



2006 Annual Report





We live in times of continual change. New creations, new perspectives and new environments are shaped every day. The universal search for quality, however, is constant. That is why while we embrace innovation, we remain steadfast in our standards and values. HKEx works not just to secure a market of success for today, but to create a market of lasting value for many years to come.

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Financial Highlights

(Financial figures are expressed in Hong Kong Dollar)

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

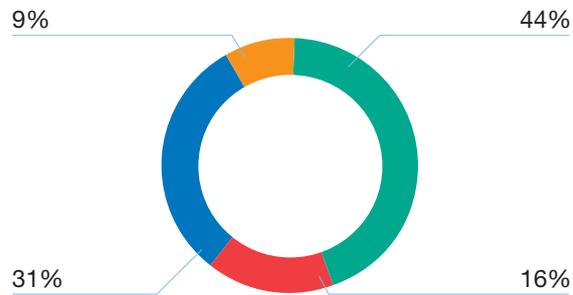
^o Audited and restated (shareholders' funds down by \$30 million, total assets down by \$30 million and net assets per share down by \$0.02) due to the adoption of a revised HKFRS

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

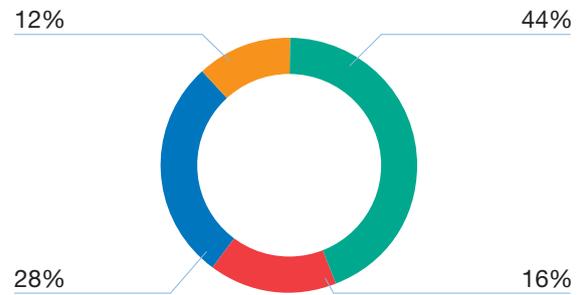
[#] Based on 1,064,190,346 shares as at 31 December 2006, being 1,065,448,346 shares issued and fully paid less 1,258,000 shares held for the Share Award Scheme (2005: 1,061,796,846 shares, being 1,062,754,846 shares issued and fully paid less 958,000 shares held for the Share Award Scheme)

BY BUSINESS SEGMENT*

2006 Income



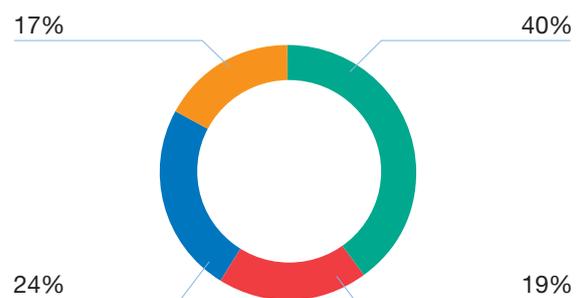
2005 Income



2006 Segment results



2005 Segment results



● Cash Market
 ● Derivatives Market
 ● Clearing Business
 ● Information Services

* Details are set out in note 4 to the consolidated accounts on pages 148 to 150.

Highlights of the Year

Regulatory Framework

20 January

Released a discussion paper to invite market views on the possible further development of GEM.

19 May

Amended the Listing Rules to expand the composition of the Listing Committees to at least 28 members, including at least eight appointed investor representatives and 19 appointed members from the securities industry including market professionals.

25 May

Commenced a series of training programmes in Beijing for the senior management of Hong Kong-listed Mainland enterprises

to enhance their understanding of Hong Kong's regulatory regime and corporate governance issues. The programmes were also later on conducted in Shanghai.



June onwards

Began working to facilitate the Hong Kong listing of more overseas companies by clarifying requirements in the Listing Rules. The objective of the project is to ensure the procedures for listing applicants incorporated outside Hong Kong and other recognised jurisdictions are not overly burdensome.

7 July

Published the Exposure Conclusion – Abolition of Requirement for Main Board Issuers to Publish Paid Announcements in Newspapers and Related Matters.

24 October

Published amendments to the Listing Rules regarding the regulation of sponsors and compliance advisers.

27 October

Hosted the listing of the H shares of ICBC, which simultaneously listed its A shares in Shanghai.



Promotion of Hong Kong Markets

12 May

Participated in a seminar in Seoul about Hong Kong listings for potential South Korean issuers.

5-8 June

Sponsored the 31st annual conference of the International Organisation of Securities Commissions in Hong Kong hosted by the SFC.

13 June

Hosted a seminar about Hong Kong listings for potential Japanese issuers at the Exchange Exhibition Hall.

21-22 June

Exhibited with the theme “Leading International Marketplace for China-related Futures & Options” at the 16th FOW Derivatives & Securities World Exhibition in London.

July

Participated in promotional events in Taipei and Dongguan to introduce Hong Kong listings to Taiwanese companies which have business operations in the Mainland.

10 July

Participated in a roadshow in Japan to promote Hong Kong listings to Japanese institutional and retail investors.



11 August

Co-hosted a seminar with the Federation of Hong Kong Industries to promote Hong Kong listings to local industrialists and entrepreneurs.

7 September

Participated in a seminar in Kuala Lumpur to promote Hong Kong listings.

15 September

Co-organised a conference with Hunan Province’s Local Finance and Securities Office to promote Hong Kong listings to Hunan enterprises.

22 December

Received a delegation led by the President of the Republic of Kazakhstan and signed a Memorandum of Understanding with the Agency of the Republic of Kazakhstan on Regulation of Activities of the Regional Financial Centre of Almaty City to establish official cooperation.



Market Infrastructure

16 January

Opened the renovated Trading Hall.



10 February

Adjusted position limits and reporting level for stock options contracts.

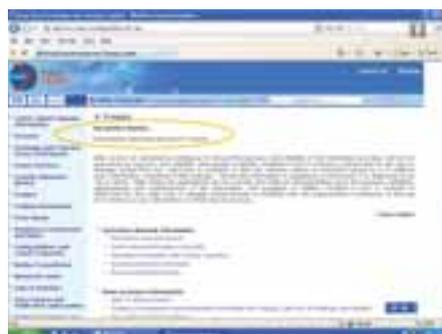
26 April

Held grand opening of the Exchange Trading and Exhibition Hall Complex.



15 May

Introduced the DWRC on the HKEx website for investors' easy access to derivative warrant information.



2 June

Approved progressive implementation of Phase 2A reduction of minimum securities trading spreads.

10 June

Migrated the CCASS/3 circuits to SDNet.

August

Completed the HKATS/DCASS Network Gateway upgrade.

4 September

Revamped the HKEx website to provide easy access to the latest listed company documents.

Implemented five-day clearing week in line with measures in the Hong Kong banking industry.

25 September

Announced introduction of the new MM model for the Futures Exchange products to improve the quality of market making services.

October onwards

Began to upgrade by batches the hardware and software of AMS/3 OG and MWS.

4 December

Introduced pre-market opening session for H-shares Index Futures to further increase market efficiency.

New Products and Market Development

31 March

Rolled out long-dated H-shares Index Options and additional long-dated HSI Options.

5 June

Expanded the CCASS Investor Account Service to Macau investors and companies.

12 June

Began trading CBBCs in the securities market.

26 September

Received no-action relief from the US Commodity Futures Trading Commission enabling the offer and sale in the US of the futures contracts based on the FTSE/Xinhua China 25 Index and the Hang Seng China Enterprises Index.

17 November

Expanded number of stocks eligible for CBBC issuance to provide more choice to investors.

Corporate

March

Affirmed by the FTSE4Good Policy Committee that HKEx continued to be a constituent of the FTSE4Good Index.

26 June

Reduced HKEx's board lot size from 2,000 shares per board lot to 500 shares per board lot

6 November

Received The Hong Kong Management Association's 2006 Best Annual Reports Awards – Gold Award (General Category) and Winner in the Citation for Achievement in Corporate Governance Disclosure (General Category).

28 November

Received HKICPA's Best Corporate Governance Disclosure Awards 2006 – Platinum Award (Non-Hang Seng Index Category).



Photo courtesy of the HKICPA.

November

Implemented new staff remuneration structure and policies.

7 December

Released HKEx Strategic Plan for 2007-09.



Chairman's Statement

I am delighted, in my first year as Chairman, to report another record-breaking year for HKEx. Our financial and operating performance reflects the combined efforts of HKEx's Board, management and staff, as well as our business partners in successfully pursuing our mission to provide a world-class marketplace for securities and derivatives products of Hong Kong, Mainland and other enterprises.

A Fruitful Year

2006 was a remarkable and fruitful year for HKEx. Our performance benefited from strong institutional and retail investor support, as indicated by the rise in HKEx's share price from \$32.15 on 30 December 2005 to \$85.50 on 29 December 2006, and the increase in HKEx's market capitalisation from \$34.2 billion to \$91.1 billion. With the aim of facilitating trading in our shares, HKEx reduced its board lot size effective 26 June 2006. HKEx became a HSI constituent with effect from 11 September 2006, and was rated the second favourite stock of retail investors in Hong Kong in a survey conducted by the Association of International Accountants Hong Kong Branch and a local securities firm last year. I would like to take this opportunity to thank all our Shareholders and the investing public for their support, and look forward to continuing to secure their trust in the years ahead.

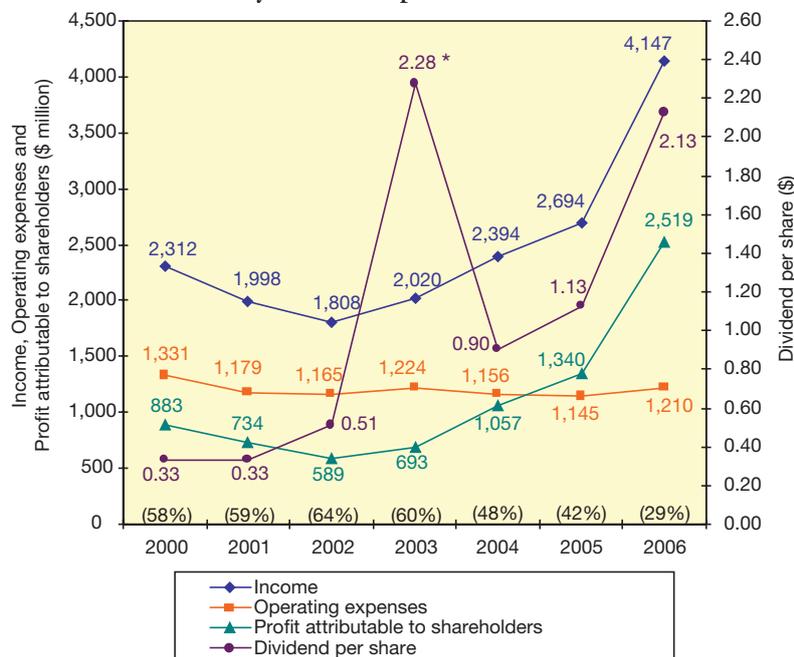
HKEx achieved the strongest income growth in 2006 since its listing in 2000. Income for the year amounted to \$4,147 million, representing an increase of 54 per cent compared to that of 2005. This was largely attributable to vigorous primary and secondary trading activities in the Cash and Derivatives Markets during the year, resulting in a significant increase in trading, clearing and settlement fees. With a sound investment strategy and robust capital markets, investment income from the Corporate Funds also rose substantially.

As a result of a rigorous effort to contain expenses, the cost to income ratio reduced from 42 per cent in 2005 to 29 per cent in 2006. Profit attributable to shareholders increased by 88 per cent from the previous year to \$2,519 million. The Board has recommended payment of a final dividend of \$1.19 per share. Together with the interim dividend of \$0.94 per share, the total dividend for the year amounted to \$2.13 per share.





Summary of HKEx's performance since 2000



() - Cost to income ratio. For the purpose of computation of cost to income ratio, income includes share of profits less losses of associates. The relevant figures are set out in the Financial Statistics since the Year of Merger on page 82 of this Annual Report.

* - Including a special dividend of \$1.68 per share

Strong Economic Backdrop

Following the economic rebound in 2005, Hong Kong's investment environment continued to improve in 2006 with resilient domestic demand, strong investor confidence and falling unemployment rate. Hong Kong recorded GDP growth of 6.8 per cent for 2006, which marked the third consecutive year of above-trend growth. The approval of the proposal to abolish estate duty and exempt offshore funds from profits tax in early 2006 helped attract offshore funds to invest in Hong Kong. Hong Kong was ranked as the world's freest economy for the 13th consecutive year according to the Economic Freedom 2007 Index released by the Heritage Foundation and retained the highest rating for economic freedom according to the Economic Freedom of the World: 2006 Annual Report released by the Fraser Institute. The improved economic fundamentals create a better investment environment inducing a substantial inflow of funds.

Number of Listed Mainland Enterprises and Market Capitalisation

	2003	2004	2005	2006
Number of listed Mainland companies	249 (24)	304 (28)	335 (30)	367 (31)
Number of newly listed Mainland companies	33 <47>	44 <63>	37 <55>	39 <63>
Market capitalisation (at year-end) (\$ billion)	1,680 (30)	2,021 (30)	3,192 (39)	6,714 (50)

() – percentage to total listed companies
< > – percentage to total newly listed companies

Performance of Mainland Enterprises from 2003 to 2006

	2003	2004	2005	2006
Total equity funds raised (\$ billion)	56 (26)	114 (40)	198 (66)	385 (73)
Funds raised by IPOs (\$ billion)	51 (87)	77 (79)	151 (91)	304 (91)
Funds raised in secondary market (\$ billion)	5 (3)	37 (20)	47 (35)	81 (42)
Average daily equity turnover (\$ million)	4,242 (46)	6,687 (49)	6,708 (46)	15,706 (60)

() – percentage to total equity market

Ranking of HKEx Among Global Exchanges

	2002		2006	
	Value/ Volume	World Ranking	Value/ Volume	World Ranking
Equity funds raised (USD billion)	6.7	8th	67.2	3rd
Market capitalisation at year-end (USD billion)	463.1	10th	1,710.0	6th
Share trading value (USD billion)	194.0	19th	829.1	14th
Stock Index Options volume (million contracts)	1.1	17th	4.9	14th
Stock Index Futures volume (million contracts)	6	14th	19.7	10th
Stock Options volume (million contracts)	3.7	16th	18.1	10th

The 'World Ranking' above is based on information from the World Federation of Exchanges

The economy of Hong Kong is closely tied with that of the Mainland. The Mainland's economy grew by 10.7 per cent for the year, despite a raft of tightening measures imposed by the Central Government to tame investment growth and to prevent the economy from overheating in the second half of 2006. Hong Kong has benefitted from the rapid growth in the Mainland economy as evidenced by the successful introduction of 39 new listings (2005: 37) of Mainland enterprises in Hong Kong, which accounted for 63 per cent (2005: 55 per cent) of the total number of new listings in 2006. The market capitalisation of Mainland enterprises listed in Hong Kong surged to \$6,714 billion at the end of December 2006 (2005: \$3,192 billion), accounting for 50 per cent (2005: 39 per cent) of the total market capitalisation of the Cash Market. The average daily turnover of Mainland enterprises reached \$15.7 billion in 2006 (2005: \$6.7 billion), accounting for 60 per cent (2005: 46 per cent) of the total average daily turnover of equities traded. As illustrated, the listings of Mainland enterprises have provided enormous growth momentum to the Hong Kong securities market in the past few years.

Capital Market Achievements

Hong Kong's capital market enjoyed a strong year in 2006, setting several remarkable milestones and records. The benchmark HSI shattered the 20000-point barrier for the first time on 28 December 2006, the day before trading ended for 2006, with a heavy turnover of \$54.4 billion, 60 per cent more than the average daily turnover of \$33.9 billion for the year.

- The total market capitalisation of the companies listed on the Stock Exchange surpassed \$10 trillion for the first time on 3 May 2006 and hit a new high of over \$13 trillion on 28 December 2006. With a market capitalisation of \$13,337.7 billion (USD1,710.0 billion) as at the end of December 2006, Hong Kong ranked 6th among the world's exchanges and 2nd among Asian exchanges, after the Tokyo Stock Exchange.

- Total equity funds raised attained a record high of \$524.5 billion (USD67.2 billion) with a 74 per cent increase from 2005. HKEx ranked 3rd in the world and 1st in the Asia-Pacific region by this measure. The funds raised from IPOs more than doubled to \$333.9 billion (USD42.8 billion) from \$165.7 billion (USD21.2 billion) in the previous year. This placed Hong Kong second in terms of total IPO fund raising, behind only London.
- HKEx was host to the mammoth IPO of the Mainland's largest bank, ICBC, on 27 October 2006. The bank raised \$124.9 billion (USD16.0 billion) in Hong Kong. The bank attracted a total of about 970,000 subscribers with its public offering tranche, the highest ever IPO subscriber number in Hong Kong. A total of about 1.77 billion shares were set aside for the public offering tranche. This attracted applications for over 134 billion shares, which translated into a 75.7 times oversubscription rate, tying up \$425 billion (USD54.5 billion). ICBC was also the first enterprise to simultaneously issue and list A and H shares in Shanghai and Hong Kong respectively.

- A number of other records were also set in the Cash and Derivatives Markets during the year as summarised in the above tables.

The records achieved reflect Hong Kong's popularity among issuers and increasing investor interest in our markets. Aside from local investors, we have been able to attract more and more overseas investors from all over the world. In the five years since 2000/01, the market share of overseas investor trading in our Cash Market was between 36 and 40 per cent, compared to 33 per cent or below in the preceding five years. The influx of offshore funds has provided great momentum to trading activity. The Stock Exchange recorded an average daily turnover of \$33.9 billion in 2006, from \$18.3 billion in 2005. The number of trades on Main Board and GEM increased substantially to more than 64 million in 2006 (2005: 37 million).

Hong Kong's exchange-traded derivative products, in particular index futures and stock options have also enjoyed strong growth albeit not as fast as that in some overseas exchanges and in the over-the-counter market. Following the revamp of the Stock Options market in 2005 coupled with the relief of position limits in February 2006, the total turnover of the Stock Options market rose 108 per cent from 2005. In 2006, the Derivatives Market's total trading volume was about 43 million contracts. In terms of notional value traded, Hong Kong ranked 6th and 7th in the world for stock index options and stock index futures respectively.

New Records in the Securities Market		
	2006	Pre-2006 Record (All in 2005)
Total Market Capitalisation	\$13,339.9 bil (28 Dec 2006)	\$8,260.3 bil (21 Dec 2005)
Total Market Turnover	\$8,376.3 bil	\$4,520.4 bil
Turnover of H shares	\$2,536.6 bil	\$953.3 bil
Turnover of Derivative Warrants	\$1,790.1 bil	\$856.6 bil
Number of newly listed Derivative Warrants	2,823	1,682
Total IPO funds raised *	\$333.9 bil	\$165.7 bil
IPO funds raised by H shares	\$291.8 bil	\$137.4 bil
Funds raised by the largest IPO	\$124.9 bil	\$71.6 bil

* The figures exclude funds raised by REITs, which are classified as Unit Trusts

New Records in the Derivatives Market		
	Number of Contracts in 2006	Pre-2006 Record Number of Contracts (All in 2005, except otherwise stated)
Total Futures	19,863,299	13,433,386
HSI Futures	12,718,380	9,910,565
Mini HSI Futures	2,140,242	1,501,342
H-shares Index Futures	4,880,470	1,978,673
Stock Futures	102,010	21,006 (2002)
Total Options	23,042,616	12,089,621
HSI Options	4,095,679	3,071,822
Mini HSI Options	53,456	30,595
H-shares Index Options	758,247	257,425
Stock Options	18,127,353	8,722,393
Total Futures and Options	42,905,915	25,523,007

Market Integrity

Good corporate governance is an important factor to Hong Kong's success as an international business and financial centre. HKEx, being the exchange controller, has the responsibility to provide an orderly, informed and fair market, and to protect the public interest and the interest of the investing public. The listing mechanism is an integral part of any financial market as it serves to ensure market quality and investor confidence. The Listing Committees and the Listing Division remain focused on implementing and administering the Listing Rules and reviewing them to ensure that they are at all times on a par with evolving international standards and best practices.

HKEx, as the front-line regulator, has also put immense effort into the promotion of awareness of good corporate governance among our listed issuers. HKEx welcomes the enactment of the Financial Reporting Council Ordinance in July 2006 and is one of the four initial contributors of funds to support the establishment and operation of the FRC to enhance the accounting and reporting standards of listed companies and to help safeguard the public interest. We believe that to ensure that the FRC functions effectively, proper funding arrangements should be put in place in the not too distant future.

As a public body, corporate governance is particularly important in our relationship with our stakeholders and the community at large. HKEx is accountable to our Shareholders for the proper use of funds, and has to assure stakeholders of quality and ethical standards in order to earn their trust and support. HKEx is committed to preserving integrity and adhering to the highest standards of corporate governance when conducting business, with the aim of being an exemplary corporation in the upholding of the interests of Shareholders and stakeholders. Our work in promoting good corporate governance has continued to be recognised by a number of local and overseas professional institutions. We are particularly pleased that in addition to the Gold Award in the General Category in the 2006 HKMA Best Annual Reports Awards, HKEx was also the Winner in the Citation for Achievement in Corporate Governance Disclosure (General Category) organised by The Hong Kong Management Association. Other achievements on corporate governance can be found in the Corporate Governance Report in the latter part of this Annual Report.

Reaching out to the Community

The emergence of CSR in the public arena has drawn attention to the care shown by companies for all their stakeholders in all aspects of business operations. CSR is a relatively new initiative for Hong Kong and one of the key elements affecting the performance of a corporation. HKEx has gradually developed CSR strategies and adopted systematic processes and formal structures to deliver, manage and oversee such initiatives and objectives.

At HKEx, CSR has been embodied in our business philosophy – ethical business, a supportive workplace, community involvement and sustainable environmental protection, ultimately, to create tangible long-term value for our Shareholders. Details of our CSR approach can be found in the new Corporate Governance Section on HKEx's corporate website as well as the Corporate Social Responsibility Report of this Annual Report.

To meet our increasing focus on community-based initiatives, HKEx and our employees established a volunteer team in 2006 to organise and take part in charitable activities, to give back to the communities in which we work and live, and to cultivate a caring spirit within the Group. A volunteer orientation workshop was also organised to strengthen the skills and knowledge of our volunteers in serving people with different needs. HKEx's commitment to contributing to the community has earned the accolade of "Caring Company Award" from the Hong Kong Council of Social Services for two consecutive years (2005/2006 and 2006/2007). I am very proud that our employees are actively serving the community on their own time and promoting a culture of caring and giving.

Prospects

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

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

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

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

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

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

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

Our mission is to be a leading international marketplace for securities and derivatives products focused on Hong Kong, Mainland China and the rest of Asia. The Strategic Plan for 2007-09 lays down the direction for HKEx ahead in pursuing our mission. We look forward to the continuing active involvement and crucial support of market participants and the investing community in our plan to further develop Hong Kong's financial markets and reinforce Hong Kong's status as an international financial centre.

Appreciation to Directors and Staff

While I am greatly honoured to have the opportunity to serve HKEx, on behalf of the Board, the management and staff of HKEx, I want to extend our special thanks to our ex-Chairman, Mr Charles Lee, for his assiduous efforts in paving the way to success for HKEx in his six years as Chairman. Under Mr Lee's steadfast leadership, HKEx grew to become a sophisticated and mature global exchange, providing world-class financial services.

On behalf of the Board, I would like to express our sincere appreciation to Mr Tim Freshwater, Mr Dannis Lee Jor Hung and Dr Lo Ka Shui for their invaluable contributions and guidance rendered to HKEx during their term of service as Directors.

I would also like to thank our Shareholders and stakeholders for their continued support. My gratitude also goes to my fellow Directors and the executive management for their capable leadership and valuable advice.

At the end of 2006, I was delighted that Mr Paul Chow, our Chief Executive Officer, agreed to renew his contract for a further two-year term from 1 May 2007 to 30 April 2009. Mr Chow has contributed significantly to HKEx's evolution and led the executive management to the successful delivery of the Strategic Plan 2004-06. I am confident that under Mr Chow's executive management, HKEx will continue to build on its record of success in future.

Last but not least, I want to express my heartfelt thanks to each of our dedicated staff for their hard work, high ethical standards and contribution to the success HKEx enjoyed in the past year, and I look forward to working with them in the coming year.

Ronald Joseph ARCULLI

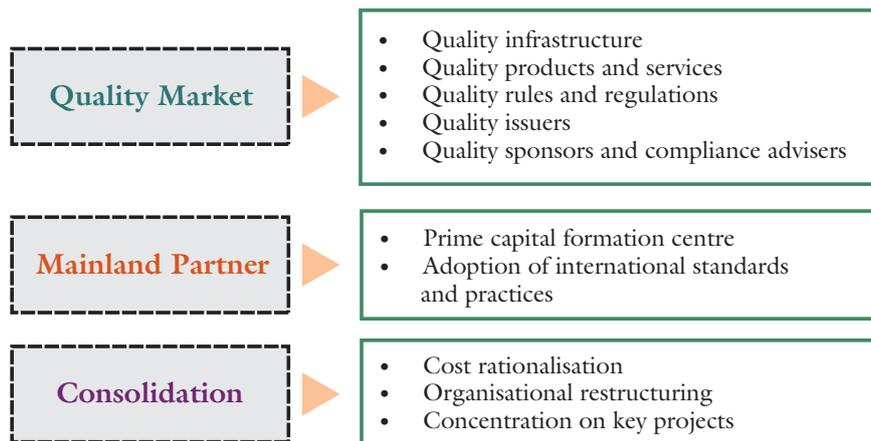
Chairman

Hong Kong, 8 March 2007

Chief Executive's Review

*Under its Strategic Plan 2004-06, HKEx has successfully built up a world-class marketplace for Hong Kong and Mainland China securities and derivatives products. HKEx has implemented the plan – structured around the overarching themes of **QUALITY MARKET**, **MAINLAND PARTNER**, and **CONSOLIDATION** – and upheld the interest of the investing public, while recording strong financial results. To attain a higher level of performance while continuing to improve market quality, HKEx has refined its mission and adopted a new Strategic Plan for 2007-09 based on the foundation laid down in the past few years.*

STRATEGIC PLAN 2004-06



Guided by the Strategic Plan 2004-06, in its final year of implementation, HKEx made considerable progress during 2006.

Building a Quality Market

We believe that mounting global competition is best countered with a quality market. To sustain continued market growth, HKEx has been monitoring and reviewing prevailing market conditions and promoting appropriate initiatives to improve the businesses and operations of not only HKEx, but the securities market in Hong Kong as a whole.

Quality Infrastructure

Efficient and Reliable Market Systems

An efficient and reliable market infrastructure is indispensable to a quality market. As the operator of the only securities and derivatives marketplace in Hong Kong, HKEx has made ongoing efforts to ensure that its market systems operate at the highest levels. All major trading, clearing, settlement, and market data dissemination systems achieved 100 per cent operational system uptime in 2006. AMS/3 and CCASS/3 have been highly recognised in the IT industry and have earned a number of awards. HKEx will continue reviewing and improving the system performance to ensure that market demand is being satisfied in an efficient and cost-effective manner at all times.





Technology Upgrade

Given the growing market demand, HKEx upgraded the capacities of HKATS, DCASS and PRS and the AMS/3 OG and MWS hardware in 2006. Further upgrade of these systems and the market surveillance system will be carried out in 2007. In addition, the Non-TCP (Transmission Control Protocol) AMS interfaces will be migrated to the TCP/IP (Internet Protocol) for harmonisation of network protocol this year.

Systems Consolidation

The final phase of implementation of SDNet (a new Optical Ethernet network for the securities and derivatives markets) progressed smoothly, and is to be completed in mid-2007. The roll out of the SDNet infrastructure delivers significant technological improvements as well as financial benefits to our EPs and HKEx. More details are provided in the Information Technology section under the Business Review of this Annual Report.

Grand Opening of the Exchange Trading and Exhibition Hall Complex

The Trading Hall underwent renovation between July 2005 and April 2006 to provide more efficient trading facilities for our EPs. There are 294 dealing desks in the new Trading Hall. In addition, an Exchange Exhibition Hall has been constructed to provide local and overseas visitors with more information on the Hong Kong securities and derivatives markets, and the products and services offered by HKEx. Three newly constructed media booths have been reserved for designated television organisations to broadcast market news, and one other is retained as a common media area. The Exchange Auditorium is also open for use by listed issuers, Exchange and Clearing House Participants, Trading Right Holders and related professional bodies at a cost to hold events such as shareholder meetings, news conferences and seminars. During the period between May and December 2006, about 20,000 people visited the Exchange Exhibition Hall and over 7,000 people attended more than a hundred events held at the Exchange Auditorium.

Enhancements to HKEx's Website

In September 2006, HKEx introduced new features on its website to improve investors' access to the latest listed company documents and the related archives. To ensure that the HKEx website is robust and reliable so that it can discharge its important role as the sole primary information provider of Hong Kong issuers' news, especially under the new regime of no paid announcements, we have strengthened the HKEx Website Disaster Recovery Site, increased the system capacity, and improved the recovery speed and the security arrangements for the HKEx EPS.

Establishment of the Public Viewing Room

In support of the new information dissemination regime, HKEx opened a Public Viewing Room to the public on 8 February 2007. The Public Viewing Room is equipped with four workstations which investors can use to search and view issuers' announcements, notices and other documents on the HKEx website, and to access the SFC website.

Improvements to Trading Environment

HKEx has reduced the minimum securities trading spreads for stocks priced above \$2 and enhanced the selection criteria of designated securities for short selling for the Cash Market. In respect of the Derivatives Market, it has streamlined the approval process for the introduction or discontinuation of stock options and futures and amended the relevant rules to cater for the increased position limits for Stock Options.

Quality Products and Services

Introduction of New Products

HKEx successfully introduced CBBCs in June 2006. HKEx will continue organising educational programmes to familiarise EPs and investors with the new products and the associated risks.

Strengthening of Derivative Warrant Market

To enhance the investing public's understanding of derivative warrants, HKEx introduced a new web-based DWRC in May 2006 to offer investors easy access to derivative warrant information for educational and reference purposes, and later amended its Main Board Listing Rules in response to the SFC's proposed "Six-Point Plan" for enhancing and strengthening our derivative warrants market. Delayed intra-day trading information on the entire range of securities and derivative products has also been made available on the HKEx website.

Expansion of CCASS Services

Effective January 2006, a series of improvements to nominee services have been implemented with a view towards improving service levels. More details are provided in the Clearing section under the Business Review of this Annual Report. To accommodate the active IPO market, HKEx will continue to promote eIPOs to improve market efficiency.

Review of Fee Structure

Since 2004, HKEx has implemented a series of fee reductions/abolitions enabling investors and market participants to enjoy substantial saving in transaction costs. In 2006, the scrip fee on deemed book close dates was eliminated effective 1 January, waiver of Short Message Service fees for IP Account Holders who opt for the service was further extended until June 2007, and the discounted monthly fee of \$80 per device for Mainland users of HKEx's real-time securities trading information (including a waiver of the regular monthly subscription fee for the futures data package of \$25 per device) was extended to June 2008.

Risk Management Measures

In November 2006, HKEx successfully completed the FSTB-led Sector-wide Market Contingency Rehearsal Exercise which provided an opportunity to test the market's response to high impact issues with cross-market implications which might undermine the financial stability of Hong Kong. As part of its corporate mission, HKEx will continue monitoring the existing risk management regime to ensure that risks across HKEx are always under appropriate control.

Quality Rules and Regulations

Higher Efficiency and Effectiveness

In 2006, measures continued to improve the effectiveness and efficiency of the work of the Listing Division. These measures included the reorganisation of the Listing Division, recruitment of senior executives to strengthen the management team, the introduction of new workflow procedures and implementation of a comprehensive electronic management information system.

Introduction of New Listing Decision-making Structure

In the first phase of improvement, HKEx introduced a new structure for listing decision-making in mid-2006 to improve the administrative framework for listing decision-making while also preserving checks and balances necessary to minimise and manage regulatory risk.

Review of GEM

GEM has been in operation for more than seven years since its establishment in 1999. HKEx released a Discussion Paper on GEM to invite suggestions on its future development in January 2006 and received 16 responses from various parties including listed companies and market practitioners. Of the 16 submissions, 14 agreed to have a growth company market and seven of which preferred a new alternative market. HKEx continued to work with the SFC on options for GEM's development to take into account respondents' views as well as the interests of the existing GEM-listed companies.

Support of Statutory Backing Initiative

In Hong Kong, the main regulatory requirements for issuers incorporated outside of Hong Kong rest in the Listing Rules which are contractual rather than statutory. In light of this, HKEx strongly supports the Government's proposal to give statutory backing to the more important listing requirements to be administered by the SFC, on three core areas of periodic financial reporting, disclosure of price-sensitive information and notifiable transactions and connected transactions which require shareholders' approval, to enhance our regulatory framework. Upon conclusion of the legislative procedures, HKEx will support the SFC to prepare for the embodiment of certain key Listing Rules into statute by the Government.

Abolition of Paid Advertisements

Efficient and accurate disclosure of corporate information not only helps cultivate confidence among shareholders and investors, but also contributes to a company's good public image and reputation. To achieve this, Main Board issuers will follow the GEM practice of disseminating their corporate information via the HKEx website, instead of publishing paid announcements in newspapers. This decision should result in the lowering of costs for Main Board issuers to maintain their listing on the Exchange.

Quality Issuers

Setting a Good Example

As a listed company, HKEx is committed to achieving the best corporate governance practices, and setting and articulating high standards for listed companies in Hong Kong. In setting our governance standards we have made reference to such sources as "Internal Control and Risk Management – A Basic Framework" published by the HKICPA and "Guidance Notes – A practical guide to good governance" published by the Hong Kong Institute of Chartered Secretaries. We endeavour to deliver a clear account of how we have performed in fulfilling our statutory objectives. In this regard, we have designed a Corporate Governance Section on our corporate website to give our stakeholders a more thorough understanding of our corporate governance framework. We are pleased to have had our efforts recognised in successive years by various local and overseas organisations. More information in this respect is set out in the Corporate Governance Report of this Annual Report.

On-going Review of Corporate Governance Standards

As a regulator, HKEx continues to play a pivotal role in promoting and improving corporate governance standards in Hong Kong. Good corporate governance strengthens investor confidence. To this end, on an ongoing basis HKEx has been reviewing the Listing Rules to ensure that they are aligned with the prevailing best practices and international standards. In 2006, HKEx reviewed listed issuers' progress in implementing the CG Code which took effect on 1 January 2005 and marked a big step forward in bringing governance disclosure in Hong Kong on a par with international standards.

Promoting Good Governance Practices

Recognising the special needs of Mainland issuers, HKEx has organised a series of training programmes on the Hong Kong regulatory framework and requirements to increase issuers' knowledge of corporate governance. In 2006, HKEx co-organised three training programmes and organised a total of eight training sessions in Hong Kong and the Mainland and conducted regular training sessions in the Mainland.

Quality Sponsors and Compliance Advisers

Stringent Regulatory Regime

Timely and accurate financial disclosures are fundamental to investors' confidence. A major responsibility in this respect rests with market professionals, especially sponsors who are key facilitators in bringing new listings to the market. With the aim of raising the overall standard of professionalism in the market, in October 2006 HKEx released the relevant amendments to the Listing Rules to coincide with the SFC's revised licensing regime for sponsors and compliance advisers.

Support Participant Regulation

In 2006, HKEx implemented the Participant Information System ("PIS") which supports the centralised admission of Participants and registration of registered persons and provides search functions to track the record of related Participants and registered persons. Further enhancements are planned to improve efficiency. Moreover, a Participant Financial Resources Surveillance System to be integrated with the PIS will be developed to facilitate the capturing of Participants' finance resources data, monitoring of Participants' financial positions for potential breaches of HKEx rules and regulations, and detecting risky Participants across markets and across products under various market conditions.

Becoming a Mainland Partner

The Mainland has helped propel global growth and provided significant opportunities for the development of Hong Kong's financial market. In its Strategic Plan 2004-06, HKEx proactively aimed to be a Mainland partner by providing Mainland enterprises not only with an effective and well-regarded platform to raise funds and improve their international visibility, but also with know-how on capital formation, good corporate governance practices as well as a regulatory framework compatible with global standards.

Mainland Outreach

Following the establishment of the Beijing Representative Office in late 2003, HKEx staff were deployed to Guangzhou and Shanghai in 2004 to bolster HKEx's presence in the Mainland and to strengthen relationships with the Mainland government authorities and regulatory bodies as well as potential Mainland issuers. In Hong Kong, the Business Development Division was set up in May 2004 to take full responsibility for coordinating with the representative offices in the Mainland on the organisation of conferences and seminars for Mainland business executives and government officials.

Closer Cooperation with Mainland Exchanges and Authorities

In line with the growing number of Mainland enterprises listed or seeking to list in Hong Kong, HKEx has been in close cooperation with the SFC, the CSRC, the Shanghai Stock Exchange and the Shenzhen Stock Exchange on the regulation of these enterprises. The Mainland China Affairs Team was established within the Listing Division to lead HKEx's liaison efforts with the CSRC and other Mainland authorities and to coordinate training programmes on best corporate governance practices for Mainland listed and potential issuers. Recently, an A+H Working Team was formed respectively with the Shanghai Stock Exchange and the Shenzhen Stock Exchange to pursue issues of mutual interests including information disclosures by A+H issuers, sharing of regulatory information between exchanges and provision of training to A+H companies' management teams.

Expansion of Marketing Activities

The listings of Mainland enterprises have helped drive the development of Hong Kong's financial markets in recent years. HKEx had proactively promoted Hong Kong as a listing venue of choice to Mainland enterprises. Mainland marketing activities were not only confined to well-developed cities in the Mainland but also included the fast-growing ones such as Changsha and Xi'an. Recently, HKEx's business development approach was extended to other parts of Asia such as Japan, South Korea, Malaysia, Taiwan, Vietnam and Russia, to as far as the Republic of Kazakhstan, as well as Europe to encourage potential companies to list in Hong Kong. In 2006, HKEx co-organised and conducted a total of 10 conferences and over 180 presentations respectively in the Mainland, overseas and in Hong Kong to promote listing in Hong Kong. HKEx will continue our marketing activities to promote Hong Kong as a premier capital formation centre and an international financial centre.

Consolidation

Since the merger of the exchanges and clearing houses in 2000, HKEx has rationalised costs, streamlined its organisational structure and prioritised projects, with the aim of improving efficiency and maximising Shareholder value. The successful consolidation has strengthened us and helped us better allocate resources to meet challenges ahead.

Streamlining of Organisational Structure and Strengthening of Accountability Regime

In May 2004, HKEx extensively revised its organisational structure, based on its core businesses, namely, listed issuers, intermediaries, investors, infrastructure, and information services, thereby improving overall operational efficiency and reducing operating costs. A succession plan has been formulated to ensure the smooth transition of senior executives, crucial to the stability and reliability of HKEx's operation. The organisational structure has been further refined since to provide senior executives with opportunities to further expand their exposure and enhance their management experience.

Prioritisation of Projects

HKEx focuses its resources as far as possible on initiatives with strategic importance. The list of initiatives is updated and reviewed annually when management prepares the annual operating plan and the budget, and kept under review by the Senior Management Committee throughout the year.

Prudent Cost Control

Prudent cost controls were incorporated in the past three years and operating expenses were maintained at a similar level.

Establishment of MIS

The development of the finance MIS ("FMIS") was completed to strengthen the quality of management information to support HKEx's businesses and operations, formulation of policies and development of business strategies. Further enhancements to the FMIS will continue in 2007.

Strong Corporate Culture and Staff Career Development

The successful implementation of the many business strategies under the Strategic Plan 2004-06 depended very much on teamwork, which is widely promoted within the organisation as one of the key core values. A well-developed human resources development framework is in place to help HKEx retain and attract a high-quality customer-oriented workforce with good market exposure. To demonstrate its commitment to the highest standards of integrity, and to develop a culture of openness, probity and accountability, HKEx has introduced a whistle-blowing policy to encourage employees to raise matters of concern relating to HKEx in a responsible and effective manner. Details are set out in the Corporate Social Responsibility Report of this Annual Report.

Remuneration Review

To achieve its mission and strategic plan, HKEx must retain its team of talented and business-oriented staff. To this end, HKEx commissioned an independent consultant in February 2006 to conduct an overall review of HKEx's remuneration policy and structure with the objective of introducing refinements to the existing remuneration structure to facilitate the fulfillment of the Group's strategic objectives. The review mainly focused on establishing a structured and systematic approach to HKEx's variable compensation, including the annual performance bonus and share award. Results of the review are explained in more detail in the Remuneration Committee Report of this Annual Report.

STRATEGIC PLAN 2007-09

On completion of the Strategic Plan 2004-06, considerable progress has been made on market quality through upgrades to corporate governance and market infrastructure and systems; Hong Kong hosted a number of listings of major state banks and insurance companies, becoming the major capital formation centre in the Asian region; and the organisational structure of HKEx has been streamlined to enhance efficiency and contain costs.

Following the demutualisation of the exchanges in 2000, HKEx is approaching its eighth year as a listed company. We remain committed to acting in the broader interests of the central marketplace by providing quality markets along with products and services that meet the needs of our market participants and investors, and to serving as the premier fund-raising centre for Hong Kong and the Mainland.

While continuous economic growth in the Mainland is envisaged, serving as the primary source of new business to HKEx, there are growing challenges such as the resumption of the Mainland IPO market, the gradual opening up of the Mainland financial and securities markets, the gradual liberalisation of Renminbi, and the consolidation and formation of alliances among overseas exchanges.

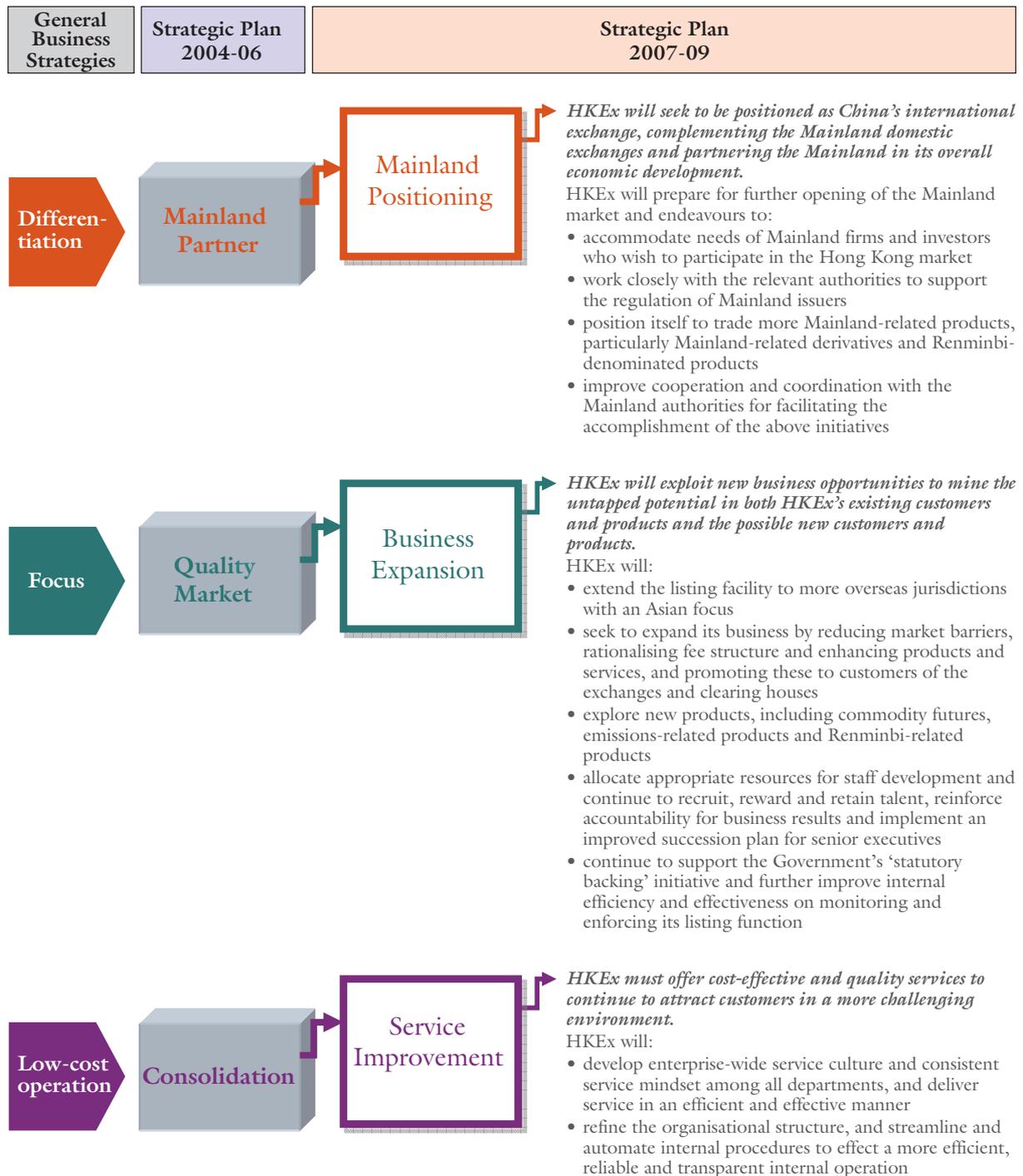
We believe that the present scale of the Hong Kong market provides a platform for a new stage of growth. Accordingly, HKEx has adopted a new mission statement which lays down the direction for the Group's future development.

In line with its new mission and growth strategy, HKEx has mapped out a Strategic Plan 2007-09 which is built on the foundation of the previous plan, but which takes a broader view on business development to cover not only the Mainland but also other areas in Asia. HKEx adopted the three major themes, **MAINLAND POSITIONING**, **BUSINESS EXPANSION** and **SERVICE IMPROVEMENT** for the Strategic Plan 2007-09 with the following key objectives:

- to further strengthen HKEx's Mainland positioning, including capturing more Mainland-related listings, trading more Mainland-related products and engaging more Mainland-related participants and investors;
- to expand HKEx's business into new areas, including developing an Asian focus and diversifying into new product types;



- to become a more business-orientated organisation with accountability for business results more directly assigned to senior management, and market mechanisms and procedures that better facilitate business flow; and
- to improve HKEx's service offering, and to reinforce our internal infrastructure to support improved service delivery.



Support from the Government, the SFC and other professional and industrial associations will be crucial to the success of these business strategies. We will continue to closely communicate and work hard with our stakeholders in the implementation of the new strategic plan.

HKEx has already begun implementation of its new strategic plan.

Widening Issuer Base

To facilitate overseas issuers' access to the Hong Kong market, the Exchange has already accepted Australia and British Columbia, Canada as approved jurisdictions of incorporation for the purposes of primary and secondary listing. Guidance applicable to issuers from other overseas jurisdictions has been issued. Details are set out in the Listing section under the Business Review of this Annual Report.

Broadening Product Base

To meet the varying needs of different types of investors, HKEx is seeking qualified consultants to study the feasibility of trading of commodities derivatives and emissions-related products in Hong Kong. HKEx will continue to explore other new products such as Mainland-related products, including Renminbi futures products.

Expanding Business

HKEx is working on improvement of the trading rights regime. Details are set out in the Cash Market section under the Business Review of this Annual Report. HKEx will continue its effort to address the barriers to securities and derivatives market trading. In this regard, we are supportive of the proposal to reduce/abolish the stamp duty. We will also continue reviewing our fee structure to seek further refinements in a bid to counter increasing competition from other exchanges, to attract over-the-counter trades, and to bring benefits to our EPs and ultimately to investors.

Development of Third Party Clearing

Third Party Clearing ("TPC") is a relatively new concept in the Hong Kong securities market but it is already well-established in major securities markets in the US, the UK and Europe. HKEx plans to introduce TPC to the securities market this year to help ensure that the securities clearing infrastructure in Hong Kong conforms to international standards and is in line with developments in other major financial markets.

Improving Service

In early 2007, HKEx introduced new features to its SSA to provide a more user-friendly customer interface and timely information to account users. Further enhancements such as relaxation of the restriction on the number of SSAs will be introduced in the middle of this year. Details of the enhancements are set out in the Clearing section under the Business Review of this Annual Report.

HKEx will continue reviewing its process for monitoring listed companies and conduct a feasibility study on further improving the MIS and automating internal processes for the Listing Division.

In February 2007, following the appointment of Mr Gerald Greiner to succeed Mr Patrick Conroy as the Chief Operating Officer, the organisational structure was further streamlined. Apart from classifying HKEx's business and operational functions under the Primary Market, Secondary Market and Support Services, the Administration and the Finance support services have been consolidated to improve synergies between the purchase and payment cycles and the provision of administrative services within HKEx. The organisation structure up to 9 February 2007 and the current one are depicted on page 40 of this Annual Report.

One of the key initiatives in our new three-year strategic plan is to consolidate HKEx's various offices and data centres.

APPRECIATION

I am greatly indebted to my colleagues, for it is very much the result of their commitment, diligence, professionalism and excellent teamwork that made 2006 a successful year for HKEx. I want to thank them for the important part they play in HKEx's continued success. I would like to take this opportunity to thank Mr Patrick Conroy, who retired as HKEx's Chief Operating Officer in February this year, for his contributions to HKEx over the past three and a half years, and also to welcome his successor, Mr Gerald Greiner, who joined HKEx as the Deputy Chief Operating Officer and the Head of the Exchange Division on 17 May 2004. He is also the Chief Executive of SEHK and HKFE, and a director of various subsidiaries of HKEx. Prior to joining HKEx, Mr Greiner was the senior director of the Supervision of Markets Division in the SFC.

Additionally, I would like to extend a warm welcome to Mr Ronald Arculli, who took the chair of the Board in April 2006, and our other new Directors, either appointed or elected to the Board during the year. Our Board members contribute significantly to HKEx's achievements, offering guidance, advice and support that are of great value to the Group and the capital markets of Hong Kong. I acknowledge with a deep sense of gratitude their contributions and invaluable advice.

It has been my honour to have been the Chief Executive of HKEx since 2003, and to have witnessed progress in our evolution as a world-class marketplace for Hong Kong and Mainland China securities and derivatives products. I am delighted and privileged to be given the opportunity to continue serving HKEx for another two years. I would particularly like to pay special tribute to our ex-Chairman, Mr Charles Lee, for his insightful guidance and unwavering support in the past few years. I have also immensely enjoyed working with my fellow Board members and colleagues. In the days ahead, my team and I will use our best endeavour to work together for the further growth of HKEx and the betterment of Hong Kong's financial market.

CHOW Man Yiu, Paul
Director and Chief Executive
Hong Kong, 8 March 2007

Corporate Information



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BOARD OF DIRECTORS

Independent Non-executive Chairman

1. 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

2. CHOW Man Yiu, Paul SBS, JP

Independent Non-executive Directors

3. CHA May-Lung, Laura* SBS, JP
(appointment effective 26 April 2006)
4. CHENG Mo Chi, Moses* GBS, JP
(appointment effective 26 April 2006)
5. CHEUNG Kin Tung, Marvin* SBS, JP
6. FAN Hung Ling, Henry* SBS, JP
7. FONG Hup* MH
FRESHWATER, Timothy George*
(retired on 26 April 2006)
8. KWOK Chi Piu, Bill
LEE Jor Hung, Dannis BBS
(retired on 26 April 2006)
9. LEE Kwan Ho, Vincent Marshall
LO Ka Shui* GBS, JP
(retired on 26 April 2006)
10. LOH Kung Wai, Christine
(elected on 26 April 2006)
11. STRICKLAND, John Estmond GBS, JP
12. WEBB, David Michael
(re-elected on 26 April 2006)
13. 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)



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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 SFO)
 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

Board of Directors and Senior Management

BOARD OF DIRECTORS



ARCULLI, Ronald Joseph
GBS, JP

Independent Non-executive Chairman
Aged 68

Director since 26 April 2006
Term of office: 26 April 2006 to
2008 AGM

Memberships in HKEx's committees:
Chairman of **Executive Committee**,
Nomination Committee and
Risk Management Committee

Other major offices

Arculli Fong & Ng – senior partner
Hang Lung Properties Limited – non-executive director
HKR International Limited – non-executive director
Hongkong Electric Holdings Limited – non-executive director
Hutchison Harbour Ring Limited – non-executive director
Shanghai Century Acquisition Corporation (listed on the American Stock Exchange) – non-executive director
Sino Hotels (Holdings) Limited – non-executive director
Sino Land Company Limited – non-executive director
SCMP Group Limited – non-executive director
Tsim Sha Tsui Properties Limited – non-executive director

Past offices

The Hong Kong Jockey Club – chairman (2002-2006)
Hong Kong Equestrian Federation – president (1991-2006)
Arculli and Associates – senior partner (2000-2005)
Woo Kwan Lee & Lo – partner (retired in 2000)
AIA Capital Corp (Holdings) Limited – non-executive director (1984-2004)
Sun Hung Kai Securities Limited – executive director (1974-1975) and non-executive director (1988-1996)
SHK Unit Trust Managers Limited – non-executive director (1988-1996)

Public service

Executive Council of the HKSAR – non-official member
Health and Medical Development Advisory Committee – vice-chairman
The Hong Kong Mortgage Corporation Limited – non-executive director
Consultative Committee on the Core Arts and Cultural Facilities of the West Kowloon Cultural District – member, and convenor of the Financial Matters Advisory Group
Non-official Justices of the Peace Selection Committee – member
Legislative Council – elected member for the Real Estate and Construction Functional Constituency (1991-2000)
Provisional Legislative Council – member (1997-1998)
Legislative Council – appointed member (1988-1991)
SFC – non-executive director (1997-2000)
Standing Committee on Disciplined Services Salaries and Conditions of Service – member (1987-1999)
Advisory Committee on Corruption of ICAC – member (1989-1996)
Ocean Park Corporation Board – member (1983-1996)
Air Transport Licensing Authority – member (1984-1994)
Advisory Committee of SFC – member (1989-1993)
Complaints Committee of ICAC – member (1989-1993)
Deposit-Taking Companies Advisory Committee – member (1981-1993)
Judicial Service Commission – member (1978-1981)

Community activities and others

The Duke of Edinburgh Award International Foundation, UK – chairman
Asia Art Archive Limited – non-executive director
University of Colorado Denver's Institute of International Business – global adviser
Sir Edward Youde Memorial Fund Council – chairman (1988-1999)
Court of The University of Hong Kong – member (1988-1991)
Lingnan College Board of Governors – governor (1988-1991)

Professional qualification and experience

Barrister (Hong Kong and England & Wales)
Barrister and Solicitor (Victoria, Australia)
Solicitor (Hong Kong)
Honorary Doctor of Social Science (City University of Hong Kong)



CHOW Man Yiu, Paul
SBS, JP

Executive Director, Chief Executive
Aged 60

Director since 1 May 2003
Ex-officio member of the Board

Membership in HKEx's committee:
Member of **Executive Committee**

Other major offices

World Federation of Exchanges – director, and chairman of the working committee
SEHK, HKFE, HKSCC, SEOCH and HKCC – chairman

Past offices

HSBC Asset Management (Hong Kong) Limited – chief executive, Asia Pacific ex-Japan Region (1997-2003)
SEHK – chief executive (1991-1997)
HKSCC – director (1990-1997) and chief executive (1990-1991)

Public service

Hong Kong Cyberport Management Company Limited – director
Digital 21 Strategy Advisory Committee – member
Advisory Committee of SFC – member
Standing Committee on Company Law Reform – member

Community activities and others

Council and Court of The University of Hong Kong – member
The Community Chest of Hong Kong – director
Council of HKICPA – appointed member (Dec 2004-Dec 2006)
Hong Kong Investment Fund Association – chairman (2000-2001)

Professional qualification and experience

Distinguished fellow (Hong Kong Computer Society)
Bachelor of Science in Mechanical Engineering, Diploma in Management Studies and MBA (The University of Hong Kong)
Diploma in Finance (Distinction) (The Chinese University of Hong Kong)

Mr Chow has over 35 years of business and management experience in a wide range of industries from information technology, securities, banking to fund management.

