Management Discussion and Analysis

BUSINESS REVIEW

LISTING

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

On 7 July 2006, HKEx published the Exposure Conclusion on the "Abolition of Requirement for Main Board Issuers to Publish Paid Announcements in Newspapers and Related Matters", including the related amendments to the Listing Rules. Implementation of the conclusions will ultimately lead to the total abolition of paid announcements as the primary means of information dissemination for Main Board issuers.

Before total abolition of the requirement to publish paid announcements, a six-month transitional period will be introduced, during which issuers will have to publish a notification of the announcements in newspapers and post the full version on the HKEx website and their own websites. A Main Board issuer without its own website must publish the full announcement in newspapers as well as on the HKEx website.

A further announcement will be made regarding the commencement of the transitional period which is currently expected to be at least six months after the publication of the Exposure Conclusion.

New Structure for Listing Decision-Making

In February 2006, HKEx announced the conclusions to its consultation regarding a new structure for listing decision-making and the Listing Rules amendments for implementing the first phase changes. The Listing Rules amendments, which became effective in February and May 2006, included inter alia, an expansion of the Listing Committees to at least 28 members and an increase in the number of investor representatives to at least eight.

The second phase will commence subject to the conclusion on giving statutory backing to part of the Listing Rules.

Regulation of Sponsors and Compliance Advisers

In October 2004, HKEx and the SFC published conclusions to a joint consultation paper published in May 2003 regarding the regulation of sponsors and independent financial advisers ("IFA"). Pursuant to the conclusions, the SFC conducted a further consultation in June 2005 with a view to amending its existing registration and licensing requirements to impose specific initial and continuing suitability requirements for sponsors, compliance advisers and IFA.

In April 2006, the SFC concluded its further consultation and announced that amendments to its licensing and monitoring regimes for sponsors and compliance advisers would take effect from 1 January 2007. HKEx is considering corresponding Listing Rules amendments to remove any regulatory overlap, and will make an announcement on proposed rule changes later this year.

Review of the GEM

The discussion paper to facilitate public discussion on the GEM was released in January 2006 for the purpose of enhancing further development of the GEM and ensuring that its objectives and functions appropriately align with the expectations and needs of various market stakeholders. A total of 16 submissions were received and a summary of those submissions was posted on the HKEx website in July 2006. Recommendations in the submissions are being analysed.

Training for Hong Kong-listed Mainland Enterprises

With the establishment of the China Affairs Team in February 2006, training seminars for the senior management of Hong Kong-listed Mainland enterprises were organised in Beijing in May and June 2006 with a view to improving their knowledge and understanding of regulatory and corporate governance issues on a practical level. The seminars were well received with the participants being mainly representatives from Hong Kong-listed Mainland enterprises and Mainland government authorities. A series of workshops will be held in Beijing on a regular basis.

CASH MARKET

Market Performance

In the first half of 2006, 22 companies were newly listed on the Main Board and four on the GEM. Total capital raised, including post-listing funds, reached $195.6 billion. Total market capitalisation exceeded $10,000 billion on 3 May 2006. As at 30 June 2006, 948 and 200 companies were listed on the Main Board and the GEM respectively with a total market capitalisation of about $9,840 billion. In addition, there were 1,481 derivative warrants, eight Exchange Traded Funds, four Real Estate Investment Trusts and 174 debt securities listed as at the end of June 2006. Average daily turnover in the first half of 2006 was about $32.4 billion on the Main Board and about $199 million on the GEM.

Opening of the Exchange Trading and Exhibition Hall Complex

The opening of the refurbished Trading Hall in January 2006 was officiated by the Financial Secretary. The grand opening of the Exchange Trading and Exhibition Hall Complex was officiated by the Chief Executive of Hong Kong on 26 April 2006. The Exchange Exhibition Hall has been open to the public since 15 May 2006.

Trading System Enhancement

As a result of the growing trading activities in the Cash Market, there are more price and order queue updates in the trading system. HKEx plans to increase the market data broadcast rate of the AMS/3 by the end of this year.

Market Infrastructure Improvements

On 15 May 2006, HKEx introduced a new web-based DWRC which offers the investing public a new resource centre where they can learn about the derivative warrants listed on the Stock Exchange. The centre supports the SFC's initiatives on investor education and information dissemination contained in its Six-Point Plan Report published in March this year.

The maximum number of outstanding orders per price queue in the AMS/3 was increased from 4,000 to 8,000 effective 29 May 2006. The increase is aimed at facilitating EPs' order input efficiency, in particular for initial trading of shares in popular IPOs.

In June 2006, the Board approved the progressive implementation of reduced minimum securities trading spreads in two phases, namely Phases 2A and 2B. Phase 2A, which was implemented on 24 July 2006, covers securities priced between $2 and $20 while Phase 2B covers securities priced between $0.25 and $2. HKEx will monitor the results of Phase 2A and proceed with Phase 2B in the first quarter of 2007, if no systemic problems are noted.

Product Development

The first batch of CBBCs, comprising seven contracts from four issuers, was listed on 12 June 2006. A total of 11 CBBCs were listed as at the end of June 2006. The total turnover volume of the product was 277 million units and the turnover value was $204 million from roll-out to the end of June.

HKEx had organised and participated in a number of events to educate investors and market participants about CBBCs. In the coming months, further Continuous Professional Training courses will be organised for EPs and CBBC issuers.

HKEx has constructed a dedicated CBBC section on its website (www.hkex.com.hk/cbbc) to provide market participants with information about the product, including issuer information, education material and articles written by HKEx on the subject, which had been published in newspapers or posted on financial websites.

Market Value of All Listed Companies – Main Board & GEM

As at the end of June

	2006 ($ mil)	2005 ($ mil)	% Change
Main Board			
Finance	**3,799,702.83**	2,290,924.52	65.86
Utilities	**475,886.09**	434,193.55	9.60
Properties	**1,036,493.82**	811,456.63	27.73
Consolidated Enterprises	**2,638,850.63**	2,088,019.81	26.38
Industrials	**1,699,367.91**	1,176,998.78	44.38
Hotels	**75,260.27**	70,547.99	6.68
Miscellaneous	**32,810.72**	21,185.85	54.87
Sub-total	**9,758,372.27**	6,893,327.13	41.56
GEM	**82,030.68**	65,376.11	25.48
Total	**9,840,402.95**	6,958,703.24	41.41

Number of Listed Companies – Main Board & GEM

As at the end of June

	2006	2005	% Change
Main Board			
Finance	**79**	80	(1.25)
Utilities	**18**	15	20.00
Properties	**100**	100	0.00
Consolidated Enterprises	**304**	289	5.19
Industrials	**428**	399	7.27
Hotels	**12**	12	0.00
Miscellaneous	**7**	6	16.67
Sub-total	**948**	901	5.22
GEM	**200**	203	(1.48)
Total	**1,148**	1,104	3.99

Number of Listed Securities – Main Board & GEM

As at the end of June

	2006	2005	% Change
Ordinary shares	**1,149**	1,104	4.08
Preference shares	**2**	4	(50.00)
Warrants	**1,510**	953	58.45
– Equity Warrants	29	26	11.54
– Derivative Warrants	1,481	927	59.76
Callable Bull/Bear Contracts *	**11**	–	N/A
Equity Linked Instruments	**0**	0	N/A
Unit Trusts	**14**	10	40.00
– Exchange Traded Funds	8	7	14.29
– Real Estate Investment Trusts ø	4	–	N/A
– Others	2	3	(33.33)
Debt Securities	**174**	164	6.10
Total	**2,860**	2,235	27.96

