MANAGEMENT DISCUSSION AND ANALYSIS

(Financial figures are expressed in Hong Kong Dollar)

BUSINESS REVIEW

LISTING

Consultations on Enhancing Listing Regulation

As the exchange controller, Hong Kong Exchanges and Clearing Limited ("HKEx") is committed to operating quality markets with high regulatory standards. To determine the most effective level of regulation for protecting interests of the investing public, HKEx is working closely with the Financial Services and the Treasury Bureau ("FSTB") and the Securities and Futures Commission ("SFC") on further developing the Government's proposals for giving statutory backing to major listing requirements to achieve the objective of giving "teeth" to major listing requirements but without causing much disruption to the market.

Proposed New Structure for Listing Decision-Making

HKEx is finalising the Consultation Conclusions on the Proposed New Structure for Listing Decision-Making ("Conclusions") and the proposed amendments to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (collectively the "Listing Rules") for implementing the Conclusions with the SFC, HKEx Board and Listing Committees. The Conclusions and the recommended amendments to the Listing Rules will be published in late 2005 or early 2006. HKEx believes that the implementation of the new structure could further bolster investors' confidence in the markets as being fair, efficient and transparent.

Revision of the Mechanisms for Disseminating Regulatory Information by Main Board Issuers

As the market evolves, HKEx has continually revisited the principles and rules underlying a disclosure-based regime to ensure their effectiveness in meeting changing market needs. In this regard, the Listing Committee has approved a proposal to require Main Board issuers to publish a notification announcement in newspapers instead of the full version of the announcement and the latter will be required to be posted only on the HKEx website and the issuer's website or released through other electronic communication channels. HKEx will publish a policy statement in November 2005 inviting the market to comment on certain aspects of the proposed transitional arrangements, including the form and content of the proposed notification announcement. The requirement of publishing notification announcements will be implemented subject to HKEx's system and operational readiness and the SFC's approval of the relevant rule amendments.

Review of the Growth Enterprise Market ("GEM")

HKEx has established an internal working group to co-ordinate studies and develop proposals for the comprehensive review of the GEM which has been in operation for six years. The working group has held a number of informal meetings with various stakeholders, including shareholders, issuers, investors, market practitioners and participants, the SFC and the Government, to solicit views on the GEM and possible solutions and operation models. Individual Board members and members of the GEM Listing Committee have also contributed their views. A consultation paper setting out the diversity of views expressed and the recommendations will be published in late 2005 or early 2006.

CASH MARKET

Market Performance

In the first three quarters of 2005, there were a total of 33 (corresponding period in 2004: 52) newly listed companies on The Stock Exchange of Hong Kong Limited ("Stock Exchange"), of which 28 (corresponding period in 2004: 32) were listed on the Main Board and five (corresponding period in 2004: 20) on the GEM. The total capital raised, including post-listing funds, reached $189.5 billion (corresponding period in 2004: $226.7 billion).

As at 30 September 2005, there were 907 (as at 30 September 2004: 877) companies listed on the Main Board, including China Shenhua Energy Co Ltd and Bank of Communications Co Ltd, the two largest initial public offerings ("IPOs") during the first nine months of 2005, and 202 (as at 30 September 2004: 203) companies listed on the GEM. The market capitalisation of the Main Board and the GEM was $7,544 billion (as at September 2004: $5,898 billion) and $72 billion (as at September 2004: $62 billion) respectively. The average daily turnover in the first three quarters of 2005 was $18.1 billion (corresponding period in 2004: $15.2 billion) on the Main Board and $91.5 million (corresponding period in 2004: $114.1 million) on the GEM.

In addition, there were 1,192 derivative warrants, eight Exchange Traded Funds ("ETFs") (excluding two ETFs for trading only) and 165 debt securities listed on the Stock Exchange as at the end of September 2005.

Strong growth was registered in the ETF segment during the reporting period with an average daily turnover of $129 million recorded in the third quarter of 2005 (in the third quarter of 2004: $67 million). On 7 July 2005, the ABF Pan Asia Bond Index Fund was first listed, which tracks the performance of the iBoxx Pan-Asia Bond Index, and is traded and settled on the Stock Exchange in US Dollar.

