



Hong Kong Exchanges and Clearing Limited
香港交易及結算所有限公司

(Incorporated in Hong Kong with limited liability)
(Stock Code: 388)

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

2005 Third Quarter Results

The Directors of Hong Kong Exchanges and Clearing Limited (“HKEX”) submit the unaudited consolidated results of HKEX and its subsidiaries (“Group”) for the nine-month period ended 30 September 2005 as follows:

FINANCIAL HIGHLIGHTS

	Nine months ended 30 Sept 2005	Nine months ended 30 Sept 2004	Change
KEY MARKET STATISTICS			
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%
	Unaudited Nine months ended 30 Sept 2005 \$'000	As restated Unaudited Nine months ended 30 Sept 2004 \$'000	
RESULTS			
Income	1,971,300	1,734,545	14%
Operating expenses	852,912	857,037	(0%)
Operating profit	1,118,388	877,508	27%
Share of profits less losses of associates	12,992	8,968	45%
Profit before taxation	1,131,380	886,476	28%
Taxation	(171,464)	(140,441)	22%
Profit attributable to shareholders	959,916	746,035	29%
Earnings per share	\$0.91	\$0.71	28%
	Unaudited at 30 Sept 2005 \$'000	Audited at 31 Dec 2004 \$'000	
KEY BALANCE SHEET ITEMS			
Shareholders' funds	3,982,217	4,052,143	(2%)
Total assets *	26,433,123	21,443,404	23%
Net assets per share #	\$3.75	\$3.83	(2%)

* 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)

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Listing

- 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.
- 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 (“Main Board Listing Rules”) and the Rules Governing the Listing of the 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 will publish a policy statement in November 2005 to invite the market to comment on certain aspects of the proposed transitional arrangements regarding the proposal to require Main Board issuers to publish a notification announcement in newspapers. 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.
- The internal working group established for the review of the Growth Enterprise Market (“GEM”) has solicited views on the GEM from various stakeholders, including individual Board members and members of the GEM Listing Committee. A consultation paper setting out the diversity of views expressed and the recommendations will be published in late 2005 or early 2006.

Cash Market

- In the first three quarters of 2005, 28 companies were listed on the Main Board and five on the GEM. The total capital raised, including post-listing funds, reached \$189.5 billion.
- As at 30 September 2005, there were 907 companies listed on the Main Board and 202 on the GEM. The market capitalisation of the Main Board and the GEM was \$7,544 billion and \$72 billion respectively. The average daily turnover in the first three quarters of 2005 was \$18.1 billion on the Main Board and \$91.5 million on the GEM.
- An average daily turnover of \$129 million of the Exchange Traded Funds was recorded in the third quarter of 2005. The ABF Pan Asia Bond Index Fund was listed on 7 July 2005.
- Regarding the renovation of the Trading Hall, 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.
- On 10 October 2005, HKEx published an article on derivative warrants to invite public comments with an aim at enhancing transparency and public awareness of the derivative warrant market.

- Market data relating to the Phase 1 reduction of minimum trading spreads for shares priced above \$30 launched on 4 July 2005 is being analysed.
- HKEx is in the final stage discussion with the SFC on the regulatory approval for the introduction of Callable Bull/Bear Contracts. The launch of the product will be subject to the readiness of the market.
- 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

- Various products had achieved record high in trading during the third quarter of 2005. 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.
- 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.
- 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 Hong Kong Futures Automated Trading System (“HKATS”), Derivatives Clearing and Settlement System (“DCASS”) and Price Reporting System (“PRS”) for Participants have been reduced by about 20 per cent.
- HKEx continued organising continuous professional training courses and briefings for EPs and market professionals on HKEx’s products, services and requirements and participated in the FIA Asia Derivatives Conference in Beijing to introduce its market infrastructure and products to overseas market professionals in August.

