Notes to the Consolidated Accounts

(Financial figures are expressed in Hong Kong Dollar)

1. General Information

Hong Kong Exchanges and Clearing Limited ("HKEx") and its subsidiaries (collectively, "the Group") own and operate the only stock exchange and futures exchange in Hong Kong and their related clearing houses.

HKEx is a limited company incorporated and domiciled in Hong Kong. The address of its registered office is 12th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong.

These consolidated accounts were approved for issue by the Board of Directors on 8 March 2007.

2. Principal Accounting Policies

(a) Statement of compliance

These consolidated accounts have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which include all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and have been aligned with the requirements of International Financial Reporting Standards in all material respects as at 31 December 2006, accounting principles generally accepted in Hong Kong, requirements of the Hong Kong Companies Ordinance and applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Main Board Listing Rules").

(b) Basis of preparation

These consolidated accounts have been prepared under the historical cost convention, as modified by the revaluation of leasehold buildings, investment properties, available-for-sale financial assets and financial assets and financial liabilities at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The area involving higher degree of judgement or complexity, or area where assumptions and estimates are significant to the consolidated accounts is disclosed in note 3.

Adoption of new/revised HKFRSs

In 2006, the Group adopted the revised HKAS 27: Consolidated and Separate Financial Statements, which was the only new/revised HKFRS effective in 2006 that was relevant to its operations.

The adoption of the revised HKAS 27 has resulted in a change in accounting policy relating to the consolidation of special purpose entities (including trusts) of the Group. Trusts could not be consolidated under the previous HKAS 27 prior to 2006 as they were not considered as subsidiaries under the Hong Kong Companies Ordinance. The Companies (Amendment) Ordinance 2005, effective for accounting periods beginning on or after 1 January 2006, has removed the legal constraint that prevented a Hong Kong incorporated company from consolidating in its group accounts special purpose entities (including trusts) that are required to be consolidated under HKFRSs but did not meet the legal definition of a subsidiary under the then Hong Kong Companies Ordinance, and HKAS 27 has been revised accordingly.

2. Principal Accounting Policies *(continued)*

(b) Basis of preparation *(continued)*

Adoption of new/revised HKFRSs (continued)

In 2005, the Board of HKEx approved an Employees' Share Award Scheme ("Share Award Scheme"), under which shares of HKEx ("Awarded Shares") may be awarded to an Executive Director and employees of the Group. The Group has set up a trust, The HKEx Employees' Share Award Scheme ("HKEx Employee Share Trust"), for the purpose of administering the Share Award Scheme and holding the Awarded Shares before they vest. As HKEx has the power to govern the financial and operating policies of the HKEx Employee Share Trust and derives benefits from the contributions of the employees who have been awarded the Awarded Shares through their continued employment with the Group, the Group is required to consolidate the HKEx Employee Share Trust under the revised HKAS 27 in 2006.

The adoption of the revised HKAS 27 requires retrospective application to prior year comparatives.

Early adoption of HKFRSs

In the fourth quarter of 2006, the Group early adopted all HKFRSs issued up to 31 December 2006 which were pertinent to its operations where early adoption is permitted. The only applicable HKFRS is set out below:

HK(IFRIC)-INT 10: Interim Financial Reporting and Impairment

The early adoption of HK(IFRIC)-INT 10 does not have any financial impact on the Group in 2006 or prior years. In accordance with HK(IFRIC)-INT 10, the Group has changed its accounting policy relating to the reversal of impairment losses on goodwill and available-for-sale equity financial assets recognised in interim period. Under the new policy, impairment reported in the profit and loss account in the interim period will also be reported in the profit and loss account for the full financial year which includes that interim period, irrespective of whether conditions have improved at the year-end balance sheet date.

According to the specific transitional provisions of HK(IFRIC)-INT 10, the adoption of the interpretation in relation to goodwill and available-for-sale equity financial assets should be applied prospectively from the date the Group first applied HKAS 36: Impairment of Assets (ie 1 January 2003) and the measurement criteria of HKAS 39: Financial Instruments: Recognition and Measurement (ie 1 January 2004) respectively.

Effects of changes in accounting policies on consolidated profit and loss account

The adoption of the revised HKAS 27 has the following impact on the consolidated profit and loss account:

	Group	
	2006 **$'000**	2005 $'000
Increase in investment income	**6**	11
Increase in staff costs and related expenses	**(20)**	(1)
Total (decrease)/increase in profit	**(14)**	10
(Decrease)/increase in basic earnings per share	**(0.00 cents)**	0.00 cents
(Decrease)/increase in diluted earnings per share	**(0.00 cents)**	0.00 cents

2. Principal Accounting Policies *(continued)*

(b) Basis of preparation *(continued)*

Effects of changes in accounting policies on consolidated balance sheet

The adoption of the revised HKAS 27 has the following impact on the consolidated balance sheet as at 31 December 2006 and 31 December 2005:

	Group	
	2006 $'000	2005 $'000
Increase/(decrease) in assets		
Contributions to HKEx Employee Share Trust	**(49,825)**	(30,037)
Cash and cash equivalents	**53**	20
Increase/(decrease) in liabilities/equity		
Accounts payable, accruals and other liabilities	**3**	1
Shares held for Share Award Scheme	**(51,297)**	(30,028)
Retained earnings	**1,522**	10

Effects of HKFRSs that were issued after 31 December 2006 and up to the date of approval of the consolidated accounts

At the date of approval of these consolidated accounts, the following HKFRS was issued after 31 December 2006 but was not applicable to the Group's operations:

HK(IFRIC)-INT 11: HKFRS 2 – Group and Treasury Share Transactions

(c) Consolidation

The Group has adopted merger accounting in the preparation of the consolidated accounts at the time of the merger of the Group in 2000. The consolidated accounts include the accounts of HKEx and all of its subsidiaries made up to 31 December.

(i) Subsidiaries and controlled special purpose entities

Subsidiaries and controlled special purpose entities are entities over which HKEx, directly or indirectly, has the power to govern the financial and operating policies generally accompanying a holding of more than one half of the voting rights or issued share capital.

The accounts of subsidiaries and controlled special purpose entities are included in the consolidated accounts from the date on which control commences until the date that control ceases. All material intra-group transactions and balances have been eliminated on consolidation.

In HKEx's balance sheet, investments in subsidiaries and contributions to the HKEx Employee Share Trust, a controlled special purpose entity, are stated at cost less provision for any impairment, if necessary. The results of subsidiaries are accounted for by HKEx on the basis of dividends received and receivable.

(ii) Associates

Associates are all entities, not being subsidiaries nor interests in joint ventures, in which the Group has significant influence generally accompanying a shareholding of between 20 per cent and 50 per cent of the voting rights.

Investments in associates are accounted for in the consolidated accounts under the equity method. The consolidated profit and loss account includes the Group's share of the post-acquisition results of associates for the year, and the consolidated balance sheet includes the Group's share of the net assets of associates and goodwill (net of accumulated impairment losses).

2. Principal Accounting Policies *(continued)*

(d) Turnover

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

(e) Revenue recognition

Income is recognised in the profit and loss account on the following basis:

(i) Trading fees and trading tariff on securities and options traded on the Stock Exchange and trading fees on derivatives contracts traded on the Futures Exchange are recognised on a trade date basis.

(ii) Initial listing fees for initial public offering ("IPO") are recognised upon the listing of an applicant, cancellation of the application or six months after submission of the application, whichever is earlier. Initial listing fees for warrants, callable bull/bear contracts and other securities are recognised upon the listing of the securities. Income from annual listing fees is recognised on a straight-line basis over the period covered by the respective fees received in advance.

(iii) Settlement fees on derivatives contracts traded on the Futures Exchange are recognised on the official final settlement day.

(iv) Fees for clearing and settlement of broker-to-broker trades in eligible securities transacted on the Stock Exchange are recognised in full on T+1, ie, on the day following the trade day, upon acceptance of the trades. Fees for other settlement transactions are recognised upon completion of the settlement.

(v) Custody fees for securities held in the Central Clearing and Settlement System ("CCASS") depository are calculated and accrued on a monthly basis. Income on registration and transfer fees on nominee services are calculated and accrued on the book close dates of the relevant stocks during the financial year.

(vi) Income from sale of information and other fees are recognised when the related services are rendered.

(vii) Interest income on investments represents gross interest income from bank deposits and securities and is recognised on a time apportionment basis using the effective interest method.

(viii) When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rates of the instrument, and continues unwinding the discount as interest income included under Other Income. Interest income on impaired loans is recognised using the original effective interest rate.

(ix) Dividend income is recognised when the right to receive payment is established.

(x) Rental income is recognised on an accrual basis.

(f) Interest expenses

Interest expenses are recognised on a time apportionment basis, taking into account the principal outstanding and the applicable interest rates using the effective interest method. All interest expenses are charged to the profit and loss account in the year in which they are incurred.

2. Principal Accounting Policies *(continued)*

(g) Employee benefit costs

(i) Employee leave entitlements

The cost of accumulating compensated absences is recognised as an expense and measured based on the additional amount that the Group expects to pay as a result of the unused entitlement that has accumulated at the balance sheet date.

(ii) Equity compensation benefits

For share options granted under the Post-Listing Share Option Scheme ("Post-Listing Scheme") and the Awarded Shares granted under the Share Award Scheme, the fair value of the employee services received in exchange for the grant of the options and the Awarded Shares is recognised as an expense and credited to an employee share-based compensation reserve under equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options and Awarded Shares granted.

At each balance sheet date, the Group revises its estimates of the number of options and Awarded Shares that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in the profit and loss account over the remaining vesting period, with a corresponding adjustment to the employee share-based compensation reserve.

Share options granted under the Pre-Listing Share Option Scheme ("Pre-Listing Scheme") are not expensed as the options were granted before 7 November 2002 and not subject to requirements of HKFRS 2: Share-based Payment.

When the options are exercised, the proceeds received are credited to share capital (nominal value) and share premium, and the associated amount in the employee share-based compensation reserve, if any, is transferred to share premium.

(iii) Retirement benefit costs

Contributions to the defined contribution provident fund regulated under the Occupational Retirement Schemes Ordinance ("ORSO") and operated by the Group and the AIA-JF Premium MPF Scheme are expensed as incurred. Forfeited contributions of the provident fund in respect of employees who leave before the contributions are fully vested are not used to offset existing contributions but are credited to a reserve account of that provident fund. Reserves of the provident fund representing forfeited employer's contributions are available for distribution to the provident fund members at the discretion of the trustees. Assets of the provident fund and the AIA-JF Premium MPF Scheme are held separately from those of the Group and are independently administered.

(h) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease term.

2. Principal Accounting Policies *(continued)*

(i) Fixed assets

The building component of owner-occupied leasehold properties is stated at valuation less accumulated depreciation. Fair value is determined by the Directors based on independent valuations which are performed periodically. The valuations are on the basis of depreciated replacement cost. Depreciated replacement cost is used as open market value cannot be reliably allocated to the building component. The Directors review the carrying value of the leasehold buildings and adjustment is made where they consider that there has been a material change. Increases in valuation are credited to the leasehold buildings revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and are thereafter charged to the profit and loss account. Any subsequent increases are credited to the profit and loss account up to the amount previously charged and thereafter to leasehold buildings revaluation reserve.

Other tangible fixed assets are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Tangible fixed assets are depreciated at rates sufficient to write off their costs net of expected residual values over their estimated useful lives on a straight-line basis. The useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The useful lives of major categories of fixed assets are as follows:

Leasehold buildings	25 years
Leasehold improvements	Over the remaining life of the leases but not exceeding 5 years
Computer trading and clearing systems – hardware and software	5 years
Other computer hardware and software	3 years
Furniture and equipment	Up to 5 years
Motor vehicles	3 years

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the profit and loss account during the year in which they are incurred.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount (note 2(m)).

Qualifying software system development expenditures are capitalised and recognised as a fixed asset in the balance sheet as the software forms an integral part of the hardware on which it operates. The expenditures comprise all qualifying direct and allocated expenses attributable to the development of distinct major computer systems.

Qualifying development expenditures incurred after the completion of a system are added to the carrying amount of the related asset when it is probable that future economic benefits that are attributable to the asset will flow to the Group. All other subsequent expenditures are recognised as non-qualifying expenditures.

All non-qualifying expenditures and expenses incurred on other non-qualifying development activities are charged as expenses to the profit and loss account in the period in which such expenses are incurred.

2. Principal Accounting Policies *(continued)*

(i) Fixed assets *(continued)*

Amortisation of the cost of capitalised software system development expenditures is provided from the dates when the systems are available for use.

Upon the disposal of leasehold buildings, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the leasehold buildings revaluation reserve to retained earnings.

The gain or loss on disposal of fixed assets is the difference between the net sale proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(j) Investment properties

Investment properties are properties held for long-term rental yields and not occupied by the Group. Investment properties comprise land held under operating leases and buildings held under finance leases. Investment properties are carried at fair value, representing open-market value determined by independent qualified valuers in accordance with the "HKIS Valuation Standards on Properties" issued by the Hong Kong Institute of Surveyors ("HKIS Valuation Standards"), "The RICS Appraisal and Valuation Standards" published by the Royal Institution of Chartered Surveyors ("RICS") and the "International Valuation Standards" published by the International Valuation Standards Committee where the HKIS Valuation Standards are silent on subjects requiring guidance. Changes in fair value are recognised in the profit and loss account.

(k) Lease premiums for land

Leasehold land premiums are up-front payments to acquire long-term interests in lessee-occupied properties. The premiums are stated at cost and are amortised over the period of the lease on a straight-line basis to the profit and loss account.

(l) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired company at the date of acquisition. Goodwill on acquisition of associates is included in investments in associates.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

(m) Impairment of assets other than financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount (ie, the higher of an asset's fair value less costs to sell and value in use). Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a decline in revaluation.

In respect of assets other than goodwill, impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and the circumstances and events leading to the impairment cease to exist. Impairment loss in respect of goodwill is not reversed. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment losses is credited to the profit and loss account except when the asset is carried at valuation, in which case the reversal of impairment loss is credited to the profit and loss account up to the amount previously charged to the profit and loss account and thereafter treated as a revaluation movement.

2. Principal Accounting Policies *(continued)*

(m) Impairment of assets other than financial assets *(continued)*

The Group publishes its interim financial reports on a quarterly basis. At the end of each interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year. Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(n) Clearing House Funds

Income arising from bank deposits and investments comprising the Clearing House Funds and expenses incurred for these funds are dealt with in the profit and loss account. Investment income net of expenses of the Clearing House Funds is appropriated from retained earnings to the respective designated reserves of the Clearing House Funds and allocated to amounts attributable to Clearing Participants' contributions and to clearing houses' contributions based on the ratio of their respective average initial contributions and accumulated allocated investment income net of expenses. Changes in valuation of the available-for-sale financial assets comprising the Clearing House Funds are dealt with in the investment revaluation reserve.

Net assets of the Clearing House Funds, which are derived from contributions from CCASS Broker Participants, HKFE Clearing Corporation Limited ("HKCC") Participants and The SEHK Options Clearing House Limited ("SEOCH") Participants (collectively "Clearing Participants") and the respective clearing houses, and the accumulated investment income net of expenses of the Clearing House Funds appropriated from retained earnings, are included in the balance sheet as non-current assets. Clearing Participants' contributions are treated as non-current liabilities in the balance sheet. Non-cash collateral of the Clearing House Funds (ie contributions receivable from Clearing Participants fully secured by bank guarantees) and the corresponding liabilities are not reflected as assets and liabilities in the balance sheet in accordance with HKAS 39 but is disclosed in note 44 to the consolidated accounts. Contributions from the respective clearing houses, the accumulated investment income net of expenses of the Clearing House Funds appropriated from retained earnings and forfeiture of defaulted Clearing Participants' contributions are included in the balance sheet as designated reserves.

(o) Margin Funds on derivatives contracts/margin deposits and non-cash collateral received from Clearing Participants on derivatives contracts

Margin Funds are established by cash received or receivable from SEOCH and HKCC Clearing Participants for covering their open positions in derivatives contracts. The funds are refundable to the Clearing Participants of SEOCH and HKCC when they close their positions in derivatives contracts. These funds are held in segregated accounts of the respective clearing houses. Cash margin deposits received are disclosed as Margin Funds on derivatives contracts under current assets and the obligation to refund such deposits as Margin deposits from Clearing Participants on derivatives contracts under current liabilities. Non-cash collateral (ie securities and bank guarantees) received from Clearing Participants for satisfying margin requirements and the corresponding liabilities are not recorded as assets and liabilities of the Margin Funds in accordance with HKAS 39 but are disclosed in note 44 to the consolidated accounts.

Income arising from bank deposits and investments comprising these Margin Funds and expenses incurred for these funds are dealt with in the profit and loss account. Changes in fair value of available-for-sale financial assets comprising these Margin Funds are dealt with in the investment revaluation reserve. Changes in fair value of investments designated as financial assets at fair value through profit or loss are included in the profit and loss account. The Clearing Participants of SEOCH and HKCC are entitled to interest at a rate determined by SEOCH and HKCC on the margin deposits they place with SEOCH and HKCC respectively.

2. Principal Accounting Policies *(continued)*

(p) Cash marks received from Participants

Cash marks received from Hong Kong Securities Clearing Company Limited ("HKSCC") Participants for their open positions are recorded as assets in the balance sheet. As these funds are refundable to the Participants when they settled their positions, the marks received are reflected as liabilities to the Participants in the balance sheet.

Income arising from bank deposits comprising these funds is dealt with in the profit and loss account. HKSCC Participants are entitled to interest at a rate determined by HKSCC on the marks they place with HKSCC.

