



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

(Financial figures are expressed in Hong Kong Dollar)

## 2006 Third Quarter Results

The Directors of Hong Kong Exchanges and Clearing Limited (“HKEx”) submit the unaudited consolidated results of HKEx and its subsidiaries (“Group”) for the nine-month period ended 30 September 2006 as follows:

### FINANCIAL HIGHLIGHTS

	Nine months ended 30 Sept 2006	Nine months ended 30 Sept 2005	Change
<b>KEY MARKET STATISTICS</b>			
Average daily turnover value on the Stock Exchange	<b>\$30.4 billion</b>	\$18.2 billion	67%
Average daily number of derivatives contracts traded on the Futures Exchange	<b>96,926</b>	66,393	46%
Average daily number of stock options contracts traded on the Stock Exchange	<b>64,608</b>	33,732	92%
	<b>Unaudited Nine months ended 30 Sept 2006 \$'000</b>	Unaudited Nine months ended 30 Sept 2005 \$'000	
<b>RESULTS</b>			
Income	<b>2,843,683</b>	1,971,300	44%
Operating expenses	<b>893,651</b>	852,912	5%
Operating profit	<b>1,950,032</b>	1,118,388	74%
Share of profits less losses of associates	<b>15,986</b>	12,992	23%
Profit before taxation	<b>1,966,018</b>	1,131,380	74%
Taxation	<b>(291,989)</b>	(171,464)	70%
Profit attributable to shareholders	<b>1,674,029</b>	959,916	74%
Basic earnings per share	<b>\$1.57</b>	\$0.91	73%
Diluted earnings per share	<b>\$1.56</b>	\$0.90	73%
	<b>Unaudited at 30 Sept 2006 \$'000</b>	As restated Audited at 31 Dec 2005 \$'000	
<b>KEY BALANCE SHEET ITEMS</b>			
Shareholders' funds	<b>4,413,003</b>	4,337,471	<sup>Φ</sup> 2%
Total assets *	<b>30,408,417</b>	22,930,916	<sup>Φ</sup> 33%
Net assets per share #	<b>\$4.15</b>	\$4.09	<sup>Φ</sup> 1%

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

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

# Based on 1,064,145,346 shares as at 30 September 2006, being 1,065,130,846 shares issued and fully paid less 985,500 shares held for the Share Award Scheme (31 December 2005: 1,061,796,846 shares, being 1,062,754,846 shares issued and fully paid less 958,000 shares held for the Share Award Scheme)

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

#### Listing

- The Listing Policy Committee is supportive of facilitating the listing of issuers incorporated in jurisdictions other than the four pre-approved jurisdictions, namely, Hong Kong, the People's Republic of China, Bermuda, and the Cayman Islands, and has recently approved Australia and Canada (British Columbia) as acceptable jurisdictions for eligibility purposes. Listing applications incorporated in other jurisdictions are assessed on a case-by-case basis. HKEx is developing jointly with the Securities and Futures Commission ("SFC") the policy to establish a framework suitable for broader application.
- Enhancement of system capacity is in progress to prepare for the anticipated increase in the volume of submissions for publication on the HKEx website following the abolition of the requirement for Main Board issuers to place paid announcements in newspapers in 2007. Whilst the exact commencement date will be announced in early January 2007, a six-month transitional period will tentatively start from 16 April 2007 subject to operational readiness. During such transitional period, issuers will have to publish a notification of the announcements in newspapers and post the full version of the announcements on the HKEx website and their own websites. The current requirement for posting the short-form preliminary results announcement on the HKEx or the Growth Enterprise Market ("GEM") website will be abolished from 1 December 2006.
- In April 2006, the SFC published its Consultation Conclusions to the Consultation Paper on the Regulation of Sponsors and Compliance Advisers, and announced that amendments to its licensing and monitoring regimes for sponsors and compliance advisers would take effect from 1 January 2007. Under the new regimes, the SFC, as the statutory regulator, would be responsible for eligibility assessment, on-going supervision, discipline and enforcement of sponsors and compliance advisers, while HKEx, as the market operator, would continue to be responsible for the implementation and administration of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Main Board Listing Rules") and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (collectively the "Listing Rules"). The relevant amendments to the Listing Rules were released on 24 October 2006 and will take effect from 1 January 2007 to coincide with the SFC's revised licensing regime.
- In order to implement the recommendations that were set out in the "Hong Kong's Derivative Warrants Market, the Way Forward, Results of the Consultation on the Securities and Futures Commission Six Point Plan" published by the SFC in March 2006, the Main Board Listing Rules were amended and took effect from 30 September 2006 to facilitate identical issues and ban commission rebates. The operation of the amended rules will be reviewed after six months.
- Upon consideration and review of the 16 submissions received in response to the discussion paper on the GEM, HKEx is now exploring a number of proposals together with the SFC for further market consultation.

