



Hong Kong Exchanges and Clearing Limited
香港交易及結算所有限公司
 (Incorporated in Hong Kong with limited liability)
 (Stock Code: 388)

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

2005 Final Results

The Directors of Hong Kong Exchanges and Clearing Limited (“HKEx”) submit the consolidated results of HKEx and its subsidiaries (“Group”) for the year ended 31 December 2005 as follows:

FINANCIAL HIGHLIGHTS

	2005	2004	Change
KEY MARKET STATISTICS			
Average daily turnover value on the Stock Exchange	\$18.3 billion	\$16.0 billion	14%
Average daily number of derivatives contracts traded on the Futures Exchange	68,157	56,752	20%
Average daily number of stock options contracts traded on the Stock Exchange	35,385	22,720	56%
	\$'000	\$'000	
RESULTS			
Income	2,694,057	2,393,937	13%
Operating expenses	1,145,482	1,156,296	(1%)
Operating profit	1,548,575	1,237,641	25%
Share of profits less losses of associates	18,433	12,884	43%
Profit before taxation	1,567,008	1,250,525	25%
Taxation	(227,460)	(193,641)	17%
Profit attributable to shareholders	1,339,548	1,056,884	27%
Earnings per share	\$1.26	\$1.00	26%
Interim dividend per share	\$0.49	\$0.43	14%
Final dividend per share	\$0.64	\$0.47	36%
	\$1.13	\$0.90	26%
Dividend payout ratio	90%	90%	
	\$'000	As restated \$'000	
KEY BALANCE SHEET ITEMS			
Shareholders' funds	4,367,489	4,032,234 [Ⓞ]	8%
Total assets *	22,960,933	21,443,404	7%
Net assets per share #	\$4.11	\$3.82 [Ⓞ]	8%

[Ⓞ] Audited and restated (shareholders' funds down by \$20 million and net assets per share down by \$0.01) as at 31 December 2004 due to the adoption of new Hong Kong Financial Reporting Standards (“HKFRSs”)

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

Based on 1,062,754,846 shares issued and fully paid as at 31 December 2005 (2004: 1,056,638,846 shares)

BUSINESS REVIEW

In late 2003, HKEx embarked on a Three-year Strategic Plan to pursue its mission to provide a world-class marketplace for Hong Kong and Mainland China securities and derivatives products. The three key strategic objectives - Building a Quality Market, Becoming a Mainland Partner and Consolidation have remained the key focuses of HKEx ever since.

Building a Quality Market

Strengthening the regulatory regime

In line with our continuous efforts to improve the corporate governance standards, the amendments to 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”) embracing the Code on Corporate Governance Practices (“CG Code”) took effect from 1 January 2005. As strengthening the regulatory framework is an ongoing process, HKEx reviews its rules on a regular basis to ensure that they are in line with the best market practices and international standards. While the majority of companies and market participants have fully complied with the rules and regulations, as in all markets, there may still be a small number of companies and market participants that do not abide by the rules. It is HKEx’s belief that, for the benefit of the market, non-compliance cases should be dealt with through stricter enforcement. To this end, HKEx supports the proposals of the Government and the Securities and Futures Commission (“SFC”) for giving statutory backing to the more important Listing Rules requirements.

HKEx had also reviewed the composition and structure of the Listing Committee and the GEM Listing Committee (collectively “Listing Committees”), and the relevant rule amendments came into effect in early February 2006. The measures were aimed at increasing the transparency of The Stock Exchange of Hong Kong Limited (“Exchange” or “Stock Exchange”) in the discharge of its responsibilities for listing regulation and improving the operation of the Listing Committees. Also for the sake of transparency, the Listing Committees published the second annual report since July 2004 to set out the work done during the service term of their members. Starting from this year, a Listing Committee Report is prepared to record the work done during the financial year of HKEx, which will be despatched to the shareholders of HKEx (“Shareholders”) together with the Annual Report.

Almost six years after the launch of the Growth Enterprise Market (“GEM”), HKEx considered that it is now the right time to conduct a comprehensive review of the GEM, and issued in January 2006 a discussion paper to facilitate public discussion for the purpose of enhancing the further development of the GEM.

In respect of the increased interest in our derivative warrants market, HKEx conducted a review of the market and published an article on derivative warrants in October 2005 to invite public comments thereon.

Fostering corporate governance culture

Good corporate governance in the market translates into better internal control and risk management practices and higher market integrity, resulting in stronger investor confidence. Hence, a well-established compliance culture is equally important to a regulatory regime for maintaining an open, fair, orderly and transparent market.

As the exchange controller as well as a listed company, HKEx has focused intently upon observing the best corporate governance practices and setting a good example in leading the Hong Kong market in the area of corporate governance. HKEx strongly believes that the awareness of good corporate governance among issuers could be raised by sharing with them the best practices that we have observed. Over the years, HKEx has received several awards in recognition of our achievements in corporate governance from both local and overseas organisations. In 2005, we received our third consecutive Diamond Award

(top honour) for the 2005 Best Corporate Governance Disclosure Awards from the Hong Kong Institute of Certified Public Accountants (“HKICPA”), the Bronze Award for the 2005 Best Annual Reports Awards from The Hong Kong Management Association and the Directors of the Year Awards 2005 from The Hong Kong Institute of Directors. Moreover, we were particularly delighted that HKEx has been recognised as a member of the FTSE4Good Index Series, a group of real-time indices designed to reflect the performance of companies in social responsibility aspect, and identified as a corporate governance star by the CLSA Asia-Pacific Markets and the Asian Corporate Governance Association.

HKEx will continue to strive to engender trust and confidence by pursuing ongoing enhancements to its internal governance and upholding the highest standards of transparency.

Meeting customers’ demands

In response to market needs and with the aim at improving market liquidity and efficiency, HKEx reduced the monthly user fees for all the Third Generation Automatic Order Matching and Execution System (“AMS/3”) trading devices, and completed its review on clearing fees in 2005. In fact, investors and market participants have been enjoying substantial cost-savings as a result of a series of fee reductions implemented since 2004. Details of the fee reductions in the past two years will be set out in the Annual Report 2005 to be despatched to Shareholders.

To add value to our business, HKEx has been reviewing the existing products and services and exploring new ones in collaboration with the market. To name a few, FTSE/Xinhua China 25 Index Futures and Options and three exchange traded funds were newly introduced and six additional classes for stock options and futures were launched during the year. Various measures were taken to give market participants more choices and to ensure sustained long-term growth in the stock options market. In addition, HKEx plans to introduce Callable Bull/Bear Contracts in June/July 2006 subject to the readiness of the market. On information services, HKEx has also introduced new service for redistribution of historical data products and extended special offer of real-time market data for Mainland users.

