



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

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

2006 First 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 three-month period ended 31 March 2006 as follows:

FINANCIAL HIGHLIGHTS

	Three months ended 31 Mar 2006	Three months ended 31 Mar 2005	Change
KEY MARKET STATISTICS			
Average daily turnover value on the Stock Exchange	\$31.2 billion	\$18.4 billion	70%
Average daily number of derivatives contracts traded on the Futures Exchange	87,755	63,885	37%
Average daily number of stock options contracts traded on the Stock Exchange	61,863	26,583	133%
	Unaudited Three months ended 31 Mar 2006 \$'000	Unaudited Three months ended 31 Mar 2005 \$'000	
RESULTS			
Income	854,127	574,252	49%
Operating expenses	292,527	282,675	3%
Operating profit	561,600	291,577	93%
Share of profits less losses of associates	3,220	2,617	23%
Profit before taxation	564,820	294,194	92%
Taxation	(85,981)	(48,773)	76%
Profit attributable to shareholders	478,839	245,421	95%
Earnings per share	\$0.45	\$0.23	96%
	Unaudited at 31 Mar 2006 \$'000	As restated Audited at 31 Dec 2005 \$'000	

KEY BALANCE SHEET ITEMS

Shareholders' funds	4,839,614	4,337,471	Φ	12%
Total assets *	28,411,078	22,930,916	Φ	24%
Net assets per share #	\$4.56	\$4.09	Φ	11%

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Listing

- The Listing Committee and the GEM Listing Committee (collectively “Listing Committees”) have considered market comments on the exposure paper on the abolition of the requirement for Main Board issuers to publish paid announcements in newspapers and approved the proposed related rule amendments. The proposed requirement to publish a notification in newspapers will be implemented subject to system and operational readiness and approval of the relevant rule amendments by the Securities and Futures Commission (“SFC”).
- In February 2006, HKEx announced the conclusions to its consultation on a new structure for listing decision-making and the rule amendments for implementing the phase 1 changes to the composition and structure of the Listing Committees. The judicial review of the case involving The Stock Exchange of Hong Kong Limited (“Stock Exchange”) and New World Development Company Limited & Others was concluded in favour of the Stock Exchange on 6 April 2006. As part of the Court of Final Appeal’s judgement, the Stock Exchange was also awarded recovery of its costs incurred in the numerous hearings of over \$6 million. The Stock Exchange expects to recover most of the sum. The Stock Exchange is studying the judgement and its implications on the second phase of the project.
- A discussion paper to facilitate public discussion of the Growth Enterprise Market (“GEM”) was published on 20 January 2006. So far, 12 submissions have been received and the submission deadline has been extended to the end of May 2006.
- The Listing Division has rotated certain staff to bring fresh perspective to the Initial Public Offering (“IPO”) process review and adopted a revised standard format for comment letters.
- A China Affairs Team was established in February 2006, which will lead HKEx’s liaison efforts with the China Securities Regulatory Commission and other Mainland authorities and co-ordinate training programmes and workshops for Mainland enterprises.
- A Project Manager has been appointed to lead a comprehensive electronic management system project. A visit to the United Kingdom Listing Authority was made in February 2006 to better understand its business workflow and Electronic Listing Management System.

Cash Market

- In the first quarter of 2006, 12 companies were newly listed on the Main Board and three on the GEM. The total capital raised, including post-listing funds, reached about \$33 billion. As at 31 March 2006, 940 and 201 companies were listed on the Main Board and the GEM respectively with a total market capitalisation of about \$9,416 billion. In addition, there were 1,366 derivative warrants, eight Exchange Traded Funds, three Real Estate Investment Trusts and 165 debt securities listed as at the end of March 2006. The average daily turnover in the first quarter of 2006 was about \$31 billion on the Main Board and about \$204 million on the GEM.
- The refurbished Trading Hall re-opened on 16 January 2006. A total of 294 dealing desks have been set up in the trading area and 16 trading terminals are located outside the Trading Hall for backup use. HKEx held a ceremony to mark the Grand Opening of the Exchange Trading and Exhibition Hall

Complex, which was officiated by the Honourable Donald Tsang, the Chief Executive of Hong Kong Special Administrative Region, on 26 April 2006.