#### Cash Market

- There were 32 newly listed companies on the Main Board and five on the GEM in the first three quarters of 2006. Total capital raised, including post-listing funds, reached \$263.2 billion. As at 30 September 2006, 954 and 198 companies were listed on the Main Board and the GEM respectively with a total market capitalisation of about \$10,603.7 billion. In addition, there were 1,606 derivative warrants, eight Exchange Traded Funds, four Real Estate Investment Trusts, 35 Callable Bull/Bear Contracts ("CBBCs") and 173 debt securities listed as at the end of September 2006. The average daily turnover in the nine months ended September 2006 was about \$30.2 billion on the Main Board and about \$176.8 million on the GEM.

- On 27 October 2006, the turnover of the Cash Market reached the record high of \$76.2 billion since 28 August 1998 (\$79.0 billion), and the total market capitalisation of the Main Board and the GEM further reached a record of \$11,358 billion since it first exceeded \$10,000 billion on 3 May 2006.
- Market data in respect of the implementation of reduced minimum trading spreads for securities priced between \$2 and \$20 (Phase 2A) is being analysed to examine the impact, if any, of the move. The reduction of minimum trading spreads for securities priced between \$0.25 and \$2 (Phase 2B) is expected to proceed in the first quarter of 2007, if no systemic problems are found. An interim report was submitted to the Board in November with the final report to be submitted in the first quarter of 2007 when the Board will review the position as to Phase 2B.
- The number of CBBC issues has increased from 11 as at the end of June 2006 to 40 up to the end of September 2006 (of which five already experienced Mandatory Call events/early expiration). Moreover, the daily average turnover for CBBCs surged from \$13.6 million by the end of June 2006 to over \$87.6 million during the third quarter of 2006.
- In response to the market demand, approved structured products issuers were permitted to launch structured products (except CBBCs) over the shares of Industrial and Commercial Bank of China Limited (“ICBC”), which have commenced trading on the same day as the ICBC shares.

## **Derivatives Market**

- In the third quarter of 2006, various products achieved record highs in terms of daily volume and open interest.
- From July 2006, provision of continuous quotes by stock options market makers has been extended to eight more options classes and two-way prices have continuously been quoted by the stock futures market maker in 10 active stock futures contracts.
- HKEx announced that a new market maker model for the products of Hong Kong Futures Exchange Limited (“Futures Exchange”) and a revised trading fee discount scheme for market makers trading in stock index futures or options will be introduced on 1 February 2007.
- On 26 September 2006, the Futures Exchange received no-action relief from the US Commodity Futures Trading Commission enabling the offer and sale of futures contracts based on the FTSE/Xinhua China 25 Index and the Hang Seng China Enterprises Index in the US.
- On 10 August 2006, HKEx organised a seminar in Shanghai to assist Mainland securities and futures brokers in applying for HKEx’s exchange participantship.