In the interests of the investing public, HKEx has increased its efforts to promote investor education by offering ongoing training and seminars to our Participants and investors to familiarise them with our products and services.

Improving the market infrastructure

A quality market can only be built upon a stable, reliable and efficient market infrastructure. We leverage the competency, teamwork and quality culture of our staff to deliver cost-effective IT solutions to support further growth and development of our markets. In 2005, apart from upgrading the operating systems of the Hong Kong Futures Automated Trading System (“HKATS”), the Derivatives Clearing and Settlement System (“DCASS”) and the Latest Generation of Central Clearing and Settlement System (“CCASS/3”), a total of about \$25 million was spent on upgrading the capacity of AMS/3. HKEx’s securities market trading and clearing systems are highly recognised in the IT industry. Following the awards received in 2004 for the AMS/3, a Gold Award (top honour) of the Application Category of the 7th IT Excellence Awards was conferred on HKEx in respect of its CCASS/3 by the Hong Kong Computer Society in October 2005.

As part of HKEx’s commitment to enhance the market infrastructure and ensure the highest standards of system performance, HKEx, in October 2005, completed the construction and implementation of the SDNet, a new Optical Ethernet network, and successfully migrated its Participants’ links to the HKATS, DCASS and Price Reporting Systems onto the SDNet, which constituted the first phase of the network consolidation project. The migration of the CCASS/3 and AMS/3 participants’ circuits to the SDNet is expected to be completed in mid-2006 and 2007 respectively. This initiative has improved the quality of the market by offering significant technological improvements and greater operational efficiency and cost effectiveness to both HKEx and participants.

Other enhancements to the market infrastructure included improvements in money settlement services and nominee services, harmonisation of the capital requirements of different categories of clearing participants of the three clearing houses, reduction in trading spreads (Phase 1), revamp of HKEx website, improvement of HKEx disaster recovery website and refurbishment of the Trading Hall.

After reviewing the trading and market data for the first six months following the Phase 1 spread reduction, on 15 February 2006 the Board decided to implement the Phase 2 proposal for securities trading between \$0.25 and \$20 per share in July 2006 subject to the SFC's approval.

Becoming a Mainland Partner

Encouraging listings of Mainland enterprises

The listing of Mainland enterprises has contributed significantly to the growth of the Hong Kong securities and derivatives markets. In 2005, out of the 10 largest companies by turnover, six of them were Mainland enterprises. At the end of December 2005, the 335 Mainland enterprises accounted for 30 per cent of the total number of 1,135 issuers on the Exchange, 39 per cent of the total year-end market capitalisation of \$8,179.9 billion and 46 per cent of the equity market's total daily turnover. The trading turnover of H-shares, reached a record high last year, rising to \$953.3 billion, signifying strong investor interest in Mainland enterprises.

Raising the awareness of good corporate governance

In addition to the access to capital denominated in a freely convertible currency, Mainland enterprises, through becoming listed companies on the Exchange, are subject to market discipline and compliance requirements which help bring their standards in corporate governance, accounting, disclosure and management on a par with international best practices. The vitality of the equity market depends fundamentally on the quality of listed companies. Education programmes are frequently organised, in particular, in the Mainland for newly listed companies and potential issuers so as to properly equip them with better knowledge of the regulatory framework in Hong Kong and to promote the awareness of post-listing compliance.

Strengthening cooperation with the Mainland regulators

In the light of the challenges on cross-border enforcement of local rules and regulations on non-Hong Kong based Mainland issuers and those with concentrated state-ownership, HKEx has been co-operating closely with the SFC, the China Securities Regulatory Commission, the Shanghai Stock Exchange and the Shenzhen Stock Exchange to promote good corporate governance practices to Mainland issuers and potential issuers. In the way forward, in addition to Memorandum of Regulatory Cooperation meeting, more frequent meetings will be conducted with the Mainland regulators to share experience and information and discuss regulatory issues and market development.

Consolidation

In the past two years, HKEx has focused on prudent cost controls, streamlined project portfolio, corporate reorganisation, staff consolidation and training, integration of business operations and policies, and strengthening of risk management. All these have contributed positively to the remarkable performance of HKEx in 2005.

As part of the succession plan, the corporate structure was revised in August 2005 to provide senior executives with the opportunities to further enrich their exposures and management experience. The Cash Clearing Systems Development and Support Department and the Derivatives Clearing Systems Development and Support Department have been consolidated into the Clearing Systems Development and Support Department and the Investor Services has been transferred to the Corporate Communications Department, resulting in a more efficient structure.

To implement the initiatives to develop a comprehensive electronic listing management system and the establishment of a China Affairs Team, the Listing Division was also reorganised in February 2006.

HKEx's objective is to establish a robust corporate culture in order to deliver an enhanced performance in the long term and to help deliver HKEx's wider strategic aims. To this end, we will continue to emphasise our corporate goal that life-time learning is important to all staff and provide academic sponsorship and job-related trainings to employees at all levels. A sum of \$8 million has been set aside for staff training in 2006, an increase of one-third against that for 2005. Driven by the need to better serve our customers, HKEx will also focus on improving its customer services by understanding better and responding faster to their needs. In addition, HKEx will strengthen the capability of its management by providing a more effective Management Information System, reviewing the remuneration structure and policies, and implementing the succession plan.

Promotion of corporate citizenship is another goal. Since 2000, over \$130 million had been donated to, and in 2005 a total of about \$40 million was raised for, the Hong Kong Community Chest via the Stock Code Balloting for Charity Scheme. HKEx will continue to actively participate in various community and charitable activities.

2006 MAJOR INITIATIVES

Consolidation of operations through mainly the organisational restructuring, cost rationalisation and prioritisation of projects in 2004 and 2005 has underpinned our strength and helped better allocate our available resources to meet future challenges in completing the Three-year Strategic Plan. In 2006, we have a wide range of initiatives on our agenda, some are new and others are ongoing. A summary of the HKEx's achievements in 2005 and the key initiatives planned for 2006 will be set out in the Annual Report 2005.

FINANCIAL REVIEW

Overall Performance

	Q1 2005	Q2 2005	Q3 2005	Q4 2005	Total 2005
	\$'000	\$'000	\$'000	\$'000	\$'000
Income	574,252	664,213	732,835	722,757	2,694,057
Operating expenses	282,675	287,843	282,394	292,570	1,145,482
Operating profit	291,577	376,370	450,441	430,187	1,548,575
Share of profits less losses of associates	2,617	6,018	4,357	5,441	18,433
Profit before taxation	294,194	382,388	454,798	435,628	1,567,008
Taxation	(48,773)	(57,013)	(65,678)	(55,996)	(227,460)
Profit attributable to shareholders	245,421	325,375	389,120	379,632	1,339,548
	Q1 2004	Q2 2004	Q3 2004	Q4 2004	Total 2004
	\$'000	\$'000	\$'000	\$'000	\$'000
Profit attributable to shareholders	312,896	184,529	248,610	310,849	1,056,884

The Group achieved record high profit for the second consecutive year in 2005. Profit attributable to shareholders increased by 27 per cent to \$1,340 million for the year ended 31 December 2005, compared with \$1,057 million for 2004.