- Due to technological obsolescence, the majority of the existing Open Gateways and Multi-workstation System servers and workstations will be replaced starting from the second quarter of the year.
- Reduction of minimum spreads in respect of securities trading between \$0.25 and \$20 was approved by HKEx's Board in February 2006 and is expected to be implemented in July this year, subject to the approval of the relevant rule amendments by the SFC.
- HKEx will work closely with the SFC and the industry to finalise and implement initiatives deemed appropriate as proposed in the November 2005 Report on the Derivative Warrants Market in Hong Kong issued by the SFC to further improve the derivative warrants market in Hong Kong. HKEx will also provide a web-based Derivative Warrants Resource Centre in the second quarter of this year for investors to access derivative warrant information.
- HKEx has invited structured product issuers to issue Callable Bull/Bear Contracts, which are planned for launch in June this year.

Derivatives Market

- In the first quarter of 2006, various products achieved record highs in terms of daily volume and open interest.
- As at the end of March 2006, 41 option classes were available for trading. The average daily turnover increased from 26,583 contracts in the first three months of last year to 61,863 contracts in the first quarter of 2006 and open interest also increased by 69 per cent from the corresponding period in 2005. A new position limit for stock options was introduced on 10 February 2006.
- In March 2006, the standard combination order function currently used in futures trading on HKEx's derivatives market was extended to Hang Seng Index ("HSI") Options.
- On 31 March 2006, HKEx introduced three additional long-dated contract months to HSI Options with maximum maturities of up to 3.5 years and three new long-dated contract months to H-shares Index Options contracts with maximum maturities of up to 2.5 years.
- A Joint Educational Programme was started in January 2006 to increase retail investors' knowledge of stock options. HKEx also supported the seminars organised by Options Trading Exchange Participants ("EPs") for the public and their staff and conducted training programmes on Hong Kong Futures Automated Trading System ("HKATS") for EPs' traders.

Clearing

- The scrip fee assessed on deemed book close dates was eliminated effective 1 January 2006.
- Various nominee services provided by the Hong Kong Securities Clearing Company Limited ("HKSCC") have been improved since 3 January 2006.
- Upon admission of the National Council for Social Security Fund of the People's Republic of China as a Corporate Investor Participant ("IP") to the Central Clearing and Settlement System ("CCASS") since March 2006, it as an IP can deposit the state-owned shares that it has received under the State Council's Provisional Measures on Management over the Reduction of State Shares to Raise Social Security Funds.

- Admission of IPs to the CCASS will first be expanded to Macau residents and corporations.
- No less than 50 per cent of the total margin requirement of any participant of HKFE Clearing Corporation Limited (“HKCC”) and The SEHK Options Clearing House Limited (“SEOCH”) must be in the form of cash and denominated in the relevant contract currency with effect from 3 January 2006.
- The outstanding debt in the sum of \$1.8 million owed by Tai Wah Securities Limited, which is now in liquidation, will be recovered from the HKSCC Guarantee Fund upon completion of the liquidation process.
- HKCC will file a proof of debt against the assets of Yicko Futures Limited, which is in the process of liquidation. Any deficiencies not recoverable from the liquidation process will be claimed from the HKCC Reserve Fund.

Business Development

- HKEx continued to promote Hong Kong listings to prospective Mainland issuers. It co-organised a seminar with the Hebei Provincial Government, participated in various conferences and seminars in different cities in the Mainland and conducted one-to-one meetings with potential issuers. HKEx also participated in the Pan-Pearl River Delta Financial Services Forum to promote the financial services available in Hong Kong.
- HKEx visited Dubai and Jeddah in Saudi Arabia and participated in various listing conferences in Asian cities to introduce the Stock Exchange to other potential Asian issuers.