Clearing

- The FSTB and the SFC are still in the process of finalising the relevant legislative changes for the implementation of scripless market in Hong Kong. Subject to the enactment of the enabling legislation, initial phase of the scripless market might start in late 2006.
- Various service enhancements in respect of the Central Clearing and Settlement System (“CCASS”) were introduced such as extension of the CCASS deadline for Participants to submit their corporate action instructions, enabling payments through the Real Time Gross Settlement payment mechanism, and exemption of the existing fee of \$100 per settlement transaction. Further improvements to the CCASS nominee services are planned for implementation in early 2006.
- 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.
- 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

- Concerted efforts were made to raise the interest of potential issuers to list on the Exchange.
- To educate the issuers about their continuing listing obligations, training programmes and seminars were organised for the senior management of the Mainland issuers and the senior officials of the State-owned Assets Supervision and Administration Commission.

Information Services

- 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.
- 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).
- 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

- 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.
- 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.
- 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.
- 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. Additional off-floor terminals will also be installed in the latter part of the year, as part of the Trading Hall refurbishment programme.
- The migration of the existing AMS/3 Order Routing System to HP/Nonstop platform is in progress and is planned to be completed by the end of 2005. 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.
- The consolidation of the AMS/3 satellite system has been largely completed. The redevelopment of derivatives market surveillance and risk management systems is on schedule.

Treasury

- HKEx's investment funds size as at 30 September 2005 increased by 24 per cent to \$20.4 billion, as compared with that as at the end of June this year. Investments are kept sufficiently liquid to meet operating needs and possible liquidity requirements of the Clearing House Funds and Margin Funds. 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 and a weighted average maturity of 1.2 years. Risk management techniques, such as Value-at-Risk and portfolio stress testing, are used.
- Investment income for the nine months ended 30 September 2005 increased by 37 per cent against that for the same period last year.

Investments in Associates

- As at 30 September 2005, the cost of the investment in Computershare Hong Kong Investor Services Limited ("CHIS") was \$52 million and the book value of the investment was \$58 million.
- ADP Wilco Processing Services Limited ("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
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

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 initial public offering (“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%

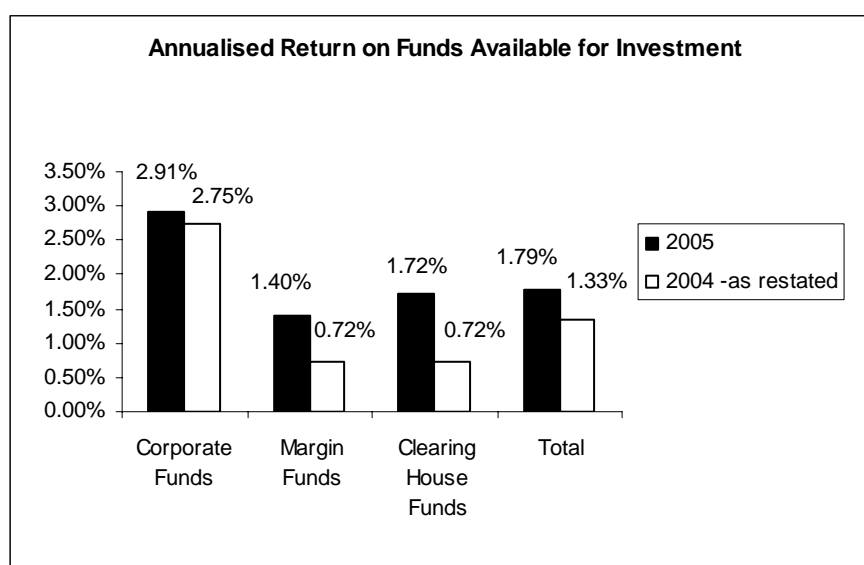
The average amount of funds available for investment was as follows:

	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:



(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

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

As at 30 September 2005, the aggregate net open foreign currency positions amounted to \$1,953 million, of which \$179 million were non-USD exposures (31 December 2004: \$1,996 million, of which \$170 million were non-USD exposures), and the total nominal value of outstanding forward foreign exchange contracts amounted to \$664 million (31 December 2004: \$358 million). All foreign exchange contracts would mature within two months (31 December 2004: one month).