Renovation of the Trading Hall

The renovation of the Trading Hall has commenced and is progressing smoothly. It is expected that new trading facilities will be ready for use in January 2006. The construction and installation of other ancillary facilities will begin thereafter and are scheduled to complete by the end of April 2006.

Review of the Derivative Warrant Market

Responding to the increasing interest in its derivative warrant market in the past few months, HKEx on 10 October 2005 published an article on derivative warrants, which included, inter alia, the related rules and a summary of the issues relating to the recent development, to invite public comments with an aim at enhancing transparency and public awareness of the derivative warrant market.

HKEx is committed to promoting investor education and will continue to allocate resources to help further increase investors' understanding of the products traded on its markets.

Other Product and Market Development Initiatives

The Phase 1 reduction of minimum trading spreads for shares priced above $30 was successfully launched on 4 July 2005. Market data was collected and is being analysed to study the impact and experience.

HKEx is in the final stage discussion with the SFC on the regulatory approval for the introduction of Callable Bull/Bear Contracts ("CBBCs"), and the launch of the product will be subject to the readiness of the market infrastructure. Investor education and product promotion will be conducted prior to the launch of CBBCs.

The proposal to exempt placing or fund raising activities by Exchange Participants ("EPs") from the current prohibition of dealings in suspended securities under the Rules of the Exchange was implemented on 8 September 2005.

DERIVATIVES MARKET

Market Performance

During the third quarter of 2005, the products that achieved record high are highlighted as follows:

	Record High Daily Volume		Record High Open Interest	
Products	**Date**	**Number of Contracts**	**Date**	**Number of Contracts**
Hang Seng Index Options	–	–	28 Sept	298,505
Mini-Hang Seng Index Futures	–	–	25 Jul	5,636
FTSE/Xinhua China 25 Index Options	–	–	29 Aug	1,607
H-shares Index Options	22 Jul	4,280	29 Aug	65,249
Stock Options	–	–	28 Sept	1,655,274

Product and Market Development

Responding to market demand, HKEx further introduced futures and options contracts on Bank of Communications Co Ltd, China Netcom Group Corporation (Hong Kong) Ltd and Ping An Insurance (Group) Co of China Ltd on 7 November 2005. This brings to a total of 8 option classes on H-shares and 12 option classes on Red Chips for trading on the Stock Exchange. To further facilitate the trading of stock options, HKEx has obtained the SFC's approval on the proposal to revise the position limit and reporting level for stock options. The implementation of the new levels will be subject to the relevant changes in sub-legislation.

The number of OMnet Application Programming Interface connections increased 23 per cent from 258 as at the end of 2004 to 318 as at 30 September 2005, representing greater system flexibility for the market as a whole in establishing trading connections to the Hong Kong Futures Automated Trading System ("HKATS"). Upon completion of the Phase I rollout of the consolidation of the existing market networks into the new Optical Ethernet network ("SDNet") on 31 October 2005, the line rentals of HKATS, Derivatives Clearing and Settlement System ("DCASS") and Price Reporting System ("PRS") for Participants have been reduced by about 20 per cent.

Education and Marketing

Continuous professional training courses and briefings for EPs and market professionals have also been organised to update them on HKEx's products, services and requirements. In August, HKEx participated in the FIA Asia Derivatives Conference in Beijing to introduce its market infrastructure and products to overseas market professionals.

CLEARING

Scripless Market

Hong Kong Securities Clearing Company Limited ("HKSCC") has finalised the operational arrangements and system changes required for the implementation of the initial phase of scripless market, i.e. dematerialisation of physical scrip in the Central Clearing and Settlement System ("CCASS") Depository. Meanwhile, the SFC and the FSTB are still in the process of finalising the relevant legislative changes for the implementation of the scripless market in Hong Kong. Subject to the enactment of the enabling legislation, initial phase of the scripless market might start in late 2006.