* *commenced trading on 12 June 2006*

ø *first listed on the Stock Exchange in November 2005*

Market Value by Type of Securities – Main Board & GEM

As at the end of June

	2006 ($ mil)	2005 ($ mil)	% Change
Equities	**9,840,402.95**	6,958,703.24	41.41
Warrants	**160,822.48**	69,622.77	130.99
– Equity Warrants	1,862.10	2,499.05	(25.49)
– Derivative Warrants	158,960.38	67,123.72	136.82
Callable Bull/Bear Contracts *	**928.23**	–	N/A
Equity Linked Instruments	**0.00**	0.00	N/A
Unit Trusts	**112,155.84**	41,548.69	169.94
– Exchange Traded Funds	63,150.09	41,403.53	52.52
– Real Estate Investment Trusts ø	48,986.56	–	N/A
– Others	19.19	145.16	(86.78)
Debt Securities	**423,962.36**Δ	431,586.37Δ	(1.77)
Total	**10,538,271.86**	7,501,461.07	40.48

* *commenced trading on 12 June 2006*

ø *first listed on the Stock Exchange in November 2005*

Δ *Nominal value*

Turnover Value by Type of Securities – Main Board & GEM

For the six months ended 30 June

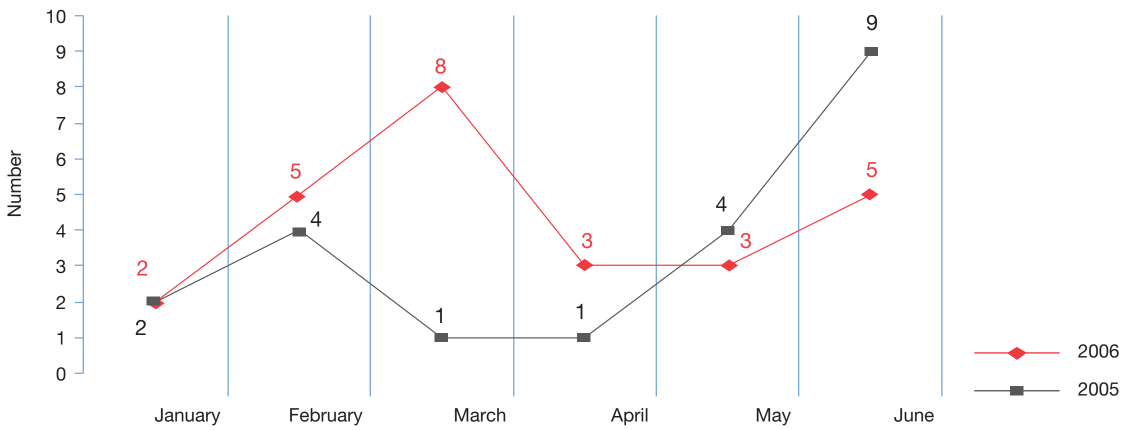
	2006 ($ mil)	2005 ($ mil)	% Change
Equities	**3,131,805.58**	1,700,243.24	84.20
Warrants	**752,760.83**	331,105.83	127.35
– Equity Warrants	896.70	1,644.03	(45.46)
– Derivative Warrants	751,864.13	329,461.80	128.21
Callable Bull/Bear Contracts *	**204.22**	–	N/A
Equity Linked Instruments	**0.00**	1.02	(100.00)
Unit Trusts	**59,283.76**	7,734.48	666.49
– Exchange Traded Funds#	29,725.01	7,734.14	284.34
– Real Estate Investment Trusts ø	29,557.79	–	N/A
– Others	0.96	0.34	182.35
Debt Securities	**2.05**	7.72	(73.45)
Total	**3,944,056.44**	2,039,092.29	93.42

* *commenced trading on 12 June 2006*

\# *including two iShares for trading only*

ø *first listed on the Stock Exchange in November 2005*

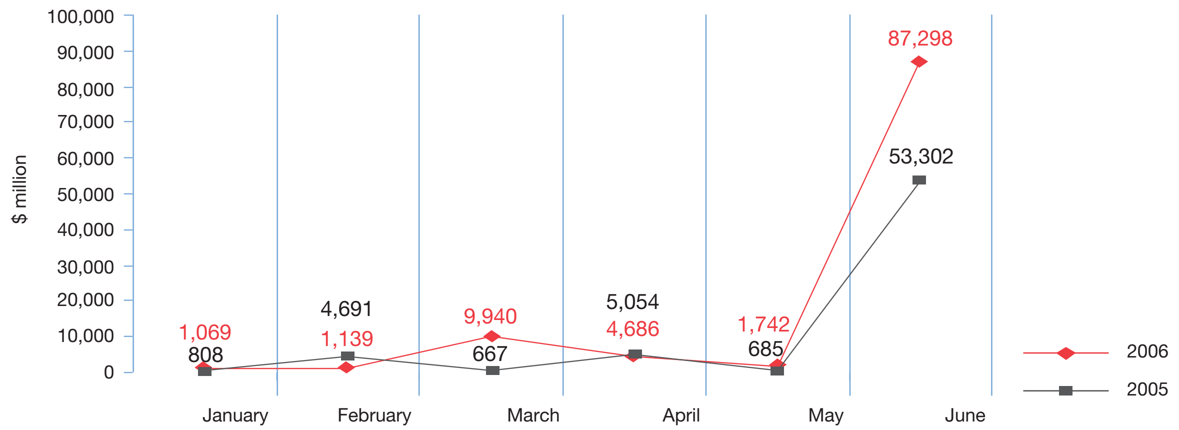
Number of Newly Listed Companies – Main Board & GEM



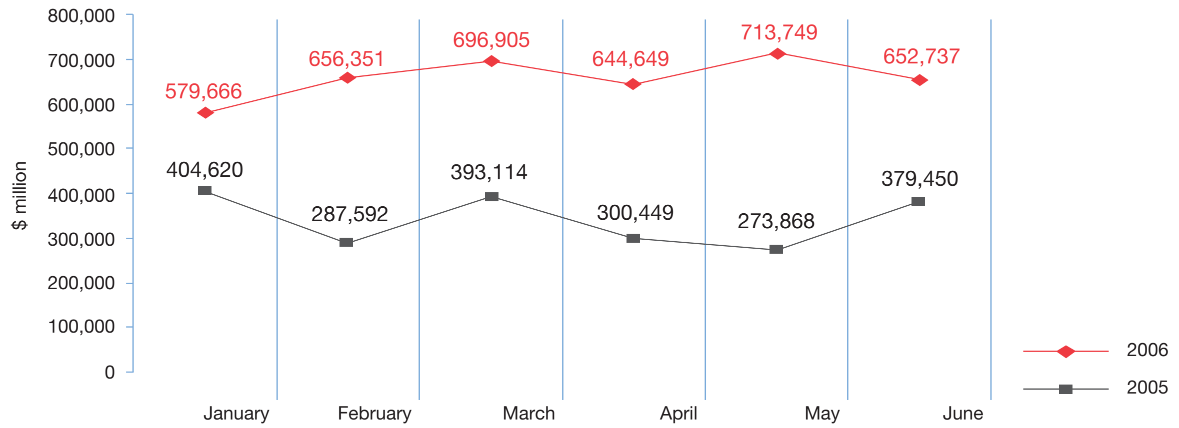
	Number of Listed Companies Main Board	GEM	Total
– At the beginning of the year	934	201	1,135
– New listing	22*	4	26
– Delisted	(8)	(5)*	(13)
At end of June 2006	948	200	1,148