## **Clearing**

- Pursuant to the effectiveness of the Five-Day Clearing Week implemented by the banking industry from 4 September 2006, Hong Kong Securities Clearing Company Limited (“HKSCC”) has re-scheduled certain securities settlement and nominee-related services previously provided on Saturdays via the Central Clearing and Settlement System (“CCASS”).
- HKSCC is now working on the first phase enhancement of the Stock Segregated Account (“SSA”) which will be implemented in early 2007 to provide access to the SSA via the Internet or through the CCASS Phone System and email and Short Message Service alerts of account movements. The second phase enhancement will be implemented in the second quarter of 2007 to provide electronic voting and Chinese statements, and relax the restriction on the number of SSA available to each stock broker.

- Upon review of the Capital Based Position Limit (“CBPL”) policy of the two derivatives clearing houses, participants have been notified of the relevant rule changes to align the CBPL policy of The SEHK Options Clearing House Limited (“SEOCH”) with that of HKFE Clearing Corporation Limited (“HKCC”) to take effect in November 2006.
- In respect of the failure of Tai Wah Securities Limited (in liquidation) to meet its obligations to HKSCC, recovery from the HKSCC Guarantee Fund will be made if the outstanding balance of about \$1.8 million cannot be fully settled upon completion of the liquidation process.
- HKSCC acted according to the restriction notice issued on Whole Win Securities Limited (“Whole Win”) by the SFC in May 2006 and provided support to Whole Win’s administrator in respect of the settlement under CCASS. All outstanding positions were settled in an orderly manner without loss to HKEx.
- Following the issuance of a restriction notice on Tiffit Securities (Hong Kong) Limited and Wing Yip Company Limited by the SFC in July and August 2006 respectively, HKSCC declared each of them a defaulter and closed out their respective unsettled positions in CCASS. HKSCC did not suffer any loss in either default case.
- HKCC filed a proof of debt against the assets of Yicko Futures Limited (in liquidation) (“Yicko”) in August 2006 after appointment of the provisional liquidators for the winding-up of Yicko. Any deficiencies from the liquidation process will be recovered from the HKCC Reserve Fund.

## **Business Development**

- In the third quarter of 2006, HKEx co-organised a conference in Changsha, Hunan with the Local Finance and Securities Office of the Hunan Provincial Government for Hunan enterprises, and participated in the Hong Kong financial services delegation led by the Secretary for Financial Services and the Treasury, Mr Frederick Ma. HKEx also hosted a seminar in Xi’an with the State-owned Assets Supervision and Administration Commission of Shaanxi Province for enterprises in the north-central province.
- As the first of a series of events to encourage local companies and companies with Mainland operations to list in Hong Kong, HKEx co-hosted a seminar with the Federation of Hong Kong Industries in August 2006. HKEx has also focused on regional companies with Mainland operations and participated in a number of events held in Taipei, Dongguan, Tokyo and Kuala Lumpur to provide information about listing in Hong Kong.
- HKEx also organised two seminars on information disclosure and corporate governance in Beijing and co-organised a training programme with the Hong Kong Polytechnic University and the Hong Kong and Macao Affairs Office of the State Council in Hong Kong for senior accounting and finance personnel of Mainland issuers.

## **Information Services**

- The number of market data redistribution licences issued by HKEx increased from 141 to 158 during the period.
- The Information Feed Service (a real-time system for transmission of issuers’ disclosures to information vendors) is under redevelopment to cater for the increasing volume of issuer news.