Due to the continued economic recovery, influx of foreign funds and upbeat market sentiment, activity on the Stock Exchange and the Hong Kong Futures Exchange Limited (“Futures Exchange”) increased substantially. Several new records were achieved in the Cash and the Derivatives Markets in 2005, including the highest equity capital raised by initial public offering (“IPO”), record annual turnover of the Cash Market and the highest number of contracts traded on the Derivatives Market. As a result, turnover-related income rose significantly.

Investment income increased as interest income of the Margin Funds rose on the back of increased fund size and rising interest rates in 2005.

Stock Exchange listing fees also recorded considerable growth due to the higher number of listed securities and newly listed derivative warrants during the year.

Total level of operating expenses remained similar to that of last year despite an increase in staff costs.

The accounts have been prepared in accordance with HKFRSs issued by the HKICPA, which have been aligned with the requirements of International Financial Reporting Standards (“IFRSs”) in all material respects as at 31 December 2005.

Income

(A) Income affected by market turnover

	2005 \$'000	2004 \$'000	Change
Trading fees and trading tariff	793,247	682,293	16%
Clearing and settlement fees	384,019	356,274	8%
Depository, custody and nominee services fees	259,952	251,722	3%
Total	1,437,218	1,290,289	11%

The increase in trading fees and trading tariff was mainly due to the higher turnover of the Cash and Derivatives Markets in 2005 against that of last year.

Clearing and settlement fees are derived predominantly from Cash Market transactions. Despite being mostly ad valorem fees, clearing and settlement fees are subject to a minimum and a maximum fee per transaction. Clearing and settlement fees did not increase linearly with the Cash Market turnover in 2005 as there was a higher proportion of transactions with value subject to the maximum fee.

Depository, custody and nominee services fees increased due to higher scrip fee income, corporate action fees and dividend collection fees but partly offset by lower stock withdrawal fees in 2005. The fees were influenced by the level of Cash Market activities but did not move proportionately with changes in the Cash Market turnover as they varied mostly with the board lots rather than the value of the securities concerned and many were subject to a maximum fee. Moreover, scrip fee was only chargeable on the net increase in individual Participants’ aggregate holdings of the securities. Effective 1 January 2006, deemed book close scrip fee (2005: \$41 million; 2004: \$46 million) was abolished.

Key market indicators

	2005	2004	Change
Average daily turnover value on the Stock Exchange	\$18.3 billion	\$16.0 billion	14%
Average daily number of derivatives contracts traded on the Futures Exchange	68,157	56,752	20%
Average daily number of stock options contracts traded on the Stock Exchange	35,385	22,720	56%

(B) Stock Exchange listing fees

	2005 \$'000	2004 \$'000	Change
Annual listing fees	263,945	252,358	5%
Initial and subsequent issue listing fees	142,075	119,468	19%
Others	6,980	6,601	6%
Total	413,000	378,427	9%

The increase in annual listing fees was attributable to the higher number of listed securities. The increase in initial and subsequent issue listing fees was due to the increase in the number of newly listed derivative warrants and newly listed companies on the Main Board, including notably the biggest IPO in Hong Kong, the China Construction Bank Corporation, and the Link Real Estate Investment Trust during 2005.

Key drivers for annual listing fees

	As at 31 Dec 2005	As at 31 Dec 2004	Change
Number of companies listed on the Main Board	934	892	5%
Number of companies listed on the GEM	201	204	(1%)
Total	1,135	1,096	4%

Key drivers for initial and subsequent issue listing fees

	2005	2004	Change
Number of newly listed derivative warrants	1,682	1,259	34%
Number of newly listed companies on the Main Board	57	49	16%
Number of newly listed companies on the GEM	10	21	(52%)
Total equity funds raised on the Main Board	\$298.2 billion	\$276.5 billion	8%
Total equity funds raised on the GEM	\$3.1 billion	\$5.3 billion	(42%)

(C) Income from sale of information

	2005 \$'000	2004 \$'000	Change
Income from sale of information	322,713	307,633	5%

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

(D) Investment income

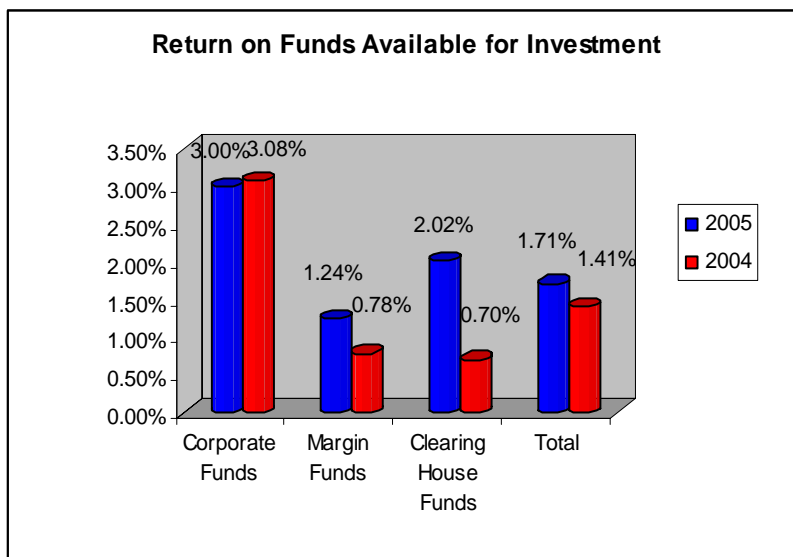
	2005 \$'000	2004 \$'000	Change
Income from:			
Funds available for investment	300,109	202,955	48%
Investment in Singapore Exchange Limited	-	25,632	(100%)
Total	300,109	228,587	31%

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

	2005 \$ billion	2004 \$ billion	Change
Corporate Funds	4.0	4.0	0%
Margin Funds	12.1	8.9	36%
Clearing House Funds	1.5	1.5	0%
	17.6	14.4	22%

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

The performance of funds available for investment was as set out below:



The return on Margin Funds and Clearing House Funds increased mainly as a result of rising interest rates in 2005. The return on Margin Funds in 2005 was lower than that of the Clearing House Funds as there was a significant increase in margin deposits denominated in Japanese Yen, and Participants were paid interest on all of their margin deposits whereas only certain part of the clearing house contributions was eligible for interest. The return on Corporate Funds declined mainly due to the drop in fair value gains of financial assets held for trading, reflecting market movements due to rising interest rates and stronger United States Dollars (“USD”).