Clearing Services Enhancements

To better serve the specific interests of CCASS Participants, HKSCC has extended the CCASS deadline for its Participants to submit their corporate action instructions to a time much closer to the issuer's deadline with effect from 8 August. Furthermore, CCASS Participants are able to make payments, including intra-day marks, through the Real Time Gross Settlement payment mechanism operated by the Hong Kong Interbank Clearing Limited and hence, exempted from the existing fee of $100 per settlement transaction. Further improvements to the CCASS nominee services are planned for implementation in early 2006.

Risk Management Policies Harmonisation

Harmonisation of the three clearing houses' collateral policies took effect on 22 August 2005. Further policy changes to broaden the eligible collateral types for the two derivatives clearing houses are also under consideration.

In addition, the review of the capital requirements of each category of Clearing Participants has been completed. Relevant rule amendments to simplify the structure of participantship and harmonise the capital requirements for Clearing Participants of the two derivatives clearing houses will be implemented by the end of this year.

BUSINESS DEVELOPMENT

In the past years, HKEx has been pro-actively promoting Hong Kong as a preferred listing venue for the Mainland prospective issuers. Following the completion of the organisational restructuring in August, the Business Development Division remains focused on attracting quality Mainland enterprises to list in Hong Kong.

Attracting Prospective Issuers

In July, a large scale listing promotion event was held in collaboration with the Pan Pearl River Delta Region's governments and the Shanghai and Shenzhen stock exchanges. During the event, a one-day conference was held in Chengdu with the participation of more than 300 enterprise representatives and government officials from various provinces. In September, another well-received listing forum was held in Fuzhou during the financial services delegation visit to Fujian led by the FSTB.

HKEx has expanded its marketing effort beyond the Mainland to attract quality potential issuers from different sectors in other regional markets such as Japan and Taiwan. In July, our Chief Executive addressed two conferences organised for the Japanese business enterprises in Tokyo and Osaka. In August, a presentation was made to the Taiwanese prospective issuers in Shanghai. All these concerted efforts raised the interest of potential issuers to list on the Stock Exchange.

Training Programmes for Issuers

To ensure a quality market, HKEx is committed to educating the issuers about their continuing listing obligations. Corporate governance seminars were organised for issuers to help them better understand the relevant rules and regulations. In July, HKEx co-organised a one-week training programme for the senior management of the Mainland issuers with the Hong Kong Polytechnic University and the State Council's Office of Hong Kong & Macao Affairs. HKEx also participated in a Corporate Governance seminar organised by an accountancy firm for the senior officials of the State-owned Assets Supervision and Administration Commission and senior management of state-owned enterprises in August. Going forward, HKEx will continue to promote good corporate governance practices amongst the companies already listed or to be listed on the Stock Exchange to ensure that their governance practices are in line with international standards.

INFORMATION SERVICES

In recognition of the need to provide real-time and historical market data of the Cash and Derivatives Markets to market practitioners and investors for enhancing market transparency, HKEx has introduced a new service for the redistribution of historical data products and successfully entered into the first Historical Data Product Vendor Agreement in September. To further enhance our information services, the throttle rate of the real-time derivatives information feed will be increased in late 2005 or early 2006 after successful completion of system upgrade and market rehearsals.

A seminar was held in August to update the derivatives vendors on the data volume projection, system and line upgrade plan as well as the approach for the migration of the HKATS, DCASS and PRS circuits to the SDNet (Phase I rollout). Separately, to safeguard the interests of both HKEx and its vendors and ensure healthy development of the information business on Hong Kong market data, HKEx has continued taking prompt action against unauthorised dissemination of its market data.

INFORMATION TECHNOLOGY

Production Systems Stability and Reliability

HKEx is committed to upholding a high standard of system stability and reliability through the continuing improvement of market infrastructure to achieve delivery excellence. Up to the end of September 2005, all major trading, clearing and settlement, and market data dissemination systems for the Cash and Derivatives Markets have maintained 100 per cent operational system uptime for the prior 30 months.