The Group's foreign currency margin deposits received are hedged by investments in the same currencies.

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.

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.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	Unaudited Nine months ended 30 Sept 2005 \$'000	As restated Unaudited Nine months ended 30 Sept 2004 \$'000	Unaudited Three months ended 30 Sept 2005 \$'000	As restated Unaudited Three months ended 30 Sept 2004 \$'000
INCOME	2				
Trading fees and trading tariff		580,453	494,610	227,838	147,438
Stock Exchange listing fees		303,561	271,314	107,989	88,344
Clearing and settlement fees		282,242	258,438	109,815	72,488
Depository, custody and nominee services fees		191,804	181,887	58,122	56,730
Income from sale of information		243,860	230,250	81,615	71,910
Investment income	3	224,999	163,896	102,926	90,408
Other income	4	144,381	134,150	44,530	43,459
	2	1,971,300	1,734,545	732,835	570,777
OPERATING EXPENSES					
Staff costs and related expenses		424,764	398,630	142,002	133,477
Information technology and computer maintenance expenses		148,472	166,643	49,409	56,626
Premises expenses		60,175	59,301	20,229	20,056
Product marketing and promotion expenses		7,681	7,853	2,148	2,157
Legal and professional fees		10,367	7,968	3,775	2,484
Depreciation		125,548	137,926	39,868	46,348
Payment to SFC under dual filing regime		15,000	15,000	5,000	5,000
Other operating expenses	5	60,905	63,716	19,963	19,594
	2	852,912	857,037	282,394	285,742
OPERATING PROFIT	2	1,118,388	877,508	450,441	285,035
SHARE OF PROFITS LESS LOSSES OF ASSOCIATES	2/6	12,992	8,968	4,357	2,824
PROFIT BEFORE TAXATION	2	1,131,380	886,476	454,798	287,859
TAXATION	2/7	(171,464)	(140,441)	(65,678)	(39,249)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	2	959,916	746,035	389,120	248,610
Earnings per share	8	\$0.91	\$0.71	\$0.37	\$0.24

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	Unaudited at 30 Sept 2005 \$'000	Audited at 31 Dec 2004 \$'000
NON-CURRENT ASSETS			
Fixed assets		239,460	324,300
Investment property		16,500	13,300
Lease premium for land		94,260	94,670
Investments in associates		59,090	38,731
Clearing House Funds		1,760,776	1,861,487
Compensation Fund Reserve Account		37,963	37,451
Time deposit with maturity over one year		38,849	38,941
Deferred tax assets		3,687	1,227
Other assets		12,987	13,142
		2,263,572	2,423,249
CURRENT ASSETS			
Accounts receivable, prepayments and deposits	9	5,621,805	4,691,846
Lease premium for land		548	548
Taxation recoverable		17	91
Margin Funds on derivatives contracts		14,593,240	10,529,692
Financial assets at fair value through profit or loss		2,686,185	2,761,593
Time deposits with original maturity over three months		48,603	1,340
Cash and cash equivalents		1,219,153	1,035,045
		24,169,551	19,020,155
CURRENT LIABILITIES			
Margin deposits from Clearing Participants on derivatives contracts		14,593,240	10,529,692
Accounts payable, accruals and other liabilities	9	6,121,919	4,902,350
Financial liabilities at fair value through profit or loss		2,058	10,749
Participants' admission fees received		4,100	4,850
Deferred revenue		116,046	284,148
Taxation payable		275,134	199,678
Provisions		27,895	23,212
		21,140,392	15,954,679
NET CURRENT ASSETS		3,029,159	3,065,476
TOTAL ASSETS LESS CURRENT LIABILITIES		5,292,731	5,488,725
NON-CURRENT LIABILITIES			
Participants' admission fees received		81,050	82,850
Participants' contributions to Clearing House Funds		1,189,683	1,298,752
Deferred tax liabilities		18,658	30,876
Provisions		21,123	24,104
		1,310,514	1,436,582
NET ASSETS		3,982,217	4,052,143
CAPITAL AND RESERVES			
Share capital		1,062,397	1,056,639
Share premium		145,864	104,034
Employee share-based compensation reserve		30,293	17,061
Revaluation reserves		(53,057)	18,829
Hedging reserve		8	-
Designated reserves		686,659	680,996
Retained earnings	10	2,110,053	1,677,964
Proposed/declared dividends	10	-	496,620
SHAREHOLDERS' FUNDS		3,982,217	4,052,143