Mr Chow also acts as director of various subsidiaries of HKEx.



CHA May-Lung, Laura
SBS, JP

INED
Aged 57

Director since 26 April 2006
Term of office: 26 April 2006 to 2008 AGM

Memberships in HKEx's committees:
Chairman of **Panel Member Nomination Committee** and member of **Investment Advisory Committee**

Other major offices

The Hongkong and Shanghai Banking Corporation Limited – non-executive deputy chairman
Bank of Communications Co Ltd – non-executive director
Baoshan Iron & Steel Co Ltd (listed on the Shanghai Stock Exchange) – non-executive director
Johnson Electric Holdings Limited – non-executive director
Tata Consultancy Services Limited – non-executive director

Past offices

HSBC Investment Asia Holdings Limited – non-executive chairman (2005-2007)
SFC – deputy chairman (1998-2001), executive director (1994-2001), senior director (1993-1994) and assistant director (1991-1993)

Public service

Executive Council of the HKSAR – non-official member
International Advisory Council of CSRC – vice-chairman
Advisory Committee on Corruption of ICAC – chairman
CSRC – vice-chairman (2001-2004)

Community activities and others

Court of The Hong Kong University of Science and Technology – honorary member
Hong Kong Sinfonietta Limited – governor
Supervisory Board of The Cross Straits Youths Exchange Foundation Limited – vice-chairman
Council of The Hong Kong University of Science and Technology – member (1998-2006)

Professional qualification and experience

Bachelor of Arts (University of Wisconsin, USA)
Juris Doctor (University of Santa Clara, USA)
State Bar of California (USA)



CHENG Mo Chi, Moses
GBS, JP

INED
Aged 57

Director since 26 April 2006
Term of office: 26 April 2006 to
2008 AGM

Memberships in HKEx's committees:
Member of **Audit Committee** and
Remuneration Committee

**Other major
offices**

P. C. Woo & Co – senior partner
Beijing Capital International Airport Company Limited
– non-executive director
China COSCO Holdings Company Limited – non-executive director
China Mobile Limited – non-executive director
China Resources Enterprise, Limited – non-executive director
City Telecom (H.K.) Limited – non-executive director
Galaxy Entertainment Group Limited – non-executive director
Guangdong Investment Limited – non-executive director
Kader Holdings Company Limited – non-executive director
Liu Chong Hing Investment Limited – non-executive director
Shui On Construction and Materials Limited – non-executive director
Tian An China Investments Company Limited – non-executive director

Past offices

SEHK – chairman (2005-2006) and deputy chairman (2003-2005) of the Listing Committee and the GEM Listing Committee, council member (1997-2000) and convenor of the Disciplinary Committee (1997-2000)
COL Capital Limited – non-executive director (1999-2004)
Pokfulam Development Company Limited – non-executive director (1994-2004)
Kingway Brewery Holdings Limited – non-executive director (1997-2004)
Quality HealthCare Asia Limited – non-executive director (1997-2004)
Stockmartnet Holdings Ltd – non-executive director (2001-2003)

Public service

FRC – member
Betting and Lotteries Commission – chairman
Citizens Advisory Committee on Community Relations of ICAC – chairman
Advisory Committee on Corruption of ICAC – member
Aviation Development Advisory Committee – member
Executive Committee of the Commission on Strategic Development – member
Consultative Committee on the Core Arts and Cultural Facilities of the West Kowloon Cultural District – member of the Financial Matters Advisory Group
Education Commission – member (1996-2006)
Legislative Council – appointed member (1991-1995)

**Community
activities
and others**

The Hong Kong Institute of Directors – honorary president and founder chairman
Council of Association of China-Appointed Attesting Officers Limited – member
Council of The Hong Kong Academy for Performing Arts – deputy chairman
Hong Kong Sheng Kung Hui (Anglican Church of Hong Kong) – chancellor
Opera Hong Kong Limited – chairman (2003-2007)
Council and Court of Hong Kong Baptist University – chairman (1997-2006)

**Professional
qualification
and experience**

Solicitor (Hong Kong, England, Victoria of Australia, Singapore)
Notary Public
China-Appointed Attesting Office



CHEUNG Kin Tung, Marvin
SBS, JP

INED
Aged 59

Director since 12 April 2005
Term of office: 12 April 2005 to
2007 AGM

Memberships in HKEx's committees:
Chairman of **Remuneration
Committee** and member of
Audit Committee

**Other major
offices**

Hang Seng Bank Limited – non-executive director
HKR International Limited – non-executive director
Supervisory Committee of Tracker Fund of Hong Kong – chairman

Past offices

Shui On Construction and Materials Limited – non-executive director
(2004-2005)
SEHK – chairman of the Listing Committee and the GEM Listing Committee
(2003-2005)
KPMG Hong Kong (1969-2003: partner (1974-2003), chairman and
chief executive officer (1996-2003))

Public service

Executive Council of the HKSAR – non-official member
Exchange Fund Advisory Committee – member
Airport Authority Hong Kong – board member
Barristers Disciplinary Tribunal Panel – member
Greater Pearl River Delta Business Council – member
Operations Review Committee of ICAC – member
Witness Protection Review Board – member
Legislative Council – appointed member (1991-1995)
Urban Council – appointed member (1985-1995)

**Community
activities
and others**

International Accounting Standards Committee Foundation – trustee
Council of The Hong Kong University of Science and Technology
– vice-chairman
Council of The Open University of Hong Kong – member
HKICPA – president (1990)

**Professional
qualification
and experience**

Fellow (HKICPA and Institute of Chartered Accountants in England & Wales)
Honorary Doctorate in Business Administration
(Hong Kong Baptist University)



FAN Hung Ling, Henry
SBS, JP

INED
Aged 58

Director since 15 November 2003
Term of office: 12 April 2005
(re-appointed) to 2007 AGM

Memberships in HKEx's committees:
Chairman of **Investment
Advisory Committee** and
member of **Risk Management
Committee**

**Other major
offices**

CITIC Pacific Limited – managing director
Cathay Pacific Airways Limited – deputy chairman

Past office

Hong Kong Dragon Airlines Limited – director (1990-2006)

Public service

Executive Council of the HKSAR – non-official member
Takeovers and Mergers Panel of SFC – deputy chairman
Takeovers Appeal Committee of SFC – member
Exchange Fund Advisory Committee – member
Advisory Committee on Admission of Quality Migrants and Professionals
– chairman
Health and Medical Development Advisory Committee – member
**Advisory Committee on Post-Office Employment for Principal Officials
under the Accountability System** – member
**Standing Committee on Disciplined Services Salaries and Conditions of
Service** – chairman
Standing Committee on Judicial Salaries and Conditions of Service – member
Standing Committee on Directorate Salaries and Conditions of Service
– member

**Community
activities
and others**

The University of Hong Kong – treasurer, and chairman of Finance Committee
Council of The Hong Kong Management Association – deputy chairman
Hong Kong-United States Business Council – member
**Zhejiang Province Committee of the Chinese People's Political
Consultative Conference** – member
Zhejiang Association of Enterprises with Overseas Chinese Investment
– deputy chairman

**Professional
qualification
and experience**

Barrister-at-Law (Hong Kong and England & Wales)
Attorney and counsellor at Law (California, USA)
Honours degree in Economics and Business Management
(The University of Hong Kong)
Bachelor of Laws (University of Beijing, China)



FONG Hup
MH

INED
Aged 62

Director since 16 April 2003
Term of office: 12 April 2005
(re-appointed) to 2007 AGM

Memberships in HKEx's committees:
Deputy chairman of
Audit Committee,
member of **Executive Committee**,
Nomination Committee,
Panel Member Nomination
Committee, **Remuneration**
Committee and **Risk**
Management Committee

Other major offices

Deloitte Touche Tohmatsu – senior adviser
Supervisory Committee of Tracker Fund of Hong Kong – member

Past offices

Deloitte Touche Tohmatsu – senior assurance and advisory partner (1997-2002)
Kwan Wong Tan & Fong – senior partner (1976-1997)
SEHK – member of the Council (1997-2000) and the Listing Committee (1993-1996 and 2000-2003)
HKSCC – director (1997-2000)
SEOCH – director (1997-2000)

Public service

Securities and Futures Appeals Tribunal – member
Process Review Panel for SFC – member (2000-2006)

Professional qualification and experience

Fellow (HKICPA and Institute of Chartered Accountants in England & Wales)
Bachelor of Business Administration (Boston University, USA)

Mr Fong has over 35 years of experience in the accounting profession and in the securities industry.



KWOK Chi Piu, Bill

INED
Aged 54

Director since 3 April 2000
Term of office: 12 April 2005
(re-elected) to 2008 AGM

Memberships in HKEx's committees:
Member of **Executive**
Committee, **Panel Member**
Nomination Committee and
Risk Management Committee

Other major offices

Wocom Holdings Limited – managing director
Wing On International Holdings Limited – executive director
Wing On Company International Limited – non-executive director
HSBC Gyuertzeller Bank AG – non-executive director
HSBC Private Bank (Suisse) SA – non-executive director
Bloomberg L.P. – member of Asia Pacific Advisory Board

Past offices

HKFE – director (1991-2000) and vice-chairman (1997-2000)

Public service

Takeovers and Mergers Panel of SFC – member
Takeovers Appeal Committee of SFC – member
Securities and Futures Appeals Tribunal – member
Tourism Strategy Group of Tourism Commission – member
Investor Compensation Company Limited – director (2003-2006)
Investor Education Advisory Committee of SFC – member (2005-2006)

Community activities and others

Hong Kong Securities Institute – director (current and 1997-2003) and chairman (1999-2001)
Executive Committee of Asian Securities Analysts Federation Inc – chairman
Investigation Panel A of HKICPA – member
Council of China Mergers & Acquisitions Association – member

Professional qualification and experience

Bachelor of Science (Chemistry) and **Bachelor of Arts (Economics)**
(Stanford University, USA)
Doctor of Philosophy (Biochemistry) (University of Chicago, USA)

Dr Kwok has over 20 years of experience in the securities and futures industry.



LEE Kwan Ho, Vincent Marshall

INED
Aged 51

Director since 3 April 2000
Term of office: 12 April 2005
(re-elected) to 2008 AGM

Memberships in HKEx's committees:
Member of **Audit Committee,**
Executive Committee,
Nomination Committee,
Panel Member Nomination
Committee and
Remuneration Committee

Other major office

Tung Tai Group of Companies – managing director

Past offices

HSBC group, Hong Kong & Vancouver – senior banker (1981-1990)
Coopers and Lybrand, Los Angeles & Boston – Certified Public Accountant (1978-1981)

Public service

Central Policy Unit of the Government of the HKSAR – part-time member
Securities and Futures Appeals Tribunal – member
Correctional Services Children's Education Trust Investment Advisory Board – member
Brewin Trust Fund Committee – member
Academic and Accreditation Advisory Committee of SFC – member (2002-2006)

Community activities and others

The Institute of Securities Dealers Limited – chairman
Canadian International School of Hong Kong Limited – founding member and chairman

Professional qualification and experience

Fellow (HKICPA)
Graduated Magna Cum Laude in Accounting and International Finance (University of Southern California, USA)
Master of Economics (London School of Economics and Political Science, UK)
Certified Public Accountant (State of California, USA)
Fellow (The Hong Kong Institute of Directors)

Mr Lee has over 25 years of experience in the securities and futures industry and has extensive experience in banking, corporate finance and investment.



LOH Kung Wai, Christine

INED
Aged 51

Director since 26 April 2006
Term of office: 26 April 2006 to
2009 AGM

Membership in HKEx's committee:
Member of **Remuneration Committee**

Other major offices

Civic Exchange – chief executive officer and co-founder

Past offices

Philipp Brothers Hongkong Limited – managing director (1980-1990)
Phibro Energy Hong Kong Limited – managing director (1990-1991)
CIM Co Limited – director (strategic development) (1992-1994)

Public service

Advisory Committee of SFC – member
G8+5 Climate Change Dialogue – international advisory member
Legislative Council – member (1992-1997 and 1998-2000)

Community activities and others

Court of The Hong Kong University of Science and Technology – member
Association for Sustainable and Responsible Investment in Asia – non-executive director
Community Business Limited – non-executive director
Asia Society's International Council (USA) – member
Council of The Hong Kong University of Science and Technology – member (1999-2006)

Professional qualification and experience

Bachelor of Law (University of Hull, UK)
Master of Law, Chinese and Comparative Law (City University of Hong Kong)
Doctor of Law, honoris causa (University of Hull, UK)
Author of the book, "Getting Heard: A Hong Kong Citizen's Handbook" (2002)
Co-author and editor of the books, "Building Democracy: Creating Good Government in Hong Kong" (2003) and **"At the Epicentre: Hong Kong and the SARS Outbreak"** (2004)
Named as "Global Leader for Tomorrow" (World Economic Forum, 1994)
Named as "Star of Asia" (BusinessWeek magazine, 1998 and 2000)
Named as "Entrepreneur of the Year" (Women of Influence, Amcham Hong Kong, 2003)
Named as "Woman of the Year" (Hong Kong Business, 2006)
Won the Peter Bryce award for civic work (Pacific Circle Consortium, 2004)

Dr Loh has over 25 years of experience in a wide range of industries from commodities trading, strategic planning and politics.



STRICKLAND, John Estmond
GBS, JP

INED
Aged 67

Director since 3 April 2000*
Term of office: 31 March 2004
(elected) to 2007 AGM

Membership in HKEx's committee:
Chairman of **Audit Committee**

Other major offices

Esquel Holdings Inc – non-executive director
Integrated Distribution Services Group Limited – non-executive director
Yoma Strategic Holdings Ltd (listed on the Singapore Exchange)
– non-executive director

Past offices

Airport Authority Hong Kong – board member (1999-2005)
The Hongkong and Shanghai Banking Corporation Limited – chairman (1996-1998)
HSBC Hong Kong & London (1966-1969 and 1971-1998)
Mass Transit Railway Corporation – board member (1989-1992)

Public service

Hong Kong Cyberport Management Company Limited – chairman
Operations Review Committee of ICAC – member

Community activities and others

Council of The University of Hong Kong – member
The Outward Bound Trust of Hong Kong Limited – president
The Community Chest of Hong Kong – director
Committee of The Boys' and Girls' Clubs Association of Hong Kong – member
Committee of Hong Kong Youth Hostels Association – member
Salvation Army Advisory Board – member
Council of Hong Kong Adventure Corps – member
International Council of Asia Society – member

Professional qualification and experience

Degree in Physics (Jesus College, University of Cambridge, UK)
Honorary Doctorate in Business Administration (City University of Hong Kong)
Honorary Doctorate in Technology (The Hong Kong Polytechnic University)
Honorary fellow (Hong Kong Computer Society, The Hong Kong Institute of Bankers, The Hong Kong Management Association and The University of Hong Kong)

* Prior to his appointment as Director on 3 April 2000 by the Financial Secretary under the Exchanges and Clearing Houses (Merger) Ordinance (repealed), Mr Strickland was also a member of the Preparatory Board since 8 July 1999. Mr Strickland is currently an Elected Director.



WEBB, David Michael

INED
Aged 41

Director since 15 April 2003
Term of office: 26 April 2006
(re-elected) to 2009 AGM

Memberships in HKEx's committees:
Member of **Investment Advisory Committee and Nomination Committee**

Other major office

Webb-site.com – editor

Past offices

Wheelock Capital Limited – director (1994-1998)
BZW Asia Limited – director (1993-1994)

Public service

Takeovers and Mergers Panel of SFC – member
Takeovers Appeal Committee of SFC – member
Public Shareholders Group of SFC – member

Community activity and others

Hong Kong Mensa – chairman (1998-2000)

Professional qualification and experience

Honours degree in Mathematics (University of Oxford, UK)
Full member (Hong Kong Securities Institute)
Established and funded "Project Poll" which successfully required blue chip companies to count their votes on a poll and stop using the show-of-hands system (2003)
Established "Project Vampire" (Vote Against Mandate for Placings, Issues by Rights Excepted) (2003)
Named as "Star of Asia" in the "Opinion Shapers" category (BusinessWeek magazine, 2000)
Named as "Global Leader for Tomorrow" (World Economic Forum, 2001)
Named as one of the "Global 100" who shape finance (CFO Magazine, 2002)
Named as a member of the "Young Global Leaders" (World Economic Forum, 2005)

From 1986 to 1991, Mr Webb was a corporate financier in London. Prior to 1986, he was a best-selling author of games and books for the first generation of home computers. He has published wide-ranging articles on the regulatory framework of Hong Kong's securities markets.



WONG Sai Hung, Oscar

INED
Aged 51

Director since 15 April 2003
Term of office: 31 March 2004
(re-elected) to 2007 AGM

Memberships in HKEx's committees:
Deputy chairman of **Investment
Advisory Committee**, member of
Nomination Committee and
**Panel Member Nomination
Committee**

**Other major
offices**

China Enterprise Fund Management Limited – executive director
Revelation Fund Management Limited – executive director
One Asset Management Limited (Thailand) – non-executive director
ARN Asian Enterprise Fund Limited (listed on the Irish Stock Exchange)
– non-executive director

Past offices

BOCI-Prudential Asset Management Limited – chief executive officer
(2001-2005)
Prudential Portfolio Managers Asia – regional managing director
(1999-2000)
INVESCO Asia Limited – deputy chief executive (1998)
LGT Asset Management Limited (1977-1998), including LGT, Hong Kong
(1977-1986), involved in managing equity portfolios with investments in the
Japanese and other Asia Pacific markets; seconded to run an investment
management joint venture in Taipei and assisted in starting other similar
investment management joint ventures of LGT in Thailand,
Indonesia and the Mainland China (1987-1990); deputy managing
director of LGT (1990-1994); responsible for LGT's mutual fund
marketing operations in Canada, a business which he helped to establish
in 1994 (1994-1997); head of LGT's Asian operations (1998)

**Community
activity**

Investigation Panel A of HKICPA – member

**Professional
qualification
and experience**

Higher Diploma in Business Studies (Marketing)
(The Hong Kong Polytechnic University)

Mr Wong has over 25 years of experience in the fund management industry.

Other memberships held by Directors in various board committees and consultative panels of the Group are available on HKEx's corporate website.

SENIOR MANAGEMENT



CONROY, Patrick Kevin

Chief Operating Officer
Aged 54

Joined in August 2003
(resigned on 9 February 2007)

Other major office

SEHK – chief executive (resigned on 9 February 2007)

Past offices

The International Bank for Reconstruction and Development (The World Bank) – director of the financial sector development and global partnership departments (1998-2003)
Australian Stock Exchange – adviser for special projects (1997-1998)
SFC – senior director of the supervision of markets division and other executive positions in market supervision, research and policy (1991-1997)
Chicago Stock Exchange – chief legal officer, corporate business ventures (1982-1991)

Professional qualification and experience

Bachelor of Arts in English Literature (DePaul University, USA)
Juris Doctor (The John Marshall School of Law, USA)



GREINER, Gerald Dale

Chief Operating Officer
(effective 16 February 2007)
Aged 50

Joined in May 2004

Other major offices

SEHK – chief executive (effective 16 February 2007)
HKFE – chief executive

Past offices

HKEx – Deputy Chief Operating Officer and Head of Exchange Division (2004-2007)
SFC – senior director of the supervision of markets division (1989-2004)
US Securities and Exchange Commission – various senior executive positions (1984-1989)

Professional qualification and experience

Bachelor of Science in Economics (Allegheny College, USA)
Juris Doctor (University of Toledo College of Law, USA)



FOK Kwong Man, Lawrence

Head of Business Development
Aged 57

Joined in February 1992

Past offices

SEHK – senior executive director of regulatory affairs group (1998); executive director of the listing division (1997); director of the listing division (1994-1997); assistant director of the listing division (1992-1994)
SFC – assistant director of corporate finance (1989-1992)

Professional qualification and experience

Bachelor of Science in Engineering (The University of Hong Kong)
Master of Business Administration (Columbia University, USA)
Master of Arts (Economics) and Master of Science (Statistics) (Stanford University, USA)

Mr Fok has over 20 years of experience in financial services and securities regulatory work. Before joining SEHK and SFC, he also worked for the Office of the Commissioner for Securities and Commodities Trading of the Government (1983-1985) and other private organisations in areas of corporate finance advisory work, securities dealing, venture capital investment, Mainland China trade and investment management.



KAO May Loy, Mary

Chief Counsel and
Head of Legal Services
Aged 57

Joined in July 1990

Past offices

International Bank of Asia Limited – general counsel, head of the legal affairs group (1985-1990)
Sun Hung Kai Group – general counsel, head of the legal and secretarial department (1981-1985)
American International Assurance Company, Limited – assistant general counsel, assistant vice president and secretary (1978-1981)
In private practice as a barrister (1975-1978)

Professional qualification and experience

Bachelor of Laws (The University of Hong Kong)
Bachelor of Civil Law (University of Oxford, UK)
Diploma in Chinese Law (University of East Asia, Macau)
Barrister-at-Law (Hong Kong and England & Wales)
Barrister and solicitor (the Australian Capital Territory)

Ms Kao has about 30 years' legal experience in the financial services industry and significant experience in corporate regulatory matters.



LAW Man Wai, Henry

Head of Corporate Communications
Aged 52

Joined in January 1988

Past offices

Ogilvy and Mather Public Relations (Hong Kong) Limited – senior consultant and group head of the public relations section for financial institutions and listed companies (1982-1988)
Michael Stevenson Limited – advertising and public relations executive (1974-1982)

Professional qualification and experience

Mr Law worked in advertising, marketing and corporate communications profession for over 30 years and has extensive experience in communications in financial institutions and utilities.



SHING Shin Cheung, Stewart

Head of Clearing
Aged 59

Joined in December 2003

Other major office

HKSCC – chief executive

Past offices

South China Brokerage Company Limited – executive director and chief executive (2001-2003)
HKEx – first head of clearing business unit (2000)
HKSCC – chief executive (1996-2000); director of planning and development and deputy chief executive (1991-1996)

Community activities and others

Examinations Committee of Hong Kong Securities Institute – member
Professional Education Committee of Hong Kong Securities Institute – member (2005)
The Hong Kong Association of Online Brokers representing South China Brokerage Company Limited – chairman (2002-2003)
The International Securities Services Association – board member (1999)
Asia-Pacific Central Securities Depository Group – founding member (1997)

Professional qualification and experience

Fellow (HKICPA)
Master of Business Administration (University of New South Wales, Australia)

Mr Shing has more than 30 years of securities operations and business management experience. He has worked in several major international and local financial institutions where he has been responsible for planning and development, securities operations, system development and auditing.

Mr Shing has served as a member of working groups for various regulatory bodies and stockbroking associations in Hong Kong.



TSIM Tak Chee, Archie

Chief Financial Officer and
Head of Finance and Administration
Aged 48

Joined in October 2004

Past offices

The Hong Kong and Shanghai Banking Corporation Limited – managing director for corporate finance and advisory, Asia-Pacific (1997-2004)
SEHK – deputy head of corporate finance in the listing division (1992-1997)

Professional qualification and experience

Fellow (HKICPA and Association of Chartered Certified Accountants)
Bachelor of Science in Management Sciences (University of Manchester, UK)

Mr Tsim has more than 15 years' experience in corporate finance.



WILLIAMS, Richard George

Head of Listing
Aged 44

Joined in October 2002

Past offices

Financial Services Authority, UK – head of listing policy and compliance (2000-2002)
London Stock Exchange (“LSE”) – head of listing policy (1999-2000)

Professional qualification and experience

Fellow (Institute of Chartered Accountants in England & Wales)
Bachelor of Arts in Economics and Economic History (University of Warwick, UK)

Before moving to the LSE, Mr Williams was with PricewaterhouseCoopers.

**Past offices**

Australia's Westpac Banking Corp – consultant application engineer (1988-1992)
Australian Stock Exchange – project leader (1987-1988)
SEHK – computer development manager (1985-1987)

Professional qualification and experience

Full member (Hong Kong Computer Society and Hong Kong Securities Institute)
Bachelor of Science in Computer Science and Chemistry (The University of Hong Kong)
Graduate Management Qualification (University of New South Wales, Australia)
Executive Master of Business Administration (The Chinese University of Hong Kong)

WONG Kwok Kuen, Alfred

Chief Technology Officer and
 Head of Information Technology
 Aged 50

Joined in November 1992

COMPANY SECRETARY**Past office**

Hysan Development Company Limited – company secretary (1988-2000)

Community activities and others

Company Secretaries Panel of The Hong Kong Institute of Chartered Secretaries ("HKICS") – member
Professional Development Committee of HKICS – member
Divisional Appeal Tribunal of HKICS – member

Professional qualification and experience

Fellow (HKICS, The Institute of Chartered Secretaries and Administrators, and Association of Chartered Certified Accountants)
Associate (HKICPA, Institute of Chartered Accountants in England & Wales)
Master of Science (Business Administration) (University of Bath, UK)
Master of Laws in Corporate and Financial Laws (The University of Hong Kong)

MAU Kam Shing, Joseph

Company Secretary and
 Head of Secretarial Services
 Aged 48

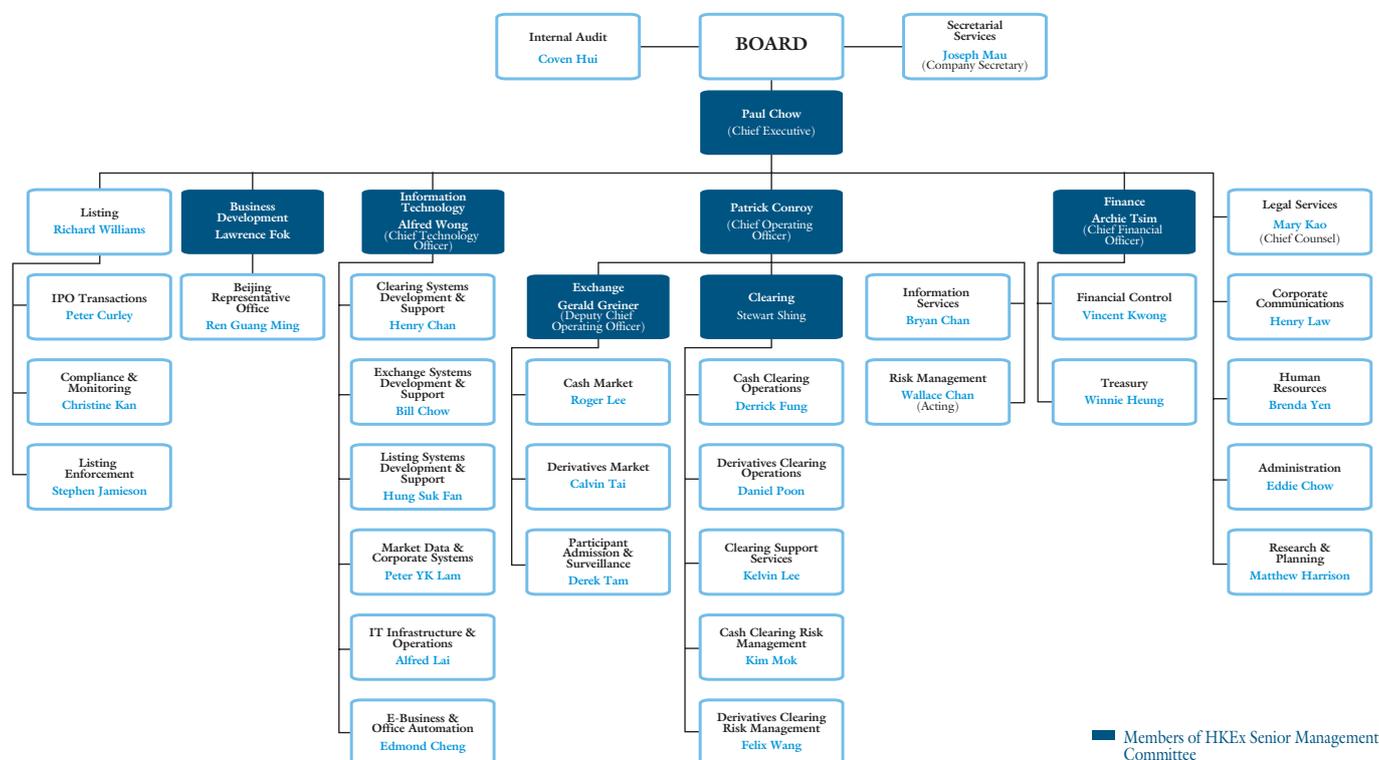
Joined in June 2000

Messrs Gerald D Greiner, Lawrence K M Fok and Stewart S C Shing, and Ms Mary M L Kao also hold position as a director in one or more of the Group's subsidiaries. Prior to the resignation of Mr Patrick K Conroy on 9 February 2007, he also acted as a director of all subsidiaries of HKEx.

Organisation Chart

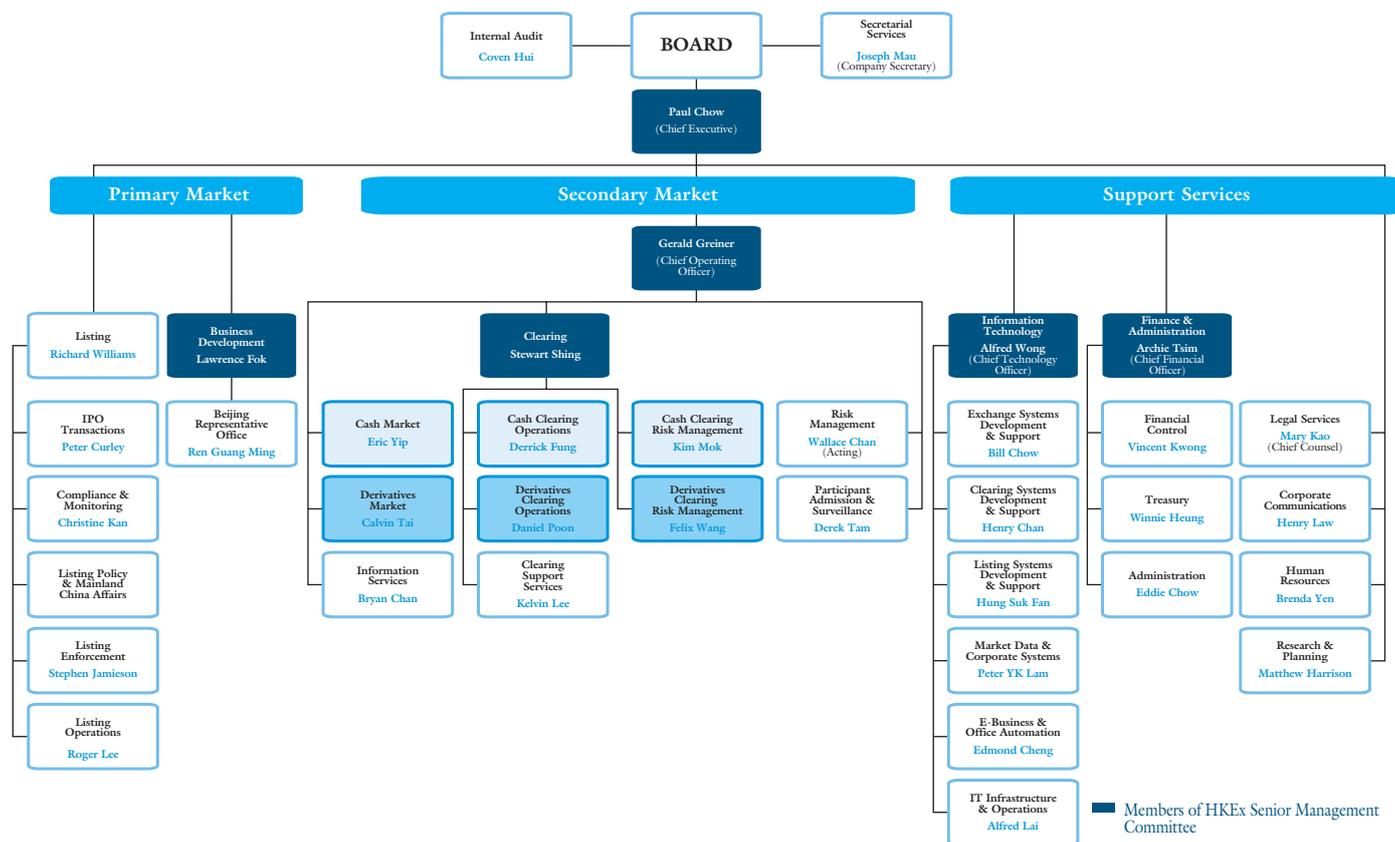
Up to 9 February 2007

(Remarks: Mr Gerald Greiner was appointed to act temporarily as Chief Operating Officer of HKEx upon resignation of Mr Patrick Conroy on 9 February 2007.)



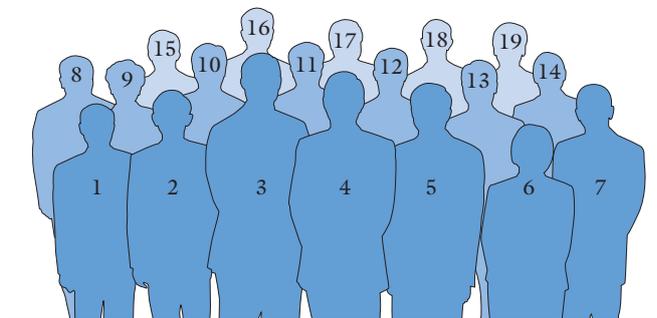
Members of HKEx Senior Management Committee

Effective 14 February 2007



Members of HKEx Senior Management Committee

Cash Market business development, operations and risk management functions
 Derivatives Market business development, operations and risk management functions



1. Eric Yip
2. Stewart Shing
3. Richard Williams
4. Paul Chow
5. Lawrence Fok
6. Mary Kao
7. Archie Tsim
8. Henry Law
9. Brenda Yen
10. Alfred Wong
11. Ren Guang Ming
12. Bryan Chan
13. Coven Hui
14. Derek Tam
15. Eddie Chow
16. Calvin Tai
17. Gerald Greiner
18. Matthew Harrison
19. Joseph Mau

Business Review

LISTING

New Listing Decision-Making Structure

On 3 February 2006, HKEx announced rule amendments to the composition and structure of the Listing Committees. Effective February 2006, the composition of the Listing Nominating Committee (“LNC”), which nominates candidates for appointment to the Listing Committees, was changed to improve its independence. The three HKEx representatives on the LNC are now all non-executive Directors, instead of two non-executive Directors and the chief executive of SEHK. The new composition of the Listing Committees, of at least 28 members with a minimum of eight investor representatives, and the extension of the maximum service term to six years, became effective in May 2006.

Establishment of Mainland China Affairs Team

Since the establishment of the Mainland China Affairs Team in February 2006, five training seminars and workshops for Mainland enterprises have been organised with speakers from other regulatory organisations such as the ICAC and the SFC during the year.

Regulation of Sponsors and Compliance Advisers

Amendments to the Listing Rules to coincide with the SFC’s revised licensing and monitoring regimes for sponsors and compliance advisers took effect from 1 January 2007. The SFC, as the statutory regulator, is responsible for the assessment of eligibility, the on-going supervision and the discipline of sponsors and compliance advisers, while HKEx, as the market operator, continues to be responsible for the implementation and administration of the Listing Rules, including the requirement on the independence of sponsors and the development and promulgation of practice notes setting out the Exchange’s expectations of due diligence in respect of initial listing applications.

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

On 7 July 2006, HKEx published the Exposure Conclusion – Abolition of Requirement for Main Board Issuers to Publish Paid Announcements in Newspapers and Related Matters. Before the implementation of the proposal, a six-month transitional period will start in the middle of 2007, during which, Main Board issuers will have to publish notifications of their announcements in newspapers. Main Board issuers will also need to post the full version on the HKEx website and their own websites. There will be a one-year transitional period for Main Board issuers to establish their own websites. An issuer without its own website during this period must publish the full announcement in newspapers as well as on the HKEx website.

As an associated measure, issuers are no longer required to file with the Stock Exchange the Short-form Preliminary Results Announcements (Summary Forms) effective 1 December 2006.

To support the new information dissemination regime, the Listing Division has revamped its internal operating procedures involving the release of trading information, the suspension and resumption of the trading of securities, the timing for submission of announcements for publication on the HKEx website and the reduction in the categories of announcements requiring pre-vetting.

New measures have been taken to familiarise issuers and market practitioners with the new issuer information dissemination model, including briefing sessions, an interactive e-learning programme on the new requirements and operational procedures, and an additional hotline for queries.

Review of GEM

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

Amendments to Main Board Listing Rules in respect of Structured Products

In order to implement the recommendations set out in “Hong Kong’s Derivative Warrants Market – the Way Forward, Results of the Consultation on the SFC’s Six-Point Plan” published by the SFC, the Main Board Listing Rules were amended with effect from 30 September 2006. The amendments facilitate the launch of identical issues of structured products to promote competition in the market for the benefit of investors, and impose a ban on commission rebates. The impact of the rule amendments will be reviewed after six months of operation.

Listing of Overseas Issuers

During the fourth quarter of 2006, the Listing Committees approved Australia and Canada (British Columbia) as acceptable jurisdictions of incorporation for the purpose of eligibility for listing as prescribed by the Listing Rules. The number of pre-approved jurisdictions of incorporation is now raised to six. The other four pre-approved jurisdictions of incorporation are Hong Kong, the People’s Republic of China, Bermuda and the Cayman Islands.

The Listing Rules, however, do contemplate listing by issuers that are incorporated outside the recognised jurisdictions, on a case-by-case basis with the focus on whether the standards of shareholder protection offered by the applicant’s place of incorporation are at least equivalent to those provided in Hong Kong. Over the past years, companies incorporated in Australia, Canada (Ontario), Jersey, Singapore and the UK have been listed.

In this connection, HKEx and the SFC published a joint policy statement setting out the approach to facilitate a greater range of overseas companies to list in Hong Kong on 7 March 2007. The statement set out HKEx’s expectations as a schedule of shareholder protection measures that overseas applicants should address in seeking a listing in Hong Kong.

IPO Processing

During 2006, a total of 120 listing applications were vetted, of which 88 were new applications and 32 applications were brought forward from 2005. A total of 81 first comment letters were issued to new listing applicants. The average time between receipt of an application and the issuance of the first comment letter and the median both were 20 calendar days (2005: 22 calendar days), and 95 per cent of the listing applicants received the first comment letter within 31 calendar days (2005: 30 calendar days).

In 2006, a total of 75 applications were brought to the Listing Committees (or their delegates) for decisions, of which 56 cases (75 per cent) (2005: 60 per cent) were reviewed by the respective Listing Committees within 120 calendar days, whilst 9 cases (12 per cent) (2005: 18 per cent) were reviewed in more than 180 calendar days.

Sixty-three requests for guidance from listing applicants or their advisers seeking clarifications of the Listing Rules relevant to new listing applications were responded to in 2006. Written responses were made within 60 calendar days, 90 per cent of which were within 25 calendar days.

To demonstrate HKEx's commitment to promote a healthy capital market through an effective and flexible regulatory environment, a number of performance measures have been established to assess HKEx's effectiveness in meeting this commitment. These measures include the time taken to respond to requests for guidance and the time taken to deliver a first comment letter to new listing applicants. HKEx will include a report on these measures in its Report on Initial Public Offering Applications, Delisting Proceedings and Suspensions to be published in July 2007 and January 2008.

IPO Transactions

	2002	2003	2004	2005	2006
Number of New Listing Applications Accepted	205	101	130	111	88
Number of Applicants Listed on Main Board	60	46	49	57	56*
Number of Applicants Listed on GEM	57	27	21	10	6
Number of New Listing Applications Rejected	1	7	15	5	7
Number of Applications in Process at Year-end	121	51	44	32#	29
Number of Applicants with Approval Granted but Not Yet Listed at Year-end	9	8	7	6	6

* Including two delisted GEM companies but excluding investment vehicles listed under Chapter 20 of the Main Board Listing Rules

Re-classified

Number of Listed Companies (as at year-end)

	2002	2003	2004	2005	2006
Main Board	812	852	892	934	975*
GEM	166	185	204	201	198*
Total	978	1,037	1,096	1,135	1,173

* 15 companies delisted from Main Board and nine companies delisted from GEM (two of which were subsequently listed on Main Board) in 2006

Main Board – Number of Listed Companies by Classification (as at year-end)

	2002	2003	2004	2005	2006
Finance	71	75	79	80	82
Utilities	13	14	15	18	18
Properties	98	98	100	102	105
Consolidated Enterprises	257	269	293	300	308
Industrials	354	378	388	416	440
Hotels	14	13	12	12	15
Miscellaneous	5	5	5	6	7
Total	812	852	892	934	975

Compliance and Monitoring

HKEx continues to target its monitoring resources in areas perceived to pose the greatest risks to the maintenance of a fair, orderly and informed market, for instance, disclosure of price sensitive information and corporate governance issues.

Compliance and Monitoring Actions (as at year-end)

	2002*	2003	2004	2005	2006
Number of Announcements of Listed Companies Vetted	8,200	8,938	9,092	11,092	11,579
Number of Circulars of Listed Companies Vetted	1,600	1,773	1,919	2,409	2,488
Number of Share Price and Trading Volume Monitoring Actions Undertaken	5,800	8,305	6,116	6,200	7,716
Number of Clarification Announcements Published by Listed Companies in Response to Share Price and/or Trading Volume Movements in their Securities	1,600	3,801	3,383	3,172	3,556
Number of Complaints Handled	320	170	213	262	252
Number of Cases (including Complaint Cases) referred to the Listing Enforcement Department for Investigation	64	21	57	88	141

* Figures for 2002 were rounded

In 2006, further progress was made on shifting the regulatory focus from pre-vetting of disclosure materials of listed companies towards post-vetting, monitoring and enforcement. Following guidance from the Listing Committees, user forums with market practitioners and listed companies were conducted to gather market views on the proposed framework and administrative practice on vetting disclosure materials of listed companies. A “Guide on pre-vetting requirements for announcements” has been published on the HKEx and GEM websites to add clarity on the categories of announcements requiring pre-vetting and clearance under the Listing Rules. In 2006, out of the approximately 11,500 announcements vetted, more than 4,100 announcements or 36 per cent were post-vetted (2005: 3,500 announcements or 31 per cent). Furthermore, announcements issued pursuant to enquiries on unusual share price and volume movements in the trading of securities (2006: 3,500, 2005: 3,100) are now subject to post-vetting. With appropriate guidance from the Listing Committees, the scope of pre-vetting will be further reduced. During 2006, a total of more than 7,700 share price and trading volume monitoring actions were taken, and over 51,000 press articles on listed companies were reviewed.

A robust approach has been taken to handle companies in long suspension, which resulted in the resumption in trading of securities of 12 Main Board and four GEM long suspended companies (2005: three Main Board and one GEM listed companies), and the cancellation of listings of two Main Board and four GEM long suspended companies (2005: eight Main Board and seven GEM listed companies) in 2006. Two Main Board long suspended companies entered the third stage of delisting and seven GEM long suspended companies were notified of the Exchange's intention to cancel their listings (2005: five Main Board and four GEM listed companies).

Listing Enforcement

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

During 2006, a number of investigations arising from serious breaches of the Listing Rules were completed leading to the imposition of public and private sanctions by the Listing Committees. In one case, the Listing Committee stated publicly that the retention of office by certain individuals was prejudicial to the investor interest. The relevant public criticisms, statements and censures can be found from the HKEx website.

In addition to disciplinary actions, HKEx also made recommendations to the Listing Committees in appropriate cases to direct correcting the ongoing breaches and improving corporate governance. Such directions covered, for example, the obligation to retain external assistance in the creation or revision of compliance structures. In some cases, the Listing Committees also required directors to undergo training to improve their knowledge of, and performance in, compliance matters, or required the listed issuers to take remedial action to rectify breaches of the rules.

Disciplinary Actions (as at year-end)

	2002	2003	2004	2005	2006
Number of Investigations	161	178	201	232	216*
Number of Public Censure	6	4	5	10	9
Number of Public Statements/Criticisms	1	8	14	8	11
Number of Private Reprimands	7	3	3	3	2
Number of Warning/Caution Letters	147	134	161	109	96

* Including cases investigated and concluded in 2006 and those initiated in 2006 but yet to be concluded

During 2006, 17 cases were referred to the Listing Enforcement Department originating from a complaint, which might give rise, after investigation, to disciplinary proceedings. Of the 216 cases investigated, 36 were discontinued with no further action taken.

Three review cases in respect of sponsors were concluded in 2006. The three sponsor firms were required to demonstrate to HKEx's satisfaction that they have retained competent staff and put in place appropriate and effective supervisory arrangements for conducting due diligence. In two of the cases, the relevant individuals of the sponsor firms undertook not to take up sponsorship work and GEM listing work for a period of time.

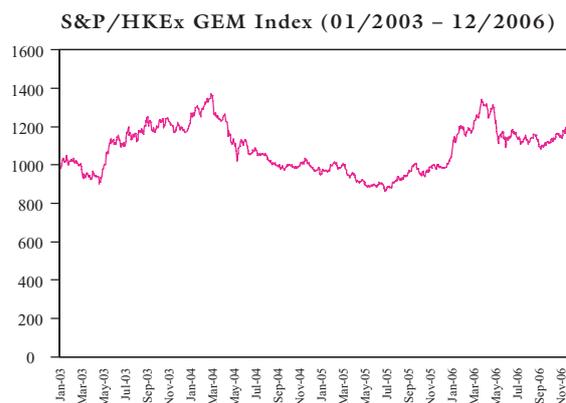
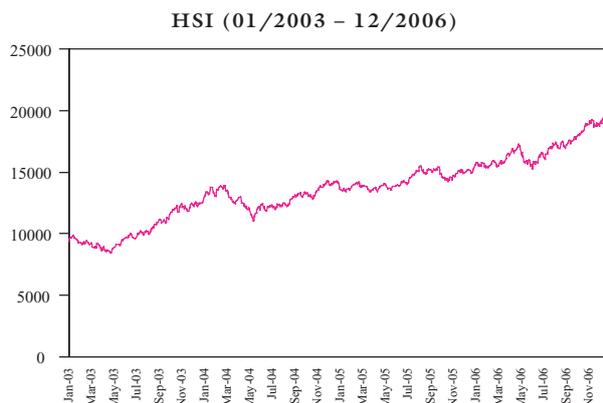
CASH MARKET

Market Performance

In 2006, 56 companies were newly listed on Main Board and six on GEM. Total capital raised, including post-listing funds, reached about \$524.5 billion. As at 31 December 2006, 975 and 198 companies were listed on Main Board and GEM respectively with a total market capitalisation of about \$13,338 billion. There were also 1,959 derivative warrants, 180 debt securities, five REITs, nine ETFs, 24 CBBs and other types of securities listed as at the end of 2006. The average daily turnover in 2006 was about \$33.9 billion, of which \$33.7 billion was on Main Board and about \$177 million on GEM.

Closing Indices (as at year-end)

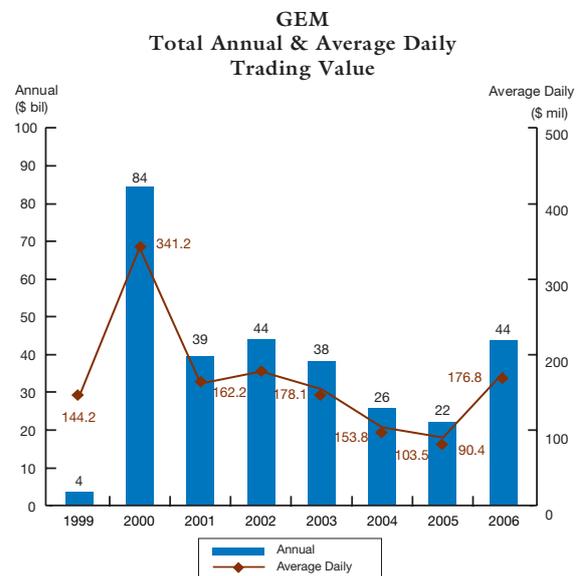
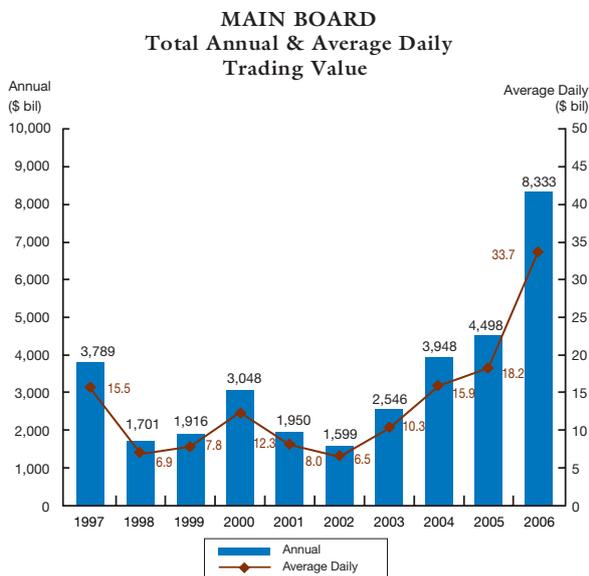
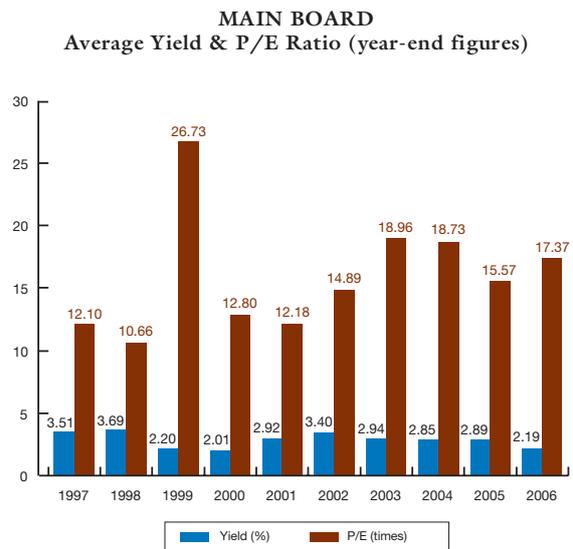
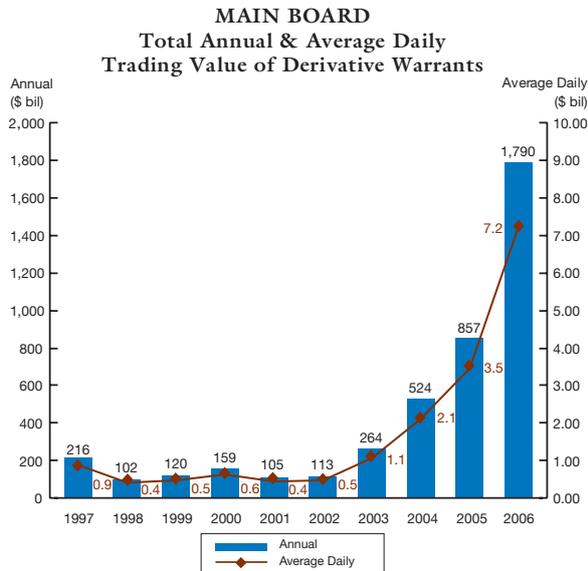
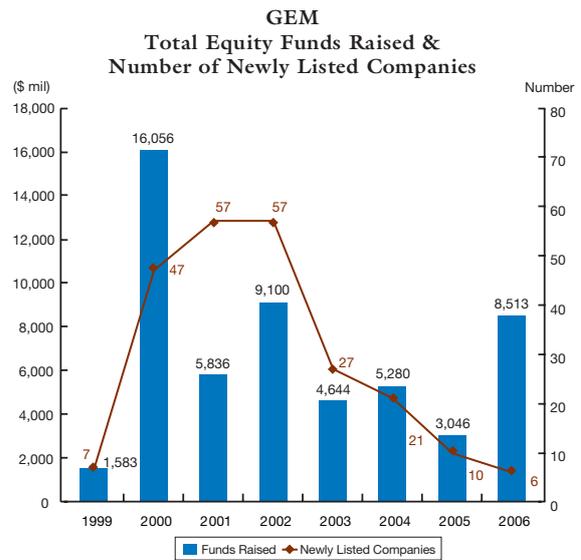
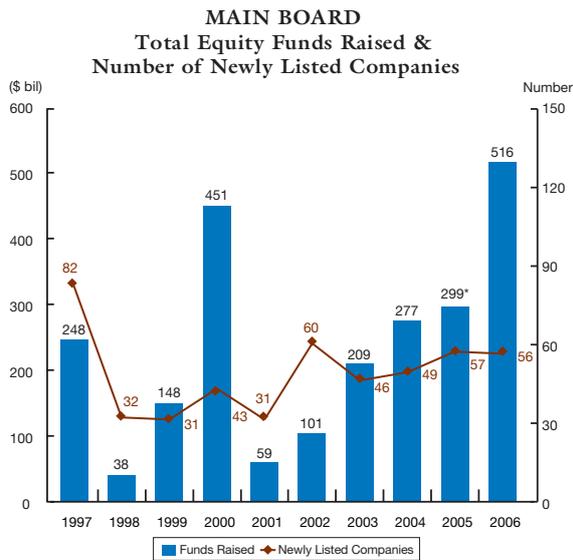
	2006	2005	Change
S&P/HKEx LargeCap Index	24378.76	17025.45	43%
HSI	19964.72	14876.43	34%
Hang Seng Composite Index	2802.68	1947.72	44%
Hang Seng China Enterprises Index	10340.36	5330.34	94%
Hang Seng China-affiliated Corporation Index	3330.06	1934.89	72%
S&P/HKEx GEM Index	1224.67	1007.28	22%

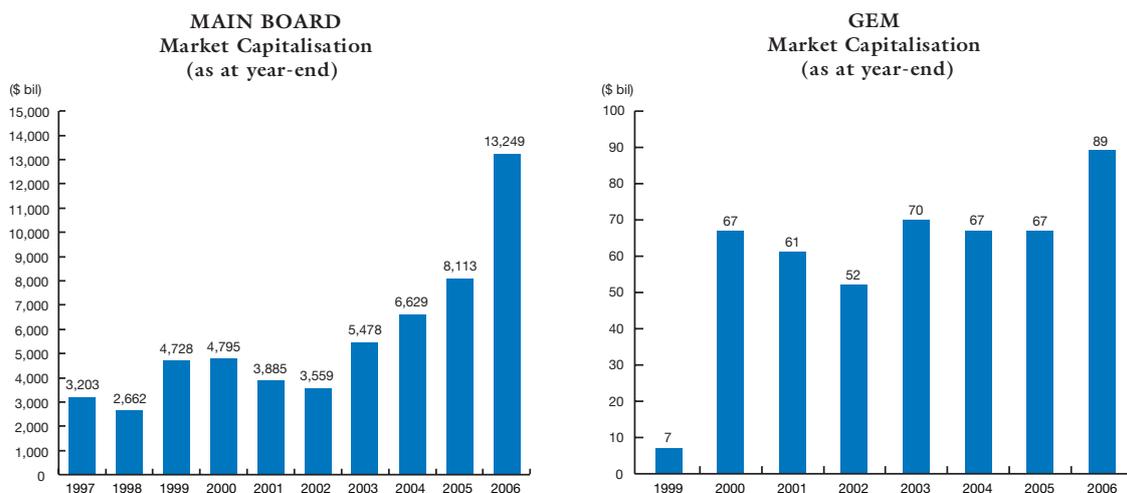


Market Performance of Main Board and GEM (as at year-end)

	Main Board			GEM		
	2006	2005	Change	2006	2005	Change
IPO Fund Raised (\$bil)	332	165	101%	2	1	100%
Market Capitalisation (\$bil)	13,249	8,113	63%	89	67	33%
Number of Listed Companies	975	934	4%	198	201	-1%
Number of Listed Securities	3,184	2,448	30%	199	201	-1%
Total Turnover for 2006 (\$bil)	8,333	4,498	85%	44	22	100%
Average Daily Turnover in 2006 (\$mil)	33,735	18,211	85%	177	90	97%

Note: Figures have been rounded





Main Board – New Listings

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Listed Companies	82	32	31	43	31	60	46	49	57	56
Preference Shares	2	0	0	0	0	0	0	0	0	1
Warrants										
Equity Warrants	101	31	51	46	31	27	10	14	12	12
Derivative Warrants	351	157	162	279	181	644	678	1,259	1,682	2,823
Total Warrants	452	188	213	325	212	671	688	1,273	1,694	2,835
CBBCs ⁽¹⁾	–	–	–	–	–	–	–	–	–	83
Equity Linked Instruments ⁽²⁾	–	–	–	–	–	25	16	46	0	0
Debt Securities	61	21	87	20	21	18	20	49	32	46
Unit Trusts and Mutual Funds	0	0	1	0	1	1	1	2	6	3

Notes: (1) Commenced trading on 12 June 2006

(2) Commenced trading on 5 August 2002

Market Development

Reduction of Minimum Spreads

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

Enhancements to Trading Infrastructure

In order to further improve EPs' trading efficiency and order input capacity in AMS/3, various proposals, including the increase in maximum number of outstanding orders per price queue, the removal of maximum outstanding orders per broker ID, the increase in maximum board lots per order and the review of order consideration limit, were reviewed in the fourth quarter of 2006. These enhancements are planned to be implemented in the first quarter of 2007.