## Information Technology

- Up to the end of September 2006, all major trading, clearing and settlement, and market data dissemination systems for the Cash and Derivatives Markets maintained 100 per cent operational system uptime.
- The replacement and upgrade of the Derivatives Market's inter-site backbone network to Optical Ethernet technology has commenced and would be completed by 2006. The network bandwidth of the HKEx website was also substantially upgraded to cope with the increase in access frequency and information dissemination volume.
- The upgrade of the middle-tier system software for the CCASS/3 is in progress and would be completed by the first quarter of 2007. Moreover, the upgrade of the Open Gateway of the Third Generation Automatic Order Matching and Execution System ("AMS/3") and Multi-workstation hardware and system software is being conducted in batches until the second quarter of 2007.
- The migration of the Market Datafeed System network and AMS/3 network to the SDNet, a new Optical Ethernet network, is progressing well and would be completed by the end of 2006 and mid-2007 respectively.
- Upon completion of a study of feasibility of improving AMS/3 throughput using the technological advancement of the HP Non-stop platform, new technologies and application system improvements have been identified to help prepare for further enhancements of the AMS/3 capacity and processing efficiency as needed.
- The Phase 2 redevelopment of the Derivatives Market risk management systems is in progress and expected to be completed by the first quarter of 2007.
- During the period, HKEx continued to integrate the Cash and Derivatives Markets' participant information systems and develop finance management information systems to support its business operations, formulate policies and develop business strategies. Integration and development work would be completed by the first quarter of 2007.

## Treasury

- The Group's investment fund size as at 30 September 2006 was \$25.3 billion (30 June 2006: \$25.3 billion). Investments are kept sufficiently liquid to meet the Group's operating needs and liquidity requirements of the Clearing House Funds and Margin Funds. Credit exposure is well diversified. The bond portfolio had a weighted average credit rating of Aa2 (30 June 2006: Aa2) and a weighted average maturity of 0.9 year (30 June 2006: 1.0 year). Risk management techniques, such as Value-at-Risk and portfolio stress testing, are used.

## Investment in Associates

- As at 30 September 2006, the Group had a 30 per cent interest in Computershare Hong Kong Investor Services Limited ("CHIS").
- The Group received liquidation proceeds in respect of ADP Wilco Processing Services Limited ("AWPS") amounting to \$1.3 million which were marginally higher than the book value of the investment. AWPS was officially dissolved in July 2006.

FINANCIAL REVIEW

Overall Performance

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

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

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

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

## Income

### (A) Income affected by market turnover

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

The increase in trading fees and trading tariff was driven by the higher market turnover of the Cash and Derivatives Markets in the first nine months of 2006 against that of the corresponding period last year.

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

Despite the abolition of scrip fees on deemed book close effective 1 January 2006 (2005: first nine months deemed book close scrip fees: \$23 million), depository, custody and nominee services fees increased due to higher scrip fees, stock withdrawal fees, corporate action fees and electronic Initial Public Offering service (“eIPO”) handling charges. The fees were influenced by the level of Cash Market activities but did not move proportionately with changes in the Cash Market turnover as they varied mostly with the board lots rather than the value of the securities concerned and many were subject to a maximum fee. Moreover, scrip fee was only chargeable on the net increase in individual Participants’ aggregate holdings of securities on book closing dates.

### Key market indicators

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

(B) Stock Exchange listing fees

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

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

**Key drivers for annual listing fees**

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

**Key drivers for initial and subsequent issue listing fees**

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

(C) Income from sale of information

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

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



## (D) Investment income

	Unaudited Nine months ended 30 Sept 2006 \$'000	Unaudited Nine months ended 30 Sept 2005 \$'000	Change
Investment income	<b>391,100</b>	224,999	74%