Notes:

1. These unaudited condensed consolidated accounts should be read in conjunction with the 2004 annual accounts. The accounting policies and methods of computation used in the preparation of these accounts are consistent with those used in the annual accounts for the year ended 31 December 2004.

In the third quarter of 2005, the Group designated certain foreign currency bank deposits as the hedging instruments for hedging the foreign exchange risk of:

- the fair value of recognised liabilities (fair value hedges); and
- highly probable forecast transactions (cash flow hedges).

The accounting policies for hedging transactions are as follows:

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.

(a) 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 any changes in the fair value of the hedged assets or liabilities or firm commitments that are attributable to the hedged risk.

(b) Cash flow hedges

For hedging instruments that are designated 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.

In May 2005, the Hong Kong Institute of Certified Public Accountants (“HKICPA”) issued an interpretation HK-INT 4 “Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases”, which is applicable to the Group’s operation and became effective on 24 May 2005. The adoption of the interpretation has no financial impact to the Group as the Group’s accounting policies already comply with the interpretation.

As disclosed in the 2004 annual accounts, the Group adopted various new Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA in the fourth quarter of 2004. The results for the nine months ended 30 September 2004 have been restated in accordance with the new HKFRSs. The effect of changes in accounting policies on the unaudited condensed consolidated profit and loss account for the nine months ended 30 September 2004 was as follows:

	Unaudited						
	Effect of adopting						
	HKAS 1 \$'000	HKAS 17 \$'000	HKFRS 2 \$'000	HKFRS 3, HKAS 36 & HKAS 38 \$'000	HKAS 32 & HKAS 39 \$'000	Other reclassification \$'000	Total \$'000
Decrease in investment income	-	-	-	-	(2,035)	(4,361)	(6,396)
Increase in other income	-	-	-	-	-	4,361	4,361
Increase in staff costs and related expenses	-	-	(10,096)	-	-	-	(10,096)
Increase in premises expenses	-	(411)	-	-	-	-	(411)
Decrease in depreciation	-	1,562	-	-	-	-	1,562
Increase in other operating expenses	-	-	-	-	(513)	-	(513)
(Decrease) / increase in share of profits less losses of associates	(1,890)	-	-	1,987	-	-	97
Decrease / (increase) in taxation	1,890	(75)	-	-	(52)	-	1,763
Total increase / (decrease) in profit	-	1,076	(10,096)	1,987	(2,600)	-	(9,633)
Increase / (decrease) in basic earnings per share	-	0.10 cents	(0.96 cents)	0.19 cents	(0.24 cents)	-	(0.91cents)

The Group manages a significant portfolio of investments. Securities and derivative financial instruments (i.e. forward foreign exchange contracts) held for trading purposes (such as those of the Corporate Funds), and securities or bank deposits with embedded derivatives of the Margin Funds and the Corporate Funds whose economic characteristics and risks are not closely related to the host investments (“structured securities” or “structured deposits”) are classified as financial assets/ liabilities at fair value through profit or loss with changes in fair value recognised in the profit and loss account. Securities not held for trading (such as those held for the Clearing House Funds, Compensation Fund Reserve Account and Margin Funds (other than structured securities or structured deposits)) are classified as available-for-sale financial assets with changes in fair value recognised in the investment revaluation reserve.

- The Group’s 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 condensed consolidated profit and loss account.