Proposed Closing Auction Session

HKEx is considering the introduction of a closing auction session for the Cash Market which allows the input of orders into AMS/3 for a single price auction after the completion of the continuous trading session. The introduction of a closing auction session aims to improve the determination of securities closing prices, trading at market close and market liquidity, and to enhance the overall competitiveness of the Hong Kong securities market. A public consultation paper will be issued for market comments in March 2007.

EP Relationship and Customer Services

HKEx continued its efforts to strengthen communication with its Participants through various means, including individual EP visits, product briefings and seminars, Continuous Professional Training (“CPT”) courses, and a number of consultations and discussions. In addition, under the Participant Relationship Programme, EPs were invited to meet with HKEx’s senior management to exchange views and opinions on the latest market developments. More than 400 EP representatives have attended the meetings since the launch of the programme in 2002.

Tender Service for Sale and Purchase of Trading Rights

HKEx plans to open up its trading right regime by introducing a transparent and market-driven tendering approach. Under the proposal approved by the Board, a trading right application will be opened for tender by all existing trading right holders, and the lowest auctioned price will be chosen. If no tender is received, HKEx will issue a new non-transferable trading right to the applicant at \$500,000 each. Such tendering approach is expected to facilitate EPs to have a convenient and cost-effective way to dispose of their trading rights before they become non-transferable in March 2010. A press release on the tender arrangement was issued on 28 February 2007.

Number of EPs and Trading Right Holders (as at year-end)

	EPs and Trading Right Holders	No. of Trading Rights Held
Stock Exchange		
EPs*	469	872
<i>Trading</i>	425	818
<i>Non-trading</i>	44	54
Trading Right Holders	49	49
EPs and Trading Right Holders	518	921
Average No. of Trading Rights held by an EP/Trading Right Holder		1.78
Futures Exchange		
EPs*	135	164
<i>Trading</i>	135	164
<i>Non-trading</i>	0	0
Trading Right Holders	59	61
EPs and Trading Right Holders	194	225
Average No. of Trading Rights held by an EP/Trading Right Holder		1.16

* An EP is a corporation that may trade on or through the Stock Exchange or the Futures Exchange, and is licensed under the SFO to carry out securities/futures/options dealing activity

Product Development

CBBCs

Since the launch in June 2006, the market response to CBBCs has been encouraging with a total turnover of \$11.3 billion up to the end of the year. A total of 83 CBBCs were listed (including 48 which experienced Mandatory Call Events (“MCEs”) and 11 which reached normal expiry) up to the end of 2006. The 48 CBBCs which experienced MCEs comprised 34 Bear Contracts on the HSI and 14 Bear Contracts on the Hang Seng China Enterprises Index. The MCEs were carried out in an orderly manner.

The number of Hong Kong stocks eligible for CBBC issuance has been increased from five to 28. The list of eligible securities will continue to be reviewed and updated on a regular basis to meet market demand. HKEx believes that the expanded list will provide more investment choice to investors and issuers for trading in a well-regulated and transparent market. In addition, the offer of CBBCs on overseas indices and on commodities is being facilitated in 2007.

In addition to the publication of a CBBC leaflet and organisation of a number of CPT courses, a CBBC product corner was established on the HKEx website www.hkex.com.hk/cbbc for investor education purpose.

Derivative Warrants

In response to market demand, HKEx facilitated the launch of derivative warrants over the shares of ICBC on the same day that the shares were first listed. As a result, a total of 21 derivative warrants were listed on the listing day of ICBC with a turnover of \$1.26 billion.

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

ETFs

Following the listing and trading of iShares SENSEX India ETF (“SENSEX India”) on the Exchange on 2 November 2006, the total number of listed ETFs increased to nine as at 31 December 2006 (2005: eight). The average daily turnover of SENSEX India from its launch to the end of 2006 was about \$5.6 million. The total turnover of all the ETFs in 2006 was \$58.3 billion (2005: \$20.8 billion), with an average daily turnover of \$236 million (2005: \$84 million). HKEx will continue to facilitate the launch of more ETFs.

DERIVATIVES MARKET

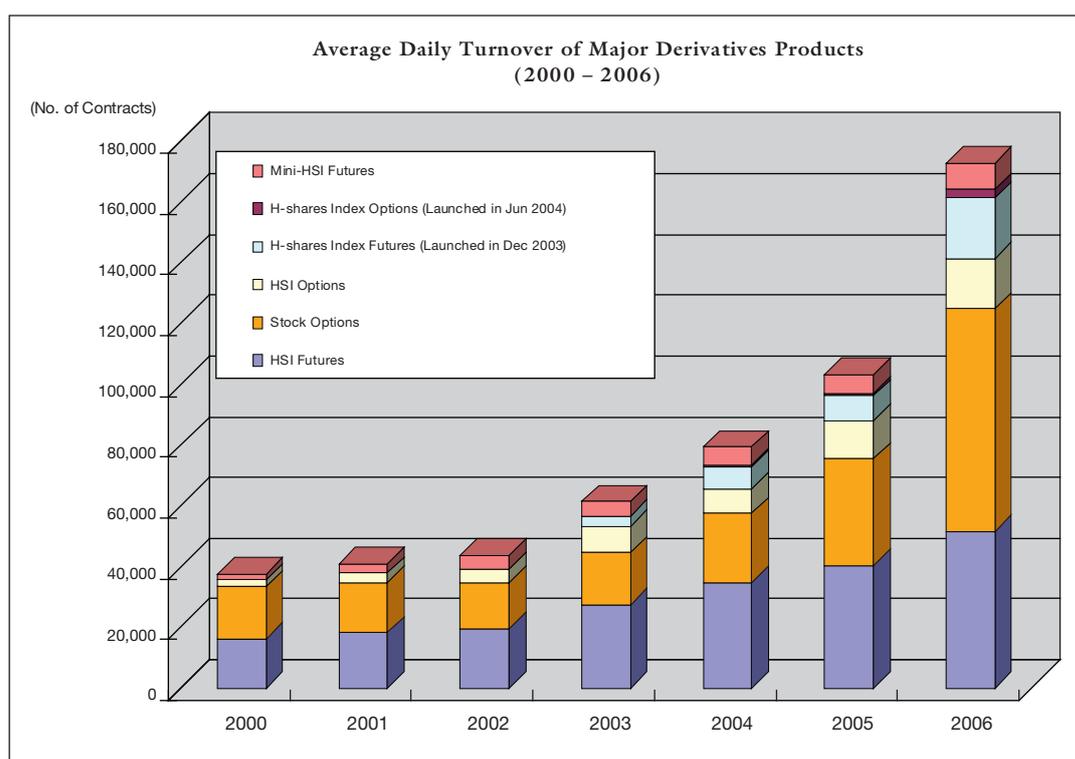
Market Performance

2006 was another record-setting year for the Derivatives Market with strong growth in all futures and options contracts. The total turnover increased 68 per cent to 42,905,915 contracts (2005: 25,523,007 contracts), and other new records were set in respect of daily volume and/or open interest of a majority of products. The details are shown in the following table.

Record High Daily Volume and Open Interest Achieved in 2006

Products	Daily Volume		Open Interest	
	Date	Number of Contracts	Date	Number of Contracts
HSI Futures	26 Sept	191,025	28 Nov	190,316
HSI Options	28 Dec	38,856	27 Dec	368,175
Mini-HSI Futures	28 Nov	19,531	6 Nov	10,238
Mini-HSI Options	24 Nov	792	24 Nov	3,715
H-shares Index Futures	28 Nov	77,773	22 Dec	90,823
H-shares Index Options	14 July	14,204	27 Dec	134,024
FTSE/Xinhua China 25 Index Futures	–	–	29 May	488
FTSE/Xinhua China 25 Index Options	9 Jan	258	–	–
Stock Futures	28 Nov	2,011	28 Dec	6,320
Stock Options	28 Dec	348,390	27 Dec	3,284,461

The average daily turnover of stock options rose by 107 per cent from the previous year to 73,390 contracts (2005: 35,385 contracts). The average daily volume of HSI Futures also increased by 28 per cent to 51,491 contracts (2005: 40,205 contracts). There was also strong growth in H-shares Index products, with H-shares Index Futures average daily volume up by 146 per cent to 19,759 contracts (2005: 8,027 contracts).



Product Development

Launch of New Options and Futures Contracts

To meet market demand, options and futures on three listed H shares, namely Bank of China Limited (“BOC”), China Merchants Bank Co Ltd and ICBC, were introduced shortly after their listings in the second half of 2006. The total number of contracts traded in these three additional stock options and stock futures in 2006 reached 706,010. Additional stock options and futures contracts, especially those on popular underlying shares, can now be launched within a shorter time frame after the approval process was streamlined in October 2006.

Enhancements to Trading Infrastructure

The established liquidity pools for index options with shorter expiry laid a solid foundation for the extension of the spectrum of contract expirations in response to market need. HKEx introduced additional long-dated contract months up to 3.5 years and 2.5 years respectively for HSI Options and H-shares Index Options on 31 March 2006, providing alternatives for investors to manage long-term market exposure.

Introduction of Renminbi Futures

HKEx is planning to introduce Renminbi futures contracts in mid-2007 with the aim of providing a means for financial institutions, corporations and investors to manage the exchange rate exposure under the managed-float exchange rate regime in Mainland China. A consultation paper on the proposed product specifications and operation has been sent to various regulatory authorities both in Hong Kong and the Mainland to solicit their views.

Market Development

Relaxation of Position Limits

To keep pace with market growth and development, in particular to meet the increasing trading and hedging needs of EPs and their clients, a higher position limit for stock options was introduced on 10 February 2006. Discussion with the SFC on the relaxation of the position limits for index products, in particular H-shares futures and options, is in progress.

Enhancements to Market Making Services

MM obligations in the stock options market were revised effective 3 July 2006 to further improve efficiency of the marketplace. The revisions included a shorter response time, a longer quote holding period and an increase in the number of option classes provided with continuous quotes. The number of MMs providing continuous quotes and the number of option classes with continuous quote services in stock options were also increased. A new system throughput arrangement was implemented to facilitate the said continuous quote services, including that for additional stock futures contracts.

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

The trading fee discount scheme for MMs trading in other stock index futures and options products was refined by offering adequate, but not excessive, incentives for MMs in stock index futures and options markets. The revised scheme took effect from February 2007.

Broader Product Offering to US Investors

On 26 September 2006, the US Commodity Futures Trading Commission granted HKFE no-action relief in connection with 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, which enables a broader product offering to investors in the US.

Introduction of Standard Combination Order Books

In March 2006, HKEx introduced the Standard Combination Order Books Function for selected HSI Option strategies in the Derivatives Market. This facilitates order execution of straddle strategies for the near-the-money series. Additional options strategies, such as strangle strategies, were introduced to the HSI Options market in October 2006.

Education and Marketing

Education for EPs and Investors

In 2006, a total of 78 Derivatives Market training courses and seminars were conducted for staff of EPs and public investors. In the first half of 2006, HKEx provided sponsorship to 10 Options Trading EPs to conduct public investor seminars on stock options. In the second half of 2006, a stock futures promotion and education programme was conducted with 1,800 attendees. In addition, an 11-week programme to promote China-related futures and options was launched in November 2006 with HKEx participating as a co-sponsor along with 10 EPs.

The interactive “Options Reference Educator” on the HKEx website was re-designed in December 2006 to provide a more user-friendly platform for investors to learn about options.

Overseas and Mainland Marketing

In June 2006, HKEx participated as an exhibitor in FOW Derivatives & Securities World London 2006 to promote HKEx as an international marketplace for trading China-related futures and options.

The Closer Economic Partnership Arrangement III (CEPA III) has enabled qualified Mainland brokers to set up branches in Hong Kong. To promote the Hong Kong financial markets to Mainland brokers and to invite them to become EPs, HKEx organised a series of seminars in Beijing, Shanghai and Shenzhen in preparation for the further opening up of the Mainland market.

Derivatives Market Statistics (as at year-end)

	2006		2005	
	Volume (Contracts)	Year-end Open Interest (Contracts)	Volume (Contracts)	Year-end Open Interest (Contracts)
Futures				
HSI Futures	12,718,380	119,836	9,910,565	98,211
Mini-HSI Futures	2,140,242	5,974	1,501,342	3,081
H-shares Index Futures	4,880,470	59,345	1,978,673	35,125
FTSE/Xinhua China 25 Index Futures ⁽¹⁾	8,154	107	2,882	48
Stock Futures	102,010	4,260	13,069	1,750
1-Month HIBOR Futures	155	0	246	5
3-Month HIBOR Futures	13,888	1,532	24,935	1,472
3-Year Exchange Fund Note Futures	0	0	1,250	0
Total	19,863,299	191,054	13,433,386 ⁽²⁾	139,692
Options				
HSI Options	4,095,679	227,946	3,071,822	192,069
Mini-HSI Options	53,456	781	30,595	555
H-shares Index Options	758,247	74,903	257,425	32,599
FTSE/Xinhua China 25 Index Options ⁽¹⁾	7,881	358	7,386	431
Stock Options	18,127,353	2,533,807	8,722,393	1,021,913
Total	23,042,616	2,837,795	12,089,621	1,247,567
Total Futures and Options	42,905,915	3,028,849	25,523,007	1,387,259

Notes: (1) Trading commenced on 23 May 2005

(2) Including 424 Dow Jones Industrial Average Futures contracts that ceased trading on 21 March 2005

CLEARING

CCASS Fee Review

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

Improvements to CCASS Nominee Services

With effect from 3 January 2006, a series of improvements were made to nominee services which included the provision of a corporate action data download function, cancellation and re-input of authorised instructions, credit of scrip entitlement to Participants' stock accounts on a real-time basis and extension of service hours of various nominee functions.

As of 2 January 2007, non-IPs have been provided with an additional option to have certain CCASS payments effected intra-day through the Real Time Gross Settlement payment mechanism during the same business day. These CCASS payments include the return of overpaid cash prepayments in respect of securities being settled on a CNS basis and corporate action-related payments.

Five-Day Clearing Week

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

Expanding IP Admission to CCASS

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

Enhancements to SSA and IP Accounts

To meet the demand for higher shareholding transparency and better investor protection, HKSCC has scheduled to enhance the SSA with Statement Service in two phases. The first phase enhancements to provide, in addition to physical statements, access to the SSA via the Internet or through the CCASS Phone System, email and Short Message Service alerts of account movements, as well as Chinese statements were introduced on 2 January 2007. The second phase enhancements to provide electronic voting, relaxation of the restriction on the number of SSAs, and addition of affirmation and money settlement features to Account Transfer Instructions will be launched in the second quarter of 2007.

HKSCC will continue its feasibility study on further improving the SSA and IP Account services to promote their wider use by retail investors.

Risk Management Measures

Effective 3 January 2006, no less than 50 per cent of the total margin requirement of any Participant of HKCC and SEOCH shall be in the form of cash and denominated in the relevant currency so as to strengthen risk management measures on non-contract currency cash collateral.

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

Effective 20 November 2006, the Capital Based Position Limit policy of SEOCH was aligned with that of HKCC.

To further improve the risk management capabilities of the clearing houses and better serve the markets, a review of risk management policies and arrangements in relation to the frequency of margin calls, price movement assumptions applicable to stress testing, margin offset claim arrangements and cross margining for the derivatives clearing houses was completed in 2006.

Status of Clearing Participants (as at year-end)

	2006	2005
Broker Participants	431	435
Clearing Agency Participants	1	1
Custodian Participants	37	37
Stock Pledgee Participants	6	7

CCASS Statistics (up to year-end)

	2006	2005
Average Daily Exchange Trades Handled by CCASS		
– Number of Trades	259,417	149,618
– Value of Trades	\$33.9 billion	\$18.3 billion
– Share Quantity Involved	38.4 billion	23.4 billion
Average Daily SIs Settled by CCASS		
– Number of SIs	36,259	25,354
– Value of SIs	\$87.1 billion	\$46.2 billion
– Share Quantity Involved	21.7 billion	14.1 billion
Average Daily Investor SIs (“ISIs”) Settled by CCASS		
– Number of ISIs	586	349
– Value of ISIs	\$220.2 million	\$100.0 million
– Share Quantity Involved	77.2 million	70.7 million
Average Daily Settlement Efficiency of CNS Stock Positions on Due Day (T+2)	99.72%	99.78%
Average Daily Settlement Efficiency of CNS Stock Positions on the Day following the Due Day (T+3)	99.97%	99.98%
Average Daily Buy-ins Executed on T+3		
– Number of Brokers Involved	12	8
– Number of Buy-ins	13	8
– Value of Buy-ins	\$6.6 million	\$2.7 million
Shares Deposited in the CCASS Depository		
– Number of Shares	1,657.6 billion	1,309.9 billion
– Percentage of the Total Issued Share Capital of the Admitted Securities	58.79%	55.55%
– Value of Shares	\$5,754.9 billion	\$3,026.9 billion
– Percentage of the Total Market Capitalisation of the Admitted Securities	40.23%	34.60%

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.

Following the High Court's approval of the petition by HKCC to wind up Yicko Futures Limited ("Yicko") as a result of its failure to meet its obligations to HKCC, a provisional liquidator was appointed in June 2006. HKCC filed a proof of debt of about \$7.8 million against the assets of Yicko in August 2006. Any deficiencies from the liquidation process will be recovered from the HKCC Reserve Fund.

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. In December 2006, the SFC varied the restriction notice based on the High Court sanction. The administrator was discharged according to a Restructuring Deed and HKSCC has since been processing instructions from the authorised persons so designated.

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

BUSINESS DEVELOPMENT

During the year, HKEx continued its efforts to arrange promotional activities to attract companies to list in Hong Kong. It also organised training programmes on Hong Kong's regulatory framework and requirements to raise the corporate governance standards of the issuers.

Marketing Activities to Promote Hong Kong Listing

Marketing activities in the Mainland were further strengthened in 2006 to cover a broader part of the Mainland including Hefei, Xi'an, Urumqi, Taiyuan, Nanchang, Wuxi, Harbin, Wuhan, Hangzhou, Hohhot, Jinan, Shenyang, Huzhou, Zhengzhou, Kunming and Changsha, apart from the major cities of Beijing, Shanghai, Guangzhou and Shenzhen. Besides introducing the advantages of listing in Hong Kong and the basic requirements, substantial effort was put into the development of a closer working relationship with the Mainland financial and governmental authorities and organisations, including the CSRC and the State-owned Assets Supervision and Administration Commission.

Promotional efforts were not restricted to the Mainland, but also extended to Taiwan, Japan, South Korea, Malaysia, Thailand, Vietnam, Kazakhstan, the Russian Federation and Ireland. Promotional activities included the organisation of and participation in conferences, seminars and presentations, and meetings with government authorities, intermediaries and potential issuers. During the year, HKEx participated in the following major events:

Date	Place	Event/Joint Organiser(s)	Origin of Most Attendees	No. of Attendees
28 Mar	Hong Kong	河北省企業境外上市融資懇談會/ HKEx and Hebei Provincial Government	Mainland	70
12 May	Hong Kong	KCC Conference/HKEx, Korean Chamber of Commerce and PricewaterhouseCoopers	Korean	38
18 May	Hong Kong	Anhui Conference/HKEx and Anhui Provincial Government	Mainland	40
13 Jun	Hong Kong	HKEx Deloitte Conference/HKEx and Deloitte Touche Tohmatsu	Japanese	67
14 Jun	Nanchang	Seminar on Hong Kong Listing/HKEx and Nanchang Municipal Government	Mainland	220
17 July	Xi'an	Capital Market and Enterprises' Financing via Listing/ HKEx and Shaanxi SASAC	Mainland	80
11 Aug	Hong Kong	FHKI Seminar/HKEx and Federation of Hong Kong Industries	Hong Kong	60
15 Sept	Hunan	HKEx (Hunan) Conference/HKEx and 湖南省地方金融証券領導小組辦公室	Mainland	150
10 Oct	Hong Kong	HKEx Joint Chambers Seminar/HKEx and Chambers of Commerce of Australia, Belgium-Luxembourg, Britain, Canada, Denmark, France, Germany, Malaysia, Netherlands, Norway, Singapore, Sweden and Thailand	International	120
13 Dec	Hong Kong	HKEx Kazakhstan Conference/HKEx and Consulate General of Kazakhstan	Kazakhstan	113

Training Programmes on Listing Requirements

HKEx's training programmes covered the importance of full compliance with the Listing Rules, highlighting in particular the continuing obligations of a listed issuer and corporate governance practices in Hong Kong.

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

INFORMATION SERVICES

Market Performance

Information income grew by approximately 21 per cent in 2006 to \$391 million in line with increased market activities.

As at the end of 2006, there were 75 real-time information vendor licences for Cash Market data (2005: 69) and 37 real-time information vendor licences for Derivatives Market data (2005: 35). These licensed information vendors together offered a total of 490 real-time market data services to the market (2005: 490).

Extension of Mainland Discount Programme

In 2006, the Mainland Discount Programme for real-time market data was well-received with an increase of about 50 per cent in the total number of Mainland subscribers from the previous year. Given its success, the programme has been extended to June 2008, allowing investors in the Mainland to continue to subscribe to HKEx market data at a discounted fee of \$80 per device per month.

Change to Delayed Market Data Policy

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

Review of Requirements on Information Vendors

HKEx has arranged market rehearsals on automatic system failover for information vendors and other market participants. HKEx will further review its minimum requirements for information vendors to ensure that they have adequate recovery arrangements and resilience to minimise service disruptions to the market.

Enhancements to HKEx Website

Both the “Latest Listed Company Information” and “Listed Company Information Search” sections of the HKEx website were enhanced in September 2006 to improve user-friendliness.

To further enhance market transparency, HKEx has provided a new section called “Futures and Options Prices and Charts (Delayed)” under the Investment Service Centre of the HKEx website to provide delayed intra-day prices and turnover of all futures and options contracts traded on the Derivatives Market.

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

INFORMATION TECHNOLOGY

Production Systems Stability and Reliability

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

In view of the rapid increase in stock market turnover in late 2006 and early 2007, HKEx will continue its efforts to secure sufficient system capacity to handle rising business volumes. As a prudent and proactive measure, HKEx conducted in late January 2007 a market-wide rehearsal to verify that AMS/3 is capable of handling 1.5 million trades in a trading day within the benchmark response time of one second. The volume test also provided an opportunity for the EPs using the broker supplied system and all information vendors to verify the capacity and performance of their systems and trading facilities under high market activity.

System Capacity Planning and Upgrade

During 2006, capacity upgrade was completed for various major systems, including HKATS, DCASS and the PRS.

Effective 29 January 2007, the maximum number of outstanding orders per price queue in AMS/3 was increased to 20,000, for both pre-opening and continuous trading sessions, to facilitate higher order input efficiency, in particular during IPOs. Moreover, the market data broadcast rate of the Cash Market information dissemination system was increased to ensure that market participants are updated on the latest status of the central order book in a timely manner.

The CCASS/3 Mainframe system, installed in 1997, will be replaced and upgraded to the latest technology with increased capacity to cope with growing trading volume and eIPO activities.

The HKEx website capacity and its network infrastructure were substantially upgraded to handle the rapid increase in website visits and enquires from the investing public, particularly regarding the allotment result of large IPOs.

As e-Submission of documents for publication on the HKEx and the GEM websites by listed issuers will become mandatory, HKEx has been focusing on upgrading substantially the capacity of the e-Submission System (ESS), EPS and IIS to cater for the business requirements. Furthermore, a disaster recovery arrangement will be in place to ensure high availability of the services.

Obsolescent Technology Replacement and Upgrade

All trading devices, trading facilities and Local Area Network (LAN) cabling infrastructure were fully replaced and upgraded in conjunction with the Trading Hall renovation. The upgrade of AMS/3 OG and MWS hardware was completed in December 2006 to address hardware obsolescence and to prepare for future AMS/3 system capacity expansion. In early 2007, HKEx commenced the software upgrade of the OG and MWS.

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

The CCASS/3 Middle-tier system software upgrade is in progress and will be completed in early 2007 to achieve cost effectiveness and system maintainability.

System Consolidation and Operational Efficiency

The SDNet migration is aimed at delivering improved reliability and greater operational efficiency and cost effectiveness to both HKEx and Participants. The first three phases of the migration were successfully completed (Phase 1: HKATS/DCASS/PRS circuits migrated in October 2005; Phase 2: CCASS/3 circuits migrated in June 2006; and Phase 3: MDF circuits migrated in December 2006). The last phase of the AMS/3 circuits migration is in progress and will be completed in mid-2007.

The AMS/3 performance throughput improvement feasibility study was completed, and suitable technologies and application system improvements have been identified, which will enable further improvements to the AMS/3 capacity and processing efficiency if and when needed.

The Derivatives Market risk management satellite PC systems were mostly re-developed to improve operational efficiency.

TREASURY

The Group's funds available for investment comprise Corporate Funds, Margin Funds and Clearing House Funds, totalling \$25.6 billion on average in 2006 (2005 average: \$17.6 billion).

As compared with 2005, the overall size of funds available for investment as at 31 December 2006 increased by 56 per cent or \$10.8 billion to \$30.0 billion (2005: \$19.2 billion). Details of the asset allocation of the investments as at 31 December 2006 against those as at 31 December 2005 are set out below.

	Investment Fund Size \$ billion		Bonds		Cash or Bank Deposits		Global Equities	
	2006	2005	2006	2005	2006	2005	2006	2005
Corporate Funds	5.9	4.2	52%	56%	41%	37%	7%	7%
Margin Funds	21.8	13.6	51%	28%	49%	72%	0%	0%
Clearing House Funds	2.3	1.4	14%	17%	86%	83%	0%	0%
Total	30.0	19.2	48%	33%	51%	65%	1%	2%

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 (\$0.4 billion as at 31 December 2006 and \$0.3 billion as at 31 December 2005), which have no maturity date, the maturity profiles of the remaining investments as at 31 December 2006 (\$29.6 billion) and 31 December 2005 (\$18.9 billion) were as follows:

	Investment Fund Size \$ billion		Overnight		>Overnight to 1 month		>1 month to 1 year		>1 year to 3 years		> 3 years	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Corporate Funds	5.5	3.9	24%	14%	16%	23%	30%	23%	20%	24%	10%	16%
Margin Funds	21.8	13.6	32%	56%	22%	19%	46%	17%	0%	8%	0%	0%
Clearing House Funds	2.3	1.4	86%	77%	0%	7%	14%	9%	0%	7%	0%	0%
Total	29.6	18.9	35%	49%	19%	19%	40%	18%	4%	11%	2%	3%

Credit exposure is well diversified. The bond portfolio held is of investment grade and, as at 31 December 2006, had a weighted average credit rating of Aa2 (2005: Aa2) and a weighted average maturity of 0.7 year (2005: 1.3 years). 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 2006 and 2005 was as follows:

	Average VaR \$ million		Highest VaR \$ million		Lowest VaR \$ million	
	2006	2005	2006	2005	2006	2005
Corporate Funds	14.0	13.5	15.9	16.1	12.3	11.2
Margin Funds	7.8	14.4	9.4	17.9	4.1	9.8
Clearing House Funds	0.4	1.0	0.6	1.5	0.2	0.6

Details of the Group's investment income are set out in the Income section under the Financial Review and note 7 to the consolidated accounts of this Annual Report.

INVESTMENTS IN ASSOCIATES

Computershare Hong Kong Investor Services Limited ("CHIS")

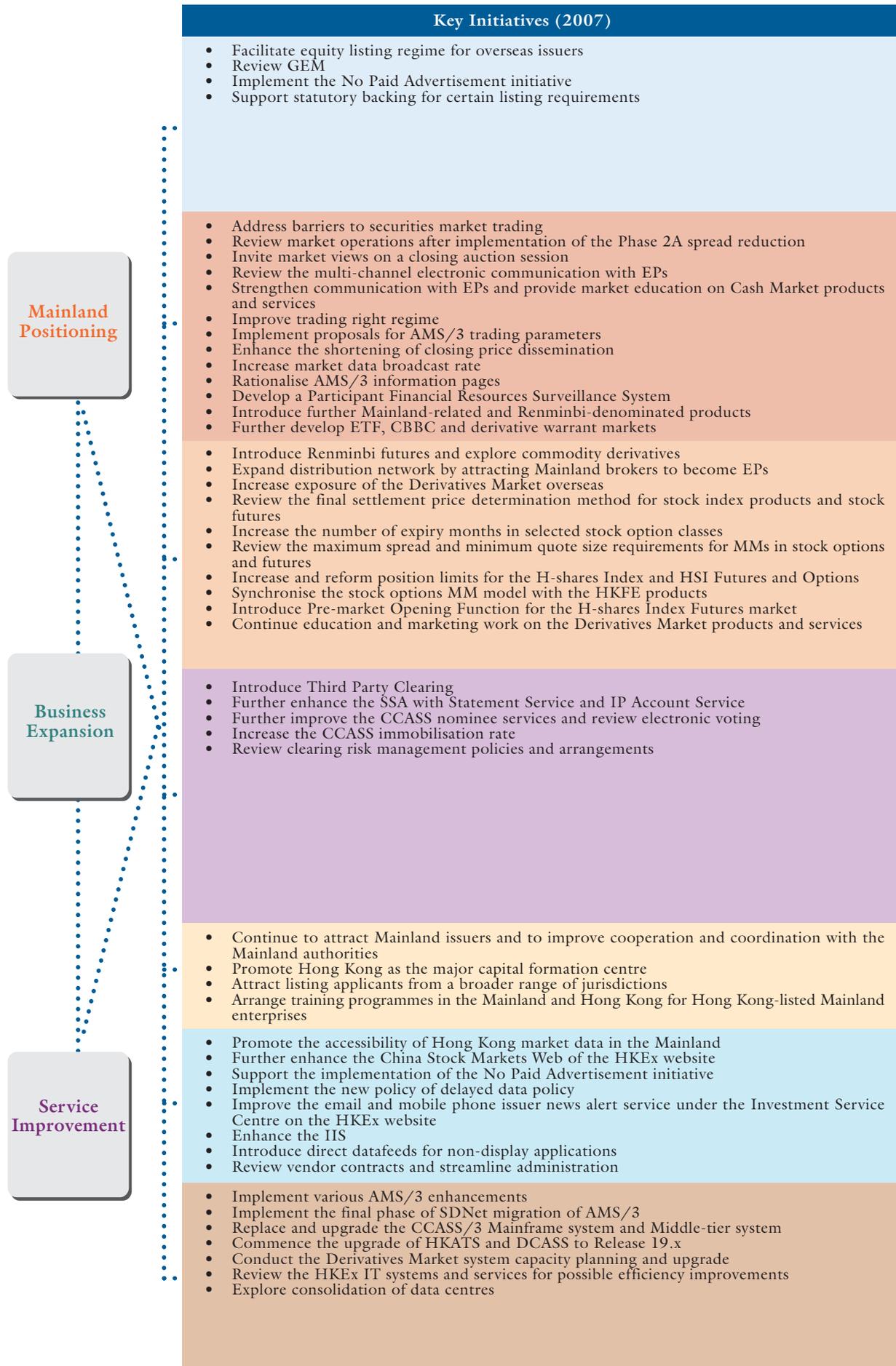
As at 31 December 2006, the Group had a 30 per cent interest in CHIS. The cost of the investment in CHIS was \$52 million (2005: \$52 million) and the book value of the investment was \$68 million (2005: \$63 million).

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.

MAJOR ACHIEVEMENTS AND KEY INITIATIVES

Major Achievements (2004 – 2006)	
Listing	<ul style="list-style-type: none"> Amended rules relating to initial listing criteria and continuing listing obligations, structured products, and regulation of sponsors, compliance advisers and IFAs Published the Listing Committees Annual Report Amended rules relating to the CG Code and introduced rules on the CG Report Reorganised operating structure and streamlined internal procedures and processes Increased transparency through publication of listing decisions and Listing Rules interpretations Submitted views on proposals for statutory backing to certain listing requirements Established the Listing case database Published Discussion Paper on GEM Implemented the first phase of new structure for listing decision-making Established a Mainland China Affairs Team and initiated H-share training programme Set out future model for dissemination of regulatory information by Main Board issuers Supported the simultaneous listing of H shares and A shares
Cash Market	<ul style="list-style-type: none"> Reduced the minimum trading spreads for securities trading Increased the maximum number of outstanding orders per price queue in AMS/3 Enhanced the selection criteria of designated securities for short selling Exempted placing or fund-raising activities by EPs from prohibition of dealings in suspended securities Opened the renovated Exchange Trading Hall and new Exhibition Hall Implemented the Voluntary First Terminal Relinquishment Programme Reduced the monthly user fees for AMS/3 trading devices Reviewed throttle issuance and AMS/3 capacity upgrade, and alternatives to handle increases in the AMS/3 order flow during the peak period at market open Automated the updating of securities data and trading information to AMS/3 Disseminated odd lot market information to information vendors Improved the system software to reduce the time required for disseminating closing prices in the securities market Introduced REITs and more ETFs Enhanced market-making arrangements for ETFs Launched and developed the CBBC market Reviewed derivative warrant market and launched the web-based DWRC Improved the issuance of derivative warrants on mega-size IPO stocks
Derivatives Market	<ul style="list-style-type: none"> Introduced the H-shares Index Options Revised the contingency procedures for determination of final settlement prices Reviewed error trade parameters of stock index options Introduced the FTSE/Xinhua China 25 Index Futures and Options and additional classes for stock options and futures Enhanced the stock options market Introduced preventive measures to regulate excessive order-book activity entered into HKATS Uplifted the restriction on the number of Options Hedging Participants appointed by stock options MMs Participated in the FIA Asia Derivatives Conference and the Financial World Expo Introduced long-dated contract months for HSI Options and H-shares Index Options Reviewed the trading fee discount programme offered to MMs trading in other index products Streamlined the approval process for the introduction or discontinuation of stock options and futures Tightened obligations of stock options MMs Increased and reformed stock options position limits Introduced a new MM model for HKFE products Received no-action relief from the US Commodity Futures Trading Commission for futures contracts based on the FTSE/Xinhua China 25 Index and the Hang Seng China Enterprises Index Participated in the FOW Derivatives & Securities World Exhibition London
Clearing	<ul style="list-style-type: none"> Launched DCASS Introduced enhanced features for the IP Accounts with round-the-clock online access Aligned the HKSCC's arrangement with those of HKCC and SEOCH regarding bank guarantees Enhanced the CCASS SI functions Enhanced the CCASS eIPO service and CCASS money settlement arrangement Allowed Clearing Participants to appoint third parties as Settlement Agents Upgraded the Clearing Service Call Centre and Interactive Voice Recording System Implemented various fee reductions Improved the CCASS nominee services Aligned the list of approved foreign cash collateral types and synchronised the haircut rates applied to Exchange Fund Bills and Notes accepted as margin coverage by HKCC and SEOCH Harmonised the capital requirements for HKCC and SEOCH participants Imposed by HKCC and SEOCH the minimum margin coverage by contract currency cash collateral and a cap on the maximum margin covered by non-cash collateral Admitted the NCSF to CCASS as a Corporate IP Extended the CCASS IP Account Service to Macau individual investors and incorporated companies Managed broker defaults with no loss to clearing houses Rolled out five-day clearing week Aligned the Capital Based Position Limit policy of SEOCH with that of HKCC
Business Development	<ul style="list-style-type: none"> Strengthened Beijing Representative Office and stationed representatives in Shanghai and Guangzhou Organised and co-organised conferences, seminars and presentations in the Mainland, overseas and in Hong Kong to promote Hong Kong as the preferred listing venue Delivered and co-organised training programmes in the Mainland and Hong Kong on the Hong Kong regulatory framework and corporate governance matters Held meetings with potential listing applicants, mainly from the Mainland Visited the Mainland, countries in the Asia Pacific region and other overseas locations to promote listings in Hong Kong
Information Services	<ul style="list-style-type: none"> Provided the IIS Licensed the redistribution of Shenzhen real-time market data Enhanced the Stock Market Database and On-line Data Subscription System Introduced new service for redistribution of historical data products Streamlined processes relating to historical securities data Completed a review of delayed data policy Enhanced the various systems relating to issuer information dissemination to support the No Paid Advertisement initiative Enhanced the stock market information and statistics on the HKEx website Extended the Mainland Discount Programme for real-time market data
Information Technology	<ul style="list-style-type: none"> Upgraded the CCASS/3 Middle-tier application server Upgraded the system software of CCASS/3, HKATS and DCASS Upgraded the HKEx website capacity and network infrastructure and enhanced disaster recovery arrangement Migrated the HKATS, DCASS, PRS, CCASS/3 and MDF System networks to SDNet Migrated the AMS/3 ORS to an integrated technology platform Upgraded the capacity of AMS/3, HKATS, DCASS and PRS Replaced in 2005 all AMS/3 off-floor terminals installed since 1998 and upgraded corresponding security solution Consolidated the AMS/3 satellite systems and upgraded the AMS/3 OG and MWS hardware Upgraded the Local Area Network (LAN) cabling infrastructure and all the on-floor trading terminals and facilities for the renovated Trading Hall Studied a higher version of server technology to achieve better performance throughout for AMS/3 Upgraded the Derivatives Market's inter-site backbone network to Optical Ethernet technology Redeveloped most of the Derivatives Market risk management satellite PC systems Implemented Finance MIS and Participant Information System



Financial Review

HKEx Group – Overview of 2006 Results and Financial Position

Key Market Statistics and Business Drivers – Cash Market

Average daily turnover value on the Stock Exchange	\$33.9 billion*
Number of newly listed derivative warrants	2,823*
Number of newly listed companies on Main Board	56
Number of newly listed companies on GEM	6
Number of Main Board companies at 31 December 2006	975
Number of GEM companies at 31 December 2006	198
Total equity funds raised on Main Board	\$516.0 billion*
Total equity funds raised on GEM	\$8.5 billion
Total equity funds raised	\$524.5 billion*

* New record high in 2006

2005 Consolidated Balance Sheet

		As restated \$'000
Assets		
Fixed assets, land and properties	6	370,246
Investments in associates		64,581
Funds	7	15,027,401
Investments and time deposits		2,799,178
Cash and cash equivalents		1,359,133
Other assets	8	3,310,377
		<u>22,930,916</u>
Liabilities		
Participants' contributions to Funds	9	14,400,332
Participants' admission fees received		82,700
Other liabilities	10	4,110,413
		<u>18,593,445</u>
Net assets		
		<u>4,337,471</u>
Capital and reserves		
Share capital, share premium and reserves		1,911,695
Shares held for Share Award Scheme	11	(30,028)
Retained earnings		1,776,254
Proposed/declared dividend		679,550
		<u>2,455,804</u>
		<u>4,337,471</u>

Segment Profit for the Year

	Cash Market \$'000	Derivatives Market \$'000	Clearing Business \$'000	Information Services \$'000	Total \$'000
Income	1,822,011	661,305	1,269,840	393,760	4,146,916
Operating expenses	570,324	158,201	420,779	61,269	1,210,573
Segment results	1	2	3	4	2,936,343
Share of profits less losses of associates	1	-	27,123	-	5
Segment profits before taxation	1,251,688	503,104	876,184	332,491	2,963,467
Taxation					(444,898)
Profit attributable to shareholders					<u>2,518,569</u>

Cash Flows for the Year

		\$'000
Net cash inflow from operating activities	12	2,865,468
Purchases of shares held for Share Award Scheme	11	(21,269)
Capital expenditures		(60,269)
Dividends paid		(1,671,151)
Purchases of available-for-sale financial assets of the Corporate Funds		(535,585)
Other net cash inflows		278,930
Net increase in cash and cash equivalents		856,124
Cash and cash equivalents at 1 January 2006		1,359,133
Cash and cash equivalents at 31 December 2006		<u>2,215,257</u>

Key Market Statistics and Business Drivers – Derivatives Market

Average daily number of derivatives contracts traded on the Futures Exchange	100,318*
Average daily number of stock options contracts traded on the Stock Exchange	73,390*

* New record high in 2006

2006 Consolidated Balance Sheet

		\$'000
Assets		
Fixed assets, land and properties	6	323,584
Investments in associates		68,377
Funds	7	23,977,540
Investments and time deposits		3,641,853
Cash and cash equivalents		2,215,257
Other assets	8	10,226,687
		<u>40,453,298</u>
Liabilities		
Participants' contributions to Funds	9	23,308,969
Participants' admission fees received		81,450
Other liabilities	10	11,805,293
		<u>35,195,712</u>
Net assets		
		<u>5,257,586</u>
Capital and reserves		
Share capital, share premium and reserves		1,982,340
Shares held for Share Award Scheme	11	(51,297)
Retained earnings		2,060,156
Proposed/declared dividend		1,266,387
		<u>5,257,586</u>

Movements in Share Capital, Share Premium and Reserves for the Year

	Share capital and share premium \$'000	Employee share-based compensation reserves \$'000	Revaluation reserves \$'000	Designated reserves \$'000	Total \$'000
At 1 January 2006	1,213,160	34,980	(37,086)	700,641	1,911,695
Issue of shares	30,895	-	-	-	30,895
Employee share-based compensation benefits	-	24,033	-	-	24,033
Fair value change net of deferred tax:					
- financial assets	-	-	47,203	-	47,203
- leasehold buildings	-	-	415	-	415
Share of reserves of an associate	-	441	37	-	478
Transfer to retained earnings	-	-	-	(32,379)	(32,379)
Transfer	7,335	(7,335)	-	-	-
At 31 December 2006	1,251,390	52,119	10,569	668,262	1,982,340

Notes

Due to the positive market sentiment stimulated by the large IPOs and the sustained economic growth in the Mainland, activity on the Stock Exchange and the Futures Exchange increased substantially. As a result, the Group achieved record profit for the third consecutive year in 2006. The performance of the Group by business segment during 2006 was as follows:

- 1 Profit of the Cash Market increased by \$624m mainly due to the higher turnover of the Cash Market and the rise in Stock Exchange listing fees attributable to the higher number of newly listed derivative warrants during the year.
- 2 Profit of the Derivatives Market increased by \$209m mainly as a result of the increase in investment income from the Margin Funds and the increase in the level of activity on the Derivatives Market.
- 3 Profit of the Clearing Business rose by \$480m mainly attributable to the increase in clearing and settlement fees generated from Cash Market transactions and depository, custody and nominee services fees.
- 4 Profit of the Information Services Business increased by \$74m as demand for information increased in tandem with the activities of the Cash and Derivatives Markets.
- 5 Share of profits less losses of associates increased due to the higher profitability of one of the associates and the acquisition of a further six per cent interest in that associate during 2005.
- 6 Fixed assets, land and properties decreased by \$47m mainly attributable to depreciation during the year.
- 7 Funds comprised Margin Funds of \$21,666m (2005: \$13,649m), Clearing House Funds of \$2,271m (2005: \$1,340m) and Compensation Fund Reserve Account of \$41m (2005: \$38m). The rise in Margin Funds was as a result of increased open interest in futures and options contracts. The increase in Clearing House Funds reflected the increase in additional contributions from Participants in response to market fluctuations and changes in risk exposure.
- 8 Other assets mainly consisted of money obligations receivable under the CNS system of \$9,586m (2005:\$2,890m) and other receivables.
- 9 Participants' contributions to funds represented Margin deposits from Participants of \$21,666m (2005:\$13,649m) and Participants' contributions to Clearing House Funds of \$1,643m (2005:\$752m). The reasons for the movements in the contributions were similar to those for the movements in the funds as explained in note 7.
- 10 Other liabilities mainly represented money obligations payable under the CNS system of \$9,588m (2005:\$2,890m) and other payables.
- 11 Shares were held by The HKEx Employees' Share Award Scheme ("HKEx Employee Share Trust") on behalf of eligible employees before the share awards became vested. During the year, additional shares purchased by the HKEx Employee Share Trust amounted to \$21m.
- 12 Net cash inflow from operating activities increased by \$1,436m mainly due to higher profit generated during the year.

Movements in Retained Earnings for the Year

	\$'000
Profit attributable to shareholders	2,518,569
Dividends	(1,680,895)
Dividends forfeited	686
Transfer from reserves	32,379
Net increase in retained earnings	870,739
Retained earnings at 1 January 2006	2,455,804
Retained earnings at 31 December 2006	3,326,543
Representing:	
Retained earnings	2,060,156
Proposed/declared dividend	1,266,387
	3,326,543

Overall Performance

	2006 \$'000	As restated 2005 \$'000
RESULTS		
Income:		
Income affected by market turnover	2,390,846	1,437,218
Stock Exchange listing fees	465,445	413,000
Income from sale of information	391,213	322,713
Investment income	601,080	300,120
Other income	298,332	221,017
	4,146,916	2,694,068
Operating expenses	1,210,573	1,145,483
	2,936,343	1,548,585
Operating profit	27,124	18,433
Share of profits less losses of associates		
	2,963,467	1,567,018
Profit before taxation	(444,898)	(227,460)
Taxation		
	2,518,569	1,339,558
Profit attributable to shareholders		
	\$2.37	\$1.26
Basic earnings per share	\$2.34	\$1.26
Diluted earnings per share		
	\$0.94	\$0.49
Interim dividend per share	\$1.19	\$0.64
Final dividend per share		
	\$2.13	\$1.13
Dividend payout ratio	90%	90%
	2006 \$'000	As restated 2005 \$'000
KEY BALANCE SHEET ITEMS		
Shareholders' funds	5,257,586	4,337,471 ^o
Total assets *	40,453,298	22,930,916 ^o
Net assets per share #	\$4.94	\$4.09 ^o

^o 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 HKFRS

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

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

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

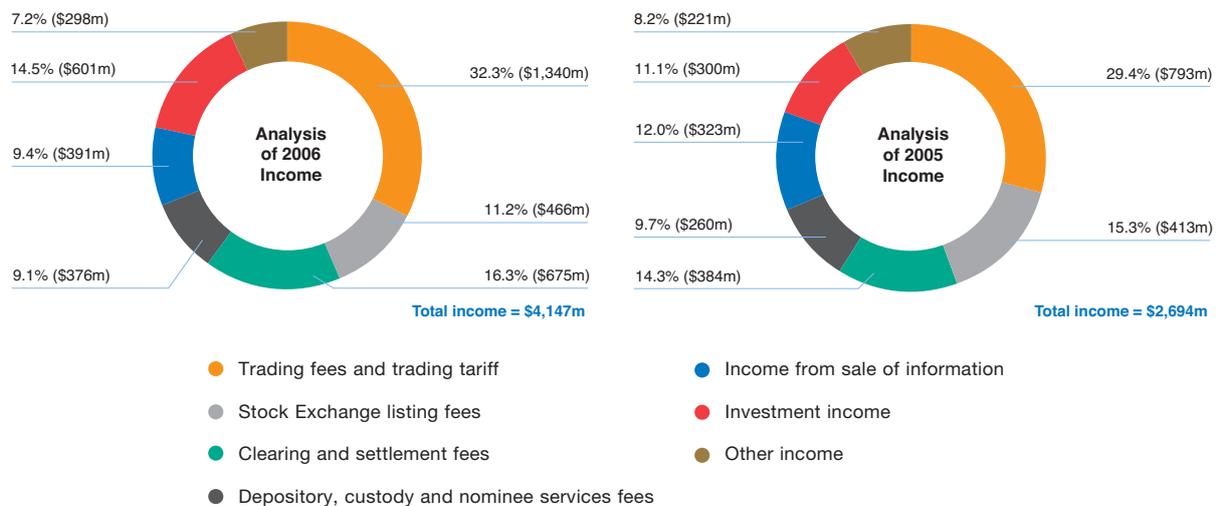
Due to the positive market sentiment stimulated by the large IPOs and the sustained economic growth in the Mainland, activity on the Stock Exchange and the Futures Exchange increased substantially. Several new records were achieved in the Cash and the Derivatives Markets in 2006, including the highest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

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

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

The accounts have been prepared in accordance with HKFRSs issued by the HKICPA, which have been aligned with the requirements of International Financial Reporting Standards in all material respects as at 31 December 2006.

Income

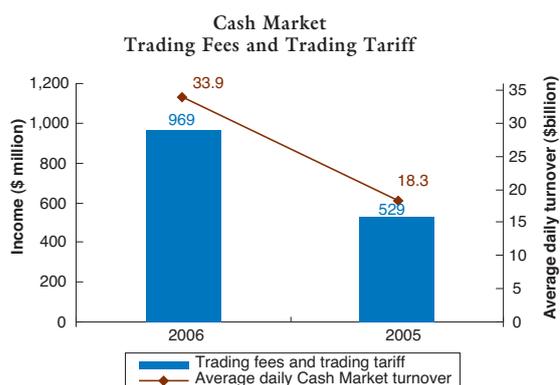


(A) Income affected by market turnover

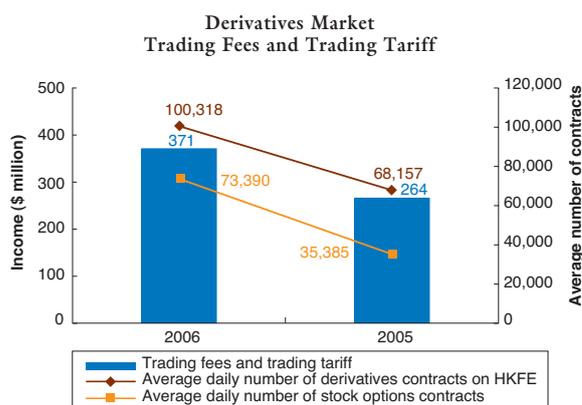
	2006 \$'000	2005 \$'000	Change
Trading fees and trading tariff	1,340,355	793,247	69%
Clearing and settlement fees	674,373	384,019	76%
Depository, custody and nominee services fees	376,118	259,952	45%
Total	2,390,846	1,437,218	66%

Key market indicators

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

Trading fees and trading tariff

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



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

Clearing and settlement fees

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

Depository, custody and nominee services fees

Depository, custody and nominee services fees mainly comprised scrip fees, stock custody fees, eIPO handling charges, dividend collection fees, stock withdrawal fees and corporate action fees. Despite the abolition of scrip fees on deemed book close effective 1 January 2006 (2005 deemed book close scrip fees: \$41 million), depository, custody and nominee services fees increased due to higher scrip fees, stock withdrawal fees, corporate action fees, dividend collection fees and eIPO handling charges resulting from increased activity of the Cash Market. The fees were influenced by the level of Cash Market activities but did not move proportionately with changes in the Cash Market turnover as they varied mostly with the board lots rather than the value of the securities concerned and many were subject to a maximum fee. Moreover, scrip fee was only chargeable on the net increase in individual Participants' aggregate holdings of the securities on book closing dates.

