MANAGEMENT DISCUSSION AND ANALYSIS

(Financial figures are expressed in Hong Kong Dollar)

BUSINESS REVIEW

LISTING

Listing of Overseas Issuers

At present, four jurisdictions of incorporation are prescribed for the purpose of eligibility for listing by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Main Board Listing Rules") and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (collectively "Listing Rules"), namely, Hong Kong, the People's Republic of China, Bermuda and the Cayman Islands. Listing applications incorporated in other jurisdictions are assessed on a case-by-case basis. Over the past years, companies incorporated in Australia, Canada (Ontario), Jersey, Singapore and United Kingdom have been listed. The Listing Committee is supportive of facilitating the listing of issuers from other jurisdictions, and has recently approved Australia and Canada (British Columbia) as acceptable jurisdictions for eligibility purposes. Hong Kong Exchanges and Clearing Limited ("HKEx") is developing jointly with the Securities and Futures Commission ("SFC") the policy to establish a framework suitable for broader application.

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

Enhancement of the relevant system capacity is in progress to prepare for the anticipated increase in the volume of submissions for publication on the HKEx website following the abolition of the requirement for Main Board issuers to place paid announcements in newspapers in 2007.

Whilst the exact commencement date will be announced in early January 2007, a six-month transitional period will tentatively start from 16 April 2007 subject to operational readiness. During the transitional period, issuers will have to publish a notification of the announcements in newspapers and post the full version of the announcements on the HKEx website and their own websites. A Main Board issuer without its own website must publish the full announcement in newspapers as well as on the HKEx website.

On 23 October 2006, HKEx announced the abolition of the requirement for posting the short-form preliminary results announcement on the HKEx or the Growth Enterprise Market ("GEM") website effective 1 December 2006. The change is relating to the new model for information submission and dissemination for listed issuers released in July 2006.

Regulation of Sponsors and Compliance Advisers

In April 2006, the SFC published its Consultation Conclusions to the Consultation Paper on the Regulation of Sponsors and Compliance Advisers, and announced that amendments to its licensing and monitoring regimes for sponsors and compliance advisers would take effect from 1 January 2007.

Under the new regimes, the SFC, as the statutory regulator, would be responsible for eligibility assessment, on-going supervision, discipline and enforcement of sponsors and compliance advisers, while HKEx, as the market operator, would continue to be responsible for the implementation and administration of the Listing Rules, including the requirement on the independence of sponsors and the practice notes on due diligence. The relevant amendments to the Listing Rules were released on 24 October 2006 and will take effect from 1 January 2007 to coincide with the SFC's revised licensing regime.

Amendments to the Main Board Listing Rules in respect of Structured Products

In order to implement the recommendations that were set out in the "Hong Kong's Derivative Warrants Market – the Way Forward, Results of the Consultation on the SFC's Six-Point Plan" published by the SFC in March 2006, the Main Board Listing Rules were amended and took effect from 30 September 2006 to facilitate identical issues and ban commission rebates. The operation of the amended rules will be reviewed after six months.

Review of the GEM

Upon consideration and review of the 16 responses to the discussion paper to facilitate public discussion on the GEM, HKEx is now exploring a number of proposals together with the SFC for further market consultation.

CASH MARKET

Market Performance

There were 32 newly listed companies on the Main Board and five on the GEM in the first three quarters of 2006. Total capital raised, including post-listing funds, reached $263.2 billion. As at 30 September 2006, 954 and 198 companies were listed on the Main Board and the GEM respectively with a total market capitalisation of about $10,603.7 billion.

	Number of Listed Companies		
	Main Board	**GEM**	**Total**
At the beginning of the year	934	201	1,135
– New listing	32*	5	37
– Delisted	(12)	(8)*	(20)
At end of September 2006	954	198	1,152

* *including two delisted GEM companies which were subsequently listed on the Main Board*

As at the end of September 2006, there were 1,606 derivative warrants, eight Exchange Traded Funds, four Real Estate Investment Trusts, 35 Callable Bull/Bear Contracts ("CBBCs") and 173 debt securities listed. The average daily turnover in the nine months ended September 2006 was about $30.2 billion on the Main Board and about $176.8 million on the GEM.

On 27 October 2006, the turnover of the Cash Market reached the record high of $76.2 billion since 28 August 1998 ($79.0 billion), and the total market capitalisation of the Main Board and the GEM further reached a record of $11,358 billion since it first exceeded $10,000 billion on 3 May 2006.