The Group's income is derived solely from business activities in Hong Kong. An analysis of the Group's income and results for the period by business segments is as follows:

	Unaudited Nine months ended 30 Sept 2005				
	Cash Market \$'000	Derivatives Market \$'000	Clearing Business \$'000	Information Services \$'000	Group \$'000
Income	845,696	328,856	551,482	245,266	1,971,300
Costs	407,302	110,712	283,721	51,177	852,912
Segment results	438,394	218,144	267,761	194,089	1,118,388
Share of profits less losses of associates	(21)	-	13,013	-	12,992
Segment profits before taxation	438,373	218,144	280,774	194,089	1,131,380
Taxation					(171,464)
Profit attributable to shareholders					959,916

	As restated Unaudited Nine months ended 30 Sept 2004				
	Cash Market \$'000	Derivatives Market \$'000	Clearing Business \$'000	Information Services \$'000	Group \$'000
Income	757,498	238,154	506,956	231,937	1,734,545
Costs	399,643	108,199	291,064	58,131	857,037
Segment results	357,855	129,955	215,892	173,806	877,508
Share of profits less losses of associates	(1)	-	8,969	-	8,968
Segment profits before taxation	357,854	129,955	224,861	173,806	886,476
Taxation					(140,441)
Profit attributable to shareholders					746,035

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

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

The **Clearing Business** refers to the operations of the three Clearing Houses, namely Hong Kong Securities Clearing Company Limited, SECH 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 interest earned on the Clearing House Funds and fees from providing clearing, settlement, depository 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 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.

3. Investment income

	Unaudited Nine months ended 30 Sept 2005 \$'000	As restated Unaudited Nine months ended 30 Sept 2004 \$'000	Unaudited Three months ended 30 Sept 2005 \$'000	As restated Unaudited Three months ended 30 Sept 2004 \$'000
Interest income				
- bank deposits	159,733	14,977	91,162	7,149
- listed available-for-sale financial assets	8,191	3,097	3,293	1,183
- unlisted available-for-sale financial assets	54,487	38,213	20,000	13,679
	222,411	56,287	114,455	22,011
Interest expenses	(65,375)	(314)	(46,141)	(195)
Net interest income	157,036	55,973	68,314	21,816
Net realised and unrealised gains/(losses) and interest income on financial assets at fair value through profit or loss				
- bank deposits with embedded derivatives	266	505	-	2,834
- listed securities	70,561	53,319	34,111	25,684
- unlisted securities	5,119	25,560	1,258	10,980
- exchange differences	(13,389)	(3,086)	(3,691)	2,257
	62,557	76,298	31,678	41,755
Gains/(losses) on disposal and maturity of available-for-sale financial assets				
- listed securities	-	24,841	-	24,841
- unlisted securities	-	101	-	-
- exchange differences	-	(192)	-	(41)
	-	24,750	-	24,800
Dividend income				
- listed available-for-sale financial assets	-	1,070	-	-
- listed financial assets at fair value through profit or loss	5,707	5,251	2,296	1,899
	5,707	6,321	2,296	1,899
Other exchange differences	(301)	554	638	138
Total investment income	224,999	163,896	102,926	90,408
Total investment income was derived from:				
Corporate Funds (note a)	86,838	111,577	44,495	66,812
Margin Funds	118,374	44,864	49,221	20,870
Clearing House Funds	19,787	7,455	9,210	2,726
	224,999	163,896	102,926	90,408

- (a) Investment income derived from Corporate Funds included investment income of Compensation Fund Reserve Account of \$869,000 (2004: \$412,000) and Cash and Derivatives Market Development Fund ("CDMD Fund") of \$Nil (2004: \$17,000) for the nine months ended 30 September 2005, and investment income of Compensation Fund Reserve Account of \$371,000 (2004: \$149,000) and CDMD Fund of \$Nil (2004: \$5,000) for the three months ended 30 September 2005. The CDMD Fund was fully utilised in 2004.