Information Services

- HKEx has upgraded the system capacity of its real-time derivatives information feed to handle higher data throughput, and increased the throttle rate on derivatives feeds to 250 messages per second (“mps”) for derivatives services with price depth and to 150 mps without price depth.
- The HKEx Fact Book 2005 on recent developments in the Cash and Derivatives Markets in Hong Kong was published in early March 2006.
- HKEx changed the temporary programme for Alternate Submission of Quote Meter Audit Report to a standing policy with effect from January 2006.
- The Guideline for Switching the Fee Scheme for Usage Based Services Subscribers was revised to provide more certainty and flexibility to information vendors and their subscribers, with a monthly flat fee instead of the higher capped fee with high data usage.

Information Technology

- Up to the end of March 2006, all major trading, clearing and settlement and market data dissemination systems for the Cash and Derivatives Markets maintained 100 per cent operational system uptime.
- The capacity of the HKATS, Derivatives Clearing & Settlement System (“DCASS”) and Price Reporting System has been upgraded.
- The system software for HKATS and DCASS Network Gateway will also be upgraded to the latest version.

- The improvement of the middle-tier system software for the Latest Generation of the Central Clearing & Settlement System (“CCASS/3”) is in progress and is expected to be completed by the second half of 2006.
- The upgrade of the Third Generation Automatic Order Matching and Execution System (“AMS/3”) Open Gateway and Multi-workstation hardware and system software will be conducted in phases until the fourth quarter of 2006.
- An improvement feasibility study on the AMS/3 trading system performance throughput has kicked off to explore practical ways to realise the benefits from the technological advancement of the HP Non-stop platform and to prepare for the migration of AMS/3 to a higher version of server technology.
- The participants’ circuits of CCASS/3 will be migrated onto the SDNet by the second quarter of 2006.
- HKEx has completed the phase 1 redevelopment of the derivatives market risk management systems and proceeded with phase 2 work.

Treasury

- HKEx’s investment fund size as at 31 March 2006 increased by 17 per cent to \$22.5 billion, compared with that as at the end of December 2005. Investments are kept sufficiently liquid to meet the Group’s operating needs and possible liquidity requirements of the Clearing House Funds and Margin Funds. Credit exposure is well diversified. As at 31 March 2006, the bond portfolio held was of investment grade and had a weighted average credit rating of Aa2 and a weighted average maturity of 1.5 years. Risk management techniques, such as Value-at-Risk and portfolio stress testing, are used.
- Investment income for the three months ended 31 March 2006 increased by 163 per cent against that for the same period last year.

Investments in Associates

- As at 31 March 2006, the cost of the investment in Computershare Hong Kong Investor Services Limited (“CHIS”) was \$52 million and the book value of the investment was \$64 million.
- In March 2006, 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. The final meeting of AWPS was held in April 2006.

FINANCIAL REVIEW

Overall Performance

	Unaudited Three months ended 31 Mar 2006 \$'000	Unaudited Three months ended 31 Mar 2005 \$'000
RESULTS		
Income:		
Income affected by market turnover	493,276	307,934
Stock Exchange listing fees	109,693	96,703
Income from sale of information	85,517	78,990
Investment income	112,959	42,880
Other income	52,682	47,745
	854,127	574,252
Operating expenses	292,527	282,675
Operating profit	561,600	291,577
Share of profits less losses of associates	3,220	2,617
Profit before taxation	564,820	294,194
Taxation	(85,981)	(48,773)
Profit attributable to shareholders	478,839	245,421
Earnings per share	\$0.45	\$0.23
	Unaudited at 31 Mar 2006 \$'000	As restated Audited at 31 Dec 2005 \$'000
KEY BALANCE SHEET ITEMS		
Shareholders' funds	4,839,614	4,337,471 ^Φ
Total assets *	28,411,078	22,930,916 ^Φ
Net assets per share [#]	\$4.56	\$4.09 ^Φ