(B) Stock Exchange listing fees

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

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

Key drivers for annual listing fees

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

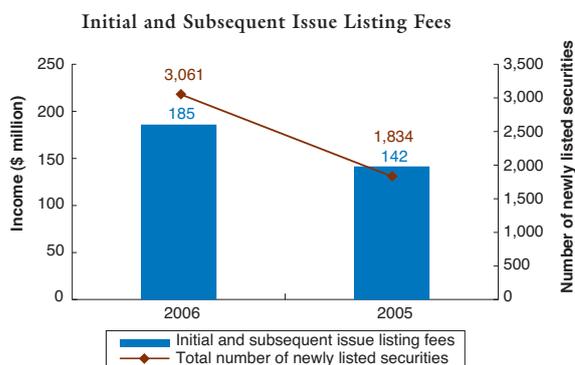
Key drivers for initial and subsequent issue listing fees

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

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



Annual listing fees increased in line with the total number of listed companies.



Initial and subsequent issue listing fees increased with the total number of newly listed securities.

(C) Income from sale of information

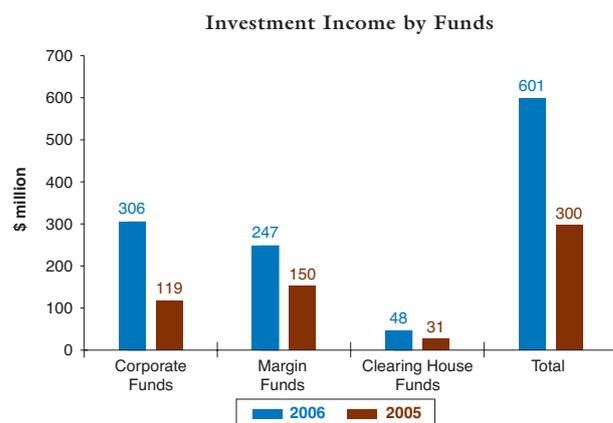
	2006 \$'000	2005 \$'000	Change
Income from sale of information	391,213	322,713	21%

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

(D) Investment income

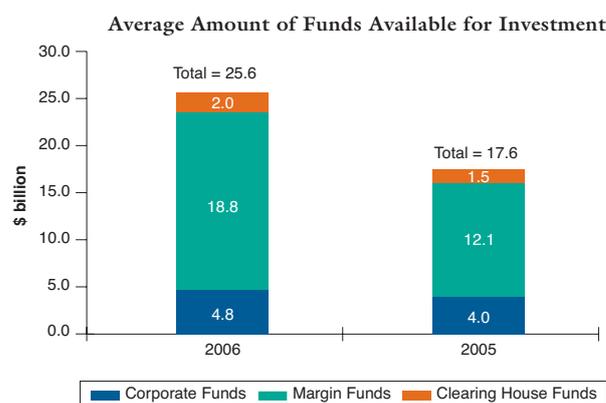
	2006 \$'000	As restated 2005 \$'000	Change
Gross investment income	1,043,750	426,380	145%
Interest expenses	(442,670)	(126,260)	251%
Investment income	601,080	300,120	100%

The movements in total investment income by Funds were as follows:



Investment income from Margin Funds and Clearing House Funds rose due to increased fund size and rising interest rates in 2006. The increase in investment income from Corporate Funds was due to rising interest rates and a significant increase in fair value gains of Corporate Fund investments in 2006.

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

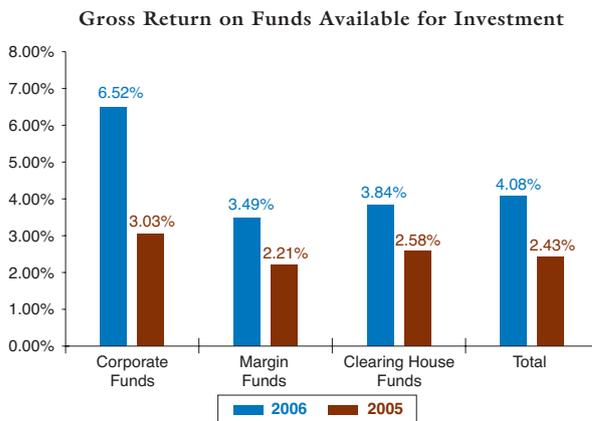


The increase in average amount of Corporate Funds was mainly due to the profit net of dividends paid.

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

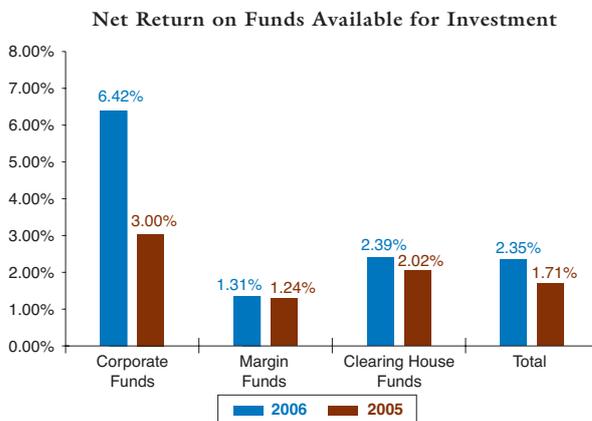
The increase in average amount of Clearing House Funds was mainly due to the increase in additional contributions from Participants in response to market fluctuations and changes in risk exposure.

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



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

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



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

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

(E) Other income

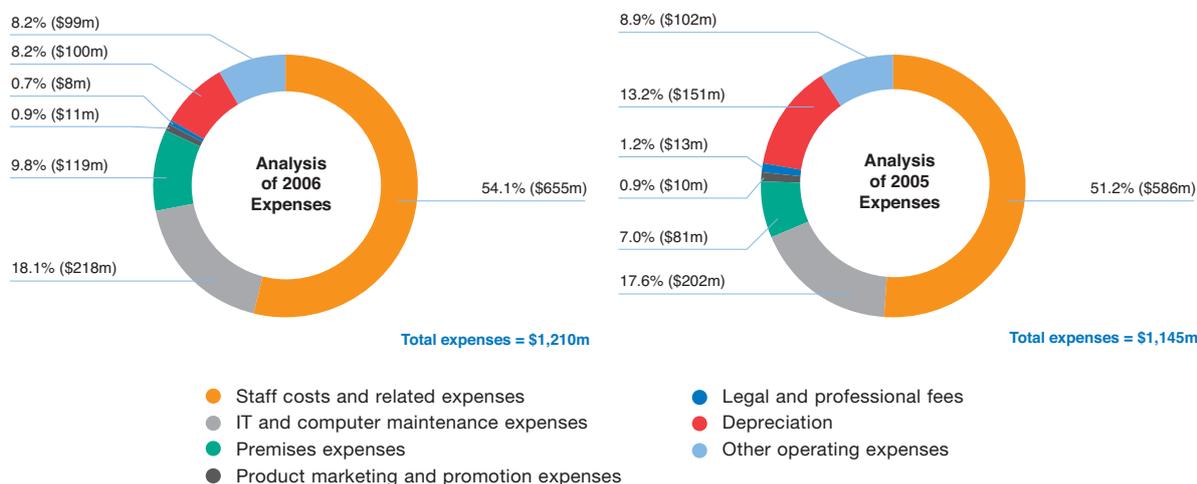
	2006 \$'000	2005 \$'000	Change
Network, terminal user, dataline and software sub-license fees	180,372	129,733	39%
Participants' subscription and application fees	33,927	34,351	(1%)
Brokerage on direct IPO applications	57,066	34,123	67%
Trading booth user fees	9,162	–	N/A
Fair value gain of an investment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

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

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

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

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

Operating Expenses

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

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

Information technology and computer maintenance expenses of the Group, after excluding goods and services directly consumed by the Participants of \$85 million (2005: \$55 million), were \$133 million (2005: \$147 million). The reduction was mainly due to lower license fees and network costs. The increase in costs directly consumed by Participants was primarily due to purchases of OG and AMS/3 terminals by the Participants to replace their outdated network equipment. Costs consumed by Participants were mostly recovered from the Participants and the income was included as part of network, terminal user, dataline and software sub-license fees under Other income. During the year, capital expenditures on computer systems, hardware and software amounted to \$27 million (2005: \$58 million).

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

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

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

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

Share of Profits less Losses of Associates

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

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

Taxation

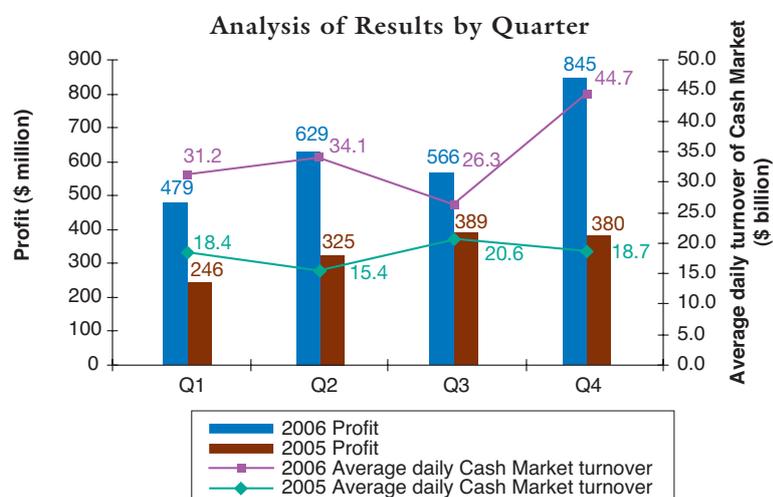
	2006 \$'000	2005 \$'000	Change
Taxation	444,898	227,460	96%

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

Analysis of Results by Quarter

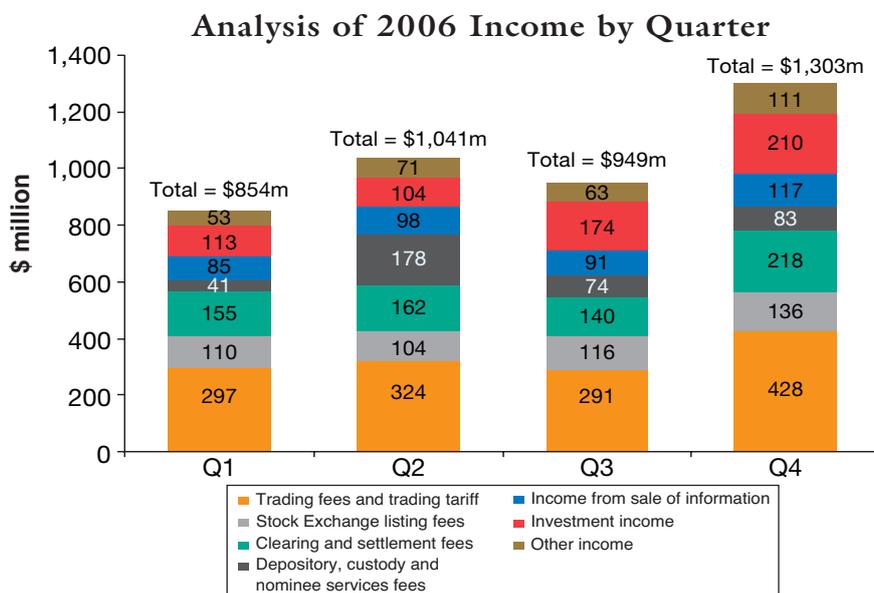
Analysis of results by quarter

	Q1 2006 \$'000	Q2 2006 \$'000	Q3 2006 \$'000	Q4 2006 \$'000	Total 2006 \$'000
Income	854,127	1,041,121	948,435	1,303,233	4,146,916
Operating expenses	292,527	303,961	297,163	316,922	1,210,573
Operating profit	561,600	737,160	651,272	986,311	2,936,343
Share of profits less losses of associates	3,220	6,032	6,734	11,138	27,124
Profit before taxation	564,820	743,192	658,006	997,449	2,963,467
Taxation	(85,981)	(113,720)	(92,288)	(152,909)	(444,898)
Profit attributable to shareholders	478,839	629,472	565,718	844,540	2,518,569
	Q1 2005 \$'000	Q2 2005 \$'000	Q3 2005 \$'000	As restated Q4 2005 \$'000	As restated Total 2005 \$'000
Profit attributable to shareholders	245,421	325,375	389,120	379,642	1,339,558



Profit attributable to shareholders for all quarters of 2006 has shown a significant growth over 2005. The highest profit was recorded in the fourth quarter of 2006 when the average daily turnover value on the Stock Exchange, average daily number of derivatives contracts traded on the Futures Exchange and stock options contracts traded reached the peak during the quarter.

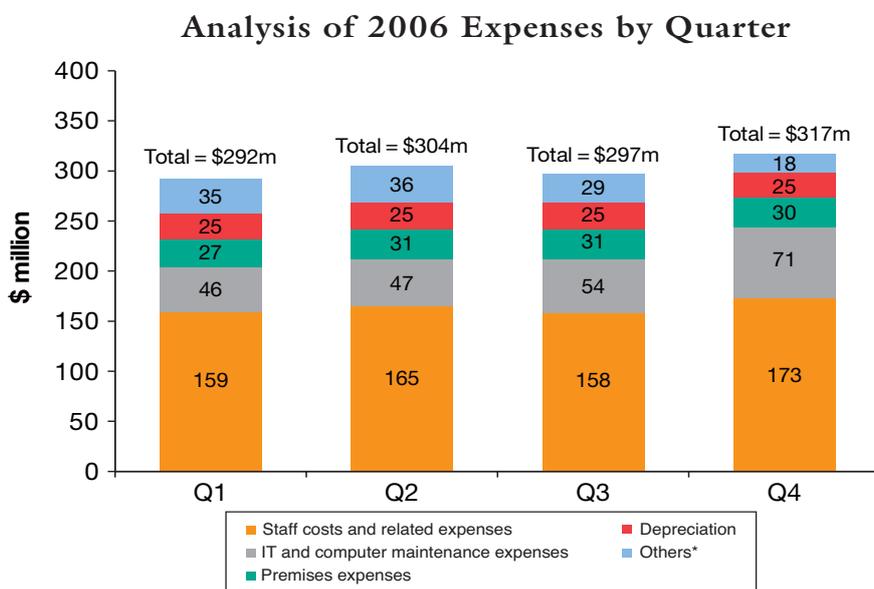
Analysis of income by quarter



The key market indicators affecting the income of the Group by quarters are set out below:

	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Year 2006
Average daily turnover value on the Stock Exchange (\$ billion)	31.2	34.1	26.3	44.7	33.9
Average daily number of derivatives contracts traded on the Futures Exchange	87,755	107,681	95,911	110,661	100,318
Average daily number of stock options contracts traded on the Stock Exchange	61,863	65,038	66,836	100,169	73,390
Number of newly listed derivative warrants	546	566	716	995	2,823
Number of newly listed companies on Main Board	12	10	10	24	56
Number of newly listed companies on GEM	3	1	1	1	6

Analysis of operating expenses by quarter



* Others include product marketing and promotion expenses, legal and professional fees and other operating expenses.

Key Changes to Financial Position

Key changes in the Group's financial position during the year were as follows:

(A) Fixed assets and capital commitments

The Group's fixed assets consisted of leasehold buildings, computer trading and clearing systems, other computer hardware and software and miscellaneous assets such as leasehold improvements.

As at 31 December 2006, the net book value of fixed assets dropped by \$48 million compared with 31 December 2005 mainly due to a \$62 million decrease in computer trading and clearing systems and other computer hardware and software to \$150 million (2005: \$212 million), attributable to depreciation of \$89 million, but partly offset by additions of \$27 million during the year. In 2006, the net book value of leasehold improvements increased by \$11 million to \$38 million (2005: \$27 million) due to the refurbishment of the Exchange Trading Hall and Exhibition Hall Complex.

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

(B) Funds

	2006 \$'000	As restated 2005 \$'000	Change
Clearing House Funds	2,270,531	1,340,410	69%
Margin Funds	21,666,474	13,648,581	59%
Corporate Funds	5,897,645	4,196,721	41%
Total	29,834,650	19,185,712	56%

The increase in Clearing House Funds during the year reflected the increase in additional contributions from Participants in response to market fluctuations and changes in risk exposure.

The increase in Margin Funds was due to higher open interest in futures and options contracts.

The increase in Corporate Funds in 2006 was mainly due to the profit net of dividends paid during the year and increase in marks and stamp duty collected on behalf of the Government in line with the higher volume of Cash Market activities at the year-end.

(C) Significant investments held and material acquisitions and disposals of investments and subsidiaries

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

Details of the investments in associates are set out in the Investments in Associates section under the Business Review.

(D) Accounts receivable, prepayments and deposits and accounts payable, accruals and other liabilities

	2006 \$'000	As restated 2005 \$'000	Change
CNS money obligations receivable	9,586,161	2,889,804	232%
Other receivables from Participants	408,321	203,933	100%
Other accounts receivable, prepayments and deposits	211,759	197,427	7%
Less: provision for impairment losses of trade receivables	(4,679)	(4,329)	8%
Total accounts receivable, prepayments and deposits	10,201,562	3,286,835	210%
CNS money obligations payable	9,588,374	2,889,524	232%
Other payables to Participants	802,261	190,594	321%
Stamp duty payable	268,236	75,899	253%
Other accounts payable, accruals and other liabilities	448,329	485,054	(8%)
Total accounts payable, accruals and other liabilities	11,107,200	3,641,071	205%

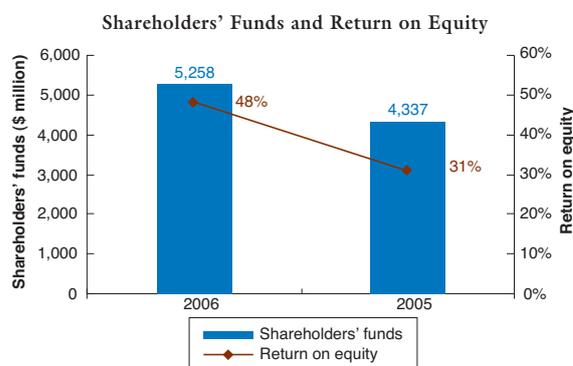
The Group's accounts receivable, prepayments and deposits and accounts payable, accruals and other liabilities mainly comprised CNS money obligations receivable and payable and other receivables from and payables to Exchange and Clearing Participants.

The significant increase in CNS money obligations receivable and payable in 2006 was mainly due to the increase in the level of Cash Market activities at the end of 2006 compared with the end of 2005. Similarly, other receivables from Participants (mainly transaction levy, stamp duty and fees receivable), other payables to Participants (mainly cash marks received from Participants) and stamp duty payable to the Government all recorded a considerable increase.

(E) Shareholders' funds and return on equity

Shareholders' funds as at 31 December 2006 increased by \$921 million to \$5,258 million (2005: \$4,337 million, as restated). The increase was mainly attributable to a \$839 million increase in retained profit before transfers to/from designated reserves and a \$48 million increase in revaluation reserves. Share capital, share premium and employee share-based compensation reserve in aggregate rose by \$34 million mainly due to share options exercised and employee share-based compensation benefits recognised during 2006 of \$55 million, but partly offset by the purchase of shares held for the Share Award Scheme during the year of \$21 million.

Return on equity rose from 31 per cent in 2005 to 48 per cent in 2006 as profit attributable to shareholders increased.



Return on equity achieved record high due to the record high profit in 2006.

Liquidity, Financial Resources and Gearing

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

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

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

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

Charges on Assets

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

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 48(a)(i) – Foreign exchange risk to the consolidated accounts of this Annual Report.

Contingent Liabilities

Details of contingent liabilities are included in note 42 to the consolidated accounts of this Annual Report.

Financial Statistics since the Year of Merger

	2006	As restated ^Ω 2005	2004	2003	2002	2001	2000
KEY MARKET STATISTICS							
Average daily turnover value on the Stock Exchange <i>in \$ billion</i>	33.9	18.3	16.0	10.4	6.7	8.2	12.7
Average daily number of derivatives contracts traded on the Futures Exchange	100,318	68,157	56,752	41,889	30,038	27,192	22,118
Average daily number of stock options contracts traded on the Stock Exchange	73,390	35,385	22,720	17,122	15,203	16,567	16,958
PROFIT AND LOSS ACCOUNT <i>in \$ million</i>							
Income	4,147	2,694	2,394	2,020	1,808	1,998	2,312
Operating expenses	1,210	1,145	1,156	1,224	1,165	1,179	1,331
Operating profit	2,937	1,549	1,238	796	643	819	981
Share of profits less losses of associates	27	18	13	9	5	-	-
Profit before taxation	2,964	1,567	1,251	805	648	819	981
Taxation	(445)	(227)	(194)	(112)	(59)	(85)	(98)
Profit attributable to shareholders	2,519	1,340	1,057	693	589	734	883
Dividend per share <i>in \$</i>	2.13	1.13	0.90	0.60	0.51	0.33	0.33
- Interim and final dividends	-	-	-	1.68	-	-	-
- Special dividend	-	-	-	-	-	-	-
	2.13	1.13	0.90	2.28	0.51	0.33	0.33
Basic earnings per share <i>in \$</i>	2.37	1.26	1.00	0.66	0.56	0.71	0.85
BALANCE SHEET <i>in \$ million</i>							
Non-current assets	2,766	1,875	2,423	2,690	1,886	1,803	2,199
Current assets	37,687	21,055	19,020	17,118	12,147	11,927	11,948
Current liabilities	(33,415)	(17,698)	(15,955)	(13,048)	(7,939)	(7,888)	(8,672)
Net current assets	4,272	3,357	3,065	4,070	4,208	4,039	3,276
Total assets less current liabilities	7,038	5,232	5,488	6,760	6,094	5,842	5,475
Non-current liabilities	(1,780)	(895)	(1,456)	(1,146)	(600)	(620)	(620)
Shareholders' funds	5,258	4,337	4,032	5,614	5,494	5,222	4,855
Net assets per share <i>in \$</i> [^]	4.94	4.09	3.82	5.35	5.26	5.02	4.67
FINANCIAL RATIOS							
Dividend payout ratio [@]	90%	90%	90%	91%	91%	46%	39%
Cost to income ratio [*]	29%	42%	48%	60%	64%	59%	58%
Return on equity [#]	48%	31%	26%	12%	11%	14%	18%
Current ratio	1.1	1.2	1.2	1.3	1.5	1.5	1.4

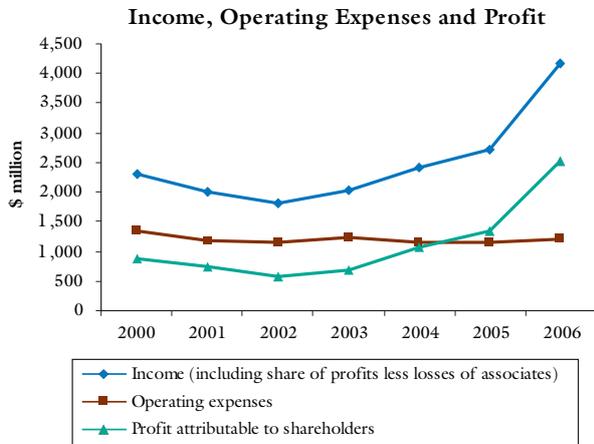
^Ω Following the adoption of revised HKAS 27, certain 2005 figures previously reported have been restated.

[^] Based on number of shares issued and fully paid less number of shares held for the Share Award Scheme at 31 December

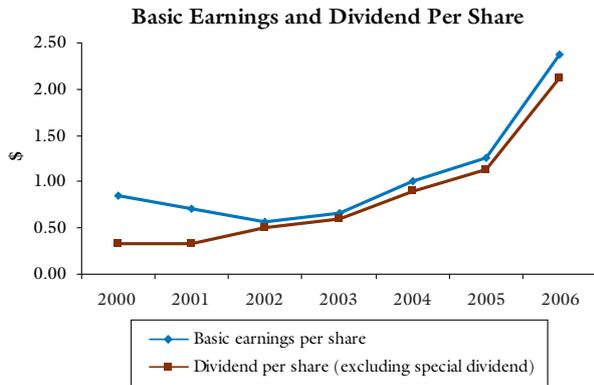
[@] The calculation of dividend payout ratio does not take into account the special dividend.

^{*} For the purpose of computation of cost to income ratio, income includes share of profits less losses of associates.

[#] Based on shareholders' funds as at 31 December

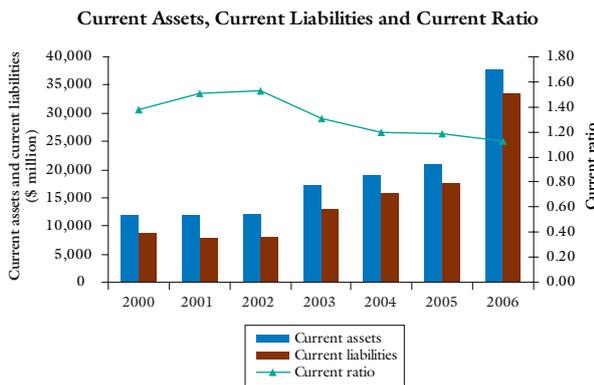


Profit attributable to shareholders declined during 2000 to 2002 as the market sentiment was adversely affected by the weak global economic environment, risk of war against Iraq and accounting scandals in the United States. It started to pick up in 2003 following the end of the Severe Acute Respiratory Syndrome threat as there were increasing hopes of a revival in the Hong Kong economy. Thereafter, activity on the Cash and Derivatives Markets continued to gather increasing momentum. Market sentiment was further boosted by large IPOs and the strengthening economy in the Mainland which culminated in record high turnover of the Cash and Derivatives Markets for the third consecutive year in 2006. Despite increasing pressure on staff and premises costs, operating expenses were kept relatively stable due to stringent cost controls. As a result, the increase in income was translated directly into higher profit attributable to shareholders which achieved record high for the third consecutive year in 2006.

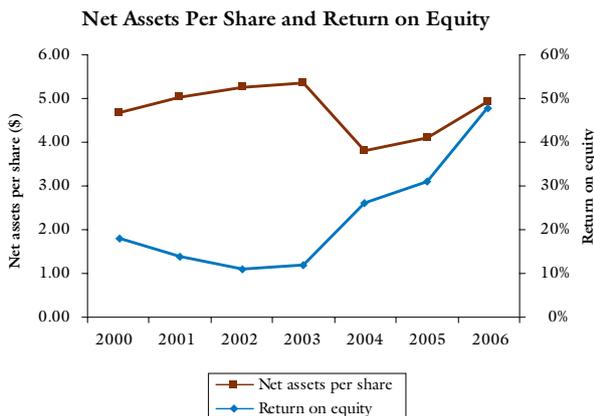


As there were no significant changes in the issued share capital, basic earnings per share followed the same trend as profit attributable to shareholders and reached a new high in 2006.

Since 2002, the Board has adopted a dividend policy of providing shareholders with regular dividends with a target payout ratio of 90%. Thereafter, dividend per share moved in line with basic earnings per share.



Current assets and current liabilities of the Group are directly affected by the amount of CNS money obligations receivable and payable under the T+2 settlement cycle and the size of the Margin Funds. Current assets and current liabilities as at 31 December 2006 were the highest compared to previous year ends as the size of the Margin Funds rose as a result of increased open interest in derivative contracts and CNS money obligations rose due to increased Cash Market activities.



Net assets per share have been increasing steadily due to profits retained until 2004 when a special dividend of \$1.68 per share was paid in May 2004.

Return on equity moved in line with profit attributable to shareholders. The sharp increase in return on equity in 2004 was also due to the special dividend paid in May 2004.

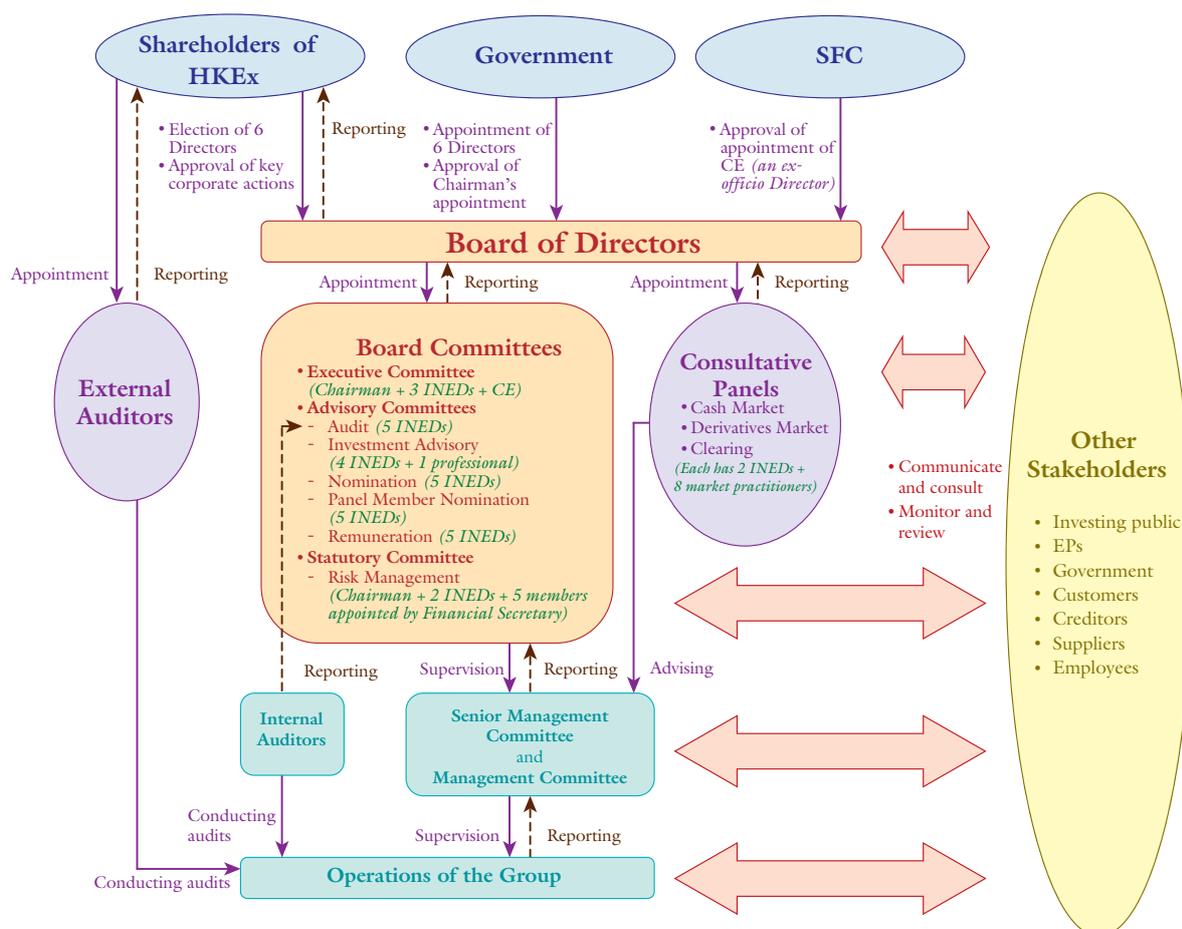
Corporate Governance Report

ACCOUNTABILITY, TRANSPARENCY, FAIRNESS and INTEGRITY are the cornerstones of corporate governance. Good governance practices can help ensure the protection of shareholders' rights, enhance the effectiveness of the board and improve transparency of the company's business and performance. HKEx recognises that long-term success and good corporate governance are linked inextricably. At HKEx, pursuing the best corporate governance standards has always been a very top priority, not only for its growth, but also for the prosperity of Hong Kong.

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

CORPORATE GOVERNANCE STRUCTURE

HKEx's corporate governance structure, as shown below, provides a comprehensive framework to enhance accountability to our Shareholders and other stakeholders, and to ensure that an appropriate management structure is in place. The overall governance structure of HKEx is set out below:



Notes: INED(s) represent Independent non-executive Director(s)
CE represents the Chief Executive of HKEx

KEY CORPORATE GOVERNANCE PRINCIPLES AND PRACTICES

THE BOARD

Roles and Responsibilities

The Board assumes responsibility for leadership and control of HKEx and is collectively responsible for promoting the success of HKEx.

Apart from the usual role as a company director, all Directors are aware of their specific role to act in the interest of the public, having particular regard to the interest of the investing public. They have to ensure that the interest of the public prevails where it conflicts with any other interest of HKEx.

Principal responsibilities of the Board:

- to lay down the Group's objectives, strategies, policies and business plan and to monitor implementation
- to monitor and control the Group's operation and financial performance through the determination of the annual budget in particular the capital expenditure budget
- to set appropriate policies to manage risks in pursuit of the Group's strategic objectives
- to determine the appropriate systems of control, including systems for risk management, financial and operational control as the foundation for ensuring the integrity of the Company's accounting and financial reporting system

The Board has delegated the day-to-day operational responsibilities to the executive management under the instruction/supervision of the Chief Executive and various Board committees.

Board Composition

The Board structure is governed by Article 90 of the Articles of Association and Section 77 of the SFO. Pursuant to the SFO, the Financial Secretary may appoint any person as a Government Appointed Director but the number of such shall not exceed the number of the Elected Directors, excluding the Chief Executive. As at the date of this report, the Board structure is as follows:



Biographies of the Directors and their respective terms of office are set out in the Board of Directors and Senior Management section of this Annual Report and are also available on HKEx's corporate website.

All Directors, except the Chief Executive who is an ex-officio member, have a service term of not longer than three years. Such a staggered board mechanism enables the Board to change its membership in an orderly manner over time while maintaining leadership stability and continuity, and allows regular evaluation of the mix of skills and experience of the Board.

Chairman and Chief Executive

To avoid concentration of power and control, the positions of the Chairman and the Chief Executive are segregated and each plays a distinctive role but complementing each other.

	Chairman	Chief Executive
Responsibilities	<ul style="list-style-type: none"> to provide leadership and ensure effective operation of the Board to ensure that all key and appropriate issues are discussed by the Board in a timely and constructive manner to lead the Board in establishing good corporate governance practices and procedures for the Group 	<ul style="list-style-type: none"> to lead the management in the daily operation of the Group to ensure that the approved strategies are effectively implemented to achieve the Group's strategic objectives to implement the adopted corporate governance practices
Appointment	<ul style="list-style-type: none"> appointed by the Board the appointment is subject to the approval of the Chief Executive of the Government 	<ul style="list-style-type: none"> selected by the Selection Committee (an ad hoc committee) and approved by the Board the appointment is subject to the approval of the SFC

Changes in 2006 and latest development subsequent to the year-end date

Elected Directors

Dr Christine K W Loh and Mr David M Webb were successfully elected and re-elected respectively by Shareholders at the 2006 AGM for a service term of approximately three years from 26 April 2006 until the conclusion of the annual general meeting to be held in 2009. Mr Dannis J H Lee retired after the conclusion of the 2006 AGM.

Government Appointed Directors

On 26 April 2006, the Financial Secretary appointed Mr Ronald J Arculli, Mrs Laura M Cha and Mr Moses M C Cheng, to succeed Mr Charles Y K Lee, Mr Tim Freshwater and Dr Lo Ka Shui, who retired after the conclusion of the 2006 AGM, for a service term of approximately two years from 26 April 2006 until the conclusion of the annual general meeting to be held in 2008.

Chairman

The Board appointed Mr Ronald J Arculli as the Chairman of the Board on 27 April 2006, and the Chief Executive of the Government approved Mr Arculli's appointment on 28 April 2006.

Chief Executive

The Nomination Committee recommended and the Board resolved on 13 December 2006 to reappoint Mr Paul M Y Chow as the Chief Executive of HKEx for a further two-year term from 1 May 2007 to 30 April 2009 and the SFC approved Mr Chow's re-appointment on 14 December 2006.

Senior Executive

In September 2006, Mr Patrick K Conroy, Chief Operating Officer, informed the Board of his decision to return to the US and effectively resigned on 9 February 2007. A Selection Committee (an ad hoc committee) comprising six Board members was formed to identify suitable candidates to fill the vacancy. On 14 February 2007, the Board, based on the recommendation of the Selection Committee, approved the appointment of Mr Gerald D Greiner, the former Deputy Chief Operating Officer, as the Chief Operating Officer. The appointment was subsequently approved by the SFC on 16 February 2007.

Conflict Committee

On 14 February 2007, the Board approved to change the composition of the Conflict Committee, which is responsible for handling conflicts or potential conflicts arising from HKEx's dual roles as the exchange controller and a listed company, to include the Chief Executive of HKSCC in addition to the Chief Executive and the Chief Operating Officer of HKEx, the chief executive of SEHK and the chief executive of HKFE.

Independence of Directors

Pursuant to the Listing Rules, every non-executive Director has confirmed his/her independence with the SFC upon his/her appointment. The Nomination Committee made an annual assessment on the independence of all non-executive Directors and affirmed that each of them satisfied the criteria of independence as set out in the Listing Rules. Each of the Board members has confirmed that they are totally unrelated to each other and with the Senior Management in every aspect including financial, business, or family.

Nomination of Directors

The Nomination Committee (comprising five INEDs) is mandated to lead the process of identifying and nominating suitable candidates for the Board's consideration and recommendation to stand for election by Shareholders at the general meeting, or when necessary, nominating candidates to fill the casual vacancies of Directors. The terms of reference of the Nomination Committee are posted on HKEx's corporate website.

In the selection process, the Nomination Committee makes reference to criteria including, inter alia, reputation for integrity, accomplishment and experience in the financial service industry, in particular in the Cash and Derivatives Markets and the clearing business, professional and educational background, and commitment in respect of available time and the relevant area.

Mr John E Strickland and Mr Oscar S H Wong will retire as Directors upon the conclusion of the 2007 AGM. On 8 March 2007, the Nomination Committee nominated and the Board recommended the two retiring Elected Directors to stand for re-election as Directors at the 2007 AGM.

Appointment and Election/Re-election of Directors

Other than the rules governing the appointment, re-election and removal of Directors laid down in the Articles of Association, details of the procedures for nominating candidates to stand for election at the 2007 AGM are set out in the circular to Shareholders sent together with this Annual Report.

Board Process and Effectiveness

The Board meets regularly, and meeting schedules of each year are normally available to all members before start of the year. The attendance record is shown on page 89 of this Annual Report. Other than regular Board meetings, non-executive Directors also meet periodically without the management to discuss matters of particular interests.

Directors, who have declared to have a conflict of interest or material interests (ie an interest of five per cent or more according to the Articles of Association) in the proposed transactions or issues to be discussed, would not be counted in the quorum of meeting and would abstain from voting on the relevant resolution.

Minutes of the Board/committee meetings with sufficient details of matters and concerns discussed are kept in safe custody by the Company Secretary, and are open for inspection by Directors.

In order to have an effective Board, the management provides appropriate and sufficient information to Directors and committee members in a timely manner to keep them apprised of the latest development of the Group and to enable them to have a thorough consideration of all matters to be discussed at the relevant meetings.

A comprehensive Director's Handbook is issued to every Director, which sets out the guidelines on conduct by making reference to the applicable laws and the Listing Rules, and reminds Directors of their responsibilities to make disclosure of their interests, potential conflict of interests and changes in personal particulars to HKEx in a timely manner. The Director's Handbook is updated periodically to reflect the relevant changes in the applicable laws and Listing Rules.

The proceedings of the Board are well defined and follow all the recommended best practices of the CG Code.

BOARD COMMITTEES

The Board is supported by six committees and a statutory committee. Each of them is dedicated to a specific key area of the issues of the Group. The terms of reference of each committee covering its duties, powers and functions are available on HKEx's corporate website. The composition of each committee is set out on page 26 of this Annual Report.

To discharge their respective functions, the Board and the committees are provided with sufficient resources, including retention of outside advisers, if necessary, to provide advice on any specific matter at the cost of HKEx.

Save for the Executive Committee, the Investment Advisory Committee and the Risk Management Committee, all committees comprise solely INEDs. The chairmen of the respective committees report regularly to the Board, and as appropriate, make recommendations on matters discussed.

The Listing Committees of the Stock Exchange operate independently, under no influence from the Board. The regulatory function of the Stock Exchange is assumed by the Listing Division under the direction and supervision of the Listing Committees. A separate Listing Committee Report for 2006 is prepared and despatched together with this Annual Report.

The following table summarises the attendance of individual Director and committee member in 2006.

Meetings attended/held in 2006									
	Board	Executive Committee	Audit Committee	Investment Advisory Committee	Nomination Committee	Panel Member Nomination Committee	Remuneration Committee	Risk Management Committee (statutory)	2006 AGM
Number of meetings held during the year	14	18	5	4	2	1	5	11	1
Independent Non-executive Chairman									
Ronald J Arculli ¹	10/10	10/10			1/1			7/7	
Charles Y K Lee ²	4/4	8/8			1/1			4/4	1/1
INEDs									
Laura M Cha ^{3,8}	9/10			3/3		1/1			
Moses M C Cheng ^{3,4}	9/10		3/3				2/4		
Marvin K T Cheung ⁵	6/14		3/5				2/5		1/1
Henry H L Fan ⁶	13/14		1/2	3/3				10/11	1/1
Fong Hup ^{4,7,8}	12/14	9/10	5/5		2/2	1/1	4/4	11/11	1/1
Tim Freshwater ²	2/4			1/1					1/1
Bill C P Kwok ⁸	14/14	18/18				1/1		11/11	1/1
Dannis J H Lee ^{2,4,8}	4/4	8/8				0/0	1/1		1/1
Vincent K H Lee ^{4,7,8}	13/14	10/10	5/5		2/2	1/1	4/4		1/1
Lo Ka Shui ^{2,4}	3/4						1/1		1/1
Christine K W Loh ^{3,4}	9/10						4/4		
John E Strickland	13/14		5/5						1/1
David M Webb	14/14			4/4	2/2				1/1
Oscar S H Wong ⁸	12/14			4/4	2/2	1/1			1/1
Executive Director									
Paul M Y Chow (Chief Executive)	14/14	18/18							1/1
Others									
Patrick K Conroy ⁷ (Chief Operating Officer)		8/8							
Market Professionals									
Chan Ka-lok								11/11	
He Guangbei ⁹								10/11	
Keith K K Lui ¹⁰								5/5	
David T K Sun				3/4					
Martin Wheatley ¹⁰								6/6	
Peter T S Wong ⁹								0/0	
Eddie W M Yue								11/11	
Average attendance rate	88%	99%	88%	95%	100%	100%	78%	98%	100%

Notes:

1. Mr Ronald J Arculli, being appointed as a Director on 26 April 2006, succeeded Mr Charles Y K Lee as the Chairman of the Board effective 28 April 2006. Mr Arculli also assumed the chairmanship of the Executive Committee and the Risk Management Committee pursuant to the terms of reference of the Executive Committee and Section 65 of the SFO respectively. Mr Arculli was also appointed as the chairman of the Nomination Committee effective 27 April 2006.
2. Mr Charles Y K Lee, Mr Tim Freshwater, Mr Dannis J H Lee and Dr Lo Ka Shui retired as Directors and members of the respective committees upon conclusion of the 2006 AGM.
3. Mrs Laura M Cha, Mr Moses M C Cheng and Dr Christine K W Loh were appointed as Directors and members of the respective committees on 26 April 2006 and 27 April 2006 respectively.
4. Mr Moses M C Cheng, Mr Fong Hup, Mr Vincent K H Lee and Dr Christine K W Loh were appointed as members of the Remuneration Committee effective 27 April 2006. Dr Lo Ka Shui and Mr Dannis J H Lee retired on 26 April 2006.
5. Due to personal health conditions, Dr Marvin K T Cheung has taken special leave of absence from Board meetings and relevant committee meetings.
6. Mr Henry H L Fan resigned as a member of the Audit Committee and was appointed as the chairman of the Investment Advisory Committee effective 27 April 2006.
7. Mr Fong Hup and Mr Vincent K H Lee were appointed as members of the Executive Committee effective 27 April 2006. With the Board's approval of changing the composition of the Executive Committee to comprise solely Directors, Mr Patrick K Conroy, the then Chief Operating Officer, retired as a member of the Executive Committee on the same date.
8. On 12 April 2006, the Panel Member Nomination Committee was established with members comprising Mr Fong Hup, Dr Bill C P Kwok, Mr Dannis J H Lee, Mr Vincent K H Lee and Mr Oscar S H Wong. Mrs Laura M Cha was appointed as a member of the Panel Member Nomination Committee to succeed Mr Dannis J H Lee effective 27 April 2006. No meeting of the Panel Member Nomination Committee was held in 2006 before Mr Dannis J H Lee's retirement.
9. Mr Peter T S Wong retired as a member of the Risk Management Committee effective 19 January 2006, and was succeeded by Mr He Guangbei effective 20 January 2006. No meeting of the Risk Management Committee was held in 2006 before Mr Wong's retirement.
10. Mr Keith K K Lui succeeded Mr Martin Wheatley as a member of the Risk Management Committee effective 28 August 2006.

CONSULTATIVE PANELS

There are three Consultative Panels, namely the **Cash Market Consultative Panel**, **Derivatives Market Consultative Panel** and **Clearing Consultative Panel**. The major responsibilities of the Consultative Panels include the provision of market expertise and advice to the Board on international trends, the needs of intermediaries, issuers, investors and other market participants, technological challenges and new product opportunities relating to the Cash Market, Derivatives Market and clearing business respectively. Each Consultative Panel consists of no more than 10 members appointed by the Board, comprising two Directors and no more than eight members selected from representatives of market participants and industry experts in that particular area. The lists of members of the three Consultative Panels are available on HKEx's corporate website.

Each Consultative Panel normally meets once a year with additional meetings if the work of which demands.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Remuneration Committee has prepared a report which summarises its work performed during 2006, and also sets out details of the Group's new remuneration structure and policy, and the remuneration, including the awarded share benefits, of the Directors and the Senior Management for the year ended 31 December 2006, on an individual, named basis. This report is set out on pages 102 to 110 of this Annual Report.

ACCOUNTABILITY AND AUDIT

Reporting

Directors are responsible for overseeing the preparation of the annual accounts which give a true and fair view of the Group's state of affairs, the results and cash flow for the year. In preparing the accounts for the year ended 31 December 2006, the Directors:

- adopted all HKFRSs which are in conformity to the International Financial Reporting Standards in all material respects;
- selected suitable accounting policies and applied them consistently; and
- made judgements and estimates that are prudent and reasonable, and ensured that the accounts were prepared on the going concern basis.

HKEx recognises that high quality corporate reporting is important in reinforcing the trustworthy relationship with the Company's stakeholders, and aims at presenting a balanced, clear and comprehensible assessment of the Company's performance, position and prospects in all corporate communications. The annual, interim, and quarterly results of HKEx are published in a timely manner within the limits of three months, two months and 45 days respectively after the end of the relevant periods.

Internal Control

The Board acknowledges its responsibility to ensure that a sound and effective internal control system, which serves as an integral part of HKEx's management system, is maintained. The Board is responsible for approving and reviewing internal control policy, while the responsibility of day-to-day management of operational risks and implementation of mitigation measures lies with the management. An internal control system is designed to provide reasonable, but not absolute, assurance that material misstatement or loss can be avoided, and to manage and minimise risks of failure in operational systems. Key control procedures include:

- establishing a structure with defined authority and proper segregation of duties
- monitoring the strategic plan and performance
- designing an effective accounting and information system
- controlling price-sensitive information
- ensuring swift actions and timely communication with our stakeholders
- encouraging internal reporting on serious concern about malpractice
- conducting internal independent review by Internal Audit Department

HKEx places great value upon creating an environment where employees maintain the highest standard of integrity. To this end, HKEx maintains a whistle-blowing policy to facilitate the raising of concerns by employees about internal malpractice directly to the chairman of the Audit Committee, who will review complaints and decide how the investigation should be conducted. Details of the key control procedures and methodology and process for assessing the internal control system are set out in the Corporate Governance Section on HKEx's corporate website.

Audit Committee

A separate report prepared by the Audit Committee which summarised its works performed during 2006 is set out on page 100 of this Annual Report.

External Auditors

The Board acknowledges that independence of the external auditors is essential to the provision of an objective opinion on the truth and fairness of the financial statements. The Audit Committee is mandated to ensure continuing objectivity and independence of the external auditors.

In order to maintain their independence, the engagement of external auditors to perform non-audit services is prohibited except for limited tax-related services or specific approved items. The fees paid to HKEx's external auditors for audit and non-audit services for the year ended 31 December 2006 (and the comparative figure for the year ended 31 December 2005) are as follows:

	2006 \$	2005 \$
Audit fee	2,323,600	2,000,025
Fees for non-audit services:		
– Taxation services fees	442,002	1,190,193*
– Executive secondment to the Listing Division	–	300,000
– Training	7,200	1,950

* restated figure

Following the adoption of the five-year rotation policy of the engagement partner of its external auditors, the first rotation took effect from the audit for 2005. Moreover, it is the Group's policy of not hiring employees of external auditors who are or have been involved in the Group's audit so as to ensure no impairment of the auditors' judgement or independence in respect of an audit. The Group strictly complied with the policy in 2006.

RELATIONSHIP WITH SHAREHOLDERS AND STAKEHOLDERS

As a core principle of corporate governance, HKEx treats Shareholders in a fair and non-preferential manner. Shareholders have the right to participate in and vote at general meetings. Since 2003, it has been a practice of HKEx to conduct poll voting at general meetings so that each share is entitled to one vote. Separate resolutions are proposed for each substantive issue, including election of individual Directors. More information about Shareholder's rights is set out in the Corporate Governance Section on HKEx's corporate website.

To enhance Shareholders' and other stakeholders' understanding of HKEx's business and latest business initiatives, HKEx also makes use of various communication channels, including the publication of quarterly reports, interim reports and annual reports, provision of a website with comprehensive information and service about HKEx, publication of the "Exchange" newsletter on a quarterly basis to provide updates on HKEx's latest developments, and collection of market comments through consultation in respect of any proposed changes.

The Board endeavours to maintain an on-going dialogue with Shareholders. The annual general meeting provides a useful forum to exchange views with the Board. All members of the Board presented at the 2006 AGM and the matters resolved are summarised below.

Matters resolved at the 2006 AGM

- Approval of the audited accounts for the year ended 31 December 2005
- Approval of a final dividend of \$0.64 per share for the year ended 31 December 2005
- Mr David M Webb and Dr Christine K W Loh were re-elected and elected respectively as Directors from five candidates nominated by either the Board or Shareholders
- Re-appointment of PricewaterhouseCoopers as the external auditors of HKEx
- Grant of a general mandate to Directors to repurchase shares in HKEx not exceeding 10 per cent of the total issued share capital
- Approval of a remuneration of \$240,000 per annum to each of the non-executive Directors.

The poll results were published in newspapers and on HKEx's corporate website.

The Financial Calendar with important dates in 2006 is set out on page 214 of this Annual Report.

A Corporate Social Responsibility Report summarising our approach and work done during 2006 is set out on page 111 of this Annual Report.

HKEx's effort on building and maintaining close relationship with its stakeholders was publicly recognised in January 2007, HKEx received an honourable mention at the IR Magazine Hong Kong Awards 2006 based on the Investor Perception Study (Asia 2006/2007) conducted for the purpose of identifying the leading companies in the field of investor relations.

CONFLICT MANAGEMENT

A number of measures have been undertaken to remove or reduce any potential conflict between HKEx's roles as the exchange controller and a listed commercial entity, including, inter alia, the entering into a Memorandum of Understanding with the SFC, the addition of a new chapter, Chapter 38, to the Main Board Listing Rules, and the establishment of a Conflict Committee. More information about conflict management is set out in the Corporate Governance Section on HKEx's corporate website.

MAJOR INITIATIVES IMPLEMENTED IN 2006 IN RESPECT OF HKEX'S DUAL RESPONSIBILITIES

PUBLIC RESPONSIBILITY (as the front-line regulator of listed companies)	CORPORATE RESPONSIBILITY (as a listed company)
Raising corporate governance profile of Hong Kong	Adopting the best corporate governance practice
<p>Initiatives (references in this Annual Report)</p>	<p>Initiatives (references in this Annual Report)</p>
<ul style="list-style-type: none"> • Improving issuer information dissemination regime by launching the “no-paid ad” project with the aim of centralising the dissemination of listed issuers’ corporate information via the HKEx website (<i>Business Review</i>) • Improving listing decision-making by introducing a new listing decision-making structure through a change in the composition of the Listing Nominating Committee and an expansion of the membership of the Listing Committees (<i>Business Review</i>) • Raising the overall standards of sponsors and compliance advisers by amending the Listing Rules to coincide with the SFC’s revised licensing and monitoring regimes for sponsors and compliance advisers (<i>Business Review</i>) • Fostering corporate governance culture by organising regular corporate governance trainings, seminars and programmes in Hong Kong and the Mainland (<i>Business Review</i>) • Facilitating communication with various stakeholders by introducing various improvement measures including, introduction of a new web-based DWRC, provision of an online monthly market highlights and statistics and the simplified Chinese versions of the Listing Rules on the HKEx website, etc (<i>Business Review and Corporate Social Responsibility Report</i>) • Further development of GEM by initiating an overall review of GEM (<i>Business Review</i>) • Enhancing investor protection by introducing new features to SSA and IP Account with electronic access and alert service of account movement (<i>Business Review</i>) • Enhancing quality of financial reporting by providing operational and funding support to the establishment of the FRC (<i>Corporate Social Responsibility Report</i>) 	<ul style="list-style-type: none"> • Improving transparency of the Company and communication with our stakeholders by launching a new “Corporate Governance Section” on HKEx’s corporate website to provide more detailed and the latest information about the corporate governance framework and practices of the Company (<i>Corporate Social Responsibility Report</i>) • Ensuring swift actions and timely communication with our stakeholders by refining the Escalation and Incident Reporting Policy (<i>Corporate Social Responsibility Report</i>) • Facilitating the Group’s strategic objectives by engaging an independent global consulting company to conduct a thorough review on the remuneration structure with the objective of introducing refinements to the remuneration policy and structure (<i>Remuneration Committee Report</i>) • Improving the mechanism for identifying and selecting nominees for the three Consultative Panels by establishing the Panel Member Nomination Committee (<i>Corporate Social Responsibility Report</i>)

COMPLIANCE WITH THE CG CODE

The Articles of Association were amended in 2005 to specify that all Directors (Government Appointed Directors and Elected Directors), other than the Chief Executive who is an ex-officio Director and whose term of service on the Board is subject to the term of his employment contract with HKEx, are appointed for a term of not more than three years, but shall be eligible for re-appointment upon retirement.