(E) Other income

	2005 \$'000	2004 \$'000	Change
Network, terminal user, dataline and software sub-license fees	129,733	120,261	8%
Participants' subscription and application fees	34,351	34,341	0%
Brokerage on direct IPO applications	34,123	17,586	94%
Fair value gain of an investment property	4,400	3,300	33%
Accommodation income	2,154	5,133	(58%)
Miscellaneous income	16,256	8,380	94%
Total	221,017	189,001	17%

Despite the 20 per cent reduction in AMS/3 user fees that took effect on 1 January 2005, network, terminal user, dataline and software sub-license fees rose due to the increase in sales of additional throttle.

Brokerage on direct IPO applications increased in line with the funds raised by IPOs and unit trusts, in particular the Link Real Estate Investment Trust.

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 mainly due to less cash margin deposits denominated in non-contract settlement currencies received in the first half of 2005. In addition, from 1 June 2005 onwards, accommodation charges on cash margin deposits were abolished and accommodation fee on utilised non-cash collateral charged by HKFE Clearing Corporation Limited (“HKCC”) and The SEHK Options Clearing House Limited (“SEOCH”) was reduced from 1.2 per cent and 2 per cent respectively to 0.5 per cent.

Miscellaneous income increased mainly due to an increase in other income from Participants, exchange gains on accounts payable denominated in foreign currencies due to the strengthening HKD and interest on late payment levied on information vendors.

Operating Expenses

	2005 \$'000	2004 \$'000	Change
Staff costs and related expenses	586,033	545,654	7%
Information technology and computer maintenance expenses	201,725	221,624	(9%)
Premises expenses	80,679	78,833	2%
Product marketing and promotion expenses	10,065	11,263	(11%)
Legal and professional fees	13,641	11,083	23%
Depreciation	150,995	183,400	(18%)
Payment to SFC under dual filing regime	20,000	20,000	0%
Other operating expenses	82,344	84,439	(2%)
Total	1,145,482	1,156,296	(1%)

Staff costs and related expenses increased by \$40 million, primarily due to the increase in salary costs and contribution to provident funds of \$21 million as a result of the increase in headcount and salary adjustment, and a \$10 million increase in performance bonus as a result of the improved performance of the Group in 2005. Employee share-based compensation costs also rose by \$9 million due to the costs of share options and shares granted under the Employees' Share Award Scheme ("Awarded Shares") arising from the amortisation of the fair value of the new grants of share options in March 2004, May 2004 and January 2005 and of Awarded Shares in December 2005.

Information technology and computer maintenance expenses of the Group, after excluding goods and services directly consumed by the Participants of \$55 million (2004: \$61 million), were \$147 million (2004: \$161 million). The decrease was mainly due to lower system maintenance costs and reduced network line rental charges.

Depreciation decreased as certain fixed assets became fully depreciated.

Other operating expenses decreased mainly as a result of the reduction in bank charges following the expiry of certain banking facilities that were no longer necessary.

Share of Profits less Losses of Associates

	2005 \$'000	2004 \$'000	Change
Share of profits less losses of associates	18,433	12,884	43%

Share of profits less losses of associates increased due to the higher profitability of one of the associates, Computershare Hong Kong Investor Services Limited ("CHIS"), and the acquisition of a further six per cent interest in CHIS in May 2005.

Taxation

	2005 \$'000	2004 \$'000	Change
Taxation	227,460	193,641	17%

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

Liquidity, Financial Resources, Gearing and Capital Commitments

Working capital rose by \$292 million or 10 per cent to \$3,357 million as at 31 December 2005 (2004: \$3,065 million). The increase was primarily due to the profit generated during the year of \$1,340 million, which was partly offset by payment of the 2004 final dividend of \$498 million and 2005 interim dividend of \$521 million, the payment to the Employees' Share Award Scheme ("Award Scheme") of \$30 million and the increase in other net current assets of \$1 million.

Although the Group has consistently maintained a very liquid position, banking facilities have nevertheless been put in place for contingency purposes. As at 31 December 2005, the Group's total available banking facilities amounted to \$1,608 million (2004: \$1,608 million), of which \$1,500 million (2004: \$1,500 million) represented repurchase facilities to augment the liquidity of the Margin Funds.

Borrowings of the Group have been rare and are mostly event driven, with little seasonality. As at 31 December 2005 and 31 December 2004, the Group had no bank borrowings, and therefore had zero gearing.

As at 31 December 2005, 99 per cent (2004: 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.

The Group's capital expenditure commitments as at 31 December 2005, mainly related to the refurbishment of the Trading Hall and the development and purchases of computer systems, amounted to \$137 million (2004: \$78 million). The Group has adequate internal resources to fund its commitments on capital expenditures.

Charges on Assets

None of the Group's assets was pledged as at 31 December 2005 and 31 December 2004.

Significant Investments Held and Material Acquisitions and Disposals of Investments and Subsidiaries

There were no material acquisitions or disposals of investments and subsidiaries during the year.

Exposure to Fluctuations in Exchange Rates and Related Hedges

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

As at 31 December 2005, the aggregate net open foreign currency positions amounted to \$2,031 million, of which \$160 million were non-USD exposures (2004: \$1,996 million, of which \$170 million were non-USD exposures), and the total nominal value of outstanding forward foreign exchange contracts amounted to \$275 million (2004: \$358 million). All forward foreign exchange contracts mature within one month (2004: one month).

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

Contingent liabilities

The Unified Exchange Compensation Fund ("Compensation Fund") is a fund set up under the repealed Securities Ordinance ("SO") for the purpose of compensating any person (other than a Stock Exchange Participant) dealing with a Stock Exchange Participant for any pecuniary losses suffered as a result of a default by the Stock Exchange Participant. According to section 109(3) of the SO, the maximum

compensation amount is \$8 million for each Stock Exchange Participant's default. Under section 113(5A) of the SO, the Stock Exchange may, upon satisfying certain conditions, and with the approval of the SFC, allow an additional payment to successful claimants before apportionment. Under section 107(1) of the SO, the Stock Exchange has contingent liabilities to the Compensation Fund as it is obligated to replenish the Compensation Fund upon the SFC's request. The amounts to be replenished should be equal to the amount paid in connection with the satisfaction of the claims, including any legal and other expenses paid or incurred in relation to the claims but capped at \$8 million per default. As at 31 December 2005, there were outstanding claims received in respect of 5 Stock Exchange Participants (2004: 10).