* *including one delisted GEM company which was subsequently listed on the Main Board*

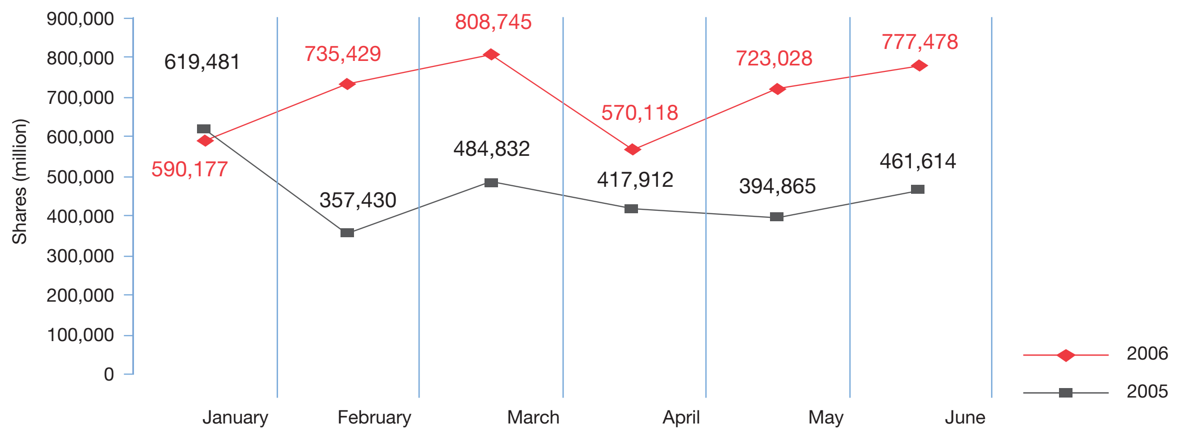
Funds Raised by Newly Listed Companies – Main Board & GEM



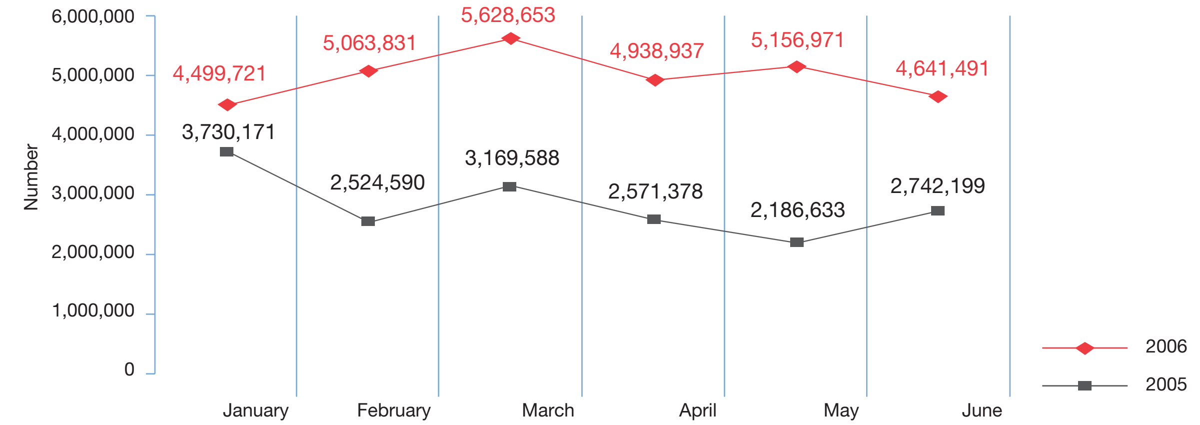
Monthly Turnover (Value) – Main Board & GEM



Monthly Turnover (Volume) – Main Board & GEM

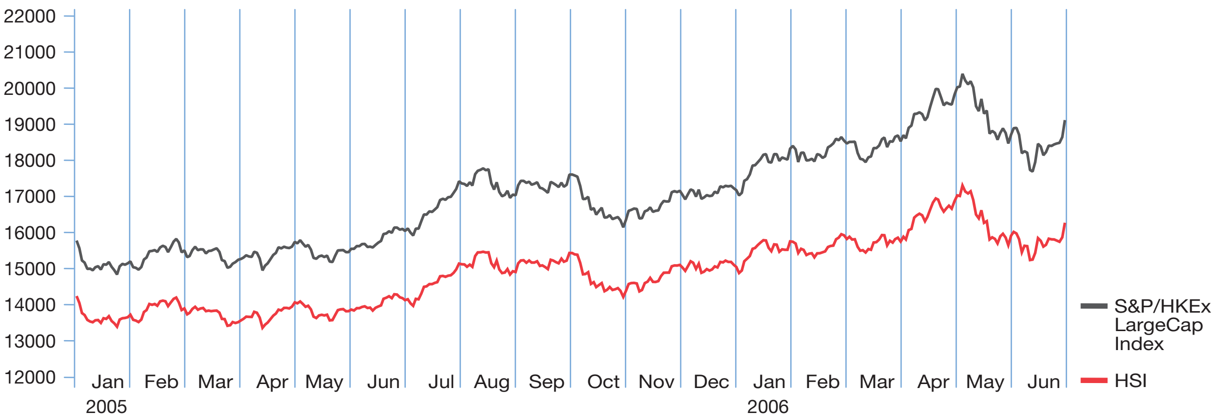


Number of Transactions – Main Board & GEM



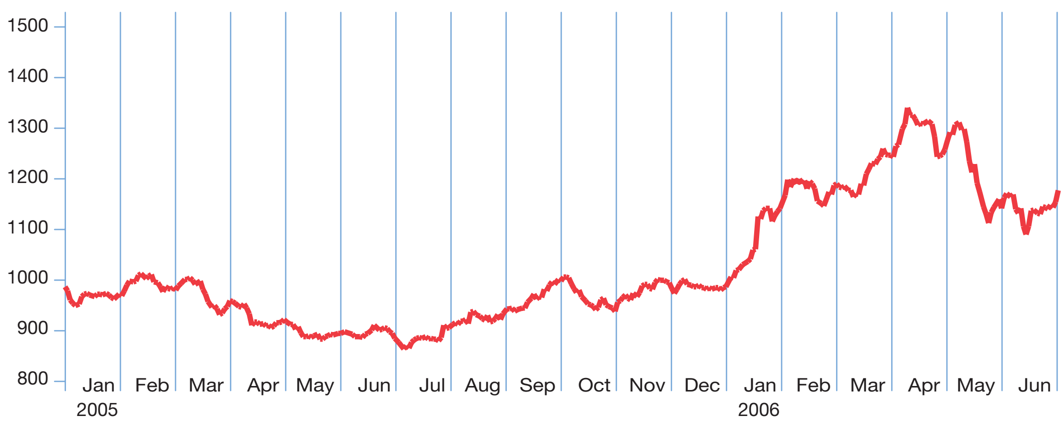
Hang Seng Index ("HSI") and S&P/HKEx LargeCap Index