4. Other income

	Unaudited Nine months ended 30 Sept 2005 \$'000	As restated Unaudited Nine months ended 30 Sept 2004 \$'000	Unaudited Three months ended 30 Sept 2005 \$'000	As restated Unaudited Three months ended 30 Sept 2004 \$'000
Network, terminal user, dataline and software sub-license fees	94,726	86,731	28,592	29,924
Participants' subscription and application fees	25,837	25,778	8,555	8,548
Brokerage on direct IPO applications	10,149	11,288	3,961	2,906
Fair value gain of an investment property	3,200	-	600	-
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	1,898	4,361	404	572
Miscellaneous income	8,571	5,992	2,418	1,509
	144,381	134,150	44,530	43,459

5. Other operating expenses

	Unaudited Nine months ended 30 Sept 2005 \$'000	As restated Unaudited Nine months ended 30 Sept 2004 \$'000	Unaudited Three months ended 30 Sept 2005 \$'000	As restated Unaudited Three months ended 30 Sept 2004 \$'000
Reversal of provision for impairment losses of trade receivables	(425)	(614)	(53)	(744)
Insurance	12,023	12,389	3,821	4,144
Financial data subscription fees	3,898	5,822	1,141	1,889
Custodian and fund management fees	5,885	5,858	1,994	1,895
Bank charges	2,824	5,603	1,036	1,644
Repair and maintenance expenses	5,767	5,103	1,993	1,714
Other miscellaneous expenses	30,933	29,555	10,031	9,052
	60,905	63,716	19,963	19,594

6. 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	Unaudited Three months ended 30 Sept 2005 \$'000	As restated Unaudited Three months ended 30 Sept 2004 \$'000
Share of profits less losses of associates	14,992	10,858	5,174	3,369
Share of taxation of associates	(2,000)	(1,890)	(817)	(545)
	12,992	8,968	4,357	2,824

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

	Unaudited Nine months ended 30 Sept 2005 \$'000	As restated Unaudited Nine months ended 30 Sept 2004 \$'000	Unaudited Three months ended 30 Sept 2005 \$'000	As restated Unaudited Three months ended 30 Sept 2004 \$'000
Provision for Hong Kong Profits Tax (note a)	182,910	156,499	68,061	46,880
Overprovision in respect of prior years	(34)	-	(34)	-
	182,876	156,499	68,027	46,880
Deferred taxation	(11,412)	(16,058)	(2,349)	(7,631)
	171,464	140,441	65,678	39,249

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

8. The calculation of basic earnings per share for the nine months ended 30 September 2005 is based on the profit attributable to shareholders of \$959,916,000 (2004: \$746,035,000) and the weighted average of 1,059,628,097 shares (2004: 1,054,436,372 shares) in issue during the period. The calculation of basic earnings per share for the three months ended 30 September 2005 is based on the profit attributable to shareholders of \$389,120,000 (2004: \$248,610,000) and the weighted average of 1,061,660,552 shares (2004: 1,056,502,998 shares) in issue during the period. The employee share options outstanding did not have a material dilutive effect on the basic earnings per share for the nine-month and three-month periods ended 30 September 2005 and 30 September 2004.
9. The Group's accounts receivable, prepayments and deposits amounted to \$5,621,805,000 (31 December 2004: \$4,691,846,000). These mainly represented the Group's Continuous Net Settlement ("CNS") money obligations receivable under the T+2 settlement cycle, which accounted for 94 per cent (31 December 2004: 91 per cent) of the total accounts receivable, prepayments and deposits. CNS money obligations receivable mature within two days as they are due for settlement 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.

The Group's accounts payable, accruals and other liabilities amounted to \$6,121,919,000 (31 December 2004: \$4,902,350,000). These mainly represented the Group's CNS money obligations payable under the T+2 settlement cycle, which accounted for 86 per cent (31 December 2004: 87 per cent) of the total accounts payable, accruals and other liabilities. CNS money obligations payable mature within two days as they are due for settlement two days after the trade date. The majority of the remaining accounts payable, accruals and other liabilities would mature within three months.

