectives are to recognise the contributions by certain employees of the Group and to give incentive to them in order to retain them for the continual operation and development of the Group, and to attract suitable personnel for further development of the Group. Unless early terminated by the Board of HKEx, the HKEx Share Award Scheme shall be valid and effective for a term of 15 years commencing on the Adoption Date provided that no contribution to the trust fund will be made by HKEx on or after the tenth anniversary date of the Adoption Date. The rules and the trust deed relating to the HKEx Share Award Scheme are posted on HKEx's corporate website.

The Board has decided that, after adoption of the HKEx Share Award Scheme, no further options will be granted under the existing Post-Listing Scheme.

As at 31 March 2006, details of the awarded shares under the HKEx Share Award Scheme ("Awarded Shares") were as follows:

		Number of shares					
Date of award	**Average fair value per share ($)**	**As at 1 Jan 2006**	**Awarded during the three months ended 31 Mar 2006**	**Vested during the three months ended 31 Mar 2006**	**Lapsed during the three months ended 31 Mar 2006**	**As at 31 Mar 2006**	**Vesting period**
Employees							
19 Dec 2005	31.20	960,000	–	–	5,200	954,800	19 Dec 2007 – 19 Dec 2010

Notes:

1. *The shares were purchased by the trustee of the HKEx Share Award Scheme at an average price of $31.26 per share.*
2. *The amortised fair value of the Awarded Shares charged to the profit and loss account for the three months ended 31 March 2006 was $2,021,000 (31 March 2005: Nil).*
3. *No shares have ever been awarded to any Director of HKEx under the HKEx Share Award Scheme since its adoption.*

Directors' and Chief Executive's Interests and Short Positions

As at 31 March 2006, the Directors, the Chief Executive and their respective associates had the following interests in the shares and underlying shares of HKEx, as recorded in the register maintained by HKEx pursuant to Section 352 of the SFO:

Interests in the shares and underlying shares of HKEx

	Number of shares/underlying shares held					
Name of Director	**Personal interests**	**Family interests**	**Corporate interests**	**Other interests**	**Total**	**% of the issued share capital**
Chow Man Yiu, Paul	3,280,000 *(note 1)*	–	–	–	3,280,000	0.31
Lee Jor Hung, Dannis	–	–	1,610,000 *(note 2)*	–	1,610,000	0.15
Lee Kwan Ho, Vincent Marshall	–	–	5,070,000 *(note 3)*	–	5,070,000	0.48
John Estmond Strickland	18,000 *(note 4)*	–	–	–	18,000	0.00
David Michael Webb	2 *(note 5)*	2 *(note 6)*	6 *(note 7)*	–	10	0.00

Notes:

1. *Mr Chow, who is also the Chief Executive of HKEx, has beneficial interests in 820,000 shares, and 2,460,000 underlying shares in respect of the share option granted to him pursuant to the Post-Listing Scheme on 2 May 2003. The said option is exercisable between 2 May 2005 and 1 May 2013 at an exercise price of \$8.28 per share. The number of shares issuable under the option granted and the exercise price had been adjusted in accordance with the resolution passed by shareholders of HKEx at the annual general meeting held in 2004.*

2. *1,610,000 shares were owned by DL Brokerage Limited, a private company beneficially wholly-owned by Mr Lee.*

3. *Mr Lee has interest in 860,000 shares, and 4,210,000 underlying shares through listed derivatives (physically settled options) held by Pacific Trust Company Limited, in which Mr Lee holds 33.33 per cent beneficial interests.*

4. *The shares were held by Mr Strickland as beneficial owner.*

5. *The shares were held by Mr Webb as beneficial owner.*

6. *The shares were owned by the spouse of Mr Webb.*

7. *The shares were owned by Fundamental Consultants Limited, Member One Limited and Member Two Limited which are under the control of Mr Webb.*

Short positions in the shares and underlying shares of HKEx

As at 31 March 2006, Mr Lee Kwan Ho, Vincent Marshall was, under the SFO, interested in an aggregate short positions of 520,000 underlying shares in HKEx, representing 0.05 per cent of the total issued share capital of HKEx, which arose through certain listed derivatives (physically settled options) held by a corporation in which Mr Lee holds 33.33 per cent beneficial interests.

Save for those disclosed above, no interests and short positions were held or deemed or taken to be held under Part XV of the SFO by any Director or the Chief Executive of HKEx or their respective associates in the shares, underlying shares and debentures of HKEx or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to HKEx and the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") or which are required pursuant to Section 352 of the SFO to be entered into the register referred to therein. Nor any of the Directors and the Chief Executive (including their spouses and children under the age of 18) had, as at 31 March 2006, any interest in, or had been granted any right to subscribe for the securities and options of HKEx and its associated corporations within the meaning of the SFO, or had exercised any such rights.

Disclosable Interests and Short Positions of Shareholders under the SFO

As at 31 March 2006, the Directors are not aware of any party who was directly or indirectly interested in five per cent or more of the issued share capital of HKEx, as recorded in the register required to be kept by HKEx under Section 336 of the SFO.

Minority Controllers

Under Section 61 of the SFO, no person shall be or become a Minority Controller, i.e. a person who either alone or with any associated person or persons, is entitled to exercise, or control the exercise of five per cent or more of the voting power at any general meeting of the recognised exchange controller, except with the approval in writing of the Securities and Futures Commission ("SFC") after consultation with the Financial Secretary.

The SFC has so far granted approval to five entities to be Minority Controllers of HKEx, on the basis that the shares are held by them in custody for their clients.

As at 31 March 2006, the Minority Controllers were in aggregate holding 61.6 per cent of the issued share capital of HKEx (31 March 2005: 54.4 per cent).

Corporate Governance

HKEx is committed to building and maintaining high standards of corporate governance. HKEx applied the principles and fully complied with all requirements set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Main Board Listing Rules throughout the review period.

Compliance with the Model Code

HKEx has adopted the Model Code as set out in Appendix 10 to the Main Board Listing Rules. All Directors have confirmed, following specific enquiry by HKEx, that they fully complied with the Model Code throughout the review period.

Review of Accounts

The Audit Committee has reviewed the Group's unaudited condensed consolidated financial statements for the three months ended 31 March 2006 in conjunction with HKEx's external auditors.

Management has appointed the external auditors to carry out certain agreed-upon procedures in accordance with Hong Kong Standards on Related Services 4400 "Engagements to perform agreed-upon procedures regarding financial information" issued by the Hong Kong Institute of Certified Public Accountants on the unaudited condensed consolidated financial statements for the three months ended 31 March 2006.

Purchase, Sale or Redemption of HKEx's Listed Securities

During the three months ended 31 March 2006, HKEx had not redeemed, and neither HKEx nor any of its subsidiaries had purchased or sold, any of HKEx's listed securities.

In December 2005, the Board awarded 960,000 HKEx shares to a number of employees under the HKEx Share Award Scheme. The trustee of the HKEx Share Award Scheme purchased 958,000 Awarded Shares on the Stock Exchange in December 2005 and the remaining 2,000 Awarded Shares in January 2006. The total amount paid to acquire the 2,000 Awarded Shares during the quarter was $71,000.

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

Hong Kong, 10 May 2006

Hong Kong Exchanges and Clearing Limited

12/F, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong

Tel: +852 2522 1122 Fax: +852 2295 3106
Website: www.hkex.com.hk Email: info@hkex.com.hk