On 19 October 2005, the Hong Kong Computer Society conferred the Gold Award (the highest) of the Application Category of 7th IT Excellence Awards to HKEx in respect of its CCASS/3. The assessment criteria included functionality and design, productivity, competitiveness, cost performance, social impact and innovative use of information technology.

Capacity Planning and Upgrade

During the third quarter of 2005, HKEx has upgraded the capacity of and substantially enhanced the disaster recovery arrangement for the HKEx website (www.hkex.com.hk) to ensure that it can maintain the highest performance and availability during potential disastrous situation.

Moreover, the capacity upgrade exercise in respect of the Automatic Order Matching and Execution System/Third Generation ("AMS/3"), HKATS, DCASS and PRS is in progress and will be completed by the end of this year.

Obsolescent Technology Replacement and System Migration

The replacement of the AMS/3 off-floor terminals with an upgraded AMS/3 security solution has been commenced and is expected to be completed by the end of this year. In line with the refurbishment of the Trading Hall, additional off-floor terminals will also be installed in the latter part of the year upon completion of the relinquishment of the existing AMS/3 on-floor terminals. The migration of the existing AMS/3 Order Routing System to HP/Nonstop platform to reduce technology complexity and achieve operational cost savings is in progress and is planned to be completed by the end of 2005.

System Consolidation and Operational Efficiency

The consolidation of the existing four market system networks into the SDNet, which has been started early this year, proceeded smoothly as scheduled. The phased migration of Participants' circuits of HKATS, DCASS and PRS onto the SDNet (Phase I rollout) has been carried out in four batches in October. After the migration, Participants will be able to enjoy reduced line rentals and significant technological improvements, including higher participant line bandwidth, better network reliability, greater operational efficiency and advanced network management.

The consolidation of the AMS/3 satellite system has been largely completed. The redevelopment of derivatives market surveillance and risk management systems to further improve operational efficiency and effectiveness is on schedule.

TREASURY

HKEx's investment funds comprise Corporate Funds, Margin Funds and Clearing House Funds, totalling $16.8 billion on average for the nine months ended 30 September 2005 (30 September 2004 average: $13.9 billion).

As compared with 30 June 2005, the overall fund size as at 30 September 2005 increased by 24 per cent or $3.9 billion to $20.4 billion (30 June 2005: $16.5 billion). Details of the asset allocation of the investments as at 30 September 2005 against those as at 30 June 2005 are set out below.

	Fund size $ billion		**Bonds**		**Cash or Bank deposits**		**Global equities**	
	Sept	Jun	**Sept**	Jun	**Sept**	Jun	**Sept**	Jun
Corporate Funds	**4.0**	3.9	**59%**	60%	**33%**	34%	**8%**	6%
Margin Funds	**14.6**	11.2	**31%**	36%	**69%**	64%	**0%**	0%
Clearing House Funds	**1.8**	1.4	**13%**	17%	**87%**	83%	**0%**	0%
Total	**20.4**	16.5	**35%**	40%	**63%**	58%	**2%**	2%

Investments are kept sufficiently liquid to meet HKEx's operating needs and possible liquidity requirements of the Clearing House Funds and Margin Funds. Excluding equities held under the Corporate Funds ($0.3 billion as at 30 September 2005 and 30 June 2005), which have no maturity date, the maturity profiles of the remaining investments as at 30 September 2005 ($20.1 billion) and 30 June 2005 ($16.2 billion) were as follows:

	Fund size $ billion		**Overnight**		**>Overnight to 1 month**		**>1 month to 1 year**		**>1 year to 3 years**		**> 3 years**	
	Sept	Jun	**Sept**	Jun	**Sept**	Jun	**Sept**	Jun	**Sept**	Jun	**Sept**	Jun
Corporate Funds	**3.7**	3.6	**13%**	18%	**19%**	12%	**24%**	25%	**28%**	29%	**16%**	16%
Margin Funds	**14.6**	11.2	**45%**	38%	**26%**	26%	**20%**	23%	**9%**	13%	**0%**	0%
Clearing House Funds	**1.8**	1.4	**83%**	78%	**3%**	4%	**9%**	11%	**5%**	7%	**0%**	0%
Total	**20.1**	16.2	**43%**	36%	**22%**	21%	**20%**	23%	**12%**	16%	**3%**	4%

Credit exposure is well diversified. As at 30 September 2005, the bond portfolio held was of investment grade and had a weighted average credit rating of Aa2 (30 June 2005: Aa2) and a weighted average maturity of 1.2 years (30 June 2005: 1.5 years). Deposits are placed only with the note-issuing banks in Hong Kong, investment grade licensed banks and restricted licence banks approved by the Board from time to time.