(q) Derivative financial instruments

Derivatives, which include forward foreign exchange contracts, are initially recognised at fair value on the date on which the derivative contracts are entered into and subsequently remeasured at their fair values. Fair values are based on quoted market prices in active markets, recent market transactions or valuation techniques such as discounted cash flow models and options pricing models, as appropriate. Changes in fair value of the derivatives are recognised in the profit and loss account except where the derivatives are designated as a qualifying cash flow hedge in which case recognition of any resultant fair value gain or loss depends on the nature of the item being hedged (note 2 (r)). All derivatives except those designated as qualifying cash flow hedges are classified as financial assets at fair value through profit or loss when their fair values are positive and as financial liabilities at fair value through profit or loss when their fair values are negative.

(r) Hedge accounting

The Group documents at the inception of the transactions the relationship between the hedging instruments and the hedged items, as well as the risk management objectives and strategies for undertaking various hedge transactions. The Group also documents its assessment, both at the inception of the hedges and on an ongoing basis, of whether the hedging instruments are highly effective in offsetting changes in fair values or cash flows of the hedged items caused by the risk being hedged.

The fair value of a hedging derivative instrument is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than twelve months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than twelve months.

(i) Fair value hedges

Changes in the fair value of hedging instruments that are designated and qualify as fair value hedges are recognised in the profit and loss account together with the changes in the fair value of the hedged assets, liabilities or firm commitments that are subject to the hedged risk.

(ii) Cash flow hedges

For hedging instruments that are designated and qualify as cash flow hedges, the changes in the fair value relating to the effective portion of the hedges are recognised in equity. The gains or losses relating to the ineffective portion of the hedges are recognised immediately in the profit and loss account.

Amounts accumulated in equity are recycled to the profit and loss account in the periods when the hedged items affect profit or loss. However, when the forecast transactions that are hedged result in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss retained in equity at that time remains in equity and is recognised in accordance with the above policy when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss retained in equity is immediately transferred to the profit and loss account.

2. Principal Accounting Policies *(continued)*

(s) Investments

(i) Classification

Investments of the Group are classified under the following categories:

Financial assets at fair value through profit or loss

This category comprises financial assets held for trading (ie those acquired for the purpose of selling in short-term or derivatives which are not designated as hedging instruments), shares receivable by HKSCC under stock borrowing for the purpose of settlement under the Continuous Net Settlement ("CNS") basis and financial assets designated as fair value through profit or loss at inception if the designation:

- eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring financial assets or financial liabilities or recognising the gains and losses on them on different bases; or
- applies to a group of financial assets, financial liabilities or both that is managed and its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and where information about that group of financial instruments is provided internally on that basis to key management personnel; or
- relates to financial instruments containing one or more embedded derivatives that significantly modify the cash flows resulting from those financial instruments.

Financial assets at fair value through profit or loss held by the Corporate Funds are classified as current assets as they are held for trading.

Available-for-sale financial assets

This category comprises financial assets which are non-derivatives and are designated as available-for-sale financial assets or not classified under other investment categories.

Available-for-sale financial assets held by the Corporate Funds are included in non-current assets unless management intends to dispose of the investment or the investment is expected to mature within twelve months of the balance sheet date.

Loans and receivables

Loans and receivables, which comprise bank deposits, trade and accounts receivable, deposits and other assets, are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Group has no intention of trading the loans or receivables. Bank deposits are disclosed as time deposits and cash equivalents.

Loans and receivables of the Corporate Funds are included in current assets, except for items which are expected to mature after twelve months as at the balance sheet date.

(ii) Recognition and initial measurement

Loans and receivables arise when the Group provides money, goods or services directly to a debtor.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the assets. Investments classified as financial assets at fair value through profit or loss are initially recognised at fair value with transaction costs recognised as expenses in the profit and loss account. Investments not classified as financial assets at fair value through profit or loss are initially recognised at fair value plus transaction costs.

(iii) Derecognition

Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership of the investments.

2. Principal Accounting Policies *(continued)*

(s) Investments *(continued)*

(iv) Gains or losses on subsequent measurement and interest income and dividend income

Financial assets at fair value through profit or loss

- Investments under this category are carried at fair value. Unrealised gains and losses arising from changes in the fair value are included in the profit and loss account in the period in which they arise. Upon disposal, the difference between the net sale proceeds and the carrying value is included in the profit and loss account.

- Interest income is recognised using the effective interest method and included as net realised and unrealised gains/(losses) and interest income from these investments.

- Dividend income is recognised when the right to receive dividend is established and disclosed separately as dividend income.

Available-for-sale financial assets

- Available-for-sale financial assets are carried at fair value. Unrealised gains and losses (including transaction costs on acquisition) arising from changes in the fair value are recognised in investment revaluation reserve in accordance with HKAS 39, except for impairment losses in excess of previous revaluation surpluses and exchange differences of monetary securities resulting from changes in amortised costs are recognised in profit and loss account. For the purpose of recognising foreign exchange gains and losses under HKAS 21, monetary available-for-sale financial assets are treated as if they were carried at amortised cost in the foreign currency and, accordingly, exchange differences resulting from changes in amortised cost are recognised in profit or loss and other changes in carrying amount are recognised in reserve in accordance with HKAS 39. When the securities are sold, the difference between the net sale proceeds and the carrying value, and the accumulated fair value adjustments in the investment revaluation reserve are treated as gains or losses on disposal.

- Interest income is recognised using the effective interest method and disclosed as interest income.

- Dividend income is recognised when the right to receive dividend is established and disclosed as dividend income.

Loans and receivables

- Loans and receivables are carried at amortised cost using the effective interest method less provision for impairment.

- Interest income is recognised using the effective interest method and disclosed as interest income.

(v) Fair value measurement principles

Fair values of quoted investments are based on bid prices. For unlisted securities or financial assets without an active market, the Group establishes the fair value by using valuation techniques including the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

2. Principal Accounting Policies *(continued)*

(s) Investments *(continued)*

(vi) Impairment

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if and only if there is objective evidence of impairment as a result of one or more loss events that have occurred after the initial recognition of the assets and have an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- significant financial difficulty of the debtor or obligor;
- fees receivable that have been outstanding for over 180 days;
- the Group granting to the debtor or obligor, for economic or legal reasons relating to the debtor's or obligor's financial difficulty, a concession that the Group would not otherwise consider;
- it is becoming probable that the debtor or obligor will enter into bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group, including:
    - adverse changes in the payment status of debtors or obligors in the Group;
    - economic conditions that correlate with defaults on the assets in the Group.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics relevant to the estimation of future cash flows. These financial assets are collectively assessed based on historical loss experience on each type of assets and management judgement of the current economic and credit environment.

Loans and receivables

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the assets' carrying amounts and the present values of estimated future cash flows discounted at the financial assets' original effective interest rates. The carrying amounts of the assets are reduced through the use of a doubtful debt allowance account and the amount of the loss is recognised in the profit and loss account.

When there is no realistic prospect of recovery of a loan or receivable, it is written off against the related provision for impairment loss. Subsequent recovery of the amount previously written off is reversed against the provision for impairment loss in the profit and loss account.

2. Principal Accounting Policies *(continued)*

(s) Investments *(continued)*

(vi) Impairment *(continued)*

Loans and receivables (continued)

As soon as a loan or receivable becomes impaired, the Group may continue to provide services or facilities to the debtor or obligor but no further accounts receivable is recognised on balance sheet as economic benefits may not flow to the Group. The revenue concerned is not recognised but tracked as doubtful deferred revenue and will only be recognised as income when received.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the doubtful debt allowance account. The amount of reversal is recognised in the profit and loss account.

Available-for-sale financial assets

If there is objective evidence that an impairment loss on available-for-sale financial assets has been incurred, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on the financial asset previously recognised in the profit or loss account) is removed from investment revaluation reserve and recognised in the profit and loss account.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the profit and loss account up to the amount previously charged to the profit and loss account and any further increase in fair value thereafter is treated as a revaluation movement.

In the case of equity securities classified as available-for-sale financial assets, a significant or prolonged decline in the fair value of the securities below their cost is considered in determining whether the securities are impaired. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account. Any subsequent increase in the fair value of such assets is recognised directly in investment revaluation reserve.

The Group publishes its interim financial reports on a quarterly basis. At the end of each interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year. Impairment losses recognised in an interim period in respect of available-for-sale equity securities are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(t) Financial liabilities

(i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are financial liabilities held for trading (ie principally held for the short-term and derivatives which are not designated as hedging instruments), shares borrowed by HKSCC for the purpose of settlement under the CNS basis and financial liabilities designated at fair value through profit or loss at inception if the designation satisfies the same criteria as set out in note 2(s)(i) under the caption of "Financial assets at fair value through profit or loss".

Liabilities under this category are initially recognised at fair value on the date on which a contract is entered into and subsequently remeasured at their fair values. Changes in fair value of the liabilities are recognised in the profit and loss account.

2. Principal Accounting Policies *(continued)*

(t) Financial liabilities *(continued)*

(ii) Financial guarantee contracts

A financial guarantee contract is a contract that requires the Group to make specified payments to reimburse the holder for a loss it incurs because a specified entity or person fails to make payment when due in accordance with the original or modified terms of an undertaking.

Financial guarantee contracts are accounted for as financial instruments under HKAS 39 and are initially recognised at fair value. Subsequently, such contracts are measured at the higher of the amount determined in accordance with HKAS 37 – Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less, where appropriate, cumulative amortisation recognised over the life of the guarantee on a straight-line basis.

(iii) Other financial liabilities

Financial liabilities, other than financial liabilities at fair value through profit or loss and financial guarantee contracts, are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

(u) Repurchase transactions

When securities are sold subject to a commitment to repurchase them at a predetermined price, they remain on the balance sheet and the consideration received is recorded as a liability.

(v) Recognition of receivables and payables from/to HKSCC Clearing Participants on Stock Exchange trades settled on the CNS basis

Upon acceptance of Stock Exchange trades for settlement in CCASS under the CNS basis, HKSCC interposes itself between the HKSCC Clearing Participants as the settlement counterparty to the trades through novation. Final acceptance of Stock Exchange trades is confirmed on T+1 by details contained in the final clearing statement transmitted to every HKSCC Clearing Participant.

The CNS money obligations due by/to HKSCC Clearing Participants on the Stock Exchange trades are recognised as receivables and payables when they are confirmed and accepted on T+1.

For all other trades and transactions, HKSCC merely provides a facility for settlement within CCASS and does not interpose itself between the HKSCC Clearing Participants as the settlement counterparty to the trades. The settlement of these trades does not constitute money obligations and is excluded from the consolidated accounts of the Group.

(w) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences or the income tax losses can be utilised. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred tax assets and liabilities. Movements in deferred tax provision are recognised in the profit and loss account with the exception of deferred tax related to fair value re-measurement of leasehold buildings, available-for-sale financial assets and cash flow hedges, which is charged or credited directly to equity, is also credited or charged directly to equity.

(x) Deferred revenue

Deferred revenue comprises annual listing fees received in advance, payments received in advance for services in relation to the sales of stock market information and telecommunication line rentals for trading facilities located at brokers' offices.

2. Principal Accounting Policies *(continued)*

(y) Provisions, contingent liabilities and contingent assets

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the consolidated accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(z) Foreign currency translation

(i) Functional and presentation currency

Items included in the accounts of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated accounts are presented in Hong Kong Dollars ("HKD"), which is HKEx's and the Group's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets (accounting treatment for available-for-sale financial assets is included in note 2(s)(iv)) and liabilities denominated in foreign currencies are recognised in the profit and loss account, except when the foreign exchange gains/losses are related to a qualifying cash flow hedge in which case the amount will be deferred in the hedging reserve.

Translation differences on non-monetary financial assets and liabilities, such as equity investments held that are classified as financial assets at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equity instruments classified as available-for-sale financial assets are included in the investment revaluation reserve in equity.

(aa) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, bank balances and other short-term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value (mainly time deposits), with original maturities of three months or less.

2. Principal Accounting Policies *(continued)*

(ab) Shares held for Share Award Scheme

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

(ac) Segment reporting

Business segment assets consist primarily of fixed assets, assets of the Clearing House Funds, Compensation Fund Reserve Account, Margin Funds, financial assets and other assets. Business segment liabilities comprise primarily liabilities to Participants, financial and other liabilities. Non-business segment assets and liabilities include taxation recoverable and payable, deferred tax assets and liabilities and dividends declared by HKEx but not yet claimed by its shareholders. Capital expenditures comprise additions to fixed assets. Business segments have been used as the primary reporting format and no geographical segment analysis is presented as all business activities are conducted in Hong Kong.

(ad) Dividends

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

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

Dividends declared by HKEx which have not been claimed by its shareholders for a period of over six years from the dividend payment date are forfeited and transferred to retained earnings in accordance with HKEx's Articles of Association.

(ae) Related parties

Parties are considered to be related to the Group if the Group has the ability to control, directly or indirectly, the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or entities and include entities which are controlled or under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

3. Critical Accounting Estimates and Judgements

The Group makes estimates and assumptions concerning the future. The estimates and assumptions that may have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year relate to the assessment of impairment of investments in associates.

The Group assesses annually if investments in associates have suffered any impairment in accordance with the accounting policy stated in note 2(m). The recoverable amount of the investment in one of the associates, Computershare Hong Kong Investor Services Limited ("CHIS"), is determined using discounted cash flows which require the use of estimated dividends, proceeds on disposal and an appropriate discount rate as stated in note 21(b)(ii).

If the discount rate moves above 40 per cent, or annual dividends expected to be received fall by more than 76 per cent, an impairment loss may be considered necessary.

4. Segment Information

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 segment is as follows:

	2006					
	Cash Market $'000	Derivatives Market $'000	Clearing Business $'000	Information Services $'000	Others $'000	Group $'000
Income	1,822,011	661,305	1,269,840	393,760	–	4,146,916
Operating expenses						
Direct costs	441,233	118,456	328,529	41,860	–	930,078
Indirect costs	129,091	39,745	92,250	19,409	–	280,495
	570,324	158,201	420,779	61,269	–	1,210,573
Segment results	1,251,687	503,104	849,061	332,491	–	2,936,343
Share of profits less losses of associates	1	–	27,123	–	–	27,124
Segment profits before taxation	1,251,688	503,104	876,184	332,491	–	2,963,467
Taxation						(444,898)
Profit attributable to shareholders						2,518,569
Segment assets	2,803,226	22,782,430	14,715,139	80,796	3,330	40,384,921
Investments in associates	–	–	68,377	–	–	68,377
	2,803,226	22,782,430	14,783,516	80,796	3,330	40,453,298
Segment liabilities	831,567	21,698,925	12,286,695	35,808	342,717	35,195,712
Segment capital expenditures	31,719	3,050	15,717	1,775	–	52,261
Segment depreciation and amortisation	25,538	9,633	61,112	4,152	–	100,435
Segment (reversal of provision for)/provision for impairment losses	146	(51)	(138)	(29)	–	(72)
Segment other non-cash expenses	13,306	3,291	7,416	1,119	–	25,132

4. Segment Information *(continued)*

	2005 (As restated)					
	Cash Market $'000	Derivatives Market $'000	Clearing Business $'000	Information Services $'000	Others $'000	Group $'000
Income	1,172,854	441,758	753,699	325,757	–	2,694,068
Operating expenses						
Direct costs	429,042	111,812	305,821	46,703	–	893,378
Indirect costs	115,915	36,149	79,089	20,952	–	252,105
	544,957	147,961	384,910	67,655	–	1,145,483
Segment results	627,897	293,797	368,789	258,102	–	1,548,585
Share of profits less losses of associates	(3)	–	18,436	–	–	18,433
Segment profits before taxation	627,894	293,797	387,225	258,102	–	1,567,018
Taxation						(227,460)
Profit attributable to shareholders						1,339,558
Segment assets	2,157,514	14,616,310	6,028,404	60,939	3,168	22,866,335
Investments in associates	1,305	–	63,276	–	–	64,581
	2,158,819	14,616,310	6,091,680	60,939	3,168	22,930,916
Segment liabilities	608,183	13,697,352	4,106,773	35,451	145,686	18,593,445
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

4. Segment Information *(continued)*

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, callable bull/bear contracts, warrants and rights. Currently, the Group operates two Cash Market platforms, the Main Board and the Growth Enterprise Market ("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. Costs of the Listing Function are further explained in note 6.

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, SEOCH 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.

5. Trading Fees and Trading Tariff

	2006 $'000	2005 $'000
Trading fees and trading tariff were derived from:		
Securities traded on the Cash Market	**969,421**	528,954
Derivatives contracts traded on the Derivatives Market	**370,934**	264,293
	1,340,355	793,247

6. Stock Exchange Listing Fees

Stock Exchange listing fees and costs of Listing Function comprised the following:

	2006				2005			
	Equity				Equity			
	Main Board $'000	GEM $'000	Debt & Derivatives $'000	Total $'000	Main Board $'000	GEM $'000	Debt & Derivatives $'000	Total $'000
Income								
Annual listing fees	247,797	24,977	1,812	274,586	236,125	25,946	1,874	263,945
Initial and subsequent issue listing fees	45,910	3,175	135,516	184,601	53,175	5,880	83,020	142,075
Prospectus vetting fees	2,730	360	60	3,150	2,775	375	140	3,290
Other listing fees	2,174	934	–	3,108	2,706	984	–	3,690
Total income	298,611	29,446	137,388	465,445	294,781	33,185	85,034	413,000
Costs of Listing Function								
Direct costs								
Staff costs and related expenses	120,623	30,664	6,886	158,173	98,408	28,749	5,645	132,802
Information technology and computer maintenance expenses	1,943	517	–	2,460	1,608	441	2	2,051
Premises expenses	14,930	3,722	870	19,522	6,336	1,846	363	8,545
Legal and professional fees	1,785	1,247	–	3,032	4,907	1,202	1	6,110
Depreciation	3,420	1,008	57	4,485	6,234	1,918	206	8,358
Other operating expenses	8,489	2,992	204	11,685	20,777	5,337	164	26,278
Total direct costs	151,190	40,150	8,017	199,357	138,270	39,493	6,381	184,144
Indirect costs	25,175	5,361	4,578	35,114	27,822	5,602	4,571	37,995
Contribution	122,246	(16,065)	124,793	230,974	128,689	(11,910)	74,082	190,861

Listing fee income is fees paid by issuers to enable them to gain access to the Stock Exchange and enjoy the privileges and facilities by being admitted, listed and traded on the Stock Exchange.