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

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

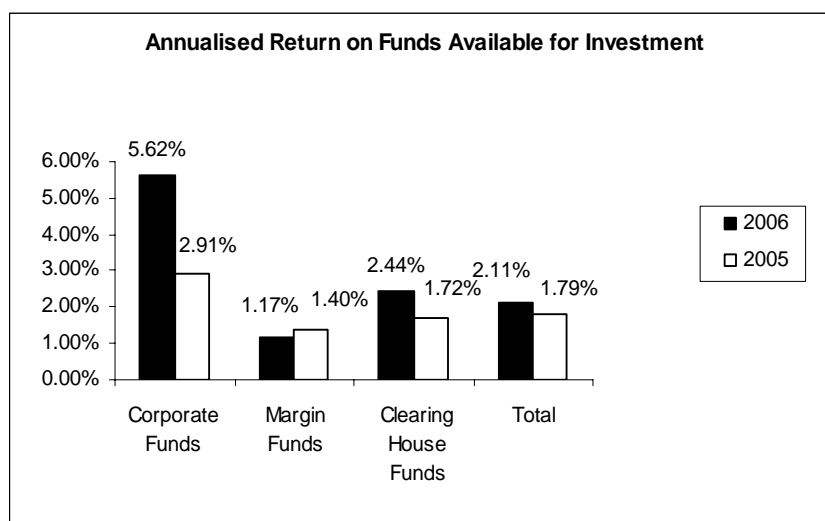
The increase in average amount of Corporate Funds during the period was mainly due to the profit net of dividends paid.

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

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

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

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



**(E) Other income**

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

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

Brokerage on direct Initial Public Offering ("IPO") applications increased in line with the funds raised by IPOs.

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

**Operating Expenses**

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

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

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

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

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

Depreciation fell as certain fixed assets became fully depreciated.

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

## Share of Profits less Losses of Associates

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

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

## Taxation

	<b>Unaudited Nine months ended 30 Sept 2006 \$'000</b>	Unaudited Nine months ended 30 Sept 2005 \$'000	Change
Taxation	<b>291,989</b>	171,464	70%

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

**Comparison of 2006 Third Quarter Performance with 2006 Second Quarter Performance**

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

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

**Key market indicators**

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

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

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

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

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

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

## **Working Capital**

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

## **Exposure to Fluctuations in Exchange Rates and Related Hedges**

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

As at 30 September 2006, the aggregate net open foreign currency positions amounted to HK\$2,188 million, of which HK\$242 million were non-USD exposures (31 December 2005: HK\$2,031 million, of which HK\$160 million were non-USD exposures), and the total nominal value of outstanding forward foreign exchange contracts amounted to HK\$332 million (31 December 2005: HK\$275 million). All forward foreign exchange contracts would mature within one month (31 December 2005: one month).

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

## **Contingent Liabilities**

The judicial review of the case involving the Group and New World Development Company Limited and others was concluded in favour of the Group in April 2006.

Save as aforesaid, there were no other changes in the Group's contingent liabilities from the information disclosed in the annual report for the year ended 31 December 2005.

**Changes since 31 December 2005**

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

It is the Group's plan to declare dividend only at the half-year and year-end. Therefore, no dividend will be proposed for the third quarter ended 30 September 2006 (third quarter of 2005: \$Nil).