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

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

Based on 1,062,462,846 shares as at 31 March 2006, being 1,063,422,846 shares issued and fully paid less 960,000 shares held for the HKE_x 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 HKE_x Share Award Scheme)

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

The rise in profit in the first quarter of 2006 was primarily attributable to the higher turnover-related income resulting from the increase in level of activities in the Cash and Derivatives Markets, rise in

Stock Exchange listing fees due to the higher number of newly listed derivative warrants during the period, and growth in investment income from an increase in fair value gains of corporate fund investments and higher interest income in 2006.

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

Income

(A) Income affected by market turnover

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

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

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

Depository, custody and nominee services fees increased due to the higher stock withdrawal fees, corporate action fees and Electronic IPO service (“eIPO”) handling charges but offset by lower scrip fee income in 2006 partly due to the abolition of deemed book close scrip fees from 1 January 2006 (2005 first quarter deemed book close scrip fees: \$3 million). The fees were influenced by the level of Cash Market activities but did not move proportionately with changes in the Cash Market turnover as they varied mostly with the board lots rather than the value of the securities concerned and many were subject to a maximum fee. Moreover, scrip fee was only chargeable on the net increase in individual Participants’ aggregate holdings of the securities.

Key market indicators

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

(B) Stock Exchange listing fees

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

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

Key drivers for annual listing fees

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

Key drivers for initial and subsequent issue listing fees

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

(C) Income from sale of information

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

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

(D) Investment income

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

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

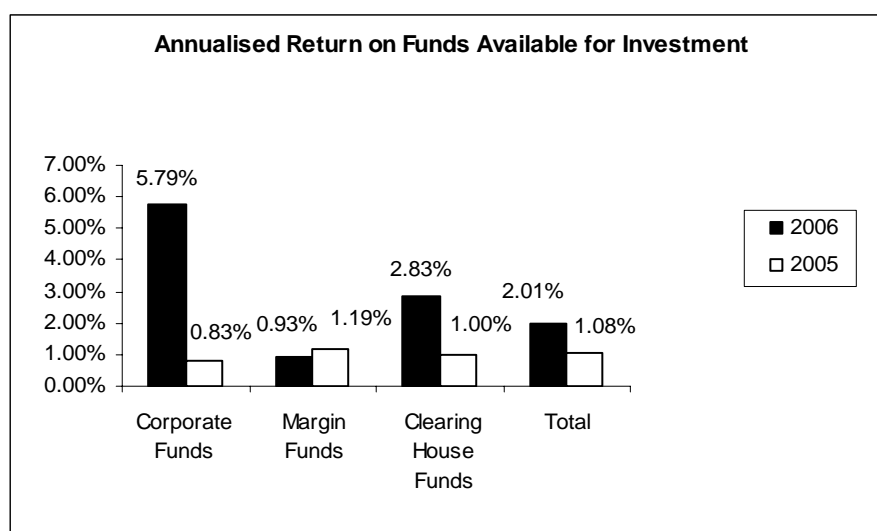
	Three months ended 31 Mar 2006 \$ billion	Three months ended 31 Mar 2005 \$ billion	Change
Corporate Funds	4.4	4.0	10%
Margin Funds	16.5	10.2	62%
Clearing House Funds	1.5	1.6	(6%)
Total	22.4	15.8	42%

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

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

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

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



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

(E) Other income

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

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

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

Operating Expenses

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

Staff costs and related expenses increased by \$18 million, primarily due to the increase in salary costs and contribution to provident funds as a result of the increase in headcount and salary adjustment in 2006, and an increase in performance bonus accruals on account of the improved performance of the Group. Employee share-based compensation costs also rose due to the amortisation of the fair value of shares granted under the Employees' Share Award Scheme ("HKE_x Share Award Scheme") in December 2005.