The direct costs listed above are regulatory in nature, which comprise costs of the Listing Function on vetting IPOs and enforcing the 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 and disseminating information relating to listed companies. Indirect costs comprise costs of support services and other central overheads attributable to the Listing Function.

7. Investment Income

	2006 $'000	As restated 2005 $'000
Interest income		
– bank deposits	**516,468**	246,740
– listed available-for-sale financial assets	**24,755**	11,852
– unlisted available-for-sale financial assets	**267,227**	78,064
	808,450	336,656
Interest expenses (note a)	**(442,670)**	(126,260)
Net interest income	**365,780**	210,396
Net realised and unrealised gains/(losses) and interest income on financial assets and financial liabilities at fair value through profit or loss		
On designation		
– bank deposits with embedded derivatives	**–**	266
Held for trading		
– listed securities	**163,640**	84,644
– unlisted securities	**49,521**	15,513
– exchange differences	**15,824**	(17,928)
	228,985	82,229
	228,985	82,495
Dividend income		
–listed financial assets at fair value through profit or loss	**6,115**	7,630
Other exchange differences on loans and receivables	**200**	(401)
Total investment income	**601,080**	300,120
Total investment income was derived from:		
Corporate Funds (note b)	**305,729**	119,198
Margin Funds	**246,732**	150,209
Clearing House Funds	**48,619**	30,713
	601,080	300,120

(a) The significant increase in interest expenses was mainly attributable to the increase in Margin Fund size, rising interest rates and a change in the benchmarked interest rate payable on cash margin deposits from 1 June 2005 onwards. In 2006, interest was paid on cash margin deposits based on the savings rate. Prior to 1 June 2005, interest was not always paid to the Participants as the interest rates payable on the cash margin deposits were often lower than the retention interest rates charged by HKCC and SEOCH on such cash margin deposits.

(b) Investment income derived from the Corporate Funds included investment income of the Compensation Fund Reserve Account of $2,026,000 (2005: $1,286,000).

8. Other Income

	2006 $'000	2005 $'000
Network, terminal user, dataline and software sub-license fees	**180,372**	129,733
Participants' subscription and application fees	**33,927**	34,351
Brokerage on direct IPO applications	**57,066**	34,123
Trading booth user fees	**9,162**	–
Fair value gain of an investment property (note 19)	**1,600**	4,400
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	**3,164**	2,154
Miscellaneous income	**13,041**	16,256
	298,332	221,017

9. Staff Costs and Related Expenses

(a) Staff costs and related expenses comprised the following:

	2006 $'000	As restated 2005 $'000
Salaries and other short-term employee benefits	**577,713**	512,549
Employee share-based compensation benefits (note 33)	**24,033**	22,955
Termination benefits	**1,194**	237
Retirement benefit costs (note b):		
– ORSO Plan	**51,507**	50,011
– MPF Scheme	**359**	282
	654,806	586,034

(b) Retirement Benefit Costs

The Group has sponsored a defined contribution provident fund scheme, namely the Hong Kong Exchanges and Clearing Provident Fund Scheme ("ORSO Plan"), which is registered under ORSO and has obtained Mandatory Provident Fund ("MPF") exemption. The ORSO Plan is for all full-time permanent employees. The Group contributes 12.5 per cent of the employee's basic salary to the ORSO Plan if an employee contributes 5 per cent. If the employee chooses not to contribute, the Group will contribute 10 per cent of the employee's salary to the ORSO Plan.

In compliance with the MPF Ordinance, HKEx has participated in a master trust MPF scheme, the AIA-JF Premium MPF Scheme ("MPF Scheme"), to provide retirement benefits to full-time permanent employees who elect to join the MPF Scheme and all temporary or part-time employees who are not eligible for joining the ORSO Plan. Contributions to the MPF Scheme are in accordance with the statutory limits prescribed by the MPF Ordinance (ie 5 per cent of the employee's relevant income subject to a maximum of $1,000 per month).

9. Staff Costs and Related Expenses *(continued)*

(b) Retirement Benefit Costs *(continued)*

The retirement benefit costs charged to the consolidated profit and loss account represent contributions paid and payable by the Group to the ORSO Plan and the MPF Scheme and related fees. No contribution payable was outstanding as at 31 December 2005 and 2006.

For the ORSO Plan, contributions during the year are not offset by contributions forfeited in respect of employees who left the ORSO Plan before the contributions were fully vested. Instead, forfeited contributions are credited to a reserve account of the ORSO Plan for the benefit of its members.

	2006 $'000	2005 $'000
Contributions forfeited during the year and retained in the ORSO Plan	**5,047**	3,143

10. Information Technology and Computer Maintenance Expenses

	2006 $'000	2005 $'000
Costs of services and goods:		
– consumed by the Group	**133,237**	146,568
– directly consumed by Participants	**85,371**	55,157
	218,608	201,725

11. Other Operating Expenses

	2006 $'000	As restated 2005 $'000
Provision for/(reversal of provision for) impairment losses of trade receivables (note 24(b))	**350**	(389)
(Reversal of provision for)/provision for impairment losses of leasehold buildings – revaluation (gain)/deficit (note 18(a)(iii))	**(422)**	837
Insurance	**15,338**	16,187
Financial data subscription fees	**4,274**	4,954
Custodian and fund management fees	**8,420**	7,887
Bank charges	**11,476**	4,420
Repair and maintenance expenses	**7,821**	8,476
License fees	**8,857**	6,279
Communication expenses	**4,878**	4,659
Other miscellaneous expenses	**37,846**	49,034
	98,838	102,344

12. Profit before Taxation

	2006 $'000	2005 $'000
Profit before taxation is stated after crediting/(charging):		
Amortisation of lease premiums for land	**(547)**	(548)
Auditors' remuneration		
– audit fees	**(2,324)**	(2,000)
– secondment fee	**–**	(300)
– non-audit fees:		
– charge for the year	**(449)**	(1,192)
– reversal of provision in respect of prior years	**440**	158
Interest on bank loans and overdrafts repayable within five years	**(6)**	(9)
Operating lease rentals		
– land and buildings	**(80,946)**	(44,976)
– computer systems and equipment	**(5,784)**	(6,514)
Rental income from investment property	**515**	501
Direct operating expenses of the investment property that generates rental income	**(168)**	(166)
Depreciation	**(99,888)**	(150,995)
Reversal of provision for/(provision for) impairment losses of leasehold buildings under other operating expenses	**422**	(837)
Reversal of provision for impairment loss of club debenture under other income	**–**	5
(Loss)/gain on disposal or write-off of fixed assets	**(627)**	38
Gain on liquidation of an associate	**6**	–
Exchange gains/(losses) on:		
– financial assets (excluding financial assets at fair value through profit or loss)	**200**	(401)
– Others	**(671)**	1,604

13. Directors' Emoluments

All Directors, including one Executive Director, received emoluments during the years ended 31 December 2006 and 31 December 2005. The aggregate emoluments paid and payable to the Directors during the two years were as follows:

	2006 $'000	2005 $'000
Executive Director:		
Salaries and other short-term employee benefits	**7,403**	7,262
Performance bonus	**2,754**	1,200
Retirement benefit costs	**918**	900
	11,075	9,362
Employee share-based compensation benefits (note a)	**1,210**	1,791
	12,285	11,153
Non-executive Directors:		
Fees	**2,880**	2,460
	15,165	13,613

(a) Employee share-based compensation benefits represent fair value of share options issued under the Post-Listing Scheme and Awarded Shares issued under the Share Award Scheme amortised to the profit and loss account during the year disregarding whether the options and the Awarded Shares have been vested/exercised or not.

(b) The emoluments, including employee share-based compensation benefits for options issued under the Post-Listing Scheme and Awarded Shares issued under the Share Award Scheme, of the Directors were within the following bands:

	2006 Number of Directors	2005 Number of Directors
$1 – $500,000	**16**	13
$11,000,001 – $11,500,000	**–**	1
$12,000,001 – $12,500,000	**1**	–
	17	14

13. Directors' Emoluments *(continued)*

The emoluments of all Directors, including the Chief Executive who is an ex-officio member, for the years ended 31 December 2006 and 2005 are set out below:

2006

Name of Director	Fees $'000	Salary $'000	Other benefits (note a) $'000	Performance bonus $'000	Retirement benefit costs (note b) $'000	Sub-total $'000	Employee share-based compensation benefits $'000	Total $'000
Ronald J Arculli (note c)	180	–	–	–	–	180	–	180
Charles Y K Lee (note d)	60	–	–	–	–	60	–	60
Paul M Y Chow	–	7,344	59	2,754	918	11,075	1,210	12,285
Laura M Cha (note c)	180	–	–	–	–	180	–	180
Moses M C Cheng (note c)	180	–	–	–	–	180	–	180
Marvin K T Cheung (note e)	240	–	–	–	–	240	–	240
Henry H L Fan	240	–	–	–	–	240	–	240
Fong Hup	240	–	–	–	–	240	–	240
Tim G Freshwater (note d)	60	–	–	–	–	60	–	60
Bill C P Kwok	240	–	–	–	–	240	–	240
Dannis J H Lee (note d)	60	–	–	–	–	60	–	60
Vincent K H Lee	240	–	–	–	–	240	–	240
Leong Ka Chai (note f)	–	–	–	–	–	–	–	–
Lo Ka Shui (note d)	60	–	–	–	–	60	–	60
Christine K W Loh (note c)	180	–	–	–	–	180	–	180
John E Strickland	240	–	–	–	–	240	–	240
David M Webb	240	–	–	–	–	240	–	240
Oscar S H Wong	240	–	–	–	–	240	–	240
Total	2,880	7,344	59	2,754	918	13,955	1,210	15,165

2005

Name of Director	Fees $'000	Salary $'000	Other benefits (note a) $'000	Performance bonus $'000	Retirement benefit costs (note b) $'000	Sub-total $'000	Employee share-based compensation benefits $'000	Total $'000
Ronald J Arculli (note c)	–	–	–	–	–	–	–	–
Charles Y K Lee (note d)	205	–	–	–	–	205	–	205
Paul M Y Chow	–	7,200	62	1,200	900	9,362	1,791	11,153
Laura M Cha (note c)	–	–	–	–	–	–	–	–
Moses M C Cheng (note c)	–	–	–	–	–	–	–	–
Marvin K T Cheung (note e)	180	–	–	–	–	180	–	180
Henry H L Fan	205	–	–	–	–	205	–	205
Fong Hup	205	–	–	–	–	205	–	205
Tim G Freshwater (note d)	205	–	–	–	–	205	–	205
Bill C P Kwok	205	–	–	–	–	205	–	205
Dannis J H Lee (note d)	205	–	–	–	–	205	–	205
Vincent K H Lee	205	–	–	–	–	205	–	205
Leong Ka Chai (note f)	25	–	–	–	–	25	–	25
Lo Ka Shui (note d)	205	–	–	–	–	205	–	205
Christine K W Loh (note c)	–	–	–	–	–	–	–	–
John E Strickland	205	–	–	–	–	205	–	205
David M Webb	205	–	–	–	–	205	–	205
Oscar S H Wong	205	–	–	–	–	205	–	205
Total	2,460	7,200	62	1,200	900	11,822	1,791	13,613

Notes:

(a) Other benefits included insurance premium and club membership.

(b) Employees who retire before normal retirement age are eligible for 18 per cent of the employer's contribution to the provident fund after completion of two years of service. The rate of vested benefit increases at an annual increment of 18 per cent thereafter reaching 100 per cent after completion of seven years of service.

(c) Appointment effective 26 April 2006

(d) Retired on 26 April 2006.

(e) Appointment effective 12 April 2005

(f) Retired on 12 April 2005.

14. Five Top-paid Employees

One (2005: one) of the five top-paid employees was a Director, whose emoluments are disclosed in note 13. Details of the emoluments of the other four (2005: four) top-paid employees were as follows:

	2006 $'000	2005 $'000
Salaries and other short-term employee benefits	**17,456**	17,569
Performance bonus	**6,493**	2,790
Retirement benefit costs	**2,135**	2,151
	26,084	22,510
Employee share-based compensation benefits (note a)	**1,820**	5,374
	27,904	27,884

(a) Employee share-based compensation benefits represent fair value of share options issued under the Post-Listing Scheme and Awarded Shares issued under the Share Award Scheme amortised to the profit and loss account during the year disregarding whether the options and the Awarded Shares have been vested/exercised or not.

(b) The emoluments of these four (2005: four) employees, including employee share-based compensation benefits for options issued under the Post-Listing Scheme and Awarded Shares issued under the Share Award Scheme, were within the following bands:

	2006 Number of employees	2005 Number of employees
$5,500,001 – $6,000,000	**–**	1
$6,000,001 – $6,500,000	**–**	1
$6,500,001 – $7,000,000	**3**	1
$7,500,001 – $8,000,000	**1**	–
$9,000,001 – $9,500,000	**–**	1
	4	4

The employees, whose emoluments are disclosed above, included senior executives who were also Directors of the subsidiaries during the years. No Directors of the subsidiaries waived any emoluments.

15. Taxation

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

	2006 $'000	2005 $'000
Provision for Hong Kong Profits Tax for the year (note i)	**454,121**	245,043
Over provision in respect of prior years	**(5)**	(8,845)
	454,116	236,198
Deferred taxation (note 38(a))	**(9,218)**	(8,738)
	444,898	227,460

(i) Hong Kong Profits Tax has been provided for at 17.5 per cent (2005: 17.5 per cent) on the estimated assessable profit for the year.

(b) The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of 17.5 per cent (2005: 17.5 per cent) as follows:

	2006 $'000	As restated 2005 $'000
Profit before taxation (excluding share of profits less losses of associates)	**2,936,343**	1,548,585
Calculated at a taxation rate of 17.5 per cent (2005: 17.5 per cent)	**513,860**	271,002
Income not subject to taxation	**(77,190)**	(53,960)
Expenses not deductible for taxation purposes	**7,726**	7,735
Change in deferred tax arising from unrecognised tax losses and other deferred tax adjustments	**507**	11,528
Over provision of Hong Kong Profits Tax in respect of prior years	**(5)**	(8,845)
Taxation charge	**444,898**	227,460

16. Dividends

	2006 $'000	As restated 2005 $'000
Interim dividend paid:		
$0.94 (2005: $0.49) per ordinary share	**1,001,219**	520,567
Less: Dividend for shares held by HKEx Employee Share Trust	**(912)**	–
	1,000,307	520,567
Final dividend proposed/declared (notes a and b):		
$1.19 (2005: $0.64) per ordinary share based on issued share capital as at balance sheet date	**1,267,884**	680,163
Less: Dividend for shares held by HKEx Employee Share Trust as at balance sheet date	**(1,497)**	(613)
	1,266,387	679,550
	2,266,694	1,200,117

(a) Actual 2005 final dividend paid was $680,588,000 (after eliminating $614,000 paid for shares held by HKEx Employee Share Trust of which $1,000 relates to shares acquired by HKEx Employee Share Trust in January 2006), of which $1,039,000 was paid for shares issued for employee share options exercised after 31 December 2005.

(b) The final dividend proposed after balance sheet date has not been recognised as a liability at the balance sheet date.

17. Earnings Per Share

The calculation of the basic and diluted earnings per share is as follows:

(a) Basic earnings per share

	2006	As restated 2005
Profit attributable to shareholders ($'000)	**2,518,569**	1,339,558
Weighted average number of ordinary shares in issue less shares held for Share Award Scheme	**1,063,493,204**	1,060,349,075
Basic earnings per share	**$2.37**	$1.26

(b) Diluted earnings per share

	2006	As restated 2005
Profit attributable to shareholders ($'000)	**2,518,569**	1,339,558
Weighted average number of ordinary shares in issue less shares held for Share Award Scheme	**1,063,493,204**	1,060,349,075
Effect of employee share options	**11,592,735**	6,598,114
Effect of Awarded Shares	**956,325**	27,616
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**1,076,042,264**	1,066,974,805
Diluted earnings per share	**$2.34**	$1.26

18. Fixed Assets

(a) Group

	Leasehold buildings $'000	Computer trading and clearing systems $'000	Other computer hardware and software $'000	Leasehold improvements, furniture, equipment and motor vehicles $'000	Total $'000
Net book value at 1 Jan 2005 (note i)	17,600	240,377	47,496	18,827	324,300
Additions	–	48,137	10,004	27,662	85,803
Disposals (note ii)	–	(17)	(1)	–	(18)
Depreciation	(686)	(103,393)	(30,410)	(16,506)	(150,995)
Revaluation (note iii)	(1,214)	–	–	–	(1,214)
Net book value at 31 Dec 2005	15,700	185,104	27,089	29,983	257,876
At 31 Dec 2005					
At cost	–	1,271,146	350,659	253,746	1,875,551
At valuation	15,700	–	–	–	15,700
Accumulated depreciation	–	(1,086,042)	(323,570)	(223,763)	(1,633,375)
Net book value	15,700	185,104	27,089	29,983	257,876
Net book value at 1 Jan 2006	**15,700**	**185,104**	**27,089**	**29,983**	**257,876**
Additions	**–**	**13,566**	**13,207**	**25,488**	**52,261**
Disposals (note ii)	**–**	**–**	**–**	**(1,012)**	**(1,012)**
Depreciation	**(624)**	**(71,767)**	**(17,430)**	**(10,067)**	**(99,888)**
Revaluation (note iii)	**924**	**–**	**–**	**–**	**924**
Net book value at 31 Dec 2006	**16,000**	**126,903**	**22,866**	**44,392**	**210,161**
At 31 Dec 2006					
At cost	**–**	**1,275,800**	**352,662**	**268,171**	**1,896,633**
At valuation	**16,000**	**–**	**–**	**–**	**16,000**
Accumulated depreciation	**–**	**(1,148,897)**	**(329,796)**	**(223,779)**	**(1,702,472)**
Net book value	**16,000**	**126,903**	**22,866**	**44,392**	**210,161**

(i) The analysis of net book value as at 1 January 2005 is as follows:

At cost	–	1,223,047	352,106	229,674	1,804,827
At valuation	17,600	–	–	–	17,600
Accumulated depreciation	–	(982,670)	(304,610)	(210,847)	(1,498,127)
Net book value	17,600	240,377	47,496	18,827	324,300

(ii) The total cost of fixed assets disposed of or written off during 2006 was $31,179,000 (2005:$15,079,000).

