HKEX

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

Quarterly Report 2006

For the nine months ended 30 September

Stock Code: 388

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Independent Non-executive Chairman

ARCULLI, Ronald Joseph* GBS, JP
(appointed as Director on 26 April 2006 and as Chairman on 28 April 2006)

LEE Yeh Kwong, Charles* GBM, 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, JP
(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* MH

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 *(Chairman)*
(appointed as member on 27 April 2006 and as Chairman on 12 May 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

LUI Kei Kwong, Keith**
(appointment effective 28 August 2006)

WHEATLEY, Martin**
(appointment ended on 27 August 2006)

WONG Tung-shun, Peter**
(appointment ended 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)

	Nine months ended 30 Sept 2006	Nine months ended 30 Sept 2005	Change
KEY MARKET STATISTICS			
Average daily turnover value on the Stock Exchange	**$30.4 billion**	$18.2 billion	67%
Average daily number of derivatives contracts traded on the Futures Exchange	**96,926**	66,393	46%
Average daily number of stock options contracts traded on the Stock Exchange	**64,608**	33,732	92%

	Unaudited Nine months ended 30 Sept 2006 $'000	Unaudited Nine months ended 30 Sept 2005 $'000	
RESULTS			
Income	**2,843,683**	1,971,300	44%
Operating expenses	**893,651**	852,912	5%
Operating profit	**1,950,032**	1,118,388	74%
Share of profits less losses of associates	**15,986**	12,992	23%
Profit before taxation	**1,966,018**	1,131,380	74%
Taxation	**(291,989)**	(171,464)	70%
Profit attributable to shareholders	**1,674,029**	959,916	74%
Basic earnings per share	**$1.57**	$0.91	73%
Diluted earnings per share	**$1.56**	$0.90	73%

	Unaudited at 30 Sept 2006 $'000	As restated Audited at 31 Dec 2005 $'000	
KEY BALANCE SHEET ITEMS			
Shareholders' funds	**4,413,003**	4,337,471ᶲ	2%
Total assets *	**30,408,417**	22,930,916ᶲ	33%
Net assets per share #	**$4.15**	$4.09ᶲ	1%

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 1,064,145,346 shares as at 30 September 2006, being 1,065,130,846 shares issued and fully paid less 985,500 shares held for the 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 Share Award Scheme)

BUSINESS REVIEW

LISTING

Listing of Overseas Issuers

At present, four jurisdictions of incorporation are prescribed for the purpose of eligibility for listing by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Main Board Listing Rules") and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (collectively "Listing Rules"), namely, Hong Kong, the People's Republic of China, Bermuda and the Cayman Islands. Listing applications incorporated in other jurisdictions are assessed on a case-by-case basis. Over the past years, companies incorporated in Australia, Canada (Ontario), Jersey, Singapore and United Kingdom have been listed. The Listing Committee is supportive of facilitating the listing of issuers from other jurisdictions, and has recently approved Australia and Canada (British Columbia) as acceptable jurisdictions for eligibility purposes. Hong Kong Exchanges and Clearing Limited ("HKEx") is developing jointly with the Securities and Futures Commission ("SFC") the policy to establish a framework suitable for broader application.

Abolition of Requirement for Main Board Issuers to Publish Paid Announcements in Newspapers

Enhancement of the relevant system capacity is in progress to prepare for the anticipated increase in the volume of submissions for publication on the HKEx website following the abolition of the requirement for Main Board issuers to place paid announcements in newspapers in 2007.

Whilst the exact commencement date will be announced in early January 2007, a six-month transitional period will tentatively start from 16 April 2007 subject to operational readiness. During the transitional period, issuers will have to publish a notification of the announcements in newspapers and post the full version of the announcements on the HKEx website and their own websites. A Main Board issuer without its own website must publish the full announcement in newspapers as well as on the HKEx website.

On 23 October 2006, HKEx announced the abolition of the requirement for posting the short-form preliminary results announcement on the HKEx or the Growth Enterprise Market ("GEM") website effective 1 December 2006. The change is relating to the new model for information submission and dissemination for listed issuers released in July 2006.

Regulation of Sponsors and Compliance Advisers

In April 2006, the SFC published its Consultation Conclusions to the Consultation Paper on the Regulation of Sponsors and Compliance Advisers, and announced that amendments to its licensing and monitoring regimes for sponsors and compliance advisers would take effect from 1 January 2007.

Under the new regimes, the SFC, as the statutory regulator, would be responsible for eligibility assessment, on-going supervision, discipline and enforcement of sponsors and compliance advisers, while HKEx, as the market operator, would continue to be responsible for the implementation and administration of the Listing Rules, including the requirement on the independence of sponsors and the practice notes on due diligence. The relevant amendments to the Listing Rules were released on 24 October 2006 and will take effect from 1 January 2007 to coincide with the SFC's revised licensing regime.

Amendments to the Main Board Listing Rules in respect of Structured Products

In order to implement the recommendations that were set out in the "Hong Kong's Derivative Warrants Market – the Way Forward, Results of the Consultation on the SFC's Six-Point Plan" published by the SFC in March 2006, the Main Board Listing Rules were amended and took effect from 30 September 2006 to facilitate identical issues and ban commission rebates. The operation of the amended rules will be reviewed after six months.

Review of the GEM

Upon consideration and review of the 16 responses to the discussion paper to facilitate public discussion on the GEM, HKEx is now exploring a number of proposals together with the SFC for further market consultation.

CASH MARKET

Market Performance

There were 32 newly listed companies on the Main Board and five on the GEM in the first three quarters of 2006. Total capital raised, including post-listing funds, reached $263.2 billion. As at 30 September 2006, 954 and 198 companies were listed on the Main Board and the GEM respectively with a total market capitalisation of about $10,603.7 billion.

	Number of Listed Companies		
	Main Board	GEM	Total
At the beginning of the year	934	201	1,135
– New listing	32*	5	37
– Delisted	(12)	(8)*	(20)
At end of September 2006	954	198	1,152

* *including two delisted GEM companies which were subsequently listed on the Main Board*

As at the end of September 2006, there were 1,606 derivative warrants, eight Exchange Traded Funds, four Real Estate Investment Trusts, 35 Callable Bull/Bear Contracts ("CBBCs") and 173 debt securities listed. The average daily turnover in the nine months ended September 2006 was about $30.2 billion on the Main Board and about $176.8 million on the GEM.

On 27 October 2006, the turnover of the Cash Market reached the record high of $76.2 billion since 28 August 1998 ($79.0 billion), and the total market capitalisation of the Main Board and the GEM further reached a record of $11,358 billion since it first exceeded $10,000 billion on 3 May 2006.

Market Infrastructure Improvements

HKEx has been receiving responses to the implementation of reduced minimum trading spreads for securities priced between $2 and $20 (Phase 2A). Market data is being analysed to examine the impact, if any, of the Phase 2A. The reduction of minimum trading spreads for securities priced between $0.25 and $2 (Phase 2B) is expected to proceed in the first quarter of 2007, if no systemic problems are found. An interim report was submitted to the Board in November with the final report to be submitted in the first quarter of 2007 when the Board will review the position as to Phase 2B.

Product Development

Since the listing of the first batch of seven CBBCs, the performance of the CBBC market in Hong Kong has been encouraging. The number of CBBC issues has increased gradually, from 11 as at the end of June 2006 to 40 up to the end of September 2006 (of which five already experienced Mandatory Call Events/early expiration). Moreover, the daily average turnover for CBBCs surged from $13.6 million by the end of June 2006 to over $87.6 million during the third quarter of 2006.

The HKEx website (www.hkex.com.hk/cbbc) features a section on CBBCs and a leaflet with CBBC-related information and frequently asked questions was published for interested parties.

In response to market demand, approved structured products issuers were permitted to launch structured products (except CBBCs) over the shares of Industrial and Commercial Bank of China Limited ("ICBC"), which have commenced trading on the same day as the ICBC shares. The accelerated approval process enables investors to invest in the structured products of ICBC in a well regulated and transparent market.

DERIVATIVES MARKET

Market Performance

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

	Record High Daily Volume		Record High Open Interest	
Product	**Date**	**Number of Contracts**	**Date**	**Number of Contracts**
Hang Seng Index Futures	26 Sept	191,025	26 Sept	185,249
Hang Seng Index Options	7 Sept	31,295	27 Sept	350,459
Mini Hang Seng Index Futures	26 Sept	14,908	28 Sept	6,217
Mini Hang Seng Index Options	25 Jul	762	26 Sept	3,473
H-shares Index Futures	26 Sept	68,870	26 Sept	81,957
H-shares Index Options	14 Jul	14,204	–	–
Stock Futures	7 Aug	1,887	15 Aug	6,149
Stock Options	–	–	27 Sept	2,359,418

Product and Market Development

HKEx continued to introduce futures and options contracts on newly listed stocks and made improvements to the market-making services in stock options and futures. From July 2006, provision of continuous quotes by stock options market makers has been extended to eight more options classes and two-way prices have continuously been quoted by the stock futures market maker in 10 active stock futures contracts.

In September 2006, HKEx announced a new market maker ("MM") model for the products of Hong Kong Futures Exchange Limited ("HKFE") and a revised trading fee discount scheme for MMs trading in stock index futures or options, both of them would be introduced on 1 February 2007, with the aim of simplifying and improving the quality of market-marking services and providing incentives for MMs. The main features of the new MM model can be found on the HKEx website.

On 26 September 2006, HKFE received no-action relief from the US Commodity Futures Trading Commission enabling the offer and sale of futures contracts based on the FTSE/Xinhua China 25 Index and the Hang Seng China Enterprises Index in the US. HKEx believes that the liquidity of these two futures contracts will be enhanced with the participation of US investors and HKEx will continue to improve the accessibility of its products.

Education and Marketing

In the third quarter of 2006, about 2,000 people, including employees of Exchange Participants, members of professional bodies and retail investors, participated in different on-going education programmes organised by HKEx, such as Continuous Professional Trainings, seminars and briefings on HKEx's products and services as well as on the Hong Kong Futures Automated Trading System ("HKATS").

On 10 August 2006, participants of futures and securities broker firms from different areas of the Mainland attended a seminar organised by HKEx in Shanghai. The seminar was designed to assist Mainland securities and futures brokers in applying for HKEx's exchange participantship. Similar seminars will be held in Shenzhen later this year.

CLEARING

Five-Day Clearing Week

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

Enhancements to the Stock Segregated Account ("SSA") and Investor Participant ("IP") Account

To meet the demand for higher shareholding transparency and better investor protection, HKSCC will enhance the SSA with statement service in two phases. The first phase enhancement is now under development and will be implemented in early 2007 to provide, in addition to physical statements, access to the SSA via the Internet or through the CCASS Phone System, and email and Short Message Service alerts of account movements. The second phase enhancement will be implemented in the second quarter of 2007 to provide electronic voting and Chinese statements, and relax the restriction on the number of SSA available to each stock broker.

At the same time, HKSCC will continue its feasibility study of further improving the SSA and IP Account services to promote their wider use by retail investors for better investor protection.

Risk Management Measures

The review of the Capital Based Position Limit ("CBPL") policy of the two derivatives clearing houses has been completed. Participants have been notified of the relevant rule changes to align the CBPL policy of SEOCH with that of HKCC to take effect in November 2006.

Default of Participants

In respect of the failure of Tai Wah Securities Limited (in liquidation) to meet its obligations to HKSCC, recovery from the HKSCC Guarantee Fund will be made if the outstanding balance of about $1.8 million cannot be fully settled upon completion of the liquidation process.

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

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

HKCC filed a proof of debt of about $7.8 million against the assets of Yicko Futures Limited (in liquidation) ("Yicko") in August 2006 after appointment of the joint and several provisional liquidators for the winding-up of Yicko. Any deficiencies from the liquidation process will be recovered from the HKCC Reserve Fund.

BUSINESS DEVELOPMENT

Marketing Initiatives in Mainland China

HKEx has continued to promote Hong Kong as the preferred listing venue to Mainland enterprises by developing together with Mainland authorities new listing opportunities in fast-growing provinces. In September 2006, HKEx co-organised a conference in Changsha, Hunan with the Local Finance and Securities Office of the Hunan Provincial Government for Hunan enterprises, and participated in the Hong Kong financial services delegation led by the Secretary for Financial Services and the Treasury, Mr Frederick Ma. HKEx also hosted a seminar in Xi'an with the State-owned Assets Supervision and Administration Commission of Shaanxi Province for enterprises in the north-central province.