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

	Average VaR $ million		**Maximum VaR** $ million		**Minimum VaR** $ million	
	Jul-Sept	Apr-Jun	**Jul-Sept**	Apr-Jun	**Jul-Sept**	Apr-Jun
Corporate Funds	**12.7**	12.1	**13.5**	14.7	**11.2**	11.3
Margin Funds	**13.5**	15.4	**14.5**	16.2	**12.0**	14.3
Clearing House Funds	**1.0**	1.4	**1.2**	1.5	**0.9**	1.2

For details of HKEx's investment income, please refer to the Income section under the Financial Review and note 6 to the condensed consolidated accounts of this quarterly report.

INVESTMENTS IN ASSOCIATES

Computershare Hong Kong Investor Services Limited ("CHIS")

In May 2005, the Group acquired a further six per cent interest in CHIS for $25 million and raised its interest to 30 per cent. As at 30 September 2005, the cost of the investment in CHIS was $52 million and the book value of the investment was $58 million.

ADP Wilco Processing Services Limited ("AWPS")

The Group acquired a 30 per cent interest in AWPS in May 2002 (cost: $1.8 million; and book value: $1.3 million). AWPS is in the process of a voluntary dissolution. The liquidation proceeds of AWPS are expected to approximate its book value.

FINANCIAL REVIEW

OVERALL PERFORMANCE

	Unaudited Nine months ended 30 Sept 2005 $'000	As restated Unaudited Nine months ended 30 Sept 2004 $'000
RESULTS		
Income:		
Income directly affected by market turnover	**1,054,499**	934,935
Stock Exchange listing fees	**303,561**	271,314
Income from sale of information	**243,860**	230,250
Investment income	**224,999**	163,896
Other income	**144,381**	134,150
	1,971,300	1,734,545
Operating expenses	**852,912**	857,037
Operating profit	**1,118,388**	877,508
Share of profits less losses of associates	**12,992**	8,968
Profit before taxation	**1,131,380**	886,476
Taxation	**(171,464)**	(140,441)
Profit attributable to shareholders	**959,916**	746,035
Earnings per share	**$0.91**	$0.71

	Unaudited at 30 Sept 2005 $'000	Audited at 31 Dec 2004 $'000
KEY BALANCE SHEET ITEMS		
Shareholders' funds	**3,982,217**	4,052,143
Total assets*	**26,433,123**	21,443,404
Net assets per share#	**$3.75**	$3.83

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

Based on 1,062,396,846 shares issued and fully paid as at 30 September 2005 (31 December 2004: 1,056,638,846 shares)

The Group recorded a profit attributable to shareholders of $960 million for the first nine months of 2005 (first quarter: $245 million, second quarter: $326 million, third quarter: $389 million), compared with $746 million, as restated, for the same period in 2004 (first quarter: $313 million, second quarter: $185 million, third quarter: $248 million).

As compared with that for the same period last year, the increase in profit for the nine months ended 30 September 2005 was primarily attributable to the higher turnover-related income resulting from the increase in level of activities in the Cash and Derivatives Markets, rise in Stock Exchange listing fees due to the higher number of listed securities and newly listed derivative warrants during the period, and higher investment income from increased fund size and rising interest rates in 2005.

Despite an increase in staff costs, the Group has managed to keep its total operating expenses for the nine-month period at a level similar to that of the same period last year.