(iii) Leasehold buildings were revalued as at 31 December 2006 on the basis of their depreciated replacement costs calculated by Jones Lang LaSalle, an independent firm of qualified property valuers. During the year ended 31 December 2006, the total revaluation gain amounted to $924,000, of which $502,000 was credited to leasehold buildings revaluation reserve (note 34) and $422,000 was credited to other operating expenses in the profit and loss account to offset previous impairment losses charged to the profit and loss account (note 11). For the year ended 31 December 2005, the total revaluation deficit amounted to $1,214,000, of which $377,000 was taken to leasehold buildings revaluation reserve to set off against previous valuation surpluses (note 34) and $837,000 was charged to the profit and loss account as impairment losses of leasehold buildings under other operating expenses (note 11).

(iv) The cost of leasehold buildings of the Group was $26,900,000 (2005: $26,900,000). The carrying value of these leasehold buildings as at 31 December 2006 would have been $11,001,000 (2005: $12,077,000) had they been carried at cost less accumulated depreciation.

18. Fixed Assets *(continued)*

(b) HKEx

	Other computer hardware and software $'000	Leasehold improvements, furniture, equipment and motor vehicles $'000	Total $'000
Net book value at 1 Jan 2005 (note i)	22,062	3,102	25,164
Additions	5,828	1,771	7,599
Disposals (note ii)	(1)	–	(1)
Depreciation	(12,532)	(2,507)	(15,039)
Net book value at 31 Dec 2005	15,357	2,366	17,723
At 31 Dec 2005			
At cost	52,673	19,128	71,801
Accumulated depreciation	(37,316)	(16,762)	(54,078)
Net book value	15,357	2,366	17,723
Net book value at 1 Jan 2006	**15,357**	**2,366**	**17,723**
Additions	**7,447**	**3,678**	**11,125**
Depreciation	**(10,289)**	**(1,077)**	**(11,366)**
Net book value at 31 Dec 2006	**12,515**	**4,967**	**17,482**
At 31 Dec 2006			
At cost	**60,080**	**22,806**	**82,886**
Accumulated depreciation	**(47,565)**	**(17,839)**	**(65,404)**
Net book value	**12,515**	**4,967**	**17,482**

(i) The analysis of net book value as at 1 January 2005 is as follows:

At cost	46,695	16,565	63,260
Accumulated depreciation	(24,633)	(13,463)	(38,096)
Net book value	22,062	3,102	25,164

(ii) The total cost of fixed assets disposed of or written off during 2006 was $41,000 (2005: $3,000).

19. Investment Property

	Group 2006 $'000	2005 $'000
At 1 Jan	**17,700**	13,300
Fair value gain	**1,600**	4,400
At 31 Dec	**19,300**	17,700

The investment property is held under long-term lease and situated in Hong Kong. The cost of the investment property was $8,229,000 (2005: $8,229,000). The investment property was revalued as at 31 December 2006 on the basis of its open market value by Jones Lang LaSalle, an independent firm of qualified property valuers. The fair value gain during the year amounted to $1,600,000 (2005: $4,400,000) and was credited to the profit and loss account under other income (note 8).

20. Lease Premiums for Land

	Group 2006 $'000	Group 2005 $'000
Net book value at 1 Jan	**94,670**	95,218
Amortisation	**(547)**	(548)
Net book value at 31 Dec	**94,123**	94,670
Current portion of lease premiums for land	**(548)**	(547)
Non-current portion	**93,575**	94,123

The leasehold land is held under long-term lease and situated in Hong Kong. The cost of the leasehold land was $102,770,000 (2005: $102,770,000).

21. Investments in Associates

	Group 2006 $'000	Group 2005 $'000
Share of net assets of associates (note a)	**18,170**	14,374
Goodwill (note b)	**50,207**	50,207
	68,377	64,581

(a) Share of net assets of associates

	2006 $'000	2005 $'000
At 1 Jan	**14,374**	13,790
Further acquisition of 6% interest in CHIS on 3 May 2005	**–**	10
Disposal of ADP Wilco Processing Services Limited	**(1,306)**	–
Share of profits less losses of associates:		
– share of profits less losses before taxation	**32,846**	22,110
– share of taxation	**(5,722)**	(3,677)
	27,124	18,433
Share of reserves of an associate	**478**	93
Dividends received and receivable from an associate	**(22,500)**	(17,952)
At 31 Dec	**18,170**	14,374

21. Investments in Associates *(continued)*

(b) Goodwill

	2006 $'000	2005 $'000
At 1 Jan (note i)	**50,207**	24,941
Further acquisition of 6% interest in CHIS on 3 May 2005	**–**	25,266
At 31 Dec	**50,207**	50,207
Represented by:		
Opening value upon adoption of HKFRS 3	**24,941**	25,321
At cost	**25,266**	25,266
Accumulated impairment	**–**	(380)
	50,207	50,207

(i) Goodwill as at 1 January 2005 represented the opening value upon adoption of HKFRS 3 of $25,321,000 less accumulated impairment of $380,000.

(ii) Impairment tests for investments in associates

The recoverable amount of the investment in CHIS is determined using discounted cash flows which represents the present value of estimated future cash flows expected to arise from dividends to be received from CHIS and its ultimate disposal. The discount rate used is the ten-year Hong Kong Government bond rate as at 31 December 2006 of 3.73 per cent (2005: 4.18 per cent).

The recoverable amount of the investment in ADP Wilco Processing Services Limited ("AWPS") in 2005 was based on the share of the net assets of the associate, which comprised predominantly cash and bank balances.

(c) Details of the unlisted associate as at 31 December 2006 were as follows:

Name	Place of incorporation	Principal activities	Particulars of shares held	Interest held
Computershare Hong Kong Investor Services Limited	Hong Kong	Provision of share registration services	7,317 Class A ordinary shares	30%

In addition to CHIS, the Group owned 6 Class B ordinary shares (equivalent to 30 per cent interest) of AWPS. In March 2006, the Group received liquidation proceeds of $1,312,000 from the dissolution of AWPS which were $6,000 higher than the book value of the investment. The gain on liquidation of $6,000 was credited to other income in the consolidated profit and loss account. AWPS was officially dissolved in July 2006.

(d) The summarised financial information based on the unaudited management accounts of the associates as at 31 December and for the year ended 31 December was as follows:

	2006 $'000	2005 $'000
Assets	**122,486**	90,387
Liabilities	**61,918**	42,537
Income	**374,121**	232,098
Profit	**90,409**	66,071

22. Clearing House Funds

	Group 2006 $'000	Group 2005 $'000
Net assets of the Clearing House Funds were as follows:		
HKSCC Guarantee Fund	**344,825**	342,679
SEOCH Reserve Fund	**578,407**	376,758
HKCC Reserve Fund	**1,347,299**	620,973
	2,270,531	1,340,410
Net assets of the Clearing House Funds were composed of:		
Available-for-sale financial assets:		
Debt securities, at market value		
– listed in Hong Kong	**129,512**	98,896
– unlisted	**187,700**	125,241
Time deposits with original maturities over three months	**–**	30,290
Cash and cash equivalents	**1,957,229**	1,091,233
	2,274,441	1,345,660
Less: Other liabilities	**(3,910)**	(5,250)
	2,270,531	1,340,410
The Clearing House Funds were funded by:		
Clearing Participants' cash contributions (note a)	**1,642,495**	751,751
Designated reserves (note 36):		
– Clearing houses' contributions	**320,200**	320,200
– Forfeiture of a defaulted Clearing Participant's contributions	**1,928**	1,928
– Accumulated investment income net of expenses attributable to:		
– Clearing Participants' contributions	**232,148**	204,213
– Clearing houses' contributions	**73,540**	63,635
	627,816	589,976
Revaluation reserve (note 34(b))	**220**	(1,317)
	2,270,531	1,340,410
The maturity profile of the net assets of the Clearing House Funds was as follows:		
Amounts maturing after more than twelve months	**–**	98,896
Amounts maturing within twelve months	**2,270,531**	1,241,514
	2,270,531	1,340,410

(a) Amount included Participants' additional deposits of $1,279,645,000 (2005: $393,701,000).

(b) The HKSCC Guarantee Fund provides resources to enable HKSCC to discharge the liabilities and obligations of defaulting Broker Participants in CCASS arising from their Stock Exchange trades accepted for settlement on the CNS basis and defective securities deposited into CCASS. The SEOCH Reserve Fund and the HKCC Reserve Fund were established for the exclusive purpose of supporting SEOCH and HKCC to fulfil their counterparty obligations in the event that one or more of their Clearing Participants fail to meet their obligations to SEOCH and HKCC respectively.

23. Compensation Fund Reserve Account

	Group 2006 $'000	Group 2005 $'000
Net assets of the Compensation Fund Reserve Account were composed of:		
Available-for-sale financial assets:		
Unlisted debt securities, at market value	**42,990**	18,488
Cash and cash equivalents	**8,653**	30,240
	51,643	48,728
Less: Other liabilities	**(11,108)**	(10,318)
	40,535	38,410
The Fund represented:		
Accumulated investment income and other income net of expenses included in designated reserves (note 36)	**40,446**	38,420
Revaluation reserve (note 34(b))	**89**	(10)
	40,535	38,410
The maturity profile of the net assets of the Compensation Fund Reserve Account was as follows:		
Amounts maturing within twelve months	**40,535**	38,410

The Securities and Futures Commission ("SFC") is responsible for maintaining the Unified Exchange Compensation Fund ("Compensation Fund"). By virtue of Schedule 10 of the Securities and Futures Ordinance ("SFO"), the Stock Exchange's obligation under the repealed Securities Ordinance ("SO") to deposit with the SFC and keep deposited $50,000 in respect of each Stock Exchange Trading Right in the Compensation Fund remains. The Stock Exchange maintains an account known as the Compensation Fund Reserve Account for all receipts and payments in relation to the Compensation Fund under the Rules of the Exchange, in particular the following:

(i) The interest received from the SFC on the statutory deposits paid in respect of each Stock Exchange Trading Right into the Compensation Fund maintained by the SFC;

(ii) Amounts received or paid out in relation to each of the Stock Exchange Trading Rights granted or revoked by the Stock Exchange respectively; and

(iii) Amounts reserved for the replenishment to the Compensation Fund.

The Compensation Fund is further explained in note 42(a)(i).

24. Accounts Receivable, Prepayments and Deposits

	Group		HKEx	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Receivable from Exchange and Clearing Participants:				
– CNS money obligations	9,586,161	2,889,804	–	–
– transaction levy, stamp duty and fees receivable	386,141	193,849	–	–
– others	22,180	10,084	–	–
Other fees receivable	175,656	137,848	–	–
Prepayments	9,811	36,638	9,398	26,114
Other receivables and deposits	26,292	22,941	360	160
Less: Provision for impairment losses of trade receivables (note b)	(4,679)	(4,329)	–	–
	10,201,562	3,286,835	9,758	26,274

(a) The carrying amounts of accounts receivable and deposits approximated their fair values.

(b) The movements in provision for impairment losses of trade receivables were as follows:

	Group	
	2006 $'000	2005 $'000
At 1 Jan	4,329	5,167
Provision for/(reversal of provision for) impairment losses of trade receivables (note 11)	350	(389)
Trade receivables written off during the year as uncollectible	–	(449)
At 31 Dec	4,679	4,329

(c) CNS money obligations receivable accounted for 94 per cent (2005: 88 per cent) of the total accounts receivable, prepayments and deposits. CNS money obligations receivable mature within two days after the trade date. Fees receivable are due immediately or up to 30 days depending on the type of services rendered. The majority of the remaining accounts receivable, prepayments and deposits would mature within three months.

25. Margin Funds on Derivatives Contracts

	Group	
	2006	2005
	$'000	$'000
The Margin Funds comprised:		
SEOCH Clearing Participants' Margin Funds	**3,994,664**	1,506,962
HKCC Clearing Participants' Margin Funds	**17,671,810**	12,141,619
	21,666,474	13,648,581
The net assets of the Margin Funds comprised:		
Available-for-sale financial assets:		
Debt securities, at market value		
– listed in Hong Kong	**137,191**	78,907
– listed outside Hong Kong	**634,688**	359,635
– unlisted	**10,311,166**	3,390,291
Time deposits with original maturities over three months	**51,459**	100,018
Cash and cash equivalents	**10,664,404**	9,686,026
Margin receivable from Clearing Participants	**61,813**	33,704
	21,860,721	13,648,581
Less: Other liabilities	**(194,247)**	–
	21,666,474	13,648,581
The Group's liabilities in respect of the Margin Funds were as follows:		
Margin deposits from SEOCH and HKCC Participants on derivatives contracts	**21,666,474**	13,648,581
The maturity profile of the net assets of Margin Funds was as follows:		
Amounts maturing after more than twelve months	**–**	1,114,326
Amounts maturing within twelve months	**21,666,474**	12,534,255
	21,666,474	13,648,581

26. Financial Assets/Liabilities at Fair Value through Profit or Loss

	Group	
	2006 **$'000**	2005 $'000
Analysis of financial assets at fair value through profit or loss:		
Held for trading		
Equity securities, at market value		
– listed in Hong Kong	**186,658**	139,220
– listed outside Hong Kong	**194,267**	173,349
	380,925	312,569
Held for trading		
Debt securities, at market value		
– listed in Hong Kong	**70,539**	86,509
– listed outside Hong Kong	**1,255,022**	1,070,100
– unlisted	**1,169,592**	1,172,015
	2,495,153	2,328,624
Held for trading		
Derivative financial instruments, at market value		
– forward foreign exchange contracts (note a)	**2,146**	2,595
	2,878,224	2,643,788
Analysis of financial liabilities at fair value through profit or loss:		
Held for trading		
Derivative financial instruments, at market value		
– forward foreign exchange contracts (note a)	**7,505**	1,443

(a) The maximum gross nominal value of outstanding forward foreign exchange contracts was $280,976,000 (2005: $275,071,000) (note 48(b)).

27. Available-for-sale Financial Assets

	Group	
	2006	2005
	$'000	$'000
Debt securities, at market value		
–listed in Hong Kong	**28,462**	–
–listed outside Hong Kong	**43,574**	–
–unlisted	**467,096**	–
	539,132	–

All available-for-sale financial assets held would mature within twelve months.

28. Accounts Payable, Accruals and Other Liabilities

	Group		HKEx	
		As restated		
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Payable to Exchange and Clearing Participants:				
– CNS money obligations	**9,588,374**	2,889,524	**–**	–
– cash collateral and marks	**734,696**	144,144	**–**	–
– others	**67,565**	46,450	**–**	–
Transaction levy payable to the SFC	**84,670**	55,027	**–**	–
Unclaimed dividends (note b)	**191,681**	180,327	**41,346**	32,288
Stamp duty payable	**268,236**	75,899	**–**	–
Deposits received	**24,243**	22,156	**–**	–
Other payables and accruals	**147,735**	227,544	**63,145**	129,730
	11,107,200	3,641,071	**104,491**	162,018

(a) The carrying amounts of accounts payable and other liabilities approximated their fair values.

(b) Unclaimed dividends for the Group represent dividends declared by listed companies which were held by HKSCC Nominees Limited but not yet claimed by shareholders of the companies concerned, and dividends declared by HKEx but not yet claimed by its shareholders. During the year, dividends declared by HKEx which were unclaimed over a period of six years from the date of payment amounting to $686,000 (2005: $Nil) were forfeited and transferred to retained earnings in accordance with HKEx's Articles of Association (note 39).

(c) CNS money obligations payable accounted for 86 per cent (2005: 79 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.

29. Participants' Admission Fees Received

The admission fees are non-interest bearing and may be repayable upon the expiry of seven years from the date of admission of a Participant or upon the termination of a Participant's participation in CCASS, whichever is later. HKSCC may, at its discretion, grant early refunds of admission fees to terminated Participants after six months from the date of termination of their participation in CCASS and to Broker Participants after six months from the date of sale of their Stock Exchange Trading Right. Participants' admission fees received are included in non-current liabilities unless the admission fees are expected to be repayable to the Participants within twelve months of the balance sheet date.

30. Provisions

(a) Group

	Reinstatement costs $'000	Employee benefit costs $'000	Total $'000
At 1 Jan 2006	24,128	25,613	49,741
Provision for the year	1,850	35,730	37,580
Amount used during the year	(1,850)	(33,494)	(35,344)
Amount paid during the year	–	(1,137)	(1,137)
At 31 Dec 2006	24,128	26,712	50,840

	2006 $'000	2005 $'000
Analysis of provisions:		
Current	26,712	27,145
Non-current	24,128	22,596
	50,840	49,741

(b) HKEx

	Reinstatement costs $'000	Employee benefit costs $'000	Total $'000
At 1 Jan 2006	575	25,613	26,188
Provision for the year	–	35,730	35,730
Amount used during the year	–	(33,494)	(33,494)
Amount paid during the year	–	(1,137)	(1,137)
At 31 Dec 2006	575	26,712	27,287

	2006 $'000	2005 $'000
Analysis of provisions:		
Current	26,712	25,613
Non-current	575	575
	27,287	26,188

(i) The provision for reinstatement costs represents the estimated costs used to restore the leased office premises to their original state upon the expiry of the leases. The leases are expected to expire within four years.

(ii) The provision for employee benefit costs represents unused annual leave that has been accumulated at the balance sheet date. It is expected to be fully utilised in the coming twelve months.