Marketing Activities in Hong Kong and Overseas

As the first of a series of events to encourage local companies and companies with Mainland operations to list in Hong Kong, HKEx co-hosted a seminar with the Federation of Hong Kong Industries in August 2006 for local industrialists and entrepreneurs. A series of in-house promotion events will also be organised with professional and industrial associations in Hong Kong to promote listing to local companies.

In view of their development potential and increased interests in Hong Kong listing, HKEx has also focused on regional companies with Mainland operations and participated in a number of events held in Taipei, Dongguan, Tokyo and Kuala Lumpur.

Training Programmes for Mainland Issuers

In the third quarter of 2006, HKEx organised two seminars on information disclosure and corporate governance in Beijing. Moreover, HKEx co-organised a training programme with the Hong Kong Polytechnic University and the Hong Kong and Macao Affairs Office of the State Council in Hong Kong for senior accounting and finance personnel of Mainland issuers.

INFORMATION SERVICES

Further Expansion of Data Redistribution Network

The redistribution network of HKEx's market data expanded further with the increase in the number of market data redistribution licences from 141 to 158 during the period.

Redevelopment of Issuer Information Feed Service ("IIS")

HKEx is working closely on the redevelopment of the IIS, its real-time system for transmission of issuers' disclosures to information vendors, with the aim of increasing the IIS capacity to cater for the increasing volume of issuer news.

INFORMATION TECHNOLOGY

System Stability and Reliability

Up to the end of September 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. HKEx is committed to maintaining the highest level of system stability and reliability.

Capacity Planning and Upgrade

The replacement and upgrade of the Derivatives Market's inter-site backbone network to Optical Ethernet technology has commenced and would be completed by 2006.

The network bandwidth of the HKEx website was also substantially upgraded to cope with the increase in access frequency and information dissemination volume, particularly during the release of the allotment results of mega initial public offerings ("IPOs").

Obsolescent Technology Replacement and Upgrade

The upgrade of the middle-tier system software for the CCASS/3 to achieve cost effectiveness and system maintainability is in progress and would be completed by the first quarter of 2007.

HKEx is also upgrading all the Open Gateway of the Third Generation Automatic Order Matching and Execution System ("AMS/3") and Multi-workstation hardware and system software to cater for additional system capacity and secure quality vendor support. The upgrade would be completed in phases until the second quarter of 2007.

System Consolidation and Operational Efficiency

The SDNet, a new Optical Ethernet network, has been operating smoothly and reliably since the implementation of Phase 1 (migration of the HKATS / DCASS / Price Reporting System circuits in October 2005) and Phase 2 (migration of the CCASS/3 circuits in June 2006) of the project. The migration of the Market Datafeed System network and AMS/3 network to the SDNet (the final phase) is progressing well and would be completed by the end of 2006 and mid-2007 respectively.

A study of feasibility of improving AMS/3 throughput using the technological advancement of the HP Non-stop platform has been completed. The identification of the new technologies and application system improvements has helped prepare for further enhancements of the AMS/3 capacity and processing efficiency as needed.

HKEx has proceeded with the Phase 2 redevelopment of the Derivatives Market risk management systems to further improve operational efficiency. Phase 2 is expected to be completed by the first quarter of 2007.

During the period, HKEx continued to integrate the Cash and Derivatives Markets' participant information systems and develop finance management information systems to support its business operations, formulate policies and develop business strategies. Integration and development work would be completed by the first quarter of 2007.

TREASURY

The Group's funds available for investment comprise Corporate Funds, Margin Funds and Clearing House Funds, totalling $24.7 billion on average for the nine months ended 30 September 2006 (30 September 2005 average: $16.8 billion).

The overall size of funds available for investment as at 30 September 2006 was $25.3 billion (30 June 2006: $25.3 billion). Details of the asset allocation of the investments as at 30 September 2006 against those as at 30 June 2006 are set out below.

	Investment Fund Size $ billion		Bonds		Cash or Bank Deposits		Global Equities	
	Sept	Jun	**Sept**	Jun	**Sept**	Jun	**Sept**	Jun
Corporate Funds	**4.6**	4.9	**56%**	49%	**37%**	45%	**7%**	6%
Margin Funds	**18.5**	17.7	**51%**	42%	**49%**	58%	**0%**	0%
Clearing House Funds	**2.2**	2.7	**14%**	12%	**86%**	88%	**0%**	0%
Total	**25.3**	25.3	**49%**	40%	**50%**	59%	**1%**	1%

Investments are kept sufficiently liquid to meet the Group's operating needs and liquidity requirements of the Clearing House Funds and Margin Funds. Excluding equities held under the Corporate Funds ($0.3 billion as at 30 September 2006 and 30 June 2006), which have no maturity date, the maturity profiles of the remaining investments as at 30 September 2006 ($25.0 billion) and 30 June 2006 ($25.0 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	
	Sept	Jun	**Sept**	Jun	**Sept**	Jun	**Sept**	Jun	**Sept**	Jun	**Sept**	Jun
Corporate Funds	**4.3**	4.6	**15%**	14%	**19%**	20%	**29%**	32%	**24%**	20%	**13%**	14%
Margin Funds	**18.5**	17.7	**42%**	41%	**10%**	24%	**48%**	34%	**0%**	1%	**0%**	0%
Clearing House Funds	**2.2**	2.7	**86%**	88%	**0%**	0%	**14%**	12%	**0%**	0%	**0%**	0%
Total	**25.0**	25.0	**42%**	40%	**11%**	21%	**41%**	31%	**4%**	5%	**2%**	3%

Credit exposure is well diversified. The bond portfolio held is of investment grade and, as at 30 September 2006, had a weighted average credit rating of Aa2 (30 June 2006: Aa2) and a weighted average maturity of 0.9 year (30 June 2006: 1.0 year). 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 third quarter and the second quarter of 2006 was as follows:

	Average VaR $ million		**Highest VaR** $ million		**Lowest VaR** $ million	
	Jul-Sept	Apr-Jun	**Jul-Sept**	Apr-Jun	**Jul-Sept**	Apr-Jun
Corporate Funds	**13.9**	13.0	**14.9**	13.9	**13.2**	12.5
Margin Funds	**8.6**	7.4	**9.1**	8.5	**7.9**	6.1
Clearing House Funds	**0.4**	0.5	**0.5**	0.6	**0.3**	0.4

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 30 September 2006, the Group had 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 $66 million (31 December 2005: $63 million).

ADP Wilco Processing Services Limited ("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. AWPS was officially dissolved in July 2006.

FINANCIAL REVIEW

OVERALL PERFORMANCE

	Unaudited Nine months ended 30 Sept 2006 $'000	Unaudited Nine months ended 30 Sept 2005 $'000
RESULTS		
Income:		
Income affected by market turnover	**1,662,018**	1,054,499
Stock Exchange listing fees	**328,748**	303,561
Income from sale of information	**275,332**	243,860
Investment income	**391,100**	224,999
Other income	**186,485**	144,381
	2,843,683	1,971,300
Operating expenses	**893,651**	852,912
Operating profit	**1,950,032**	1,118,388
Share of profits less losses of associates	**15,986**	12,992
Profit before taxation	**1,966,018**	1,131,380
Taxation	**(291,989)**	(171,464)
Profit attributable to shareholders	**1,674,029**	959,916
Basic earnings per share	**$1.57**	$0.91
Diluted earnings per share	**$1.56**	$0.90

	Unaudited at 30 Sept 2006 $'000	As restated Audited at 31 Dec 2005 $'000
KEY BALANCE SHEET ITEMS		
Shareholders' funds	**4,413,003**	4,337,471[ϕ]
Total assets *	**30,408,417**	22,930,916[ϕ]
Net assets per share [#]	**$4.15**	$4.09[ϕ]

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 1,064,145,346 shares as at 30 September 2006, being 1,065,130,846 shares issued and fully paid less 985,500 shares held for the 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 Share Award Scheme)

The Group recorded a profit attributable to shareholders of $1,674 million for the first nine months of 2006 (first quarter: $479 million; second quarter: $629 million; third quarter: $566 million) compared with $960 million for the same period in 2005 (first quarter: $245 million; second quarter: $326 million; third quarter: $389 million).

As compared with that for the same period last year, the increase in profit for the nine months ended 30 September 2006 was primarily attributable to the higher turnover-related income resulting from the significant increase in level of activities of the Cash and Derivatives Markets, and growth in investment income arising from an increase in fair value gains of Corporate Fund investments and higher interest income in 2006.

Total operating expenses increased by five per cent during the period mainly due to higher staff costs and premises expenses but were partly offset by the decrease in depreciation.

Income

(A) Income affected by market turnover

	Unaudited Nine months ended 30 Sept 2006 $'000	Unaudited Nine months ended 30 Sept 2005 $'000	Change
Trading fees and trading tariff	**912,726**	580,453	57%
Clearing and settlement fees	**456,731**	282,242	62%
Depository, custody and nominee services fees	**292,561**	191,804	53%
Total	**1,662,018**	1,054,499	58%

The increase in trading fees and trading tariff was driven by the higher market turnover of the Cash and Derivatives Markets in the first nine 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. During the period, clearing and settlement fees did not increase linearly with the Cash Market turnover as a higher proportion of the value of transactions was subject to the maximum fee and a lower proportion of the value of transactions was subject to the minimum fee in 2006.

Despite the abolition of scrip fees on deemed book close effective 1 January 2006 (2005: first nine months deemed book close scrip fees: $23 million), depository, custody and nominee services fees increased due to higher scrip fees, stock withdrawal fees, corporate action fees and electronic IPO service ("eIPO") handling charges. 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 securities on book closing dates.

Key market indicators

	Nine months ended 30 Sept 2006	Nine months ended 30 Sept 2005	Change
Average daily turnover value on the Stock Exchange	**$30.4 billion**	$18.2 billion	67%
Average daily number of derivatives contracts traded on the Futures Exchange	**96,926**	66,393	46%
Average daily number of stock options contracts traded on the Stock Exchange	**64,608**	33,732	92%

(B) Stock Exchange listing fees

	Unaudited Nine months ended 30 Sept 2006 $'000	Unaudited Nine months ended 30 Sept 2005 $'000	Change
Annual listing fees	**203,638**	197,613	3%
Initial and subsequent issue listing fees	**120,511**	100,881	19%
Others	**4,599**	5,067	(9%)
Total	**328,748**	303,561	8%

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

Key drivers for annual listing fees

	As at 30 Sept 2006	As at 30 Sept 2005	Change
Number of companies listed on the Main Board	**954**	907	5%
Number of companies listed on the GEM	**198**	202	(2%)
Total	**1,152**	1,109	4%

Key drivers for initial and subsequent issue listing fees

	Nine months ended 30 Sept 2006	Nine months ended 30 Sept 2005	Change
Number of newly listed derivative warrants	**1,828**	1,238	48%
Number of newly listed companies on the Main Board	**32**	28	14%
Number of newly listed companies on the GEM	**5**	5	0%
Total equity funds raised on the Main Board	**$255.7 billion**	$187.4 billion	36%
Total equity funds raised on the GEM	**$7.5 billion**	$2.2 billion	241%

(C) Income from sale of information

	Unaudited Nine months ended 30 Sept 2006 $'000	Unaudited Nine months ended 30 Sept 2005 $'000	Change
Income from sale of information	**275,332**	243,860	13%

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 Nine months ended 30 Sept 2006 $'000	Unaudited Nine months ended 30 Sept 2005 $'000	Change
Investment income	**391,100**	224,999	74%

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

	Nine months ended 30 Sept 2006 $ billion	Nine months ended 30 Sept 2005 $ billion	Change
Corporate Funds	**4.7**	4.0	18%
Margin Funds	**18.1**	11.3	60%
Clearing House Funds	**1.9**	1.5	27%
Total	**24.7**	16.8	47%

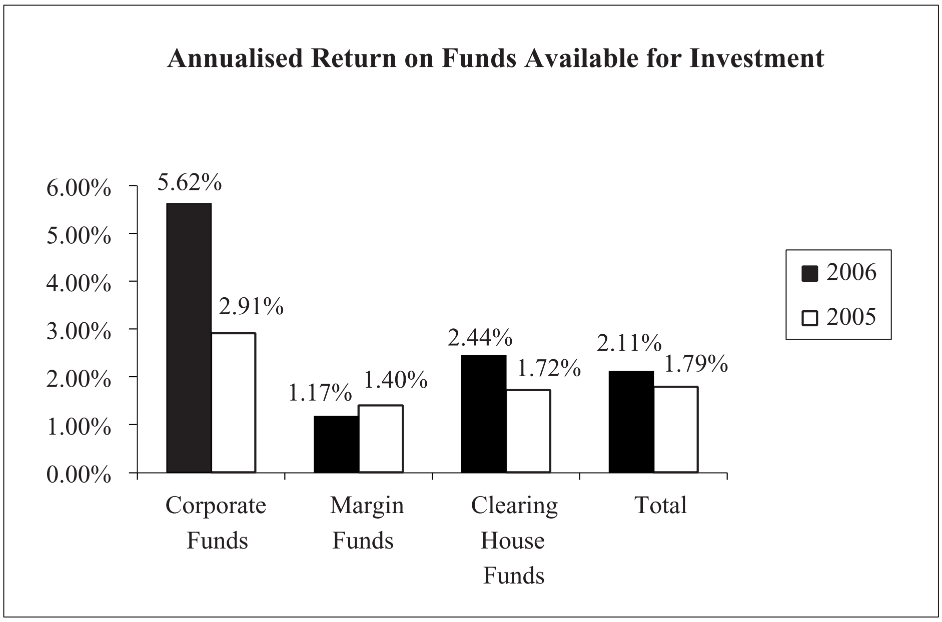
The increase in average amount of Corporate Funds during the period was mainly due to the profit net of dividends paid.

