

# Audit Committee Report

## THE AUDIT COMMITTEE

The Audit Committee comprises five INEDs, appointed by the Board, who have extensive experience in financial matters. Messrs Fong Hup, Marvin K T Cheung and Vincent K H Lee are certified public accountants but none of them are employed by or otherwise affiliated with the former or existing auditors of HKEx.

### Terms of Reference

The Audit Committee assists the Board by providing an independent review and supervision of financial reporting, and satisfying themselves as to the effectiveness of the Group's internal controls and the adequacy of the external and internal audits. In performing its duties, the Audit Committee is provided with sufficient resources to discharge its responsibilities and is supported by the Internal Audit Department ("IA") to examine all matters relating to the Group's adopted accounting principles and practices, and reviews the Group's information systems. External auditors, the Chief Executive and senior executives are invited to attend the meetings, as and when necessary. The Audit Committee is accountable to the Board and the minutes of all meetings are circulated to the Board for information. The terms of reference of the Audit Committee setting out its role and the responsibilities are posted on HKEx's corporate website.

### Summary of major work done in 2006

The Audit Committee holds regular meetings at least four times a year and organises additional meetings if and when necessary. In 2006, a total of five meetings were convened. The attendance record is shown on page 89 of this Annual Report. The following is a summary of the tasks completed by the Audit Committee during 2006:

- reviewed the 2005 Internal Audit activities and approved the 2006 Internal Audit Plan;
- reviewed the financial reports for the year ended 31 December 2005, for the six months ended 30 June 2006, and for the quarters ended 31 March 2006 and 30 September 2006;
- reviewed the findings and recommendations of the IA on the efficiency and effectiveness of various Divisions/Departments and HKEx's services and products;
- followed-up on the implementation of recommendations made by the IA;
- reviewed the effectiveness of the internal control system;
- reviewed the external auditors' statutory audit plan, 2006 letter of representation and audit engagement letter;
- considered and approved the 2006 external audit fees;
- reviewed the non-audit services, especially tax-related services, provided by the external auditors;
- reviewed the reporting on fraud detection; and
- reviewed the "Continuing Connected Transactions" set forth on pages 96 to 99 of this Annual Report.

## INTERNAL CONTROL

At its meeting on 19 January 2007, the Audit Committee reviewed the 2006 HKEx Internal Control System Evaluation conducted by the IA. The Audit Committee did its best to ensure that the internal control system effectively detects irregularities and safeguards assets. The Audit Committee considered HKEx's internal control system to be effective and that HKEx had adopted the necessary control mechanisms to monitor and correct non-compliance. The Audit Committee confirmed that it was discharging its responsibilities in accordance with the requirements of the CG Code with diligence and is satisfied that the Group in 2006 fully complied with the code provisions on internal controls.

## REVIEW OF 2006 CONSOLIDATED FINANCIAL STATEMENTS

On 1 March 2007, the Audit Committee reviewed the 2006 consolidated financial statements, including the Group's adopted accounting principles and practices, in conjunction with HKEx's external and internal auditors. Based on this review and discussions with management, as well as the internal and external auditors, the Audit Committee endorsed the accounting treatment adopted by HKEx and had to the best of its ability assured itself that the disclosure of the financial information in this report complies with the applicable accounting standards and Appendix 16 to the Main Board Listing Rules. The Audit Committee therefore recommended the Board approve the consolidated financial statements for the year ended 31 December 2006 for public release.

## RE-APPOINTMENT OF EXTERNAL AUDITORS

The Audit Committee's recommendation on the re-appointment of PricewaterhouseCoopers as the Group's external auditors for 2006 was approved by Shareholders at the 2006 AGM.

### Members of the Audit Committee

John Estmond STRICKLAND (*Chairman*)

FONG Hup (*Deputy Chairman*)

CHENG Mo Chi, Moses

CHEUNG Kin Tung, Marvin

LEE Kwan Ho, Vincent Marshall

Hong Kong, 8 March 2007