31. Investments in and Amounts Due from/(to) Subsidiaries and Controlled Special Purpose Entity

(a) Investments in subsidiaries

	HKEx	
	2006 $'000	2005 $'000
Investments in unlisted shares, at cost	**4,145,198**	4,145,198
Financial guarantee granted to a subsidiary (note 42(b)(i))	**11,390**	11,390
	4,156,588	4,156,588

(b) Amounts due from/(to) subsidiaries

The amounts due from/(to) subsidiaries are interest-free and repayable on demand.

(c) Particulars of subsidiaries

HKEx had direct or indirect interests in the following subsidiaries as at 31 December 2006, all of which are wholly-owned private companies incorporated and operating in Hong Kong except for HKEx (China) Limited, which operates mainly in the Mainland. Details of these companies were as follows:

Company	Issued and fully paid up share capital	Principal activities	Interest held
Direct subsidiaries:			
The Stock Exchange of Hong Kong Limited	A shares $929	Operates the single, unified stock exchange in Hong Kong for the purposes of the Securities and Futures Ordinance	100%
Hong Kong Futures Exchange Limited	Ordinary $19,600,000 Standard $850,000	Operates a futures and options exchange	100%
Hong Kong Securities Clearing Company Limited	Ordinary $2	Operates CCASS and the central securities depository and provides custody and nominee services for eligible securities listed in Hong Kong	100%
HKEC Nominees Limited	Ordinary $2	Nominee services	100%
Hong Kong Financial Markets Development Limited	Ordinary $2	Promotes the securities, futures and financial industry	100%
HKEx (China) Limited	Ordinary $2	Promotes HKEx products and services in the Mainland	100%
HKEx (Singapore) Limited	Ordinary $2	Dormant	100%

31. Investments in and Amounts Due from/(to) Subsidiaries and Controlled Special Purpose Entity *(Continued)*

(c) Particulars of subsidiaries *(Continued)*

Company	Issued and fully paid up share capital	Principal activities	Interest held
Indirect subsidiaries:			
The SEHK Options Clearing House Limited	Ordinary $1,000,000	Operates a clearing house for options contracts traded on the Stock Exchange	100%
HKEx Information Services Limited	Ordinary $100	Sale of stock market information	100%
Prime View Company Limited	Ordinary $20	Property holding	100%
The Stock Exchange Club Limited	Ordinary $8	Property holding	100%
The Stock Exchange Nominee Limited	Ordinary $2	Nominee services	100%
HKFE Clearing Corporation Limited	Ordinary $1,000,000	Operates a clearing house for derivatives contracts traded on the Futures Exchange	100%
HKFE Clearing Linkage Limited	Ordinary $2	Dormant	100%
HKSCC Nominees Limited	Ordinary $20	Acting as common nominee in respect of securities held in the CCASS depository	100%
Many Profit Limited	Ordinary $2	Investment holding	100%
Freestar Corporation Limited	Ordinary $2	Investment holding	100%
Star Prime Limited	Ordinary $2	Investment holding	100%
HK Conversion Agency Services Limited	Ordinary $2	Conversion agency services	100%

(d) Controlled special purpose entity

There was one special purpose entity controlled by HKEx which operates in Hong Kong, particulars of which are as follows:

Special purpose entity	Principal activities
The HKEx Employees' Share Award Scheme ("HKEx Employee Share Trust")	Administering and holding HKEx shares for the Share Award Scheme for the benefit of eligible HKEx employees (note 33(c))

As HKEx has the power to govern the financial and operating policies of the HKEx Employee Share Trust and can derive benefits from the contributions of the employees who have been awarded the Awarded Shares through their continued employment with the Group, the Group is required to consolidate the HKEx Employee Share Trust.

As at 31 December 2006, HKEx had advanced $49,825,000 (2005: $30,037,000) to the HKEx Employee Share Trust and the amount was recorded as "Contributions to HKEx Employee Share Trust" in HKEx's balance sheet.

32. Share Capital, Share Premium and Shares Held for Share Award Scheme

	Group and HKEx 2006 $'000	Group and HKEx 2005 $'000
Authorised:		
2,000,000,000 shares of $1 each	**2,000,000**	2,000,000

Issued and fully paid:

	Group				
	Number of shares of $1 each	Share capital $'000	Share premium $'000	Shares held for Share Award Scheme $'000	Total $'000
At 1 Jan 2005	1,056,638,846	1,056,639	104,034	–	1,160,673
Shares issued under employee share option schemes (note a)	6,116,000	6,116	41,263	–	47,379
Transfer from employee share-based compensation reserve (note 33)	–	–	5,108	–	5,108
Shares purchased for Share Award Scheme (note b)	(958,000)	–	–	(30,028)	(30,028)
At 31 Dec 2005, as restated	1,061,796,846	1,062,755	150,405	(30,028)	1,183,132
At 1 Jan 2006, as previously reported	**1,062,754,846**	**1,062,755**	**150,405**	**–**	**1,213,160**
Effect of initial adoption of revised HKAS 27	**(958,000)**	**–**	**–**	**(30,028)**	**(30,028)**
At 1 Jan 2006, as restated	**1,061,796,846**	**1,062,755**	**150,405**	**(30,028)**	**1,183,132**
Shares issued under employee share option schemes (note a)	**2,693,500**	**2,693**	**28,202**	**–**	**30,895**
Transfer from employee share-based compensation reserve (note 33)	**–**	**–**	**7,335**	**–**	**7,335**
Shares purchased for Share Award Scheme (note b)	**(300,000)**	**–**	**–**	**(21,269)**	**(21,269)**
At 31 Dec 2006	**1,064,190,346**	**1,065,448**	**185,942**	**(51,297)**	**1,200,093**

32. Share Capital, Share Premium and Shares Held for Share Award Scheme *(Continued)*

	HKEx			
	Number of shares of $1 each	Share capital $'000	Share premium $'000	Total $'000
At 1 Jan 2005	1,056,638,846	1,056,639	104,034	1,160,673
Shares issued under employee share option schemes (note a)	6,116,000	6,116	41,263	47,379
Transfer from employee share-based compensation reserve (note 33)	–	–	5,108	5,108
At 31 Dec 2005	1,062,754,846	1,062,755	150,405	1,213,160
At 1 Jan 2006	**1,062,754,846**	**1,062,755**	**150,405**	**1,213,160**
Shares issued under employee share option schemes (note a)	**2,693,500**	**2,693**	**28,202**	**30,895**
Transfer from employee share-based compensation reserve (note 33)	–	–	**7,335**	**7,335**
At 31 Dec 2006	**1,065,448,346**	**1,065,448**	**185,942**	**1,251,390**

(a) During the year, employee share options granted under the Pre-Listing Scheme and the Post-Listing Scheme were exercised to subscribe for 2,693,500 shares (2005: 6,116,000 shares) in HKEx at an average consideration of $11.47 per share (2005: $7.75 per share), of which $1.00 per share was credited to share capital and the balance was credited to the share premium account.

(b) During the year, the HKEx Employee Share Trust acquired 300,000 HKEx shares (2005: 958,000 shares) through purchases on the open market and held the shares for the Share Award Scheme (note 33(c)). The total amount paid to acquire the shares during the year was $21,269,000 (2005: $30,028,000) and has been deducted from shareholders' equity.

33. Employee Share-based Compensation Reserve

	Group		HKEx	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
At 1 Jan	**34,980**	17,061	**34,908**	17,061
Employee share-based compensation benefits (note a and note 9(a))	**24,033**	22,955	**24,033**	22,955
Transfer to share premium upon exercise of employee share options (note 32)	**(7,335)**	(5,108)	**(7,335)**	(5,108)
Share of reserve of an associate	**441**	72	**–**	–
At 31 Dec	**52,119**	34,980	**51,606**	34,908

33. Employee Share-based Compensation Reserve *(Continued)*

(a) Employee share-based compensation benefits represent the fair value of employee services estimated to be received in exchange for the grant of the relevant options and Awarded Shares over the relevant vesting periods, the total of which is based on the fair value of the options and Awarded Shares granted. The amount for each period is determined by spreading the fair value of the options and Awarded Shares over the relevant vesting periods and is recognised as staff costs and related expenses (note 9(a)) with a corresponding increase in the employee share-based compensation reserve.

(b) Share options

(i) Share options were granted to an Executive Director and employees of the Group to subscribe for shares in HKEx in accordance with the terms and conditions of the Share Option Schemes approved by the shareholders of HKEx at an extraordinary general meeting held on 31 May 2000. Share options granted are subject to a vesting scale in tranches of 25 per cent each per annum starting from the second anniversary and fully vested in the fifth anniversary of the date of grant, providing that the grantees remain under the employ of the Group. The vested share options are exercisable within ten years of the grant date.

During 2005, options for the subscription of 5,884,000 shares were granted under the Post-Listing Scheme to a number of employees on 26 January 2005 which are exercisable between 26 January 2007 and 25 January 2015 at an exercise price of $19.25 per share. No options were granted in 2006.

Shares are issued when options are exercised. The Group has no legal or constructive obligations to repurchase or settle the options in cash.

(ii) Movements in the number of shares issuable under options granted and their related weighted average exercise prices were as follows:

	2006		2005	
	Average exercise price per share $	**Number of shares issuable under options granted**	Average exercise price per share $	Number of shares issuable under options granted
Pre-Listing Scheme				
Outstanding at 1 Jan	**6.88**	**2,126,000**	6.88	6,680,000
Exercised	**6.88**	**(1,338,000)**	6.88	(4,554,000)
Outstanding at 31 Dec	**6.88**	**788,000**	6.88	2,126,000
Post-Listing Scheme				
Outstanding at 1 Jan	**15.80**	**16,574,000**	13.78	13,218,000
Granted	**–**	**–**	19.25	5,884,000
Exercised	**16.00**	**(1,355,500)**	10.27	(1,562,000)
Forfeited	**18.32**	**(625,000)**	18.05	(966,000)
Outstanding at 31 Dec	**15.68**	**14,593,500**	15.80	16,574,000
Total	**15.23**	**15,381,500**	14.79	18,700,000

At 31 December 2006, out of the 15,381,500 outstanding options (2005: 18,700,000), 2,626,500 options (2005: 2,148,000) were exercisable at a weighted average exercise price of $10.39 (2005: $6.94) per share.

During the year, employee share options granted under the Pre-Listing Scheme and the Post-Listing Scheme were exercised to subscribe for 2,693,500 shares (2005: 6,116,000 shares) in HKEx at a weighted average exercise price of $11.47 per share (2005: $7.75 per share). The weighted average closing share price on the dates on which the options were exercised was $51.33 (2005: $21.06) per share.

33. Employee Share-based Compensation Reserve *(Continued)*

(b) Share options *(Continued)*

(iii) Share options outstanding as at 31 December had the following remaining contractual lives and exercise prices:

	2006		2005	
	Remaining contractual life	**Number of shares issuable under options granted**	Remaining contractual life	Number of shares issuable under options granted
Exercise price				
$6.88	**3.41 years**	**788,000**	4.41 years	2,126,000
$8.28	**6.33 years**	**2,460,000**	7.33 years	2,460,000
$12.45	**6.62 years**	**547,000**	7.62 years	844,000
$12.49	**6.63 years**	**1,476,000**	7.63 years	1,476,000
$17.30	**7.04 years**	**822,000**	8.04 years	1,094,000
$16.96	**7.24 years**	**4,084,500**	8.24 years	5,074,000
$15.91	**7.37 years**	**150,000**	8.37 years	200,000
$19.25	**8.07 years**	**5,054,000**	9.07 years	5,426,000
	7.08 years	**15,381,500**	7.84 years	18,700,000

(iv) The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is based on the Binominal Option Pricing Model. Details of the options granted under the Post-Listing Scheme during 2005 were as follows:

	2005
Date of grant	26 Jan 2005
Number of shares issuable under options granted	5,884,000
Option value[Ω]	$26,183,800
Closing share price at date of grant	$19.25
Risk free rate (being the yield of 10-year Exchange Fund Notes)	3.67% as at 26 Jan 2005
Expected volatility[#]	26%
Expiration of the options	10 years from 26 Jan 2005
Expected ordinary dividend	4.42% (prospective dividend yield of the shares as at 26 Jan 2005)

Ω The above calculation is based on the assumption that there is no material difference between the expected volatility over the whole life of the options and the historical volatility of the shares in HKEx set out above.

The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices annualised for one year immediately preceding the grant date.

33. Employee Share-based Compensation Reserve *(Continued)*

(b) Share options *(Continued)*

(v) Had all the outstanding employee share options been fully exercised on 31 December 2006, the Group would have received $234,205,000 in proceeds. The market value of the shares issued based on the closing price of $85.50 per share on that date would have been $1,315,118,000. The theoretical gains made by the employees or Executive Director concerned would have been as follows:

	Number of shares issuable under options granted as at 31 Dec 2006	Exercise price $	Gain per share $	Aggregate gain $'000
Pre-Listing Scheme				
– granted to employees on 20 Jun 2000	788,000	6.88	78.62	61,953
Post-Listing Scheme				
– granted to an Executive Director on 2 May 2003	2,460,000	8.28	77.22	189,961
– granted to an employee on 14 Aug 2003	547,000	12.45	73.05	39,958
– granted to an employee on 18 Aug 2003*	1,476,000	12.49	73.01	107,763
– granted to an employee on 15 Jan 2004	822,000	17.30	68.20	56,060
– granted to employees on 31 Mar 2004	4,084,500	16.96	68.54	279,952
– granted to an employee on 17 May 2004	150,000	15.91	69.59	10,439
– granted to employees on 26 Jan 2005	5,054,000	19.25	66.25	334,827
Total				1,080,913

* On 3 January 2007, the employee exercised his option to subscribe for 492,000 shares. Subsequently, the employee resigned and the option for the remaining 984,000 shares lapsed. The actual gain made by the employee on the exercise of his option to subscribe for the 492,000 shares, based on the closing price of $86.60 per share on the exercise date, was $36,462,000.

33. Employee Share-based Compensation Reserve *(Continued)*

(c) Awarded Shares

(i) On 14 September 2005, the Board of HKEx approved the Share Award Scheme under which Awarded Shares may be awarded to an Executive Director and employees of the Group in accordance with the terms and conditions of the Share Award Scheme. Awarded Shares awarded and the income derived therefrom are subject to a vesting scale in tranches of 25 per cent each per annum starting from the second anniversary and fully vested in the fifth anniversary of the date of award, providing that the awardees remain under the employ of the Group.

Pursuant to the rules of the Share Award Scheme, the Group has set up a trust, HKEx Employee Share Trust, for the purpose of administering the Share Award Scheme and holding the Awarded Shares before they vest. Prior to 16 August 2006, a fixed number of HKEx shares were awarded to eligible employees which would then be acquired from the market at the cost of HKEx by the trustee of the HKEx Employee Share Trust ("the trustee"). With effect from 16 August 2006, the rules of the Share Award Scheme have been amended and the Board will thereafter approve a monetary amount for each award ("Awarded Sum") plus transaction costs to be incurred, with which the trustee will then purchase the maximum number of board lots of HKEx shares from the market within 20 business days of the award. The Awarded Shares purchased will then be allocated to each awardee based on the monetary amount awarded to him/her, rounded down to the nearest share.

Dividends on the Awarded Shares are used to acquire further HKEx shares and allocated to the awardees on a pro rata basis. The vesting periods of such shares are the same as those of the Awarded Shares to which the dividends relate.

On 19 December 2005, 960,000 Awarded Shares were awarded to a number of employees which will be transferred to the employees at nil consideration upon vesting between 19 December 2007 and 19 December 2010. The trustee acquired 958,000 HKEx shares at a total cost (including related transaction costs) of $30,028,000 in December 2005 and the remaining 2,000 shares at a total cost (including related transaction costs) of $70,000 in January 2006.

On 13 December 2006, the Board approved and awarded an Awarded Sum of $19,673,000 to certain employees. Subsequently, the trustee purchased 272,500 Awarded Shares at a total cost (including related transaction costs) of $19,696,000, and 272,465 Awarded Shares were allocated to eligible employees on 15 January 2007. The Awarded Shares will be transferred to the employees at nil consideration upon vesting between 13 December 2008 and 13 December 2011.

Further in 2006, 25,500 HKEx shares (2005: Nil) were acquired by the trustee through reinvesting dividends received at a total cost (including related transaction costs) of $1,503,000, of which 24,867 shares (2005: Nil) were subsequently allocated to awardees.

33. Employee Share-based Compensation Reserve *(Continued)*

(c) Awarded Shares *(Continued)*

(ii) Movements in the number of Awarded Shares awarded and their related average fair value were as follows:

	2006		2005	
	Average fair value per share $	**Number of Awarded Shares awarded**	Average fair value per share $	Number of Awarded Shares awarded
Outstanding at 1 Jan	**31.20**	**960,000**	–	–
Awarded*	**–**	**–**	31.20	960,000
Forfeited	**31.20**	**(28,700)**	–	–
Dividends reinvested:				
– allocated to awardees	**N/A**	**24,867**	–	–
– allocated to awardees but subsequently forfeited	**N/A**	**(261)**	–	–
Outstanding at 31 Dec	**31.20**	**955,906**	31.20	960,000

* On 13 December 2006, the Board awarded an Awarded Sum of $19,673,000 for the purchase of HKEx shares for eligible employees. Subsequently, 272,465 Awarded Shares were allocated to the awardees upon the completion of share purchase by the trustee on 15 January 2007.

For Awarded Shares granted prior to 16 August 2006, the fair value of the Awarded Shares awarded was based on the market value of HKEx shares at award date. For Awarded Shares granted after 16 August 2006, the fair value of the Awarded Shares awarded was based on the total costs of the Awarded Shares acquired by the trustee from the market. The expected dividends during the vesting periods have been incorporated into the fair value.