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

**CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT**

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

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	Unaudited at 30 Sept 2006 \$'000	As restated Audited at 31 Dec 2005 \$'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets		218,605	257,876
Investment property		19,100	17,700
Lease premiums for land		93,712	94,123
Investments in associates		66,154	64,581
Clearing House Funds		2,227,336	1,340,410
Compensation Fund Reserve Account		39,951	38,410
Time deposit with maturity over one year		38,961	38,768
Deferred tax assets		4,130	3,060
Other assets		21,762	20,374
		<b>2,729,711</b>	<b>1,875,302</b>
<b>CURRENT ASSETS</b>			
Accounts receivable, prepayments and deposits	8	4,996,063	3,286,835
Lease premiums for land		548	547
Taxation recoverable		85	108
Margin Funds on derivatives contracts		18,204,633	13,648,581
Financial assets at fair value through profit or loss		2,776,920	2,643,788
Available-for-sale financial assets		86,939	-
Time deposits with original maturities over three months		21,312	116,622
Cash and cash equivalents		1,592,206	1,359,133
		<b>27,678,706</b>	<b>21,055,614</b>
<b>CURRENT LIABILITIES</b>			
Margin deposits from Clearing Participants on derivatives contracts		18,204,633	13,648,581
Accounts payable, accruals and other liabilities	9	5,546,938	3,641,071
Financial liabilities at fair value through profit or loss		3,453	1,443
Participants' admission fees received		1,650	2,550
Deferred revenue		124,125	284,851
Taxation payable		338,164	92,628
Provisions		27,235	27,145
		<b>24,246,198</b>	<b>17,698,269</b>
<b>NET CURRENT ASSETS</b>		<b>3,432,508</b>	<b>3,357,345</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>6,162,219</b>	<b>5,232,647</b>
<b>NON-CURRENT LIABILITIES</b>			
Participants' admission fees received		79,900	80,150
Participants' contributions to Clearing House Funds		1,609,965	751,751
Deferred tax liabilities		15,314	20,770
Financial guarantee contract		19,909	19,909
Provisions		24,128	22,596
		<b>1,749,216</b>	<b>895,176</b>
<b>NET ASSETS</b>		<b>4,413,003</b>	<b>4,337,471</b>
<b>CAPITAL AND RESERVES</b>			
Share capital		1,065,131	1,062,755
Share premium		180,970	150,405
Shares held for Share Award Scheme		(31,602)	(30,028)
Employee share-based compensation reserve		47,327	34,980
Revaluation reserves		1,689	(37,086)
Hedging reserve		(91)	-
Designated reserves		657,318	700,641
Retained earnings	10	2,492,261	1,776,254
Proposed/declared dividends	10	-	679,550
<b>SHAREHOLDERS' FUNDS</b>		<b>4,413,003</b>	<b>4,337,471</b>
<b>SHAREHOLDERS' FUNDS PER SHARE</b>		<b>\$4.15</b>	<b>\$4.09</b>



**Notes:**

1. These unaudited condensed consolidated accounts should be read in conjunction with the 2005 annual accounts. The accounting policies and methods of computation used in the preparation of these accounts are consistent with those used in the annual accounts for the year ended 31 December 2005 except that the Group has adopted the revised Hong Kong Accounting Standard (“HKAS”) 27 – Consolidated and Separate Financial Statements, which is effective for accounting periods beginning on or after 1 January 2006.

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

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

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

	<b>Unaudited Nine months ended 30 Sept 2006 \$’000</b>	Unaudited Nine months ended 30 Sept 2005 \$’000
Increase in investment income	<b>1</b>	-
Increase in staff costs and related expenses	<b>(13)</b>	-
Total decrease in profit	<b>(12)</b>	-
Decrease in basic earnings per share	<b>0.00 cents</b>	-
Decrease in diluted earnings per share	<b>0.00 cents</b>	-

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

	<b>Unaudited at 30 Sept 2006 \$’000</b>	Audited at 31 Dec 2005 \$’000
<b>Increase/(decrease) in assets</b>		
Contributions to Share Award Scheme	<b>(30,093)</b>	(30,037)
Cash and cash equivalents	<b>17</b>	20
<b>Increase/(decrease) in liabilities/equity</b>		
Accounts payable, accruals and other liabilities	<b>2</b>	1
Shares held for Share Award Scheme	<b>(31,602)</b>	(30,028)
Retained earnings	<b>1,524</b>	10

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

- (a) **Subsidiaries**  
Subsidiaries are entities over which the Group has the power to govern the financial and operating policies generally accompanying a holding of more than one half of the voting rights or issued share capital.
- (b) **Shares held for Share Award Scheme**  
Where the HKEx Employee Share Trust purchases shares issued by HKEx, the consideration paid, including any directly attributable incremental costs, is presented as “Shares held for Share Award Scheme” and deducted from total equity.
- (c) **Dividends**  
Dividends disclosed in the consolidated profit and loss account represent interim dividend paid and final and special dividends proposed/declared for the year (based on the issued share capital less the number of shares held for the Share Award Scheme as at the balance sheet date).