Income

(A) Income directly affected by market turnover

	Unaudited Nine months ended 30 Sept 2005 $'000	Unaudited Nine months ended 30 Sept 2004 $'000	Change
Trading fees and trading tariff	**580,453**	494,610	17%
Clearing and settlement fees	**282,242**	258,438	9%
Depository, custody and nominee services fees	**191,804**	181,887	5%
Total	**1,054,499**	934,935	13%

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

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

Depository, custody and nominee services fees increased due to the higher scrip fee income, corporate action fees and dividend collection fees but partly offset by lower stock withdrawal fees in 2005.

Key market indicators

	Nine months ended 30 Sept 2005	Nine months ended 30 Sept 2004	Change
Average daily turnover value on the Stock Exchange	**$18.2 billion**	$15.3 billion	19%
Average daily number of derivatives contracts traded on the Futures Exchange	**66,393**	57,078	16%
Average daily number of stock options contracts traded on the Stock Exchange	**33,732**	22,569	49%

(B) Stock Exchange listing fees

	Unaudited Nine months ended 30 Sept 2005 $'000	Unaudited Nine months ended 30 Sept 2004 $'000	Change
Annual listing fees	**197,613**	187,283	6%
Initial and subsequent issue listing fees	**100,881**	79,599	27%
Others	**5,067**	4,432	14%
Total	**303,561**	271,314	12%

The increase in annual listing fees was attributable to the higher number of listed securities. Although the number of newly listed companies dropped as compared with that for the same period in 2004, the decrease in initial listing fees from newly listed companies was more than offset by the higher income from newly listed derivative warrants and the initial listing fees forfeited due to increased numbers of lapsed and withdrawn IPO applications and approved IPOs not listed within six months of application.

Key drivers for annual listing fees

	As at 30 Sept 2005	As at 30 Sept 2004	Change
Number of companies listed on the Main Board	**907**	877	3%
Number of companies listed on the GEM	**202**	203	(0%)
Total	**1,109**	1,080	3%

Key drivers for initial and subsequent issue listing fees

	Nine months ended 30 Sept 2005	Nine months ended 30 Sept 2004	Change
Number of newly listed derivative warrants	**1,238**	869	42%
Number of new listings on the Main Board	**28**	32	(13%)
Number of new listings on the GEM	**5**	20	(75%)
Total equity funds raised on the Main Board	**$187.3 billion**	$221.7 billion	(16%)
Total equity funds raised on the GEM	**$2.2 billion**	$5.0 billion	(56%)

(C) Income from sale of information

	Unaudited Nine months ended 30 Sept 2005 $'000	Unaudited Nine months ended 30 Sept 2004 $'000	Change
Income from sale of information	**243,860**	230,250	6%

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

(D) Investment income

	Unaudited Nine months ended 30 Sept 2005 $'000	As restated Unaudited Nine months ended 30 Sept 2004 $'000	Change
Income from:			
Funds available for investment	**224,999**	138,264	63%
Investment in Singapore Exchange Limited	**–**	25,632	(100%)
Total	**224,999**	163,896	37%

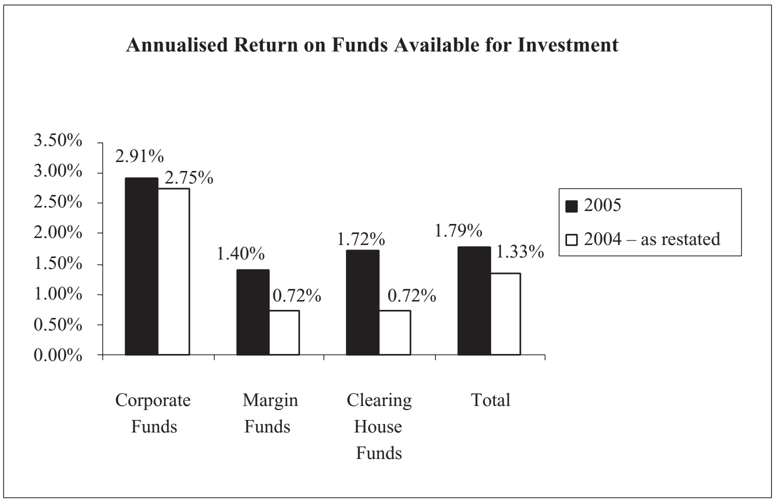
The average amount of funds available for investment was as follows:

	Nine months ended 30 Sept 2005 $ billion	Nine months ended 30 Sept 2004 $ billion	Change
Corporate Funds	**4.0**	4.2	(5%)
Margin Funds	**11.3**	8.3	36%
Clearing House Funds	**1.5**	1.4	7%
Total	**16.8**	13.9	21%

The increase in average amount of Margin Funds available for investment during the period was primarily due to the increased open interest in futures and options contracts. The decrease in Corporate Funds was mainly due to the $2.2 billion payment of 2003 special and final dividends in April 2004.

The increase in income generated from funds available for investment was primarily due to the higher interest income arising from increases in fund size and interest rates during the first nine months of 2005.

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



For details of the investment portfolio, please refer to the Treasury section under the Business Review.

(E) Other income

	Unaudited Nine months ended 30 Sept 2005 $'000	As restated Unaudited Nine months ended 30 Sept 2004 $'000	Change
Network, terminal user, dataline and software sub-license fees	**94,726**	86,731	9%
Participants' subscription and application fees	**25,837**	25,778	0%
Brokerage on direct IPO applications	**10,149**	11,288	(10%)
Fair value gain of an investment property	**3,200**	–	N/A
Accommodation income	**1,898**	4,361	(56%)
Miscellaneous income	**8,571**	5,992	43%
Total	**144,381**	134,150	8%

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

Accommodation income (i.e. retention interest charged on cash margin deposits in non-contract settlement currencies and securities deposited by Participants as alternatives to cash deposits of the Margin Funds) decreased mainly due to less cash margin deposits denominated in non-contract settlement currencies received in the first half of 2005. In addition, from 1 June 2005 onwards, accommodation charges on cash margin deposits were abolished and accommodation fee on utilised non-cash collateral charged by HKFE Clearing Corporation Limited ("HKCC") and The SEHK Options Clearing House Limited ("SEOCH") were reduced from 1.2 per cent and 2 per cent respectively to 0.5 per cent.

Operating Expenses

	Unaudited Nine months ended 30 Sept 2005 $'000	As restated Unaudited Nine months ended 30 Sept 2004 $'000	Change
Staff costs and related expenses	**424,764**	398,630	7%
Information technology and computer maintenance expenses	**148,472**	166,643	(11%)
Premises expenses	**60,175**	59,301	1%
Product marketing and promotion expenses	**7,681**	7,853	(2%)
Legal and professional fees	**10,367**	7,968	30%
Depreciation	**125,548**	137,926	(9%)
Payment to SFC under dual filing regime	**15,000**	15,000	0%
Other operating expenses	**60,905**	63,716	(4%)
Total	**852,912**	857,037	(0%)

Staff costs and related expenses increased by $26 million, primarily due to the increase in salary costs and contribution to provident funds of $19 million as a result of the increase in headcount and salary adjustment in 2005. Employee share option costs also rose by $7 million due to the amortisation of the option costs arising from grants of new share options in March 2004, May 2004 and January 2005.

Information technology and computer maintenance expenses of the Group, after excluding goods and services directly consumed by the Participants of $39 million (2004: $44 million), were $109 million (2004: $123 million). The decrease was mainly due to lower system maintenance costs and reduced network line rental charges. During the period under review, capital expenditures on computer systems, hardware and software amounted to $36 million (2004: $16 million).

Depreciation decreased as certain fixed assets became fully depreciated.