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

CORPORATE GOVERNANCE SCORES AND RATINGS

HKEx has been rated highly or granted awards in recognition of its achievement in corporate governance from a number of local and overseas professional institutions. The governance ratings and awards granted in 2006 to HKEx are as follows:

Organisation	Ratings/Awards/Comments
GovernanceMetrics International Inc	Corporate Governance Rating as of December 2006 Global rating: 7.5 (2005: 6.5); Home market rating: 10.0 (2005: 9.5) out of the full score of 10.0
FTSE4Good Policy Committee	FTSE4Good Index Series HKEx continued to be a constituent of the FTSE4Good Index
Hong Kong Institute of Certified Public Accountants	2006 Best Corporate Governance Disclosure Awards (Nov 2006) <i>Non-Hang Seng Index Category</i> 2005 Annual Report – Platinum Award
The Hong Kong Management Association	2006 HKMA Best Annual Reports Awards (Nov 2006) <i>General Category</i> 2005 Annual Report – Gold Award; Citation for Achievement in Corporate Governance Disclosure – Winner
Hong Kong Institute of Directors and City University of Hong Kong	Survey on Corporate Governance of Hong Kong Listed Companies (Nov 2006) Among top 10 locally listed companies with best corporate governance practices

INTERESTS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN THE SHARES AND UNDERLYING SHARES OF HKEX

As at 31 December 2006, the Directors, the Chief Executive of HKEx and their respective associates had the following interests in the shares and underlying shares of HKEx, as recorded in the register maintained by HKEx pursuant to Section 352 of the SFO, or as otherwise notified to HKEx and the Stock Exchange pursuant to the Model Code:

Name of Director	Number of shares/underlying shares held				Total	% of the issued share capital
	Personal interests	Family interests	Corporate interests	Other interests		
Paul M Y Chow	3,280,000 <i>(note 1)</i>	–	–	–	3,280,000	0.31
Vincent K H Lee	–	–	1,927,500 <i>(note 2)</i>	–	1,927,500	0.18
John E Strickland	18,000 <i>(note 3)</i>	–	–	–	18,000	0.00
David M Webb	2 <i>(note 4)</i>	2 <i>(note 5)</i>	6 <i>(note 6)</i>	–	10	0.00

Notes:

- 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.*
- Mr Lee has interest in 1,927,500 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.*
- The shares were held by Mr Strickland as beneficial owner.*
- The shares were held by Mr Webb as beneficial owner.*
- The shares were owned by the spouse of Mr Webb.*
- The shares were owned by Fundamental Consultants Limited, Member One Limited and Member Two Limited which are under the control of Mr Webb.*

Save for those disclosed above, none of the Director or the Chief Executive of HKEx or their respective associates 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.

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 year ended 31 December 2006, 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.

All Directors are obliged to observe the requirements stipulated in the Model Code as set out in Appendix 10 to the Main Board Listing Rules. Each of the Directors confirmed, following specific enquiry by HKEx, that he/she fully complied with the Model Code throughout 2006.

SENIOR MANAGEMENT'S INTERESTS AND SHORT POSITIONS

As at 31 December 2006, the Senior Management had the following interests in the shares and underlying shares of HKEx:

Name of employee	Number of shares held	Number of shares issuable under share options granted	Number of Awarded Shares (Note)
Patrick K Conroy	–	1,476,000	–
Gerald D Greiner	10,000	350,000	41,677
Lawrence K M Fok	700,000	278,000	25,253
Mary M L Kao	654,000	220,000	29,461
Henry M W Law	–	180,000	23,507
Stewart S C Shing	–	822,000	–
Archie T C Tsim	–	164,000	33,567
Richard G Williams	–	547,000	–
Alfred K K Wong	190,000	200,000	32,952

Note: Included further shares acquired through reinvesting dividend received.

CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2006, the Group had the following continuing connected transactions, details of which are set out below:

- (A) For the year ended 31 December 2006, transactions between the following connected persons and HKEx or its subsidiaries arising from or in connection with the use of (i) the facilities provided by HKEx or its subsidiaries for the trading, clearing and/or settlement of securities and futures products and transactions; and (ii) all services offered by HKEx or its subsidiaries which are ancillary, incidental or otherwise related to the foregoing:
- (1) Mr Ronald J Arculli, the Chairman, was interested in the transactions entered into by Bokhary Securities Limited (“BSL”), an EP and a Clearing Participant, in which his sister has 50 per cent interests.
 - (2) Dr Bill C P Kwok, an INED, was interested in the transactions entered into by Wocom Securities Limited (“WSL”) and Wocom Limited, EPs and Clearing Participants, which are associates of Dr Kwok by virtue of the Listing Rules.
 - (3) Mr Dannis J H Lee, an ex-INED who retired on 26 April 2006, was interested in the transactions entered into by DL Brokerage Limited (“DL Brokerage”), an EP and a Clearing Participant, which is beneficially wholly-owned by Mr Lee.
 - (4) Mr Vincent K H Lee, an INED, was interested in the transactions entered into by Tung Tai Securities Company Limited (“TTS”) and Tung Tai Futures Limited, EPs and Clearing Participants, which are associates of Mr Lee by virtue of the Listing Rules.
 - (5) Mr Leong Ka Chai, an ex-INED who retired on 12 April 2005, was interested in the transactions entered into by Roctec Securities Company Limited (“RSCL”) and Roctec Futures Trading Company Limited, EPs and Clearing Participants, which are associates of Mr Leong by virtue of the Listing Rules.

All the above continuing connected transactions were entered into in the ordinary course of business and on normal commercial terms.

(B) For the year ended 31 December 2006, transactions between the following connected persons and HKEx or its subsidiaries arising from or in connection with the listing of securities on the Stock Exchange and all services offered by the Group which are ancillary, incidental or otherwise related to the foregoing:

- (1) Dr Bill C P Kwok, an INED, was interested in the transactions entered into by his associate, Wing On Company International Limited, a listed company on the Stock Exchange.
- (2) Mrs Laura M Cha, an INED, was interested in the transactions entered into by her associate, HKR International Limited, a listed company on the Stock Exchange.
- (3) Dr Lo Ka Shui, an ex-INED who retired on 26 April 2006, was interested in the transactions entered into by his associates Great Eagle Holdings Limited (“Great Eagle”) and Champion Real Estate Investment Trust (“Champion REIT”), the respective shares and units are listed on the Stock Exchange.

All the above continuing connected transactions were entered into in the ordinary course of business and on normal commercial terms.

(C) For the year ended 31 December 2006, transactions between the following connected persons and HKEx or its subsidiaries arising from or in connection with the HKSCC arrangement on behalf of Clearing Participants of Buy-in Transactions:

- (1) Mr Ronald J Arculli, the Chairman, was interested in the Buy-in Transactions entered into by BSL, in which his sister has 50 per cent interests. For the period from 26 April 2006 (the date of appointment of Mr Arculli as a Director) to 31 December 2006, the total consideration of such transactions was \$348,891.46, comprising an aggregate of buy-in cost of \$347,980.76 and related brokerage fee of \$910.70 earned by BSL.
- (2) Dr Bill C P Kwok, an INED, was interested in the Buy-in Transactions entered into by WSL which is an associate of Dr Kwok by virtue of the Listing Rules. For the year ended 31 December 2006, the total consideration of such transactions was \$12,141,900.98, comprising an aggregate of buy-in cost of \$12,126,472.15 and related brokerage fee of \$15,428.83 earned by WSL.
- (3) Mr Dannis J H Lee, an ex-INED who was retired on 26 April 2006, was interested in the Buy-in Transactions entered into by DL Brokerage beneficially wholly-owned by Mr Lee. For the year ended 31 December 2006, the total consideration of such transactions was \$5,313,077.83, comprising an aggregate of buy-in cost of \$5,299,583.00 and related brokerage fee of \$13,494.83 earned by DL Brokerage.
- (4) Mr Vincent K H Lee, an INED, was interested in the Buy-in Transactions entered into by TTS which is an associate of Mr Lee by virtue of the Listing Rules. For the year ended 31 December 2006, the total consideration of such transactions was \$8,048,666.42, comprising an aggregate of buy-in cost of \$8,037,871.41 and related brokerage fee of \$10,795.01 earned by TTS.

- (5) Mr Leong Ka Chai, an ex-INED who retired on 12 April 2005, was interested in the Buy-in Transactions entered into by RSCL which is an associate of Mr Leong by virtue of the Listing Rules. For the period from 1 January 2006 to 12 April 2006 (the last date on which he was considered as a connected person under the Listing Rules), the total consideration of such transactions was \$343,564.30, comprising an aggregate of buy-in cost of \$342,632.30 and related brokerage fee of \$932.00 earned by RSCL.

All the above continuing connected transactions were entered into in the ordinary course of business and on normal commercial terms.

(D) Lease of premises between a connected person and HKFE

On 16 February 2005, HKFE as the tenant entered the tenancy (“Tenancy”) with Shine Hill Development Limited (“Shine Hill”), the landlord, in respect of the premises of Suites 501-3 and storeroom on 5th Floor and Suites 1101 & 1109-11 on 11th Floor, ICBC Tower, 3 Garden Road, Central, Hong Kong (“Premises”) for a term of two years commencing 1 January 2005 at a monthly rental of \$310,440, exclusive of management charges, rates and operating expenses. Shine Hill is owned and controlled by Champion REIT in which Great Eagle owns 49.2 per cent interests. Prior to 24 May 2006 (public listing of Champion REIT following the spin-off exercise of Great Eagle), Shine Hill was a subsidiary of Great Eagle. Dr Lo Ka Shui (“Dr Lo”), an ex-INED who retired on 26 April 2006, is a controlling shareholder of Great Eagle. The Tenancy constituted a continuing connected transaction of HKEx, and details of which were announced on 14 December 2004. For the year ended 31 December 2006, the total rent, management charges and operating expenses paid in respect of the Tenancy was \$5,101,013.68.

As part of the reorganisation under the spin-off of Champion REIT by Great Eagle, Shine Hill entered into a sale and purchase agreement dated 26 April 2006 with CP (SH) Limited (“CP(SH)”) pursuant to which Shine Hill agreed to sell and CP(SH) agreed to purchase, among others, ICBC Tower, 3 Garden Road, Central, Hong Kong and CP(SH) has the right to enter into further tenancies and licences in respect of the building.

As the Tenancy came to expire on 31 December 2006, HKFE entered into an agreement with CP(SH) on 13 December 2006 to renew the Tenancy (“New Tenancy”) for a further two-year term commencing 1 January 2007 at a monthly rental of \$745,056, exclusive of management charges, rates and operating expenses. Both CP(SH) and Shine Hill are owned and controlled by Champion REIT in which Great Eagle owns 49.2 per cent interests, they are connected persons of HKEx by virtue of them being associates of Dr Lo and accordingly, the New Tenancy constituted a continuing connected transaction of HKEx under the Listing Rules. Details of the New Tenancy were announced on 13 December 2006.

The Premises have been occupied and used by HKFE as offices since 1992. There are practical needs for HKFE to retain its existing offices in ICBC Tower as the primary data centre of HKFE and the office accommodating its system support team.

In respect of the above continuing connected transactions, two INEDs who had not entered into any connected transactions with the Group, reviewed the transactions and confirmed that the continuing connected transactions entered into by the Group were in compliance with the

conditions of the waiver granted by the SFC and/or with the requirements of the Listing Rules in such a way that:

- (a) the continuing connected transactions disclosed above were entered into in the ordinary and usual course of business of the Group and conducted on an arm's length basis on normal commercial terms or on terms no more favourable than terms available to independent third parties;
- (b) in respect of transactions other than Buy-in Transactions, the Tenancy and the New Tenancy, they were in accordance with the rules and regulations of the relevant Group company governing such transactions and where the rules and regulations do not govern those transactions in full, in accordance with the standard terms and conditions of the relevant Group company relating to such transactions;
- (c) in respect of Buy-in Transactions, they were in accordance with the standard terms and conditions of HKSCC applicable generally to all Buy-in Brokers in such transactions acting for and on behalf of HKSCC and at the agreed commission rate payable by HKSCC in respect of all such Buy-in Transactions; and
- (d) in respect of the Tenancy and the New Tenancy, they were entered into in accordance with the terms as contained therein, and were on normal commercial terms.

Based on the opinion of the two INEDs, the Board considered and decided that the continuing connected transactions were fair and reasonable and in the interests of Shareholders as a whole.

The external auditors of HKEx also confirmed that:

- (a) the continuing connected transactions disclosed above had been approved by the Board;
- (b) the continuing connected transactions, other than the Tenancy and the New Tenancy, were in accordance with the rules and regulations of the relevant Group company governing fees for the applicable facilities, services or goods provided by, or to, the Group and where the rules and regulations do not govern the transactions in full, were in accordance with the standard terms and conditions of the relevant Group company relating to the applicable facilities, services or goods provided by, or to, the Group; and
- (c) the Tenancy had been entered into in accordance with the relevant agreement governing the transaction, and the annual rental had not exceeded the cap disclosed in the announcement of HKEx made on 14 December 2004.

RELATED PARTY TRANSACTIONS

The Group also entered into certain transactions with parties regarded as “related parties” under the applicable accounting standards. Details of these transactions are set out in note 45 to the consolidated accounts.

On behalf of the Board

MAU Kam Shing, Joseph

Company Secretary

Hong Kong, 8 March 2007

Audit Committee Report

THE AUDIT COMMITTEE

The Audit Committee comprises five INEDs, appointed by the Board, who have extensive experience in financial matters. Messrs Fong Hup, Marvin K T Cheung and Vincent K H Lee are certified public accountants but none of them are employed by or otherwise affiliated with the former or existing auditors of HKEx.

Terms of Reference

The Audit Committee assists the Board by providing an independent review and supervision of financial reporting, and satisfying themselves as to the effectiveness of the Group's internal controls and the adequacy of the external and internal audits. In performing its duties, the Audit Committee is provided with sufficient resources to discharge its responsibilities and is supported by the Internal Audit Department ("IA") to examine all matters relating to the Group's adopted accounting principles and practices, and reviews the Group's information systems. External auditors, the Chief Executive and senior executives are invited to attend the meetings, as and when necessary. The Audit Committee is accountable to the Board and the minutes of all meetings are circulated to the Board for information. The terms of reference of the Audit Committee setting out its role and the responsibilities are posted on HKEx's corporate website.

Summary of major work done in 2006

The Audit Committee holds regular meetings at least four times a year and organises additional meetings if and when necessary. In 2006, a total of five meetings were convened. The attendance record is shown on page 89 of this Annual Report. The following is a summary of the tasks completed by the Audit Committee during 2006:

- reviewed the 2005 Internal Audit activities and approved the 2006 Internal Audit Plan;
- reviewed the financial reports for the year ended 31 December 2005, for the six months ended 30 June 2006, and for the quarters ended 31 March 2006 and 30 September 2006;
- reviewed the findings and recommendations of the IA on the efficiency and effectiveness of various Divisions/Departments and HKEx's services and products;
- followed-up on the implementation of recommendations made by the IA;
- reviewed the effectiveness of the internal control system;
- reviewed the external auditors' statutory audit plan, 2006 letter of representation and audit engagement letter;
- considered and approved the 2006 external audit fees;
- reviewed the non-audit services, especially tax-related services, provided by the external auditors;
- reviewed the reporting on fraud detection; and
- reviewed the "Continuing Connected Transactions" set forth on pages 96 to 99 of this Annual Report.

INTERNAL CONTROL

At its meeting on 19 January 2007, the Audit Committee reviewed the 2006 HKEx Internal Control System Evaluation conducted by the IA. The Audit Committee did its best to ensure that the internal control system effectively detects irregularities and safeguards assets. The Audit Committee considered HKEx's internal control system to be effective and that HKEx had adopted the necessary control mechanisms to monitor and correct non-compliance. The Audit Committee confirmed that it was discharging its responsibilities in accordance with the requirements of the CG Code with diligence and is satisfied that the Group in 2006 fully complied with the code provisions on internal controls.

REVIEW OF 2006 CONSOLIDATED FINANCIAL STATEMENTS

On 1 March 2007, the Audit Committee reviewed the 2006 consolidated financial statements, including the Group's adopted accounting principles and practices, in conjunction with HKEx's external and internal auditors. Based on this review and discussions with management, as well as the internal and external auditors, the Audit Committee endorsed the accounting treatment adopted by HKEx and had to the best of its ability assured itself that the disclosure of the financial information in this report complies with the applicable accounting standards and Appendix 16 to the Main Board Listing Rules. The Audit Committee therefore recommended the Board approve the consolidated financial statements for the year ended 31 December 2006 for public release.

RE-APPOINTMENT OF EXTERNAL AUDITORS

The Audit Committee's recommendation on the re-appointment of PricewaterhouseCoopers as the Group's external auditors for 2006 was approved by Shareholders at the 2006 AGM.

Members of the Audit Committee

John Estmond STRICKLAND (*Chairman*)

FONG Hup (*Deputy Chairman*)

CHENG Mo Chi, Moses

CHEUNG Kin Tung, Marvin

LEE Kwan Ho, Vincent Marshall

Hong Kong, 8 March 2007

Remuneration Committee Report

THE REMUNERATION COMMITTEE

Terms of Reference

The Remuneration Committee is mandated to formulate the Group's remuneration policy for approval by the Board. Other key functions include, inter alia, setting the guidelines for the recruitment of the Chief Executive and the Senior Management, determining their remuneration packages and making recommendations to the Board on the Group's annual salary adjustment, the annual performance bonus and share award. The terms of reference which lay down the role of the Remuneration Committee, are posted on HKEx's corporate website.

Summary of major work done in 2006

During 2006, the Remuneration Committee held five meetings. The attendance record is shown on page 89 of this Annual Report. The following is a summary of the major tasks completed by the Remuneration Committee in 2006, which had been approved by the Board:

- amended and restated the rules and trust deed of the Share Award Scheme;
- proposed refinement to the remuneration policy and structure based on recommendations of an independent global consulting company specialising in human resources and compensation;
- recommended pay adjustments for 2006/2007 based on the refined remuneration policy structure;
- recommended the performance bonus to be awarded to staff, including the Chief Executive and the Senior Management;
- recommended the amount for the purchase of shares of HKEx to be awarded to eligible employees under the Share Award Scheme; and
- recommended the revised remuneration of non-executive Directors for approval by Shareholders.

REMUNERATION POLICY

Non-executive Directors

The objective of remunerating non-executive Directors is to ensure that they are remunerated sufficiently but not excessively for their efforts and time dedicated to HKEx. Their remuneration is reviewed annually with reference to companies of comparable business or scale, and subject to the approval of Shareholders.

The current remuneration of \$240,000 per annum approved by Shareholders at the 2005 AGM became effective starting from the conclusion of the 2005 AGM in April 2005. At the 2006 AGM, Shareholders approved the proposal that the non-executive Directors' remuneration remain unchanged until the conclusion of the 2007 AGM. Based on a recent survey of the average annual remuneration of non-executive directors conducted on HSI constituent companies as well as overseas exchanges with publicly traded shares, the Remuneration Committee recommended raising the remuneration of the Chairman and each of the other non-executive Directors from the existing \$240,000 per annum to \$450,000 and \$300,000 respectively per annum, and paying an additional remuneration of \$50,000 per annum to a non-executive Director for each committee membership held on the Executive Committee, Audit Committee, Remuneration Committee and Investment Advisory Committee. The proposed remuneration is set to reflect the heavy workload and significant responsibilities of the Chairman and to align with the practice adopted by other major listed companies in differentiating the remuneration for the chairman and other board members, and paying additional compensation for non-executive directors' time spent on various committees, and it will bring the total remuneration of non-executive Directors in line with the market. The recommendation of the Remuneration Committee has been endorsed by the Board and it will be put forward for Shareholders' approval at the 2007 AGM.

General Employees

Quality and dedicated staff are valuable assets contributing to the Group's performance. HKEx's remuneration policy is built upon the principles of providing an equitable, motivating and market-competitive remuneration package that is able to stimulate and drive staff at all levels to work towards achieving the Group's strategic objectives and to ensure that HKEx is able to retain high-calibre employees. In February 2006, HKEx commissioned an independent global consulting company specialising in human resources and compensation to conduct an overall review of HKEx's remuneration policy and structure with the objective of introducing refinements to better support achievement of the Group's strategic objectives. Details of the refined remuneration policy and structure are set out in the Corporate Governance Section on HKEx's corporate website.

In summary, employees' remuneration packages comprise fixed and variable components benchmarked against companies in the financial services sector:

Fixed component – base salary

Variable component – annual performance bonus and share award

Other benefits include the provident fund (contribution to the provident fund is set out in note 9 to the consolidated accounts), medical insurance, dental insurance, life and personal accident insurance, employee compensation and business travel insurance.

PAY REVIEW 2006/2007

For the 2006/2007 pay review, the Remuneration Committee recommended, and the Board approved, an average salary increase of four per cent comprising two per cent for cost of living adjustment, and another average of two per cent for market catch-up and promotions.

In determining the performance bonus and share awards, the refined remuneration structure and assessment system recommended by the independent consultant were adopted. The performance bonus and share awards recommended by the Remuneration Committee and approved by the Board were determined based on the Company's performance taking into account both financial and non-financial factors including profit, business development, market and regulatory development, organisational development and market availability. The Board approved an amount equivalent to 3.3 months' salary as performance bonus to award employees for their contributions in 2006 and an amount of \$19,673,160 for the purchase of shares of HKEx to be awarded to senior staff who would be contributing to the long-term development of the Group and for retention purpose. The share awards would vest in five years, subject to the employees remaining in employment.

For 2006, the mix of fixed and variable compensation for different levels of staff was as follows:

	Fixed	Variable (Performance-related)	
Senior staff	67%	21%	12%
Middle-level staff <i>(note)</i>	75%	25%	
General staff	82%	18%	

■ Base compensation – salary ■ Annual incentive – cash bonus ■ Long-term incentive – share award

Note: Share awards were also granted to a limited number of middle-level employees with exemplary performance for retention purpose.

None of the staff participated in the Remuneration Committee's discussion on his/her pay review and performance award.

EMOLUMENTS FOR 2006

Non-executive Directors

A fee of \$240,000 was paid to each non-executive Director, as approved by Shareholders at the 2006 AGM. The fee is payable in proportion to the period of service during the period from the conclusion of the 2006 AGM to the conclusion of the 2007 AGM. Non-executive Directors are, however not entitled to participate in the Share Option Schemes and the Share Award Scheme, or other fringe benefits.

Name	Director's Fee (\$) 2006	Director's Fee (\$) 2005
Ronald J Arculli (<i>appointment effective 26 April 2006</i>)	180,000	-
Charles Y K Lee (<i>retired on 26 April 2006</i>)	60,000	205,000
Laura M Cha (<i>appointment effective 26 April 2006</i>)	180,000	-
Moses M C Cheng (<i>appointment effective 26 April 2006</i>)	180,000	-
Marvin K T Cheung (<i>appointment effective 12 April 2005</i>)	240,000	180,000
Henry H L Fan	240,000	205,000
Fong Hup	240,000	205,000
Tim Freshwater (<i>retired on 26 April 2006</i>)	60,000	205,000
Bill C P Kwok	240,000	205,000
Dannis J H Lee (<i>retired on 26 April 2006</i>)	60,000	205,000
Vincent K H Lee	240,000	205,000
Leong Ka Chai (<i>retired on 12 April 2005</i>)	-	25,000
Lo Ka Shui (<i>retired on 26 April 2006</i>)	60,000	205,000
Christine K W Loh (<i>appointment effective 26 April 2006</i>)	180,000	-
John E Strickland	240,000	205,000
David M Webb	240,000	205,000
Oscar S H Wong	240,000	205,000
Total	2,880,000	2,460,000

Executive Directors

Chief Executive	Performance Salary (\$)	Performance Bonus (\$)	Other Benefits (\$) (note 1)	Retirement Benefits Cost (\$) (note 2)	Director's Fee (\$)	2006 Total (\$)	2005 Total (\$)	Share Option Benefits (\$) (note 3)	Share Awards Benefits (\$) (note 3)
Paul M Y Chow	7,344,000	2,754,000	58,540	918,000	-	11,074,540	9,361,576	1,197,639	11,866

Senior Management

Name	Performance Salary (\$)	Performance Bonus (\$)	Other Benefits (\$) (note 1)	Retirement Benefits Cost (\$) (note 2)	Compensation for Loss of Office (\$)	2006 Total (\$)	2005 Total (\$)	Share Options Benefits (\$) (note 3)	Share Awards Benefits (\$) (note 3)
Patrick K Conroy (note 4)	5,514,600	2,297,750	118,914	689,326	-	8,620,590	6,986,948	(1,083,845)	-
Gerald D Greiner	3,794,400	1,422,900	71,538	474,300	-	5,763,138	4,903,035	506,906	359,004
Lawrence K M Fok	3,672,000	1,009,800	80,747	459,000	-	5,221,547	5,279,613	248,164	214,051
Mary M L Kao	3,574,080	1,206,260	64,143	446,760	-	5,291,243	4,522,844	248,164	250,308
Henry M W Law	2,448,000	795,600	29,349	306,000	-	3,578,949	2,987,106	202,742	202,432
Stewart S C Shing	3,794,400	1,280,610	70,441	474,300	-	5,619,751	4,851,646	1,246,543	5,517
Archie T C Tsim	3,060,000	1,071,000	64,172	382,500	-	4,577,672	3,851,549	199,818	288,502
Richard G Williams (note 5)	3,978,000	1,491,750	113,224	497,250	-	6,080,224	5,391,575	772,677	12,856
Alfred K K Wong	3,000,000	1,125,000	61,809	375,000	-	4,561,809	3,721,208	227,110	283,843

Notes:

- Other benefits include leave pay, insurance premium, and club membership.
- An employee who retires before normal retirement age is eligible to 18 per cent of the employer's contribution to the provident fund after completion of two years of service. The rate of vested benefit increases at an annual increment of 18 per cent thereafter reaching 100 per cent after completion of seven years of service.
- Apart from the performance bonus, the Chief Executive and the respective members of the Senior Management were awarded shares of HKEx according to the Share Award Scheme on 15 January 2007 with the sum for buying the shares being approved by the Board on 13 December 2006. Details of the awards are set out on page 106 of this Annual Report.
The share option benefits and the share award benefits represent the aggregate of the amortised fair value of the share options granted and shares awarded to the Chief Executive and the respective members of the Senior Management under the Post-Listing Scheme and the Share Award Scheme respectively that were charged to the profit and loss account for the year ended 31 December 2006. (Under HKFRS2, amortisation of the fair value of the options granted under the Pre-Listing Scheme is not required.)
- Mr Patrick K Conroy resigned as the Chief Operating Officer on 9 February 2007, the performance bonus for 2006 included a gratuity bonus of \$1,378,650 paid to Mr Conroy in January 2007.
Due to Mr Conroy's resignation, the actual number of share options vested was lower than previously expected. Under HKFRS 2 – share based payment, his cumulative total share-based compensation should be revised to reflect the number of share options actually vested. The negative charge in 2006 was due to the reversal of part of the expenses charged in prior years which were based on a higher number of share options expected to vest.
- Mr Richard G Williams is a member of a pension scheme operating in the United Kingdom, and he is exempted under Section 4(3) of the Mandatory Provident Fund Schemes Ordinance from participating in HKEx's provident fund scheme. The vesting scale of retirement benefits is not applicable to Mr Williams.

CHIEF EXECUTIVE AND THE SENIOR MANAGEMENT'S INTERESTS IN HKEX'S SECURITIES UNDER LONG-TERM INCENTIVE SCHEMES

Share Options

Name	Date of grant	Exercise price (\$)	Number of shares issuable under the options				As at 31 Dec 2006	Exercise period
			As at 1 Jan 2006	Granted during the year	Subscribed during the year	Lapsed during the year		
Chief Executive								
Paul M Y Chow	2 May 2003	8.28	2,460,000	-	-	-	2,460,000	2 May 2005 – 1 May 2013
Senior Management								
Patrick K Conroy (note 1)	18 Aug 2003	12.49	1,476,000	-	-	-	1,476,000	18 Aug 2005 – 17 Aug 2013
Gerald D Greiner	17 May 2004	15.91	200,000	-	50,000	-	150,000	17 May 2006 – 16 May 2014
	26 Jan 2005	19.25	200,000	-	-	-	200,000	26 Jan 2007 – 25 Jan 2015
Lawrence K M Fok	20 Jun 2000	6.88	258,000	-	200,000	-	58,000	6 Mar 2002 – 30 May 2010
	31 Mar 2004	16.96	120,000	-	-	-	120,000	31 Mar 2006 – 30 Mar 2014
	26 Jan 2005	19.25	100,000	-	-	-	100,000	26 Jan 2007 – 25 Jan 2015
Mary M L Kao	31 Mar 2004	16.96	120,000	-	-	-	120,000	31 Mar 2006 – 30 Mar 2014
	26 Jan 2005	19.25	100,000	-	-	-	100,000	26 Jan 2007 – 25 Jan 2015
Henry M W Law	31 Mar 2004	16.96	100,000	-	-	-	100,000	31 Mar 2006 – 30 Mar 2014
	26 Jan 2005	19.25	80,000	-	-	-	80,000	26 Jan 2007 – 25 Jan 2015
Stewart S C Shing	15 Jan 2004	17.30	1,094,000	-	272,000	-	822,000	15 Jan 2006 – 14 Jan 2014
Archie T C Tsim	26 Jan 2005	19.25	164,000	-	-	-	164,000	26 Jan 2007 – 25 Jan 2015
Richard G Williams	14 Aug 2003	12.45	844,000	-	297,000	-	547,000	14 Aug 2005 – 13 Aug 2013
Alfred K K Wong	31 Mar 2004	16.96	100,000	-	-	-	100,000	31 Mar 2006 – 30 Mar 2014
	26 Jan 2005	19.25	100,000	-	-	-	100,000	26 Jan 2007 – 25 Jan 2015

Awarded Shares

Name	Date of award (note 2)	Number of Awarded Shares	Average fair value per share (\$)	Number of shares					As at 31 Dec 2006	Vesting period (note 3)
				As at 1 Jan 2006	Further shares acquired during the year through reinvesting dividends received	Vested during the year	Lapsed during the year	As at 31 Dec 2006		
Chief Executive										
Paul M Y Chow	15 Jan 2007	11,528	72.28	-	-	-	-	-	13 Dec 2008 - 13 Dec 2011	
Senior Management										
Gerald D Greiner	19 Dec 2005	40,600	31.20	40,600	1,077	-	-	41,677	19 Dec 2007 - 19 Dec 2010	
	15 Jan 2007	11,911	72.28	-	-	-	-	-	13 Dec 2008 - 13 Dec 2011	
Lawrence K M Fok	19 Dec 2005	24,600	31.20	24,600	653	-	-	25,253	19 Dec 2007 - 19 Dec 2010	
	15 Jan 2007	3,842	72.28	-	-	-	-	-	13 Dec 2008 - 13 Dec 2011	
Mary M L Kao	19 Dec 2005	28,700	31.20	28,700	761	-	-	29,461	19 Dec 2007 - 19 Dec 2010	
	15 Jan 2007	5,048	72.28	-	-	-	-	-	13 Dec 2008 - 13 Dec 2011	
Henry M W Law	19 Dec 2005	22,900	31.20	22,900	607	-	-	23,507	19 Dec 2007 - 19 Dec 2010	
	15 Jan 2007	6,660	72.28	-	-	-	-	-	13 Dec 2008 - 13 Dec 2011	
Stewart S C Shing	15 Jan 2007	5,360	72.28	-	-	-	-	-	13 Dec 2008 - 13 Dec 2011	
Archie T C Tsim	19 Dec 2005	32,700	31.20	32,700	867	-	-	33,567	19 Dec 2007 - 19 Dec 2010	
	15 Jan 2007	8,965	72.28	-	-	-	-	-	13 Dec 2008 - 13 Dec 2011	
Richard G Williams	15 Jan 2007	12,490	72.28	-	-	-	-	-	13 Dec 2008 - 13 Dec 2011	
Alfred K K Wong	19 Dec 2005	32,100	31.20	32,100	852	-	-	32,952	19 Dec 2007 - 19 Dec 2010	
	15 Jan 2007	9,417	72.28	-	-	-	-	-	13 Dec 2008 - 13 Dec 2011	

Notes:

- Subsequent to the year-end, Mr Conroy exercised his option to subscribe for 492,000 shares on 3 January 2007. Due to his resignation, the remaining 984,000 shares issuable under the option granted to him were thereafter lapsed pursuant to the terms of the Post-Listing Scheme.
- Prior to 16 August 2006, the date of award refers to the date on which the Board determined such number of shares awarded to the selected employees. Following the amendments to the rules of the Share Award Scheme which took effect from 16 August 2006, the date of award refers to the date on which the trustee allocated such number of Awarded Shares to the selected employees from the total number of shares purchased with the sum determined by the Board.
During the year, with the sum approved by Board on 13 December 2006, the trustee purchased the Awarded Shares according to the Share Award Scheme and the relevant Awarded Shares were allocated by the trustee to the eligible employees on 15 January 2007.
- The shares awarded are vested in tranches of 25 per cent per annum starting from the second anniversary until the fifth anniversary of the date of approval of the award by the Board.

LONG-TERM INCENTIVE PLANS

Share Option Schemes (replaced by the Share Award Scheme in September 2005)

HKEx operates two share option schemes, the Pre-Listing Scheme and the 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, for the purpose of attracting and retaining high calibre employees. Both schemes were approved by 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 a discounted price, were approved by Shareholders on 17 April 2002 so as to comply with the new requirements of Chapter 17 of the Main Board Listing Rules which came into effect on 1 September 2001.

A non-refundable sum of \$1 by way of consideration for the grant of an option is required to be paid by each grantee upon acceptance of the granted option. The maximum number of shares in respect of which options may be granted under these schemes shall not in aggregate exceed 10 per cent of the shares in issue as at the date of approval of the schemes, ie a total of 104,066,484 shares. The key terms of these two schemes are summarised below.

Pre-Listing Scheme

Options for the subscription of 34,890,262 shares were granted to employees of HKEx or its subsidiaries on 20 June 2000. The options granted were exercisable subject to a vesting scale which commenced on 6 March 2002 in tranches of 25 per cent per annum and reaching 100 per cent from 6 March 2005, and in any event shall end not later than 30 May 2010, subject to the provisions for early exercise and/or termination contained in the Pre-Listing Scheme. No further options can be, or have been, issued under the Pre-Listing Scheme from 27 June 2000, the date of listing of HKEx on the Stock Exchange.

The maximum entitlement of each participant, when aggregated with shares issued and issuable under all options granted to him, must not exceed 25 per cent of the aggregated number of shares for the time being issued and issuable under the Pre-Listing Scheme.

The subscription price for a share of HKEx in respect of any particular option granted was determined based on a formula: $P = 80 \text{ per cent } (A \times B)$, where “P” was the subscription price; “A” was 18.81, a price/earnings multiple determined by reference to the price/earnings multiples of various financial companies listed on the Stock Exchange and/or overseas; and “B” was the earnings per share of the Group based on its audited combined results for the year ended 31 December 1999 as if the then group structure of HKEx had been in existence throughout the year divided by 1,040,664,846 shares in issue. Based on this formula, the subscription price of the option granted was \$7.52 per share, which was subsequently adjusted by Shareholders at the 2004 AGM, to \$6.88 per share as the result of the payment of a special dividend of \$1.68 per share in 2004.

Post-Listing Scheme

Unless approved by Shareholders in general meeting, no employee shall be granted an option if the total number of shares issued and to be issued upon exercise of the options granted and to be granted to such employee in any 12-month period up to the date of the latest grant would exceed 1 per cent of the issued share capital of HKEx in issue at the relevant time.

The subscription price of shares in respect of any particular option granted shall be at least the higher of (i) the closing price of shares of HKEx on the Stock Exchange, as stated in the Stock Exchange’s daily quotations sheet on the relevant offer date in respect of such option; or (ii) the average of the closing prices of shares of HKEx on the Stock Exchange, as stated in the Stock Exchange’s daily quotations sheet for the five trading days immediately preceding the relevant offer date in respect of such option; or (iii) the nominal value of a share of HKEx.

An option may be exercised in accordance with the terms of the Post-Listing Scheme at any time during a period to be notified by the Board to each grantee. Such period may commence on the second anniversary of the date on which the option is offered in tranches of 25 per cent and reaching 100 per cent from the fifth anniversary of the date on which the option is offered, and in any event shall end not later than 10 years from the date upon which the option is granted and accepted, subject to the provisions for early exercise and/or termination as contained in the Post-Listing Scheme.

The total number of shares available for issue, save for those granted but yet to be exercised, under the Pre-Listing Scheme and the Post-Listing Scheme aggregated to 63,901,484 shares, which represented 5.99 per cent of the issued share capital of HKEx as at 8 March 2007. However, following the adoption of the Share Award Scheme by the Board in September 2005, no further options will be granted under the Post-Listing Scheme.

Details of the share options granted under the two schemes and which remained outstanding as at 31 December 2006 were as follows:

Pre-Listing Scheme

	Date of grant	Exercise price	Number of shares issuable under the options				Exercise period
			As at 1 Jan 2006	Issued upon subscription during the year	Lapsed during the year	As at 31 Dec 2006	
Aggregate total for employees (note 1)	20 June 2000	\$6.88	2,126,000	1,338,000 (note 2)	–	788,000	6 Mar 2002 – 30 May 2010 (note 3)

Post-Listing Scheme

Date of Grant	Exercise price	Number of shares issuable under the options				Exercise period (note 6)	
		As at 1 Jan 2006	Granted during the year	Issued upon subscription during the year (note 5)	Lapsed during the year		As at 31 Dec 2006
Director (note 4)							
2 May 2003	\$8.28	2,460,000	–	–	–	2,460,000	2 May 2005 – 1 May 2013
Employees (note 1)							
14 Aug 2003	\$12.45	844,000	–	297,000	–	547,000	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	–	736,500	253,000	4,084,500	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	–	–	372,000	5,054,000	26 Jan 2007 – 25 Jan 2015

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 \$46.02.
3. Options granted are subject to a vesting scale in tranches of 25 per cent each per annum reaching 100 per cent as from 6 March 2005.
4. The option was granted to Mr Paul M Y Chow, a Director and the Chief Executive of HKEx.
5. The weighted average closing price immediately before the dates on which the options were exercised was \$55.91.

6. 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.
7. HKEx adopts the Binomial Option Pricing Model for estimating the fair value of options issued under the Post-Listing Scheme. The assumptions used in the model for the following factors are:
 - Risk-free rate of return – the yield of 10-year Exchange Fund Notes
 - Expected volatility of share price – annualised volatility for one year immediately preceding the grant date
 - Expected dividend yields – annual dividend (excluding special dividend) of the most recent financial year and the closing price on grant date

The amortised fair value of the share options charged to the profit and loss account for the year ended 31 December 2006 was \$15,553,000 (2005: \$22,663,000).

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

Share Award Scheme

On 14 September 2005 (“Adoption Date”), the Board adopted the Share Award Scheme in which selected employees (including any executive director) of the Group will be entitled to participate. 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 of HKEx which can be awarded under the Share Award Scheme and to a selected employee throughout its duration are limited to three per cent (ie 31,871,575 shares) and one per cent (ie 10,623,858 shares) respectively of the shares 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 to be awarded (“Awarded Shares”). 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 amended and restated rules and trust deed are posted on HKEx’s corporate website.

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 approval of the award by the Board, 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.

During the year, the Board awarded an amount of \$19,673,160 on 13 December 2006 for the purchase of shares to be awarded to 67 eligible employees. The trustee of the Share Award Scheme purchased an aggregate of 272,500 shares, representing 0.026 per cent of the issued share capital as at the Adoption Date, and allocated 272,465 shares to the eligible employees on 15 January 2007 according to their respective proportionate awarded sums so determined for him/her against the aggregate of the total amount awarded. The total payout of the purchase of the Awarded Shares including the related expenses, amounted to \$19,696,000.

Since its adoption, the Board has awarded a total of 1,232,465 shares to the selected employees. Details of the award are set out below:

Date of award	Number of Awarded Shares	Average fair value per share	Vesting period
19 Dec 2005	960,000	31.20 (note 1)	19 Dec 2007 – 19 Dec 2010
15 Jan 2007	272,465	72.28 (note 2)	13 Dec 2008 – 13 Dec 2011

Notes:

1. The fair value of the Awarded Shares was based on the market value at the date of award.
2. As a result of the amendments to the rules of the Share Award Scheme which took effect from 16 August 2006, the fair value of the Awarded Shares was based on the average purchase cost per share.
3. The amortised fair value of the Awarded Shares charged to the profit and loss account for the year ended 31 December 2006 was \$8,480,000 (2005: \$292,000).

As at 31 December 2006, taking into account the further shares acquired by reinvesting the dividend income, there were a total of 1,258,000 shares held upon trust by the trustee under the Share Award Scheme, with an aggregate of 272,500 unallocated shares and 29,594 shares as returned shares (ie 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.

DIRECTORS' SERVICE CONTRACT

Mr Paul M Y Chow is employed as the Chief Executive under a contract term of four years from 1 May 2003 to 30 April 2007. Mr Chow has agreed with HKEx on the renewal of his employment contract as the Chief Executive for a further two-year term from 1 May 2007 to 30 April 2009. Save as the aforesaid, no Director has any existing or proposed service contract with any member of the Group, excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

Members of the Remuneration Committee

CHEUNG Kin Tung, Marvin (*Chairman*)

CHENG Mo Chi, Moses

FONG Hup

LEE Kwun Ho, Vincent Marshall

LOH Kung Wai, Christine

Hong Kong, 8 March 2007

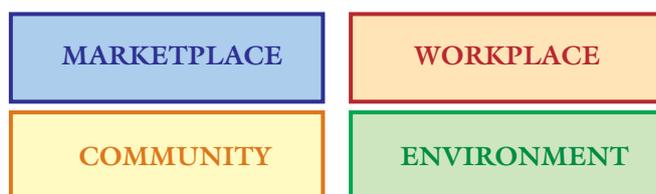
Corporate Social Responsibility Report

We believe that building good relationships with all our stakeholders, including our Shareholders, the government authorities, our employees, our Participants, our customers, our suppliers, market users, the investing public and the wider society, is the best guarantee of our long-term success. This remains the backbone of our approach to CSR.

In recent years, HKEx has underlined its commitment to responsible citizenship by developing a CSR framework and adopting relevant policies and guidelines. The framework guides the way we conduct business and is built upon HKEx's core values which give us a distinct identity and define the way we serve Shareholders and other stakeholders.

Our values include safeguarding the public interest while maximising Shareholder value, developing business by delivering competitive services and seeking new opportunities, maintaining a level playing field with long-term ethical client relationships, and pursuing excellence and productivity by retaining high quality people and promoting strong teamwork.

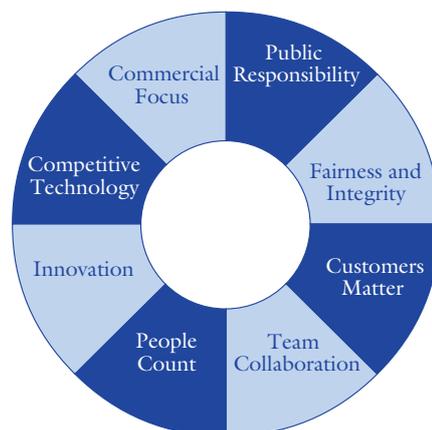
Our CSR framework is generalised in four areas, namely:



The Board provides leadership and ensures that CSR considerations are integrated into the day-to-day business activities of the Group. The Human Resources Department monitors the Group's staff welfare, ethical, social and environmental performance. Relevant policies and guidelines are laid down precisely in the Human Resources Manual as distributed to each employee and posted on both HKEx's corporate website and Intranet so as to ensure that HKEx and every one of its employees carry out these important responsibilities effectively.

While the CSR Report aims at presenting HKEx's work and achievements on CSR, this third publication provides more by way of hard data and evidence of our progress in 2006. More about our approach to CSR and the elaboration of the core values can be found on the "Corporate Governance Section" of HKEx's corporate website <http://www.hkex.com.hk/exchange/asso/exchange.htm>.

Core Values



THE MARKETPLACE

While maximising value for our Shareholders, HKEx seriously performs its public responsibilities as an exchange controller and is committed to achieving and maintaining the highest standards of openness, probity and accountability at all times for being one of the Public Bodies governed by the Prevention of Bribery Ordinance.

Operating transparently and effectively for the interest of our stakeholders

- HKEx remains deeply committed to achieving and maintaining the highest standards of corporate governance. Details of the governance initiatives in 2006 are summarised in the Corporate Governance Report of this Annual Report.
- One annual report, two quarterly reports, one interim report, and four issues of newsletters were published to explain HKEx's financial position, operating performance and activities during the year.
- More than 200 news releases and about 30 announcements including circulars and letters to Shareholders on the latest HKEx developments and issues were issued.
- The HKEx website was revamped in September to enrich its contents and make it more user-friendly. An average daily of about 118,000 visits (2005: 68,000 visits), or a 74 per cent increase, to the HKEx website and about 13,300 visits (2005: 8,300 visits), or a 60 per cent increase, to the GEM website were recorded.
- Information posted on the Investor Relations Corner of HKEx's corporate website was updated in a timely manner to ensure its accuracy.
- Our Investor Services Team held a total of 75 meetings with fund managers and/or analysts and received more than 7,000 visitors (in over 200 visits) from different educational institutes.
- HKEx launched a Corporate Governance Section on its corporate website to provide more detailed and timely information about the Company's corporate governance framework and practices for its stakeholders.
- An Escalation and Incident Reporting Policy was refined to set forth the manner in which relevant incidents are escalated and reported to various levels within the organisation to facilitate swift action and timely communication with our stakeholders where appropriate.
- An interim dividend of \$0.94 per share was declared and a final dividend of \$1.19 per share was recommended according to the established dividend policy of a high dividend payout ratio.

Adopting a neutral political stance to ensure impartiality

- HKEx continued to take a neutral stance in political matters and did not make donations to any political parties.

Ensuring a high standard of integrity and honesty when performing duties

- The Code of Conduct for compliance by employees is articulated with the prevailing statutory rules and other regulations. The Covenant of Desensitisation was strengthened and revised as set out in the Human Resources Manual to avoid any potential conflicts that might arise from new employment for outgoing senior executives. Senior executives cannot take up any new employment that may constitute a conflict of interest with HKEx during the desensitisation period of three months from the date of termination of their employment.
- Three briefings on "Integrity and Corruption Prevention" delivered by the ICAC were arranged for a total of about 70 employees to ensure that HKEx employees, especially new recruits, are familiar with the relevant law and requirements.
- A whistle-blowing policy was devised and incorporated in the Human Resources Manual to encourage employees to internally report serious concerns about any malpractice which they might have become aware of, or genuinely suspect that the Company has been or may be involved in, without fear of reprisal or victimisation.

*Monitoring
customer
advocacy and
recommendation,
and meeting
their needs*

- The Main Board Listing Rules were made available in simplified Chinese with effect from 13 November, in addition to traditional Chinese and English. A simplified Chinese version of the GEM Listing Rules will be available in March 2007.
- The Panel Member Nomination Committee was established on 12 April for the purpose of identifying and selecting nominees for the three Consultative Panels for the Board's consideration and approval to ensure that each of the Consultative Panels comprises members from different sectors of the market and industry.
- Seven meetings were held by the three Consultative Panels to collect members' views on the various proposals and developments relating to the Cash Market, Derivatives Market and clearing business. More details can be found under the Consultative Panels of the Corporate Governance Report of this Annual Report.
- A Discussion Paper on GEM was published in January to invite market views on the possible further development of GEM. A summary of the market responses was posted on the HKEx website in July.
- The Exchange Trading and Exhibition Hall Complex provides new and upgraded facilities for the benefit of traders and the public.
- Results of the Cash Market Transaction Survey 2004/2005 to understand the relative contribution to trading in the Cash Market by investor type were published in April. Details of the survey results are posted on the HKEx website.
- Results of the Retail Investor Survey 2005 to provide information on trends and characteristics of retail participation in the HKEx markets were published in June. Details of the survey results are posted on the HKEx website.
- Results of the Derivatives Market Transaction Survey 2005/2006 to track trading information by investor type and by trading purpose in HKEx's Derivatives Market were published in December. Details of the survey results are posted on the HKEx website.
- A total of seven classes on customer service/service excellence were organised for about 100 employees to improve their customer services skills.
- All major trading, clearing and settlement and market data dissemination systems achieved 100 per cent operational system uptime throughout 2006.
- Participated successfully in the FSTB-led Sector-wide Market Contingency Rehearsal Exercise on 4 November.
- Market rehearsals were organised for market participants before implementation of any new market systems/changes and to ensure that major market systems are robust and reliable even under system failover and site disaster situations. Details of the market-wide rehearsals are as follows:
 - > Derivatives Market market-wide rehearsal conducted on 4 March;
 - > CCASS/3 circuits migration to SDNet market-wide rehearsal on 7 May; and
 - > AMS/3 market-wide rehearsal conducted on 21 October.
- The capacity and processing efficiency of HKEx's various systems were upgraded to deal with the growing market demand. Consolidation of the four market system networks was carried out for higher processing capacity and cost efficiency. Details are provided in the Information Technology section under the Business Review of this Annual Report.
- The minimum trading spreads for securities trading between \$2 and \$20 were reduced on 24 July. Details are provided in the Cash Market section under the Business Review of this Annual Report.

*Strengthening
and promoting
Hong Kong's
role as an
international
financial centre*

- CBBCs were introduced in June in accordance with the market needs. Details are provided in the Cash Market section under the Business Review of this Annual Report.
- A series of improvements to clearing services were made in response to the on-going review of market needs and development. Details are provided in the Clearing section under the Business Review of this Annual Report.
- HKEx continued to organise different training programmes for the investing public and market participants to improve their knowledge of new products and the associated investment risks. There were:
 - > 65 visits to individual EPs to collect their views on services and products provided in the Cash Market;
 - > 14 Continuous Professional Training sessions on topics related to the Cash Market;
 - > three EP relationship programmes to enhance the relationship with EPs and exchange views on market development;
 - > 26 briefings and seminars and 10 media interviews on CBBCs;
 - > 15 training sessions on terminal/MWS;
 - > 24 articles relating to the Cash Market published in newspapers;
 - > 78 training courses and seminars on Derivatives Market products;
 - > one education programme on stock futures;
 - > 10 Options Trading EPs were provided with sponsorship for organising public investor seminars on stock options; and
 - > an 11-week programme on Mainland-related futures.
- Amendments to the Listing Rules regarding the regulation of sponsors and compliance advisers were published in October to improve the regulation of sponsors and compliance advisers and to provide a level playing field and better protection for the Hong Kong market.
- A series of promotional activities and training programmes were organised on Hong Kong's financial markets, its listing requirements as well as corporate governance practices. Details are provided in the Business Development section under the Business Review of this Annual Report.
- HKEx supports the establishment of the FRC, which fortifies the regulatory mechanism for enhancing the accounting and reporting standards of listed companies. A Board member was appointed as a FRC member and a Memorandum of Understanding was signed in January 2007 under which HKEx, as one of the contributing parties, agreed to make an annual contribution of \$2.5 million for the first three financial years of the FRC and a one-off contribution of \$5 million to its Reserve Fund.
- HKEx continued to support and sponsor activities to promote good corporate governance and the development of the financial markets in Hong Kong. Some major events were:
 - > 中國中部貿易投資博覽會之2006年國際融資高峰論壇 organised by Hong Kong Productivity Council;
 - > 應對資本市場變革完善中企治理結構香港高峰論壇 organised by FSTB, Economic Research Center under SASAC of the State Council and Wen Wei Po;
 - > The Seventh Annual Corporate and Regulatory Update and the Corporate Governance Conference 2006 organised by the Hong Kong Institute of Chartered Secretaries;
 - > The Best Corporate Governance Disclosure Awards organised by the HKICPA;
 - > The CEPA Forum, Beijing 2006 jointly organised by the Hong Kong Securities Institute and the Securities Association of China;
 - > The HKMA Best Annual Reports, 2006 HKMA Quality Award and The Hong Kong Management Association Annual Conference organised by The Hong Kong Management Association;
 - > The Fourth Annual Conference on Cash, Treasury and Risk Management in China organised by Eurofinance;
 - > The Economic Summit organised by the Metro Finance and the Hong Kong Economic Journal; and
 - > The CFO Forum organised by the Hong Kong Trade Development Council.

THE WORKPLACE

HKEx's success relies on the performance and commitment of all its employees. Given the growing complexity and sophistication of the marketplace, staff development is essential to the competitiveness of the Group. Therefore, we attach prime importance to creating a supportive and quality environment to attract and retain the best people, and to motivating them to deliver their best performance and achieve corporate objectives and goals. To this end, we emphasise that "employees' support and sharing" are important to creating a caring environment.

*Recognising
and rewarding
our people for
their contribution*

- A performance management system is in place to ensure that employees are rewarded fairly for their efforts. It is periodically reviewed to ensure that it is competitive with market developments. HKEx commissioned an independent global consulting company specialising in human resources and compensation to conduct an overall review of HKEx's remuneration structure and policy with the aim of developing a structured and systematic approach to its remuneration structure. Details of the revised remuneration structure are summarised in the Remuneration Committee Report of this Annual Report.

*Maintaining
a healthy and
safe workplace*

- Salary increments and incentive awards are made to recognise staff contributions. As recommended by the Remuneration Committee with reference to the consultant's report, an average salary increase of four per cent of base salary for 2007, comprising two per cent for cost of living adjustment and another two per cent for promotion and market catch-up, was approved by the Board.
- More than 90 employees were either promoted/redesignated in view of their capabilities to take up higher levels of responsibilities.
- Strict compliance with the Occupational Safety and Health Policy, which is included in the Human Resources Manual, is encouraged. According to the workplace safety record, no major employee injury was reported during the year.