January 2005 – June 2006



S&P/HKEx GEM Index

January 2005 – June 2006



DERIVATIVES MARKET

Market Performance

In the first half of 2006, record high daily volume and open interest were achieved for various products, as below:

	Record High Daily Volume		Record High Open Interest	
Products	Date	Number of Contracts	Date	Number of Contracts
Hang Seng Index Futures	28 Mar 06	157,327	–	–
Hang Seng Index Options	23 May 06	29,578	28 Jun 06	328,626
Mini-Hang Seng Index Futures	28 Jun 06	14,498	11 Apr 06	6,125
Mini-Hang Seng Index Options	23 Jan 06	701	–	–
H-shares Index Futures	25 Apr 06	65,680	26 May 06	75,164
H-shares Index Options	8 Jun 06	13,978	26 Jun 06	117,061
Stock Futures	–	–	19 May 06	5,067
Stock Options	27 Feb 06	144,596	29 Mar 06	2,028,227
FTSE/Xinhua China 25 Index Futures	–	–	29 May 06	488
FTSE/Xinhua China 25 Index Options	9 Jan 06	258	–	–

Product and Market Development

To accommodate future growth of the Derivatives Market, capacity upgrade of the HKATS was completed in January 2006. After the upgrade, the capacity of the host system to handle order book changes has more than doubled. To better utilise the increased system capacity, a revision of the existing throughput arrangement was completed in June 2006. Based on the improvement, market makers will have sufficient throughput rate to provide continuous quotes in a large number of series so as to enhance liquidity of the option market.

To keep pace with market growth and development, and to meet the increasing trading and hedging needs of EPs and their clients, revised position limits for stock options were introduced on 10 February 2006. The new position limit is 50,000 open contracts in one market direction per stock option class for all expiry months combined, and that for certain stock option classes with relatively less liquid underlying markets is 30,000 open contracts in one market direction per stock option class for all expiry months combined.

In order to enable EPs to execute options strategies more efficiently, the standard combination order function previously used in futures trading on the Derivatives Market was extended to Hang Seng Index Options as of March 2006.

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

To further improve the efficiency of the marketplace, market maker obligations in the stock options market have been revised since 3 July 2006. The revisions include shortening the required response time to a quote request from within 90 seconds to within 20 seconds, extending the required exposure time of a quote in response to a quote request from at least 10 seconds to at least 20 seconds and increasing the number of option series assigned to a market maker providing continuous quotes from not less than 12 to not less than 18 per stock option class.

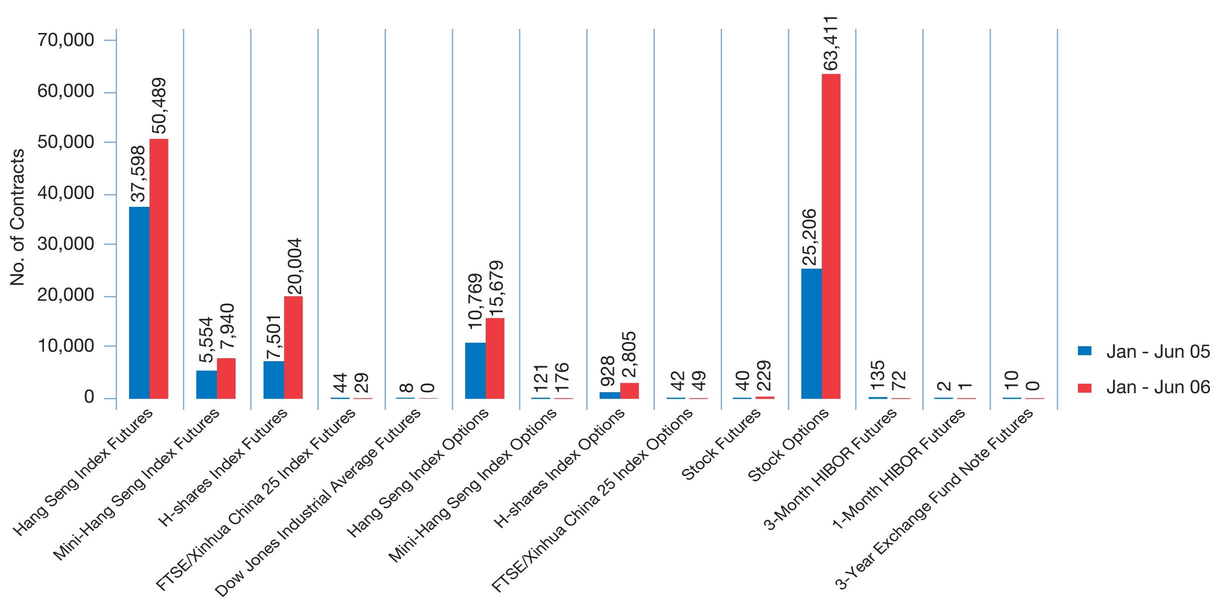
Education and Marketing

During the period, HKEx provided sponsorship to 10 EPs to conduct public investor seminars on stock options. The seminars were well attended.

In April 2006, seminars were held at HKEx's Beijing Representative Office to assist Mainland securities and futures brokers in their preparation to apply for exchange participantship. The seminars were attended by representatives from 24 Mainland futures brokers and 11 securities brokers. In the light of the overwhelming response, a similar seminar was organised in Shanghai in August 2006.

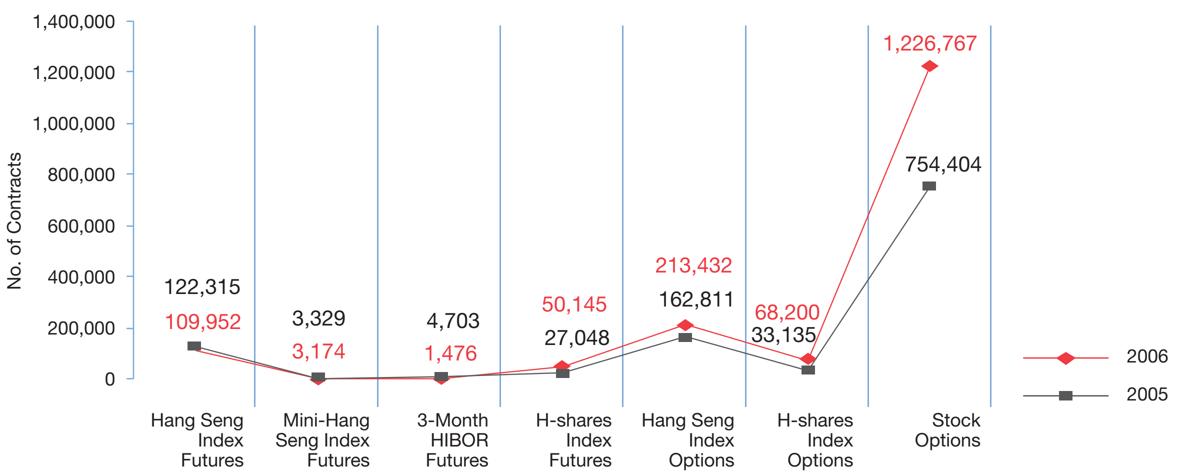
In order to promote HKEx as an international marketplace for trading China-related futures and options, HKEx participated in the "Derivatives & Securities World – London" as an exhibitor in June 2006 and arranged meetings with the affiliates of EPs as well as potential EPs.