The increase in average amount of Margin Funds available for investment during the period was primarily caused by the increased open interest in futures and options contracts.

The higher investment income was primarily due to the significant increase in net interest income of all funds available for investment and fair value gains of Corporate Fund investments, reflecting market movements, during the first nine months of 2006 as compared with the corresponding period in 2005.

The rise in net interest income was as a result of the increase in Margin Fund size and higher interest rates. The rise was, however, partly offset by a lower return on Margin Fund investments due to a significant increase in margin deposits denominated in Japanese Yen, which generated very low interest income. Moreover, there was a substantial increase in interest payable to the Participants due to higher interest rates and a change in the benchmarked interest rate payable on cash margin deposits from 1 June 2005 onwards. In 2006, interest was paid on cash margin deposits based on savings rate. Prior to 1 June 2005, interest was not always paid to Participants as the interest rates payable on the cash margin deposits were often lower than the retention rates charged by HKCC and SEOCH on such cash margin deposits.

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



Details on the investment portfolio are set out in the Treasury section under Business Review.

(E) Other income

	Unaudited Nine months ended 30 Sept 2006 $'000	Unaudited Nine months ended 30 Sept 2005 $'000	Change
Network, terminal user, dataline and software sub-license fees	**117,971**	94,726	25%
Participants' subscription and application fees	**25,466**	25,837	(1%)
Brokerage on direct IPO applications	**25,013**	10,149	146%
Trading booth user fees	**6,768**	–	N/A
Fair value gain of an investment property	**1,400**	3,200	(56%)
Accommodation income	**1,589**	1,898	(16%)
Miscellaneous income	**8,278**	8,571	(3%)
Total	**186,485**	144,381	29%

Network, terminal user, dataline and software sub-license fees increased due to the increase in sales of open gateway and AMS/3 terminals and related user fees.

Brokerage on direct IPO applications increased in line with the funds raised by IPOs.

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 fees 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 Nine months ended 30 Sept 2006 $'000	Unaudited Nine months ended 30 Sept 2005 $'000	Change
Staff costs and related expenses	**481,527**	424,764	13%
Information technology and computer maintenance expenses	**148,206**	148,472	(0%)
Premises expenses	**88,391**	60,175	47%
Product marketing and promotion expenses	**8,347**	7,681	9%
Legal and professional fees	**7,968**	10,367	(23%)
Depreciation	**75,149**	125,548	(40%)
Other operating expenses	**84,063**	75,905	11%
Total	**893,651**	852,912	5%

Staff costs and related expenses rose by $57 million, primarily due to the increase in salary costs and provident fund contributions as a result of the increase in headcount and salary adjustments in 2006, and an increase in performance bonus accruals on account of the improved performance of the Group.

Information technology and computer maintenance expenses of the Group, after excluding goods and services directly consumed by Participants of $50 million (2005: $39 million), were $98 million (2005: $109 million). The reduction was mainly due to lower license fees and network costs. The increase in costs directly consumed by Participants was primarily due to purchases of replacement open gateway by the Participants. Costs consumed by Participants were recovered from the Participants and the income was included as part of network, terminal user, dataline and software sub-license fees under Other income. During the period under review, capital expenditures on computer systems, hardware and software amounted to $13 million (2005: $36 million).

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

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

Depreciation fell as certain fixed assets became fully depreciated.

Other operating expenses increased, mainly attributable to higher bank charges due to increased eIPOs, higher index licence fees as a result of the rise in derivative transactions, higher transaction costs and management fees paid to external fund managers due to increased trading transactions and higher fund size, the increase in impairment losses of trade receivables and loss on disposal of fixed assets arising from the renovation of the Trading Hall.

Share of Profits less Losses of Associates

	Unaudited Nine months ended 30 Sept 2006 $'000	Unaudited Nine months ended 30 Sept 2005 $'000	Change
Share of profits less losses of associates	**15,986**	12,992	23%

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

Taxation

	Unaudited Nine months ended 30 Sept 2006 $'000	Unaudited Nine months ended 30 Sept 2005 $'000	Change
Taxation	**291,989**	171,464	70%

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

Comparison of 2006 Third Quarter Performance with 2006 Second Quarter Performance

	Unaudited Three months ended 30 Sept 2006 $'000	Unaudited Three months ended 30 Jun 2006 $'000
Income:		
Income affected by market turnover:		
Trading fees and trading tariff	**290,892**	324,281
Clearing and settlement fees	**140,076**	162,035
Depository, custody and nominee services fees	**73,953**	177,505
	504,921	663,821
Stock Exchange listing fees	**115,343**	103,712
Income from sale of information	**91,475**	98,340
Investment income	**174,178**	103,963
Other income	**62,518**	71,285
	948,435	1,041,121
Operating expenses	**297,163**	303,961
Operating profit	**651,272**	737,160
Share of profits less losses of associates	**6,734**	6,032
Profit before taxation	**658,006**	743,192
Taxation	**(92,288)**	(113,720)
Profit attributable to shareholders	**565,718**	629,472

Profit attributable to shareholders fell by $63 million to $566 million for the third quarter of 2006, compared with $629 million recorded in the second quarter of 2006. The lower profit was mainly caused by a decrease in income affected by market turnover but partly offset by the increase in investment income and Stock Exchange listing fees, and the decrease in operating expenses and taxation charge.

Key market indicators

	Three months ended 30 Sept 2006	Three months ended 30 Jun 2006	Change
Average daily turnover value on the Stock Exchange	**$26.3 billion**	$34.1 billion	(23%)
Average daily number of derivatives contracts traded on the Futures Exchange	**95,911**	107,681	(11%)
Average daily number of stock options contracts traded on the Stock Exchange	**66,836**	65,038	3%

The decrease in income affected by market turnover was primarily attributable to the drop in the level of activities of the Cash Market. In addition, depository, custody and nominee services fees fell significantly as scrip fee and dividend collection income declined due to seasonal factors.

Investment income increased as a result of the increase in fair value gains of Corporate Fund investments during the third quarter as compared to that of the second quarter, reflecting market movements, and the increase in interest income during the third quarter due to an increase in investment in debt securities for higher yield.

Stock Exchange listing fees rose mainly attributable to the increase in initial listing fees from the newly listed derivative warrants during the third quarter.

Operating expenses dropped mainly as a result of the decrease in staff costs as less performance bonus was accrued during the third quarter as compared to the second quarter.

Taxation decreased mainly attributable to a decrease in operating profit and an increase in non-taxable investment income.

Working Capital

Working capital increased by $76 million or two per cent to $3,433 million as at 30 September 2006 (31 December 2005: $3,357 million). The increase was primarily due to the profit generated during the period of $1,674 million and proceeds from issuing shares upon the exercise of employee share options of $27 million, which was partly offset by the payment of the 2005 final dividend of $681 million and the 2006 interim dividend of $1,000 million, and the increase in other net current assets of $56 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 35(a)(i) - Foreign exchange risk to the condensed consolidated accounts of this quarterly report.

Contingent Liabilities

Details of contingent liabilities are disclosed in note 32 to the condensed consolidated accounts of this quarterly report.

Changes since 31 December 2005

There were no other significant changes in the Group's financial position and 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 third quarter ended 30 September 2006 (third 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

Apart from macro-economic factors which would have an impact on Hong Kong market performance, the sustained solid economic growth in the Mainland would continue to drive the development of the financial market in Hong Kong.

Maintaining Hong Kong's status as an international financial centre is part of the Central Government's Eleventh Five-year Plan. In the pursuit of this, HKEx is committed to further strengthening cross-border liaison, facilitating the listing of quality companies in Hong Kong, enhancing market infrastructure and proactively promoting the Hong Kong markets to both local and overseas investors. The strategic plan for 2007-2009 is being formulated to implement these initiatives. It is the Group's mission to be a leading international marketplace for securities and derivative products focused on Hong Kong, Mainland China and the rest of Asia.

HKEx remains focused on achieving operational stability and efficient markets of integrity to further reinforce its status as a leading global exchange, and upholding the interest of the investing public as well as that of its shareholders.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

(Financial figures are expressed in Hong Kong Dollar)

	Note	**Unaudited Nine months ended 30 Sept 2006 $'000**	Unaudited Nine months ended 30 Sept 2005 $'000	**Unaudited Three months ended 30 Sept 2006 $'000**	Unaudited Three months ended 30 Sept 2005 $'000
INCOME	2				
Trading fees and trading tariff	4	**912,726**	580,453	**290,892**	227,838
Stock Exchange listing fees	5	**328,748**	303,561	**115,343**	107,989
Clearing and settlement fees		**456,731**	282,242	**140,076**	109,815
Depository, custody and nominee services fees		**292,561**	191,804	**73,953**	58,122
Income from sale of information		**275,332**	243,860	**91,475**	81,615
Investment income	6	**391,100**	224,999	**174,178**	102,926
Other income	7	**186,485**	144,381	**62,518**	44,530
	3	**2,843,683**	1,971,300	**948,435**	732,835
OPERATING EXPENSES					
Staff costs and related expenses	8	**481,527**	424,764	**157,609**	142,002
Information technology and computer maintenance expenses	9	**148,206**	148,472	**54,405**	49,409
Premises expenses		**88,391**	60,175	**30,817**	20,229
Product marketing and promotion expenses		**8,347**	7,681	**1,894**	2,148
Legal and professional fees		**7,968**	10,367	**1,339**	3,775
Depreciation		**75,149**	125,548	**24,889**	39,868
Other operating expenses	10	**84,063**	75,905	**26,210**	24,963
	3	**893,651**	852,912	**297,163**	282,394
OPERATING PROFIT	3	**1,950,032**	1,118,388	**651,272**	450,441
SHARE OF PROFITS LESS LOSSES OF ASSOCIATES	3	**15,986**	12,992	**6,734**	4,357
PROFIT BEFORE TAXATION	3	**1,966,018**	1,131,380	**658,006**	454,798
TAXATION	3/11	**(291,989)**	(171,464)	**(92,288)**	(65,678)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	3/29	**1,674,029**	959,916	**565,718**	389,120
Basic earnings per share	13(a)	**$1.57**	$0.91	**$0.53**	$0.37
Diluted earnings per share	13(b)	**$1.56**	$0.90	**$0.53**	$0.36

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Financial figures are expressed in Hong Kong Dollar)