Pursuant to the Securities and Futures Ordinance ("SFO"), the Stock Exchange issued a notice on 3 April 2003 inviting claims against the Compensation Fund in relation to any default of a Stock Exchange Participant occurring before 1 April 2003. The claims period expired on 3 October 2003 and no claims were received in response to that notice. Claims made after the claims period are, unless the Stock Exchange otherwise determines, barred. As at 31 December 2005, no such claims had been received in response to the said notice.

Following the implementation of the new compensation arrangements under the SFO, an Investor Compensation Fund has been established to replace the existing Compensation Fund, the Commodity Exchange Compensation Fund and the Dealers' Deposit Schemes for non-exchange participant dealers. Pursuant to the SFO, Exchange Participants are no longer required to make deposits to the Investor Compensation Fund and the Stock Exchange is not required to replenish the Investor Compensation Fund. Hence, deposits to the Commodity Exchange Compensation Fund were returned to the Futures Exchange by the SFC in January 2004. The Futures Exchange had in turn reimbursed holders of Futures Exchange Trading Rights their contributions to the Commodity Exchange Compensation Fund. Similarly, deposits to the Compensation Fund would be returned to the Stock Exchange in accordance with the SFO pending completion of any determination of outstanding claims and replenishment to the Compensation Fund.

The Stock Exchange has undertaken to indemnify the Collector of Stamp Revenue against any loss of revenue resulting from any underpayment or default or delay in payment of stamp duty by its Participants, up to \$200,000 in respect of the default of any one Participant. In the unlikely event that all of its 429 trading Participants as at 31 December 2005 (2004: 434) defaulted, the maximum contingent liability of the Stock Exchange under the indemnity would amount to \$86 million (2004: \$87 million).

HKEx gave an undertaking on 6 March 2000 in favour of Hong Kong Securities Clearing Company Limited ("HKSCC") to contribute an amount not exceeding \$50 million in the event of HKSCC being wound up while it is a wholly-owned subsidiary of HKEx or within one year after HKSCC ceases to be a wholly-owned subsidiary of HKEx, for payment of the debts and liabilities of HKSCC contracted before HKSCC ceases to be a wholly-owned subsidiary of HKEx, and for the costs, charges and expenses of winding up.

In May 2005, the Court of Appeal issued its judgement in the New World Development Company Limited and others ("New World") judicial review appeal case. The Court allowed the appeal and quashed the direction of the Chairman of the Listing (Disciplinary) Committee in the New World disciplinary proceedings that legal advisers not be permitted to address the Listing (Disciplinary) Committee. New World was awarded costs which are presently unknown but estimated to be in the region of \$4 million. The Stock Exchange has been granted leave to appeal to the Court of Final Appeal. The appeal is set down to be heard by the Court of Final Appeal on 21 and 22 March 2006. In the opinion of external legal counsel, the Stock Exchange has valid grounds for an appeal, a reasonable prospect of success and consequently it is not probable that the Stock Exchange will be required to bear the costs incurred by New World in the legal proceedings. Accordingly, no provision for such costs has been made in the accounts.

**CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2005**

	Note	2005 \$'000	2004 \$'000
INCOME	2		
Trading fees and trading tariff		793,247	682,293
Stock Exchange listing fees		413,000	378,427
Clearing and settlement fees		384,019	356,274
Depository, custody and nominee services fees		259,952	251,722
Income from sale of information		322,713	307,633
Investment income	3	300,109	228,587
Other income	4	221,017	189,001
	2	2,694,057	2,393,937
OPERATING EXPENSES			
Staff costs and related expenses		586,033	545,654
Information technology and computer maintenance expenses		201,725	221,624
Premises expenses		80,679	78,833
Product marketing and promotion expenses		10,065	11,263
Legal and professional fees		13,641	11,083
Depreciation		150,995	183,400
Payment to SFC under dual filing regime		20,000	20,000
Other operating expenses	5	82,344	84,439
	2	1,145,482	1,156,296
OPERATING PROFIT	2	1,548,575	1,237,641
SHARE OF PROFITS LESS LOSSES OF ASSOCIATES	2/6	18,433	12,884
PROFIT BEFORE TAXATION	2	1,567,008	1,250,525
TAXATION	2/7	(227,460)	(193,641)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	2	1,339,548	1,056,884
DIVIDENDS		1,200,730	950,911
Earnings per share	8	\$1.26	\$1.00
Dividends per share			
Interim dividend paid		\$0.49	\$0.43
Final dividend proposed/declared		\$0.64	\$0.47
		\$1.13	\$0.90
Dividend payout ratio		90%	90%

**CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2005**

	Note	2005 \$'000	As restated 2004 \$'000
NON-CURRENT ASSETS			
Fixed assets		257,876	324,300
Investment property		17,700	13,300
Lease premiums for land		94,123	94,670
Investments in associates		64,581	38,731
Clearing House Funds		1,340,410	1,861,487
Compensation Fund Reserve Account		38,410	37,451
Time deposit with maturity over one year		38,768	38,941
Contributions to The HKEx Employees' Share Award Scheme		30,037	-
Deferred tax assets		3,060	1,227
Other assets		20,374	13,142
		1,905,339	2,423,249
CURRENT ASSETS			
Accounts receivable, prepayments and deposits	9	3,286,835	4,691,846
Lease premiums for land		547	548
Taxation recoverable		108	91
Margin Funds on derivatives contracts		13,648,581	10,529,692
Financial assets at fair value through profit or loss		2,643,788	2,761,593
Time deposits with original maturities over three months		116,622	1,340
Cash and cash equivalents		1,359,113	1,035,045
		21,055,594	19,020,155
CURRENT LIABILITIES			
Margin deposits from Clearing Participants on derivatives contracts		13,648,581	10,529,692
Accounts payable, accruals and other liabilities	10	3,641,070	4,902,350
Financial liabilities at fair value through profit or loss		1,443	10,749
Participants' admission fees received		2,550	4,850
Deferred revenue		284,851	284,148
Taxation payable		92,628	199,678
Provisions		27,145	23,212
		17,698,268	15,954,679
NET CURRENT ASSETS			
		3,357,326	3,065,476
TOTAL ASSETS LESS CURRENT LIABILITIES			
		5,262,665	5,488,725
NON-CURRENT LIABILITIES			
Participants' admission fees received		80,150	82,850
Participants' contributions to Clearing House Funds		751,751	1,298,752
Deferred tax liabilities		20,770	30,876
Financial guarantee contracts		19,909	19,909
Provisions		22,596	24,104
		895,176	1,456,491
NET ASSETS			
		4,367,489	4,032,234
CAPITAL AND RESERVES			
Share capital		1,062,755	1,056,639
Share premium		150,405	104,034
Employee share-based compensation reserve		34,980	17,061
Revaluation reserves		(37,086)	18,829
Designated reserves		700,641	680,996
Retained earnings	11	1,775,631	1,658,055
Proposed/declared dividends	11	680,163	496,620
SHAREHOLDERS' FUNDS			
		4,367,489	4,032,234

Notes:

1. These consolidated accounts have been prepared in accordance with HKFRSs issued by the HKICPA, which have been aligned with the requirements of IFRSs in all material respects as at 31 December 2005.