(iii) The remaining vesting periods of the Awarded Shares outstanding as at 31 December were as follows:

	2006		2005	
	Remaining vesting period	**Number of Awarded Shares awarded**	Remaining vesting period	Number of Awarded Shares awarded
Fair value $31.20	**0.97 year to 3.97 years**	**931,300**	1.97 years to 4.97 years	960,000
Dividend reinvested	**0.97 year to 3.97 years**	**24,606**	–	–
	0.97 year to 3.97 years	**955,906**	1.97 years to 4.97 years	960,000

(iv) As at 31 December 2006, 302,094 shares (2005: Nil) were held by the HKEx Employee Share Trust but not yet allocated to awardees. Out of these shares, 272,465 shares were allocated to awardees on 15 January 2007. The remaining 29,629 shares were forfeited shares, unallocated shares and shares arising from dividends reinvested and would be allocated to eligible employees in future.

(v) Had all the outstanding Awarded Shares been fully vested on 31 December 2006, the theoretical gains of the awardees based on the closing price of $85.50 per share on that date would have been $81,730,000.

34. Revaluation Reserves

	Group		
	Leasehold buildings revaluation reserve $'000	Investment revaluation reserve (notes b and c) $'000	Total $'000
At 1 Jan 2005	2,537	16,292	18,829
Change in valuation of leasehold buildings (note 18(a)(iii))	(377)	–	(377)
Change in fair value of available-for-sale financial assets	–	(52,985)	(52,985)
Realisation of change in fair value of available-for-sale financial assets on maturity and disposal	–	(5,775)	(5,775)
Deferred tax arising from change in valuation of leasehold buildings (note 38(b))	65	–	65
Deferred tax arising from change in fair value of available-for-sale financial assets (note 38(b))	–	3,136	3,136
Share of reserve of an associate	–	21	21
At 31 Dec 2005	2,225	(39,311)	(37,086)
At 1 Jan 2006	**2,225**	**(39,311)**	**(37,086)**
Change in valuation of leasehold buildings (note 18(a)(iii))	**502**	–	**502**
Change in fair value of available-for-sale financial assets	–	**31,356**	**31,356**
Realisation of change in fair value of available-for-sale financial assets on maturity and disposal	–	**17,941**	**17,941**
Deferred tax arising from change in valuation of leasehold buildings (note 38(b))	**(87)**	–	**(87)**
Deferred tax arising from change in fair value of available-for-sale financial assets (note 38(b))	–	**(2,094)**	**(2,094)**
Share of reserve of an associate	–	**37**	**37**
At 31 Dec 2006	**2,640**	**7,929**	**10,569**

(a) The revaluation reserves are segregated for their respective specific purposes and are stated net of applicable deferred taxes.

(b) Included gross investment revaluation surpluses of $220,000 and $89,000 which were attributable to investments of the Clearing House Funds and the Compensation Fund Reserve Account respectively (2005: gross deficits of $1,317,000 and $10,000 respectively).

(c) Included share of investment revaluation reserve of an associate of $58,000 (2005: $21,000).

35. Hedging Reserve

	Group		HKEx	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
At 1 Jan	**–**	–	**–**	–
Cash flow hedges:				
– fair value gains/(losses) of hedging instruments	**475**	(129)	**469**	(332)
– transfer to profit and loss account as information technology and computer maintenance expenses	**(475)**	129	**(469)**	332
At 31 Dec	**–**	–	**–**	–
Fair value of hedging instruments at 31 Dec	**16,531**	8,281	**16,531**	8,281

In 2005, one of the subsidiaries designated a bank deposit of 8,500,000 Swedish Krona ("SEK") as a cash flow hedge for hedging the foreign exchange risk of HKEx's forecast information technology and computer maintenance expenses of SEK 8,500,000 from August to December 2005. On 29 August 2005, the said bank deposit was transferred to HKEx without changing the terms of the cash flow hedge. During the year ended 31 December 2006, SEK 7,567,000 (2005: SEK Nil) of the deposit was used to pay the said expenses.

In 2006, one of the subsidiaries designated SEK 7,880,000 as a cash flow hedge for hedging the foreign exchange risk of HKEx's forecast information technology and computer maintenance expenses of SEK 7,880,000 from May to August 2006. On 3 May 2006, the amount was transferred to HKEx and placed as a bank deposit without changing the terms of the cash flow hedge. During the year ended 31 December 2006, SEK 4,068,000 of the deposit was used to pay the said expenses.

In 2006, HKEx also designated bank deposits of SEK 9,800,000 as cash flow hedges for hedging the foreign exchange risk of its forecast information technology and computer maintenance expenses of SEK 9,800,000 from June to December 2006. During the year ended 31 December 2006, no payment had been made to settle the said expenses.

The ineffectiveness of cash flow hedges credited to the profit and loss account for the Group and HKEx during the year amounted to $3,000 (2005: $Nil).

36. Designated Reserves

These reserves are segregated for their respective purposes. Details of the movements on the reserves during the year were as follows:

	Group			
	Clearing House Funds reserves (note a) $'000	Compensation Fund Reserve Account reserve $'000	Development reserve (note b) $'000	Total $'000
At 1 Jan 2005	560,626	37,117	83,253	680,996
Surplus of investment and other income net of expenses transferred from retained earnings	29,350	1,303	–	30,653
Transfer to retained earnings	–	–	(11,008)	(11,008)
Transfer from/(to) retained earnings	29,350	1,303	(11,008)	19,645
At 31 Dec 2005	589,976	38,420	72,245	700,641
At 1 Jan 2006	**589,976**	**38,420**	**72,245**	**700,641**
Surplus of investment and other income net of expenses transferred from retained earnings	**37,840**	**2,026**	**–**	**39,866**
Transfer to retained earnings	**–**	**–**	**(72,245)**	**(72,245)**
Transfer from/(to) retained earnings	**37,840**	**2,026**	**(72,245)**	**(32,379)**
At 31 Dec 2006	**627,816**	**40,446**	**–**	**668,262**

(a) Clearing House Funds reserves

	HKSCC Guarantee Fund reserve $'000	SEOCH Reserve Fund reserve $'000	SEOCH Reserve Fund reserve $'000	Total $'000
At 1 Jan 2005	247,853	48,774	263,999	560,626
Surplus of investment income net of expenses of Clearing House Funds transferred from retained earnings	2,591	7,572	19,187	29,350
At 31 Dec 2005	250,444	56,346	283,186	589,976
At 1 Jan 2006	**250,444**	**56,346**	**283,186**	**589,976**
Surplus of investment income net of expenses of Clearing House Funds transferred from retained earnings	**6,070**	**14,847**	**16,923**	**37,840**
At 31 Dec 2006	**256,514**	**71,193**	**300,109**	**627,816**

36. Designated Reserves *(Continued)*

(b) Development reserve

The reserve was set aside for systems development for the Stock Exchange and the betterment of the securities market. During 2006, $72,245,000 (2005: $11,008,000) of the reserve was utilised and transferred to the Group's retained earnings (note 39) for funding projects that were for the betterment of the securities market.

37. Merger Reserve

The Group has taken advantage of the merger relief available under section 48C of the Hong Kong Companies Ordinance and treated the premium created by the issuance of shares on 6 March 2000, the date HKEx became the holding company of the Stock Exchange and the Futures Exchange and their subsidiaries, as a merger reserve. In the consolidated balance sheet, the full amount of the merger reserve has been used to offset against the reserve arising on consolidation as explained in note 39(c).

38. Deferred Taxation

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5 per cent (2005: 17.5 per cent).

(a) The movements on the deferred tax liabilities/(assets) account were as follows:

	Group		HKEx	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
At 1 Jan	**17,710**	29,649	**(2,967)**	(1,227)
Transfer to the profit and loss account (note 15(a))	**(9,218)**	(8,738)	**(363)**	(1,740)
Transfer from/(to) shareholders' equity (note b)	**2,181**	(3,201)	**–**	–
At 31 Dec (note e)	**10,673**	17,710	**(3,330)**	(2,967)

(b) The deferred taxation transfer from/(to) shareholders' equity during the year was as follows:

	Group	
	2006 $'000	2005 $'000
Reserves in shareholders' equity:		
– leasehold buildings revaluation reserve (note 34)	**87**	(65)
– investment revaluation reserve (note 34)	**2,094**	(3,136)
	2,181	(3,201)

(c) Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profits is probable. The Group had unrecognised tax losses of $272,486,000 as at 31 December 2006 (2005: $276,331,000) carried forward for offsetting against future taxable income.

38. Deferred Taxation *(Continued)*

(d) The movements on the deferred tax liabilities/(assets) account were as follows:

	Group											
	Accelerated tax depreciation		Revaluation of properties		Tax losses		Revaluation of available-for-sale financial assets		Employee benefits		Total	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000	**2006 $'000**	2005 $'000	**2006 $'000**	2005 $'000	**2006 $'000**	2005 $'000	**2006 $'000**	2005 $'000
At 1 Jan	**25,052**	38,085	**2,291**	1,663	**(5,136)**	(9,158)	**(15)**	3,121	**(4,482)**	(4,062)	**17,710**	29,649
Charged/(credited) to profit and loss account	**(7,937)**	(13,033)	**432**	693	**(1,520)**	4,022	**–**	–	**(193)**	(420)	**(9,218)**	(8,738)
Charged/(credited) to equity	**–**	–	**87**	(65)	**–**	–	**2,094**	(3,136)	**–**	–	**2,181**	(3,201)
At 31 Dec	**17,115**	25,052	**2,810**	2,291	**(6,656)**	(5,136)	**2,079**	(15)	**(4,675)**	(4,482)	**10,673**	17,710

	HKEx					
	Accelerated tax depreciation		Employee benefits		Total	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000	**2006 $'000**	2005 $'000
At 1 Jan	**1,515**	2,835	**(4,482)**	(4,062)	**(2,967)**	(1,227)
Credited to profit and loss account	**(170)**	(1,320)	**(193)**	(420)	**(363)**	(1,740)
At 31 Dec	**1,345**	1,515	**(4,675)**	(4,482)	**(3,330)**	(2,967)

(e) Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to tax levied by the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the balance sheet:

	Group		HKEx	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
Net deferred tax assets recognised on the balance sheet	**(3,330)**	(3,060)	**(3,330)**	(2,967)
Net deferred tax liabilities recognised on the balance sheet	**14,003**	20,770	**–**	–
	10,673	17,710	**(3,330)**	(2,967)

39. Retained Earnings (Including Proposed/Declared Dividends)

	Group		HKEx	
		As restated		
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
At 1 Jan, as previously reported				
Retained earnings/ (accumulated losses)	**1,775,631**	1,658,055	**(442,488)**	(272,421)
Proposed/declared dividends	**680,163**	496,620	**680,163**	496,620
	2,455,794	2,154,675	**237,675**	224,199
Effect of initial adoption of revised HKAS 27	**10**	–	**–**	–
At 1 Jan, as restated	**2,455,804**	2,154,675	**237,675**	224,199
Profit attributable to shareholders (notes a and b)	**2,518,569**	1,339,558	**1,821,661**	1,032,260
Surplus of investment income net of expenses of Clearing House Funds transferred to Clearing House Funds reserves	**(37,840)**	(29,350)	**–**	–
Investment and other income net of expenses of Compensation Fund Reserve Account transferred to Compensation Fund Reserve Account reserve	**(2,026)**	(1,303)	**–**	–
Transfer from Development reserve	**72,245**	11,008	**–**	–
	32,379	(19,645)	**–**	–
Unclaimed dividend forfeited	**686**	–	**686**	–
Dividends:				
2005/2004 final dividend	**(679,549)**	(496,620)	**(680,163)**	(496,620)
Dividend on shares issued for employee share options exercised after 31 Dec 2005/31 Dec 2004	**(1,039)**	(1,597)	**(1,039)**	(1,597)
	(680,588)	(498,217)	**(681,202)**	(498,217)
2006/2005 interim dividend	**(1,000,050)**	(519,988)	**(1,000,962)**	(519,988)
Dividend on shares issued for employee share options exercised after 30 Jun 2006/30 Jun 2005	**(257)**	(579)	**(257)**	(579)
	(1,000,307)	(520,567)	**(1,001,219)**	(520,567)
At 31 Dec	**3,326,543**	2,455,804	**377,601**	237,675
Representing:				
Retained earnings/ (accumulated losses)	**2,060,156**	1,776,254	**(890,283)**	(442,488)
Proposed/declared dividends	**1,266,387**	679,550	**1,267,884**	680,163
At 31 Dec	**3,326,543**	2,455,804	**377,601**	237,675

39. Retained Earnings (Including Proposed/Declared Dividends) *(Continued)*

(a) Profit attributable to shareholders included a profit of $1,821,661,000, of which $1,802,995,000 was dividends from subsidiaries (2005: $1,032,260,000, of which $1,020,000,000 was dividends from subsidiaries), which has been dealt with in the accounts of HKEx, the holding company of the Group.

(b) The Group's profit attributable to shareholders included a net profit attributable to the investment and other income net of expenses after taxation of the Clearing House Funds and Compensation Fund Reserve Account for an aggregate amount of $39,866,000 (2005: $30,653,000).

(c) The negative reserve arising on consolidation of $4,116,436,000, representing the difference between the cost of acquiring the subsidiaries at the time of the merger and their respective issued share capital, was offset against merger reserve of $2,997,115,000 (note 37) and retained earnings of $1,119,321,000.

40. Notes to the Consolidated Cash Flow Statement

(a) Reconciliation of profit before taxation to net cash inflow from operating activities:

	2006 $'000	As restated 2005 $'000
Profit before taxation	**2,963,467**	1,567,018
Adjustments for:		
Net interest income	**(365,780)**	(210,396)
Net realised and unrealised gains and interest income on financial assets and financial liabilities at fair value through profit or loss	**(228,985)**	(82,495)
Dividend income from financial assets at fair value through profit or loss	**(6,115)**	(7,630)
Amortisation of lease premiums for land	**547**	548
Fair value gain of an investment property	**(1,600)**	(4,400)
Depreciation	**99,888**	150,995
Employee share-based compensation benefits	**24,033**	22,955
Reversal of provision for impairment loss of club debenture	**–**	(5)
(Reversal of provision for)/provision for impairment losses of leasehold buildings	**(422)**	837
Provision for/(reversal of provision for) impairment losses of trade receivables	**350**	(389)
Changes in provisions	**(751)**	933
Share of profits less losses of associates	**(27,124)**	(18,433)
Gain on liquidation of an associate	**(6)**	–
Loss/(gain) on disposal or write-off of fixed assets	**627**	(38)
Net (increase)/decrease in financial assets and financial liabilities at fair value through profit or loss	**(110,506)**	80,699
Settlement of amount transferred from retained earnings to Clearing House Funds and Compensation Fund Reserve Account	**(39,866)**	(21,842)
(Increase)/decrease in accounts receivable, prepayments and deposits	**(6,891,416)**	1,357,633
Increase/(decrease) in other current liabilities	**7,536,575**	(1,261,360)
Net cash inflow from operations	**2,952,916**	1,574,630
Interest received	**516,468**	246,740
Dividend received from financial assets at fair value through profit or loss	**6,473**	7,093
Cash received on financial assets at fair value through profit or loss	**91,067**	79,456
Interest paid	**(442,188)**	(125,897)
Hong Kong Profits Tax paid	**(259,268)**	(352,076)
Net cash inflow from operating activities	**2,865,468**	1,429,946

40. Notes to the Consolidated Cash Flow Statement *(Continued)*

(b) The net assets of the Clearing House Funds, Compensation Fund Reserve Account and Margin Funds are held in segregated accounts for specific purposes. Movements in individual items of the net assets of the funds during the year therefore did not constitute any cash or cash equivalent transactions to the Group.

41. Commitments

(a) Commitments in respect of capital expenditures:

	Group		HKEx	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
Contracted but not provided for	**9,144**	18,130	**2,123**	3
Authorised but not contracted for	**82,461**	118,838	**22,598**	22,647
	91,605	136,968	**24,721**	22,650

The commitments in respect of capital expenditures were mainly for the development and purchases of computer systems (2005: refurbishment of the Trading Hall and the development and purchases of computer systems).

(b) Commitments for total future minimum lease payments under operating leases and computer maintenance contracts

(i) Land and buildings

	Group		HKEx	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
Payable				
– within one year	**91,910**	82,483	**1,558**	1,590
– in the second to fifth years	**96,819**	157,989	**2,734**	476
	188,729	240,472	**4,292**	2,066

41. Commitments *(Continued)*

(b) Commitments for total future minimum lease payments under operating leases and computer maintenance contracts *(Continued)*

(ii) Computer systems and equipment

The Group is heavily reliant on the capability and reliability of its computer systems for its business operations, including those required for its electronic trading platforms and post-trading clearing and settlement services. In order to maintain the high standard of performance of the systems, the Group has entered into various maintenance and operating lease contracts with its vendors. The future minimum payments under maintenance contracts and operating leases (including licenses) in respect of computer systems and equipment were as follows:

	Group		HKEx	
	2006 **$'000**	2005 $'000	**2006** **$'000**	2005 $'000
Operating leases in respect of computer systems and equipment, payable				
– within one year	**8,320**	9,570	**7,605**	8,642
– in the second to fifth years	**2,218**	754	**2,218**	754
	10,538	10,324	**9,823**	9,396
Maintenance contracts in respect of computer systems and equipment, payable				
– within one year	**34,377**	25,981	**24,684**	14,384
– in the second to fifth years	**2,101**	12,324	**2,101**	4,930
	36,478	38,305	**26,785**	19,314
	47,016	48,629	**36,608**	28,710

As at 31 December 2006, in respect of computer systems and equipment, the majority of the leases would mature within one year (2005: one year) and the Group did not have any purchase options.

(c) Commitment in respect of financial contributions to Financial Reporting Council

In 2006, the Board of HKEx approved the funding arrangements for the Financial Reporting Council ("FRC"), an independent statutory body established on 1 December 2006 under the Financial Reporting Council Ordinance to receive and investigate complaints concerning irregularities of auditors and reporting accountants of listed companies and non-compliances in the financial reports of listed companies.

Under the arrangement, HKEx has agreed to make recurrent contributions of $2.5 million per annum in the first three financial years to provide funding for the FRC's operations and an initial contribution of $5 million to a reserve fund to give the FRC more financial assurance to meet any inadequacies of the annual recurrent funding. The first recurrent contribution and the initial contribution to the reserve fund will be payable in February 2007. After the first three financial years, the contributions to the FRC will be subject to a review of its operating experience and other factors.