Market Infrastructure Improvements

HKEx has been receiving responses to the implementation of reduced minimum trading spreads for securities priced between $2 and $20 (Phase 2A). Market data is being analysed to examine the impact, if any, of the Phase 2A. The reduction of minimum trading spreads for securities priced between $0.25 and $2 (Phase 2B) is expected to proceed in the first quarter of 2007, if no systemic problems are found. An interim report was submitted to the Board in November with the final report to be submitted in the first quarter of 2007 when the Board will review the position as to Phase 2B.

Product Development

Since the listing of the first batch of seven CBBCs, the performance of the CBBC market in Hong Kong has been encouraging. The number of CBBC issues has increased gradually, from 11 as at the end of June 2006 to 40 up to the end of September 2006 (of which five already experienced Mandatory Call Events/early expiration). Moreover, the daily average turnover for CBBCs surged from $13.6 million by the end of June 2006 to over $87.6 million during the third quarter of 2006.

The HKEx website (www.hkex.com.hk/cbbc) features a section on CBBCs and a leaflet with CBBC-related information and frequently asked questions was published for interested parties.

In response to market demand, approved structured products issuers were permitted to launch structured products (except CBBCs) over the shares of Industrial and Commercial Bank of China Limited ("ICBC"), which have commenced trading on the same day as the ICBC shares. The accelerated approval process enables investors to invest in the structured products of ICBC in a well regulated and transparent market.

DERIVATIVES MARKET

Market Performance

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

	Record High Daily Volume		Record High Open Interest	
Product	Date	Number of Contracts	Date	Number of Contracts
Hang Seng Index Futures	26 Sept	191,025	26 Sept	185,249
Hang Seng Index Options	7 Sept	31,295	27 Sept	350,459
Mini Hang Seng Index Futures	26 Sept	14,908	28 Sept	6,217
Mini Hang Seng Index Options	25 Jul	762	26 Sept	3,473
H-shares Index Futures	26 Sept	68,870	26 Sept	81,957
H-shares Index Options	14 Jul	14,204	–	–
Stock Futures	7 Aug	1,887	15 Aug	6,149
Stock Options	–	–	27 Sept	2,359,418

Product and Market Development

HKEx continued to introduce futures and options contracts on newly listed stocks and made improvements to the market-making services in stock options and futures. From July 2006, provision of continuous quotes by stock options market makers has been extended to eight more options classes and two-way prices have continuously been quoted by the stock futures market maker in 10 active stock futures contracts.

In September 2006, HKEx announced a new market maker ("MM") model for the products of Hong Kong Futures Exchange Limited ("HKFE") and a revised trading fee discount scheme for MMs trading in stock index futures or options, both of them would be introduced on 1 February 2007, with the aim of simplifying and improving the quality of market-marking services and providing incentives for MMs. The main features of the new MM model can be found on the HKEx website.

On 26 September 2006, HKFE received no-action relief from the US Commodity Futures Trading Commission enabling the offer and sale of futures contracts based on the FTSE/Xinhua China 25 Index and the Hang Seng China Enterprises Index in the US. HKEx believes that the liquidity of these two futures contracts will be enhanced with the participation of US investors and HKEx will continue to improve the accessibility of its products.

Education and Marketing

In the third quarter of 2006, about 2,000 people, including employees of Exchange Participants, members of professional bodies and retail investors, participated in different on-going education programmes organised by HKEx, such as Continuous Professional Trainings, seminars and briefings on HKEx's products and services as well as on the Hong Kong Futures Automated Trading System ("HKATS").

On 10 August 2006, participants of futures and securities broker firms from different areas of the Mainland attended a seminar organised by HKEx in Shanghai. The seminar was designed to assist Mainland securities and futures brokers in applying for HKEx's exchange participantship. Similar seminars will be held in Shenzhen later this year.

CLEARING

Five-Day Clearing Week

Pursuant to the effectiveness of the Five-Day Clearing Week implemented by the banking industry from 4 September 2006, Hong Kong Securities Clearing Company Limited ("HKSCC") has re-scheduled certain securities settlement and nominee-related services previously provided on Saturdays via the Central Clearing and Settlement System ("CCASS"). The operation of the Derivatives Clearing and Settlement System ("DCASS") remains unaffected, since no clearing and settlement services are provided by HKFE Clearing Corporation Limited ("HKCC") and The SEHK Options Clearing House Limited ("SEOCH") on Saturdays.