In 2005, the Group adopted the following new / revised HKFRSs which became effective during 2005 and were relevant to its operations:

HK(SIC)-INT 12 (Amendment)	Scope of HK(SIC)-INT 12 Consolidation – Special Purpose Entities
HK-INT 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

Further, the Group early adopted all HKFRSs issued up to 31 December 2005 which were pertinent to its operations where early adoption was permitted. The applicable HKFRSs are set out below as follows:

HKFRS 7	Financial Instruments: Disclosures
HKAS 1 (Amendment)	Capital Disclosures
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts

Of all the new HKFRSs adopted, only HKAS 39 and HKFRS 4 (Amendment) has affected the Group's accounting policies. Financial guarantee contracts were previously only disclosed as contingent liabilities as they did not fall within the scope of HKAS 39. Following the introduction of HKAS 39 and HKFRS 4 (Amendment), financial guarantee contracts are treated as financial liabilities. Financial guarantee contracts are measured initially at fair value and subsequently at the higher of (i) the amount determined in accordance with HKAS 37 – Provisions, Contingent Liabilities and Contingent Assets and (ii) the amount initially recognised less, where appropriate, cumulative amortisation recognised over the life of the guarantee on a straight-line basis. In accordance with the transitional provision, the fair value of financial guarantee contracts should be recognised in the balance sheet on the date when HKAS 39 was initially adopted by the Group (i.e. 1 January 2004) by adjusting the retained earnings. The adoption of this amendment has the following impact on the consolidated balance sheet as at 1 January 2004, 31 December 2004 and 31 December 2005:

	\$'000
<hr/>	
(Increase) / decrease in liabilities / equity	
Increase in financial guarantee contracts	(19,909)
Decrease in retained earnings	19,909
	<hr/>

The adoption of the other new or revised accounting standards only affect the disclosure of certain financial information in the consolidated accounts.

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

The Group's income is derived solely from business activities in Hong Kong. An analysis of the Group's income, results, assets, liabilities, capital expenditures and non-cash expenses for the year by business segments is as follows:

	2005					
	Cash Market \$'000	Derivatives Market \$'000	Clearing Business \$'000	Information Services \$'000	Others \$'000	Group \$'000
Income	1,172,850	441,755	753,695	325,757	-	2,694,057
Operating expenses						
Direct costs	429,042	111,812	305,821	46,703	-	893,378
Indirect costs	115,914	36,149	79,089	20,952	-	252,104
	544,956	147,961	384,910	67,655	-	1,145,482
Segment results	627,894	293,794	368,785	258,102	-	1,548,575
Share of profits less losses of associates	(3)	-	18,436	-	-	18,433
Segment profits before taxation	627,891	293,794	387,221	258,102	-	1,567,008
Taxation						(227,460)
Profit attributable to shareholders						1,339,548
Segment assets	2,171,939	14,619,810	6,039,165	62,270	3,168	22,896,352
Investments in associates	1,305	-	63,276	-	-	64,581
	2,173,244	14,619,810	6,102,441	62,270	3,168	22,960,933
Segment liabilities	608,182	13,697,352	4,106,773	35,451	145,686	18,593,444
Segment capital expenditures	68,364	2,875	12,416	2,148	-	85,803
Segment depreciation and amortisation	64,263	13,192	65,870	8,218	-	151,543
Segment provision for impairment losses	73	102	261	7	-	443
Segment other non-cash expenses	12,619	3,141	8,281	1,315	-	25,356

	2004 (As restated)					
	Cash Market \$'000	Derivatives Market \$'000	Clearing Business \$'000	Information Services \$'000	Others \$'000	Group \$'000
Income	1,058,306	327,430	698,052	310,149	-	2,393,937
Operating expenses						
Direct costs	434,876	114,185	313,492	56,043	-	918,596
Indirect costs	109,096	30,943	75,796	21,865	-	237,700
	543,972	145,128	389,288	77,908	-	1,156,296
Segment results	514,334	182,302	308,764	232,241	-	1,237,641
Share of profits less losses of associates	(12)	-	12,896	-	-	12,884
Segment profits before taxation	514,322	182,302	321,660	232,241	-	1,250,525
Taxation						(193,641)
Profit attributable to shareholders						1,056,884
Segment assets	2,131,971	11,402,930	7,802,747	65,707	1,318	21,404,673
Investments in associates	1,309	-	37,422	-	-	38,731
	2,133,280	11,402,930	7,840,169	65,707	1,318	21,443,404
Segment liabilities	600,319	10,571,605	5,949,260	33,617	256,369	17,411,170
Segment capital expenditures	5,445	2,221	14,225	3,028	-	24,919
Segment depreciation and amortisation	90,326	15,594	68,202	9,826	-	183,948
Segment provision for / (reversal of provision for) impairment losses	156	30	39	(1,000)	-	(775)
Segment other non-cash expenses	6,724	1,383	4,889	792	-	13,788

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

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

The **Clearing Business** refers to the operations of the three Clearing Houses, namely HKSCC, SEIOCH and HKCC, which are responsible for clearing, settlement and custodian activities and the related risk management of the Cash and Derivatives Markets operated by the Group. Its income is derived primarily from investment income earned on the Clearing House Funds and fees from providing clearing, settlement, depository, custody and nominee services.

The **Information Services** business is responsible for developing, promoting, compiling and sales of real-time, historical as well as statistical market data and issuer information. Its income comprises primarily income from sale of Cash Market and Derivatives Market data.

In addition to the above, central income (mainly investment income of the Corporate Funds) and central costs (mainly costs of the support functions that centrally provide services to all of the business segments) are allocated to the business segments and included in the segment income and costs.

Assets and liabilities under the **Others Segment** represent mainly taxation recoverable and payable, deferred tax assets and liabilities and unclaimed dividends declared by HKEX.