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

Product marketing and promotion expenses increased due to promotional activities relating to the opening of the new trading hall and higher publication costs.

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

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

Depreciation decreased as certain fixed assets became fully depreciated.

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

Share of Profits less Losses of Associates

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

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

Taxation

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

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

Working Capital

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

Exposure to Fluctuations in Exchange Rates and Related Hedges

When seeking to optimise the returns on its funds available for investment, the Group may invest in non-HKD securities from time to time. Forward foreign exchange contracts and foreign currency deposits have been used to hedge the currency exposure of the Group's non-HKD investments, highly probable forecast transactions and liabilities to mitigate risks arising from fluctuations in exchange rates. As at 31 March 2006, the aggregate net open foreign currency positions amounted to HK\$2,067 million, of which HK\$201 million were non-USD exposures (31 December 2005: HK\$2,031 million, of which HK\$160 million were non-USD exposures), and the total nominal value of outstanding forward foreign exchange contracts amounted to HK\$399 million (31 December 2005: HK\$275 million). All forward foreign exchange contracts would mature within one month (31 December 2005: one month).

Changes since 31 December 2005

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

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

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

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

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

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	Unaudited at 31 Mar 2006 \$'000	As restated Audited at 31 Dec 2005 \$'000
NON-CURRENT ASSETS			
Fixed assets		240,668	257,876
Investment property		18,300	17,700
Lease premiums for land		93,986	94,123
Investments in associates		63,504	64,581
Clearing House Funds		1,685,008	1,340,410
Compensation Fund Reserve Account		38,875	38,410
Time deposit with maturity over one year		38,799	38,768
Deferred tax assets		3,671	3,060
Other assets		21,764	20,374
		2,204,575	1,875,302
CURRENT ASSETS			
Accounts receivable, prepayments and deposits	9	5,514,843	3,286,835
Lease premiums for land		548	547
Taxation recoverable		-	108
Margin Funds on derivatives contracts		15,532,039	13,648,581
Financial assets at fair value through profit or loss		2,714,819	2,643,788
Time deposits with original maturities over three months		65,809	116,622
Cash and cash equivalents		2,378,445	1,359,133
		26,206,503	21,055,614
CURRENT LIABILITIES			
Margin deposits from Clearing Participants on derivatives contracts		15,532,039	13,648,581
Accounts payable, accruals and other liabilities	10	6,408,029	3,641,071
Financial liabilities at fair value through profit or loss		3,123	1,443
Participants' admission fees received		2,750	2,550
Deferred revenue		240,866	284,851
Taxation payable		127,744	92,628
Provisions		26,490	27,145
		22,341,041	17,698,269
NET CURRENT ASSETS		3,865,462	3,357,345
TOTAL ASSETS LESS CURRENT LIABILITIES		6,070,037	5,232,647
NON-CURRENT LIABILITIES			
Participants' admission fees received		79,850	80,150
Participants' contributions to Clearing House Funds		1,087,934	751,751
Deferred tax liabilities		18,272	20,770
Financial guarantee contract		19,909	19,909
Provisions		24,458	22,596
		1,230,423	895,176
NET ASSETS		4,839,614	4,337,471
CAPITAL AND RESERVES			
Share capital		1,063,423	1,062,755
Share premium		154,333	150,405
Shares held for HKEx Share Award Scheme		(30,099)	(30,028)
Employee share-based compensation reserve		42,209	34,980
Revaluation reserves		(25,536)	(37,086)
Designated reserves		645,709	700,641
Retained earnings	11	2,309,599	1,776,254
Proposed/declared dividends	11	679,976	679,550
SHAREHOLDERS' FUNDS		4,839,614	4,337,471

Notes:

- 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 HKE_x approved the HKE_x Share Award Scheme, under which shares of HKE_x (“Awarded Shares”) may be awarded to an Executive Director and employees of the Group. The Group has set up a trust, The HKE_x Employees’ Share Award Scheme (“HKE_x Employee Share Trust”), for the purpose of administering the HKE_x Share Award Scheme and holding the Awarded Shares before they vest. As HKE_x has the power to govern the financial and operating policies of the HKE_x 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 HKE_x 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 three months ended 31 March 2006 and three months ended 31 March 2005 were as follows:

	Unaudited Three months ended 31 Mar 2006 \$’000	Unaudited Three months ended 31 Mar 2005 \$’000
Increase in staff costs and related expenses	2	-
Total decrease in profit	2	-
Decrease in earnings per share	0.00 cents	-

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

	Unaudited at 31 Mar 2006 \$’000	Audited at 31 Dec 2005 \$’000
Increase/(decrease) in assets		
Contributions to HKE _x Share Award Scheme	(30,091)	(30,037)
Cash and cash equivalents	-	20
Increase/(decrease) in liabilities/equity		
Accounts payable, accruals and other liabilities	-	1
Shares held for HKE _x Share Award Scheme	(30,099)	(30,028)
Retained earnings	8	10

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

(a) Subsidiaries

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

(b) Shares held for HKEx Share Award Scheme

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

(c) Dividends

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

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

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

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

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

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

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

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

The **Cash Market** business mainly refers to the operations of the Stock Exchange, which covers all products traded on the Cash Market platforms, such as equities, debt securities, unit trusts, warrants and rights. Currently, the Group operates two Cash Market platforms, the Main Board and the 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, SECH 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

	Unaudited Three months ended 31 Mar 2006 \$'000	Unaudited Three months ended 31 Mar 2005 \$'000
Interest income		
- bank deposits	130,918	20,070
- listed available-for-sale financial assets	3,379	1,611
- unlisted available-for-sale financial assets	19,618	18,298
	153,915	39,979
Interest expenses (note a)	(90,390)	(2,904)
Net interest income	63,525	37,075
Net realised and unrealised gains /(losses) and interest income on financial assets and financial liabilities at fair value through profit or loss		
<u>On designation</u>		
- bank deposits with embedded derivatives	-	266
<u>Held for trading</u>		
- listed securities	40,574	10,590
- unlisted securities	7,634	(8,794)
- exchange differences	35	2,623
	48,243	4,419
	48,243	4,685
Dividend income		
- listed financial assets at fair value through profit or loss	1,111	981
Other exchange differences on loans and receivables	80	139
Total investment income	112,959	42,880
Total investment income was derived from:		
Corporate Funds (note b)	63,811	8,368
Margin Funds	38,319	30,635
Clearing House Funds	10,829	3,877
	112,959	42,880

- (a) The significant increase in interest expenses was mainly attributable to the increase in Margin Fund size, rising interest rates and a change in the benchmarked interest rate payable on cash margin deposits. In 2006, interest was paid on cash margin deposits based on the savings rate. In 2005, interest was not always paid to the Participants as the interest rates payable on the cash margin deposits were often lower than the retention interest rates charged by HKCC and SEOCH on such cash margin deposits.
- (b) Investment income derived from Corporate Funds included investment income of Compensation Fund Reserve Account of \$455,000 (2005: \$186,000).

4. Other income

	Unaudited Three months ended 31 Mar 2006 \$'000	Unaudited Three months ended 31 Mar 2005 \$'000
Network, terminal user, dataline and software sub-license fees	35,198	30,938
Participants' subscription and application fees	8,515	8,706
Brokerage on direct IPO applications	3,264	4,665
Trading booth user fees	1,980	-
Fair value gain of an investment property	600	-
Accommodation income on cash margin deposits in non-contract settlement currencies and securities deposited by Participants as alternatives to cash deposits of the Margin Funds	358	710
Miscellaneous income	2,767	2,726
	52,682	47,745