Enhancements to the Stock Segregated Account ("SSA") and Investor Participant ("IP") Account

To meet the demand for higher shareholding transparency and better investor protection, HKSCC will enhance the SSA with statement service in two phases. The first phase enhancement is now under development and will be implemented in early 2007 to provide, in addition to physical statements, access to the SSA via the Internet or through the CCASS Phone System, and email and Short Message Service alerts of account movements. The second phase enhancement will be implemented in the second quarter of 2007 to provide electronic voting and Chinese statements, and relax the restriction on the number of SSA available to each stock broker.

At the same time, HKSCC will continue its feasibility study of further improving the SSA and IP Account services to promote their wider use by retail investors for better investor protection.

Risk Management Measures

The review of the Capital Based Position Limit ("CBPL") policy of the two derivatives clearing houses has been completed. Participants have been notified of the relevant rule changes to align the CBPL policy of SEOCH with that of HKCC to take effect in November 2006.

Default of Participants

In respect of the failure of Tai Wah Securities Limited (in liquidation) to meet its obligations to HKSCC, recovery from the HKSCC Guarantee Fund will be made if the outstanding balance of about $1.8 million cannot be fully settled upon completion of the liquidation process.

HKSCC acted according to the restriction notice issued on Whole Win Securities Limited ("Whole Win") by the SFC in May 2006 and provided support to Whole Win's administrator in respect of the settlement under CCASS. All outstanding positions were settled in an orderly manner without loss to HKEx.

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

HKCC filed a proof of debt of about $7.8 million against the assets of Yicko Futures Limited (in liquidation) ("Yicko") in August 2006 after appointment of the joint and several provisional liquidators for the winding-up of Yicko. Any deficiencies from the liquidation process will be recovered from the HKCC Reserve Fund.

BUSINESS DEVELOPMENT

Marketing Initiatives in Mainland China

HKEx has continued to promote Hong Kong as the preferred listing venue to Mainland enterprises by developing together with Mainland authorities new listing opportunities in fast-growing provinces. In September 2006, HKEx co-organised a conference in Changsha, Hunan with the Local Finance and Securities Office of the Hunan Provincial Government for Hunan enterprises, and participated in the Hong Kong financial services delegation led by the Secretary for Financial Services and the Treasury, Mr Frederick Ma. HKEx also hosted a seminar in Xi'an with the State-owned Assets Supervision and Administration Commission of Shaanxi Province for enterprises in the north-central province.

Marketing Activities in Hong Kong and Overseas

As the first of a series of events to encourage local companies and companies with Mainland operations to list in Hong Kong, HKEx co-hosted a seminar with the Federation of Hong Kong Industries in August 2006 for local industrialists and entrepreneurs. A series of in-house promotion events will also be organised with professional and industrial associations in Hong Kong to promote listing to local companies.

In view of their development potential and increased interests in Hong Kong listing, HKEx has also focused on regional companies with Mainland operations and participated in a number of events held in Taipei, Dongguan, Tokyo and Kuala Lumpur.

Training Programmes for Mainland Issuers

In the third quarter of 2006, HKEx organised two seminars on information disclosure and corporate governance in Beijing. Moreover, HKEx co-organised a training programme with the Hong Kong Polytechnic University and the Hong Kong and Macao Affairs Office of the State Council in Hong Kong for senior accounting and finance personnel of Mainland issuers.

INFORMATION SERVICES

Further Expansion of Data Redistribution Network

The redistribution network of HKEx's market data expanded further with the increase in the number of market data redistribution licences from 141 to 158 during the period.

Redevelopment of Issuer Information Feed Service ("IIS")

HKEx is working closely on the redevelopment of the IIS, its real-time system for transmission of issuers' disclosures to information vendors, with the aim of increasing the IIS capacity to cater for the increasing volume of issuer news.

INFORMATION TECHNOLOGY

System Stability and Reliability

Up to the end of September 2006, all major trading, clearing and settlement, and market data dissemination systems for the Cash and Derivatives Markets maintained 100 per cent operational system uptime. HKEx is committed to maintaining the highest level of system stability and reliability.

Capacity Planning and Upgrade

The replacement and upgrade of the Derivatives Market's inter-site backbone network to Optical Ethernet technology has commenced and would be completed by 2006.

The network bandwidth of the HKEx website was also substantially upgraded to cope with the increase in access frequency and information dissemination volume, particularly during the release of the allotment results of mega initial public offerings ("IPOs").