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

Further, as disclosed in the 2005 annual accounts, the Group adopted HKAS 39 and HKFRS 4 (Amendments): Financial Guarantee Contracts in the fourth quarter of 2005. The adoption of the Amendments had the following impact on equity as at 30 September 2005:

	\$’000
<b>Decrease in equity</b>	
Retained earnings	(19,909)

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

- 2. The Group’s 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 the Futures Exchange, Stock Exchange listing fees, clearing and settlement fees, depository, custody and nominee services fees, income from sale of information, investment income (including investment income net of interest expenses of Clearing House Funds) and other income, which are **disclosed as Income** in the condensed consolidated profit and loss account.

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

	Unaudited Nine months ended 30 Sept 2006				Group \$'000
	Cash Market \$'000	Derivatives Market \$'000	Clearing Business \$'000	Information Services \$'000	
<b>Income</b>	1,216,147	455,537	894,789	277,210	2,843,683
<b>Operating expenses</b>					
Direct costs	323,755	88,312	244,041	31,598	687,706
Indirect costs	93,193	29,464	68,711	14,577	205,945
	416,948	117,776	312,752	46,175	893,651
<b>Segment results</b>	799,199	337,761	582,037	231,035	1,950,032
Share of profits less losses of associates	1	-	15,985	-	15,986
Segment profits before taxation	799,200	337,761	598,022	231,035	1,966,018
Taxation					(291,989)
Profit attributable to shareholders					1,674,029
	Unaudited Nine months ended 30 Sept 2005				Group \$'000
	Cash Market \$'000	Derivatives Market \$'000	Clearing Business \$'000	Information Services \$'000	
<b>Income</b>	845,696	328,856	551,482	245,266	1,971,300
<b>Operating expenses</b>					
Direct costs	321,998	83,795	225,769	35,316	666,878
Indirect costs	85,304	26,917	57,952	15,861	186,034
	407,302	110,712	283,721	51,177	852,912
<b>Segment results</b>	438,394	218,144	267,761	194,089	1,118,388
Share of profits less losses of associates	(21)	-	13,013	-	12,992
Segment profits before taxation	438,373	218,144	280,774	194,089	1,131,380
Taxation					(171,464)
Profit attributable to shareholders					959,916

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

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

The **Clearing Business** refers to the operations of the three Clearing Houses, namely HKSCC, SEIOCH 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.

## 3. Investment income

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

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

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

## 4. Other income

	<b>Unaudited Nine months ended 30 Sept 2006 \$'000</b>	Unaudited Nine months ended 30 Sept 2005 \$'000	<b>Unaudited Three months ended 30 Sept 2006 \$'000</b>	Unaudited Three months ended 30 Sept 2005 \$'000
Network, terminal user, dataline and software sub-license fees	<b>117,971</b>	94,726	<b>40,043</b>	28,592
Participants' subscription and application fees	<b>25,466</b>	25,837	<b>8,450</b>	8,555
Brokerage on direct IPO applications	<b>25,013</b>	10,149	<b>7,909</b>	3,961
Trading booth user fees	<b>6,768</b>	-	<b>2,397</b>	-
Fair value gain of an investment property	<b>1,400</b>	3,200	<b>400</b>	600
Accommodation income on cash margin deposits in non-contract settlement currencies and securities deposited by Participants as alternatives to cash deposits of the Margin Funds	<b>1,589</b>	1,898	<b>769</b>	404
Miscellaneous income	<b>8,278</b>	8,571	<b>2,550</b>	2,418
	<b>186,485</b>	144,381	<b>62,518</b>	44,530

## 5. Other operating expenses

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

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

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

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

7. Earnings per share

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

- (a) Basic earnings per share

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

- (b) Diluted earnings per share

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

8. The Group's accounts receivable, prepayments and deposits amounted to \$4,996,063,000 (31 December 2005: \$3,286,835,000). These mainly represented the Group's Continuous Net Settlement ("CNS") money obligations receivable under the T+2 settlement cycle, which accounted for 93 per cent (31 December 2005: 88 per cent) of the total accounts receivable, prepayments and deposits. CNS money obligations receivable mature within two days after the trade date. Fees receivable are due immediately or up to 30 days depending on the type of services rendered. The majority of the remaining accounts receivable, prepayments and deposits would mature within three months.