3. Investment income

	2005 \$'000	2004 \$'000
Interest income		
- bank deposits	246,729	26,481
- listed available-for-sale financial assets	11,852	4,401
- unlisted available-for-sale financial assets	78,064	52,292
	336,645	83,174
Interest expenses	(126,260)	(1,309)
Net interest income	210,385	81,865
Net realised and unrealised gains / (losses) and interest income on financial assets and financial liabilities at fair value through profit or loss		
<u>On designation</u>		
- bank deposits with embedded derivatives	266	3,529
- unlisted debt securities with embedded derivatives	-	2,032
	266	5,561
<u>Held for trading</u>		
- listed securities	84,644	76,834
- unlisted securities	15,513	31,433
- exchange differences	(17,928)	530
	82,229	108,797
	82,495	114,358
Gains / (losses) on disposal and maturity of available-for-sale financial assets		
- listed securities (note a)	-	24,841
- unlisted securities	-	101
- exchange differences	-	(192)
	-	24,750
Dividend income		
- listed available-for-sale financial assets	-	1,070
- listed financial assets at fair value through profit or loss	7,630	6,378
	7,630	7,448
Other exchange differences on loans and receivables	(401)	166
Total investment income	300,109	228,587
Total investment income was derived from:		
Corporate Funds (note b)	119,187	148,781
Margin Funds	150,209	69,313
Clearing House Funds	30,713	10,493
	300,109	228,587

(a) Amount in 2004 represented profit on sale of investment in Singapore Exchange Limited in July 2004.

(b) Investment income derived from the Corporate Funds included investment income of the Compensation Fund Reserve Account of \$1,286,000 (2004: \$576,000) and Cash and Derivatives Market Development Fund ("CDMD Fund") of \$Nil (2004: \$20,000). The CDMD Fund was fully utilised in 2004.

4. Other income

	2005	2004
	\$'000	\$'000
Network, terminal user, dataline and software sub-license fees	129,733	120,261
Participants' subscription and application fees	34,351	34,341
Brokerage on direct IPO applications	34,123	17,586
Fair value gain of an investment property	4,400	3,300
Accommodation income on cash margin deposits in non-contract settlement currencies and securities deposited by Participants as alternatives to cash deposits of the Margin Funds	2,154	5,133
Miscellaneous income	16,256	8,380
	221,017	189,001

5. Other operating expenses

	2005	2004
	\$'000	\$'000
Reversal of provision for impairment losses of trade receivables	(389)	(850)
Impairment losses of leasehold buildings – revaluation deficit	837	-
Insurance	16,187	16,401
Financial data subscription fees	4,954	7,414
Custodian and fund management fees	7,887	7,772
Bank charges	4,420	7,889
Repair and maintenance expenses	8,476	6,984
License fees	6,279	5,181
Communication expenses	4,659	5,018
Other miscellaneous expenses	29,034	28,630
	82,344	84,439

6. Share of profits less losses of associates

	2005	2004
	\$'000	\$'000
Share of profits less losses of associates before taxation	22,110	15,770
Share of taxation of associates	(3,677)	(2,886)
	18,433	12,884

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

	2005	2004
	\$'000	\$'000
Provision for Hong Kong Profits Tax for the year (note a)	245,043	219,086
Over provision in respect of prior years	(8,845)	(79)
	236,198	219,007
Deferred taxation	(8,738)	(25,366)
	227,460	193,641

(a) Hong Kong Profits Tax has been provided for at 17.5 per cent (2004: 17.5 per cent) on the estimated assessable profit for the year.

8. The calculation of basic earnings per share is based on the profit attributable to shareholders of \$1,339,548,000 (2004: \$1,056,884,000) and the weighted average of 1,060,349,075 shares (2004: 1,054,985,321 shares) in issue during the year. The employee share options outstanding did not have a material dilutive effect on the basic earnings per share.

9. The Group's accounts receivable, prepayments and deposits amounted to \$3,286,835,000 (2004: \$4,691,846,000). These mainly represented the Group's Continuous Net Settlement ("CNS") money obligations receivable under the T+2 settlement cycle, which accounted for 88 per cent (2004: 91 per cent) of the total accounts receivable, prepayments and deposits. CNS money obligations receivable mature within two days after the trade date. Fees receivable are due immediately or up to 30 days depending on the type of services rendered. The majority of the remaining accounts receivable, prepayments and deposits would mature within three months.

10. The Group's accounts payable, accruals and other liabilities amounted to \$3,641,070,000 (2004: \$4,902,350,000). These mainly represented the Group's CNS money obligations payable under the T+2 settlement cycle, which accounted for 79 per cent (2004: 87 per cent) of the total accounts payable, accruals and other liabilities. CNS money obligations payable mature within two days after the trade date. The majority of the remaining accounts payable, accruals and other liabilities would mature within three months.
11. Retained earnings (including proposed/declared dividends)

	2005 \$'000	As restated 2004 \$'000
At 1 Jan, as previously reported		
Retained earnings	1,677,964	1,578,991
Proposed/declared dividends	496,620	2,202,898
	2,174,584	3,781,889
Effect of initial adoption of HKAS 39 and HKFRS 4 (Amendment)	(19,909)	(19,909)
At 1 Jan, as restated	2,154,675	3,761,980
Profit for the year	1,339,548	1,056,884
(Surplus)/deficit of investment income net of expenses of Clearing		
House Funds transferred to Clearing House Funds reserves	(29,350)	5,040
Investment and other income net of expenses of Compensation		
Fund Reserve Account transferred to Compensation Fund		
Reserve Account reserve	(1,303)	(576)
Transfer from CDMD Fund reserve	-	914
Transfer from Development reserve	11,008	3,283
Dividends paid:		
2004 final dividend/2003 special and final dividends	(496,620)	(2,202,898)
Dividend on shares issued for employee share options exercised after 31 Dec 2004/2003	(1,597)	(15,661)
	(498,217)	(2,218,559)
2005/2004 interim dividend	(519,988)	(454,283)
Dividend on shares issued for employee share options exercised after 30 Jun 2005/2004	(579)	(8)
	(520,567)	(454,291)
At 31 Dec	2,455,794	2,154,675
Representing:		
Retained earnings	1,775,631	1,658,055
Proposed/declared dividends	680,163	496,620
At 31 Dec	2,455,794	2,154,675

- (a) The Group's profit after taxation included a net profit attributable to the investment and other income net of expenses after taxation of the Clearing House Funds, Compensation Fund Reserve Account and CDMD Fund for an aggregate amount of \$30,653,000 (2004: deficit of \$2,182,000).

PROSPECTS

We remain optimistic about the long-term prospects of our business and the market. However, uncertainties on the external front over global oil prices, interest rates and valuation of the Renminbi could affect trading activity and hence our profitability.

With increasing globalisation and greater availability of products in other markets, we also foresee intensified competition among exchanges in the region and beyond for investor funds and issuers' listings both in the Cash and Derivatives Markets.

HKEx welcomes the Government's decision to abolish estate duties and exempt the profits tax for offshore funds. These measures should help attract further inflow of funds to Hong Kong and support the city's development as a major fund management centre, complementing our role as the premier capital-formation market for China.