	Unaudited						
	Share capital, share premium and shares held for Share Award Scheme (note 25) $'000	**Employee share-based compensation reserve (note 26) $'000**	**Revaluation reserves (note 27) $'000**	**Hedging reserve $'000**	**Designated reserves (note 28) $'000**	**Retained earnings (note 29) $'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 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 valuation of leasehold buildings	–	–	**52**	–	–	–	**52**
Change in fair value of available-for-sale financial assets	–	–	**24,055**	–	–	–	**24,055**
Realisation of change in fair value of available-for-sale financial assets on maturity and disposal	–	–	**15,595**	–	–	–	**15,595**
Cash flow hedges:							
– fair value gains of hedging instruments	–	–	–	**108**	–	–	**108**
– transfer to profit and loss account as information technology and computer maintenance expenses	–	–	–	**(199)**	–	–	**(199)**
Deferred tax arising from change in valuation of leasehold buildings	–	–	**(9)**	–	–	–	**(9)**
Deferred tax arising from change in fair value of available-for-sale financial assets	–	–	**(916)**	–	–	–	**(916)**
Net gain/(loss) recognised directly in equity	–	–	**38,777**	**(91)**	–	–	**38,686**
Profit attributable to shareholders	–	–	–	–	–	**1,674,029**	**1,674,029**
Total recognised profit/(loss)	–	–	**38,777**	**(91)**	–	**1,674,029**	**1,712,715**
2005 final dividend	–	–	–	–	–	**(680,588)**	**(680,588)**
2006 interim dividend	–	–	–	–	–	**(1,000,307)**	**(1,000,307)**
Shares issued under employee share option schemes	**26,921**	–	–	–	–	–	**26,921**
Shares purchased for Share Award Scheme	**(1,574)**	–	–	–	–	–	**(1,574)**
Employee share-based compensation benefits	–	**17,972**	–	–	–	–	**17,972**
Share of reserves of an associate	–	**395**	**(2)**	–	–	–	**393**
Transfer of reserves	**6,020**	**(6,020)**	–	–	**(43,323)**	**43,323**	–
At 30 Sept 2006	**1,214,499**	**47,327**	**1,689**	**(91)**	**657,318**	**2,492,261**	**4,413,003**

	Unaudited (As restated)						
	Share capital and share premium $'000	Employee share-based compensation reserve $'000	Revaluation reserves $'000	Hedging reserve $'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 (Amendments)	–	–	–	–	–	(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 valuation of leasehold buildings	–	–	(548)	–	–	–	(548)
Change in fair value of available-for-sale financial assets	–	–	(71,924)	–	–	–	(71,924)
Realisation of change in fair value of available-for-sale financial assets on maturity and disposal	–	–	(2,680)	–	–	–	(2,680)
Cash flow hedges:							
– fair value gains of hedging instruments	–	–	–	47	–	–	47
– transfer to profit and loss account as information technology and computer maintenance expenses	–	–	–	(39)	–	–	(39)
Deferred tax arising from change in valuation of leasehold buildings	–	–	96	–	–	–	96
Deferred tax arising from change in fair value of available-for-sale financial assets	–	–	3,170	–	–	–	3,170
Net (loss)/gain recognised directly in equity	–	–	(71,886)	8	–	–	(71,878)
Profit attributable to shareholders	–	–	–	–	–	959,916	959,916
Total recognised (loss) / profit	–	–	(71,886)	8	–	959,916	888,038
2004 final dividend	–	–	–	–	–	(498,217)	(498,217)
2005 interim dividend	–	–	–	–	–	(520,567)	(520,567)
Shares issued under employee share option schemes	43,523	–	–	–	–	–	43,523
Employee share-based compensation benefits	–	17,254	–	–	–	–	17,254
Share of reserves of an associate	–	43	–	–	–	–	43
Transfer of reserves	4,065	(4,065)	–	–	5,663	(5,663)	–
At 30 Sept 2005, as restated	1,208,261	30,293	(53,057)	8	686,659	2,090,144	3,962,308

CONDENSED CONSOLIDATED BALANCE SHEET

(Financial figures are expressed in Hong Kong Dollar)

	Note	**Unaudited at 30 Sept 2006 $'000**	As restated Audited at 31 Dec 2005 $'000
NON-CURRENT ASSETS			
Fixed assets	14	**218,605**	257,876
Investment property	15	**19,100**	17,700
Lease premiums for land		**93,712**	94,123
Investments in associates	16	**66,154**	64,581
Clearing House Funds	17	**2,227,336**	1,340,410
Compensation Fund Reserve Account	18	**39,951**	38,410
Time deposit with maturity over one year		**38,961**	38,768
Deferred tax assets		**4,130**	3,060
Other assets		**21,762**	20,374
		2,729,711	1,875,302
CURRENT ASSETS			
Accounts receivable, prepayments and deposits	19	**4,996,063**	3,286,835
Lease premiums for land		**548**	547
Taxation recoverable		**85**	108
Margin Funds on derivatives contracts	20	**18,204,633**	13,648,581
Financial assets at fair value through profit or loss	21	**2,776,920**	2,643,788
Available-for-sale financial assets	22	**86,939**	–
Time deposits with original maturities over three months		**21,312**	116,622
Cash and cash equivalents		**1,592,206**	1,359,133
		27,678,706	21,055,614
CURRENT LIABILITIES			
Margin deposits from Clearing Participants on derivatives contracts	20	**18,204,633**	13,648,581
Accounts payable, accruals and other liabilities	23	**5,546,938**	3,641,071
Financial liabilities at fair value through profit or loss	21	**3,453**	1,443
Participants' admission fees received		**1,650**	2,550
Deferred revenue		**124,125**	284,851
Taxation payable		**338,164**	92,628
Provisions	24	**27,235**	27,145
		24,246,198	17,698,269
NET CURRENT ASSETS		**3,432,508**	3,357,345
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,162,219**	5,232,647

	Note	Unaudited at 30 Sept 2006 $'000	As restated Audited at 31 Dec 2005 $'000
NON-CURRENT LIABILITIES			
Participants' admission fees received		**79,900**	80,150
Participants' contributions to Clearing House Funds	17	**1,609,965**	751,751
Deferred tax liabilities		**15,314**	20,770
Financial guarantee contract	32(b)	**19,909**	19,909
Provisions	24	**24,128**	22,596
		1,749,216	895,176
NET ASSETS		**4,413,003**	4,337,471
CAPITAL AND RESERVES			
Share capital	25	**1,065,131**	1,062,755
Share premium	25	**180,970**	150,405
Shares held for Share Award Scheme	25	**(31,602)**	(30,028)
Employee share-based compensation reserve	26	**47,327**	34,980
Revaluation reserves	27	**1,689**	(37,086)
Hedging reserve		**(91)**	–
Designated reserves	28	**657,318**	700,641
Retained earnings	29	**2,492,261**	1,776,254
Proposed/declared dividends	29	**–**	679,550
SHAREHOLDERS' FUNDS		**4,413,003**	4,337,471
SHAREHOLDERS' FUNDS PER SHARE		**$4.15**	$4.09

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

(Financial figures are expressed in Hong Kong Dollar)

	Note	**Unaudited Nine months ended 30 Sept 2006 $'000**	Unaudited Nine months ended 30 Sept 2005 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net cash inflow from operating activities	30(a)	**1,726,988**	1,189,874
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for purchases of fixed assets		**(50,578)**	(23,439)
Proceeds from sales of fixed assets		**344**	53
Payments for acquisition of interest of an associate		**–**	(24,876)
Proceeds from liquidation of an associate		**1,312**	–
Dividends received from an associate		**18,784**	4,800
Decrease/(increase) in time deposits with original maturities more than three months		**95,117**	(47,171)
Payments for purchases of available-for-sale financial assets		**(86,032)**	–
Interest received from available-for-sale financial assets		**167,062**	62,678
Net cash inflow/(outflow) from investing activities		**146,009**	(27,955)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares under employee share option schemes		**26,921**	43,523
Purchase of shares for Share Award Scheme		**(1,574)**	–
Admission fees refunded to less receipts from Participants		**(1,150)**	(2,550)
Dividends paid		**(1,664,121)**	(1,018,784)
Net cash outflow from financing activities		**(1,639,924)**	(977,811)
Net increase in cash and cash equivalents		**233,073**	184,108
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 revised HKAS 27		**20**	–
Cash and cash equivalents at 30 Sept 2006/30 Sept 2005		**1,592,206**	1,219,153
Analysis of cash and cash equivalents			
Time deposits with original maturities within three months		**1,349,438**	965,955
Cash at bank and in hand		**242,768**	253,198
Cash and cash equivalents at 30 Sept 2006/30 Sept 2005		**1,592,206**	1,219,153

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 ("Share Award Scheme"), under which shares of HKEx ("Awarded Shares") may be awarded to an Executive Director and employees of the Group. The Group has set up a trust, The HKEx Employees' Share Award Scheme ("HKEx Employee Share Trust"), for the purpose of administering the Share Award Scheme and holding the Awarded Shares before they vest. As HKEx has the power to govern the financial and operating policies of the HKEx Employee Share Trust and 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.

The effects of adopting the revised HKAS 27 on the condensed consolidated profit and loss account for the nine months ended 30 September 2006 and nine months ended 30 September 2005 were as follows:

	Nine months ended 30 Sept 2006 $'000	Nine months ended 30 Sept 2005 $'000
Increase in investment income	**1**	–
Increase in staff costs and related expenses	**(13)**	–
Total decrease in profit	**(12)**	–
Decrease in basic earnings per share	**0.00 cents**	–
Decrease in diluted earnings per share	**0.00 cents**	–

1. Basis of Preparation and Accounting Policies (continued)

The effects of adopting the revised HKAS 27 on the condensed consolidated balance sheet as at 30 September 2006 and 31 December 2005 were as follows:

	At 30 Sept 2006 $'000	At 31 Dec 2005 $'000
Increase/(decrease) in assets		
Contributions to Share Award Scheme	**(30,093)**	(30,037)
Cash and cash equivalents	**17**	20
Increase/(decrease) in liabilities/equity		
Accounts payable, accruals and other liabilities	**2**	1
Shares held for Share Award Scheme	**(31,602)**	(30,028)
Retained earnings	**1,524**	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 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 Share Award Scheme" and deducted from total equity.

(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 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 (Amendments): Financial Guarantee Contracts in the fourth quarter of 2005. The adoption of the Amendments had the following impact on equity as at 30 September 2005:

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

1. Basis of Preparation and Accounting Policies (continued)

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 managed by external fund managers), 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 of the Corporate Funds managed internally and 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:

	Nine months ended 30 Sept 2006				
	Cash Market $'000	**Derivatives Market $'000**	**Clearing Business $'000**	**Information Services $'000**	**Group $'000**
Income	**1,216,147**	**455,537**	**894,789**	**277,210**	**2,843,683**
Operating expenses					
Direct costs	**323,755**	**88,312**	**244,041**	**31,598**	**687,706**
Indirect costs	**93,193**	**29,464**	**68,711**	**14,577**	**205,945**
	416,948	**117,776**	**312,752**	**46,175**	**893,651**
Segment results	**799,199**	**337,761**	**582,037**	**231,035**	**1,950,032**
Share of profits less losses of associates	**1**	**–**	**15,985**	**–**	**15,986**
Segment profits before taxation	**799,200**	**337,761**	**598,022**	**231,035**	**1,966,018**
Taxation					**(291,989)**
Profit attributable to shareholders					**1,674,029**

3. Segment Information (continued)

	Nine months ended 30 Sept 2005				
	Cash Market $'000	Derivatives Market $'000	Clearing Business $'000	Information Services $'000	Group $'000
Income	845,696	328,856	551,482	245,266	1,971,300
Operating expenses					
Direct costs	321,998	83,795	225,769	35,316	666,878
Indirect costs	85,304	26,917	57,952	15,861	186,034
	407,302	110,712	283,721	51,177	852,912
Segment results	438,394	218,144	267,761	194,089	1,118,388
Share of profits less losses of associates	(21)	–	13,013	–	12,992
Segment profits before taxation	438,373	218,144	280,774	194,089	1,131,380
Taxation					(171,464)
Profit attributable to shareholders					959,916

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, callable bull/bear contracts, 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.