Average Daily Volume of Derivatives Products (Contracts)



Open Interest of Derivatives Products (Contracts)

As at the end of June



Trading Right Holders Status

As at 30 June 2006

	Stock Exchange	Futures Exchange
Exchange Participants	**467**	**136**
Trading	426	136
Non-trading	41	0
Non-Exchange Participants	**50**	**58**
Corporate	2	49
Individual	48	9
Total	**517**	**194**

CLEARING

Fee Review of CCASS

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

Improvements of CCASS Nominee Services

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

Risk Management Measures

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

Five-Day Clearing Week

HKEx is preparing for the implementation of the Five-Day Clearing Week ("5DCW") initiative announced by The Hong Kong Association of Banks in May 2006. Pursuant to the initiative, the Hong Kong Interbank Clearing Limited will cease to provide clearing and settlement of funds through cheques, autopay, electronic fund transfers, etc. on Saturdays with effect from 4 September 2006.

Certain securities settlement and nominee-related services provided by HKSCC currently occurring on Saturdays via the cash clearing and settlement system will need to be re-scheduled. CCASS Participants will be notified of the relevant changes in due course.

The operation of the DCASS will not be affected by the 5DCW initiative, as HKCC and SEOCH currently do not provide clearing and settlement services on Saturdays.

Expanding Admission of IP to CCASS

In March 2006, the National Council for Social Security Fund of the People's Republic of China ("NCSSF") was admitted to CCASS as a Corporate IP. Following the admission, the NCSSF can 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 into CCASS. Further relaxation to IP admission has been extended to Macau residents and incorporated companies since 5 June 2006.

Default of Participants

In 2003, Tai Wah Securities Limited failed to meet its obligations to HKSCC and is now in liquidation. Partial recovery has been made and the outstanding balance is about $1.8 million. Should there be any outstanding balance upon completion of the liquidation process, recovery from the HKSCC Guarantee Fund will be made.

Following the High Court's approval of HKCC's petition to wind up Yicko Futures Limited ("Yicko") as a result of its failure to meet the obligations to HKCC, a provisional liquidator has been appointed in June 2006. HKCC will file a proof of debt against the assets of Yicko. Any deficiencies resulted from the liquidation process will be recovered from the HKCC Reserve Fund.

The SFC issued a restriction notice on Whole Win Securities Limited ("Whole Win") in May 2006. HKSCC acted according to the restriction notices and provided support to Whole Win's administrator in respect of settlement under CCASS. All outstanding positions, including some buy-in transactions, were settled in an orderly manner without loss. The cash collateral withheld by HKSCC was duly returned to Whole Win's administrator.

Upon issuance of a restriction notice by the SFC on Tiffit Securities (Hong Kong) Limited ("Tiffit") and Wing Yip Company Limited ("Wing Yip") in July and August 2006 respectively, HKSCC declared each of them a defaulter and closed out all their unsettled positions in CCASS. The settlement of Tiffit's positions by HKSCC left an overall net surplus which was duly returned to its administrators whereas the settlement of Wing Yip's positions left an overall deficit which was offset by the collateral withheld by HKSCC.

CCASS Statistics

Up to six-month ended 30 June

	2006	2005
Average Daily Exchange Trades Handled by CCASS		
– Number of trades	**247,347**	139,870
– Value of trades	**$32.6 billion**	$16.9 billion
– Share quantity involved	**34.8 billion**	22.6 billion
Average Daily Settlement Instructions ("SIs") Settled by CCASS		
– Number of SIs	**35,685**	24,201
– Value of SIs	**$82.4 billion**	$40.9 billion
– Share quantity involved	**20.4 billion**	13.9 billion
Average Daily Investor SIs ("ISIs") Settled by CCASS		
– Number of ISIs	**536**	342
– Value of ISIs	**$174.6 million**	$93.5 million
– Share quantity involved	**66.8 million**	75.0 million
Average Daily Settlement Efficiency of Continuous Net Settlement ("CNS") Stock Positions on Due Day (T+2)	**99.71%**	99.81%
Average Daily Settlement Efficiency of CNS Stock Positions on the Day following the Due Day (T+3)	**99.97%**	99.98%
Average Daily Buy-ins Executed on T+3		
– Number of brokers involved	**13**	7
– Number of buy-ins	**14**	7
– Value of buy-ins	**$7.7 million**	$1.7 million
Shares Deposited in the CCASS Depository		
– Number of shares	**1,430.5 billion**	1,234.6 billion
– Percentage of total issued share capital of the admitted securities	**57.36%**	60.55%
– Value of shares	**$3,799.0 billion**	$2,621.7 billion
– Percentage of the total market capitalisation of the admitted securities	**36.09%**	35.47%

BUSINESS DEVELOPMENT

Mainland Promotional Initiatives

HKEx is dedicated to strengthening its position as the premier capital formation market for the listing of Mainland companies outside the Mainland. HKEx's Beijing Representative Office serves as a liaison office as well as an important conduit to provide timely information to state and regional government agencies and prospective issuers in the Mainland. HKEx executives participated in a number of events held in Hong Kong and around 13 Mainland cities to promote Hong Kong listing to potential issuers.

Besides focusing on major cities or provinces, HKEx has extended its marketing effort to other provinces, for instance, a well-received conference was co-hosted with the Nanchang Municipal Government to introduce listing in Hong Kong.

Moreover, HKEx participated in the Pan-Pearl River Delta Region Financial Services Forum in March 2006, an event organised by the Government, and co-organised two conferences with the Hebei and Anhui provincial governments in March and May 2006 respectively in Hong Kong.

Promoting Hong Kong Listings to Regional Companies

HKEx co-organised several events for regional companies seeking capital from the international market. A local conference for Korean companies was held in May this year in collaboration with the Korean Chamber of Commerce in Hong Kong. Another seminar was co-hosted with an international accounting firm in June 2006 in Hong Kong to introduce local listing to Japanese companies and financial institutions.

HKEx's executives also contacted potential issuers in the region and participated in various conferences held in Japan, South Korea, Taiwan and Thailand to highlight the unique strengths and competitiveness of HKEx as an ideal venue for raising capital.

Training Programmes for Mainland Issuers

A high level of corporate governance is crucial for maintaining the competitiveness and attractiveness of the Hong Kong market. Apart from two seminars on regulatory issues held in Beijing in May and June 2006, HKEx participated in a training programme on corporate governance in May 2006 held in conjunction with The Hong Kong Polytechnic University and the Hong Kong and Macao Affairs Office of the State Council for the senior management of Mainland issuers.

INFORMATION SERVICES

Further Expansion of Data Redistribution Network

The redistribution network of HKEx's market data expanded further in the first half of 2006. The number of HKEx's real-time information vendors increased from 94 to 97, covering all the major markets in the world.

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 local Cash and Derivatives Markets. It includes index movements, trading statistics and analyses, corporate activities of listed companies, fund-raising figures, historical statistics as well as market surveys of the investor community.