Obsolescent Technology Replacement and Upgrade

The upgrade of the middle-tier system software for the CCASS/3 to achieve cost effectiveness and system maintainability is in progress and would be completed by the first quarter of 2007.

HKEx is also upgrading all the Open Gateway of the Third Generation Automatic Order Matching and Execution System ("AMS/3") and Multi-workstation hardware and system software to cater for additional system capacity and secure quality vendor support. The upgrade would be completed in phases until the second quarter of 2007.

System Consolidation and Operational Efficiency

The SDNet, a new Optical Ethernet network, has been operating smoothly and reliably since the implementation of Phase 1 (migration of the HKATS / DCASS / Price Reporting System circuits in October 2005) and Phase 2 (migration of the CCASS/3 circuits in June 2006) of the project. The migration of the Market Datafeed System network and AMS/3 network to the SDNet (the final phase) is progressing well and would be completed by the end of 2006 and mid-2007 respectively.

A study of feasibility of improving AMS/3 throughput using the technological advancement of the HP Non-stop platform has been completed. The identification of the new technologies and application system improvements has helped prepare for further enhancements of the AMS/3 capacity and processing efficiency as needed.

HKEx has proceeded with the Phase 2 redevelopment of the Derivatives Market risk management systems to further improve operational efficiency. Phase 2 is expected to be completed by the first quarter of 2007.

During the period, HKEx continued to integrate the Cash and Derivatives Markets' participant information systems and develop finance management information systems to support its business operations, formulate policies and develop business strategies. Integration and development work would be completed by the first quarter of 2007.

TREASURY

The Group's funds available for investment comprise Corporate Funds, Margin Funds and Clearing House Funds, totalling $24.7 billion on average for the nine months ended 30 September 2006 (30 September 2005 average: $16.8 billion).

The overall size of funds available for investment as at 30 September 2006 was $25.3 billion (30 June 2006: $25.3 billion). Details of the asset allocation of the investments as at 30 September 2006 against those as at 30 June 2006 are set out below.

	Investment Fund Size $ billion		Bonds		Cash or Bank Deposits		Global Equities	
	Sept	Jun	**Sept**	Jun	**Sept**	Jun	**Sept**	Jun
Corporate Funds	**4.6**	4.9	**56%**	49%	**37%**	45%	**7%**	6%
Margin Funds	**18.5**	17.7	**51%**	42%	**49%**	58%	**0%**	0%
Clearing House Funds	**2.2**	2.7	**14%**	12%	**86%**	88%	**0%**	0%
Total	**25.3**	25.3	**49%**	40%	**50%**	59%	**1%**	1%

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 September 2006 and 30 June 2006), which have no maturity date, the maturity profiles of the remaining investments as at 30 September 2006 ($25.0 billion) and 30 June 2006 ($25.0 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	
	Sept	Jun	**Sept**	Jun	**Sept**	Jun	**Sept**	Jun	**Sept**	Jun	**Sept**	Jun
Corporate Funds	**4.3**	4.6	**15%**	14%	**19%**	20%	**29%**	32%	**24%**	20%	**13%**	14%
Margin Funds	**18.5**	17.7	**42%**	41%	**10%**	24%	**48%**	34%	**0%**	1%	**0%**	0%
Clearing House Funds	**2.2**	2.7	**86%**	88%	**0%**	0%	**14%**	12%	**0%**	0%	**0%**	0%
Total	**25.0**	25.0	**42%**	40%	**11%**	21%	**41%**	31%	**4%**	5%	**2%**	3%

Credit exposure is well diversified. The bond portfolio held is of investment grade and, as at 30 September 2006, had a weighted average credit rating of Aa2 (30 June 2006: Aa2) and a weighted average maturity of 0.9 year (30 June 2006: 1.0 year). 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 third quarter and the second quarter of 2006 was as follows:

	Average VaR $ million		**Highest VaR** $ million		**Lowest VaR** $ million	
	Jul-Sept	Apr-Jun	**Jul-Sept**	Apr-Jun	**Jul-Sept**	Apr-Jun
Corporate Funds	**13.9**	13.0	**14.9**	13.9	**13.2**	12.5
Margin Funds	**8.6**	7.4	**9.1**	8.5	**7.9**	6.1
Clearing House Funds	**0.4**	0.5	**0.5**	0.6	**0.3**	0.4

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 30 September 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 $66 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 officially dissolved in July 2006.