*Encouraging
employees to reach
their full potential
through training
and career
advancement*

- A contingency plan setting out the key measures to prepare for and respond to a possible outbreak of pandemic influenza is in place, including a split-team arrangement, to prevent the spread of illness among the workforce and to minimise possible economic disruption for the business operations of HKEx.
- A sum of \$4 million was spent on staff training and a total of 113 training classes were conducted with more than 3,000 participants. On average, each employee received 30.8 hours of training. The training classes were mainly divided into the following categories:
 - > personal effectiveness programmes which focused on performance and career management, teamwork/self-empowerment, communication/presentation skills and customer service;
 - > management development/executive programme which focused on both people management and project management;
 - > orientation and job-related programmes which focused on personal computer skills, language, regulatory and compliance, and HKEx's products and services;
 - > professional development programmes, under which eight classes were organised for mainly professional staff on the relevant law changes and the latest development of the relevant rules and regulations; and
 - > tertiary education sponsorship and programmes, under which a total of 17 employees of different levels received degree/diploma education with HKEx's academic sponsorship.
- For the purpose of succession planning, a rotation programme for senior executives is in place. In January 2007, the Head of the Cash Market was appointed to take up a senior executive position in the Listing Division to further strengthen the operation of the Division and to be responsible for some of its initiatives, and whose position was taken up by a senior executive from the Chief Executive's Office.
- Job vacancies were posted on the Intranet to solicit internal staff applications before public recruitment. There were a total of eight transfers within the organisation.

*Promoting
an environment
of equal
opportunity*

- HKEx continues to observe the Code of Practice on Equal Opportunities recommended by the Equal Opportunities Commission in Hong Kong. Among the 828 employees, 387 were females and 441 were males as at year-end.
- Procedures for handling employees' grievances are set out in the Human Resources Manual. No employees' complaints were received during the period.

*Encouraging
open and
transparent
communication
within the
organisation*

- Eight Monthly Executive Forums and four Quarterly Staff Briefings were conducted by the Chief Executive to explain the business, policies and developments of HKEx to executives. Each of these presentations was posted on the Intranet for the information of all employees.
- Three additional investment funds were introduced under the Hong Kong Exchanges and Clearing Provident Fund Scheme to enhance investment choice for employees in response to their requests.
- Staff activities and useful information such as on health and medical issues were posted on "My Community" on the Intranet for employees' information.

*Providing
support to the
Staff Social Club
in order to enhance
employees' sense of
belonging*

- A total of 72 staff exit interviews were conducted prior to the departure of employees to collect their views on different aspects of HKEx so as to help management make any improvements, as considered appropriate.
- The Staff Social Club has played an important role in advising management on employee benefit initiatives and in organising activities to enhance employees' sense of belonging and team solidarity. A budget of \$370,000 was allocated to support its activities throughout the year and with an increase of 20 per cent for 2007.
- Strong team spirit was embodied in HKEx's championships in the Supervisory Cup Basketball (for three consecutive years) and the Best Team Captain Award in the Central Rat Race competition. About 100 employees participated in 23 sporting matches, including the Supervisory Cup Basketball Competition and the Volleyball Competition.
- A series of staff activities and interest groups were organised by the Staff Social Club for the purpose of strengthening staff relationships. They included a sea-food cruise, spring and autumn outings, a war game, dessert-making classes, a badminton competition, a World Cup guessing game, a wine-tasting gathering, a cocktail class and the annual dinner.

*Caring
about employees'
welfare and
satisfaction*

- We have a stable workforce with a turnover rate of 10 per cent in 2005 and 2006. Our total number of employees stood at 828 (2005: 804), including 35 temporary staff (2005: 25).
- We believe that prevention is far better than any cure:
 - > health talks on various topics are arranged to help employees better understand the spread of a virus and to prepare for the possible outbreak of a pandemic;
 - > subsidies are provided to staff and their immediate family members for influenza vaccinations;
 - > free medical check-ups are provided to employees and dependants who are aged 45 and above; and
 - > additional medical check-up services are offered to employees and their dependants at preferential rates on top of the existing medical insurance plan.
- A comprehensive office PC upgrade was completed in the fourth quarter of 2006 to improve office work productivity and efficiency.
- A number of activities were organised by the Parental Club to promote closer family relationships. They included two parental talks and a parental club outing.
- A total of 94 employees used the staff holiday house which was open to employee application to promote closer and harmonious family relationships.

THE COMMUNITY

Contributing to the community

HKEx puts significant effort in being a caring company and a good corporate citizen. We believe that we should help build sustainable communities in which our business operates. We support local initiatives which we believe we can make a real and lasting contribution to the community and we encourage our employees to contribute to the community in which we live and work with their time.

- We concentrate our support towards charitable organisations that help the aged, deprived children and the disabled. We also aid in disaster relief whenever there is real need. A budget has been allocated for making donations to charitable organisations and providing sponsorship for charitable activities.
- A total of about \$40 million was raised through the Stock Code Balloting for Charity Scheme to the Community Chest of Hong Kong.
- Under the Donation Programme, we provided electronic copies and hardcopies of listed issuer documents and HKEx publications to eight university libraries, three public libraries and the Vocational Training Centre.
- HKEx was chosen as a Caring Company for two consecutive years (2005/2006 and 2006/2007) by The Hong Kong Council of Social Service to recognise its contributions towards building a caring community spirit and cultivating corporate citizenship.
- The HKEx Volunteer Team with over 50 employees was established for the purpose of organising and participating regularly in charity and community services. A training workshop for the volunteers was held to strengthen skills and to share experiences in serving those in need.
- A total of about 100 employees participated in the following events and sponsorships amounting to \$37,500 were secured:
 - > visit to residential care home for the aged;
 - > outing to North District Park with the poor and elderly;
 - > outing to Hong Kong Riding Skill Academy cum BBQ with Project Care Small Group Homes Children; and
 - > visit to the Hong Kong Science Museum and Hong Kong Space Museum for deprived children from Tin Shui Wai.
- More than 800 employees participated in the following events. Donations of about 90 boxes of candies, cookies and mooncakes and a total amount of about \$370,000 by HKEx and its employees were made:
 - > Standard Chartered Hong Kong Marathon 2006 for the Hong Kong Sports Association for the Physically Disabled;
 - > St. James' Settlement Chinese New Year Food Donation Campaign for the elderly;
 - > Mark Lui & Friends Charity Concert for the Community Chest of Hong Kong;
 - > MTR Hong Kong Race Walking 2006 for the Hospital Authority Charitable Foundation;
 - > HKEx 7-a-side Soccer Challenge Cup 2006 cum Senior Management Charity Shield for the Community Chest of Hong Kong and others;
 - > Soccer King Charity Cup 2006 for the Community Chest of Hong Kong;
 - > Mahjong Competition for Charity 2006 for ORBIS;
 - > St. James' Settlement Mooncake Donation Campaign for the elderly;
 - > The Community Chest Dress Special Day 2006; and
 - > Central Rat Race 2006 for Mindset on mental health promotion.



Supporting our employees in the community

THE ENVIRONMENT

Although HKEx does not operate in an environmentally sensitive business and is predominantly service-oriented, we do recognise that our operations can affect the environment and we have enhanced the Company's practices to minimise their environmental impact. The Group always acts according to the "3Rs - Reduce, Reuse and Recycle" waste management hierarchy and promotes conservation of resources across the Group through identifying opportunities to avoid unnecessary waste generation, use the consumable again and convert unwanted materials into useful recycled products.

Promoting wider use of electronic copies

For the securities market:

- Approval of the proposal to abolish the requirement for Main Board issuers to publish paid announcements in newspapers. Before implementation of the proposal, a six-month transitional period will take place in the middle of 2007.
- 27 per cent of issuers' documents for posting on the HKEx website were made by electronic submission as compared to 24 per cent in 2005.
- The eIPO has been launched since 1999, by which applications for shares in an IPO can be made online. About 62 per cent of the new listings in 2006 provided eIPOs as compared to 48 per cent in 2005. The eIPO of ICBC accounted for about 40 per cent of its total valid applications.
- HKEx continues to review the proposal of reducing the size of prospectuses to decrease the use of paper.

Minimising the environmental impact arising from HKEx's operations

For HKEx:

- Use of energy-saving office equipment.
- Reduction in the usage of paper by using softcopy documents, including sending electronic greetings and electronic publications, and implementing e-leave and other administration-related application systems.
- Reuse of envelopes, office utensils and furniture whenever appropriate.
- Recycle of paper waste and IT equipment.
- Implementation of a new summer attire policy which allows employees (except those who are required to wear uniforms) to discard jackets and ties in the workplace from June to September for energy conservation in order to improve the air quality in Hong Kong.
- Close monitoring of the office temperature of all HKEx premises to strike a balance between energy savings and a comfortable workplace.

We remain committed to treating our stakeholders in an ethical and responsible manner, to contribute to economic development, and to improve the quality of life of our communities. For us, CSR is an on-going undertaking and we are constantly looking to do more and better. To further improve our work on CSR, we welcome your feedback on this report as well as other suggestions.

On behalf of the Board
MAU Kam Shing, Joseph
Company Secretary
 Hong Kong, 8 March 2007

Directors' Report

The Directors submit their report together with the audited financial statements for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

HKEx is the recognised exchange controller under the SFO. It owns and operates the only stock exchange and futures exchange in Hong Kong and their related clearing houses, namely HKSCC, SEOCH and HKCC.

The Stock Exchange and the Futures Exchange are recognised exchange companies under the SFO to operate and maintain a stock market and futures market in Hong Kong respectively. HKSCC, SEOCH and HKCC are the recognised clearing houses for the purposes of the SFO.

The Group's revenue is derived solely from business activities in Hong Kong. An analysis of the Group's income and contribution to operating profit for the year ended 31 December 2006 is set out in note 4 to the consolidated accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2006 are set out in the consolidated profit and loss account on page 125.

An interim dividend of \$0.94 (2005: \$0.49) per share, amounting to a total of about \$1,001 million (2005: \$521 million), including dividend of about \$912,000 for shares held on trust under the Share Award Scheme (2005: \$Nil), was paid to Shareholders on 19 September 2006.

The Directors recommend the payment of a final dividend of \$1.19 (2005: \$0.64) per share to Shareholders whose names appear on the Register of Members on 26 April 2007, which together with the interim dividend payment amounts to a total of about \$2,269 million (including dividend of about \$2,409,000 for shares held upon trust under the Share Award Scheme) (2005: \$1,202 million, including dividend of about \$614,000 for shares held on trust under the Share Award Scheme), and the retention of the remaining profit for the year.

RESERVES

The distributable reserves of HKEx as at 31 December 2006, calculated under Section 79B of the Companies Ordinance, amounted to \$3,375 million (2005: \$3,235 million).

Movements in reserves of the Group and HKEx during the year are set out in notes 33 to 37 and 39 to the consolidated accounts.

DONATIONS

Charitable and other donations made by the Group during the year amounted to \$111,600.

GROUP FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the past seven financial years is set out on page 82.

FIXED ASSETS

Movements in fixed assets of the Group and HKEx during the year are set out in note 18 to the consolidated accounts.

SHARE CAPITAL

Details of the movements in the share capital during the year are set out in note 32 to the consolidated accounts.

DIRECTORS

The list of Directors of HKEx during the year and up to the date of this Annual Report is set out on page 26.

As at 31 December 2006, the Board consisted of 13 Directors. Six of them are Government Appointed Directors, namely, Mr Ronald J Arculli, Mrs Laura M Cha, Mr Moses M C Cheng, Dr Marvin K T Cheung, Mr Henry H L Fan and Mr Fong Hup, who were appointed by the Financial Secretary pursuant to Section 77 of the SFO. Six of them are Elected Directors, namely, Dr Bill C P Kwok, Mr Vincent K H Lee, Dr Christine K W Loh, Mr John E Strickland, Mr David M Webb and Mr Oscar S H Wong, who were elected by Shareholders at annual general meetings. The Chief Executive of HKEx is an ex-officio member of the Board.

According to Articles 90(1), 90(1A) and 90(3) of the Articles of Association, any Elected Director and any Government Appointed Director shall be elected or appointed for a term of not more than approximately three years expiring at the conclusion of the annual general meeting of HKEx held in the third year following the year of his appointment. On expiration of his term, he shall retire but be eligible for re-appointment pursuant to Article 93(5). Two of the Elected Directors, Messrs John E Strickland and Oscar S H Wong, whose terms of office will expire at the conclusion of the 2007 AGM, shall retire but both of them are eligible for re-appointment. Shareholders are invited to elect up to two Elected Directors at the 2007 AGM to fill the vacancies available due to retirement of the two said Directors. Details of the proposed candidates standing for election are set out in the circular to the Shareholders sent together with this Annual Report.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of Directors and Senior Management are set out in the Board of Directors and Senior Management section of this Annual Report.

DIRECTORS' INTERESTS IN CONTRACTS

Details of the connected transactions and related party transactions are set out on page 96 in the Corporate Governance Report and note 45 to the consolidated accounts respectively.

Save for the above, no contracts of significance in relation to the Group's business to which HKEx or any of its subsidiaries was a party, and in which a Director of HKEx had a material interest, whether directly or indirectly subsisted at the year-end or at any time during the year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Share Option Schemes

HKEx operates two share option schemes, the Pre-Listing Scheme and the 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. No further options can be, or have been, issued under the Pre-Listing Scheme from 27 June 2000, the date of listing of HKEx on the Stock Exchange. The Board also decided that, after adoption of the Share Award Scheme as mentioned hereunder, no further options will be granted under the Post-Listing Scheme.

Share Award Scheme

HKEx adopted the Share Award Scheme on 14 September 2005, under which the Board or the trustee of the scheme shall select the employees (including any executive director) of the Group for participation in the scheme, and determine the number of shares of HKEx to be awarded. Effective 16 August 2006, the rules of the Share Award Scheme have been amended, such that the Board shall determine the lump sum for acquiring the awarded shares instead of approving a fixed number of awarded shares.

Details of the schemes, the options granted and shares awarded thereunder are set out in the Remuneration Committee Report of the Annual Report.

Apart from the Share Option Schemes and the Share Award Scheme, at no time during 2006 was HKEx or any of its subsidiaries a party to any arrangements to enable the Directors of HKEx to acquire benefits by means of acquisition of shares in, or debenture of, HKEx or any body corporate.

SUBSIDIARIES

Particulars of HKEx's subsidiaries as at 31 December 2006 are set out in note 31 to the consolidated accounts.

CORPORATE GOVERNANCE

HKEx is committed to building and maintaining high standards of corporate governance. Further information on the HKEx's corporate governance practices is set out in the following reports:

- (a) **Corporate Governance Report** – it sets out details of how HKEx applied and complied with the corporate governance principles, including practices as set out in the CG Code, and provides information regarding interests of the Directors and the Senior Management in shares of HKEx and contracts with the Group.
- (b) **Audit Committee Report** – it gives a summary of work performed by the Audit Committee during 2006.

- (c) **Remuneration Committee Report** – it gives a summary of work performed by the Remuneration Committee during 2006 and an overview of the remuneration policy of HKEx and the emoluments, including the options and share awards granted, of the Directors and the Senior Management.
- (d) **Corporate Social Responsibility Report** – it explains how HKEx has achieved the well being of its stakeholders and has behaved as a socially responsible corporate citizen.

DIRECTORS' EMOLUMENTS

Details of the Directors' emoluments for year 2006 are set out in the Remuneration Committee Report on page 104, and particulars as required to be disclosed pursuant to Section 161 of the Companies Ordinance and Appendix 16 of the Main Board Listing Rules are set out in note 13 to the consolidated accounts.

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO

As at 31 December 2006, the following corporation 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 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	6,713,586	65,106,894 ^(note)	6.11
	Investment manager	12,744,310		
	Custodian corporation/ approved lending agent	45,648,998		

Note:

JPMorgan Chase & Co's interests included an aggregate interests of 1,155,650 underlying shares through its holding of certain listed physically settled equity derivatives (25,150 underlying shares) and unlisted physically settled equity derivatives (1,130,500 underlying shares). It also included 45,648,998 shares in the lending pool.

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 CONTROLLER

Under Section 61 of the SFO, no person shall be or become a Minority Controller, ie 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 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 CCASS Participants Shareholding Report of HKEx as at 31 December 2006, the Minority Controllers were in aggregate holding 63.8 per cent of the issued share capital of HKEx (31 December 2005: 64.5 per cent).

PUBLIC FLOAT

As at the date of this report, the Directors acknowledge that 100 per cent of the issued capital of HKEx is held by the public.

An analysis of shareholding by type including a summary of the Shareholders with the top ten holdings, and the public float capitalisation of HKEx as at 31 December 2006 are set out on pages 210 and 214 respectively of this Annual Report.

MAJOR CUSTOMERS AND SUPPLIERS

Contracts with the HKEx's five largest suppliers combined by value which are not of a capital nature, contributed to less than 30 per cent in value of supplies purchased during the year ended 31 December 2006. HKEx's five largest customers combined by value contributed to less than 30 per cent in value of the income during the year ended 31 December 2006.

PURCHASE, SALE OR REDEMPTION OF HKEx's LISTED SECURITIES

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

Details of the Share Award Scheme are set out in the Remuneration Committee Report on page 109 of this Annual Report.

PROVIDENT FUND SCHEMES

Particulars of provident fund schemes of the Group are set out in note 9 to the consolidated accounts.

AUDITORS

The accounts for the year ended 31 December 2006 have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment at the 2007 AGM.

On behalf of the Board of Directors

Ronald Joseph ARCULLI

Chairman

Hong Kong, 8 March 2007

Auditors' Report

AUDITORS' REPORT TO THE SHAREHOLDERS OF HONG KONG EXCHANGES AND CLEARING LIMITED

(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Hong Kong Exchanges and Clearing Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 125 to 209, which comprise the consolidated and Company balance sheets as at 31 December 2006, and the consolidated profit and loss account, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 8 March 2007

Consolidated Profit and Loss Account

For the year ended 31 December 2006

(Financial figures are expressed in Hong Kong Dollar)

	Note	2006 \$'000	As restated 2005 \$'000
INCOME			
Trading fees and trading tariff	5	1,340,355	793,247
Stock Exchange listing fees	6	465,445	413,000
Clearing and settlement fees		674,373	384,019
Depository, custody and nominee services fees		376,118	259,952
Income from sale of information		391,213	322,713
Investment income	7	601,080	300,120
Other income	8	298,332	221,017
	4	4,146,916	2,694,068
OPERATING EXPENSES			
Staff costs and related expenses	9	654,806	586,034
Information technology and computer maintenance expenses	10	218,608	201,725
Premises expenses		119,167	80,679
Product marketing and promotion expenses		11,270	10,065
Legal and professional fees		7,996	13,641
Depreciation		99,888	150,995
Other operating expenses	11	98,838	102,344
	4	1,210,573	1,145,483
OPERATING PROFIT	4	2,936,343	1,548,585
SHARE OF PROFITS LESS LOSSES OF ASSOCIATES	4/21(a)	27,124	18,433
PROFIT BEFORE TAXATION	4/12	2,963,467	1,567,018
TAXATION	4/15(a)	(444,898)	(227,460)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	4/39	2,518,569	1,339,558
DIVIDENDS	16	2,266,694	1,200,117
Earnings per share			
Basic	17(a)	\$2.37	\$1.26
Diluted	17(b)	\$2.34	\$1.26
Dividends per share			
Interim dividend paid		\$0.94	\$0.49
Final dividend proposed/declared		\$1.19	\$0.64
		\$2.13	\$1.13
Dividend payout ratio		90%	90%

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

(Financial figures are expressed in Hong Kong Dollar)

	Share capital, share premium and shares held for Share Award Scheme (note 32) \$'000	Employee share-based compensation reserve (note 33) \$'000	Revaluation reserves (note 34) \$'000	Hedging reserve (note 35) \$'000	Designated reserves (note 36) \$'000	Retained earnings (note 39) \$'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	-	-	502	-	-	-	502
Change in fair value of available-for-sale financial assets	-	-	31,356	-	-	-	31,356
Realisation of change in fair value of available-for-sale financial assets on maturity and disposal	-	-	17,941	-	-	-	17,941
Cash flow hedges:							
-fair value gains of hedging instruments	-	-	-	475	-	-	475
-transfer to profit and loss account as information technology and computer maintenance expenses	-	-	-	(475)	-	-	(475)
Deferred tax arising from change in valuation of leasehold buildings	-	-	(87)	-	-	-	(87)
Deferred tax arising from change in fair value of available-for-sale financial assets	-	-	(2,094)	-	-	-	(2,094)
Unclaimed dividend forfeited	-	-	-	-	-	686	686
Net gain recognised directly in equity	-	-	47,618	-	-	686	48,304
Profit attributable to shareholders	-	-	-	-	-	2,518,569	2,518,569
Total recognised profit	-	-	47,618	-	-	2,519,255	2,566,873
2005 final dividend	-	-	-	-	-	(680,588)	(680,588)
2006 interim dividend	-	-	-	-	-	(1,000,307)	(1,000,307)
Shares issued under employee share option schemes	30,895	-	-	-	-	-	30,895
Shares purchased for Share Award Scheme	(21,269)	-	-	-	-	-	(21,269)
Employee share-based compensation benefits	-	24,033	-	-	-	-	24,033
Share of reserves of an associate	-	441	37	-	-	-	478
Transfer of reserves	7,335	(7,335)	-	-	(32,379)	32,379	-
At 31 Dec 2006	1,200,093	52,119	10,569	-	668,262	3,326,543	5,257,586

	Share capital, share premium and shares held for Share Award Scheme (note 32) \$'000	Employee share-based compensation reserve (note 33) \$'000	Revaluation reserves (note 34) \$'000	Hedging reserve (note 35) \$'000	Designated reserves (note 36) \$'000	Retained earnings (note 39) \$'000	Total equity \$'000
At 1 Jan 2005	1,160,673	17,061	18,829	-	680,996	2,154,675	4,032,234
Change in valuation of leasehold buildings	-	-	(377)	-	-	-	(377)
Change in fair value of available-for-sale financial assets	-	-	(52,985)	-	-	-	(52,985)
Realisation of change in fair value of available-for-sale financial assets on maturity and disposal	-	-	(5,775)	-	-	-	(5,775)
Cash flow hedges:							
-fair value losses of hedging instruments	-	-	-	(129)	-	-	(129)
-transfer to profit and loss account as information technology and computer maintenance expenses	-	-	-	129	-	-	129
Deferred tax arising from change in valuation of leasehold buildings	-	-	65	-	-	-	65
Deferred tax arising from change in fair value of available-for-sale financial assets	-	-	3,136	-	-	-	3,136
Net loss recognised directly in equity	-	-	(55,936)	-	-	-	(55,936)
Profit attributable to shareholders	-	-	-	-	-	1,339,558	1,339,558
Total recognised (losses)/ profit	-	-	(55,936)	-	-	1,339,558	1,283,622
2004 final dividend	-	-	-	-	-	(498,217)	(498,217)
2005 interim dividend	-	-	-	-	-	(520,567)	(520,567)
Shares issued under employee share option schemes	47,379	-	-	-	-	-	47,379
Shares purchased for Share Award Scheme	(30,028)	-	-	-	-	-	(30,028)
Employee share-based compensation benefits	-	22,955	-	-	-	-	22,955
Share of reserves of an associate	-	72	21	-	-	-	93
Transfer of reserves	5,108	(5,108)	-	-	19,645	(19,645)	-
At 31 Dec 2005, as restated	1,183,132	34,980	(37,086)	-	700,641	2,455,804	4,337,471

Consolidated Balance Sheet

As at 31 December 2006

(Financial figures are expressed in Hong Kong Dollar)

	Note	2006 \$'000	As restated 2005 \$'000
NON-CURRENT ASSETS			
Fixed assets	18(a)	210,161	257,876
Investment property	19	19,300	17,700
Lease premiums for land	20	93,575	94,123
Investments in associates	21	68,377	64,581
Clearing House Funds	22	2,270,531	1,340,410
Compensation Fund Reserve Account	23	40,535	38,410
Time deposit with maturity over one year		38,886	38,768
Deferred tax assets	38(e)	3,330	3,060
Other financial assets		18,583	17,162
Other assets		3,212	3,212
		2,766,490	1,875,302
CURRENT ASSETS			
Accounts receivable, prepayments and deposits	24	10,201,562	3,286,835
Lease premiums for land	20	548	547
Taxation recoverable		–	108
Margin Funds on derivatives contracts	25	21,666,474	13,648,581
Financial assets at fair value through profit or loss	26	2,878,224	2,643,788
Available-for-sale financial assets	27	539,132	–
Time deposits with original maturities over three months		185,611	116,622
Cash and cash equivalents		2,215,257	1,359,133
		37,686,808	21,055,614
CURRENT LIABILITIES			
Margin deposits from Clearing Participants on derivatives contracts	25	21,666,474	13,648,581
Accounts payable, accruals and other liabilities	28	11,107,200	3,641,071
Financial liabilities at fair value through profit or loss	26	7,505	1,443
Participants' admission fees received	29	1,700	2,550
Deferred revenue		318,468	284,851
Taxation payable		287,368	92,628
Provisions	30(a)	26,712	27,145
		33,415,427	17,698,269
NET CURRENT ASSETS		4,271,381	3,357,345
TOTAL ASSETS LESS CURRENT LIABILITIES		7,037,871	5,232,647

	Note	2006 \$'000	As restated 2005 \$'000
NON-CURRENT LIABILITIES			
Participants' admission fees received	29	79,750	80,150
Participants' contributions to Clearing House Funds	22	1,642,495	751,751
Deferred tax liabilities	38(e)	14,003	20,770
Financial guarantee contract	42(a)(ii)	19,909	19,909
Provisions	30(a)	24,128	22,596
		1,780,285	895,176
NET ASSETS			
		5,257,586	4,337,471
CAPITAL AND RESERVES			
Share capital	32	1,065,448	1,062,755
Share premium	32	185,942	150,405
Shares held for Share Award Scheme	32	(51,297)	(30,028)
Employee share-based compensation reserve	33	52,119	34,980
Revaluation reserves	34	10,569	(37,086)
Designated reserves	36	668,262	700,641
Retained earnings	39	2,060,156	1,776,254
Proposed/declared dividends	39	1,266,387	679,550
		5,257,586	4,337,471
SHAREHOLDERS' FUNDS			
		5,257,586	4,337,471
SHAREHOLDERS' FUNDS PER SHARE			
		\$4.94	\$4.09

Approved by the Board of Directors on 8 March 2007

Ronald Joseph ARCULLI
Director

CHOW Man Yiu, Paul
Director

Hong Kong Exchanges and Clearing Limited

Balance Sheet

As at 31 December 2006

(Financial figures are expressed in Hong Kong Dollar)

	Note	2006 \$'000	2005 \$'000
NON-CURRENT ASSETS			
Fixed assets	18(b)	17,482	17,723
Investments in subsidiaries	31(a)	4,156,588	4,156,588
Contributions to HKEx Employee Share Trust	31(d)	49,825	30,037
Deferred tax assets	38(e)	3,330	2,967
Other financial assets		483	480
Other assets		3,089	3,089
		4,230,797	4,210,884
CURRENT ASSETS			
Accounts receivable, prepayments and deposits	24	9,758	26,274
Amounts due from subsidiaries	31(b)	1,020,858	583,102
Time deposits with original maturities over three months		29,089	10,184
Cash and cash equivalents		41,656	43,383
		1,101,361	662,943
CURRENT LIABILITIES			
Accounts payable, accruals and other liabilities	28	104,491	162,018
Amounts due to subsidiaries	31(b)	498,224	183,116
Taxation payable		13,054	8,257
Provisions	30(b)	26,712	25,613
		642,481	379,004
NET CURRENT ASSETS		458,880	283,939
TOTAL ASSETS LESS CURRENT LIABILITIES		4,689,677	4,494,823
NON-CURRENT LIABILITIES			
Provisions	30(b)	575	575
Financial guarantee contract	42(b)(i)	11,390	11,390
		11,965	11,965
NET ASSETS		4,677,712	4,482,858
CAPITAL AND RESERVES			
Share capital	32	1,065,448	1,062,755
Share premium	32	185,942	150,405
Employee share-based compensation reserve	33	51,606	34,908
Merger reserve	37	2,997,115	2,997,115
Accumulated losses	39	(890,283)	(442,488)
Proposed/declared dividends	39	1,267,884	680,163
SHAREHOLDERS' FUNDS		4,677,712	4,482,858
SHAREHOLDERS' FUNDS PER SHARE		\$4.39	\$4.22

Approved by the Board of Directors on 8 March 2007

Ronald Joseph ARCULLI
Director

CHOW Man Yiu, Paul
Director

Consolidated Cash Flow Statement

For the year ended 31 December 2006

(Financial figures are expressed in Hong Kong Dollar)

	Note	2006 \$'000	As restated 2005 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net cash inflow from operating activities	40(a)	2,865,468	1,429,946
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for purchases of fixed assets		(60,269)	(62,080)
Proceeds from sales of fixed assets		385	56
Payments for acquisition of interest in an associate		–	(24,876)
Proceeds from liquidation of an associate		1,312	–
Dividends received from an associate		27,784	12,668
Increase in time deposits with original maturities more than three months		(69,107)	(115,109)
Payments for purchases of available-for-sale financial assets of the Corporate Funds		(535,585)	–
Interest received from available-for-sale financial assets		288,911	89,916
Net cash outflow from investing activities		(346,569)	(99,425)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares under employee share option schemes		30,895	47,379
Purchase of shares for Share Award Scheme		(21,269)	(30,028)
Admission fees refunded to less receipts from Participants		(1,250)	(5,000)
Dividends paid		(1,671,151)	(1,018,784)
Net cash outflow from financing activities		(1,662,775)	(1,006,433)
Net increase in cash and cash equivalents		856,124	324,088
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 31 Dec 2006/31 Dec 2005		2,215,257	1,359,133
Analysis of cash and cash equivalents			
Time deposits with original maturities within three months		1,379,963	1,174,313
Cash at bank and in hand		835,294	184,820
Cash and cash equivalents at 31 Dec 2006/31 Dec 2005		2,215,257	1,359,133

Notes to the Consolidated Accounts

(Financial figures are expressed in Hong Kong Dollar)

1. General Information

Hong Kong Exchanges and Clearing Limited (“HKEx”) and its subsidiaries (collectively, “the Group”) own and operate the only stock exchange and futures exchange in Hong Kong and their related clearing houses.

HKEx is a limited company incorporated and domiciled in Hong Kong. The address of its registered office is 12th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong.

These consolidated accounts were approved for issue by the Board of Directors on 8 March 2007.

2. Principal Accounting Policies

(a) Statement of compliance

These consolidated accounts have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), which include all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), and have been aligned with the requirements of International Financial Reporting Standards in all material respects as at 31 December 2006, accounting principles generally accepted in Hong Kong, requirements of the Hong Kong Companies Ordinance and applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Main Board Listing Rules”).

(b) Basis of preparation

These consolidated accounts have been prepared under the historical cost convention, as modified by the revaluation of leasehold buildings, investment properties, available-for-sale financial assets and financial assets and financial liabilities at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The area involving higher degree of judgement or complexity, or area where assumptions and estimates are significant to the consolidated accounts is disclosed in note 3.

Adoption of new/revised HKFRSs

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

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

2. Principal Accounting Policies *(continued)*

(b) Basis of preparation *(continued)*

Adoption of new/revised HKFRSs (continued)

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 derives benefits from the contributions of the employees who have been awarded the Awarded Shares through their continued employment with the Group, the Group is required to consolidate the HKEx Employee Share Trust under the revised HKAS 27 in 2006.

The adoption of the revised HKAS 27 requires retrospective application to prior year comparatives.

Early adoption of HKFRSs

In the fourth quarter of 2006, the Group early adopted all HKFRSs issued up to 31 December 2006 which were pertinent to its operations where early adoption is permitted. The only applicable HKFRS is set out below:

HK(IFRIC)-INT 10: Interim Financial Reporting and Impairment

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

According to the specific transitional provisions of HK(IFRIC)-INT 10, the adoption of the interpretation in relation to goodwill and available-for-sale equity financial assets should be applied prospectively from the date the Group first applied HKAS 36: Impairment of Assets (ie 1 January 2003) and the measurement criteria of HKAS 39: Financial Instruments: Recognition and Measurement (ie 1 January 2004) respectively.

Effects of changes in accounting policies on consolidated profit and loss account

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

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

2. Principal Accounting Policies *(continued)*

(b) Basis of preparation *(continued)*

Effects of changes in accounting policies on consolidated balance sheet

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

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

Effects of HKFRSs that were issued after 31 December 2006 and up to the date of approval of the consolidated accounts

At the date of approval of these consolidated accounts, the following HKFRS was issued after 31 December 2006 but was not applicable to the Group's operations:

HK(IFRIC)-INT 11: HKFRS 2 – Group and Treasury Share Transactions

(c) Consolidation

The Group has adopted merger accounting in the preparation of the consolidated accounts at the time of the merger of the Group in 2000. The consolidated accounts include the accounts of HKEx and all of its subsidiaries made up to 31 December.

(i) Subsidiaries and controlled special purpose entities

Subsidiaries and controlled special purpose entities are entities over which HKEx, directly or indirectly, 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.

The accounts of subsidiaries and controlled special purpose entities are included in the consolidated accounts from the date on which control commences until the date that control ceases. All material intra-group transactions and balances have been eliminated on consolidation.

In HKEx's balance sheet, investments in subsidiaries and contributions to the HKEx Employee Share Trust, a controlled special purpose entity, are stated at cost less provision for any impairment, if necessary. The results of subsidiaries are accounted for by HKEx on the basis of dividends received and receivable.

(ii) Associates

Associates are all entities, not being subsidiaries nor interests in joint ventures, in which the Group has significant influence generally accompanying a shareholding of between 20 per cent and 50 per cent of the voting rights.

Investments in associates are accounted for in the consolidated accounts under the equity method. The consolidated profit and loss account includes the Group's share of the post-acquisition results of associates for the year, and the consolidated balance sheet includes the Group's share of the net assets of associates and goodwill (net of accumulated impairment losses).

2. Principal Accounting Policies *(continued)*

(d) 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 consolidated profit and loss account.

(e) Revenue recognition

Income is recognised in the profit and loss account on the following basis:

- (i) Trading fees and trading tariff on securities and options traded on the Stock Exchange and trading fees on derivatives contracts traded on the Futures Exchange are recognised on a trade date basis.
- (ii) Initial listing fees for initial public offering (“IPO”) are recognised upon the listing of an applicant, cancellation of the application or six months after submission of the application, whichever is earlier. Initial listing fees for warrants, callable bull/bear contracts and other securities are recognised upon the listing of the securities. Income from annual listing fees is recognised on a straight-line basis over the period covered by the respective fees received in advance.
- (iii) Settlement fees on derivatives contracts traded on the Futures Exchange are recognised on the official final settlement day.
- (iv) Fees for clearing and settlement of broker-to-broker trades in eligible securities transacted on the Stock Exchange are recognised in full on T+1, ie, on the day following the trade day, upon acceptance of the trades. Fees for other settlement transactions are recognised upon completion of the settlement.
- (v) Custody fees for securities held in the Central Clearing and Settlement System (“CCASS”) depository are calculated and accrued on a monthly basis. Income on registration and transfer fees on nominee services are calculated and accrued on the book close dates of the relevant stocks during the financial year.
- (vi) Income from sale of information and other fees are recognised when the related services are rendered.
- (vii) Interest income on investments represents gross interest income from bank deposits and securities and is recognised on a time apportionment basis using the effective interest method.
- (viii) When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rates of the instrument, and continues unwinding the discount as interest income included under Other Income. Interest income on impaired loans is recognised using the original effective interest rate.
- (ix) Dividend income is recognised when the right to receive payment is established.
- (x) Rental income is recognised on an accrual basis.

(f) Interest expenses

Interest expenses are recognised on a time apportionment basis, taking into account the principal outstanding and the applicable interest rates using the effective interest method. All interest expenses are charged to the profit and loss account in the year in which they are incurred.

2. Principal Accounting Policies *(continued)*

(g) Employee benefit costs

(i) Employee leave entitlements

The cost of accumulating compensated absences is recognised as an expense and measured based on the additional amount that the Group expects to pay as a result of the unused entitlement that has accumulated at the balance sheet date.

(ii) Equity compensation benefits

For share options granted under the Post-Listing Share Option Scheme (“Post-Listing Scheme”) and the Awarded Shares granted under the Share Award Scheme, the fair value of the employee services received in exchange for the grant of the options and the Awarded Shares is recognised as an expense and credited to an employee share-based compensation reserve under equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options and Awarded Shares granted.

At each balance sheet date, the Group revises its estimates of the number of options and Awarded Shares that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in the profit and loss account over the remaining vesting period, with a corresponding adjustment to the employee share-based compensation reserve.

Share options granted under the Pre-Listing Share Option Scheme (“Pre-Listing Scheme”) are not expensed as the options were granted before 7 November 2002 and not subject to requirements of HKFRS 2: Share-based Payment.

When the options are exercised, the proceeds received are credited to share capital (nominal value) and share premium, and the associated amount in the employee share-based compensation reserve, if any, is transferred to share premium.

(iii) Retirement benefit costs

Contributions to the defined contribution provident fund regulated under the Occupational Retirement Schemes Ordinance (“ORSO”) and operated by the Group and the AIA-JF Premium MPF Scheme are expensed as incurred. Forfeited contributions of the provident fund in respect of employees who leave before the contributions are fully vested are not used to offset existing contributions but are credited to a reserve account of that provident fund. Reserves of the provident fund representing forfeited employer’s contributions are available for distribution to the provident fund members at the discretion of the trustees. Assets of the provident fund and the AIA-JF Premium MPF Scheme are held separately from those of the Group and are independently administered.

(h) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease term.

2. Principal Accounting Policies *(continued)*

(i) Fixed assets

The building component of owner-occupied leasehold properties is stated at valuation less accumulated depreciation. Fair value is determined by the Directors based on independent valuations which are performed periodically. The valuations are on the basis of depreciated replacement cost. Depreciated replacement cost is used as open market value cannot be reliably allocated to the building component. The Directors review the carrying value of the leasehold buildings and adjustment is made where they consider that there has been a material change. Increases in valuation are credited to the leasehold buildings revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and are thereafter charged to the profit and loss account. Any subsequent increases are credited to the profit and loss account up to the amount previously charged and thereafter to leasehold buildings revaluation reserve.

Other tangible fixed assets are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Tangible fixed assets are depreciated at rates sufficient to write off their costs net of expected residual values over their estimated useful lives on a straight-line basis. The useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The useful lives of major categories of fixed assets are as follows:

Leasehold buildings	25 years
Leasehold improvements	Over the remaining life of the leases but not exceeding 5 years
Computer trading and clearing systems – hardware and software	5 years
Other computer hardware and software	3 years
Furniture and equipment	Up to 5 years
Motor vehicles	3 years

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the profit and loss account during the year in which they are incurred.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount (note 2(m)).

Qualifying software system development expenditures are capitalised and recognised as a fixed asset in the balance sheet as the software forms an integral part of the hardware on which it operates. The expenditures comprise all qualifying direct and allocated expenses attributable to the development of distinct major computer systems.

Qualifying development expenditures incurred after the completion of a system are added to the carrying amount of the related asset when it is probable that future economic benefits that are attributable to the asset will flow to the Group. All other subsequent expenditures are recognised as non-qualifying expenditures.

All non-qualifying expenditures and expenses incurred on other non-qualifying development activities are charged as expenses to the profit and loss account in the period in which such expenses are incurred.

2. Principal Accounting Policies *(continued)*

(i) Fixed assets *(continued)*

Amortisation of the cost of capitalised software system development expenditures is provided from the dates when the systems are available for use.

Upon the disposal of leasehold buildings, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the leasehold buildings revaluation reserve to retained earnings.

The gain or loss on disposal of fixed assets is the difference between the net sale proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(j) Investment properties

Investment properties are properties held for long-term rental yields and not occupied by the Group. Investment properties comprise land held under operating leases and buildings held under finance leases. Investment properties are carried at fair value, representing open-market value determined by independent qualified valuers in accordance with the “HKIS Valuation Standards on Properties” issued by the Hong Kong Institute of Surveyors (“HKIS Valuation Standards”), “The RICS Appraisal and Valuation Standards” published by the Royal Institution of Chartered Surveyors (“RICS”) and the “International Valuation Standards” published by the International Valuation Standards Committee where the HKIS Valuation Standards are silent on subjects requiring guidance. Changes in fair value are recognised in the profit and loss account.

(k) Lease premiums for land

Leasehold land premiums are up-front payments to acquire long-term interests in lessee-occupied properties. The premiums are stated at cost and are amortised over the period of the lease on a straight-line basis to the profit and loss account.

(l) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group’s share of the net assets of the acquired company at the date of acquisition. Goodwill on acquisition of associates is included in investments in associates.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

(m) Impairment of assets other than financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount (ie, the higher of an asset’s fair value less costs to sell and value in use). Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a decline in revaluation.

In respect of assets other than goodwill, impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and the circumstances and events leading to the impairment cease to exist. Impairment loss in respect of goodwill is not reversed. A reversal of impairment loss is limited to the asset’s carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment losses is credited to the profit and loss account except when the asset is carried at valuation, in which case the reversal of impairment loss is credited to the profit and loss account up to the amount previously charged to the profit and loss account and thereafter treated as a revaluation movement.

2. Principal Accounting Policies *(continued)*

(m) Impairment of assets other than financial assets *(continued)*

The Group publishes its interim financial reports on a quarterly basis. At the end of each interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year. Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(n) Clearing House Funds

Income arising from bank deposits and investments comprising the Clearing House Funds and expenses incurred for these funds are dealt with in the profit and loss account. Investment income net of expenses of the Clearing House Funds is appropriated from retained earnings to the respective designated reserves of the Clearing House Funds and allocated to amounts attributable to Clearing Participants' contributions and to clearing houses' contributions based on the ratio of their respective average initial contributions and accumulated allocated investment income net of expenses. Changes in valuation of the available-for-sale financial assets comprising the Clearing House Funds are dealt with in the investment revaluation reserve.

Net assets of the Clearing House Funds, which are derived from contributions from CCASS Broker Participants, HKFE Clearing Corporation Limited ("HKCC") Participants and The SEHK Options Clearing House Limited ("SEOCH") Participants (collectively "Clearing Participants") and the respective clearing houses, and the accumulated investment income net of expenses of the Clearing House Funds appropriated from retained earnings, are included in the balance sheet as non-current assets. Clearing Participants' contributions are treated as non-current liabilities in the balance sheet. Non-cash collateral of the Clearing House Funds (ie contributions receivable from Clearing Participants fully secured by bank guarantees) and the corresponding liabilities are not reflected as assets and liabilities in the balance sheet in accordance with HKAS 39 but is disclosed in note 44 to the consolidated accounts. Contributions from the respective clearing houses, the accumulated investment income net of expenses of the Clearing House Funds appropriated from retained earnings and forfeiture of defaulted Clearing Participants' contributions are included in the balance sheet as designated reserves.

(o) Margin Funds on derivatives contracts/margin deposits and non-cash collateral received from Clearing Participants on derivatives contracts

Margin Funds are established by cash received or receivable from SEOCH and HKCC Clearing Participants for covering their open positions in derivatives contracts. The funds are refundable to the Clearing Participants of SEOCH and HKCC when they close their positions in derivatives contracts. These funds are held in segregated accounts of the respective clearing houses. Cash margin deposits received are disclosed as Margin Funds on derivatives contracts under current assets and the obligation to refund such deposits as Margin deposits from Clearing Participants on derivatives contracts under current liabilities. Non-cash collateral (ie securities and bank guarantees) received from Clearing Participants for satisfying margin requirements and the corresponding liabilities are not recorded as assets and liabilities of the Margin Funds in accordance with HKAS 39 but are disclosed in note 44 to the consolidated accounts.

Income arising from bank deposits and investments comprising these Margin Funds and expenses incurred for these funds are dealt with in the profit and loss account. Changes in fair value of available-for-sale financial assets comprising these Margin Funds are dealt with in the investment revaluation reserve. Changes in fair value of investments designated as financial assets at fair value through profit or loss are included in the profit and loss account. The Clearing Participants of SEOCH and HKCC are entitled to interest at a rate determined by SEOCH and HKCC on the margin deposits they place with SEOCH and HKCC respectively.

2. Principal Accounting Policies *(continued)*

(p) Cash marks received from Participants

Cash marks received from Hong Kong Securities Clearing Company Limited (“HKSCC”) Participants for their open positions are recorded as assets in the balance sheet. As these funds are refundable to the Participants when they settled their positions, the marks received are reflected as liabilities to the Participants in the balance sheet.

Income arising from bank deposits comprising these funds is dealt with in the profit and loss account. HKSCC Participants are entitled to interest at a rate determined by HKSCC on the marks they place with HKSCC.

(q) Derivative financial instruments

Derivatives, which include forward foreign exchange contracts, are initially recognised at fair value on the date on which the derivative contracts are entered into and subsequently remeasured at their fair values. Fair values are based on quoted market prices in active markets, recent market transactions or valuation techniques such as discounted cash flow models and options pricing models, as appropriate. Changes in fair value of the derivatives are recognised in the profit and loss account except where the derivatives are designated as a qualifying cash flow hedge in which case recognition of any resultant fair value gain or loss depends on the nature of the item being hedged (note 2 (r)). All derivatives except those designated as qualifying cash flow hedges are classified as financial assets at fair value through profit or loss when their fair values are positive and as financial liabilities at fair value through profit or loss when their fair values are negative.

(r) Hedge accounting

The Group documents at the inception of the transactions the relationship between the hedging instruments and the hedged items, as well as the risk management objectives and strategies for undertaking various hedge transactions. The Group also documents its assessment, both at the inception of the hedges and on an ongoing basis, of whether the hedging instruments are highly effective in offsetting changes in fair values or cash flows of the hedged items caused by the risk being hedged.

The fair value of a hedging derivative instrument is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than twelve months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than twelve months.

(i) Fair value hedges

Changes in the fair value of hedging instruments that are designated and qualify as fair value hedges are recognised in the profit and loss account together with the changes in the fair value of the hedged assets, liabilities or firm commitments that are subject to the hedged risk.

(ii) Cash flow hedges

For hedging instruments that are designated and qualify as cash flow hedges, the changes in the fair value relating to the effective portion of the hedges are recognised in equity. The gains or losses relating to the ineffective portion of the hedges are recognised immediately in the profit and loss account.

Amounts accumulated in equity are recycled to the profit and loss account in the periods when the hedged items affect profit or loss. However, when the forecast transactions that are hedged result in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss retained in equity at that time remains in equity and is recognised in accordance with the above policy when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss retained in equity is immediately transferred to the profit and loss account.

2. Principal Accounting Policies *(continued)*

(s) Investments

(i) Classification

Investments of the Group are classified under the following categories:

Financial assets at fair value through profit or loss

This category comprises financial assets held for trading (ie those acquired for the purpose of selling in short-term or derivatives which are not designated as hedging instruments), shares receivable by HKSCC under stock borrowing for the purpose of settlement under the Continuous Net Settlement (“CNS”) basis and financial assets designated as fair value through profit or loss at inception if the designation:

- eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring financial assets or financial liabilities or recognising the gains and losses on them on different bases; or
- applies to a group of financial assets, financial liabilities or both that is managed and its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and where information about that group of financial instruments is provided internally on that basis to key management personnel; or
- relates to financial instruments containing one or more embedded derivatives that significantly modify the cash flows resulting from those financial instruments.

Financial assets at fair value through profit or loss held by the Corporate Funds are classified as current assets as they are held for trading.

Available-for-sale financial assets

This category comprises financial assets which are non-derivatives and are designated as available-for-sale financial assets or not classified under other investment categories.

Available-for-sale financial assets held by the Corporate Funds are included in non-current assets unless management intends to dispose of the investment or the investment is expected to mature within twelve months of the balance sheet date.

Loans and receivables

Loans and receivables, which comprise bank deposits, trade and accounts receivable, deposits and other assets, are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Group has no intention of trading the loans or receivables. Bank deposits are disclosed as time deposits and cash equivalents.

Loans and receivables of the Corporate Funds are included in current assets, except for items which are expected to mature after twelve months as at the balance sheet date.

(ii) Recognition and initial measurement

Loans and receivables arise when the Group provides money, goods or services directly to a debtor.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the assets. Investments classified as financial assets at fair value through profit or loss are initially recognised at fair value with transaction costs recognised as expenses in the profit and loss account. Investments not classified as financial assets at fair value through profit or loss are initially recognised at fair value plus transaction costs.

(iii) Derecognition

Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership of the investments.

2. Principal Accounting Policies *(continued)*

(s) Investments *(continued)*

- (iv) Gains or losses on subsequent measurement and interest income and dividend income

Financial assets at fair value through profit or loss

- Investments under this category are carried at fair value. Unrealised gains and losses arising from changes in the fair value are included in the profit and loss account in the period in which they arise. Upon disposal, the difference between the net sale proceeds and the carrying value is included in the profit and loss account.
- Interest income is recognised using the effective interest method and included as net realised and unrealised gains/(losses) and interest income from these investments.
- Dividend income is recognised when the right to receive dividend is established and disclosed separately as dividend income.

Available-for-sale financial assets

- Available-for-sale financial assets are carried at fair value. Unrealised gains and losses (including transaction costs on acquisition) arising from changes in the fair value are recognised in investment revaluation reserve in accordance with HKAS 39, except for impairment losses in excess of previous revaluation surpluses and exchange differences of monetary securities resulting from changes in amortised costs are recognised in profit and loss account. For the purpose of recognising foreign exchange gains and losses under HKAS 21, monetary available-for-sale financial assets are treated as if they were carried at amortised cost in the foreign currency and, accordingly, exchange differences resulting from changes in amortised cost are recognised in profit or loss and other changes in carrying amount are recognised in reserve in accordance with HKAS 39. When the securities are sold, the difference between the net sale proceeds and the carrying value, and the accumulated fair value adjustments in the investment revaluation reserve are treated as gains or losses on disposal.
- Interest income is recognised using the effective interest method and disclosed as interest income.
- Dividend income is recognised when the right to receive dividend is established and disclosed as dividend income.

Loans and receivables

- Loans and receivables are carried at amortised cost using the effective interest method less provision for impairment.
- Interest income is recognised using the effective interest method and disclosed as interest income.

- (v) Fair value measurement principles

Fair values of quoted investments are based on bid prices. For unlisted securities or financial assets without an active market, the Group establishes the fair value by using valuation techniques including the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

2. Principal Accounting Policies *(continued)*

(s) Investments *(continued)*

(vi) Impairment

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if and only if there is objective evidence of impairment as a result of one or more loss events that have occurred after the initial recognition of the assets and have an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- significant financial difficulty of the debtor or obligor;
- fees receivable that have been outstanding for over 180 days;
- the Group granting to the debtor or obligor, for economic or legal reasons relating to the debtor's or obligor's financial difficulty, a concession that the Group would not otherwise consider;
- it is becoming probable that the debtor or obligor will enter into bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group, including:
 - adverse changes in the payment status of debtors or obligors in the Group;
 - economic conditions that correlate with defaults on the assets in the Group.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics relevant to the estimation of future cash flows. These financial assets are collectively assessed based on historical loss experience on each type of assets and management judgement of the current economic and credit environment.

Loans and receivables

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the assets' carrying amounts and the present values of estimated future cash flows discounted at the financial assets' original effective interest rates. The carrying amounts of the assets are reduced through the use of a doubtful debt allowance account and the amount of the loss is recognised in the profit and loss account.

When there is no realistic prospect of recovery of a loan or receivable, it is written off against the related provision for impairment loss. Subsequent recovery of the amount previously written off is reversed against the provision for impairment loss in the profit and loss account.

2. Principal Accounting Policies *(continued)*

(s) Investments *(continued)*

(vi) Impairment *(continued)*

Loans and receivables (continued)

As soon as a loan or receivable becomes impaired, the Group may continue to provide services or facilities to the debtor or obligor but no further accounts receivable is 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.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the doubtful debt allowance account. The amount of reversal is recognised in the profit and loss account.

Available-for-sale financial assets

If there is objective evidence that an impairment loss on available-for-sale financial assets has been incurred, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on the financial asset previously recognised in the profit or loss account) is removed from investment revaluation reserve and recognised in the profit and loss account.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the profit and loss account up to the amount previously charged to the profit and loss account and any further increase in fair value thereafter is treated as a revaluation movement.

In the case of equity securities classified as available-for-sale financial assets, a significant or prolonged decline in the fair value of the securities below their cost is considered in determining whether the securities are impaired. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account. Any subsequent increase in the fair value of such assets is recognised directly in investment revaluation reserve.

The Group publishes its interim financial reports on a quarterly basis. At the end of each interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year. Impairment losses recognised in an interim period in respect of available-for-sale equity securities are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(t) Financial liabilities

(i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are financial liabilities held for trading (ie principally held for the short-term and derivatives which are not designated as hedging instruments), shares borrowed by HKSCC for the purpose of settlement under the CNS basis and financial liabilities designated at fair value through profit or loss at inception if the designation satisfies the same criteria as set out in note 2(s)(i) under the caption of "Financial assets at fair value through profit or loss".

Liabilities under this category are initially recognised at fair value on the date on which a contract is entered into and subsequently remeasured at their fair values. Changes in fair value of the liabilities are recognised in the profit and loss account.

2. Principal Accounting Policies *(continued)*

(t) Financial liabilities *(continued)*

(ii) Financial guarantee contracts

A financial guarantee contract is a contract that requires the Group to make specified payments to reimburse the holder for a loss it incurs because a specified entity or person fails to make payment when due in accordance with the original or modified terms of an undertaking.

Financial guarantee contracts are accounted for as financial instruments under HKAS 39 and are initially recognised at fair value. Subsequently, such contracts are measured at the higher of the amount determined in accordance with HKAS 37 – Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less, where appropriate, cumulative amortisation recognised over the life of the guarantee on a straight-line basis.

(iii) Other financial liabilities

Financial liabilities, other than financial liabilities at fair value through profit or loss and financial guarantee contracts, are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

(u) Repurchase transactions

When securities are sold subject to a commitment to repurchase them at a predetermined price, they remain on the balance sheet and the consideration received is recorded as a liability.

(v) Recognition of receivables and payables from/to HKSCC Clearing Participants on Stock Exchange trades settled on the CNS basis

Upon acceptance of Stock Exchange trades for settlement in CCASS under the CNS basis, HKSCC interposes itself between the HKSCC Clearing Participants as the settlement counterparty to the trades through novation. Final acceptance of Stock Exchange trades is confirmed on T+1 by details contained in the final clearing statement transmitted to every HKSCC Clearing Participant.