Continuing Growth of Issuer Disclosures and Disclosures of Interests

The number of issuer disclosures and Disclosure of Interests ("DI") information published on the HKEx website continued to grow in the first half of 2006. From January to June this year, there were 47,351 issuer disclosures and 18,913 DI notices released on the HKEx website, both were increased by 18 per cent from the corresponding period in 2005.

INFORMATION TECHNOLOGY

Production Systems Stability and Reliability

Up to the end of June 2006, all major trading, clearing and settlement and market data dissemination systems for the Cash and Derivatives Markets maintained 100 per cent operational system uptime. HKEx will continue its efforts to uphold this rate of system stability and reliability.

Capacity Planning and Upgrade

The capacity and performance of the AMS/3, HKATS, DCASS and Price Reporting System ("PRS") were further upgraded successfully in the first quarter of 2006 to support the increasing market activities. To enable higher data throughput, the throttle rates of the securities and derivatives datafeeds have been increased to 384 kilobits per second and 250 messages per second ("mps") (150 mps for datafeed without price depth) respectively. The said systems operated effectively and reliably during the period amid the substantial increase in activities on the Cash and Derivatives Markets.

The capacity of the HKEx website infrastructure was also upgraded substantially during the period to cope with the rapid rise in the volume of disseminated information and more frequent access by the investor community.

Obsolescent Technology Replacement and System Upgrade

During the period, HKEx successfully upgraded all the HKATS and DCASS Network Gateways in Participants' premises to the latest version.

Due to technology obsolescence, HKEx is in the process of upgrading the middle-tier system software for CCASS/3 to achieve system maintainability and cost effectiveness. The upgrade is to be completed by the second half of 2006.

HKEx is also upgrading all the AMS/3 Open Gateway and Multi-workstation hardware and system software to cater for additional system capacity and secure quality vendor support. The upgrade is being conducted in batches until the second quarter of 2007.

System Consolidation and Operational Efficiency

All the CCASS/3 circuits were successfully migrated to the SDNet, a new Optical Ethernet network, in June 2006. The SDNet has been operating smoothly and reliably since the implementation of Phase 1 (HKATS / DCASS / PRS circuits migrated in October 2005) and Phase 2 (CCASS/3 circuits migrated in June 2006). Starting from July 2006, the majority of Clearing Participants enjoy network cost saving of about 20 per cent. Meanwhile, planning for Phase 3, the AMS/3 and Market Datafeed circuit migration to the SDNet, is in progress.

A feasibility study on improving the AMS/3 performance throughput is in progress to explore practical ways to realise the benefits of the technological advancement of the HP Non-stop platform and prepare for the migration of the AMS/3 to a higher version of server technology. Proof-of-concept exercises are in progress with encouraging preliminary results being achieved. The feasibility study is to be completed in the second half of 2006.

HKEx has completed the Phase 1 redevelopment of the Derivatives Market risk management systems. The Phase 2 redevelopment to further improve operational efficiency is in progress and it will be completed in batches starting from late 2006 until mid-2007.

Integration of the Cash and Derivatives Markets' participant information systems and development of finance management information systems commenced during the period. The objective is to further strengthen the quality of management information to support HKEx's business operations, formulation of policies and development of business strategies.

TREASURY

The Group's funds available for investment comprise Corporate Funds, Margin Funds and Clearing House Funds, totalling $24.1 billion on average for the six months ended 30 June 2006 (first half of 2005 average: $15.6 billion).

As compared with 31 March 2006, the overall size of funds available for investment as at 30 June 2006 increased by 12 per cent or $2.8 billion to $25.3 billion (31 March 2006: $22.5 billion). Details of the asset allocation of the investments as at 30 June 2006 against those as at 31 March 2006 are set out below.

	Investment Fund Size $ billion		Bonds		Cash or Bank Deposits		Global Equities	
	Jun	Mar	**Jun**	Mar	**Jun**	Mar	**Jun**	Mar
Corporate Funds	**4.9**	5.2	**49%**	45%	**45%**	48%	**6%**	7%
Margin Funds	**17.7**	15.6	**42%**	18%	**58%**	82%	**0%**	0%
Clearing House Funds	**2.7**	1.7	**12%**	6%	**88%**	94%	**0%**	0%
Total	**25.3**	22.5	**40%**	23%	**59%**	75%	**1%**	2%

Investments are kept sufficiently liquid to meet the Group's operating needs and liquidity requirements of the Clearing House Funds and Margin Funds. Excluding equities held under the Corporate Funds ($0.3 billion as at 30 June 2006 and 31 March 2006), which have no maturity date, the maturity profiles of the remaining investments as at 30 June 2006 ($25.0 billion) and 31 March 2006 ($22.2 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	
	Jun	Mar	**Jun**	Mar	**Jun**	Mar	**Jun**	Mar	**Jun**	Mar	**Jun**	Mar
Corporate Funds	**4.6**	4.9	**14%**	20%	**20%**	29%	**32%**	21%	**20%**	16%	**14%**	14%
Margin Funds	**17.7**	15.6	**41%**	43%	**24%**	40%	**34%**	14%	**1%**	3%	**0%**	0%
Clearing House Funds	**2.7**	1.7	**88%**	82%	**0%**	10%	**12%**	2%	**0%**	6%	**0%**	0%
Total	**25.0**	22.2	**40%**	41%	**21%**	35%	**31%**	15%	**5%**	6%	**3%**	3%

Credit exposure is well diversified. The bond portfolio held is of investment grade and, as at 30 June 2006, had a weighted average credit rating of Aa2 (31 March 2006: Aa2) and a weighted average maturity of 1.0 year (31 March 2006: 1.5 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 second quarter and first quarter of 2006 was as follows:

	Average VaR $ million		**Highest VaR** $ million		**Lowest VaR** $ million	
	Apr-Jun	Jan-Mar	**Apr-Jun**	Jan-Mar	**Apr-Jun**	Jan-Mar
Corporate Funds	**13.0**	13.5	**13.9**	14.4	**12.5**	12.3
Margin Funds	**7.4**	6.4	**8.5**	9.4	**6.1**	4.1
Clearing House Funds	**0.5**	0.4	**0.6**	0.6	**0.4**	0.3

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 interim report.

INVESTMENTS IN ASSOCIATES

Computershare Hong Kong Investor Services Limited ("CHIS")

As at 30 June 2006, the Group had a 30 per cent interest in CHIS. The cost of the investment in CHIS was $52 million (31 December 2005: $52 million) and the book value of the investment was $65 million (31 December 2005: $63 million).