10. Retained earnings (including proposed/declared dividends)

	Unaudited at 30 Sept 2005 \$'000	Audited at 31 Dec 2004 \$'000
At 1 Jan		
Retained earnings	1,677,964	1,578,991
Proposed/declared dividends	496,620	2,202,898
Profit for the period/year (note a)	959,916	1,056,884
(Surplus)/deficit of investment income net of expenses of Clearing House Funds for the period/year transferred to Clearing House Funds reserves	(12,310)	5,040
Investment income net of expenses of Compensation Fund Reserve Account for the period/year transferred to Compensation Fund Reserve Account reserve	(886)	(576)
Transfer from CDMD Fund reserve (note b)	-	914
Transfer from Development reserve	7,533	3,283
Dividends paid:		
2004 final dividend/2003 special and final dividends	(496,620)	(2,202,898)
Dividend on shares issued for employee share options exercised after 31 Dec 2004/2003	(1,597)	(15,661)
	(498,217)	(2,218,559)
2005/2004 interim dividend	(519,988)	(454,283)
Dividend on shares issued for employee share options exercised after 30 Jun 2005/2004	(579)	(8)
	(520,567)	(454,291)
At 30 Sept/31 Dec	2,110,053	2,174,584
Representing:		
Retained earnings	2,110,053	1,677,964
Proposed/declared dividends	-	496,620
At 30 Sept/31 Dec	2,110,053	2,174,584

(a) The Group's profit for the period/year included a net profit attributable to investment income net of expenses of the Clearing House Funds, Compensation Fund Reserve Account and CDMD Fund for an aggregate amount of \$13,196,000 (year ended 31 December 2004: deficit of \$2,182,000).

(b) The CDMD Fund reserve was fully utilised in 2004 for funding initiatives that were for the development and betterment of the Cash and Derivatives Markets in Hong Kong.

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.

CORPORATE GOVERNANCE

HKEx applied the principles and complied with all requirements set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Main Board Listing Rules, with certain deviations from code provisions A.4.1 and A.4.2 in respect of the service term and rotation of Directors, throughout the review period. However, following the effectiveness of the amendments to the Articles of Association, and shareholders' resolutions passed at the annual general meeting 2005, HKEx fully complies with the CG Code.

On 7 November 2005, HKEx was awarded the 2005 HKMA Best Annual Reports Awards - Bronze Award in "General" Category organised by the Hong Kong Management Association. HKEx, as the regulator and a public company, will continue its commitment to articulate and maintain high standards of corporate governance.

In addition, the FTSE4Good Policy Committee has confirmed that HKEx has met the FTSE4Good selection criteria and become a member of the FTSE4Good Index Series effective from September 2005.

The FTSE4Good Index Series is produced by FTSE Group, and has been designed to identify companies that are working towards environmental sustainability, developing positive relationships with stakeholders and upholding and supporting universal human rights. Being selected a member of the FTSE4Good Index Series, it provides investors and other stakeholders about HKEx's commitment to responsible business practice, and a strong message to investors that HKEx meets globally recognised corporate social responsibility standards.

REVIEW OF ACCOUNTS

The Audit Committee has reviewed the Group's unaudited condensed consolidated financial statements for the nine months ended 30 September 2005 in conjunction with HKE_x's external auditors.

Management has appointed the external auditors to carry out certain agreed-upon procedures in accordance with Hong Kong Standards on Related Services 4400 "Engagements to perform agreed-upon procedures regarding financial information" issued by the HKICPA on the unaudited condensed consolidated financial statements for the nine months ended 30 September 2005.

PURCHASE, SALE OR REDEMPTION OF HKEX'S LISTED SECURITIES

During the nine months ended 30 September 2005, HKE_x had not redeemed, and neither HKE_x nor any of its subsidiaries had purchased or sold any of HKE_x's listed securities.

BOARD OF DIRECTORS

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

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

Hong Kong, 9 November 2005

This results announcement is published on the Stock Exchange's website (<http://www.hkex.com.hk>) and the quarterly report will be available from the same website on or about 21 November 2005.

Please also refer to the published version of this announcement in South China Morning Post on 10 November 2005.