The CNS money obligations due by/to HKSCC Clearing Participants on the Stock Exchange trades are recognised as receivables and payables when they are confirmed and accepted on T+1.

For all other trades and transactions, HKSCC merely provides a facility for settlement within CCASS and does not interpose itself between the HKSCC Clearing Participants as the settlement counterparty to the trades. The settlement of these trades does not constitute money obligations and is excluded from the consolidated accounts of the Group.

(w) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences or the income tax losses can be utilised. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred tax assets and liabilities. Movements in deferred tax provision are recognised in the profit and loss account with the exception of deferred tax related to fair value re-measurement of leasehold buildings, available-for-sale financial assets and cash flow hedges, which is charged or credited directly to equity, is also credited or charged directly to equity.

(x) Deferred revenue

Deferred revenue comprises annual listing fees received in advance, payments received in advance for services in relation to the sales of stock market information and telecommunication line rentals for trading facilities located at brokers' offices.

2. Principal Accounting Policies *(continued)*

(y) Provisions, contingent liabilities and contingent assets

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the consolidated accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(z) Foreign currency translation

(i) Functional and presentation currency

Items included in the accounts of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated accounts are presented in Hong Kong Dollars ("HKD"), which is HKEx's and the Group's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets (accounting treatment for available-for-sale financial assets is included in note 2(s)(iv)) and liabilities denominated in foreign currencies are recognised in the profit and loss account, except when the foreign exchange gains/losses are related to a qualifying cash flow hedge in which case the amount will be deferred in the hedging reserve.

Translation differences on non-monetary financial assets and liabilities, such as equity investments held that are classified as financial assets at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equity instruments classified as available-for-sale financial assets are included in the investment revaluation reserve in equity.

(aa) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, bank balances and other short-term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value (mainly time deposits), with original maturities of three months or less.

2. Principal Accounting Policies *(continued)*

(ab) 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.

(ac) Segment reporting

Business segment assets consist primarily of fixed assets, assets of the Clearing House Funds, Compensation Fund Reserve Account, Margin Funds, financial assets and other assets. Business segment liabilities comprise primarily liabilities to Participants, financial and other liabilities. Non-business segment assets and liabilities include taxation recoverable and payable, deferred tax assets and liabilities and dividends declared by HKEx but not yet claimed by its shareholders. Capital expenditures comprise additions to fixed assets. Business segments have been used as the primary reporting format and no geographical segment analysis is presented as all business activities are conducted in Hong Kong.

(ad) Dividends

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

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

Dividends declared by HKEx which have not been claimed by its shareholders for a period of over six years from the dividend payment date are forfeited and transferred to retained earnings in accordance with HKEx’s Articles of Association.

(ae) Related parties

Parties are considered to be related to the Group if the Group has the ability to control, directly or indirectly, the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or entities and include entities which are controlled or under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

3. Critical Accounting Estimates and Judgements

The Group makes estimates and assumptions concerning the future. The estimates and assumptions that may have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year relate to the assessment of impairment of investments in associates.

The Group assesses annually if investments in associates have suffered any impairment in accordance with the accounting policy stated in note 2(m). The recoverable amount of the investment in one of the associates, Computershare Hong Kong Investor Services Limited (“CHIS”), is determined using discounted cash flows which require the use of estimated dividends, proceeds on disposal and an appropriate discount rate as stated in note 21(b)(ii).

If the discount rate moves above 40 per cent, or annual dividends expected to be received fall by more than 76 per cent, an impairment loss may be considered necessary.

4. Segment Information

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

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

4. Segment Information (continued)

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

4. Segment Information *(continued)*

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 6.

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

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

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

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

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

5. Trading Fees and Trading Tariff

	2006 \$'000	2005 \$'000
Trading fees and trading tariff were derived from:		
Securities traded on the Cash Market	969,421	528,954
Derivatives contracts traded on the Derivatives Market	370,934	264,293
	1,340,355	793,247

6. Stock Exchange Listing Fees

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

	2006				2005			
	Equity		Debt & Derivatives \$'000	Total \$'000	Equity		Debt & Derivatives \$'000	Total \$'000
	Main Board \$'000	GEM \$'000			Main Board \$'000	GEM \$'000		
Income								
Annual listing fees	247,797	24,977	1,812	274,586	236,125	25,946	1,874	263,945
Initial and subsequent issue listing fees	45,910	3,175	135,516	184,601	53,175	5,880	83,020	142,075
Prospectus vetting fees	2,730	360	60	3,150	2,775	375	140	3,290
Other listing fees	2,174	934	-	3,108	2,706	984	-	3,690
Total income	298,611	29,446	137,388	465,445	294,781	33,185	85,034	413,000
Costs of Listing Function								
<i>Direct costs</i>								
Staff costs and related expenses	120,623	30,664	6,886	158,173	98,408	28,749	5,645	132,802
Information technology and computer maintenance expenses	1,943	517	-	2,460	1,608	441	2	2,051
Premises expenses	14,930	3,722	870	19,522	6,336	1,846	363	8,545
Legal and professional fees	1,785	1,247	-	3,032	4,907	1,202	1	6,110
Depreciation	3,420	1,008	57	4,485	6,234	1,918	206	8,358
Other operating expenses	8,489	2,992	204	11,685	20,777	5,337	164	26,278
<i>Total direct costs</i>	151,190	40,150	8,017	199,357	138,270	39,493	6,381	184,144
<i>Indirect costs</i>	25,175	5,361	4,578	35,114	27,822	5,602	4,571	37,995
Contribution	122,246	(16,065)	124,793	230,974	128,689	(11,910)	74,082	190,861

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 IPOs and enforcing the Main Board Listing Rules and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and disseminating information relating to listed companies. Indirect costs comprise costs of support services and other central overheads attributable to the Listing Function.

7. Investment Income

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

- (a) The significant increase in interest expenses was mainly attributable to the increase in Margin Fund size, rising interest rates and a change in the benchmarked interest rate payable on cash margin deposits from 1 June 2005 onwards. In 2006, interest was paid on cash margin deposits based on the savings rate. Prior to 1 June 2005, interest was not always paid to the Participants as the interest rates payable on the cash margin deposits were often lower than the retention interest rates charged by HKCC and SEOCH on such cash margin deposits.
- (b) Investment income derived from the Corporate Funds included investment income of the Compensation Fund Reserve Account of \$2,026,000 (2005: \$1,286,000).

8. Other Income

	2006 \$'000	2005 \$'000
Network, terminal user, dataline and software sub-license fees	180,372	129,733
Participants' subscription and application fees	33,927	34,351
Brokerage on direct IPO applications	57,066	34,123
Trading booth user fees	9,162	–
Fair value gain of an investment property (note 19)	1,600	4,400
Accommodation income on cash margin deposits in non-contract settlement currencies and securities deposited by Participants as alternatives to cash deposits of the Margin Funds	3,164	2,154
Miscellaneous income	13,041	16,256
	298,332	221,017

9. Staff Costs and Related Expenses

(a) Staff costs and related expenses comprised the following:

	2006 \$'000	As restated 2005 \$'000
Salaries and other short-term employee benefits	577,713	512,549
Employee share-based compensation benefits (note 33)	24,033	22,955
Termination benefits	1,194	237
Retirement benefit costs (note b):		
– ORSO Plan	51,507	50,011
– MPF Scheme	359	282
	654,806	586,034

(b) Retirement Benefit Costs

The Group has sponsored a defined contribution provident fund scheme, namely the Hong Kong Exchanges and Clearing Provident Fund Scheme (“ORSO Plan”), which is registered under ORSO and has obtained Mandatory Provident Fund (“MPF”) exemption. The ORSO Plan is for all full-time permanent employees. The Group contributes 12.5 per cent of the employee’s basic salary to the ORSO Plan if an employee contributes 5 per cent. If the employee chooses not to contribute, the Group will contribute 10 per cent of the employee’s salary to the ORSO Plan.

In compliance with the MPF Ordinance, HKEx has participated in a master trust MPF scheme, the AIA-JF Premium MPF Scheme (“MPF Scheme”), to provide retirement benefits to full-time permanent employees who elect to join the MPF Scheme and all temporary or part-time employees who are not eligible for joining the ORSO Plan. Contributions to the MPF Scheme are in accordance with the statutory limits prescribed by the MPF Ordinance (ie 5 per cent of the employee’s relevant income subject to a maximum of \$1,000 per month).

9. Staff Costs and Related Expenses *(continued)*

(b) Retirement Benefit Costs *(continued)*

The retirement benefit costs charged to the consolidated profit and loss account represent contributions paid and payable by the Group to the ORSO Plan and the MPF Scheme and related fees. No contribution payable was outstanding as at 31 December 2005 and 2006.

For the ORSO Plan, contributions during the year are not offset by contributions forfeited in respect of employees who left the ORSO Plan before the contributions were fully vested. Instead, forfeited contributions are credited to a reserve account of the ORSO Plan for the benefit of its members.

	2006 \$'000	2005 \$'000
Contributions forfeited during the year and retained in the ORSO Plan	5,047	3,143

10. Information Technology and Computer Maintenance Expenses

	2006 \$'000	2005 \$'000
Costs of services and goods:		
– consumed by the Group	133,237	146,568
– directly consumed by Participants	85,371	55,157
	218,608	201,725

11. Other Operating Expenses

	2006 \$'000	As restated 2005 \$'000
Provision for/(reversal of provision for) impairment losses of trade receivables (note 24(b))	350	(389)
(Reversal of provision for)/provision for impairment losses of leasehold buildings – revaluation (gain)/deficit (note 18(a)(iii))	(422)	837
Insurance	15,338	16,187
Financial data subscription fees	4,274	4,954
Custodian and fund management fees	8,420	7,887
Bank charges	11,476	4,420
Repair and maintenance expenses	7,821	8,476
License fees	8,857	6,279
Communication expenses	4,878	4,659
Other miscellaneous expenses	37,846	49,034
	98,838	102,344

12. Profit before Taxation

	2006 \$'000	2005 \$'000
Profit before taxation is stated after crediting/(charging):		
Amortisation of lease premiums for land	(547)	(548)
Auditors' remuneration		
– audit fees	(2,324)	(2,000)
– secondment fee	–	(300)
– non-audit fees:		
– charge for the year	(449)	(1,192)
– reversal of provision in respect of prior years	440	158
Interest on bank loans and overdrafts repayable within five years	(6)	(9)
Operating lease rentals		
– land and buildings	(80,946)	(44,976)
– computer systems and equipment	(5,784)	(6,514)
Rental income from investment property	515	501
Direct operating expenses of the investment property that generates rental income	(168)	(166)
Depreciation	(99,888)	(150,995)
Reversal of provision for/(provision for) impairment losses of leasehold buildings under other operating expenses	422	(837)
Reversal of provision for impairment loss of club debenture under other income	–	5
(Loss)/gain on disposal or write-off of fixed assets	(627)	38
Gain on liquidation of an associate	6	–
Exchange gains/(losses) on:		
– financial assets (excluding financial assets at fair value through profit or loss)	200	(401)
– Others	(671)	1,604

13. Directors' Emoluments

All Directors, including one Executive Director, received emoluments during the years ended 31 December 2006 and 31 December 2005. The aggregate emoluments paid and payable to the Directors during the two years were as follows:

	2006 \$'000	2005 \$'000
Executive Director:		
Salaries and other short-term employee benefits	7,403	7,262
Performance bonus	2,754	1,200
Retirement benefit costs	918	900
	11,075	9,362
Employee share-based compensation benefits (note a)	1,210	1,791
	12,285	11,153
Non-executive Directors:		
Fees	2,880	2,460
	15,165	13,613

- (a) Employee share-based compensation benefits represent fair value of share options issued under the Post-Listing Scheme and Awarded Shares issued under the Share Award Scheme amortised to the profit and loss account during the year disregarding whether the options and the Awarded Shares have been vested/exercised or not.
- (b) The emoluments, including employee share-based compensation benefits for options issued under the Post-Listing Scheme and Awarded Shares issued under the Share Award Scheme, of the Directors were within the following bands:

	2006 Number of Directors	2005 Number of Directors
\$1 – \$500,000	16	13
\$11,000,001 – \$11,500,000	–	1
\$12,000,001 – \$12,500,000	1	–
	17	14

13. Directors' Emoluments (continued)

The emoluments of all Directors, including the Chief Executive who is an ex-officio member, for the years ended 31 December 2006 and 2005 are set out below:

Name of Director	2006							Total \$'000
	Fees \$'000	Salary \$'000	Other benefits (note a) \$'000	Performance bonus \$'000	Retirement benefit costs (note b) \$'000	Sub-total \$'000	Employee share-based compensation benefits \$'000	
Ronald J Arculli (note c)	180	-	-	-	-	180	-	180
Charles Y K Lee (note d)	60	-	-	-	-	60	-	60
Paul M Y Chow	-	7,344	59	2,754	918	11,075	1,210	12,285
Laura M Cha (note c)	180	-	-	-	-	180	-	180
Moses M C Cheng (note c)	180	-	-	-	-	180	-	180
Marvin K T Cheung (note c)	240	-	-	-	-	240	-	240
Henry H L Fan	240	-	-	-	-	240	-	240
Fong Hup	240	-	-	-	-	240	-	240
Tim G Freshwater (note d)	60	-	-	-	-	60	-	60
Bill C P Kwok	240	-	-	-	-	240	-	240
Dannis J H Lee (note d)	60	-	-	-	-	60	-	60
Vincent K H Lee	240	-	-	-	-	240	-	240
Leong Ka Chai (note f)	-	-	-	-	-	-	-	-
Lo Ka Shui (note d)	60	-	-	-	-	60	-	60
Christine K W Loh (note c)	180	-	-	-	-	180	-	180
John E Strickland	240	-	-	-	-	240	-	240
David M Webb	240	-	-	-	-	240	-	240
Oscar S H Wong	240	-	-	-	-	240	-	240
Total	2,880	7,344	59	2,754	918	13,955	1,210	15,165

Name of Director	2005							Total \$'000
	Fees \$'000	Salary \$'000	Other benefits (note a) \$'000	Performance bonus \$'000	Retirement benefit costs (note b) \$'000	Sub-total \$'000	Employee share-based compensation benefits \$'000	
Ronald J Arculli (note c)	-	-	-	-	-	-	-	-
Charles Y K Lee (note d)	205	-	-	-	-	205	-	205
Paul M Y Chow	-	7,200	62	1,200	900	9,362	1,791	11,153
Laura M Cha (note c)	-	-	-	-	-	-	-	-
Moses M C Cheng (note c)	-	-	-	-	-	-	-	-
Marvin K T Cheung (note c)	180	-	-	-	-	180	-	180
Henry H L Fan	205	-	-	-	-	205	-	205
Fong Hup	205	-	-	-	-	205	-	205
Tim G Freshwater (note d)	205	-	-	-	-	205	-	205
Bill C P Kwok	205	-	-	-	-	205	-	205
Dannis J H Lee (note d)	205	-	-	-	-	205	-	205
Vincent K H Lee	205	-	-	-	-	205	-	205
Leong Ka Chai (note f)	25	-	-	-	-	25	-	25
Lo Ka Shui (note d)	205	-	-	-	-	205	-	205
Christine K W Loh (note c)	-	-	-	-	-	-	-	-
John E Strickland	205	-	-	-	-	205	-	205
David M Webb	205	-	-	-	-	205	-	205
Oscar S H Wong	205	-	-	-	-	205	-	205
Total	2,460	7,200	62	1,200	900	11,822	1,791	13,613

Notes:

- (a) Other benefits included insurance premium and club membership.
- (b) Employees who retire before normal retirement age are eligible for 18 per cent of the employer's contribution to the provident fund after completion of two years of service. The rate of vested benefit increases at an annual increment of 18 per cent thereafter reaching 100 per cent after completion of seven years of service.
- (c) Appointment effective 26 April 2006
- (d) Retired on 26 April 2006.
- (e) Appointment effective 12 April 2005
- (f) Retired on 12 April 2005.

14. Five Top-paid Employees

One (2005: one) of the five top-paid employees was a Director, whose emoluments are disclosed in note 13. Details of the emoluments of the other four (2005: four) top-paid employees were as follows:

	2006 \$'000	2005 \$'000
Salaries and other short-term employee benefits	17,456	17,569
Performance bonus	6,493	2,790
Retirement benefit costs	2,135	2,151
	26,084	22,510
Employee share-based compensation benefits (note a)	1,820	5,374
	27,904	27,884

- (a) Employee share-based compensation benefits represent fair value of share options issued under the Post-Listing Scheme and Awarded Shares issued under the Share Award Scheme amortised to the profit and loss account during the year disregarding whether the options and the Awarded Shares have been vested/exercised or not.
- (b) The emoluments of these four (2005: four) employees, including employee share-based compensation benefits for options issued under the Post-Listing Scheme and Awarded Shares issued under the Share Award Scheme, were within the following bands:

	2006 Number of employees	2005 Number of employees
\$5,500,001 – \$6,000,000	–	1
\$6,000,001 – \$6,500,000	–	1
\$6,500,001 – \$7,000,000	3	1
\$7,500,001 – \$8,000,000	1	–
\$9,000,001 – \$9,500,000	–	1
	4	4

The employees, whose emoluments are disclosed above, included senior executives who were also Directors of the subsidiaries during the years. No Directors of the subsidiaries waived any emoluments.

15. Taxation

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

	2006 \$'000	2005 \$'000
Provision for Hong Kong Profits Tax for the year (note i)	454,121	245,043
Over provision in respect of prior years	(5)	(8,845)
	454,116	236,198
Deferred taxation (note 38(a))	(9,218)	(8,738)
	444,898	227,460

- (i) Hong Kong Profits Tax has been provided for at 17.5 per cent (2005: 17.5 per cent) on the estimated assessable profit for the year.
- (b) The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of 17.5 per cent (2005: 17.5 per cent) as follows:

	2006 \$'000	As restated 2005 \$'000
Profit before taxation (excluding share of profits less losses of associates)	2,936,343	1,548,585
Calculated at a taxation rate of 17.5 per cent (2005: 17.5 per cent)	513,860	271,002
Income not subject to taxation	(77,190)	(53,960)
Expenses not deductible for taxation purposes	7,726	7,735
Change in deferred tax arising from unrecognised tax losses and other deferred tax adjustments	507	11,528
Over provision of Hong Kong Profits Tax in respect of prior years	(5)	(8,845)
Taxation charge	444,898	227,460

16. Dividends

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

- (a) Actual 2005 final dividend paid was \$680,588,000 (after eliminating \$614,000 paid for shares held by HKEx Employee Share Trust of which \$1,000 relates to shares acquired by HKEx Employee Share Trust in January 2006), of which \$1,039,000 was paid for shares issued for employee share options exercised after 31 December 2005.
- (b) The final dividend proposed after balance sheet date has not been recognised as a liability at the balance sheet date.

17. Earnings Per Share

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

- (a) Basic earnings per share

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

- (b) Diluted earnings per share

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

18. Fixed Assets

(a) Group

	Leasehold buildings \$'000	Computer trading and clearing systems \$'000	Other computer hardware and software \$'000	Leasehold improvements, furniture, equipment and motor vehicles \$'000	Total \$'000
Net book value at 1 Jan 2005 (note i)	17,600	240,377	47,496	18,827	324,300
Additions	-	48,137	10,004	27,662	85,803
Disposals (note ii)	-	(17)	(1)	-	(18)
Depreciation	(686)	(103,393)	(30,410)	(16,506)	(150,995)
Revaluation (note iii)	(1,214)	-	-	-	(1,214)
Net book value at 31 Dec 2005	15,700	185,104	27,089	29,983	257,876
At 31 Dec 2005					
At cost	-	1,271,146	350,659	253,746	1,875,551
At valuation	15,700	-	-	-	15,700
Accumulated depreciation	-	(1,086,042)	(323,570)	(223,763)	(1,633,375)
Net book value	15,700	185,104	27,089	29,983	257,876
Net book value at 1 Jan 2006	15,700	185,104	27,089	29,983	257,876
Additions	-	13,566	13,207	25,488	52,261
Disposals (note ii)	-	-	-	(1,012)	(1,012)
Depreciation	(624)	(71,767)	(17,430)	(10,067)	(99,888)
Revaluation (note iii)	924	-	-	-	924
Net book value at 31 Dec 2006	16,000	126,903	22,866	44,392	210,161
At 31 Dec 2006					
At cost	-	1,275,800	352,662	268,171	1,896,633
At valuation	16,000	-	-	-	16,000
Accumulated depreciation	-	(1,148,897)	(329,796)	(223,779)	(1,702,472)
Net book value	16,000	126,903	22,866	44,392	210,161

(i) The analysis of net book value as at 1 January 2005 is as follows:

At cost	-	1,223,047	352,106	229,674	1,804,827
At valuation	17,600	-	-	-	17,600
Accumulated depreciation	-	(982,670)	(304,610)	(210,847)	(1,498,127)
Net book value	17,600	240,377	47,496	18,827	324,300

(ii) The total cost of fixed assets disposed of or written off during 2006 was \$31,179,000 (2005:\$15,079,000).

(iii) Leasehold buildings were revalued as at 31 December 2006 on the basis of their depreciated replacement costs calculated by Jones Lang LaSalle, an independent firm of qualified property valuers. During the year ended 31 December 2006, the total revaluation gain amounted to \$924,000, of which \$502,000 was credited to leasehold buildings revaluation reserve (note 34) and \$422,000 was credited to other operating expenses in the profit and loss account to offset previous impairment losses charged to the profit and loss account (note 11). For the year ended 31 December 2005, the total revaluation deficit amounted to \$1,214,000, of which \$377,000 was taken to leasehold buildings revaluation reserve to set off against previous valuation surpluses (note 34) and \$837,000 was charged to the profit and loss account as impairment losses of leasehold buildings under other operating expenses (note 11).

(iv) The cost of leasehold buildings of the Group was \$26,900,000 (2005: \$26,900,000). The carrying value of these leasehold buildings as at 31 December 2006 would have been \$11,001,000 (2005: \$12,077,000) had they been carried at cost less accumulated depreciation.

18. Fixed Assets *(continued)*

(b) HKEx

	Other computer hardware and software \$'000	Leasehold improvements, furniture, equipment and motor vehicles \$'000	Total \$'000
Net book value at 1 Jan 2005 (note i)	22,062	3,102	25,164
Additions	5,828	1,771	7,599
Disposals (note ii)	(1)	–	(1)
Depreciation	(12,532)	(2,507)	(15,039)
Net book value at 31 Dec 2005	15,357	2,366	17,723
At 31 Dec 2005			
At cost	52,673	19,128	71,801
Accumulated depreciation	(37,316)	(16,762)	(54,078)
Net book value	15,357	2,366	17,723
Net book value at 1 Jan 2006	15,357	2,366	17,723
Additions	7,447	3,678	11,125
Depreciation	(10,289)	(1,077)	(11,366)
Net book value at 31 Dec 2006	12,515	4,967	17,482
At 31 Dec 2006			
At cost	60,080	22,806	82,886
Accumulated depreciation	(47,565)	(17,839)	(65,404)
Net book value	12,515	4,967	17,482

(i) The analysis of net book value as at 1 January 2005 is as follows:

At cost	46,695	16,565	63,260
Accumulated depreciation	(24,633)	(13,463)	(38,096)
Net book value	22,062	3,102	25,164

(ii) The total cost of fixed assets disposed of or written off during 2006 was \$41,000 (2005: \$3,000).

19. Investment Property

	Group	
	2006 \$'000	2005 \$'000
At 1 Jan	17,700	13,300
Fair value gain	1,600	4,400
At 31 Dec	19,300	17,700

The investment property is held under long-term lease and situated in Hong Kong. The cost of the investment property was \$8,229,000 (2005: \$8,229,000). The investment property was revalued as at 31 December 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 year amounted to \$1,600,000 (2005: \$4,400,000) and was credited to the profit and loss account under other income (note 8).

20. Lease Premiums for Land

	Group	
	2006 \$'000	2005 \$'000
Net book value at 1 Jan	94,670	95,218
Amortisation	(547)	(548)
Net book value at 31 Dec	94,123	94,670
Current portion of lease premiums for land	(548)	(547)
Non-current portion	93,575	94,123

The leasehold land is held under long-term lease and situated in Hong Kong. The cost of the leasehold land was \$102,770,000 (2005: \$102,770,000).

21. Investments in Associates

	Group	
	2006 \$'000	2005 \$'000
Share of net assets of associates (note a)	18,170	14,374
Goodwill (note b)	50,207	50,207
	68,377	64,581

(a) Share of net assets of associates

	2006 \$'000	2005 \$'000
At 1 Jan	14,374	13,790
Further acquisition of 6% interest in CHIS on 3 May 2005	–	10
Disposal of ADP Wilco Processing Services Limited	(1,306)	–
Share of profits less losses of associates:		
– share of profits less losses before taxation	32,846	22,110
– share of taxation	(5,722)	(3,677)
	27,124	18,433
Share of reserves of an associate	478	93
Dividends received and receivable from an associate	(22,500)	(17,952)
At 31 Dec	18,170	14,374

21. Investments in Associates *(continued)*

(b) Goodwill

	2006 \$'000	2005 \$'000
At 1 Jan (note i)	50,207	24,941
Further acquisition of 6% interest in CHIS on 3 May 2005	–	25,266
At 31 Dec	50,207	50,207
Represented by:		
Opening value upon adoption of HKFRS 3	24,941	25,321
At cost	25,266	25,266
Accumulated impairment	–	(380)
	50,207	50,207

(i) Goodwill as at 1 January 2005 represented the opening value upon adoption of HKFRS 3 of \$25,321,000 less accumulated impairment of \$380,000.

(ii) Impairment tests for investments in associates

The recoverable amount of the investment in CHIS is determined using discounted cash flows which represents the present value of estimated future cash flows expected to arise from dividends to be received from CHIS and its ultimate disposal. The discount rate used is the ten-year Hong Kong Government bond rate as at 31 December 2006 of 3.73 per cent (2005: 4.18 per cent).

The recoverable amount of the investment in ADP Wilco Processing Services Limited (“AWPS”) in 2005 was based on the share of the net assets of the associate, which comprised predominantly cash and bank balances.

(c) Details of the unlisted associate as at 31 December 2006 were as follows:

Name	Place of incorporation	Principal activities	Particulars of shares held	Interest held
Computershare Hong Kong Investor Services Limited	Hong Kong	Provision of share registration services	7,317 Class A ordinary shares	30%

In addition to CHIS, the Group owned 6 Class B ordinary shares (equivalent to 30 per cent interest) of AWPS. In March 2006, the Group received liquidation proceeds of \$1,312,000 from the dissolution of AWPS which were \$6,000 higher than the book value of the investment. The gain on liquidation of \$6,000 was credited to other income in the consolidated profit and loss account. AWPS was officially dissolved in July 2006.

(d) The summarised financial information based on the unaudited management accounts of the associates as at 31 December and for the year ended 31 December was as follows:

	2006 \$'000	2005 \$'000
Assets	122,486	90,387
Liabilities	61,918	42,537
Income	374,121	232,098
Profit	90,409	66,071

22. Clearing House Funds

	Group	
	2006 \$'000	2005 \$'000
Net assets of the Clearing House Funds were as follows:		
HKSCC Guarantee Fund	344,825	342,679
SEOCH Reserve Fund	578,407	376,758
HKCC Reserve Fund	1,347,299	620,973
	2,270,531	1,340,410
Net assets of the Clearing House Funds were composed of:		
Available-for-sale financial assets:		
Debt securities, at market value		
– listed in Hong Kong	129,512	98,896
– unlisted	187,700	125,241
Time deposits with original maturities over three months	–	30,290
Cash and cash equivalents	1,957,229	1,091,233
	2,274,441	1,345,660
Less: Other liabilities	(3,910)	(5,250)
	2,270,531	1,340,410
The Clearing House Funds were funded by:		
Clearing Participants' cash contributions (note a)	1,642,495	751,751
Designated reserves (note 36):		
– 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	232,148	204,213
– Clearing houses' contributions	73,540	63,635
	627,816	589,976
Revaluation reserve (note 34(b))	220	(1,317)
	2,270,531	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	2,270,531	1,241,514
	2,270,531	1,340,410

- (a) Amount included Participants' additional deposits of \$1,279,645,000 (2005: \$393,701,000).
- (b) The HKSCC Guarantee Fund provides resources to enable HKSCC to discharge the liabilities and obligations of defaulting Broker Participants in CCASS arising from their Stock Exchange trades accepted for settlement on the 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.

23. Compensation Fund Reserve Account

	Group	
	2006 \$'000	2005 \$'000
Net assets of the Compensation Fund Reserve Account were composed of:		
Available-for-sale financial assets:		
Unlisted debt securities, at market value	42,990	18,488
Cash and cash equivalents	8,653	30,240
	51,643	48,728
Less: Other liabilities	(11,108)	(10,318)
	40,535	38,410
The Fund represented:		
Accumulated investment income and other income net of expenses included in designated reserves (note 36)	40,446	38,420
Revaluation reserve (note 34(b))	89	(10)
	40,535	38,410
The maturity profile of the net assets of the Compensation Fund Reserve Account was as follows:		
Amounts maturing within twelve months	40,535	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 42(a)(i).

24. Accounts Receivable, Prepayments and Deposits

	Group		HKEx	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Receivable from Exchange and Clearing Participants:				
– CNS money obligations	9,586,161	2,889,804	–	–
– transaction levy, stamp duty and fees receivable	386,141	193,849	–	–
– others	22,180	10,084	–	–
Other fees receivable	175,656	137,848	–	–
Prepayments	9,811	36,638	9,398	26,114
Other receivables and deposits	26,292	22,941	360	160
Less: Provision for impairment losses of trade receivables (note b)	(4,679)	(4,329)	–	–
	10,201,562	3,286,835	9,758	26,274

- (a) The carrying amounts of accounts receivable and deposits approximated their fair values.
- (b) The movements in provision for impairment losses of trade receivables were as follows:

	Group	
	2006 \$'000	2005 \$'000
At 1 Jan	4,329	5,167
Provision for/(reversal of provision for) impairment losses of trade receivables (note 11)	350	(389)
Trade receivables written off during the year as uncollectible	–	(449)
At 31 Dec	4,679	4,329

- (c) CNS money obligations receivable accounted for 94 per cent (2005: 88 per cent) of the total accounts receivable, prepayments and deposits. CNS money obligations receivable mature within two days after the trade date. Fees receivable are due immediately or up to 30 days depending on the type of services rendered. The majority of the remaining accounts receivable, prepayments and deposits would mature within three months.

25. Margin Funds on Derivatives Contracts

	Group	
	2006 \$'000	2005 \$'000
The Margin Funds comprised:		
SEOCH Clearing Participants' Margin Funds	3,994,664	1,506,962
HKCC Clearing Participants' Margin Funds	17,671,810	12,141,619
	21,666,474	13,648,581
The net assets of the Margin Funds comprised:		
Available-for-sale financial assets:		
Debt securities, at market value		
– listed in Hong Kong	137,191	78,907
– listed outside Hong Kong	634,688	359,635
– unlisted	10,311,166	3,390,291
Time deposits with original maturities over three months	51,459	100,018
Cash and cash equivalents	10,664,404	9,686,026
Margin receivable from Clearing Participants	61,813	33,704
	21,860,721	13,648,581
Less: Other liabilities	(194,247)	–
	21,666,474	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	21,666,474	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	21,666,474	12,534,255
	21,666,474	13,648,581

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

	Group	
	2006 \$'000	2005 \$'000
Analysis of financial assets at fair value through profit or loss:		
<i>Held for trading</i>		
Equity securities, at market value		
– listed in Hong Kong	186,658	139,220
– listed outside Hong Kong	194,267	173,349
	380,925	312,569
<i>Held for trading</i>		
Debt securities, at market value		
– listed in Hong Kong	70,539	86,509
– listed outside Hong Kong	1,255,022	1,070,100
– unlisted	1,169,592	1,172,015
	2,495,153	2,328,624
<i>Held for trading</i>		
Derivative financial instruments, at market value		
– forward foreign exchange contracts (note a)	2,146	2,595
	2,878,224	2,643,788
Analysis of financial liabilities at fair value through profit or loss:		
<i>Held for trading</i>		
Derivative financial instruments, at market value		
– forward foreign exchange contracts (note a)	7,505	1,443

- (a) The maximum gross nominal value of outstanding forward foreign exchange contracts was \$280,976,000 (2005: \$275,071,000) (note 48(b)).

27. Available-for-sale Financial Assets

	Group	
	2006 \$'000	2005 \$'000
Debt securities, at market value		
–listed in Hong Kong	28,462	–
–listed outside Hong Kong	43,574	–
–unlisted	467,096	–
	539,132	–

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

28. Accounts Payable, Accruals and Other Liabilities

	Group		HKEx	
	2006 \$'000	As restated 2005 \$'000	2006 \$'000	2005 \$'000
Payable to Exchange and Clearing Participants:				
– CNS money obligations	9,588,374	2,889,524	–	–
– cash collateral and marks	734,696	144,144	–	–
– others	67,565	46,450	–	–
Transaction levy payable to the SFC	84,670	55,027	–	–
Unclaimed dividends (note b)	191,681	180,327	41,346	32,288
Stamp duty payable	268,236	75,899	–	–
Deposits received	24,243	22,156	–	–
Other payables and accruals	147,735	227,544	63,145	129,730
	11,107,200	3,641,071	104,491	162,018

- (a) The carrying amounts of accounts payable and other liabilities approximated their fair values.
- (b) Unclaimed dividends for the Group represent dividends declared by listed companies which were held by HKSCC Nominees Limited but not yet claimed by shareholders of the companies concerned, and dividends declared by HKEx but not yet claimed by its shareholders. During the year, dividends declared by HKEx which were unclaimed over a period of six years from the date of payment amounting to \$686,000 (2005: \$Nil) were forfeited and transferred to retained earnings in accordance with HKEx's Articles of Association (note 39).
- (c) CNS money obligations payable accounted for 86 per cent (2005: 79 per cent) of the total accounts payable, accruals and other liabilities. CNS money obligations payable mature within two days after the trade date. The majority of the remaining accounts payable, accruals and other liabilities would mature within three months.

29. Participants' Admission Fees Received

The admission fees are non-interest bearing and may be repayable upon the expiry of seven years from the date of admission of a Participant or upon the termination of a Participant's participation in CCASS, whichever is later. HKSCC may, at its discretion, grant early refunds of admission fees to terminated Participants after six months from the date of termination of their participation in CCASS and to Broker Participants after six months from the date of sale of their Stock Exchange Trading Right. Participants' admission fees received are included in non-current liabilities unless the admission fees are expected to be repayable to the Participants within twelve months of the balance sheet date.

30. Provisions

(a) Group

	Reinstatement costs \$'000	Employee benefit costs \$'000	Total \$'000
At 1 Jan 2006	24,128	25,613	49,741
Provision for the year	1,850	35,730	37,580
Amount used during the year	(1,850)	(33,494)	(35,344)
Amount paid during the year	–	(1,137)	(1,137)
At 31 Dec 2006	24,128	26,712	50,840
		2006 \$'000	2005 \$'000
Analysis of provisions:			
Current		26,712	27,145
Non-current		24,128	22,596
		50,840	49,741

(b) HKEx

	Reinstatement costs \$'000	Employee benefit costs \$'000	Total \$'000
At 1 Jan 2006	575	25,613	26,188
Provision for the year	–	35,730	35,730
Amount used during the year	–	(33,494)	(33,494)
Amount paid during the year	–	(1,137)	(1,137)
At 31 Dec 2006	575	26,712	27,287
		2006 \$'000	2005 \$'000
Analysis of provisions:			
Current		26,712	25,613
Non-current		575	575
		27,287	26,188

- (i) The provision for reinstatement costs represents the estimated costs used to restore the leased office premises to their original state upon the expiry of the leases. The leases are expected to expire within four years.
- (ii) The provision for employee benefit costs represents unused annual leave that has been accumulated at the balance sheet date. It is expected to be fully utilised in the coming twelve months.

31. Investments in and Amounts Due from/(to) Subsidiaries and Controlled Special Purpose Entity

(a) Investments in subsidiaries

	HKEx	
	2006 \$'000	2005 \$'000
Investments in unlisted shares, at cost	4,145,198	4,145,198
Financial guarantee granted to a subsidiary (note 42(b)(i))	11,390	11,390
	4,156,588	4,156,588

(b) Amounts due from/(to) subsidiaries

The amounts due from/(to) subsidiaries are interest-free and repayable on demand.

(c) Particulars of subsidiaries

HKEx had direct or indirect interests in the following subsidiaries as at 31 December 2006, all of which are wholly-owned private companies incorporated and operating in Hong Kong except for HKEx (China) Limited, which operates mainly in the Mainland. Details of these companies were as follows:

Company	Issued and fully paid up share capital	Principal activities	Interest held
Direct subsidiaries:			
The Stock Exchange of Hong Kong Limited	A shares \$929	Operates the single, unified stock exchange in Hong Kong for the purposes of the Securities and Futures Ordinance	100%
Hong Kong Futures Exchange Limited	Ordinary \$19,600,000 Standard \$850,000	Operates a futures and options exchange	100%
Hong Kong Securities Clearing Company Limited	Ordinary \$2	Operates CCASS and the central securities depository and provides custody and nominee services for eligible securities listed in Hong Kong	100%
HKEC Nominees Limited	Ordinary \$2	Nominee services	100%
Hong Kong Financial Markets Development Limited	Ordinary \$2	Promotes the securities, futures and financial industry	100%
HKEx (China) Limited	Ordinary \$2	Promotes HKEx products and services in the Mainland	100%
HKEx (Singapore) Limited	Ordinary \$2	Dormant	100%

31. Investments in and Amounts Due from/(to) Subsidiaries and Controlled Special Purpose Entity (Continued)

(c) Particulars of subsidiaries (Continued)

Company	Issued and fully paid up share capital	Principal activities	Interest held
Indirect subsidiaries:			
The SEHK Options Clearing House Limited	Ordinary \$1,000,000	Operates a clearing house for options contracts traded on the Stock Exchange	100%
HKEx Information Services Limited	Ordinary \$100	Sale of stock market information	100%
Prime View Company Limited	Ordinary \$20	Property holding	100%
The Stock Exchange Club Limited	Ordinary \$8	Property holding	100%
The Stock Exchange Nominee Limited	Ordinary \$2	Nominee services	100%
HKFE Clearing Corporation Limited	Ordinary \$1,000,000	Operates a clearing house for derivatives contracts traded on the Futures Exchange	100%
HKFE Clearing Linkage Limited	Ordinary \$2	Dormant	100%
HKSCC Nominees Limited	Ordinary \$20	Acting as common nominee in respect of securities held in the CCASS depository	100%
Many Profit Limited	Ordinary \$2	Investment holding	100%
Freestar Corporation Limited	Ordinary \$2	Investment holding	100%
Star Prime Limited	Ordinary \$2	Investment holding	100%
HK Conversion Agency Services Limited	Ordinary \$2	Conversion agency services	100%

(d) Controlled special purpose entity

There was one special purpose entity controlled by HKEx which operates in Hong Kong, particulars of which are as follows:

Special purpose entity	Principal activities
The HKEx Employees' Share Award Scheme ("HKEx Employee Share Trust")	Administering and holding HKEx shares for the Share Award Scheme for the benefit of eligible HKEx employees (note 33(c))

As HKEx has the power to govern the financial and operating policies of the HKEx Employee Share Trust and can 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.

As at 31 December 2006, HKEx had advanced \$49,825,000 (2005: \$30,037,000) to the HKEx Employee Share Trust and the amount was recorded as "Contributions to HKEx Employee Share Trust" in HKEx's balance sheet.

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

	Group and HKEx				
	2006 \$'000	2005 \$'000			
Authorised: 2,000,000,000 shares of \$1 each	2,000,000	2,000,000			
Issued and fully paid:	Group				
	Number of shares of \$1 each	Share capital \$'000	Share premium \$'000	Shares held for Share Award Scheme \$'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 33)	–	–	5,108	–	5,108
Shares purchased for Share Award Scheme (note b)	(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)	2,693,500	2,693	28,202	–	30,895
Transfer from employee share-based compensation reserve (note 33)	–	–	7,335	–	7,335
Shares purchased for Share Award Scheme (note b)	(300,000)	–	–	(21,269)	(21,269)
At 31 Dec 2006	1,064,190,346	1,065,448	185,942	(51,297)	1,200,093

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

(Continued)

	HKEx			Total \$'000
	Number of shares of \$1 each	Share capital \$'000	Share premium \$'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 33)	–	–	5,108	5,108
At 31 Dec 2005	1,062,754,846	1,062,755	150,405	1,213,160
At 1 Jan 2006	1,062,754,846	1,062,755	150,405	1,213,160
Shares issued under employee share option schemes (note a)	2,693,500	2,693	28,202	30,895
Transfer from employee share-based compensation reserve (note 33)	–	–	7,335	7,335
At 31 Dec 2006	1,065,448,346	1,065,448	185,942	1,251,390

- (a) During the year, employee share options granted under the Pre-Listing Scheme and the Post-Listing Scheme were exercised to subscribe for 2,693,500 shares (2005: 6,116,000 shares) in HKEx at an average consideration of \$11.47 per share (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 year, the HKEx Employee Share Trust acquired 300,000 HKEx shares (2005: 958,000 shares) through purchases on the open market and held the shares for the Share Award Scheme (note 33(c)). The total amount paid to acquire the shares during the year was \$21,269,000 (2005: \$30,028,000) and has been deducted from shareholders' equity.

33. Employee Share-based Compensation Reserve

	Group		HKEx	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
At 1 Jan	34,980	17,061	34,908	17,061
Employee share-based compensation benefits (note a and note 9(a))	24,033	22,955	24,033	22,955
Transfer to share premium upon exercise of employee share options (note 32)	(7,335)	(5,108)	(7,335)	(5,108)
Share of reserve of an associate	441	72	–	–
At 31 Dec	52,119	34,980	51,606	34,908

33. Employee Share-based Compensation Reserve *(Continued)*

(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 granted. 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 9(a)) 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. No options were granted in 2006.

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

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

	2006		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	(1,338,000)	6.88	(4,554,000)
Outstanding at 31 Dec	6.88	788,000	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	16.00	(1,355,500)	10.27	(1,562,000)
Forfeited	18.32	(625,000)	18.05	(966,000)
Outstanding at 31 Dec	15.68	14,593,500	15.80	16,574,000
Total	15.23	15,381,500	14.79	18,700,000

At 31 December 2006, out of the 15,381,500 outstanding options (2005: 18,700,000), 2,626,500 options (2005: 2,148,000) were exercisable at a weighted average exercise price of \$10.39 (2005: \$6.94) per share.

During the year, employee share options granted under the Pre-Listing Scheme and the Post-Listing Scheme were exercised to subscribe for 2,693,500 shares (2005: 6,116,000 shares) in HKEx at a weighted average exercise price of \$11.47 per share (2005: \$7.75 per share). The weighted average closing share price on the dates on which the options were exercised was \$51.33 (2005: \$21.06) per share.

33. Employee Share-based Compensation Reserve (Continued)

(b) Share options (Continued)

(iii) Share options outstanding as at 31 December had the following remaining contractual lives and exercise prices:

	2006		2005	
	Remaining contractual life	Number of shares issuable under options granted	Remaining contractual life	Number of shares issuable under options granted
Exercise price				
\$6.88	3.41 years	788,000	4.41 years	2,126,000
\$8.28	6.33 years	2,460,000	7.33 years	2,460,000
\$12.45	6.62 years	547,000	7.62 years	844,000
\$12.49	6.63 years	1,476,000	7.63 years	1,476,000
\$17.30	7.04 years	822,000	8.04 years	1,094,000
\$16.96	7.24 years	4,084,500	8.24 years	5,074,000
\$15.91	7.37 years	150,000	8.37 years	200,000
\$19.25	8.07 years	5,054,000	9.07 years	5,426,000
	7.08 years	15,381,500	7.84 years	18,700,000

(iv) The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is based on the Binominal Option Pricing Model. Details of the options granted under the Post-Listing Scheme during 2005 were as follows:

	2005
Date of grant	26 Jan 2005
Number of shares issuable under options granted	5,884,000
Option value ^Ω	\$26,183,800
Closing share price at date of grant	\$19.25
Risk free rate (being the yield of 10-year Exchange Fund Notes)	3.67% as at 26 Jan 2005
Expected volatility [#]	26%
Expiration of the options	10 years from 26 Jan 2005
Expected ordinary dividend	4.42% (prospective dividend yield of the shares as at 26 Jan 2005)

Ω The above calculation is based on the assumption that there is no material difference between the expected volatility over the whole life of the options and the historical volatility of the shares in HKEx set out above.

The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices annualised for one year immediately preceding the grant date.

33. Employee Share-based Compensation Reserve (Continued)

(b) Share options (Continued)

- (v) Had all the outstanding employee share options been fully exercised on 31 December 2006, the Group would have received \$234,205,000 in proceeds. The market value of the shares issued based on the closing price of \$85.50 per share on that date would have been \$1,315,118,000. 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 31 Dec 2006	Exercise price \$	Gain per share \$	Aggregate gain \$'000
Pre-Listing Scheme				
– granted to employees on 20 Jun 2000	788,000	6.88	78.62	61,953
Post-Listing Scheme				
– granted to an Executive Director on 2 May 2003	2,460,000	8.28	77.22	189,961
– granted to an employee on 14 Aug 2003	547,000	12.45	73.05	39,958
– granted to an employee on 18 Aug 2003*	1,476,000	12.49	73.01	107,763
– granted to an employee on 15 Jan 2004	822,000	17.30	68.20	56,060
– granted to employees on 31 Mar 2004	4,084,500	16.96	68.54	279,952
– granted to an employee on 17 May 2004	150,000	15.91	69.59	10,439
– granted to employees on 26 Jan 2005	5,054,000	19.25	66.25	334,827
Total				1,080,913

- * On 3 January 2007, the employee exercised his option to subscribe for 492,000 shares. Subsequently, the employee resigned and the option for the remaining 984,000 shares lapsed. The actual gain made by the employee on the exercise of his option to subscribe for the 492,000 shares, based on the closing price of \$86.60 per share on the exercise date, was \$36,462,000.

33. 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, the Group has set up a trust, HKEx Employee Share Trust, for the purpose of administering the Share Award Scheme and holding the Awarded Shares before they vest. Prior to 16 August 2006, a fixed number of HKEx shares were awarded to eligible employees which would then be acquired from the market at the cost of HKEx by the trustee of the HKEx Employee Share Trust (“the trustee”). With effect from 16 August 2006, the rules of the Share Award Scheme have been amended and the Board will thereafter approve a monetary amount for each award (“Awarded Sum”) plus transaction costs to be incurred, with which the trustee will then purchase the maximum number of board lots of HKEx shares from the market within 20 business days of the award. The Awarded Shares purchased will then be allocated to each awardee based on the monetary amount awarded to him/her, rounded down to the nearest share.

Dividends on the Awarded Shares are used to acquire further HKEx shares and allocated to the awardees on a pro rata basis. The vesting periods of such shares are the same as those of the Awarded Shares to which the dividends relate.

On 19 December 2005, 960,000 Awarded Shares were awarded 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. The trustee acquired 958,000 HKEx shares at a total cost (including related transaction costs) of \$30,028,000 in December 2005 and the remaining 2,000 shares at a total cost (including related transaction costs) of \$70,000 in January 2006.

On 13 December 2006, the Board approved and awarded an Awarded Sum of \$19,673,000 to certain employees. Subsequently, the trustee purchased 272,500 Awarded Shares at a total cost (including related transaction costs) of \$19,696,000, and 272,465 Awarded Shares were allocated to eligible employees on 15 January 2007. The Awarded Shares will be transferred to the employees at nil consideration upon vesting between 13 December 2008 and 13 December 2011.

Further in 2006, 25,500 HKEx shares (2005: Nil) were acquired by the trustee through reinvesting dividends received at a total cost (including related transaction costs) of \$1,503,000, of which 24,867 shares (2005: Nil) were subsequently allocated to awardees.

33. Employee Share-based Compensation Reserve (Continued)

(c) Awarded Shares (Continued)

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

	2006		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 31 Dec	31.20	955,906	31.20	960,000

- * On 13 December 2006, the Board awarded an Awarded Sum of \$19,673,000 for the purchase of HKEx shares for eligible employees. Subsequently, 272,465 Awarded Shares were allocated to the awardees upon the completion of share purchase by the trustee on 15 January 2007.

For Awarded Shares granted prior to 16 August 2006, the fair value of the Awarded Shares awarded was based on the market value of HKEx shares at award date. For Awarded Shares granted after 16 August 2006, the fair value of the Awarded Shares awarded was based on the total costs of the Awarded Shares acquired by the trustee from the market. The expected dividends during the vesting periods have been incorporated into the fair value.

- (iii) The remaining vesting periods of the Awarded Shares outstanding as at 31 December were as follows:

	2006		2005	
	Remaining vesting period	Number of Awarded Shares awarded	Remaining vesting period	Number of Awarded Shares awarded
Fair value \$31.20	0.97 year to 3.97 years	931,300	1.97 years to 4.97 years	960,000
Dividend reinvested	0.97 year to 3.97 years	24,606	–	–
	0.97 year to 3.97 years	955,906	1.97 years to 4.97 years	960,000

- (iv) As at 31 December 2006, 302,094 shares (2005: Nil) were held by the HKEx Employee Share Trust but not yet allocated to awardees. Out of these shares, 272,465 shares were allocated to awardees on 15 January 2007. The remaining 29,629 shares were forfeited shares, unallocated shares and shares arising from dividends reinvested and would be allocated to eligible employees in future.
- (v) Had all the outstanding Awarded Shares been fully vested on 31 December 2006, the theoretical gains of the awardees based on the closing price of \$85.50 per share on that date would have been \$81,730,000.

34. Revaluation Reserves

	Group		Total \$'000
	Leasehold buildings revaluation reserve \$'000	Investment revaluation reserve (notes b and c) \$'000	
At 1 Jan 2005	2,537	16,292	18,829
Change in valuation of leasehold buildings (note 18(a)(iii))	(377)	–	(377)
Change in fair value of available-for-sale financial assets	–	(52,985)	(52,985)
Realisation of change in fair value of available-for-sale financial assets on maturity and disposal	–	(5,775)	(5,775)
Deferred tax arising from change in valuation of leasehold buildings (note 38(b))	65	–	65
Deferred tax arising from change in fair value of available-for-sale financial assets (note 38(b))	–	3,136	3,136
Share of reserve of an associate	–	21	21
At 31 Dec 2005	2,225	(39,311)	(37,086)
At 1 Jan 2006	2,225	(39,311)	(37,086)
Change in valuation of leasehold buildings (note 18(a)(iii))	502	–	502
Change in fair value of available-for-sale financial assets	–	31,356	31,356
Realisation of change in fair value of available-for-sale financial assets on maturity and disposal	–	17,941	17,941
Deferred tax arising from change in valuation of leasehold buildings (note 38(b))	(87)	–	(87)
Deferred tax arising from change in fair value of available-for-sale financial assets (note 38(b))	–	(2,094)	(2,094)
Share of reserve of an associate	–	37	37
At 31 Dec 2006	2,640	7,929	10,569

- (a) The revaluation reserves are segregated for their respective specific purposes and are stated net of applicable deferred taxes.
- (b) Included gross investment revaluation surpluses of \$220,000 and \$89,000 which were attributable to investments of the Clearing House Funds and the Compensation Fund Reserve Account respectively (2005: gross deficits of \$1,317,000 and \$10,000 respectively).
- (c) Included share of investment revaluation reserve of an associate of \$58,000 (2005: \$21,000).

35. Hedging Reserve

	Group		HKEx	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
At 1 Jan	–	–	–	–
Cash flow hedges:				
– fair value gains/(losses) of hedging instruments	475	(129)	469	(332)
– transfer to profit and loss account as information technology and computer maintenance expenses	(475)	129	(469)	332
At 31 Dec	–	–	–	–
Fair value of hedging instruments at 31 Dec	16,531	8,281	16,531	8,281

In 2005, one of the subsidiaries designated a bank deposit of 8,500,000 Swedish Krona (“SEK”) as a cash flow hedge for hedging the foreign exchange risk of HKEx’s forecast information technology and computer maintenance expenses of SEK 8,500,000 from August to December 2005. On 29 August 2005, the said bank deposit was transferred to HKEx without changing the terms of the cash flow hedge. During the year ended 31 December 2006, SEK 7,567,000 (2005: SEK Nil) of the deposit was used to pay the said expenses.

In 2006, one of the subsidiaries designated SEK 7,880,000 as a cash flow hedge for hedging the foreign exchange risk of HKEx’s forecast information technology and computer maintenance expenses of SEK 7,880,000 from May to August 2006. On 3 May 2006, the amount was transferred to HKEx and placed as a bank deposit without changing the terms of the cash flow hedge. During the year ended 31 December 2006, SEK 4,068,000 of the deposit was used to pay the said expenses.

In 2006, HKEx also designated bank deposits of SEK 9,800,000 as cash flow hedges for hedging the foreign exchange risk of its forecast information technology and computer maintenance expenses of SEK 9,800,000 from June to December 2006. During the year ended 31 December 2006, no payment had been made to settle the said expenses.

The ineffectiveness of cash flow hedges credited to the profit and loss account for the Group and HKEx during the year amounted to \$3,000 (2005: \$Nil).

36. Designated Reserves

These reserves are segregated for their respective purposes. Details of the movements on the reserves during the year were as follows:

	Group			Total \$'000
	Clearing House Funds reserves (note a) \$'000	Compensation Fund Reserve Account reserve \$'000	Development reserve (note b) \$'000	
At 1 Jan 2005	560,626	37,117	83,253	680,996
Surplus of investment and other income net of expenses transferred from retained earnings	29,350	1,303	–	30,653
Transfer to retained earnings	–	–	(11,008)	(11,008)
Transfer from/(to) retained earnings	29,350	1,303	(11,008)	19,645
At 31 Dec 2005	589,976	38,420	72,245	700,641
At 1 Jan 2006	589,976	38,420	72,245	700,641
Surplus of investment and other income net of expenses transferred from retained earnings	37,840	2,026	–	39,866
Transfer to retained earnings	–	–	(72,245)	(72,245)
Transfer from/(to) retained earnings	37,840	2,026	(72,245)	(32,379)
At 31 Dec 2006	627,816	40,446	–	668,262

(a) Clearing House Funds reserves

	HKSCC Guarantee Fund reserve \$'000	SEOCH Reserve Fund reserve \$'000	SEOCH Reserve Fund reserve \$'000	Total \$'000
At 1 Jan 2005	247,853	48,774	263,999	560,626
Surplus of investment income net of expenses of Clearing House Funds transferred from retained earnings	2,591	7,572	19,187	29,350
At 31 Dec 2005	250,444	56,346	283,186	589,976
At 1 Jan 2006	250,444	56,346	283,186	589,976
Surplus of investment income net of expenses of Clearing House Funds transferred from retained earnings	6,070	14,847	16,923	37,840
At 31 Dec 2006	256,514	71,193	300,109	627,816

36. Designated Reserves (Continued)

(b) Development reserve

The reserve was set aside for systems development for the Stock Exchange and the betterment of the securities market. During 2006, \$72,245,000 (2005: \$11,008,000) of the reserve was utilised and transferred to the Group's retained earnings (note 39) for funding projects that were for the betterment of the securities market.