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

	Nine months ended 30 Sept 2006 $'000	Nine months ended 30 Sept 2005 $'000	**Three months ended 30 Sept 2006 $'000**	Three months ended 30 Sept 2005 $'000
Trading fees and trading tariff were derived from:				
Securities traded on the Cash Market	**644,414**	386,952	**195,452**	152,192
Derivatives contracts traded on the Derivatives Market	**268,312**	193,501	**95,440**	75,646
	912,726	580,453	**290,892**	227,838

5. Stock Exchange Listing Fees

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

	Nine months ended 30 Sept 2006				Nine months ended 30 Sept 2005			
	Equity				Equity			
	Main Board	**GEM**	**Debt & Derivatives**	**Total**	Main Board	GEM	Debt & Derivatives	Total
	$'000	**$'000**	**$'000**	**$'000**	$'000	$'000	$'000	$'000
Income								
Annual listing fees	**183,599**	**18,694**	**1,345**	**203,638**	176,836	19,379	1,398	197,613
Initial and subsequent issue listing fees	**27,923**	**2,760**	**89,828**	**120,511**	35,124	3,470	62,287	100,881
Prospectus vetting fees	**1,875**	**300**	**60**	**2,235**	1,620	285	130	2,035
Other listing fees	**1,630**	**734**	**–**	**2,364**	2,272	760	–	3,032
Total income	**215,027**	**22,488**	**91,233**	**328,748**	215,852	23,894	63,815	303,561
Costs of Listing Function								
Direct costs								
Staff costs and related expenses	**87,483**	**22,938**	**4,555**	**114,976**	71,506	20,523	3,915	95,944
Information technology and computer maintenance expenses	**1,395**	**363**	**–**	**1,758**	1,167	311	–	1,478
Premises expenses	**10,836**	**2,787**	**613**	**14,236**	4,749	1,354	296	6,399
Legal and professional fees	**3,552**	**694**	**–**	**4,246**	2,705	1,041	1	3,747
Depreciation	**2,797**	**838**	**41**	**3,676**	4,890	1,476	183	6,549
Other operating expenses	**15,744**	**4,099**	**163**	**20,006**	15,715	4,089	137	19,941
Total direct costs	**121,807**	**31,719**	**5,372**	**158,898**	100,732	28,794	4,532	134,058
Total indirect costs	**19,612**	**4,214**	**3,278**	**27,104**	20,137	4,041	3,359	27,537
Contribution	**73,608**	**(13,445)**	**82,583**	**142,746**	94,983	(8,941)	55,924	141,966

5. Stock Exchange Listing Fees (continued)

	Three months ended 30 Sept 2006				Three months ended 30 Sept 2005			
	Equity				Equity			
	Main Board	GEM	Debt & Derivatives	Total	Main Board	GEM	Debt & Derivatives	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Income								
Annual listing fees	**62,228**	**6,281**	**475**	**68,984**	59,335	6,450	472	66,257
Initial and subsequent issue listing fees	**10,122**	**330**	**34,138**	**44,590**	12,342	950	27,195	40,487
Prospectus vetting fees	**645**	**60**	**–**	**705**	435	120	20	575
Other listing fees	**770**	**294**	**–**	**1,064**	456	214	–	670
Total income	**73,765**	**6,965**	**34,613**	**115,343**	72,568	7,734	27,687	107,989
Costs of Listing Function								
Direct costs								
Staff costs and related expenses	**30,287**	**7,509**	**1,640**	**39,436**	23,381	7,615	1,306	32,302
Information technology and computer maintenance expenses	**452**	**115**	**–**	**567**	395	95	–	490
Premises expenses	**3,934**	**945**	**206**	**5,085**	1,539	495	111	2,145
Legal and professional fees	**534**	**202**	**–**	**736**	1,070	284	–	1,354
Depreciation	**704**	**202**	**12**	**918**	1,172	413	41	1,626
Other operating expenses	**5,336**	**1,492**	**31**	**6,859**	4,874	1,259	41	6,174
Total direct costs	**41,247**	**10,465**	**1,889**	**53,601**	32,431	10,161	1,499	44,091
Total indirect costs	**6,164**	**1,329**	**1,108**	**8,601**	6,351	1,364	1,341	9,056
Contribution	**26,354**	**(4,829)**	**31,616**	**53,141**	33,786	(3,791)	24,847	54,842

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 and disseminating information relating to listed companies. Indirect costs comprise costs of support services and other central overheads attributable to the Listing Function.

6. Investment Income

	Nine months ended 30 Sept 2006 $'000	Nine months ended 30 Sept 2005 $'000	**Three months ended 30 Sept 2006 $'000**	Three months ended 30 Sept 2005 $'000
Interest income				
– bank deposits	**400,421**	159,733	**120,806**	91,162
– listed available-for-sale financial assets	**15,210**	8,191	**7,007**	3,293
– unlisted available-for-sale financial assets	**152,532**	54,487	**83,812**	20,000
	568,163	222,411	**211,625**	114,455
Interest expenses (note a)	**(322,326)**	(65,375)	**(115,665)**	(46,141)
Net interest income	**245,837**	157,036	**95,960**	68,314
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	**86,706**	70,561	**47,886**	34,111
– unlisted securities	**40,318**	5,119	**22,689**	1,258
– exchange differences	**13,113**	(13,389)	**6,322**	(3,691)
	140,137	62,291	**76,897**	31,678
	140,137	62,557	**76,897**	31,678
Dividend income				
– listed financial assets at fair value through profit or loss	**4,891**	5,707	**1,213**	2,296
Other exchange differences on loans and receivables	**235**	(301)	**108**	638
Total investment income	**391,100**	224,999	**174,178**	102,926
Total investment income was derived from:				
Corporate Funds (note b)	**197,620**	86,838	**98,088**	44,495
Margin Funds	**157,963**	118,374	**63,791**	49,221
Clearing House Funds	**35,517**	19,787	**12,299**	9,210
	391,100	224,999	**174,178**	102,926

6. Investment Income (continued)

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

(b) Investment income derived from Corporate Funds included investment income of Compensation Fund Reserve Account of $1,486,000 (2005: $869,000) and $514,000 (2005: $371,000) for the nine months and three months ended 30 September 2006 respectively.

7. Other Income

	Nine months ended 30 Sept 2006 $'000	Nine months ended 30 Sept 2005 $'000	**Three months ended 30 Sept 2006 $'000**	Three months ended 30 Sept 2005 $'000
Network, terminal user, dataline and software sub-license fees	**117,971**	94,726	**40,043**	28,592
Participants' subscription and application fees	**25,466**	25,837	**8,450**	8,555
Brokerage on direct IPO applications	**25,013**	10,149	**7,909**	3,961
Trading booth user fees	**6,768**	–	**2,397**	–
Fair value gain of an investment property (note 15)	**1,400**	3,200	**400**	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	**1,589**	1,898	**769**	404
Miscellaneous income	**8,278**	8,571	**2,550**	2,418
	186,485	144,381	**62,518**	44,530

8. Staff Costs and Related Expenses

Staff costs and related expenses comprised the following:

	Nine months ended 30 Sept 2006 $’000	Nine months ended 30 Sept 2005 $’000	**Three months ended 30 Sept 2006 $’000**	Three months ended 30 Sept 2005 $’000
Salaries and other short-term employee benefits	**423,412**	369,382	**139,491**	123,242
Employee share-based compensation benefits (note 26)	**17,972**	17,254	**4,242**	5,909
Termination benefits	**1,183**	236	**1,023**	236
Retirement benefit costs (note a):				
– ORSO Plan	**38,699**	37,683	**12,765**	12,539
– MPF Scheme	**261**	209	**88**	76
	481,527	424,764	**157,609**	142,002

(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 30 September 2006 and 31 December 2005.

9. Information Technology and Computer Maintenance Expenses

	Nine months ended 30 Sept 2006 $’000	Nine months ended 30 Sept 2005 $’000	**Three months ended 30 Sept 2006 $’000**	Three months ended 30 Sept 2005 $’000
Costs of services and goods:				
– consumed by the Group	**98,532**	109,054	**33,062**	36,227
– directly consumed by Participants	**49,674**	39,418	**21,343**	13,182
	148,206	148,472	**54,405**	49,409

10. Other Operating Expenses

	Nine months ended 30 Sept 2006 $'000	Nine months ended 30 Sept 2005 $'000	**Three months ended 30 Sept 2006 $'000**	Three months ended 30 Sept 2005 $'000
Provision for/(reversal of provision for) impairment losses of trade receivables	**358**	(425)	**(54)**	(53)
Insurance	**11,508**	12,023	**3,452**	3,821
Financial data subscription fees	**3,308**	3,898	**1,071**	1,141
Custodian and fund management fees	**6,235**	5,885	**2,090**	1,994
Bank charges	**6,712**	2,824	**1,938**	1,036
Repair and maintenance expenses	**6,207**	5,767	**1,922**	1,993
License fees	**6,777**	4,860	**1,923**	1,497
Communication expenses	**3,621**	3,516	**1,169**	1,364
Other miscellaneous expenses	**39,337**	37,557	**12,699**	12,170
	84,063	75,905	**26,210**	24,963

11. Taxation

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

	Nine months ended 30 Sept 2006 $'000	Nine months ended 30 Sept 2005 $'000	**Three months ended 30 Sept 2006 $'000**	Three months ended 30 Sept 2005 $'000
Provision for Hong Kong Profits Tax for the period (note a)	**299,445**	182,910	**94,136**	68,061
Overprovision in respect of prior years	**(5)**	(34)	**(5)**	(34)
	299,440	182,876	**94,131**	68,027
Deferred taxation	**(7,451)**	(11,412)	**(1,843)**	(2,349)
	291,989	171,464	**92,288**	65,678

(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. Dividend

	Nine months ended 30 Sept 2006 $'000	Nine months ended 30 Sept 2005 $'000	**Three months ended 30 Sept 2006 $'000**	Three months ended 30 Sept 2005 $'000
Interim dividend paid of $0.94 (2005: $0.49) per ordinary share	**1,001,219**	520,567	**–**	–
Less: Dividend for shares held by HKEx Employee Share Trust	**(912)**	–	**–**	–
	1,000,307	520,567	**–**	–

13. Earnings Per Share

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

(a) Basic earnings per share

	Nine months ended 30 Sept 2006	Nine months ended 30 Sept 2005	**Three months ended 30 Sept 2006**	Three months ended 30 Sept 2005
Profit attributable to shareholders ($'000)	**1,674,029**	959,916	**565,718**	389,120
Weighted average number of ordinary shares in issue less shares held for Share Award Scheme	**1,063,218,919**	1,059,628,097	**1,063,985,564**	1,061,660,552
Basic earnings per share	**$1.57**	$0.91	**$0.53**	$0.37

(b) Diluted earnings per share

	Nine months ended 30 Sept 2006	Nine months ended 30 Sept 2005	**Three months ended 30 Sept 2006**	Three months ended 30 Sept 2005
Profit attributable to shareholders ($'000)	**1,674,029**	959,916	**565,718**	389,120
Weighted average number of ordinary shares in issue less shares held for Share Award Scheme	**1,063,218,919**	1,059,628,097	**1,063,985,564**	1,061,660,552
Effect of employee share options	**11,320,981**	5,910,563	**11,106,171**	6,176,002
Effect of Awarded Shares	**956,466**	–	**954,560**	–
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**1,075,496,366**	1,065,538,660	**1,076,046,295**	1,067,836,554
Diluted earnings per share	**$1.56**	$0.90	**$0.53**	$0.36

14. Fixed Assets

The total cost of additions to fixed assets of the Group during the nine months to 30 September 2006 was $36,776,000 (2005: $41,257,000) which mainly represented costs incurred in the renovation of the Trading Hall and the Exhibition Hall and purchases of computer systems, hardware and software (2005: mainly related to purchases of computer systems, hardware and software). The total cost and net book value of disposals and write-offs of fixed assets during the nine months to 30 September 2006 were $30,228,000 and $1,012,000 respectively (2005: $8,062,000 and $1,000 respectively).

15. Investment Property

The Group's investment property was revalued as at 30 September 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 nine months ended 30 September 2006 of $1,400,000 (2005: $3,200,000) was credited to the condensed consolidated profit and loss account under other income (note 7).

16. Investments in Associates

	At 30 Sept 2006 $'000	At 31 Dec 2005 $'000
Share of net assets of associates	**15,947**	14,374
Goodwill (note a)	**50,207**	50,207
	66,154	64,581

(a) Goodwill

	At 30 Sept 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 30 Sept 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 30 September 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%

In addition to CHIS, the Group owned a 30 per cent interest in ADP Wilco Processing Services Limited ("AWPS") during the year. In March 2006, the Group received liquidation proceeds of $1,312,000 from the dissolution of AWPS which were marginally higher than the book value of the investment. The gain on liquidation of $6,000 was credited to other income in the condensed consolidated profit and loss account. AWPS was officially dissolved in July 2006.