42. Contingent Liabilities

(a) Group

(i) The Compensation Fund is a fund set up under the repealed 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 repealed SO, the maximum compensation amount is $8 million for each Stock Exchange Participant's default. Under section 113(5A) of the repealed 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 repealed 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 2006, there were outstanding claims received in respect of two Stock Exchange Participants (2005: five, two of which had resigned their participantship in 2004).

Pursuant to the 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 2006, 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.

(ii) 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 425 trading Participants as at 31 December 2006 (2005: 429) defaulted, the maximum contingent liability of the Stock Exchange under the indemnity would amount to $85,000,000 (2005: $85,800,000).

The carrying amount of the financial guarantee contract recognised in the consolidated balance sheet in accordance with HKAS 39 and HKFRS 4 (Amendments) was $19,909,000 (2005: $19,909,000).

HKEx had, on 24 January 2007, written to the Collector of Stamp Revenue seeking its permission to abolish the undertaking arrangement.

42. Contingent Liabilities *(Continued)*

(b) Group and HKEx

(i) HKEx gave an undertaking on 6 March 2000 in favour of 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.

The carrying amount of the financial guarantee contract recognised in HKEx's balance sheet in accordance with HKAS 39 and HKFRS 4 (Amendments) was $11,390,000 (2005: $11,390,000). The financial guarantee contract was eliminated on consolidation.

43. Future Operating Lease Arrangements

As at 31 December, the future aggregate minimum lease receipts under non-cancellable operating leases of the Group were as follows:

	Group	
	2006 $'000	2005 $'000
Land and buildings		
– within one year	**933**	444
– in the second to fifth years	**815**	–
	1,748	444
Trading booths and related facilities		
– within one year	**9,610**	9,061
– in the second to fifth years	**9,997**	19,264
	19,607	28,325
Total	**21,355**	28,769

44. Non-cash Collateral Received from Participants

Under existing rules of the clearing houses, Participants may lodge cash or approved non-cash collateral to satisfy their Clearing House Fund contributions and Margin Fund obligations. In accordance with HKAS 39, only cash collateral is recognised as assets and liabilities on the consolidated balance sheet.

As at 31 December, the amount of non-cash collateral received from Participants and the amount utilised for covering part of their Clearing House Fund contributions and Margin Fund obligations were as follows:

	Group			
	2006		2005	
	Amount received $'000	**Amount utilised $'000**	Amount received $'000	Amount utilised $'000
Clearing House Funds				
Bank guarantees	**699,130**	**491,866**	333,900	58,603
Margin Funds				
Equity securities, listed in Hong Kong, at market value	**604,276**	**–**	439,591	–
US Treasury Bills, at market value	**1,516,506**	**1,074,285**	191,965	141,086
Bank guarantees	**269,000**	**181,111**	100,000	–
	2,389,782	**1,255,396**	731,556	141,086
	3,088,912	**1,747,262**	1,065,456	199,689

45. Connected Transactions and Material Related Party Transactions

(a) Connected transactions and material related party transactions

(i) Certain Directors of HKEx are investor participants of HKSCC ("Investor Participants") or directors and/or shareholders of (i) Stock Exchange Participants and Futures Exchange Participants ("Exchange Participants"), Clearing Participants and Investor Participants; (ii) companies listed on the Stock Exchange; and (iii) Exchange Participants for buying shares on behalf of HKSCC. Securities and derivatives contracts traded by, and fees levied on, these Exchange Participants, Clearing Participants and Investor Participants, fees levied on these listed companies and fees paid to these Exchange Participants for buying shares on behalf of HKSCC are all undertaken in the ordinary course of business of the Group on the standard terms and conditions applicable to all other Exchange Participants, Clearing Participants, Investor Participants, listed companies and Exchange Participants for buying shares on behalf of HKSCC.

Certain transactions undertaken during the year were regarded as related party transactions in accordance with HKAS 24 but the amounts were immaterial. Certain transactions fell under the definition of continuing connected transactions under the Main Board Listing Rules are disclosed in the Corporate Governance Report.

45. Connected Transactions and Material Related Party Transactions *(Continued)*

(a) Connected transactions and material related party transactions *(Continued)*

(ii) During the year, the Group also entered into the following material transactions with entities that were both related parties and connected persons as one of their directors was a director of HKEx:

	Group	
	2006 $'000	2005 $'000
Rental payments (including air conditioning and cleaning service charges) to Shine Hill Development Limited ("Shine Hill")	**1,757**	5,327

On 16 February 2005, the Futures Exchange as the tenant renewed the lease in respect of the tenancy of an office premises ("Lease") with Shine Hill as the landlord for a term of two years commencing 1 January 2005. The Futures Exchange is a wholly-owned subsidiary of HKEx. When the Lease was renewed, Shine Hill was a subsidiary of Great Eagle Holdings Limited ("Great Eagle"), and Dr LO Ka Shui, an Independent Non-executive Director of HKEx retired on 26 April 2006, was the deputy chairman, managing director and substantial shareholder of Great Eagle. The Lease was an arm's length transaction entered into on normal commercial terms. The rental payments for the year ended 31 December 2006 disclosed above represented expenses incurred up to 26 April 2006 and were related party transactions under HKAS 24. The transactions were also continuing connected transactions as defined under the Main Board Listing Rules but the amount disclosed as continuing connected transactions in the Corporate Governance Report represented expenses incurred up to 31 December 2006.

(b) Material related party transactions

In addition to the above, the Group or HKEx entered into certain material related party transactions which were not regarded as connected transactions as defined under the Main Board Listing Rules. Details of such transactions are set out below.

(i) Transactions with associates, subsidiaries and a controlled special purpose entity

	Group		HKEx	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
Income received and receivable from/(expenses paid and payable to) associates:				
CHIS				
– Dividend income	**22,500**	17,952	**–**	–
– Share registration service fees	**(637)**	(439)	**(637)**	(439)
AWPS				
– Liquidation proceeds	**1,312**	–	**–**	–
Transactions with subsidiaries and a controlled special purpose entity:				
– Dividend income	**–**	–	**1,802,995**	1,020,000
– Management fee and equipment rental fee charged	**–**	–	**286,817**	250,352
– Expenses recharged	**–**	–	**726,571**	657,734
– Dividend paid	**–**	–	**(1,526)**	–

45. Connected Transactions and Material Related Party Transactions *(Continued)*

(b) Material related party transactions *(Continued)*

(ii) Key management personnel compensation

	Group		HKEx	
	2006 **$'000**	2005 $'000	**2006** **$'000**	2005 $'000
Salaries and other short-term employee benefits	**61,182**	55,649	**55,440**	49,124
Employee share-based compensation benefits	**5,972**	9,199	**5,394**	8,664
Retirement benefit costs	**5,552**	5,475	**5,022**	4,786
	72,706	70,323	**65,856**	62,574

(iii) Amounts due from/(to) related parties

	Group		HKEx	
	2006 **$'000**	2005 $'000	**2006** **$'000**	2005 $'000
Amounts due from:				
– An associate	**–**	5,284	**–**	–
– Subsidiaries	**–**	–	**1,020,858**	583,102
– Related companies with common directors	**–**	867	**–**	–
Amounts due to:				
– An associate	**(162)**	(14)	**(162)**	(14)
– Subsidiaries	**–**	–	**(498,224)**	(183,116)
– Related companies with common directors	**–**	(113)	**–**	–

(iv) Post-retirement benefit plans

Details of transactions with the Group's post-retirement benefit plans are included in note 9(b).

(v) Save as aforesaid, the Group and HKEx have entered into other transactions in the ordinary course of business with companies where there are common directors but the amounts were immaterial.

46. Banking Facilities with Assets Pledged

The Group did not have any assets pledged as at 31 December 2006 and 31 December 2005.

47. Capital Management

The Group's objectives when managing capital are:

- To safeguard the Group's ability to continue as a going concern, so that it continues to provide returns for shareholders and benefits for other stakeholders;
- To support the Group's stability and growth; and
- To provide capital for the purpose of strengthening the Group's risk management capability.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Group adopts a dividend policy of providing shareholders with regular dividends with a target payout ratio of 90 per cent of the profit of the year, while retaining 10 per cent of the profit as capital of the Group for future use. As at 31 December 2006, the Group had set aside $3,100 million of shareholders' funds (2005: $1,500 million of retained earnings) for the purpose of strengthening the risk management regime of the clearing houses and supporting their roles as central counterparties.

As in prior years, the Group monitors capital by reviewing the level of capital that is at the disposal of the Group ("adjusted capital"). Adjusted capital comprises all components of shareholders' equity other than the hedging reserve relating to cash flow hedges, designated reserves and investment revaluation reserve of the Clearing House Funds and Compensation Fund Reserve Account net of applicable deferred taxes. The adjusted capital of the Group at 31 December 2006 was $4,589,071,000 (2005: $3,638,142,000, as restated). The increase of adjusted capital was due to the increase in retained earnings and reserves.

48. Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, equity price risk and interest rate risk), liquidity risk and credit risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's performance.

The Group's investment policy is to prudently invest all funds managed by the Group in a manner which will satisfy liquidity requirements, safeguard financial assets and manage risks while optimising return on investments.

Investment and fund management is governed by investment policy and risk management guidelines approved by the Board. Investment restrictions and guidelines form an integral part of risk control. Fund-specific restrictions and guidelines are set according to the investment objectives of each fund. In addition, specific limits are set for each fund to control risks (eg permissible asset type, asset allocation, liquidity, credit, counterparty concentration, maturity, foreign exchange and interest rate risks) of the investments.

(a) Market risk

Market risk is the risk of loss arising from movements in observable market variables such as foreign exchange rates, equity and commodity prices and interest rates. The Group is exposed to market risk primarily through its investments held.

Funds available for investment comprise three main categories: Corporate Funds (mainly share capital and retained earnings of the Group), Clearing House Funds and Margin Funds received (which exclude non-cash collateral and contributions receivable from Participants).

An Investment Advisory Committee, comprised of Non-executive Directors of HKEx and an external member from the financial community, advises the Board on portfolio management and monitors the risk and performance of HKEx's investments. A Treasury team in the Finance Department is dedicated to the day-to-day management and investment of the funds. Three external fund managers have also been appointed to manage part of the Corporate Funds since July 2001. The external fund managers are stable and financially strong financial institutions and each has a worldwide aggregate fund size of a minimum of USD10 billion under management.

48. Financial Risk Management *(Continued)*

(a) Market risk *(Continued)*

(i) Foreign exchange risk

Foreign exchange risk is the risk that the value of an asset, liability or highly probable forecast transaction denominated in foreign currency will fluctuate because of changes in foreign exchange rates. When seeking to optimise the returns on its funds available for investment, the Group may invest in non-HKD securities from time to time. Forward foreign exchange contracts and foreign currency cash and bank 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.

The investment in non-HKD securities is governed by the Group's investment policy and subject to the following restrictions:

- up to 20 per cent of the Corporate Funds may be invested in non-HKD or non-USD investments after hedging;
- only USD investments are permitted for the Clearing House Funds; and
- foreign currency investments or deposits of the Margin Funds are permitted to the extent that they fully match the liabilities of the respective currencies, except up to 25 per cent of the HKD liabilities may be invested in USD deposits for a maximum maturity of two weeks.

The Group and HKEx had entered into the following hedges as at 31 December 2006:

Cash flow hedges

In 2005, one of the subsidiaries designated a bank deposit of SEK 8,500,000 as a cash flow hedge for hedging the foreign exchange risk of HKEx's forecast information technology and computer maintenance expenses of SEK 8,500,000 from August to December 2005. On 29 August 2005, the said bank deposit was transferred to HKEx without changing the terms of the cash flow hedge. During the year ended 31 December 2006, SEK 7,567,000 (2005: SEK Nil) of the deposit was used to pay the said expenses.

In 2006, one of the subsidiaries designated SEK 7,880,000 as a cash flow hedge for hedging the foreign exchange risk of HKEx's forecast information technology and computer maintenance expenses of SEK 7,880,000 from May to August 2006. On 3 May 2006, the amount was transferred to HKEx and placed as a bank deposit without changing the terms of the cash flow hedge. During the year ended 31 December 2006, SEK 4,068,000 of the deposit was used to pay the said expenses.

In 2006, HKEx also designated bank deposits of SEK 9,800,000 as cash flow hedges for hedging the foreign exchange risk of its forecast information technology and computer maintenance expenses of SEK 9,800,000 from June to December 2006. During the year ended 31 December 2006, no payment had been made to settle the said expenses.

Fair value hedges

In 2005, HKEx designated a bank deposit of SEK 11,000,000 as a fair value hedge to hedge against the foreign exchange risk of financial liabilities of the Group of SEK 11,000,000 of which SEK 1,800,000 related to financial liabilities of one of the subsidiaries. SEK 7,556,000 (2005: SEK Nil) of the deposit was used to settle the financial liabilities of HKEx during the year ended 31 December 2006.

48. Financial Risk Management *(Continued)*

(a) Market risk *(Continued)*

(i) Foreign exchange risk *(Continued)*

Fair value hedges *(Continued)*

In 2006, one of the subsidiaries designated SEK6,690,000 as a fair value hedge to hedge against the foreign exchange risk of HKEx's financial liabilities of SEK 6,690,000. On 3 May 2006, the amount was transferred to HKEx and placed as a bank deposit without changing the terms of the fair value hedge. During the year ended 31 December 2006, SEK 6,060,000 of the deposit was used to settle the financial liabilities.

In 2006, HKEx also designated bank deposits of SEK 2,410,000 as fair value hedges to hedge against the foreign exchange risk of its financial liabilities of SEK 2,410,000. During the year ended 31 December 2006, SEK 2,029,000 of the deposit was used to settle the financial liabilities.

As at 31 December 2006, the fair value of the bank deposits designated as fair value hedges held by the Group and HKEx was $5,062,000 (2005: $10,717,000) and $3,017,000 (2005: $8,963,000) respectively.

The fair value gains on the bank deposits designated as hedging instruments for the Group and HKEx during 2006 were $1,465,000 (2005: losses of $569,000) and $1,173,000 (2005: losses of $476,000) respectively whereas the fair value losses on the financial liabilities being hedged for the Group and HKEx were $1,465,000 (2005: gains of $569,000) and $1,173,000 (2005: gains of $476,000) respectively.

48. Financial Risk Management *(Continued)*

(a) Market risk *(Continued)*

(i) Foreign exchange risk *(Continued)*

Details of the financial assets and financial liabilities denominated in foreign currencies and the net open position of the foreign currency risks (ie gross position less forward foreign exchange contracts and related hedges) as at 31 December in HKD equivalents were as follows:

		Group					
		2006			2005		
	Foreign currency	Gross open position $'000	Forward foreign exchange contracts and hedges $'000	Net open position $'000	Gross open position $'000	Forward foreign exchange contracts and hedges $'000	Net open position $'000
Financial assets/(financial liabilities)							
Time deposit with maturity over one year	USD	38,886	–	38,886	38,768	–	38,768
Other financial assets	RMB	1	–	1	1	–	1
Accounts receivable and deposits	USD	1,200	–	1,200	77	–	77
Margin Funds on derivatives contracts*	JPY	2,080,887	(2,080,887)	–	3,611,668	(3,611,668)	–
	USD	41	(41)	–	29	(29)	–
Financial assets at fair value through profit or loss @	AUD	66,502	(26,326)	40,176	59,177	(38,303)	20,874
	CAD	21,376	(20,713)	663	18,341	(18,188)	153
	CHF	9,370	–	9,370	8,984	–	8,984
	EUR	152,423	(81,547)	70,876	104,524	(64,263)	40,261
	GBP	87,803	(74,504)	13,299	75,041	(70,034)	5,007
	JPY	58,289	(11,404)	46,885	56,342	(19,842)	36,500
	NZD	14,753	(8,746)	6,007	35,695	(8,426)	27,269
	SGD	38,082	(15,208)	22,874	19,976	–	19,976
	USD	1,725,314	233,089	1,958,403	1,563,454	265,529	1,828,983
Cash and cash equivalents	SEK#	22,467	(21,593)	874	20,062	(18,998)	1,064
	GBP	17	–	17	15	–	15
	JPY	905	–	905	21	–	21
	RMB	111	–	111	71	–	71
	SGD	1	–	1	1	–	1
	USD	6,267	–	6,267	5,443	–	5,443
Margin deposits from Clearing Participants on derivatives contracts*	JPY	(2,080,887)	2,080,887	–	(3,611,668)	3,611,668	–
	USD	(41)	41	–	(29)	29	–
Accounts payable, accruals and other liabilities	MYR	(2)	–	(2)	(2)	–	(2)
	RMB	(288)	–	(288)	(129)	–	(129)
	SEK#	(24,271)	21,593	(2,678)	(19,150)	18,998	(152)
	USD	(2,848)	–	(2,848)	(1,079)	–	(1,079)
	GBP	(274)	–	(274)	–	–	–
Non-financial assets/(non-financial liabilities)							
Net non-financial liabilities	USD	(4,812)	–	(4,812)	(1,250)	–	(1,250)
Total net open position for the Group	AUD			40,176			20,874
	CAD			663			153
	CHF			9,370			8,984
	EUR			70,876			40,261
	GBP			13,042			5,022
	JPY			47,790			36,521
	MYR			2			2
	NZD			6,007			27,269
	RMB			176			57
	SEK			1,804			912
	SGD			22,875			19,977
	USD			1,997,096			1,870,942
				2,209,877			2,030,974

48. Financial Risk Management *(Continued)*

(a) Market risk *(Continued)*

(i) Foreign exchange risk *(Continued)*

		HKEx					
		2006			2005		
	Foreign currency	Gross open position $'000	Forward foreign exchange contracts and hedges $'000	Net open position $'000	Gross open position $'000	Forward foreign exchange contracts and hedges $'000	Net open position $'000
Financial assets/(financial liabilities)							
Other financial assets	RMB	1	–	1	1	–	1
Cash and cash equivalents	RMB	105	–	105	65	–	65
	SEK#	22,467	(19,548)	2,919	20,062	(17,244)	2,818
Accounts payable, accruals and other	USD	(706)	–	(706)	–	–	–
liabilities	RMB	(289)	–	(289)	(169)	–	(169)
	SEK#	(19,914)	19,548	(366)	(19,150)	17,244	(1,906)
Total net open position for HKEx	RMB			183			103
	USD			706			–
	SEK			2,553			912
				3,442			1,015

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

@ Forward foreign exchange contracts have been used to hedge the currency exposure of the Group's investments by external fund managers.