5. Other operating expenses

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

6. Share of profits less losses of associates

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

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

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

- (a) Hong Kong Profits Tax has been provided for at 17.5 per cent (2005: 17.5 per cent) on the estimated assessable profit for the period.
8. The calculation of basic earnings per share is based on the profit attributable to shareholders of \$478,839,000 (2005: \$245,421,000) and the weighted average of 1,062,111,757 shares in issue less shares held for the HKE_x Share Award Scheme (2005: 1,056,924,490 shares) during the three-month period. The employee share options and Awarded Shares outstanding did not have a material dilutive effect on the basic earnings per share.
9. The Group's accounts receivable, prepayments and deposits amounted to \$5,514,843,000 (31 December 2005: \$3,286,835,000). These mainly represented the Group's Continuous Net Settlement ("CNS") money obligations receivable under the T+2 settlement cycle, which accounted for 92 per cent (31 December 2005: 88 per cent) of the total accounts receivable, prepayments and deposits. CNS money obligations receivable mature within two days after the trade date. Fees receivable are due immediately or up to 30 days depending on the type of services rendered. The majority of the remaining accounts receivable, prepayments and deposits would mature within three months.
10. The Group's accounts payable, accruals and other liabilities amounted to \$6,408,029,000 (31 December 2005: \$3,641,071,000, as restated). These mainly represented the Group's CNS money obligations payable under the T+2 settlement cycle, which accounted for 79 per cent (31 December 2005: 79 per cent) of the total accounts payable, accruals and other liabilities. CNS money obligations mature within two days after the trade date. The majority of the remaining accounts payable, accruals and other liabilities would mature within three months.

11. Retained earnings (including proposed/declared dividends)

	Unaudited at 31 Mar 2006 \$'000	As restated Audited at 31 Dec 2005 \$'000
At 1 Jan, as previously reported		
Retained earnings	1,775,631	1,658,055
Proposed/declared dividends	680,163	496,620
	2,455,794	2,154,675
Effect of initial adoption of the revised HKAS 27	10	-
At 1 Jan, as restated	2,455,804	2,154,675
Profit for the period/year (note a)	478,839	1,339,558
Surplus of investment income net of expenses of Clearing House Funds for the period/year transferred to Clearing House Funds reserves	(8,141)	(29,350)
Investment and other income net of expenses of Compensation Fund Reserve Account for the period/year transferred to Compensation Fund Reserve Account reserve	(455)	(1,303)
Transfer from Development reserve	63,528	11,008
	54,932	(19,645)
Dividends paid:		
2004 final dividend	-	(496,620)
Dividend on shares issued for employee share options exercised after 31 Dec 2004	-	(1,597)
	-	(498,217)
2005 interim dividend	-	(519,988)
Dividend on shares issued for employee share options exercised after 30 Jun 2005	-	(579)
	-	(520,567)
At 31 Mar 2006/31 Dec 2005	2,989,575	2,455,804
Representing:		
Retained earnings	2,309,599	1,776,254
Proposed/declared dividends	679,976	679,550
At 31 Mar 2006/31 Dec 2005	2,989,575	2,455,804

- (a) The Group's profit for the period/year included a net profit attributable to investment and other income net of expenses after taxation of the Clearing House Funds and Compensation Fund Reserve Account for an aggregate amount of \$8,596,000 (year ended 31 December 2005: \$30,653,000).

PROSPECTS

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

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

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

CORPORATE GOVERNANCE

HKEx is committed to building and maintaining high standards of corporate governance. HKEx applied the principles and fully complied with all requirements set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the review period.

REVIEW OF ACCOUNTS

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

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

PURCHASE, SALE OR REDEMPTION OF HKEX'S LISTED SECURITIES

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

In December 2005, the Board awarded 960,000 HKEx shares to a number of employees under the HKEx Share Award Scheme. The trustee of the HKEx Share Award Scheme purchased 958,000 awarded shares from the market in December 2005 and the remaining 2,000 awarded shares in January 2006.

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, 10 May 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 22 May 2006.