17. Clearing House Funds

	At 30 Sept 2006 $'000	At 31 Dec 2005 $'000
Net assets of the Clearing House Funds were as follows:		
HKSCC Guarantee Fund	**346,960**	342,679
SEOCH Reserve Fund	**380,602**	376,758
HKCC Reserve Fund	**1,499,774**	620,973
	2,227,336	1,340,410
Net assets of the Clearing House Funds were composed of:		
Available-for-sale financial assets, at fair value		
– listed debt securities	**130,362**	98,896
– unlisted debt securities	**186,782**	125,241
Time deposits with original maturities over three months	**–**	30,290
Cash and cash equivalents	**1,918,542**	1,091,233
	2,235,686	1,345,660
Less: Other liabilities	**(8,350)**	(5,250)
	2,227,336	1,340,410
The Clearing House Funds were funded by:		
Clearing Participants' cash contributions (note a)	**1,609,965**	751,751
Designated reserves (note 28):		
– 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	**224,462**	204,213
– Clearing houses' contributions	**70,822**	63,635
	617,412	589,976
Revaluation reserve (note 27(c))	**(41)**	(1,317)
	2,227,336	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	**–**	98,896
Amounts maturing within twelve months	**2,227,336**	1,241,514
	2,227,336	1,340,410

(a) Amount included Participants' additional deposits of $1,249,965,000 (31 December 2005: $393,701,000).

17. Clearing House Funds (continued)

(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.

18. Compensation Fund Reserve Account

	At 30 Sept 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	**22,175**	18,488
Cash and cash equivalents	**28,641**	30,240
	50,816	48,728
Less: Other liabilities	**(10,865)**	(10,318)
	39,951	38,410
The Fund represented:		
Accumulated investment and other income net of expenses included in designated reserves (note 28)	**39,906**	38,420
Revaluation reserve (note 27(c))	**45**	(10)
	39,951	38,410
The maturity profile of the net assets of the Compensation Fund Reserve Account was as follows:		
Amounts maturing within twelve months	**39,951**	38,410

The Securities and Futures Commission ("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 32(a).

19. Accounts Receivable, Prepayments and Deposits

The Group's accounts receivable, prepayments and deposits amounted to $4,996,063,000 (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 93 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.

20. Margin Funds on Derivatives Contracts

	At 30 Sept 2006 $'000	At 31 Dec 2005 $'000
The Margin Funds comprised:		
SEOCH Clearing Participants' Margin Funds	**1,498,459**	1,506,962
HKCC Clearing Participants' Margin Funds	**16,706,174**	12,141,619
	18,204,633	13,648,581
The net assets of the Margin Funds comprised:		
Available-for-sale financial assets, at fair value		
– listed debt securities	**727,360**	438,542
– unlisted debt securities	**8,654,562**	3,390,291
Time deposits with original maturities over three months	**56,988**	100,018
Cash and cash equivalents	**9,072,511**	9,686,026
Margin receivable from Clearing Participants	**2,034**	33,704
	18,513,455	13,648,581
Less: Other liabilities	**(308,822)**	–
	18,204,633	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	**18,204,633**	13,648,581
The maturity profile of the net assets of Margin Funds was as follows:		
Amounts maturing after more than twelve months	**–**	1,114,326
Amounts maturing within twelve months	**18,204,633**	12,534,255
	18,204,633	13,648,581

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

	At 30 Sept 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	**145,331**	139,220
– listed outside Hong Kong	**182,151**	173,349
	327,482	312,569
Held for trading		
Debt securities, at fair value		
– listed in Hong Kong	**62,858**	86,509
– listed outside Hong Kong	**1,236,607**	1,070,100
– unlisted	**1,148,831**	1,172,015
	2,448,296	2,328,624
Held for trading		
Derivative financial instruments, at fair value		
– forward foreign exchange contracts	**1,142**	2,595
	2,776,920	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	**3,453**	1,443

22. Available-for-sale Financial Assets

	At 30 Sept 2006 $'000	At 31 Dec 2005 $'000
Debt securities, at fair value		
– listed in Hong Kong	**28,649**	–
– unlisted	**58,290**	–
	86,939	–

All available-for-sale financial assets held will mature within twelve months.

23. Accounts Payable, Accruals and Other Liabilities

The Group's accounts payable, accruals and other liabilities amounted to $5,546,938,000 (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 83 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.

24. Provisions

	Reinstatement costs $'000	Employee benefit costs $'000	Total $'000
At 1 Jan 2006	**24,128**	**25,613**	**49,741**
Provision for the period	**1,850**	**27,768**	**29,618**
Amount used during the period	**(1,850)**	**(25,145)**	**(26,995)**
Amount paid during the period	**–**	**(1,001)**	**(1,001)**
At 30 Sept 2006	**24,128**	**27,235**	**51,363**

	At 30 Sept 2006 $'000	At 31 Dec 2005 $'000
Analysis of provisions:		
Current	**27,235**	27,145
Non-current	**24,128**	22,596
	51,363	49,741

25. Share Capital, Share Premium and Shares Held for Share Award Scheme

	At 30 Sept 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 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 (note 26)	–	–	5,108	–	5,108
Shares purchased for 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**
Effect of initial adoption of 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)	**2,376,000**	**2,376**	**24,545**	**–**	**26,921**
Transfer from employee share-based compensation reserve (note 26)	**–**	**–**	**6,020**	**–**	**6,020**
Shares purchased for Share Award Scheme	**(27,500)**	**–**	**–**	**(1,574)**	**(1,574)**
At 30 Sept 2006	**1,064,145,346**	**1,065,131**	**180,970**	**(31,602)**	**1,214,499**

(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 2,376,000 shares (year ended 31 December 2005: 6,116,000 shares) in HKEx at an average consideration of $11.33 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 27,500 HKEx shares (year ended 31 December 2005: 958,000 shares) through purchases on the open market and held the shares for the Share Award Scheme (note 26(c)). The total amount paid to acquire the shares during the period was $1,574,000 (year ended 31 December 2005: $30,028,000) and has been deducted from shareholders' equity.

26. Employee Share-based Compensation Reserve

	2006 **$'000**	2005 $'000
At 1 Jan	**34,980**	17,061
Employee share-based compensation benefits (note a)	**17,972**	22,955
Transfer to share premium upon exercise of employee share options (note 25)	**(6,020)**	(5,108)
Share of reserve of an associate	**395**	72
At 30 Sept 2006/31 Dec 2005	**47,327**	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.

26. 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:

	Nine months ended 30 Sept 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**	**(1,331,000)**	6.88	(4,554,000)
Outstanding at 30 Sept 2006/ 31 Dec 2005	**6.88**	**795,000**	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	**17.00**	**(1,045,000)**	10.27	(1,562,000)
Forfeited	**18.07**	**(364,500)**	18.05	(966,000)
Outstanding at 30 Sept 2006/ 31 Dec 2005	**15.67**	**15,164,500**	15.80	16,574,000
Total	**15.23**	**15,959,500**	14.79	18,700,000

(iii) Had all the outstanding employee share options been fully exercised on 30 September 2006, the Group would have received $243,047,000 in proceeds. The market value of the shares issued based on the closing price of $56.85 per share on that date would have been $907,298,000. The theoretical gains made by the employees or Executive Director concerned would have been as follows:

	Number of shares issuable under options granted as at 30 Sept 2006	**Exercise price $**	**Gain per share $**	**Aggregate gain $'000**
Pre-Listing Scheme				
– granted to employees on 20 Jun 2000	**795,000**	**6.88**	**49.97**	**39,726**
Post-Listing Scheme				
– granted to an Executive Director on 2 May 2003	**2,460,000**	**8.28**	**48.57**	**119,482**
– granted to an employee on 14 Aug 2003	**844,000**	**12.45**	**44.40**	**37,474**
– granted to an employee on 18 Aug 2003	**1,476,000**	**12.49**	**44.36**	**65,476**
– granted to an employee on 15 Jan 2004	**822,000**	**17.30**	**39.55**	**32,510**
– granted to employees on 31 Mar 2004	**4,162,500**	**16.96**	**39.89**	**166,042**
– granted to an employee on 17 May 2004	**150,000**	**15.91**	**40.94**	**6,141**
– granted to employees on 26 Jan 2005	**5,250,000**	**19.25**	**37.60**	**197,400**
				664,251

26. Employee Share-based Compensation Reserve (continued)

(c) Awarded Shares

(i) On 14 September 2005, the Board of HKEx approved the 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 Share Award Scheme. Awarded Shares awarded and the income derived therefrom 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 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 Share Award Scheme. Dividends on the Awarded Shares are used to acquire further HKEx shares and allocated to the awardees on a pro rata basis. 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. In 2006, 25,500 shares were acquired through reinvesting dividends received, of which 24,867 shares have been allocated to awardees.

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

	Nine months ended 30 Sept 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**	**(28,700)**	–	–
Dividends reinvested:				
– allocated to awardees	**N/A**	**24,867**	–	–
– allocated to awardees but subsequently forfeited	**N/A**	**(261)**	–	–
Outstanding at 30 Sept 2006/ 31 Dec 2005	**31.20**	**955,906**	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) As at 30 September 2006, 29,594 shares (forfeited shares and shares arising from dividends reinvested) were held by the HKEx Employee Share Trust and would be allocated to awardees in future (31 December 2005: Nil).

(iv) Had all the outstanding Awarded Shares been fully vested on 30 September 2006, the theoretical gains of the awardees based on the closing price of $56.85 per share on that date would have been $54,343,000.

27. Revaluation Reserves

	At 30 Sept 2006 $'000	At 31 Dec 2005 $'000
Leasehold buildings revaluation reserve (note b)	**2,268**	2,225
Investment revaluation reserve (note c and note d)	**(579)**	(39,311)
	1,689	(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 deficit of $41,000 and gross surplus of $45,000 which were attributable to investments of the Clearing House Funds and the Compensation Fund Reserve Account respectively (31 December 2005: gross deficits of $1,317,000 and $10,000 respectively).

(d) Included share of investment revaluation reserve of an associate of $19,000 (31 December 2005: $21,000).

28. Designated Reserves

	At 30 Sept 2006 $'000	At 31 Dec 2005 $'000
Clearing House Funds reserves		
– HKSCC Guarantee Fund reserve	**254,815**	250,444
– SEOCH Reserve Fund reserve	**67,041**	56,346
– HKCC Reserve Fund reserve	**295,556**	283,186
	617,412	589,976
Compensation Fund Reserve Account reserve	**39,906**	38,420
Development reserve (note b)	**–**	72,245
	657,318	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 nine months ended 30 September 2006, $72,245,000 (2005: $7,533,000) of the reserve was utilised and transferred to the Group's retained earnings (note 29) for funding projects that were for the betterment of the securities market.

29. Retained Earnings (Including Proposed/Declared Dividends)

	2006 $'000	As restated 2005 $'000
At 1 Jan, as previously reported		
Retained earnings	**1,775,631**	1,658,055
Proposed/declared dividends	**680,163**	496,620
	2,455,794	2,154,675
Effect of initial adoption of revised HKAS 27	**10**	–
At 1 Jan, as restated	**2,455,804**	2,154,675
Profit for the period/year (note a)	**1,674,029**	1,339,558
Surplus of investment income net of expenses of Clearing House Funds for the period/year transferred to Clearing House Funds reserves	**(27,436)**	(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	**(1,486)**	(1,303)
Transfer from Development reserve	**72,245**	11,008
	43,323	(19,645)
Dividends:		
2005/2004 final dividend	**(679,550)**	(496,620)
Dividend on shares issued for employee share options exercised after 31 Dec 2005/31 Dec 2004	**(1,038)**	(1,597)
	(680,588)	(498,217)
2006/2005 interim dividend	**(1,000,050)**	(519,988)
Dividend on shares issued for employee share options exercised after 30 Jun 2006/30 Jun 2005	**(257)**	(579)
	(1,000,307)	(520,567)
At 30 Sept 2006/31 Dec 2005	**2,492,261**	2,455,804
Representing:		
Retained earnings	**2,492,261**	1,776,254
Proposed/declared dividends	**–**	679,550
At 30 Sept 2006/31 Dec 2005	**2,492,261**	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 $28,922,000 (year ended 31 December 2005: $30,653,000).