Our renovated Trading Hall opened earlier this year after extensive refurbishment and the adjacent Exchange Exhibition Hall will open in April 2006. Together they offer a variety of functions and the material to be displayed will facilitate a better understanding of Hong Kong by those interested in exploring the extraordinary evolution of its financial markets.

It is our firm belief that our markets' evolution, sustained by an emphasis on quality – through continuous improvements in regulation, education and infrastructure – will help distinguish Hong Kong as a pre-eminent international financial hub. Combined with the right business conditions, the ongoing success of our growth strategies and cost-savings programmes should keep us on track to continue to provide good returns to Shareholders.

At HKEx, the Board and executives will be preparing the next three-year plan, as the Strategic Plan of 2004-2006 approaches completion. The focus is expected to remain on pursuing organic growth opportunities, including building on our unique partnership with the Mainland, and providing a better platform to meet the growing fund-raising needs of potential issuers seeking to list in Hong Kong.

FINAL DIVIDEND

The Board of Directors recommends a final dividend of \$0.64 per share (2004: \$0.47) for the year ended 31 December 2005 to be paid to Shareholders. Together with the interim dividend of \$0.49 per share (2004: \$0.43), this will bring the total dividend distribution for the year to \$1.13 per share (2004: \$0.90).

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Friday, 21 April 2006 to Wednesday, 26 April 2006, both dates inclusive, during which period, no transfer of shares will be registered. Dividend warrants will be despatched to Shareholders on or about Monday, 8 May 2006. In order to qualify for the proposed final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with HKEx's registrar, Hong Kong Registrars Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Thursday, 20 April 2006.

ANNUAL GENERAL MEETING

The annual general meeting 2006 ("AGM") will be held at the Exchange Auditorium in the Exchange Exhibition Hall of the Exchange at 1st Floor, One and Two Exchange Square, Central, Hong Kong on Wednesday, 26 April 2006 at 4:30 p.m. The Notice of AGM will be published in the South China Morning Post and Hong Kong Economic Times and despatched to Shareholders on or about Tuesday, 28 March 2006.

APPOINTMENT AND ELECTION OF DIRECTORS

The Board currently consists of thirteen Directors, comprising six Directors appointed by the Financial Secretary of Hong Kong (“Government Appointed Directors”), six Directors elected by Shareholders (“Elected Directors”) and one *ex-officio* Director.

The terms of office of three Government Appointed Directors, namely Mr Charles Y K Lee, Mr Timothy G Freshwater and Dr Lo Ka Shui, will expire at the conclusion of the AGM. The Financial Secretary has not yet informed HKEx of the persons whom he intends to appoint or re-appoint as Directors upon the retirement of the aforesaid three Directors. A press release will be issued once HKEx has received the notices of appointment from the Financial Secretary.

Besides, the terms of office of two Elected Directors, namely Mr Dannis J H Lee and Mr David M Webb, will expire at the conclusion of the AGM. Pursuant to Article 93(5) of the Articles of Association, both of them are eligible for re-appointment. The Nomination Committee has nominated, and the Board has recommended Mr Dannis J H Lee and Mr David M Webb to stand for re-election as Directors at the AGM.

Shareholders are invited to elect up to two Directors at the AGM to fill the vacancies available due to the retirement of the two said Elected Directors. The two Directors to be elected at the AGM will be appointed for a term of around three years expiring at the conclusion of HKEx’s annual general meeting to be held in 2009.

A circular containing, inter alia, the Notice of AGM and further information concerning nomination and election of Directors will be sent to Shareholders on or about 28 March 2006. The Notice of AGM will be published in the newspapers on the same date.

CORPORATE GOVERNANCE

HKEx applied the principles and complied with all requirements set out in the CG Code contained in Appendix 14 of the Main Board Listing Rules, throughout the review period with certain deviations from code provisions A.4.1 and A.4.2 in respect of the service term and rotation of Directors, which were duly rectified after amendments to the Articles of Association were approved by Shareholders in April 2005. Since then, HKEx has fully complied with the CG Code.

REVIEW OF ACCOUNTS

The Audit Committee has reviewed the Group’s consolidated financial statements for the year ended 31 December 2005, including the accounting principles and practices adopted by the Group, in conjunction with HKEx’s external auditors and internal auditors.

PURCHASE, SALE OR REDEMPTION OF HKEX’S LISTED SECURITIES

During the year ended 31 December 2005, HKEx had not redeemed, and neither HKEx nor any of its subsidiaries had purchased or sold, any of HKEx’s listed securities.

On 14 September 2005 (“Adoption Date”), the Board adopted the Award Scheme in which all employees (including without limitation any executive directors) of the Group will be entitled to participate. Unless early terminated by the Board, the Award Scheme shall be valid and effective for a term of 15 years commencing on the Adoption Date provided that no contribution to the trust fund will be made by HKEx on or after the tenth anniversary date of the Adoption Date. Details of the Award Scheme were announced on the Adoption Date. The rules and the trust deed relating to the Award Scheme are posted on HKEx’s corporate website.

During the year, the Board awarded 960,000 shares, representing 0.09 per cent of the issued share capital as at the Adoption Date, to 139 eligible employees. The purchase of the awarded shares from the market was completed on 4 January 2006 by the trustee of the Award Scheme and the total payout, including the related expenses, amounted to \$30,098,839.62.

PUBLICATION OF THE FINAL RESULTS AND ANNUAL REPORT

This results announcement is published on HKEx's corporate website at www.hkex.com.hk and the website of the Exchange. The Annual Report and the Notice of AGM will be despatched to Shareholders on or about Tuesday, 28 March 2006 and will be available at HKEx's website at the same time.

BOARD OF DIRECTORS

As at the date of this announcement, the Board of Directors of HKEx comprises 12 Independent Non-executive Directors, namely Mr LEE Yeh Kwong, Charles (Chairman), Dr CHEUNG Kin Tung, Marvin, Mr FAN Hung Ling, Henry, Mr FONG Hup, Mr FRESHWATER, Timothy George, Dr KWOK Chi Piu, Bill, Mr LEE Jor Hung, Dannis, Mr LEE Kwan Ho, Vincent Marshall, Dr LO Ka Shui, Mr STRICKLAND, John Estmond, Mr WEBB, David Michael, Mr WONG Sai Hung, Oscar, and one executive Director, Mr CHOW Man Yiu, Paul, who is also the Chief Executive.

By Order of the Board
Hong Kong Exchanges and Clearing Limited
LEE Yeh Kwong, Charles
Chairman

Hong Kong, 8 March 2006

Please also refer to the printed version of this announcement in the South China Morning Post on 9 March 2006.