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

Share of Profits Less Losses of Associates

	Unaudited Nine months ended 30 Sept 2005 $'000	As restated Unaudited Nine months ended 30 Sept 2004 $'000	Change
Share of profits less losses of associates	**12,992**	8,968	45%

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

Taxation

	Unaudited Nine months ended 30 Sept 2005 $'000	As restated Unaudited Nine months ended 30 Sept 2004 $'000	Change
Taxation	**171,464**	140,441	22%

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

Comparison of 2005 Third Quarter Performance with 2005 Second Quarter Performance

	Unaudited Three months ended 30 Sept 2005 $'000	Unaudited Three months ended 30 Jun 2005 $'000
Income:		
Income directly affected by market turnover:		
Trading fees and trading tariff	**227,838**	169,935
Clearing and settlement fees	**109,815**	80,786
Depository, custody and nominee services fees	**58,122**	100,069
	395,775	350,790
Stock Exchange listing fees	**107,989**	98,869
Income from sale of information	**81,615**	83,255
Investment income	**102,926**	79,193
Other income	**44,530**	52,106
	732,835	664,213
Operating expenses	**282,394**	287,843
Operating profit	**450,441**	376,370
Share of profits less losses of associates	**4,357**	6,018
Profit before taxation	**454,798**	382,388
Taxation	**(65,678)**	(57,013)
Profit attributable to shareholders	**389,120**	325,375

Profit attributable to shareholders increased by $64 million mainly due to a $69 million increase in income while total operating expenses fell by $5 million during the third quarter.

Key market indicators

	Three months ended 30 Sept 2005	Three months ended 30 Jun 2005	Change
Average daily turnover value on the Stock Exchange	**$20.6 billion**	$15.4 billion	34%
Average daily number of derivatives contracts traded on the Futures Exchange	**73,382**	61,545	19%
Average daily number of stock options contracts traded on the Stock Exchange	**49,784**	23,907	108%

The increase in the level of activities in the Cash and Derivatives Markets has led to an increase in trading fees of $58 million and clearing and settlement fees of $29 million. However, depository, custody and nominee services fees fell by $42 million as dividend collection and scrip fee income declined due to seasonal factors.

Investment income increased by $24 million, principally due to a higher interest income attributable to increased fund size and rising interest rates in 2005.

Taxation increased, mainly as a result of the increase in operating profit, but partly offset by an increase in non-taxable investment income.

Working Capital

Working capital fell by $36 million or one per cent to $3,029 million as at 30 September 2005 (31 December 2004: $3,065 million). The decline was primarily due to the payment of the 2004 final dividend of $498 million and the 2005 interim dividend of $521 million, which was offset by the profit generated during the period of $960 million, and the increase in other net current assets of $23 million.

Exposure to Fluctuations in Exchange Rates and Related Hedges

Details of the Group's exposure to fluctuations in exchange rates and related hedges are included in note 32(a)(i) – Foreign exchange risk to the condensed consolidated accounts of this quarterly report.

Contingent Liabilities

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

For details of the other contingent liabilities, please refer to notes 29(a), (b) and (c) to the condensed consolidated accounts of this quarterly report.

Changes since 31 December 2004

There were no other significant changes in the financial position or from the information disclosed under Management Discussion and Analysis in the annual report for the year ended 31 December 2004.

It is the Group's plan to declare dividend only at the half-year and year-end. Therefore, no dividend will be proposed for the third quarter ended 30 September 2005 (third quarter of 2004: $Nil).

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

PROSPECTS

The Mainland's sustained economic growth and increasing capital needs have resulted in the debut of some of the largest global IPOs by Mainland enterprises in Hong Kong. The total capitalisation of the equity market as at the end of September this year increased by about 28 per cent compared with the same period last year. Trading of Stock Options and Hang Seng Index Options gained even greater appeal and recorded significant rises of about 49 per cent and 44 per cent respectively in terms of volume traded against last year's corresponding period. With the successful listing of China Construction Bank Corporation in October 2005, capital raised through IPOs this year up to the end of October stood at $137 billion, a historical high.

However, as an international financial centre, Hong Kong is inevitably affected by global economic changes. The potential inflationary pressure resulting from high energy prices and escalating interest rates would impede the pace of global economic growth and might dampen the performance of major international capital markets.

Amid the changing environment, HKEx will continue to implement its three-year Strategic Plan. In line with its commitment to maintain a high quality marketplace, HKEx will focus on improving the robustness of its markets to keep pace with the international standards of quality in regulation, infrastructure and operations. HKEx will also reinforce its pivotal position as the pre-eminent marketplace for capital raising for Mainland and Hong Kong issuers.