30. Notes to the Condensed Consolidated Cash Flow Statement

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

	Nine months ended 30 Sept 2006 $'000	Nine months ended 30 Sept 2005 $'000
Profit before taxation	**1,966,018**	1,131,380
Adjustments for:		
Net interest income	**(245,837)**	(157,036)
Net realised and unrealised gains and interest income on financial assets and financial liabilities at fair value through profit or loss	**(140,137)**	(62,557)
Amortisation of lease premiums for land	**410**	410
Fair value gain of an investment property	**(1,400)**	(3,200)
Depreciation	**75,149**	125,548
Employee share-based compensation benefits	**17,972**	17,254
Reversal of impairment loss of a leasehold building	**(62)**	–
Provision for/(reversal of provision for) impairment losses of trade receivables	**358**	(425)
Changes in provisions	**(228)**	1,682
Share of profits less losses of associates	**(15,986)**	(12,992)
Gain on liquidation of an associate	**(6)**	–
Loss/(gain) on disposal of fixed assets	**668**	(52)
Net (increase)/decrease in financial assets and financial liabilities at fair value through profit or loss	**(69,511)**	25,928
Fair value (losses)/gains of hedging instruments deferred in hedging reserve	**(91)**	8
Settlement of amounts transferred from retained earnings to Clearing House Funds and Compensation Fund Reserve Account	**(28,922)**	(13,196)
Increase in accounts receivable, prepayments and deposits	**(1,687,268)**	(940,068)
Increase in other current liabilities	**1,761,460**	1,029,871
Net cash inflow from operations	**1,632,587**	1,142,555
Interest received	**400,421**	159,733
Cash received on financial assets at fair value through profit or loss	**70,064**	60,190
Interest paid	**(322,203)**	(65,258)
Hong Kong Profits tax paid	**(53,881)**	(107,346)
Net cash inflow from operating activities	**1,726,988**	1,189,874

(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.

31. Commitments

Commitments in respect of capital expenditures:

	At 30 Sept 2006 $'000	At 31 Dec 2005 $'000
Contracted but not provided for	**10,217**	18,130
Authorised but not contracted for	**67,313**	118,838
	77,530	136,968

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

32. 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 repealed SO, the maximum compensation amount is $8 million for each Stock Exchange Participant's default. Under section 113(5A) of the repealed SO, the Stock Exchange may, upon satisfying certain conditions, and with the approval of the SFC, allow an additional payment to successful claimants before apportionment. Under section 107(1) of the repealed SO, the Stock Exchange has contingent liabilities to the Compensation Fund as it is obligated to replenish the Compensation Fund upon the SFC's request. The amounts to be replenished should be equal to the amount paid in connection with the satisfaction of the claims, including any legal and other expenses paid or incurred in relation to the claims but capped at $8 million per default. As at 30 September 2006, there were outstanding claims received in respect of four Stock Exchange Participants (31 December 2005: five), two of which had resigned their participantship in 2004.

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 30 September 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.

32. 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 425 trading Participants as at 30 September 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 (Amendments) 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.

33. 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 30 September 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 30 Sept 2006		At 31 Dec 2005	
	Amount received $'000	**Amount utilised $'000**	Amount received $'000	Amount utilised $'000
Clearing House Funds				
Bank guarantees	**547,770**	**430,345**	333,900	58,603
Margin Funds				
Equity securities, listed in Hong Kong	**1,048,894**	**–**	439,591	–
US Treasury Bills	**1,002,311**	**742,543**	191,965	141,086
Hong Kong Exchange Fund Notes	**2,997**	**–**	–	–
Bank guarantees	**194,000**	**128,322**	100,000	–
	2,248,202	**870,865**	731,556	141,086
	2,795,972	**1,301,210**	1,065,456	199,689

34. 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

	Nine months ended 30 Sept 2006 $'000	Nine months ended 30 Sept 2005 $'000	**Three months ended 30 Sept 2006 $'000**	Three months ended 30 Sept 2005 $'000
Rental payments (including air conditioning and cleaning service charges) to Shine Hill Development Limited ("Shine Hill")	**1,757**	3,970	**–**	1,302

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. When the Lease was renewed, Shine Hill was a subsidiary of Great Eagle Holdings Limited ("Great Eagle"), and Dr LO Ka Shui, an Independent Non-executive Director of HKEx retired on 26 April 2006, was 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. The rental payments for the nine months ended 30 September 2006 disclosed above represented expenses incurred up to 26 April 2006.

34. Material Related Party Transactions (continued)

(b) Transactions with associates

	Nine months ended 30 Sept 2006 $'000	Nine months ended 30 Sept 2005 $'000	**Three months ended 30 Sept 2006 $'000**	Three months ended 30 Sept 2005 $'000
Income received and receivable from/(expenses paid and payable to) associates:				
CHIS				
– Dividend income	**13,500**	17,952	**6,000**	5,284
– Share registration service fees	**(493)**	(364)	**(239)**	(95)
AWPS				
– Liquidation proceeds	**1,312**	–	**–**	–

(c) Key management personnel compensation

	Nine months ended 30 Sept 2006 $'000	Nine months ended 30 Sept 2005 $'000	**Three months ended 30 Sept 2006 $'000**	Three months ended 30 Sept 2005 $'000
Salaries and other short-term employee benefits	**43,965**	39,142	**14,738**	13,174
Employee share-based compensation benefits	**4,522**	7,256	**(83)**	2,392
Retirement benefit costs	**4,163**	4,116	**1,387**	1,362
	52,650	50,514	**16,042**	16,928

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

	At 30 Sept 2006 $'000	At 31 Dec 2005 $'000
Amounts due from:		
– An associate	**–**	5,284
– Related companies with common directors	**–**	867
Amounts due to:		
– An associate	**(216)**	(14)
– Related companies with common directors	**–**	(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.

35. 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.

35. 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 30 September 2006, the aggregate net open foreign currency positions amounted to HK$2,188 million, of which HK$242 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$332 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.

The Group had entered into the following hedges as at 30 September 2006:

Cash flow hedges

In 2005, the Group designated a bank deposit of 8,500,000 Swedish Krona ("SEK") as a cash flow hedge for hedging the foreign exchange risk of forecast information technology and computer maintenance expenses of SEK 8,500,000 from August to December 2005. During the period ended 30 September 2006, SEK 7,567,000 of the deposit was used to pay the said expenses.

In 2006, the Group designated bank deposits of SEK17,680,000 as cash flow hedges for hedging the foreign exchange risk of forecast information technology and computer maintenance expenses of SEK 17,680,000 from May to December 2006. As at 30 September 2006, no payment had been made to settle any of the forecast expenses.

As at 30 September 2006, the fair value of the bank deposits designated as cash flow hedges held by the Group was $19,791,000 (31 December 2005: $8,281,000). The fair value loss on the bank deposits deferred in the hedging reserve as of 30 September 2006 will be released to the profit and loss account between October to December 2006 when the forecast expenses being hedged materialise.

35. Financial Risk Management (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

The ineffectiveness of cash flow hedges during the period was as follows:

	Nine months ended 30 Sept 2006 $'000	Nine months ended 30 Sept 2005 $'000	**Three months ended 30 Sept 2006 $'000**	Three months ended 30 Sept 2005 $'000
Ineffectiveness of cash flow hedges charged/(credited) to profit and loss account	**1**	–	**(2)**	–

Fair value hedges

In 2005, the Group designated a bank deposit of SEK 11,000,000 as a fair value hedge to hedge against the foreign exchange risk of financial liabilities of SEK 11,000,000. SEK 7,556,000 of the deposit was used to settle the financial liability during the period ended 30 September 2006.

In 2006, the Group designated bank deposits of SEK 9,100,000 as fair value hedges to hedge against the foreign exchange risk of financial liabilities of SEK 9,100,000. As at 30 September 2006, no payment had been made to settle any of the financial liabilities.

As at 30 September 2006, the fair value of the bank deposits designated as fair value hedges was $13,337,000 (31 December 2005: $10,717,000).

The fair value change of hedging instruments and hedged items during the period was as follows:

	Nine months ended 30 Sept 2006 $'000	Nine months ended 30 Sept 2005 $'000	**Three months ended 30 Sept 2006 $'000**	Three months ended 30 Sept 2005 $'000
Fair value gain/(loss) on bank deposits	**607**	(246)	**(188)**	(246)
Fair value gain/(loss) on financial liabilities	**(607)**	246	**188**	246
	–	–	**–**	–

(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.

35. 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.

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

	Nine months ended 30 Sept 2006			Nine months ended 30 Sept 2005		
	Average $million	**Highest $million**	**Lowest $million**	Average $million	Highest $million	Lowest $million
Foreign exchange risk	**6.1**	**7.4**	**4.9**	5.0	6.1	3.6
Equity price risk	**11.0**	**13.0**	**9.0**	8.0	9.5	6.6
Interest rate risk	**11.8**	**13.9**	**9.0**	21.7	24.0	17.9
Total VaR	**18.2**	**20.6**	**15.9**	23.8	26.9	20.9

35. Financial Risk Management (continued)

(a) Market risk (continued)

(iv) Risk management (continued)

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.

The financial liabilities of the Group as at 30 September 2006 are analysed into relevant maturity buckets based on their contractual maturity dates in the table below:

	At 30 Sept 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	**18,204,633**	**–**	**–**	**–**	**–**	**18,204,633**
Accounts payable, accruals and other liabilities	**5,407,339**	**527**	**121,474**	**144**	**17,454**	**5,546,938**
Financial liabilities at fair value through profit or loss (note i)	**185,441**	**–**	**–**	**–**	**–**	**185,441**
Participants' admission fees received	**1,000**	**100**	**150**	**–**	**400**	**1,650**
	23,798,413	**627**	**121,624**	**144**	**17,854**	**23,938,662**
Non-current liabilities						
Participants' admission fees received	**–**	**–**	**–**	**–**	**79,900**	**79,900**
Participants' contributions to Clearing House Funds	**–**	**–**	**–**	**–**	**1,609,965**	**1,609,965**
Financial guarantee contract (note ii)	**–**	**–**	**–**	**–**	**85,000**	**85,000**
	–	**–**	**–**	**–**	**1,774,865**	**1,774,865**
Total	**23,798,413**	**627**	**121,624**	**144**	**1,792,719**	**25,713,527**

35. Financial Risk Management (continued)

(b) Liquidity risk (continued)

	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

(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 $181,988,000 (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 30 September 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.

35. Financial Risk Management (continued)

(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 30 September 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.

(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.

35. Financial Risk Management (continued)

(c) Credit risk (continued)

(ii) Clearing and settlement-related risk (continued)

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 30 September 2006, bank guarantees of $1,486,500,000 (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.

35. Financial Risk Management (continued)

(c) Credit risk (continued)

(iii) Exposure to credit risk

As at 30 September 2006, the financial assets and financial liabilities of the Group that were exposed to credit risk and their maximum exposure were as follows:

	At 30 Sept 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	**317,144**	**317,144**	224,137	224,137
Time deposits with original maturities over three months	**–**	**–**	30,290	30,290
Cash and cash equivalents	**1,918,542**	**1,918,542**	1,091,233	1,091,233
Compensation Fund Reserve Account:				
Available-for-sale financial assets	**22,175**	**22,175**	18,488	18,488
Cash and cash equivalents	**28,641**	**28,641**	30,240	30,240
Time deposit with maturity over one year	**38,961**	**38,961**	38,768	38,768
Other assets	**18,550**	**18,550**	17,162	17,162
Accounts receivable and deposits #	**4,976,202**	**4,976,202**	3,250,197	3,250,197
Margin Funds on derivatives contracts:				
Available-for-sale financial assets	**9,381,922**	**9,381,922**	3,828,833	3,828,833
Time deposits with original maturities over three months	**56,988**	**56,988**	100,018	100,018
Cash and cash equivalents	**9,072,511**	**9,072,511**	9,686,026	9,686,026
Margin receivable from Clearing Participants	**2,034**	**2,034**	33,704	33,704
Financial assets at fair value through profit or loss	**2,776,920**	**2,776,920**	2,643,788	2,643,788
Available-for-sale financial assets	**86,939**	**86,939**	–	–
Time deposits with original maturities over three months	**21,312**	**21,312**	116,622	116,622
Cash and cash equivalents	**1,592,206**	**1,592,206**	1,359,133	1,359,133
Financial liabilities				
Undertaking to indemnify the Collector of Stamp Revenue	**(19,909)**	**85,000**	(19,909)	85,800

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

35. Financial Risk Management (continued)

(c) Credit risk (continued)

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

As at 30 September 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 30 Sept 2006 $'000	At 31 Dec 2005 $'000
Up to 6 months	**24,502**	141,277
Over 6 months to 1 year	**–**	–
Over 1 year to 3 years*	**6,838**	8,521
Over 3 years*	**1,813**	142
Total	**33,153**	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 $4,317,000 (31 December 2005: $3,600,000).

