

AUDIT COMMITTEE REPORT

The Audit Committee (“AC”) comprises five INEDs appointed by the Board who have extensive experience in financial matters. Messrs Fong Hup and Vincent K H Lee are certified public accountants but neither of them are employed by or otherwise affiliated with the former or existing auditors of HKEx.

The members of the AC assist the Board in fulfilling its responsibilities by providing an independent review and supervision of financial reporting, and satisfying themselves as to the effectiveness of the internal controls of the Group and the adequacy of the external and internal audits. The AC examines all matters relating to the accounting principles and practices adopted by the Group, including consideration of the auditing functions, internal controls, information systems, and financial reporting matters. External auditors, the Chief Executive and senior executives are invited to attend the meetings as and when necessary. The terms of reference (“TOR”) of the AC setting out its role and the authority delegated to it by the Board have been posted on HKEx’s corporate website.

The AC is provided with sufficient resources to discharge its duties. The AC is accountable to the Board and the minutes of all meetings are circulated to the Board for information.

The following is a summary of the work of the AC during 2004:

- (i) review of the financial reports for the year ended 31 December 2003, for the six months ended 30 June 2004, and for the quarters ended 31 March 2004 and 30 September 2004;
- (ii) review of the findings and recommendations of the internal audit department on the work of various Divisions/Departments and the performance of HKEx’s services and products;
- (iii) review of the effectiveness of the internal control system;
- (iv) review of the external auditors’ statutory audit plan and the Letters of Representation;
- (v) consideration and approval of the 2004 audit fees;
- (vi) consideration and approval of the non-audit services fees for HKEx’s Beijing Representative Office;
- (vii) review of the revised TOR of the AC to conform to the CG Code; and
- (viii) review of the “Continuing Connected Transactions” set forth on pages 86 to 89 prior to the review and confirmation by two INEDs, as required under the waiver conditions granted by the SFC.

After due and careful consideration of reports on ad hoc investigations and reports from management and internal/external auditors, the AC was of the view that no suspected fraud or irregularities, internal control deficiencies, or suspected infringement of laws, rules, or regulations had been found, and concluded at the meeting held on 21 January 2005 that the system of internal controls was adequate and effective.

On 23 February 2005, the AC met to review the 2004 consolidated financial statements, including the accounting principles and practices adopted by the Group, in conjunction with HKEx's external auditors. Based on this review and discussions with the management, internal auditors, and external auditors, the AC 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 of the Listing Rules. The AC therefore recommended the Board's approval of the consolidated financial statements for the year ended 31 December 2004 for public release.

The AC also recommended the re-appointment of PricewaterhouseCoopers ("PwC") as the Group's external auditor for 2005 and that the related resolution shall be put forth for Shareholders' consideration and approval at the 2005 AGM. The AC also recommended the Board to request PwC to rotate their engagement partner for HKEx every five years.

The AC has regular meetings at least four times a year and additional meetings are held as the work of the Committee demands. In 2004, a total of six meetings were convened and the attendance record is 100 per cent.

Members of the Audit Committee

STRICKLAND, John Estmond (*Chairman*)

FONG Hup (*Deputy Chairman*)

FAN Hung Ling, Henry

LEE Kwan Ho, Vincent Marshall

WEBB, David Michael

Hong Kong, 23 February 2005