ADP Wilco Processing Services Limited ("AWPS")

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

FINANCIAL REVIEW

OVERALL PERFORMANCE

	Unaudited Six months ended 30 Jun 2006 $'000	Unaudited Six months ended 30 Jun 2005 $'000
RESULTS		
Income:		
Income affected by market turnover	**1,157,097**	658,724
Stock Exchange listing fees	**213,405**	195,572
Income from sale of information	**183,857**	162,245
Investment income	**216,922**	122,073
Other income	**123,967**	99,851
	1,895,248	1,238,465
Operating expenses	**596,488**	570,518
Operating profit	**1,298,760**	667,947
Share of profits less losses of associates	**9,252**	8,635
Profit before taxation	**1,308,012**	676,582
Taxation	**(199,701)**	(105,786)
Profit attributable to shareholders	**1,108,311**	570,796
Basic earnings per share	**$1.04**	$0.54
Diluted earnings per share	**$1.03**	$0.54
Interim dividend declared per share	**$0.94**	$0.49
Dividend payout ratio	**90%**	91%

	Unaudited at 30 Jun 2006 $'000	As restated Audited at 31 Dec 2005 $'000
KEY BALANCE SHEET ITEMS		
Shareholders' funds	**4,820,831**	4,337,471 ø
Total assets *	**30,119,617**	22,930,916 ø
Net assets per share #	**$4.53**	$4.09 ø

ø *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 1,063,883,346 shares as at 30 June 2006, being 1,064,853,346 shares issued and fully paid less 970,000 shares held for the Share Award Scheme (31 December 2005: 1,061,796,846 shares, being 1,062,754,846 shares issued and fully paid less 958,000 shares held for the Share Award Scheme)*

The Group recorded a profit attributable to shareholders of $1,108 million for the first six months of 2006 (first quarter: $479 million; second quarter: $629 million) compared with $571 million for the same period in 2005 (2005 first quarter: $245 million, 2005 second quarter: $326 million).

The increase in profit for the six months ended 30 June 2006 was primarily attributable to a rise in 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 Six months ended 30 Jun 2006 $'000	Unaudited Six months ended 30 Jun 2005 $'000	Change
Trading fees and trading tariff	**621,834**	352,615	76%
Clearing and settlement fees	**316,655**	172,427	84%
Depository, custody and nominee services fees	**218,608**	133,682	64%
Total	**1,157,097**	658,724	76%

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 six 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 six months deemed book close scrip fees: $17 million), depository, custody and nominee services fees increased due to higher scrip fees, stock withdrawal fees, corporate action fees and electronic IPO service ("eIPO") handling charges. The fees were influenced by the level of Cash Market activities but did not move proportionately with changes in the Cash Market turnover as they varied mostly with the board lots rather than the value of the securities concerned and many were subject to a maximum fee. Moreover, scrip fee was only chargeable on the net increase in individual Participants' aggregate holdings of securities on book closing dates.

Key market indicators

	Six months ended 30 Jun 2006	Six months ended 30 Jun 2005	Change
Average daily turnover value on the Stock Exchange	**$32.6 billion**	$16.9 billion	93%
Average daily number of derivatives contracts traded on the Futures Exchange	**97,471**	62,681	56%
Average daily number of stock options contracts traded on the Stock Exchange	**63,411**	25,206	152%

(B) Stock Exchange listing fees

	Unaudited Six months ended 30 Jun 2006 $'000	Unaudited Six months ended 30 Jun 2005 $'000	Change
Annual listing fees	**134,654**	131,356	3%
Initial and subsequent issue listing fees	**75,921**	60,394	26%
Others	**2,830**	3,822	(26%)
Total	**213,405**	195,572	9%

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 increase in number of newly listed derivative warrants.

Key drivers for annual listing fees

	As at 30 Jun 2006	As at 30 Jun 2005	Change
Number of companies listed on the Main Board	**948**	901	5%
Number of companies listed on the GEM	**200**	203	(1%)
Total	**1,148**	1,104	4%

Key drivers for initial and subsequent issue listing fees

	Six months ended 30 Jun 2006	Six months ended 30 Jun 2005	Change
Number of newly listed derivative warrants	**1,112**	679	64%
Number of newly listed companies on the Main Board	**22**	19	16%
Number of newly listed companies on the GEM	**4**	2	100%
Total equity funds raised on the Main Board	**$189.1 billion**	$123.2 billion	53%
Total equity funds raised on the GEM	**$6.5 billion**	$1.6 billion	306%

(C) Income from sale of information

	Unaudited Six months ended 30 Jun 2006 $'000	Unaudited Six months ended 30 Jun 2005 $'000	Change
Income from sale of information	**183,857**	162,245	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 Six months ended 30 Jun 2006 $'000	Unaudited Six months ended 30 Jun 2005 $'000	Change
Investment income	**216,922**	122,073	78%

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

	Six months ended 30 Jun 2006 $ billion	Six months ended 30 Jun 2005 $ billion	Change
Corporate Funds	**4.6**	3.9	18%
Margin Funds	**17.7**	10.2	74%
Clearing House Funds	**1.8**	1.5	20%
Total	**24.1**	15.6	54%

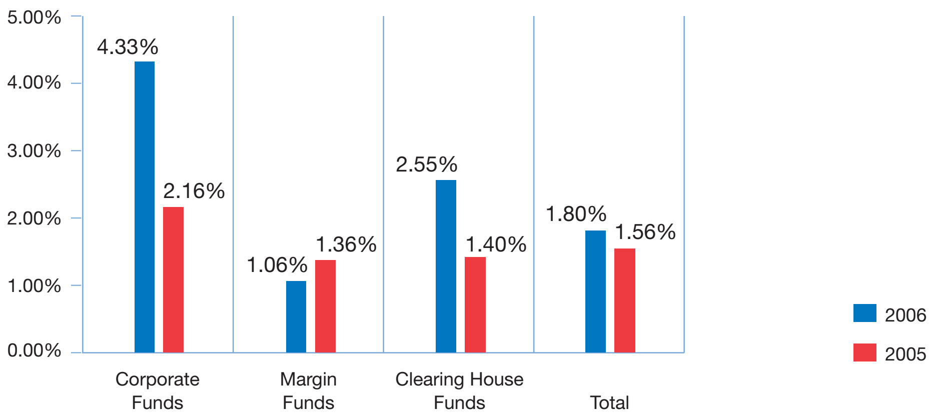
The increase in average amount of Corporate Funds during the period was mainly due to the profit net of dividends paid.

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

The higher investment income was primarily due to the significant increase in interest income as a result of the increase in Margin Fund size and higher interest rates during the first six months of 2006 as compared with the corresponding period in 2005. The increase was however partly offset by a lower return on Margin Funds due to a significant increase in margin deposits denominated in Japanese Yen 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. Moreover, there was an increase in fair value gains of the Corporate Fund investments, reflecting market movements, during the first half of 2006.

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

Annualised Return on Funds Available for Investment



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

(E) Other income

	Unaudited Six months ended 30 Jun 2006 $'000	Unaudited Six months ended 30 Jun 2005 $'000	Change
Network, terminal user, dataline and software sub-license fees	**77,928**	66,134	18%
Participants' subscription and application fees	**17,016**	17,282	(2%)
Brokerage on direct IPO applications	**17,104**	6,188	176%
Trading booth user fees	**4,371**	–	N/A
Fair value gain of an investment property	**1,000**	2,600	(62%)
Accommodation income	**820**	1,494	(45%)
Miscellaneous income	**5,728**	6,153	(7%)
Total	**123,967**	99,851	24%

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

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 Six months ended 30 Jun 2006 $'000	Unaudited Six months ended 30 Jun 2005 $'000	Change
Staff costs and related expenses	**323,918**	282,762	15%
Information technology and computer maintenance expenses	**93,801**	99,063	(5%)
Premises expenses	**57,574**	39,946	44%
Product marketing and promotion expenses	**6,453**	5,533	17%
Legal and professional fees	**6,629**	6,592	1%
Depreciation	**50,260**	85,680	(41%)
Other operating expenses	**57,853**	50,942	14%
Total	**596,488**	570,518	5%

Staff costs and related expenses rose by $41 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. Employee share-based compensation costs also rose due to the amortisation of the fair value of shares granted under the Share Award Scheme in December 2005.