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

As at 30 September 2006, trade receivables of the Group amounting to $4,687,000 (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 or were due from companies with financial difficulties. 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 30 September 2006, the amount of doubtful deferred revenue amounted to $38,233,000 (31 December 2005: $37,643,000).

35. 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 30 Sept 2006 $'000	At 31 Dec 2005 $'000	**At 30 Sept 2006 $'000**	At 31 Dec 2005 $'000
Financial assets				
Time deposit with maturity over one year	**38,961**	38,768	**37,279**	36,659
Other financial assets included in other non-current assets (note i)	**18,550**	17,162	**17,049**	15,550
Financial liabilities				
Participants' admission fees received included in non-current liabilities (note i)	**79,900**	80,150	**76,595**	76,732
Participants' contributions to Clearing House Funds:				
– Minimum contributions (note i)	**360,000**	358,050	**345,109**	342,779
– Participants' additional deposits	**1,249,965**	393,701	**1,249,965**	393,701
Financial guarantee contract (note ii)	**19,909**	19,909	**21,574**	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 ranged from 4.32 per cent to 4.33 per cent as at 30 September 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 3.94 per cent as at 30 September 2006 (31 December 2005: 4.18 per cent).

OTHER INFORMATION

(Financial figures are expressed in Hong Kong Dollar)

Becomes a Hang Seng Index Constituent Stock

Hong Kong Exchanges and Clearing Limited ("HKEx") has been included as a Hang Seng Index constituent stock with effect from 11 September 2006.

Change in Board Lot

The board lot size of shares of $1.00 each in the share capital of HKEx ("Shares") for trading on The Stock Exchange of Hong Kong Limited ("Stock Exchange") was changed from 2,000 Shares to 500 Shares effective 26 June 2006. A free exchange period was offered to shareholders of HKEx ("Shareholders") to exchange share certificates in new board lot size. The old share certificates in board lot of 2,000 Shares continue to be evidence of title to such shares and remain valid for transfer, delivery and settlement purposes.

Change in Senior Executive

In September 2006, Mr Patrick Kevin Conroy, Chief Operating Officer, informed the board of directors of HKEx (the "Board") of his decision to return to the United States to pursue his career development by the end of March 2007. A Selection Committee comprising six Board members has been formed to identify suitable candidates to fill the vacancy.

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 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 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 prices, 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 30 September 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 nine months ended 30 Sept 2006**	**Lapsed during the nine months ended 30 Sept 2006**	**As at 30 Sept 2006**	**Exercise period**
Employees *(note 1)*						
20 Jun 2000	$6.88	2,126,000	1,331,000 *(note 2)*	–	795,000	6 Mar 2002 – 30 May 2010 *(note 3)*

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

Post-Listing Scheme

		Number of shares issuable under the options				
Date of grant	**Exercise price**	**As at 1 Jan 2006**	**Issued upon subscription during the nine months ended 30 Sept 2006** *(note 4)*	**Lapsed during the nine months ended 30 Sept 2006**	**As at 30 Sept 2006**	**Exercise period** *(note 5)*
Director *(note 6)*						
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	272,000	–	822,000	15 Jan 2006 – 14 Jan 2014
31 Mar 2004	$16.96	5,074,000	723,000	188,500	4,162,500	31 Mar 2006 – 30 Mar 2014
17 May 2004	$15.91	200,000	50,000	–	150,000	17 May 2006 – 16 May 2014
26 Jan 2005	$19.25	5,426,000	–	176,000	5,250,000	26 Jan 2007 – 25 Jan 2015

Since the adoption of the Employees' Share Award Scheme ("Share Award Scheme") by the Board on 14 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 nine months ended 30 September 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 $45.94.*
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 weighted average closing price immediately before the dates on which the options were exercised was $54.04.*
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. *The option was granted to Mr Chow Man Yiu, Paul, a Director and the Chief Executive of HKEx.*
7. *The amortised fair value of the share options charged to the profit and loss account for the nine months ended 30 September 2006 was $11,840,000 (30 September 2005: $17,254,000).*

Employees' Share Award Scheme

On 14 September 2005 ("Adoption Date"), the Board adopted the Share Award Scheme in which selected employees (including any executive directors) of HKEx and its subsidiaries ("Group") are entitled to participate. The purposes and objectives are to recognise the contributions by certain employees of the Group and to give them an incentive to remain 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, the 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 maximum numbers of shares which can be awarded under the Share Award Scheme ("Awarded Shares") and to a selected employee throughout its duration are limited to three per cent (i.e. 31,871,575 shares) and one per cent (i.e. 10,623,858 shares) respectively of the shares of HKEx in issue as at the Adoption Date.

Pursuant to the rules of the Share Award Scheme, the Board or the trustee of the Share Award Scheme (as the case may be) shall select the employees of the Group for participation in the Share Award Scheme, and determine the number of shares of HKEx to be awarded. Awarded shares are granted at nil consideration. The trustee acquires the relevant awarded shares from the market at the cost of HKEx and holds them in trust for those selected employees until the end of each vesting period. Awarded shares and the income derived therefrom are subject to a vesting scale of 25 per cent each per annum starting from the second anniversary and fully vested in the fifth anniversary of the date of award, provided that the selected employee remains an employee of the Group at all times until the relevant vesting dates and satisfies the conditions specified under the Share Award Scheme. Vested shares will be transferred at no cost to the relevant selected employees of HKEx.

Since its adoption, the Board has awarded a total of 960,000 shares to the selected employees and none of them is a Director of HKEx. Details of the award are set out below:

Date of award	Number of shares	Fair value per share *(note)*	Vesting period
19 Dec 2005	960,000	$31.20	19 Dec 2007 – 19 Dec 2010

Note:

The fair value of the awarded shares was based on their market value at the date of award. The amortised fair value of the awarded shares charged to the profit and loss account for the nine months ended 30 September 2006 was $6,132,000 (30 September 2005: $Nil).

As at 30 September 2006, taking into account the further shares acquired by reinvesting the dividend income, there were a total of 985,500 shares held upon trust by the trustee under the Share Award Scheme, with an aggregate of 29,594 shares as returned shares (i.e. shares were not vested and/or forfeited in accordance with the terms of the Share Award Scheme). The trustee shall hold these returned shares and future related income for the benefit of one or more employees of the Group as it determines at its discretion, after taking into consideration the recommendations of the Board. During the period, 28,700 awarded shares under the Share Award Scheme lapsed and no shares were vested.

On 16 August 2006, the Board approved an amendment to the rules and the related trust deed of the Share Award Scheme under which the Board will approve the lump sum for acquiring the Awarded Shares instead of approving a fixed number of Awarded Shares. The revised rules and the trust deed are posted on HKEx's corporate website.

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

Directors' and Chief Executive's Interests and Short Positions

As at 30 September 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 Securities and Futures Ordinance ("SFO"), or as otherwise notified to HKEx and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code"):

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 Kwan Ho, Vincent Marshall	–	–	2,416,000 *(note 2)*	360,000 *(note 3)*	2,776,000	0.26
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 at the annual general meeting held in 2004.*

2. *Mr Lee has interests in 206,000 shares and 2,210,000 underlying shares through listed equity derivatives (physically settled options) held by Pacific Trust Company Limited, in which Mr Lee holds 33.33 per cent beneficial interests.*

3. *Mr Lee has interests in 180,000 shares and 180,000 underlying shares through listed equity derivatives (physically settled options) held by a corporation, controlled by Lee Tung Hai Family Trust, a discretionary trust of which Mr Lee is a beneficiary.*

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 30 September 2006, Mr Lee Kwan Ho, Vincent Marshall was, under the SFO, interested in aggregate short positions of 806,000 underlying shares in HKEx, representing 0.08 per cent of the total issued share capital of HKEx. These interests comprised short positions of 626,000 underlying shares arose through certain listed equity derivatives (physically settled options) held by Pacific Trust Company Limited in which Mr Lee holds 33.33 per cent beneficial interests and 180,000 underlying shares arose through certain listed equity derivatives (physically settled options) held by a corporation controlled by Lee Tung Hai Family Trust, a discretionary trust of which Mr Lee is a beneficiary.

Save for those disclosed above, none of the Director or the Chief Executive of HKEx had any interest and short position in the shares, underlying shares and debentures of HKEx or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to HKEx and the Stock Exchange pursuant to the Model Code.

Apart from the Share Option Schemes and the Share Award Scheme, at no time during the period was HKEx or any of its subsidiaries a party to any arrangements to enable the Directors of HKEx to acquire benefits by means by acquisition of shares in, or debentures of, HKEx or any body corporate. Save for the disclosed, none of the Directors or the Chief Executive of HKEx (including their spouses and children under the age of 18) had, during the nine months ended 30 September 2006, held any interest in, or been granted any right to subscribe for the securities of HKEx and its associated corporations within the meaning of the SFO, or had exercised any such rights.

Discloseable Interests and Short Positions of Shareholders under the SFO

As at 30 September 2006, the following person had interests in five per cent or more of the issued share capital of HKEx as recorded in the register required to be kept under Section 336 of the SFO. Details of the interests and short positions in the shares or underlying shares of HKEx as notified to HKEx are set out below.

Long positions in the shares of HKEx

Name	Capacity	Number of shares held	Total	% of the issued share capital
JPMorgan Chase & Co	Beneficial owner	7,137,626	56,750,615 *(note 1)*	5.33
	Investment manager	4,505,310		
	Custodian corporation/ approved lending agent	45,107,679		

Short positions in the shares and underlying shares of HKEx

Name	Capacity	Number of shares/ underlying shares held	Total	% of the issued share capital
JPMorgan Chase & Co	Beneficial owner	53,087,000	53,377,000 *(note 2)*	5.01
	Investment manager	290,000		

Notes:

1. *It included 45,107,679 shares in the lending pool.*
2. *It included short positions of 53,087,000 underlying shares under certain listed equity derivatives (5,157,000 underlying shares – cash settled) and unlisted equity derivatives (2,000,000 underlying shares – physically settled; 45,930,000 underlying shares – cash settled).*

Apart from the aforesaid, the Directors are not aware of any other 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.

According to the Central Clearing and Settlement System Participants Shareholding Report of HKEx as at 30 September 2006, the five approved Minority Controllers were in aggregate holding 57.45 per cent of the issued share capital of HKEx.

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.

In September 2006, GovernanceMetrics International Inc assigned higher scores to HKEx in recognition of our achievement of improved corporate governance practices. As of 31 July 2006, the Global score was 7.5 (May 2006: 6.5) and Home Market score was 9.5 (May 2006: 9.5) out of the full score of 10.0.

In November 2006, HKEx has once again been assessed as one of the top ten locally listed companies with best corporate governance practices under the second Survey on Corporate Governance of Hong Kong Listed Companies (the first conducted in 2004) jointly conducted by The Hong Kong Institute of Directors and City University of Hong Kong. The project covered 174 major local companies and aimed at encouraging the adoption of best corporate governance practices in Hong Kong through a systematic evaluation of current practices.

On 6 November 2006, HKEx was awarded the Gold Prize (General Category) in the 2006 HKMA Best Annual Reports Awards and the Winner in the Citation for Achievement in Corporate Governance Disclosure (General Category), organised by The Hong Kong Management Association.

HKEx, as a regulator and a public company, will continue its commitment to articulate and maintain high standards of corporate governance.

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 nine months ended 30 September 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 nine months ended 30 September 2006.

Purchase, Sale or Redemption of HKEx's Listed Securities

During the nine months ended 30 September 2006, HKEx had not redeemed, and neither HKEx nor any of its subsidiaries had purchased or sold, any of HKEx's listed securities, except that the trustee of the Share Award Scheme, had pursuant to the Board's approval for the award of 960,000 shares to a number of employees in December 2005, purchased 2,000 shares on the Stock Exchange in January 2006 (958,000 shares purchased in December 2005). During the period, the trustee of the Share Award Scheme also applied, according to the terms of the trust deed, the dividend income received in respect of the HKEx shares held under the trust to acquire further 10,000 HKEx shares in May 2006 and 15,500 HKEx shares in September 2006 on the Stock Exchange. The total amount paid to acquire these 27,500 shares during the period was about $1,574,000.

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

Hong Kong, 14 November 2006

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