Foreign currency cash and bank deposits have been used to hedge the currency exposure of the Group's liabilities.

(ii) Equity and commodity price risk

The Group is exposed to equity price risk as equities are held as part of the Corporate Fund's investments. Equity price risk is capped by an asset allocation limit. The Group is not exposed to commodity price risk as investment in commodities is not permitted under the Group's investment policy.

(iii) Interest rate risks

There are two types of interest rate risk:

- Fair value interest rate risk – the risk that the value of a financial instrument will fluctuate because of changes in market interest rates; and
- Cash flow interest rate risk – the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group is exposed to both fair value and cash flow interest rate risks as the Group has significant assets and liabilities which are interest-bearing.

48. Financial Risk Management *(Continued)*

(a) Market risk *(Continued)*

(iv) Risk management

Risk management techniques, such as Value-at-Risk ("VaR") based on historical simulation and portfolio stress testing, are used to identify, measure and control foreign exchange risk, equity price risk and interest rate risks of the Group's investments. 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 Board sets a limit on total VaR of the Group and VaR is monitored on a weekly basis.

VaR is a statistical measure of risks and has limitations associated with the assumptions employed. Historical simulation assumes that actual observed historical changes in market indices, such as interest rates, foreign exchange rates and equity prices, reflect possible future changes. This implies that the approach is vulnerable to sudden changes in market behaviour. The use of a 10-day holding period assumes that the positions can be unwound in 10 trading days and the holding period may be insufficient at times of severe illiquidity. Also, VaR does not necessarily reflect all aspects of risks that affect the price of financial instruments and may underestimate real market risk exposure. In addition, VaR does not factor in the possibility of catastrophic risk but the use of stress testing for abnormal market conditions can mitigate this limitation.

The VaR for each risk factor and the total VaR of the investments of the Group and HKEx during the year were as follows:

	Group					
	2006			2005		
	Average $'000	**Highest $'000**	**Lowest $'000**	Average $'000	Highest $'000	Lowest $'000
Foreign exchange risk	**5,957**	**7,422**	**4,907**	5,017	6,135	3,591
Equity price risk	**11,207**	**13,032**	**8,991**	8,495	11,209	6,567
Interest rate risk	**11,884**	**13,862**	**9,040**	20,515	24,043	14,367
Total VaR	**18,751**	**21,005**	**15,939**	23,451	26,869	20,383

	HKEx					
	2006			2005		
	Average $'000	**Highest $'000**	**Lowest $'000**	Average $'000	Highest $'000	Lowest $'000
Foreign exchange risk	**794**	**1,245**	**273**	222	709	–
Equity price risk	**–**	**–**	**–**	–	–	–
Interest rate risk	**14**	**35**	**2**	7	22	–
Total VaR	**793**	**1,249**	**277**	228	717	–

VaR for each risk factor is the independently derived largest potential loss due to fluctuations solely in that risk factor. The individual VaRs did not add up to the total VaR as there was diversification effect due to correlation amongst the risk factors. Moreover, in respect of the highest and lowest VaRs during the year, the highest and lowest VaRs in each market did not necessarily occur on the same day.

48. Financial Risk Management *(Continued)*

(b) Liquidity risk

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due, and it results from amount and maturity mismatches of assets and liabilities. Investments of the Group are kept sufficiently liquid to meet the operating needs and possible liquid requirements of the Clearing House Funds and Margin Funds. The Group also sets a limit on the minimum level of cash or bank deposits held for the Corporate Funds, and the minimum level of investments to be held that would mature the same day and the next day for the Clearing House Funds and Margin Funds.

The non–derivative financial liabilities of the Group and HKEx as at 31 December are analysed into relevant maturity buckets based on their contractual maturity dates in the table below:

	Group					
	2006					
	Up to 1 month $'000	>1 month to 3 months $'000	>3 months to 1 year $'000	>1 year to 5 years $'000	Not determinable $'000	Total $'000
Current liabilities						
Margin deposits from Clearing Participants on derivatives contracts	21,666,474	–	–	–	–	21,666,474
Accounts payable, accruals and other liabilities	11,042,527	45,937	234	363	18,139	11,107,200
Participants' admission fees received	700	50	600	–	350	1,700
	32,709,701	45,987	834	363	18,489	32,775,374
Non-current liabilities						
Participants' admission fees received	–	–	–	–	79,750	79,750
Participants' contributions to Clearing House Funds	–	–	–	–	1,642,495	1,642,495
Financial guarantee contract (note i)	–	–	–	–	85,000	85,000
	–	–	–	–	1,807,245	1,807,245
Total	32,709,701	45,987	834	363	1,825,734	34,582,619

48. Financial Risk Management *(Continued)*

(b) Liquidity risk *(Continued)*

	Group 2005 (As restated)				
	Up to 1 month $'000	>1 month to 3 months $'000	>3 months to 1 year $'000	Not determinable $'000	Total $'000
Current liabilities					
Margin deposits from Clearing Participants on derivatives contracts	13,648,581	–	–	–	13,648,581
Accounts payable, accruals and other liabilities	3,596,565	30,405	191	13,910	3,641,071
Participants' admission fees received	900	150	1,300	200	2,550
	17,246,046	30,555	1,491	14,110	17,292,202
Non-current liabilities					
Participants' admission fees received	–	–	–	80,150	80,150
Participants' contributions to Clearing House Funds	–	–	–	751,751	751,751
Financial guarantee contract (note i)	–	–	–	85,800	85,800
	–	–	–	917,701	917,701
Total	17,246,046	30,555	1,491	931,811	18,209,903

	HKEx 2006				
	Up to 1 month $'000	>1 month to 3 months $'000	>3 months to 1 year $'000	Not determinable $'000	Total $'000
Current liabilities					
Accounts payable, accruals and other liabilities	**102,883**	**1,328**	**17**	**263**	**104,491**
Amounts due to subsidiaries	**498,224**	**–**	**–**	**–**	**498,224**
	601,107	**1,328**	**17**	**263**	**602,715**
Non-current liabilities					
Financial guarantee contract (note i)	**–**	**–**	**–**	**50,000**	**50,000**
	–	**–**	**–**	**50,000**	**50,000**
Total	**601,107**	**1,328**	**17**	**50,263**	**652,715**

48. Financial Risk Management *(Continued)*

(b) Liquidity risk *(Continued)*

	HKEx				
	2005				
	Up to 1 month $'000	>1 month to 3 months $'000	>3 months to 1 year $'000	Not determinable $'000	Total $'000
Current liabilities					
Accounts payable, accruals and other liabilities	162,018	–	–	–	162,018
Amounts due to subsidiaries	183,116	–	–	–	183,116
	345,134	–	–	–	345,134
Non-current liabilities					
Financial guarantee contract (note i)	–	–	–	50,000	50,000
	–	–	–	50,000	50,000
Total	345,134	–	–	50,000	395,134

(i) The amount disclosed for financial guarantee contracts represented the amount of contingent liabilities at the balance sheet date.

As at 31 December 2006, the maximum gross nominal value of outstanding forward foreign exchange contracts held by the Group was $280,976,000 (2005: $275,071,000). The table below analyses the Group's outstanding forward foreign exchange contracts as at 31 December that would be settled on a gross basis into relevant maturity buckets based on their remaining contractual maturity dates. The amounts disclosed in the table are contractual undiscounted cash flows, which are different from the carrying amount (ie market value) in the consolidated balance sheet.

	Group	
	2006	2005
	Up to 1 month $'000	Up to 1 month $'000
Forward foreign exchange contracts		
– outflows	**280,976**	273,919
– inflows	**275,617**	275,071

The Group employs projected cash flow analysis to manage liquidity risk by forecasting the amount of cash required and monitoring the working capital of the Group to ensure that all liabilities due and known funding requirements could be met. In addition, banking facilities have been put in place for contingency purposes. As at 31 December 2006, the Group's total available banking facilities amounted to $1,558 million (2005: $1,608 million), of which $1,500 million (2005: $1,500 million) were repurchase facilities to augment the liquidity of the Margin Funds.

48. Financial Risk Management *(Continued)*

(c) Credit risk

(i) Investment and accounts receivable-related risk

The Group is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. It arises primarily from the Group's investments and trade receivables. Impairment provisions are made for losses that have been incurred at the balance sheet date. The Group limits its exposure to credit risk by rigorously selecting the counterparties (ie deposit-takers, bond issuers and debtors) and by diversification. As at 31 December 2006, the bonds held were of investment grade and had a weighted average credit rating of Aa2 (2005: Aa2), and there were no financial assets whose terms were renegotiated (2005: $Nil). 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. All investments are subject to a maximum concentration limit approved by the Board and there was no significant concentration risk to a single counterparty. The Group mitigates its exposure to risks relating to accounts receivable from its Participants by requiring the Participants to meet the Group's established financial requirements and criteria for admission as Participants.

(ii) Clearing and settlement-related risk

In the normal course of business, the clearing houses of the Group, HKSCC, SEOCH and HKCC, act as the counterparties to eligible trades concluded on the Stock Exchange and the Futures Exchange through the novation of the obligations of the buyers and sellers. HKSCC is also responsible for the good title to the securities deposited and accepted in the CCASS depository. As a result, the Group has considerable market risk and credit risk since the Participants' ability to honour their obligations in respect of their trades and securities deposited may be adversely impacted by economic conditions affecting the Cash and Derivatives Markets. If the Participants default on their obligations on settlement or there are defects in the title of securities deposited and accepted in the CCASS depository, the Group could be exposed to potential risks not otherwise accounted for in these accounts.

The Group mitigates its exposure to risks described above by requiring the Participants to meet the Group's established financial requirements and criteria for admission as Participants, monitoring compliance with risk management measures such as position limits established by the Group and requiring Clearing Participants to contribute to the Clearing House Funds set up by HKSCC, SEOCH and HKCC. HKSCC also retains recourse against those Participants whose securities are deposited and accepted in the CCASS depository.

Position limits are imposed by HKCC and SEOCH to regulate or limit the maximum number or value of gross and net positions which can be held or controlled by the Participants based on their liquid capital. Bank guarantees may also be accepted to extend Participants' position limits. As of 31 December 2006, bank guarantees of $1,511,500,000 (2005: $915,400,000) were accepted for such purpose.

In addition to the above, as of 31 December 2006, the Group had set aside $3,100 million of shareholders' funds (2005: $1,500 million of retained earnings) for the purpose of strengthening the risk management regime of the clearing houses and supporting their roles as central counterparties.

48. Financial Risk Management *(Continued)*

(c) Credit risk *(Continued)*

(iii) Exposure to credit risk

As at 31 December, the financial assets and financial liabilities of the Group and HKEx that were exposed to credit risk and their maximum exposure were as follows:

	Group			
	2006		2005 (As restated)	
	Carrying amount in balance sheet $'000	**Maximum exposure to credit risk $'000**	Carrying amount in balance sheet $'000	Maximum exposure to credit risk $'000
Financial assets				
Clearing House Funds:				
Available-for-sale financial assets	317,212	317,212	224,137	224,137
Time deposits with original maturities over three months	–	–	30,290	30,290
Cash and cash equivalents	1,957,229	1,957,229	1,091,233	1,091,233
Compensation Fund Reserve Account:				
Available-for-sale financial assets	42,990	42,990	18,488	18,488
Cash and cash equivalents	8,653	8,653	30,240	30,240
Time deposit with maturity over one year	38,886	38,886	38,768	38,768
Other financial assets	18,583	18,583	17,162	17,162
Accounts receivable and deposits #	10,191,751	10,191,751	3,250,197	3,250,197
Margin Funds on derivatives contracts:				
Available-for-sale financial assets	11,083,045	11,083,045	3,828,833	3,828,833
Time deposits with original maturities over three months	51,459	51,459	100,018	100,018
Cash and cash equivalents	10,664,404	10,664,404	9,686,026	9,686,026
Margin receivable from Clearing Participants	61,813	61,813	33,704	33,704
Financial assets at fair value through profit or loss	2,878,224	2,878,224	2,643,788	2,643,788
Available-for-sale financial assets	539,132	539,132	–	–
Time deposits with original maturities over three months	185,611	185,611	116,622	116,622
Cash and cash equivalents	2,215,257	2,215,257	1,359,133	1,359,133
Financial liabilities				
Undertaking to indemnify the Collector of Stamp Revenue	(19,909)	85,000	(19,909)	85,800

Certain debtors were required to place cash deposits with the Group to mitigate the maximum exposure to credit risk.

48. Financial Risk Management *(Continued)*

(c) Credit risk *(Continued)*

(iii) Exposure to credit risk *(Continued)*

	HKEx			
	2006		2005	
	Carrying amount in balance sheet $'000	**Maximum exposure to credit risk $'000**	Carrying amount in balance sheet $'000	Maximum exposure to credit risk $'000
Financial assets				
Other financial assets	**483**	**483**	480	480
Accounts receivable and deposits	**360**	**360**	160	160
Amounts due from subsidiaries	**1,020,858**	**1,020,858**	583,102	583,102
Time deposits with original maturities over three months	**29,089**	**29,089**	10,184	10,184
Cash and cash equivalents	**41,656**	**41,656**	43,383	43,383
Financial liabilities				
Financial guarantee granted to HKSCC	**(11,390)**	**50,000**	(11,390)	50,000

(iv) Financial assets that were past due but not impaired

As at 31 December, the age analysis of the trade receivables of the Group that were past due but not determined to be impaired according to the period past due was as follows:

	Group	
	2006 $'000	2005 $'000
Up to 6 months	**186,359**	141,277
Over 6 months to 1 year	**–**	–
Over 1 year to 3 years *	**–**	8,521
Over 3 years *	**8,651**	142
Total	**195,010**	149,940

* No provision for impairment losses has been made against trade receivables amounting to $8,510,000 (2005: $8,521,000) as the balances can be recovered from the Clearing House Funds.

The fair value of cash deposits placed by the related trade debtors with the Group was $6,088,000 (2005: $3,600,000).

No financial assets of HKEx were past due as at 31 December 2006 and 31 December 2005.

48. Financial Risk Management *(Continued)*

(c) Credit risk *(Continued)*

(v) Financial assets that were impaired at balance sheet date

As at 31 December 2006, trade receivables of the Group amounting to $4,679,000 (2005: $4,329,000) were determined to be impaired and full provision had been made. These receivables were outstanding for over 180 days as at the balance sheet date or were due from companies with financial difficulties. The factors the Group considered in determining whether the financial assets were impaired are disclosed in note 2(s)(vi). No cash deposits had been placed by the related trade debtors with the Group (2005: $Nil).

No financial assets of HKEx were impaired as at 31 December 2006 and 31 December 2005.

(vi) Outstanding balances from debtors which were not recognised as income

As soon as a loan or receivable becomes impaired, the Group may continue to provide services or facilities to the debtors concerned but no further accounts receivable will be recognised on balance sheet as economic benefits may not flow to the Group. The revenue concerned is not recognised but tracked as doubtful deferred revenue and will only be recognised as income when received. As at 31 December 2006, the amount of doubtful deferred revenue amounted to $44,242,000 (2005: $37,643,000).

(d) Fair values of financial assets and financial liabilities not reported at fair values

Summarised in the following table are the carrying amounts and fair values of financial assets and financial liabilities not presented in the Group's and HKEx's balance sheets at their fair values. The carrying amounts of short-term receivables (ie accounts receivable, deposits and cash and cash equivalents) and short-term payables (ie accounts payable and other liabilities) approximated their fair values, and accordingly no disclosure of the fair values of these items is presented.

	Group			
	Carrying amount in balance sheet		Fair value	
	2006 $'000	2005 $'000	**2006 $'000**	As restated 2005 $'000
Financial assets				
Time deposit with maturity over one year	**38,886**	38,768	**37,499**	36,659
Other financial assets (note i)	**18,583**	17,162	**16,688**	15,550
Financial liabilities				
Participants' admission fees received included in non-current liabilities (note i)	**79,750**	80,150	**76,727**	76,732
Participants' contributions to Clearing House Funds:				
– Minimum contributions (note i)	**362,850**	358,050	**349,096**	342,779
– Participants' additional deposits (note i)	**1,279,645**	393,701	**1,231,138**	376,909
Financial guarantee contract (note ii)	**19,909**	19,909	**22,788**	20,526

48. Financial Risk Management *(Continued)*

(d) Fair values of financial assets and financial liabilities not reported at fair values *(Continued)*

	HKEx			
	Carrying amount in balance sheet		Fair value	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
Financial assets				
Other financial assets (note i)	**483**	480	**438**	460
Financial liabilities				
Financial guarantee contract (note ii)	**11,390**	11,390	**13,405**	11,962

(i) The fair values are based on cash flows discounted using Hong Kong Government bond rates of a tenor similar to the contractual maturity of the respective assets/liabilities, adjusted by an estimated credit spread. Assets/liabilities without a contractual maturity are assumed to mature exactly one year after the balance sheet date. The discount rates used ranged from 3.94 per cent to 4.17 per cent as at 31 December 2006 (2005: 4.46 per cent to 4.64 per cent).

(ii) The fair values are based on the fees charged by financial institutions for granting such guarantees discounted using a ten-year Hong Kong Government bond rate to perpetuity. The discount rate was 3.73 per cent as at 31 December 2006 (2005: 4.18 per cent).

49. Comparative Figures

Certain comparative figures have been adjusted to conform with changes in presentation in the current year.