Information technology and computer maintenance expenses of the Group, after excluding goods and services directly consumed by Participants of $28 million (2005: $26 million), were $66 million (2005: $73 million). The reduction was mainly due to lower license fees and network costs. The costs directly 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 $5 million (2005: $11 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 derivatives transactions, the increase in impairment losses of trade receivables and loss on disposal of fixed assets arising from the renovation of the Trading Hall.

SHARE OF PROFITS LESS LOSSES OF ASSOCIATES

	Unaudited Six months ended 30 Jun 2006 $'000	Unaudited Six months ended 30 Jun 2005 $'000	Change
Share of profits less losses of associates	**9,252**	8,635	7%

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

TAXATION

	Unaudited Six months ended 30 Jun 2006 $'000	Unaudited Six months ended 30 Jun 2005 $'000	Change
Taxation	**199,701**	105,786	89%

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 SECOND QUARTER PERFORMANCE WITH 2006 FIRST QUARTER PERFORMANCE

	Unaudited Three months ended 30 Jun 2006 $'000	Unaudited Three months ended 31 Mar 2006 $'000
Income:		
Income affected by market turnover:		
Trading fees and trading tariff	**324,281**	297,553
Clearing and settlement fees	**162,035**	154,620
Depository, custody and nominee services fees	**177,505**	41,103
	663,821	493,276
Stock Exchange listing fees	**103,712**	109,693
Income from sale of information	**98,340**	85,517
Investment income	**103,963**	112,959
Other income	**71,285**	52,682
	1,041,121	854,127
Operating expenses	**303,961**	292,527
Operating profit	**737,160**	561,600
Share of profits less losses of associates	**6,032**	3,220
Profit before taxation	**743,192**	564,820
Taxation	**(113,720)**	(85,981)
Profit attributable to shareholders	**629,472**	478,839

Profit attributable to shareholders increased by $150 million to $629 million for the second quarter of 2006, compared with $479 million recorded in the first quarter of 2006. The improvement in profit was mainly due to the increase in depository, custody and nominee services fees, trading fees and trading tariff and other income but partly offset by the drop in Stock Exchange listing fees and investment income, and the increase in operating expenses and taxation charge.

Depository, custody and nominee services fees rose significantly as a result of the increase in dividend collection and scrip fee income due to seasonal fluctuations, whereas trading fees and trading tariff, clearing and settlement fees and income from sale of information rose in tandem with the level of activities of the Cash and Derivatives Markets. In addition, other income of the Group rose on account of increased sales of additional throttles and higher brokerage on direct IPO applications.

Key market indicators

	Three months ended 30 Jun 2006	Three months ended 31 Mar 2006	Change
Average daily turnover value on the Stock Exchange	**$34.1 billion**	$31.2 billion	9%
Average daily number of derivatives contracts traded on the Futures Exchange	**107,681**	87,755	23%
Average daily number of stock options contracts traded on the Stock Exchange	**65,038**	61,863	5%

Investment income dropped as a result of the decrease in fair value gains of Corporate Fund investments during the second quarter as compared to that of the first quarter, reflecting market movement, but was partly offset by the increase in interest income during the second quarter.

Operating expenses increased mainly as a result of higher premises expenses and the increase in staff compensation which includes performance bonus accruals on account of the improved performance of the Group in the second quarter.

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

WORKING CAPITAL

Working capital rose by $481 million or 14 per cent to $3,838 million as at 30 June 2006 (31 December 2005: $3,357 million). The increase was primarily due to the profit generated during the period of $1,108 million and proceeds from issuing shares upon the exercise of employee share options of $24 million, which was partly offset by the payment of the 2005 final dividend of $681 million in May 2006, and the increase in other net current assets of $30 million.

Although the Group has consistently maintained a very liquid position, banking facilities have nevertheless been put in place for contingency purposes. As at 30 June 2006, the Group's total available banking facilities amounted to $1,611 million (31 December 2005: $1,608 million), of which $1,500 million (31 December 2005: $1,500 million) represented repurchase facilities to augment the liquidity of the Margin Funds.

Borrowings by the Group have been rare and are mostly event driven, with little seasonality. As at 30 June 2006 and 31 December 2005, the Group had no bank borrowings, and therefore had zero gearing.

The Group's capital expenditure commitments as at 30 June 2006 were mainly related to the ongoing investments in facilities and technology, and amounted to $85 million (31 December 2005: $137 million). The Group has adequate internal resources to fund its commitments on capital expenditures.

As at 30 June 2006, 96 per cent (31 December 2005: 99 per cent) of the Group's cash and cash equivalents (comprising cash on hand, bank balances and time deposits within three months of maturity when acquired) were denominated in HKD or USD.

CHARGES ON ASSETS

None of the Group's assets was pledged as at 30 June 2006 and 31 December 2005.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

Details of the Group's exposure to fluctuations in exchange rates and related hedges are included in note 34(a)(i) - Foreign exchange risk to the condensed consolidated accounts of this interim report.

CONTINGENT LIABILITIES

Details of contingent liabilities are disclosed in note 31 to the condensed consolidated accounts of this interim report.

EMPLOYEES

HKEx's success depends on the performance and commitment of all its employees. Our employee policies are geared towards attracting, developing and motivating talented and suitable people. HKEx offers competitive remuneration, which includes bonuses and share awards for good performers. A review of HKEx's remuneration policy and structure is being conducted by an independent consultant with the objective of introducing refinements to the Group's staff compensation structure and performance measurement system. The review is scheduled to be completed in the third quarter of 2006 and the recommendations thereof would be considered by the Board.

As an equal opportunity employer, HKEx applies human resources policies uniformly to all employees irrespective of their gender, age, nationality or grading in the organisation.

HKEx is committed to staff training and development. To ensure our employees keep up with the updated skills and knowledge, HKEx encourages and sponsors employees at all levels to participate in training and career development programmes.

As at the end of June 2006, there were 833 employees in the Group, including 44 temporary staff (31 December 2005: 804 employees, including 25 temporary staff).

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.

PROSPECTS

HKEx's performance in the second half of 2006 might be affected by a number of external factors. Geopolitical risks, stagflation in the US economy, escalating energy prices, the rising cost of capital due to increasing interest rates and the intensifying global competition might all have an impact on the Cash and Derivatives Markets in Hong Kong.

The valuation of the renminbi as well as the macro-economic adjustments introduced to cool the Mainland economy might have a bearing on the Mainland's economic performance. The longer term outlook for the Mainland, however, remains promising and there is sustained demand for capital on the Mainland. Given Hong Kong's unique competitive strengths, continued issuer and investor interest in listing of Mainland enterprises in Hong Kong is anticipated.

In addition to serving Mainland enterprises, HKEx will expand its international profile by allowing overseas companies particularly those incorporated in other Asian countries to list on the Stock Exchange subject to further discussions with the SFC.

HKEx remains committed to ensuring an effective regulatory regime that strengthens market integrity and investor confidence and reinforces Hong Kong's status as an international financial centre and a major capital formation centre for Mainland enterprises. Meanwhile, HKEx will also continue to focus on creating value for shareholders through further enhancing the quality of its core businesses and prudently controlling its operating costs.