9. The Group's accounts payable, accruals and other liabilities amounted to \$5,546,938,000 (31 December 2005: \$3,641,071,000, as restated). These mainly represented the Group's CNS money obligations payable under the T+2 settlement cycle, which accounted for 83 per cent (31 December 2005: 79 per cent) of the total accounts payable, accruals and other liabilities. CNS money obligations mature within two days after the trade date. The majority of the remaining accounts payable, accruals and other liabilities would mature within three months.

10. Retained earnings (including proposed/declared dividends)

	<b>Unaudited 2006 \$'000</b>	As restated Audited 2005 \$'000
At 1 Jan, as previously reported		
Retained earnings	<b>1,775,631</b>	1,658,055
Proposed/declared dividends	<b>680,163</b>	496,620
	<b>2,455,794</b>	2,154,675
Effect of initial adoption of revised HKAS 27	<b>10</b>	-
At 1 Jan, as restated	<b>2,455,804</b>	2,154,675
Profit for the period/year (note a)	<b>1,674,029</b>	1,339,558
Surplus of investment income net of expenses of Clearing House Funds for the period/year transferred to Clearing House Funds reserves	<b>(27,436)</b>	(29,350)
Investment and other income net of expenses of Compensation Fund Reserve Account for the period/year transferred to Compensation Fund Reserve Account reserve	<b>(1,486)</b>	(1,303)
Transfer from Development reserve	<b>72,245</b>	11,008
	<b>43,323</b>	(19,645)
Dividends:		
2005/2004 final dividend	<b>(679,550)</b>	(496,620)
Dividend on shares issued for employee share options exercised after 31 Dec 2005/31 Dec 2004	<b>(1,038)</b>	(1,597)
	<b>(680,588)</b>	(498,217)
2006/2005 interim dividend	<b>(1,000,050)</b>	(519,988)
Dividend on shares issued for employee share options exercised after 30 Jun 2006/30 Jun 2005	<b>(257)</b>	(579)
	<b>(1,000,307)</b>	(520,567)
At 30 Sept 2006/31 Dec 2005	<b>2,492,261</b>	2,455,804
Representing:		
Retained earnings	<b>2,492,261</b>	1,776,254
Proposed/declared dividends	-	679,550
At 30 Sept 2006/31 Dec 2005	<b>2,492,261</b>	2,455,804

(a) The Group's profit for the period/year included a net profit attributable to investment and other income net of expenses after taxation of the Clearing House Funds and Compensation Fund Reserve Account for an aggregate amount of \$28,922,000 (year ended 31 December 2005: \$30,653,000).

## **PROSPECTS**

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

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

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

## **CORPORATE GOVERNANCE**

HKEx applied the principles and fully complied with all requirements set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Main Board Listing Rules throughout the review period.

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

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

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

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

## **REVIEW OF ACCOUNTS**

The Audit Committee has reviewed the Group's unaudited condensed consolidated financial statements for the nine months ended 30 September 2006 in conjunction with HKEx's external auditors.



Management has appointed the external auditors to carry out certain agreed-upon procedures in accordance with Hong Kong Standards on Related Services 4400 “Engagements to perform agreed-upon procedures regarding financial information” issued by the Hong Kong Institute of Certified Public Accountants on the unaudited condensed consolidated financial statements for the nine months ended 30 September 2006.

## **PURCHASE, SALE OR REDEMPTION OF HKEX’S LISTED SECURITIES**

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

## **BOARD OF DIRECTORS**

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

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

Hong Kong, 14 November 2006

This results announcement is published on the Stock Exchange’s website (<http://www.hkex.com.hk>) and the quarterly report will be available from the same website on or about 24 November 2006.

*Please also refer to the published version of this announcement in South China Morning Post on 15 November 2006.*