FINANCIAL REVIEW

OVERALL PERFORMANCE

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

	Unaudited at 30 Sept 2006 $'000	As restated Audited at 31 Dec 2005 $'000
KEY BALANCE SHEET ITEMS		
Shareholders' funds	**4,413,003**	4,337,471 ϕ
Total assets *	**30,408,417**	22,930,916 ϕ
Net assets per share #	**$4.15**	$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 1,064,145,346 shares as at 30 September 2006, being 1,065,130,846 shares issued and fully paid less 985,500 shares held for the Share Award Scheme (31 December 2005: 1,061,796,846 shares, being 1,062,754,846 shares issued and fully paid less 958,000 shares held for the Share Award Scheme)

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

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

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

Income

(A) Income affected by market turnover

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

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

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

Despite the abolition of scrip fees on deemed book close effective 1 January 2006 (2005: first nine months deemed book close scrip fees: $23 million), depository, custody and nominee services fees increased due to higher scrip fees, stock withdrawal fees, corporate action fees and electronic 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

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

(B) Stock Exchange listing fees

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

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

Key drivers for annual listing fees

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

Key drivers for initial and subsequent issue listing fees

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

(C) Income from sale of information

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

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

(D) Investment income

	Unaudited Nine months ended 30 Sept 2006 $'000	Unaudited Nine months ended 30 Sept 2005 $'000	Change
Investment income	**391,100**	224,999	74%

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

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

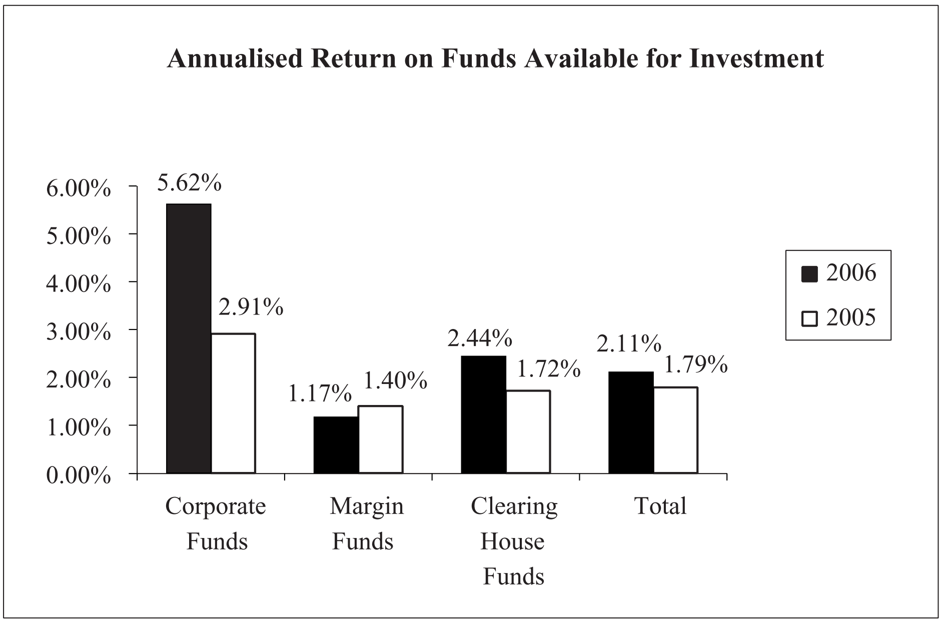
The increase in average amount of Corporate Funds during the period was mainly due to the profit net of dividends paid.

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

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

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

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



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

(E) Other income

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

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

Brokerage on direct IPO applications increased in line with the funds raised by IPOs.

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

Operating Expenses

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

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

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

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

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

Depreciation fell as certain fixed assets became fully depreciated.

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

Share of Profits less Losses of Associates

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

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

Taxation

	Unaudited Nine months ended 30 Sept 2006 $'000	Unaudited Nine months ended 30 Sept 2005 $'000	Change
Taxation	**291,989**	171,464	70%

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

Comparison of 2006 Third Quarter Performance with 2006 Second Quarter Performance

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

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

Key market indicators

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

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

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

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

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

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

Working Capital

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

Exposure to Fluctuations in Exchange Rates and Related Hedges

Details of the Group's exposure to fluctuations in exchange rates and related hedges are included in note 35(a)(i) - Foreign exchange risk to the condensed consolidated accounts of this quarterly report.

Contingent Liabilities

Details of contingent liabilities are disclosed in note 32 to the condensed consolidated accounts of this quarterly report.

Changes since 31 December 2005

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

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

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

PROSPECTS

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

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

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