37. Merger Reserve

The Group has taken advantage of the merger relief available under section 48C of the Hong Kong Companies Ordinance and treated the premium created by the issuance of shares on 6 March 2000, the date HKEx became the holding company of the Stock Exchange and the Futures Exchange and their subsidiaries, as a merger reserve. In the consolidated balance sheet, the full amount of the merger reserve has been used to offset against the reserve arising on consolidation as explained in note 39(c).

38. Deferred Taxation

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5 per cent (2005: 17.5 per cent).

(a) The movements on the deferred tax liabilities/(assets) account were as follows:

	Group		HKEx	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
At 1 Jan	17,710	29,649	(2,967)	(1,227)
Transfer to the profit and loss account (note 15(a))	(9,218)	(8,738)	(363)	(1,740)
Transfer from/(to) shareholders' equity (note b)	2,181	(3,201)	-	-
At 31 Dec (note c)	10,673	17,710	(3,330)	(2,967)

(b) The deferred taxation transfer from/(to) shareholders' equity during the year was as follows:

	Group	
	2006 \$'000	2005 \$'000
Reserves in shareholders' equity:		
– leasehold buildings revaluation reserve (note 34)	87	(65)
– investment revaluation reserve (note 34)	2,094	(3,136)
	2,181	(3,201)

(c) Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profits is probable. The Group had unrecognised tax losses of \$272,486,000 as at 31 December 2006 (2005: \$276,331,000) carried forward for offsetting against future taxable income.

38. Deferred Taxation (Continued)

(d) The movements on the deferred tax liabilities/(assets) account were as follows:

	Group											
	Accelerated tax depreciation		Revaluation of properties		Tax losses		Revaluation of available-for-sale financial assets		Employee benefits		Total	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
At 1 Jan	25,052	38,085	2,291	1,663	(5,136)	(9,158)	(15)	3,121	(4,482)	(4,062)	17,710	29,649
Charged/(credited) to profit and loss account	(7,937)	(13,033)	432	693	(1,520)	4,022	-	-	(193)	(420)	(9,218)	(8,738)
Charged/(credited) to equity	-	-	87	(65)	-	-	2,094	(3,136)	-	-	2,181	(3,201)
At 31 Dec	17,115	25,052	2,810	2,291	(6,656)	(5,136)	2,079	(15)	(4,675)	(4,482)	10,673	17,710

	HKEx					
	Accelerated tax depreciation		Employee benefits		Total	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
At 1 Jan						
Credited to profit and loss account	1,515 (170)	2,835 (1,320)	(4,482) (193)	(4,062) (420)	(2,967) (363)	(1,227) (1,740)
At 31 Dec	1,345	1,515	(4,675)	(4,482)	(3,330)	(2,967)

(e) Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to tax levied by the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the balance sheet:

	Group		HKEx	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Net deferred tax assets recognised on the balance sheet	(3,330)	(3,060)	(3,330)	(2,967)
Net deferred tax liabilities recognised on the balance sheet	14,003	20,770	-	-
	10,673	17,710	(3,330)	(2,967)

39. Retained Earnings (Including Proposed/Declared Dividends)

	Group		HKEx	
	2006 \$'000	As restated 2005 \$'000	2006 \$'000	2005 \$'000
At 1 Jan, as previously reported				
Retained earnings/ (accumulated losses)	1,775,631	1,658,055	(442,488)	(272,421)
Proposed/declared dividends	680,163	496,620	680,163	496,620
	2,455,794	2,154,675	237,675	224,199
Effect of initial adoption of revised HKAS 27	10	–	–	–
At 1 Jan, as restated	2,455,804	2,154,675	237,675	224,199
Profit attributable to shareholders (notes a and b)	2,518,569	1,339,558	1,821,661	1,032,260
Surplus of investment income net of expenses of Clearing House Funds transferred to Clearing House Funds reserves	(37,840)	(29,350)	–	–
Investment and other income net of expenses of Compensation Fund Reserve Account transferred to Compensation Fund Reserve Account reserve	(2,026)	(1,303)	–	–
Transfer from Development reserve	72,245	11,008	–	–
	32,379	(19,645)	–	–
Unclaimed dividend forfeited	686	–	686	–
Dividends:				
2005/2004 final dividend	(679,549)	(496,620)	(680,163)	(496,620)
Dividend on shares issued for employee share options exercised after 31 Dec 2005/31 Dec 2004	(1,039)	(1,597)	(1,039)	(1,597)
	(680,588)	(498,217)	(681,202)	(498,217)
2006/2005 interim dividend	(1,000,050)	(519,988)	(1,000,962)	(519,988)
Dividend on shares issued for employee share options exercised after 30 Jun 2006/30 Jun 2005	(257)	(579)	(257)	(579)
	(1,000,307)	(520,567)	(1,001,219)	(520,567)
At 31 Dec	3,326,543	2,455,804	377,601	237,675
Representing:				
Retained earnings/ (accumulated losses)	2,060,156	1,776,254	(890,283)	(442,488)
Proposed/declared dividends	1,266,387	679,550	1,267,884	680,163
At 31 Dec	3,326,543	2,455,804	377,601	237,675

39. Retained Earnings (Including Proposed/Declared Dividends)

(Continued)

- (a) Profit attributable to shareholders included a profit of \$1,821,661,000, of which \$1,802,995,000 was dividends from subsidiaries (2005: \$1,032,260,000, of which \$1,020,000,000 was dividends from subsidiaries), which has been dealt with in the accounts of HKEx, the holding company of the Group.
- (b) The Group's profit attributable to shareholders included a net profit attributable to the investment and other income net of expenses after taxation of the Clearing House Funds and Compensation Fund Reserve Account for an aggregate amount of \$39,866,000 (2005: \$30,653,000).
- (c) The negative reserve arising on consolidation of \$4,116,436,000, representing the difference between the cost of acquiring the subsidiaries at the time of the merger and their respective issued share capital, was offset against merger reserve of \$2,997,115,000 (note 37) and retained earnings of \$1,119,321,000.

40. Notes to the Consolidated Cash Flow Statement

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

	2006 \$'000	As restated 2005 \$'000
Profit before taxation	2,963,467	1,567,018
Adjustments for:		
Net interest income	(365,780)	(210,396)
Net realised and unrealised gains and interest income on financial assets and financial liabilities at fair value through profit or loss	(228,985)	(82,495)
Dividend income from financial assets at fair value through profit or loss	(6,115)	(7,630)
Amortisation of lease premiums for land	547	548
Fair value gain of an investment property	(1,600)	(4,400)
Depreciation	99,888	150,995
Employee share-based compensation benefits	24,033	22,955
Reversal of provision for impairment loss of club debenture	–	(5)
(Reversal of provision for)/provision for impairment losses of leasehold buildings	(422)	837
Provision for/(reversal of provision for) impairment losses of trade receivables	350	(389)
Changes in provisions	(751)	933
Share of profits less losses of associates	(27,124)	(18,433)
Gain on liquidation of an associate	(6)	–
Loss/(gain) on disposal or write-off of fixed assets	627	(38)
Net (increase)/decrease in financial assets and financial liabilities at fair value through profit or loss	(110,506)	80,699
Settlement of amount transferred from retained earnings to Clearing House Funds and Compensation Fund Reserve Account	(39,866)	(21,842)
(Increase)/decrease in accounts receivable, prepayments and deposits	(6,891,416)	1,357,633
Increase/(decrease) in other current liabilities	7,536,575	(1,261,360)
Net cash inflow from operations	2,952,916	1,574,630
Interest received	516,468	246,740
Dividend received from financial assets at fair value through profit or loss	6,473	7,093
Cash received on financial assets at fair value through profit or loss	91,067	79,456
Interest paid	(442,188)	(125,897)
Hong Kong Profits Tax paid	(259,268)	(352,076)
Net cash inflow from operating activities	2,865,468	1,429,946

40. Notes to the Consolidated Cash Flow Statement *(Continued)*

- (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 year therefore did not constitute any cash or cash equivalent transactions to the Group.

41. Commitments

- (a) Commitments in respect of capital expenditures:

	Group		HKEx	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Contracted but not provided for	9,144	18,130	2,123	3
Authorised but not contracted for	82,461	118,838	22,598	22,647
	91,605	136,968	24,721	22,650

The commitments in respect of capital expenditures were mainly for the development and purchases of computer systems (2005: refurbishment of the Trading Hall and the development and purchases of computer systems).

- (b) Commitments for total future minimum lease payments under operating leases and computer maintenance contracts
- (i) Land and buildings

	Group		HKEx	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Payable				
– within one year	91,910	82,483	1,558	1,590
– in the second to fifth years	96,819	157,989	2,734	476
	188,729	240,472	4,292	2,066

41. Commitments (Continued)

- (b) Commitments for total future minimum lease payments under operating leases and computer maintenance contracts (Continued)

- (ii) Computer systems and equipment

The Group is heavily reliant on the capability and reliability of its computer systems for its business operations, including those required for its electronic trading platforms and post-trading clearing and settlement services. In order to maintain the high standard of performance of the systems, the Group has entered into various maintenance and operating lease contracts with its vendors. The future minimum payments under maintenance contracts and operating leases (including licenses) in respect of computer systems and equipment were as follows:

	Group		HKEx	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Operating leases in respect of computer systems and equipment, payable				
– within one year	8,320	9,570	7,605	8,642
– in the second to fifth years	2,218	754	2,218	754
	10,538	10,324	9,823	9,396
Maintenance contracts in respect of computer systems and equipment, payable				
– within one year	34,377	25,981	24,684	14,384
– in the second to fifth years	2,101	12,324	2,101	4,930
	36,478	38,305	26,785	19,314
	47,016	48,629	36,608	28,710

As at 31 December 2006, in respect of computer systems and equipment, the majority of the leases would mature within one year (2005: one year) and the Group did not have any purchase options.

- (c) Commitment in respect of financial contributions to Financial Reporting Council

In 2006, the Board of HKEx approved the funding arrangements for the Financial Reporting Council (“FRC”), an independent statutory body established on 1 December 2006 under the Financial Reporting Council Ordinance to receive and investigate complaints concerning irregularities of auditors and reporting accountants of listed companies and non-compliances in the financial reports of listed companies.

Under the arrangement, HKEx has agreed to make recurrent contributions of \$2.5 million per annum in the first three financial years to provide funding for the FRC’s operations and an initial contribution of \$5 million to a reserve fund to give the FRC more financial assurance to meet any inadequacies of the annual recurrent funding. The first recurrent contribution and the initial contribution to the reserve fund will be payable in February 2007. After the first three financial years, the contributions to the FRC will be subject to a review of its operating experience and other factors.

42. Contingent Liabilities

(a) Group

- (i) 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 31 December 2006, there were outstanding claims received in respect of two Stock Exchange Participants (2005: five, two of which had resigned their participation 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 31 December 2006, no such claims had been received in response to the said notice.

Following the implementation of the new compensation arrangements under the SFO, an Investor Compensation Fund has been established to replace the existing Compensation Fund, the Commodity Exchange Compensation Fund and the Dealers' Deposit Schemes for non-exchange participant dealers. Pursuant to the SFO, 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.

- (ii) The Stock Exchange has undertaken to indemnify the Collector of Stamp Revenue against any loss of revenue resulting from any underpayment or default or delay in payment of stamp duty by its Participants, up to \$200,000 in respect of the default of any one Participant. In the unlikely event that all of its 425 trading Participants as at 31 December 2006 (2005: 429) defaulted, the maximum contingent liability of the Stock Exchange under the indemnity would amount to \$85,000,000 (2005: \$85,800,000).

The carrying amount of the financial guarantee contract recognised in the consolidated balance sheet in accordance with HKAS 39 and HKFRS 4 (Amendments) was \$19,909,000 (2005: \$19,909,000).

HKEx had, on 24 January 2007, written to the Collector of Stamp Revenue seeking its permission to abolish the undertaking arrangement.

42. Contingent Liabilities (Continued)

(b) Group and HKEx

- (i) 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.

The carrying amount of the financial guarantee contract recognised in HKEx's balance sheet in accordance with HKAS 39 and HKFRS 4 (Amendments) was \$11,390,000 (2005: \$11,390,000). The financial guarantee contract was eliminated on consolidation.

43. Future Operating Lease Arrangements

As at 31 December, the future aggregate minimum lease receipts under non-cancellable operating leases of the Group were as follows:

	Group	
	2006 \$'000	2005 \$'000
Land and buildings		
– within one year	933	444
– in the second to fifth years	815	–
	1,748	444
Trading booths and related facilities		
– within one year	9,610	9,061
– in the second to fifth years	9,997	19,264
	19,607	28,325
Total	21,355	28,769

44. 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 Fund contributions and Margin Fund obligations. In accordance with HKAS 39, only cash collateral is recognised as assets and liabilities on the consolidated balance sheet.

As at 31 December, 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:

	Group			
	2006		2005	
	Amount received \$'000	Amount utilised \$'000	Amount received \$'000	Amount utilised \$'000
Clearing House Funds				
Bank guarantees	699,130	491,866	333,900	58,603
Margin Funds				
Equity securities, listed in				
Hong Kong, at market value	604,276	–	439,591	–
US Treasury Bills, at market value	1,516,506	1,074,285	191,965	141,086
Bank guarantees	269,000	181,111	100,000	–
	2,389,782	1,255,396	731,556	141,086
	3,088,912	1,747,262	1,065,456	199,689

45. Connected Transactions and Material Related Party Transactions

(a) Connected transactions and material related party transactions

- (i) 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.

Certain transactions undertaken during the year were regarded as related party transactions in accordance with HKAS 24 but the amounts were immaterial. Certain transactions fell under the definition of continuing connected transactions under the Main Board Listing Rules are disclosed in the Corporate Governance Report.

45. Connected Transactions and Material Related Party Transactions

(Continued)

(a) Connected transactions and material related party transactions (Continued)

- (ii) During the year, the Group also entered into the following material transactions with entities that were both related parties and connected persons as one of their directors was a director of HKEx:

	Group	
	2006 \$'000	2005 \$'000
Rental payments (including air conditioning and cleaning service charges) to Shine Hill Development Limited ("Shine Hill")	1,757	5,327

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 year ended 31 December 2006 disclosed above represented expenses incurred up to 26 April 2006 and were related party transactions under HKAS 24. The transactions were also continuing connected transactions as defined under the Main Board Listing Rules but the amount disclosed as continuing connected transactions in the Corporate Governance Report represented expenses incurred up to 31 December 2006.

(b) Material related party transactions

In addition to the above, the Group or HKEx entered into certain material related party transactions which were not regarded as connected transactions as defined under the Main Board Listing Rules. Details of such transactions are set out below.

(i) Transactions with associates, subsidiaries and a controlled special purpose entity

	Group		HKEx	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Income received and receivable from/(expenses paid and payable to) associates:				
CHIS				
– Dividend income	22,500	17,952	–	–
– Share registration service fees	(637)	(439)	(637)	(439)
AWPS				
– Liquidation proceeds	1,312	–	–	–
Transactions with subsidiaries and a controlled special purpose entity:				
– Dividend income	–	–	1,802,995	1,020,000
– Management fee and equipment rental fee charged	–	–	286,817	250,352
– Expenses recharged	–	–	726,571	657,734
– Dividend paid	–	–	(1,526)	–

45. Connected Transactions and Material Related Party Transactions

(Continued)

(b) Material related party transactions (Continued)

(ii) Key management personnel compensation

	Group		HKEx	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Salaries and other short-term employee benefits	61,182	55,649	55,440	49,124
Employee share-based compensation benefits	5,972	9,199	5,394	8,664
Retirement benefit costs	5,552	5,475	5,022	4,786
	72,706	70,323	65,856	62,574

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

	Group		HKEx	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Amounts due from:				
– An associate	–	5,284	–	–
– Subsidiaries	–	–	1,020,858	583,102
– Related companies with common directors	–	867	–	–
Amounts due to:				
– An associate	(162)	(14)	(162)	(14)
– Subsidiaries	–	–	(498,224)	(183,116)
– Related companies with common directors	–	(113)	–	–

(iv) Post-retirement benefit plans

Details of transactions with the Group's post-retirement benefit plans are included in note 9(b).

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

46. Banking Facilities with Assets Pledged

The Group did not have any assets pledged as at 31 December 2006 and 31 December 2005.

47. Capital Management

The Group's objectives when managing capital are:

- To safeguard the Group's ability to continue as a going concern, so that it continues to provide returns for shareholders and benefits for other stakeholders;
- To support the Group's stability and growth; and
- To provide capital for the purpose of strengthening the Group's risk management capability.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Group adopts a dividend policy of providing shareholders with regular dividends with a target payout ratio of 90 per cent of the profit of the year, while retaining 10 per cent of the profit as capital of the Group for future use. As at 31 December 2006, the Group had set aside \$3,100 million of shareholders' funds (2005: \$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.

As in prior years, the Group monitors capital by reviewing the level of capital that is at the disposal of the Group ("adjusted capital"). Adjusted capital comprises all components of shareholders' equity other than the hedging reserve relating to cash flow hedges, designated reserves and investment revaluation reserve of the Clearing House Funds and Compensation Fund Reserve Account net of applicable deferred taxes. The adjusted capital of the Group at 31 December 2006 was \$4,589,071,000 (2005: \$3,638,142,000, as restated). The increase of adjusted capital was due to the increase in retained earnings and reserves.

48. 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 policy 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 (eg 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 USD10 billion under management.

48. Financial Risk Management (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk

Foreign exchange risk is the risk that the value of an asset, liability or highly probable forecast transaction denominated in foreign currency will fluctuate because of changes in foreign exchange rates. When seeking to optimise the returns on its funds available for investment, the Group may invest in non-HKD securities from time to time. Forward foreign exchange contracts and foreign currency cash and bank deposits have been used to hedge the currency exposure of the Group's non-HKD investments, highly probable forecast transactions and liabilities to mitigate risks arising from fluctuations in exchange rates.

The investment in non-HKD securities is governed by the Group's investment policy and subject to the following restrictions:

- up to 20 per cent of the Corporate Funds may be invested in non-HKD or non-USD investments after hedging;
- only USD investments are permitted for the Clearing House Funds; and
- foreign currency investments or deposits of the Margin Funds are permitted to the extent that they fully match the liabilities of the respective currencies, except up to 25 per cent of the HKD liabilities may be invested in USD deposits for a maximum maturity of two weeks.

The Group and HKEx had entered into the following hedges as at 31 December 2006:

Cash flow hedges

In 2005, one of the subsidiaries designated a bank deposit of SEK 8,500,000 as a cash flow hedge for hedging the foreign exchange risk of HKEx's forecast information technology and computer maintenance expenses of SEK 8,500,000 from August to December 2005. On 29 August 2005, the said bank deposit was transferred to HKEx without changing the terms of the cash flow hedge. During the year ended 31 December 2006, SEK 7,567,000 (2005: SEK Nil) of the deposit was used to pay the said expenses.

In 2006, one of the subsidiaries designated SEK 7,880,000 as a cash flow hedge for hedging the foreign exchange risk of HKEx's forecast information technology and computer maintenance expenses of SEK 7,880,000 from May to August 2006. On 3 May 2006, the amount was transferred to HKEx and placed as a bank deposit without changing the terms of the cash flow hedge. During the year ended 31 December 2006, SEK 4,068,000 of the deposit was used to pay the said expenses.

In 2006, HKEx also designated bank deposits of SEK 9,800,000 as cash flow hedges for hedging the foreign exchange risk of its forecast information technology and computer maintenance expenses of SEK 9,800,000 from June to December 2006. During the year ended 31 December 2006, no payment had been made to settle the said expenses.

Fair value hedges

In 2005, HKEx 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 the Group of SEK 11,000,000 of which SEK 1,800,000 related to financial liabilities of one of the subsidiaries. SEK 7,556,000 (2005: SEK Nil) of the deposit was used to settle the financial liabilities of HKEx during the year ended 31 December 2006.

48. Financial Risk Management (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

Fair value hedges (Continued)

In 2006, one of the subsidiaries designated SEK6,690,000 as a fair value hedge to hedge against the foreign exchange risk of HKEx's financial liabilities of SEK 6,690,000. On 3 May 2006, the amount was transferred to HKEx and placed as a bank deposit without changing the terms of the fair value hedge. During the year ended 31 December 2006, SEK 6,060,000 of the deposit was used to settle the financial liabilities.

In 2006, HKEx also designated bank deposits of SEK 2,410,000 as fair value hedges to hedge against the foreign exchange risk of its financial liabilities of SEK 2,410,000. During the year ended 31 December 2006, SEK 2,029,000 of the deposit was used to settle the financial liabilities.

As at 31 December 2006, the fair value of the bank deposits designated as fair value hedges held by the Group and HKEx was \$5,062,000 (2005: \$10,717,000) and \$3,017,000 (2005: \$8,963,000) respectively.

The fair value gains on the bank deposits designated as hedging instruments for the Group and HKEx during 2006 were \$1,465,000 (2005: losses of \$569,000) and \$1,173,000 (2005: losses of \$476,000) respectively whereas the fair value losses on the financial liabilities being hedged for the Group and HKEx were \$1,465,000 (2005: gains of \$569,000) and \$1,173,000 (2005: gains of \$476,000) respectively.

48. Financial Risk Management (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

Details of the financial assets and financial liabilities denominated in foreign currencies and the net open position of the foreign currency risks (ie gross position less forward foreign exchange contracts and related hedges) as at 31 December in HKD equivalents were as follows:

		Group					
		2006			2005		
		Foreign currency	Forward foreign		Net open position	Forward foreign	
Gross open position	exchange contracts and hedges		Gross open position	exchange contracts and hedges			
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets/(financial liabilities)							
Time deposit with maturity over one year	USD	38,886	-	38,886	38,768	-	38,768
Other financial assets	RMB	1	-	1	1	-	1
Accounts receivable and deposits	USD	1,200	-	1,200	77	-	77
Margin Funds on derivatives contracts*	JPY	2,080,887	(2,080,887)	-	3,611,668	(3,611,668)	-
	USD	41	(41)	-	29	(29)	-
Financial assets at fair value through profit or loss [@]	AUD	66,502	(26,326)	40,176	59,177	(38,303)	20,874
	CAD	21,376	(20,713)	663	18,341	(18,188)	153
	CHF	9,370	-	9,370	8,984	-	8,984
	EUR	152,423	(81,547)	70,876	104,524	(64,263)	40,261
	GBP	87,803	(74,504)	13,299	75,041	(70,034)	5,007
	JPY	58,289	(11,404)	46,885	56,342	(19,842)	36,500
	NZD	14,753	(8,746)	6,007	35,695	(8,426)	27,269
	SGD	38,082	(15,208)	22,874	19,976	-	19,976
	USD	1,725,314	233,089	1,958,403	1,563,454	265,529	1,828,983
Cash and cash equivalents	SEK [#]	22,467	(21,593)	874	20,062	(18,998)	1,064
	GBP	17	-	17	15	-	15
	JPY	905	-	905	21	-	21
	RMB	111	-	111	71	-	71
	SGD	1	-	1	1	-	1
	USD	6,267	-	6,267	5,443	-	5,443
Margin deposits from Clearing Participants on derivatives contracts*	JPY	(2,080,887)	2,080,887	-	(3,611,668)	3,611,668	-
	USD	(41)	41	-	(29)	29	-
Accounts payable, accruals and other liabilities	MYR	(2)	-	(2)	(2)	-	(2)
	RMB	(288)	-	(288)	(129)	-	(129)
	SEK [#]	(24,271)	21,593	(2,678)	(19,150)	18,998	(152)
	USD	(2,848)	-	(2,848)	(1,079)	-	(1,079)
	GBP	(274)	-	(274)	-	-	-
Non-financial assets/(non-financial liabilities)							
Net non-financial liabilities	USD	(4,812)	-	(4,812)	(1,250)	-	(1,250)
Total net open position for the Group							
	AUD			40,176			20,874
	CAD			663			153
	CHF			9,370			8,984
	EUR			70,876			40,261
	GBP			13,042			5,022
	JPY			47,790			36,521
	MYR			2			2
	NZD			6,007			27,269
	RMB			176			57
	SEK			1,804			912
	SGD			22,875			19,977
	USD			1,997,096			1,870,942
				2,209,877			2,030,974

48. Financial Risk Management (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

		HKEx					
		2006			2005		
		Forward foreign		Net	Forward foreign		Net
		Gross	exchange	open	Gross	exchange	open
Foreign	currency	position	contracts	position	position	and hedges	position
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets/(financial liabilities)							
Other financial assets	RMB	1	-	1	1	-	1
Cash and cash equivalents	RMB	105	-	105	65	-	65
	SEK [#]	22,467	(19,548)	2,919	20,062	(17,244)	2,818
Accounts payable, accruals and other liabilities	USD	(706)	-	(706)	-	-	-
	RMB	(289)	-	(289)	(169)	-	(169)
	SEK [#]	(19,914)	19,548	(366)	(19,150)	17,244	(1,906)
Total net open position for HKEx	RMB	183			103		
	USD	706			-		
	SEK	2,553			912		
		3,442			1,015		

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

@ Forward foreign exchange contracts have been used to hedge the currency exposure of the Group's investments by external fund managers.

Foreign currency cash and bank deposits have been used to hedge the currency exposure of the Group's liabilities.

(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.

(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.

48. Financial Risk Management (Continued)

(a) Market risk (Continued)

(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 and HKEx during the year were as follows:

	Group					
	2006			2005		
	Average \$'000	Highest \$'000	Lowest \$'000	Average \$'000	Highest \$'000	Lowest \$'000
Foreign exchange risk	5,957	7,422	4,907	5,017	6,135	3,591
Equity price risk	11,207	13,032	8,991	8,495	11,209	6,567
Interest rate risk	11,884	13,862	9,040	20,515	24,043	14,367
Total VaR	18,751	21,005	15,939	23,451	26,869	20,383

	HKEx					
	2006			2005		
	Average \$'000	Highest \$'000	Lowest \$'000	Average \$'000	Highest \$'000	Lowest \$'000
Foreign exchange risk	794	1,245	273	222	709	–
Equity price risk	–	–	–	–	–	–
Interest rate risk	14	35	2	7	22	–
Total VaR	793	1,249	277	228	717	–

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 year, the highest and lowest VaRs in each market did not necessarily occur on the same day.

48. Financial Risk Management (Continued)

(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 non-derivative financial liabilities of the Group and HKEx as at 31 December are analysed into relevant maturity buckets based on their contractual maturity dates in the table below:

	Group					Total \$'000
	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	
Current liabilities						
Margin deposits from Clearing Participants on derivatives contracts	21,666,474	-	-	-	-	21,666,474
Accounts payable, accruals and other liabilities	11,042,527	45,937	234	363	18,139	11,107,200
Participants' admission fees received	700	50	600	-	350	1,700
	32,709,701	45,987	834	363	18,489	32,775,374
Non-current liabilities						
Participants' admission fees received	-	-	-	-	79,750	79,750
Participants' contributions to Clearing House Funds	-	-	-	-	1,642,495	1,642,495
Financial guarantee contract (note i)	-	-	-	-	85,000	85,000
	-	-	-	-	1,807,245	1,807,245
Total	32,709,701	45,987	834	363	1,825,734	34,582,619

48. Financial Risk Management (Continued)

(b) Liquidity risk (Continued)

	Group				
	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
Participants' admission fees received	900	150	1,300	200	2,550
	17,246,046	30,555	1,491	14,110	17,292,202
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 i)	-	-	-	85,800	85,800
	-	-	-	917,701	917,701
Total	17,246,046	30,555	1,491	931,811	18,209,903
	HKEx				
	2006				
	Up to 1 month \$'000	>1 month to 3 months \$'000	>3 months to 1 year \$'000	Not determinable \$'000	Total \$'000
Current liabilities					
Accounts payable, accruals and other liabilities	102,883	1,328	17	263	104,491
Amounts due to subsidiaries	498,224	-	-	-	498,224
	601,107	1,328	17	263	602,715
Non-current liabilities					
Financial guarantee contract (note i)	-	-	-	50,000	50,000
	-	-	-	50,000	50,000
Total	601,107	1,328	17	50,263	652,715

48. Financial Risk Management (Continued)

(b) Liquidity risk (Continued)

	HKEx				Total \$'000
	2005				
	Up to 1 month \$'000	>1 month to 3 months \$'000	>3 months to 1 year \$'000	Not determinable \$'000	
Current liabilities					
Accounts payable, accruals and other liabilities	162,018	-	-	-	162,018
Amounts due to subsidiaries	183,116	-	-	-	183,116
	345,134	-	-	-	345,134
Non-current liabilities					
Financial guarantee contract (note i)	-	-	-	50,000	50,000
	-	-	-	50,000	50,000
Total	345,134	-	-	50,000	395,134

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

As at 31 December 2006, the maximum gross nominal value of outstanding forward foreign exchange contracts held by the Group was \$280,976,000 (2005: \$275,071,000). The table below analyses the Group's outstanding forward foreign exchange contracts as at 31 December that would be settled on a gross basis into relevant maturity buckets based on their remaining contractual maturity dates. The amounts disclosed in the table are contractual undiscounted cash flows, which are different from the carrying amount (ie market value) in the consolidated balance sheet.

	Group	
	2006	2005
	Up to 1 month \$'000	Up to 1 month \$'000
Forward foreign exchange contracts		
– outflows	280,976	273,919
– inflows	275,617	275,071

The Group employs projected cash flow analysis to manage liquidity risk by forecasting the amount of cash required and monitoring the working capital of the Group to ensure that all liabilities due and known funding requirements could be met. In addition, banking facilities have been put in place for contingency purposes. As at 31 December 2006, the Group's total available banking facilities amounted to \$1,558 million (2005: \$1,608 million), of which \$1,500 million (2005: \$1,500 million) were repurchase facilities to augment the liquidity of the Margin Funds.

48. 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 (ie deposit-takers, bond issuers and debtors) and by diversification. As at 31 December 2006, the bonds held were of investment grade and had a weighted average credit rating of Aa2 (2005: Aa2), and there were no financial assets whose terms were renegotiated (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.

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.

Position limits are imposed by HKCC and SEOCH to regulate or limit the maximum number or value of gross and net positions which can be held or controlled by the Participants based on their liquid capital. Bank guarantees may also be accepted to extend Participants' position limits. As of 31 December 2006, bank guarantees of \$1,511,500,000 (2005: \$915,400,000) were accepted for such purpose.

In addition to the above, as of 31 December 2006, the Group had set aside \$3,100 million of shareholders' funds (2005: \$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.

48. Financial Risk Management (Continued)

(c) Credit risk (Continued)

(iii) Exposure to credit risk

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

	Group			
	2006		2005 (As restated)	
	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	317,212	317,212	224,137	224,137
Time deposits with original maturities over three months	–	–	30,290	30,290
Cash and cash equivalents	1,957,229	1,957,229	1,091,233	1,091,233
Compensation Fund Reserve Account:				
Available-for-sale financial assets	42,990	42,990	18,488	18,488
Cash and cash equivalents	8,653	8,653	30,240	30,240
Time deposit with maturity over one year	38,886	38,886	38,768	38,768
Other financial assets	18,583	18,583	17,162	17,162
Accounts receivable and deposits #	10,191,751	10,191,751	3,250,197	3,250,197
Margin Funds on derivatives contracts:				
Available-for-sale financial assets	11,083,045	11,083,045	3,828,833	3,828,833
Time deposits with original maturities over three months	51,459	51,459	100,018	100,018
Cash and cash equivalents	10,664,404	10,664,404	9,686,026	9,686,026
Margin receivable from Clearing Participants	61,813	61,813	33,704	33,704
Financial assets at fair value through profit or loss	2,878,224	2,878,224	2,643,788	2,643,788
Available-for-sale financial assets	539,132	539,132	–	–
Time deposits with original maturities over three months	185,611	185,611	116,622	116,622
Cash and cash equivalents	2,215,257	2,215,257	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.

48. Financial Risk Management (Continued)

(c) Credit risk (Continued)

(iii) Exposure to credit risk (Continued)

	HKEx			
	2006		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				
Other financial assets	483	483	480	480
Accounts receivable and deposits	360	360	160	160
Amounts due from subsidiaries	1,020,858	1,020,858	583,102	583,102
Time deposits with original maturities over three months	29,089	29,089	10,184	10,184
Cash and cash equivalents	41,656	41,656	43,383	43,383
Financial liabilities				
Financial guarantee granted to HKSCC	(11,390)	50,000	(11,390)	50,000

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

As at 31 December, 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:

	Group	
	2006 \$'000	2005 \$'000
Up to 6 months	186,359	141,277
Over 6 months to 1 year	–	–
Over 1 year to 3 years *	–	8,521
Over 3 years *	8,651	142
Total	195,010	149,940

* No provision for impairment losses has been made against trade receivables amounting to \$8,510,000 (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 \$6,088,000 (2005: \$3,600,000).

No financial assets of HKEx were past due as at 31 December 2006 and 31 December 2005.

48. Financial Risk Management (Continued)

(c) Credit risk (Continued)

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

As at 31 December 2006, trade receivables of the Group amounting to \$4,679,000 (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 are disclosed in note 2(s)(vi). No cash deposits had been placed by the related trade debtors with the Group (2005: \$Nil).

No financial assets of HKEx were impaired as at 31 December 2006 and 31 December 2005.

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

As soon as a loan or receivable becomes impaired, the Group may continue to provide services or facilities to the debtors concerned but no further accounts receivable will be recognised on balance sheet as economic benefits may not flow to the Group. The revenue concerned is not recognised but tracked as doubtful deferred revenue and will only be recognised as income when received. As at 31 December 2006, the amount of doubtful deferred revenue amounted to \$44,242,000 (2005: \$37,643,000).

(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 and HKEx's balance sheets at their fair values. The carrying amounts of short-term receivables (ie accounts receivable, deposits and cash and cash equivalents) and short-term payables (ie accounts payable and other liabilities) approximated their fair values, and accordingly no disclosure of the fair values of these items is presented.

	Group			
	Carrying amount in balance sheet		Fair value	
	2006 \$'000	2005 \$'000	2006 \$'000	As restated 2005 \$'000
Financial assets				
Time deposit with maturity over one year	38,886	38,768	37,499	36,659
Other financial assets (note i)	18,583	17,162	16,688	15,550
Financial liabilities				
Participants' admission fees received included in non-current liabilities (note i)	79,750	80,150	76,727	76,732
Participants' contributions to Clearing House Funds:				
– Minimum contributions (note i)	362,850	358,050	349,096	342,779
– Participants' additional deposits (note i)	1,279,645	393,701	1,231,138	376,909
Financial guarantee contract (note ii)	19,909	19,909	22,788	20,526

48. Financial Risk Management (Continued)

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

	HKEx			
	Carrying amount in balance sheet		Fair value	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Financial assets				
Other financial assets (note i)	483	480	438	460
Financial liabilities				
Financial guarantee contract (note ii)	11,390	11,390	13,405	11,962

- (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 3.94 per cent to 4.17 per cent as at 31 December 2006 (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 3.73 per cent as at 31 December 2006 (2005: 4.18 per cent).

49. Comparative Figures

Certain comparative figures have been adjusted to conform with changes in presentation in the current year.

Shareholding Analysis

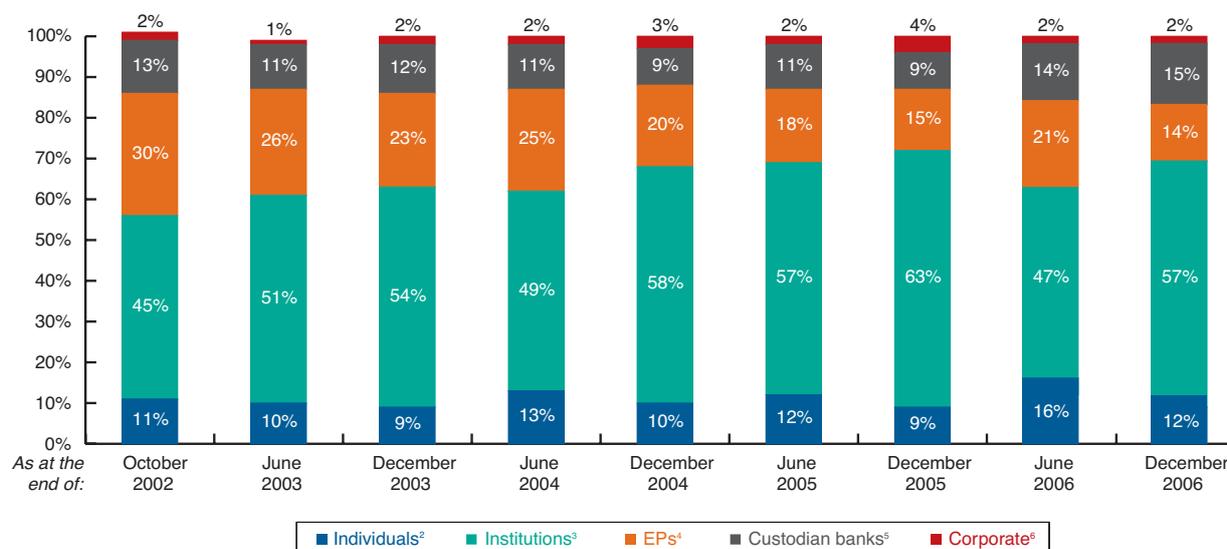
Shareholdings according to the Register of Members of HKEx (“ROM”) as at 31 December 2006 and 31 December 2005:

Size of shareholding	Number of shareholders		Percentage of shareholders (%)		Number of shares ('000)		Percentage of total issued capital (%)	
	2006	2005	2006	2005	2006	2005	2006	2005
1–1,000	152	19	9.13	1.63	115	5	0.01	0.00
1,001–5,000	759	497	45.58	42.66	2,068	1,345	0.19	0.13
5,001–10,000	308	259	18.50	22.23	2,608	2,228	0.25	0.21
10,001–100,000	295	244	17.72	20.94	9,987	8,844	0.94	0.83
100,001 and above	151	146	9.07	12.53	1,050,670	1,050,332	98.61	98.83
Total	1,665	1,165	100.00	100.00	1,065,448	1,062,755	100.00	100.00

Further analysis of share ownership¹ as at 31 December 2006 and 31 December 2005:

Category	2006		2005	
	Number of shares ('000)	Percentage of total issued capital (%)	Number of shares ('000)	Percentage of total issued capital (%)
Individuals²	128,376	12.05	99,688	9.38
Local	125,364	11.77	97,253	9.15
Overseas	3,012	0.28	2,434	0.23
Institutions³	607,435	57.01	673,076	63.33
Local	78,374	7.35	166,714	15.69
Overseas	529,061	49.66	506,363	47.65
EPs⁴	147,375	13.83	155,639	14.64
Custodian banks⁵	161,059	15.12	96,894	9.12
Corporate⁶	21,203	1.99	37,458	3.52
Total	1,065,448	100.00	1,062,755	100.00

Further analysis of share ownership¹ (October 2002 – December 2006):



Notes:

1. The identification of shareholders by type was done by examination of the ROM, the CCASS Participants Shareholding Report ("PSH Report") and the responses of custodian banks and EPs to enquiries conducted in the respective years. For 2006, responses were received from five custodian banks and four EPs which are among the top ten holders of HKEx shares in HKSCC Nominees Limited; they held in aggregate 685 million shares or 64 per cent of the total issued shares at the end of 2006. For 2005, responses were received from seven custodian banks and two EPs which are among the top ten holders of HKEx shares in HKSCC Nominees Limited; they held in aggregate 730 million shares or 69 per cent of the total issued shares at the end of 2005.
2. Shares registered in names of individuals with residential address in the ROM and the PSH Report, as well as shares held by individual investors as identified by the respondent custodian banks/EPs.
3. Shares held by corporations having asset management or investment business, as identified by the respondent custodian banks/EPs, as well as shares held by investment companies in the ROM and the PSH Report as apparent from the company names.
4. Shares held by the respondent EPs (excluding shares held on behalf of their clients) and shares held by other Stock, Futures and Stock Option EPs (including shares held on behalf of their clients).
5. Shares held by custodian banks (excluding the shares held by HKSCC Nominees Limited and the respondent custodian banks on behalf of their clients), as apparent from the company name in the ROM and the PSH Report.
6. Shares registered in company names in the ROM and the PSH Report where the companies have no asset management or investment business as apparent from their company names, as well as shares held by corporate investors as identified by the respondent custodian banks/EPs.

SHAREHOLDERS WITH TOP TEN HOLDINGS

The top ten holdings as appeared on the ROM as at 31 December 2006 and 31 December 2005 were held by the respective shareholders as follows:

2006			2005		
Name	Number of shares ('000)	Percentage of total issued capital (%)	Name	Number of shares ('000)	Percentage of total issued capital (%)
1 HKSCC Nominees Limited	940,749	88.30	HKSCC Nominees Limited	937,438	88.21
Category A Participants	53,049	4.98	Category A Participants	46,014	4.33
Category B Participants	42,697	4.00	Category B Participants	34,234	3.22
Category C Participants	57,517	5.40	Category C Participants	65,799	6.19
Custodians	781,222	73.32	Custodians	776,897	73.10
IPs	7,365	0.69	IPs	6,493	0.61
	941,850*	88.39		929,437*	87.46
2 Horsford Nominees Ltd	8,050	0.76	Sun Hung Kai Investment Services Ltd	8,050	0.76
3 HSBC Nominees (Hong Kong) Ltd	5,358	0.50	HSBC Nominees (Hong Kong) Ltd	4,097	0.39
4 Tung Tak Securities (HK) Co Ltd	3,220	0.30	Tung Tak Securities (HK) Co Ltd	3,220	0.30
5 Wocom Ltd	2,788	0.26	Phillip Commodities (HK) Ltd	2,787	0.26
6 Phillip Commodities (HK) Ltd	2,787	0.26	Sun Hung Kai Commodities Ltd	2,787	0.26
7 Phillip Securities (HK) Ltd	2,415	0.23	Wocom Ltd	2,787	0.26
=7 Wong Wai Gin	2,415	0.23	Phillip Securities (HK) Ltd	2,415	0.23
9 Corporate Brokers Ltd	1,610	0.15	Wong Wai Gin	2,415	0.23
=9 DL Brokerage Ltd	1,610	0.15	Corporate Brokers Ltd	1,610	0.15
=9 Full Speed Securities Co Ltd	1,610	0.15	DL Brokerage Ltd	1,610	0.15
=9 Grand Fortune Securities & Investment Co Ltd	1,610	0.15	Full Speed Securities Co Ltd	1,610	0.15
=9 Yu On Securities Co Ltd	1,610	0.15	Grand Fortune Securities & Investment Co Ltd	1,610	0.15
			Wing Sang Securities Co Ltd	1,610	0.15
			Yu On Securities Co Ltd	1,610	0.15

Note: Figures in this section may not add up to total, sub-total or 100 per cent due to rounding.

* The breakdown of the shareholding in the name of HKSCC Nominees Limited was obtained from the record shown in the PSH Report. The number of shares registered in HKSCC Nominees Limited as shown in the PSH Report is different from that shown on the ROM because some shares withdrawn from or deposited into the CCASS depository had not yet been re-registered.

For 2006, the shares were held for 13 (2005: 13) Category A Participants (top 14 brokers by market turnover), 44 (2005: 45) Category B Participants (brokers ranked 15 - 65 by market turnover), 310 (2005: 299) Category C Participants (all remaining brokers), 29 (2005: 28) Custodians and 323 (2005: 194) IPs.

Information for Stakeholders

ANNUAL REPORT

This Annual Report is printed in English and Chinese and is available on HKEx's corporate website at www.hkex.com.hk under the "Investor Relations Corner". Printed copies in either or both languages are posted to Shareholders in accordance with their indicated preference. Shareholders may at any time choose to change their choice of language or means of receipt of the Company's corporate communications free of charge by notice in writing to the Company Secretary or HKEx's registrar, Hong Kong Registrars Limited.

CLOSURE OF REGISTER OF MEMBERS

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

ANNUAL GENERAL MEETING

The 2007 AGM will be held on Thursday, 26 April 2007. Details of the 2007 AGM are set out in the Notice of AGM which constitutes part of the circular to Shareholders sent together with this Annual Report. Notice of the AGM and the proxy form are also available on HKEx's corporate website.

REGISTERED OFFICE

Address: 12th Floor, One International Finance Centre,
1 Harbour View Street, Central, Hong Kong
Telephone number: +852 2522 1122
Fax number: +852 2295 3106
Email address: info@hkex.com.hk
Website: <http://www.hkex.com.hk>

REPRESENTATIVE OFFICE IN BEIJING

Address: Suite 1002, Level 10, Tower W2, The Towers, Oriental Plaza,
No. 1 East Chang An Avenue, Dong Cheng District, Beijing, China
Postal code: 100738
Telephone number: +8610 8518 3088
Fax number: +8610 8518 3288
Email address: bj@hkex.com.hk

GUANGZHOU SPECIAL REPRESENTATIVE

Address: Unit C, 12th Floor, Guangdong International Building, Annex A,
339 Huanshi Dong Lu, Guangzhou, China
Postal Code: 510098
Telephone number: +8620 2237 3166
Fax number: +8620 2237 3167

SHANGHAI SPECIAL REPRESENTATIVE

Address: Room 012, 14th Floor, HSBC Tower,
1000 Lujiazui Ring Road, Pudong New Area, Shanghai, China
Postal Code: 200120
Telephone number: +8621 6841 1783
Fax number: +8621 6841 0938

OUR CONTACT DETAILS

Listing

Name: Mr Richard Williams, Head of Listing Division
 Address: 11th Floor, One International Finance Centre,
 1 Harbour View Street, Central, Hong Kong
 Telephone number: +852 2840 3036
 Fax number: +852 2295 4806
 Email address: hol@hkex.com.hk

Business Development (Primary Market)

Name: Mr Lawrence Fok, Head of Business Development Division
 Address: 12th Floor, One International Finance Centre,
 1 Harbour View Street, Central, Hong Kong
 Telephone number: +852 2840 3050
 Fax number: +852 2521 7060
 Email address: bdd@hkex.com.hk

Secondary Market

Name: Mr Gerald Greiner, Chief Operating Officer
 Address: 12th Floor, One International Finance Centre,
 1 Harbour View Street, Central, Hong Kong
 Telephone number: +852 2840 3312
 Fax number: +852 2295 0935
 Email address: geraldgreiner@hkex.com.hk

Corporate Communications and Investor Services

Name: Mr Henry Law, Head of Corporate Communications Department
 Address: 12th Floor, One International Finance Centre,
 1 Harbour View Street, Central, Hong Kong
 Telephone number: +852 2840 3861
 Fax number: +852 2868 4270
 Email address: info@hkex.com.hk

Secretarial Services

Name: Mr Joseph Mau, Company Secretary
 Head of Secretarial Services Department
 Address: 12th Floor, One International Finance Centre,
 1 Harbour View Street, Central, Hong Kong
 Telephone number: +852 2840 3872
 Fax number: +852 2878 7029
 Email address: ssd@hkex.com.hk

HKEX'S REGISTRAR AND TRANSFER OFFICE

Name: Hong Kong Registrars Limited
 Address: 46th Floor and Rooms 1712-1716, 17th Floor, Hopewell Centre,
 183 Queen's Road East, Wanchai, Hong Kong
 Telephone number: +852 2862 8628
 Fax number: +852 2865 0990/+852 2529 6087

FINANCIAL CALENDAR

2006 AGM	26 April 2006
Announcement of first quarter results	10 May 2006
Announcement of interim results	16 August 2006
Announcement of third quarter results	14 November 2006
Announcement of final results	8 March 2007
2007 AGM	26 April 2007

DIVIDENDS

Interim dividend	\$0.94 per share
Payment date for interim dividend	19 September 2006
Proposed final dividend	\$1.19 per share
Ex-dividend date for final dividend	19 April 2007
Book closing dates for final dividend	23-26 April 2007
Record date for final dividend	26 April 2007
Payment date for final dividend	on or about 8 May 2007

SHARE INFORMATION

Share Listing

HKEx's shares were first listed on the Stock Exchange on 27 June 2000.

Stock Code

Stock Exchange	388
Access to Reuters	0388.HK
Access to Bloomberg	388 HK Equity
WPK Number	A0J3E8
SEDOL	6267359
ISIN	HK0388034859
COMMON	025967712

Board lot

500 shares*

* The board lot size has been changed from 2,000 shares to 500 shares effective 26 June 2006.

PRICE AND TURNOVER HISTORY

2006	Price per Share		Turnover (in millions)	
	High (\$)	Low (\$)	(Shares)	(\$)
January	37.90	32.20	152.40	5,409.51
February	40.65	36.50	126.21	4,869.77
March	48.25	37.50	195.65	8,195.09
April	59.75	46.90	185.90	10,300.22
May	65.80	49.00	234.83	13,311.29
June	56.40	44.75	252.99	12,479.78
July	51.65	47.80	111.14	5,513.12
August	55.80	49.60	148.28	7,809.85
September	59.10	52.50	139.63	7,782.02
October	64.95	56.20	164.13	9,874.65
November	70.95	61.30	144.91	9,611.33
December	85.60	67.05	97.27	7,217.73

MARKET CAPITALISATION

Public Float Capitalisation as at 31 December 2006 \$91,096 million
 (Issued capital: 1,065,448,346 shares;
 closing price at 29 December 2006 (the last trading date of the year): \$85.50 per share)

Glossary

2004 AGM	Annual general meeting held on 31 March 2004
2005 AGM	Annual general meeting held on 12 April 2005
2006 AGM	Annual general meeting held on 26 April 2006
2007 AGM	Annual general meeting to be held on 26 April 2007
AMS/3	The Third Generation Automatic Order Matching and Execution System
Articles of Association	Articles of Association of HKEx
BBS	Bronze Bauhinia Star
Board	Board of HKEx
CBBCs	Callable Bull/Bear Contracts
CCASS	The Central Clearing and Settlement System
CCASS/3	The Latest Generation of Central Clearing and Settlement System
CG Code	Code on Corporate Governance Practices as set out in the Listing Rules
CG Report	Corporate Governance Report as set out in the Listing Rules
CNS	Continuous Net Settlement
CSR	Corporate Social Responsibility
CSRC	China Securities Regulatory Commission
DCASS	The Derivatives Clearing and Settlement System
Directors	Directors of HKEx
DWRC	Derivative Warrant Resource Centre
eIPO	Electronic IPO service
Elected Directors	Directors elected by the Shareholders at general meetings
EP(s) or Participant(s)	Exchange Participant(s)
EPS	Electronic Publication System
ETF(s)	Exchange Traded Fund(s)
Exchange, Stock Exchange or SEHK	The Stock Exchange of Hong Kong Limited
FRC	Financial Reporting Council
FSTB	Financial Services and the Treasury Bureau
Financial Secretary	Financial Secretary of Hong Kong
GBM	Grand Bauhinia Medal
GBS	Gold Bauhinia Star
GEM	The Growth Enterprise Market
GEM Listing Rules	Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited
Government	The Government of the Hong Kong
Government Appointed Directors	Directors appointed by the Financial Secretary pursuant to Section 77 of the SFO
Group	HKEx and its subsidiaries
HKAS	Hong Kong Accounting Standards
HKATS	The Hong Kong Futures Automated Trading System
HKCC	HKFE Clearing Corporation Limited
HKEx or the Company	Hong Kong Exchanges and Clearing Limited
HKFRS(s)	Hong Kong Financial Reporting Standard(s)
HKFE or Futures Exchange	Hong Kong Futures Exchange Limited
HKICPA	Hong Kong Institute of Certified Public Accountants
HKSCC	Hong Kong Securities Clearing Company Limited

Hong Kong or HKSAR	Hong Kong Special Administrative Region of the People's Republic of China
HSI	Hang Seng Index
ICAC	Independent Commission Against Corruption
ICBC	Industrial and Commercial Bank of China Limited
IFA	Independent financial adviser
IIS	Issuer Information <i>feed</i> Service System
INED(s)	Independent Non-executive Director(s) of HKEx
IP(s)	Investor Participant(s)
IPO(s)	Initial Public Offering(s)
JP	Justice of the Peace
Listing Committees	Listing Committee and the GEM Listing Committee
Listing Rules	Main Board Listing Rules and GEM Listing Rules
Main Board Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
MDF	Market Datafeed
MH	Medal of Honour
MIS	Management Information System
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers
MM	Market Maker
MWS	Multi-Workstation System
OG	Open Gateway
ORS	Order Routing System
Post-Listing Scheme	Post-Listing Share Option Scheme approved by Shareholders on 31 May 2000 which was subsequently amended by Shareholders on 17 April 2002
Pre-Listing Scheme	Pre-Listing Share Option Scheme approved by Shareholders on 31 May 2000
PRS	Price Reporting System
REIT(s)	Real Estates Investment Trust(s)
SBS	Silver Bauhinia Star
Senior Management	Senior executives of HKEx as referred to in the section "Senior Management" as set out on pages 36 to 39 in the Annual Report
SEOCH	The SEHK Options Clearing House Limited
SFC	Securities and Futures Commission
SFO	Securities and Futures Ordinance
Shareholders	Shareholders of HKEx
Share Award Scheme	The Employees' Share Award Scheme adopted by the Board on 14 September 2005 which was subsequently amended by the Board on 16 August 2006
Share Option Schemes	Pre-Listing Scheme and Post-Listing Scheme
SSA	Stock Segregated Account
SI	Settlement Instruction
USD	US dollars
\$/HKD	Hong Kong dollars

Hong Kong Exchanges and Clearing Limited

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

Tel: +852 2522 1122

Fax: +852 2295 3106

Website: www.hkex.com.hk

E-mail: info@hkex.com.hk