MANAGEMENT DISCUSSION AND ANALYSIS

(Financial figures are expressed in Hong Kong Dollar)

BUSINESS REVIEW

Listing

Revision of Mechanisms for Disseminating Regulatory Information by Main Board Issuers

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

New Structure for Listing Decision-Making

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

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

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

Review of the Growth Enterprise Market ("GEM")

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

Processing of Initial Public Offerings ("IPOs")

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

Establishment of the China Affairs Team

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

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

Implementation of a Comprehensive Electronic Management System for the Listing Division

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

Cash Market

Market Performance

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

Renovation of Trading Hall

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

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

Trading System Enhancement

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

Market Infrastructure Improvements

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

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

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

Product Development

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

Derivatives Market

Market Performance

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

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

Product and Market Development

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

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

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

Participant and Investor Education

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

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

Clearing

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

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

CCASS Nominee Services Improvements

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

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

The National Council for Social Security Fund of the People's Republic of China ("NCSSF") was admitted to the CCASS as a Corporate IP in March 2006. Upon the admission, the NCSSF as an IP can deposit the state-owned shares that it has received under the State Council's Provisional Measures on Management over the Reduction of State Shares to Raise Social Security Funds.

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

Risk Management Measures

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

Default of Participants

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

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

Business Development

Promotion Activities for Prospective Mainland Issuers

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

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

Introducing the Stock Exchange to other Asian Potential Issuers

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

Information Services

System Enhancements

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

Publication of the HKEx Fact Book

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

Service Improvements

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

Information Technology

Production Systems Stability and Reliability

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

Capacity Planning and Upgrade

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

Obsolescent Technology Replacement and System Upgrade

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

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

System Consolidation and Operation Efficiency

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

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

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

Treasury

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

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

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

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

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

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

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

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

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

Investments in Associates

Computershare Hong Kong Investor Services Limited ("CHIS")

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

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

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

FINANCIAL REVIEW

Overall Performance

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

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

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

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

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

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

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

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

Income

(A) Income affected by market turnover

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

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

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

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

Key market indicators

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

(B) Stock Exchange listing fees

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

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

Key drivers for annual listing fees

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

Key drivers for initial and subsequent issue listing fees

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

(C) Income from sale of information

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

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

(D) Investment income

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

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

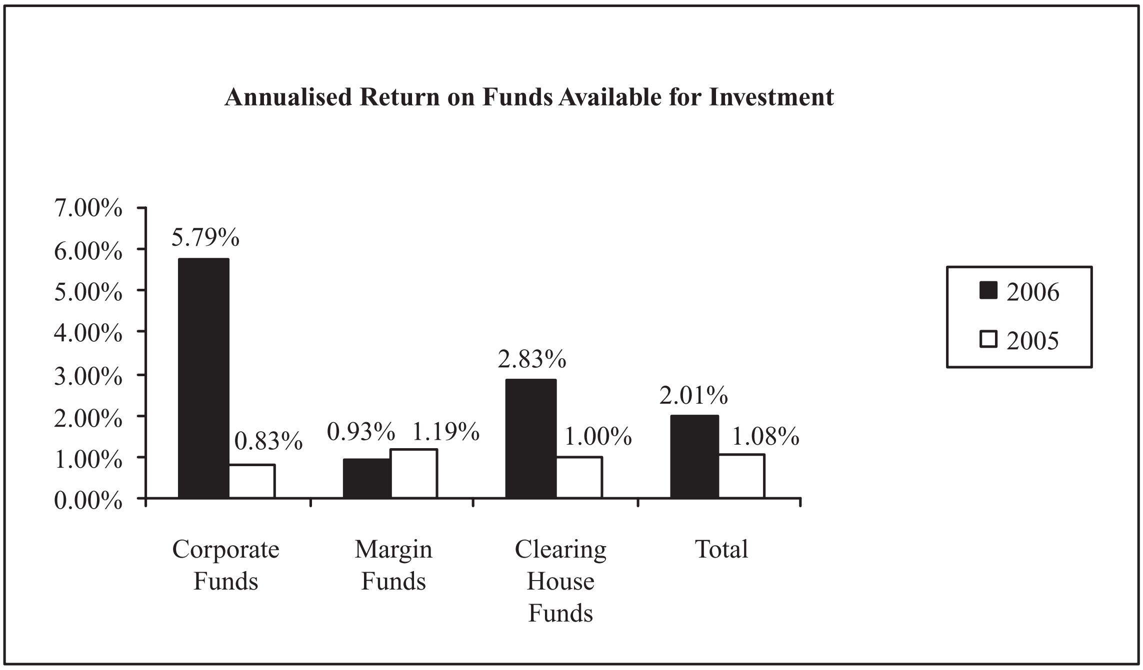
	Three months ended 31 Mar 2006 $ billion	Three months ended 31 Mar 2005 $ billion	Change
Corporate Funds	**4.4**	4.0	10%
Margin Funds	**16.5**	10.2	62%
Clearing House Funds	**1.5**	1.6	(6%)
Total	**22.4**	15.8	42%

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

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

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

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



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

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

(E) Other income

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

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

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

Operating Expenses

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

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

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

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

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

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

Depreciation decreased as certain fixed assets became fully depreciated.

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

Share of Profits Less Losses of Associates

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

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

Taxation

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

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

Working Capital

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

Exposure to Fluctuations in Exchange Rates and Related Hedges

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

Contingent Liabilities

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

Changes since 31 December 2005

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

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

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

PROSPECTS

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

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

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