

Audit Committee Report

The Audit Committee (“AC”) comprises a total number of five members, all of whom are independent non-executive Directors. Messrs Fong Hup, Marvin Cheung and Vincent Lee are Certified Public Accountants with extensive experience in financial matters. None of them is employed by or otherwise affiliated with the former or existing auditors of Hong Kong Exchanges and Clearing Limited (“HKEx”). External auditors are invited to attend the AC meetings, as and when necessary.

The AC assists the Board to fulfill its oversight responsibility by, among others, examining any matter relating to accounting principles and practices adopted by the Group, and discussing auditing and internal control issues, information systems and financial reporting matters. It is scheduled to meet at least four times a year to review audit reports, status of the Group’s audits, internal controls, and the interim and final accounts of the Group prior to recommending them to the Board for approval.

The AC has undertaken an evaluation of HKEx’s system of internal control. Using a globally recognised framework, the evaluation was facilitated by Internal Audit based on the representations made by individual divisions and departments. In general, the AC was satisfied with the effectiveness of HKEx’s system of internal control governing the principal business activities and operations. To the best of its ability, the AC was not aware of any significant failing or weakness in internal control.

AC has reviewed the Group’s unaudited interim accounts for the six months ended 30 June 2005 in conjunction with HKEx’s external auditors. It has also reviewed the accounting principles and practices adopted by the Group, and the independent review report of the external auditors as set out on page 80.

Based on these reviews, and discussions with the management and external auditors, the AC endorses the accounting treatment adopted by HKEx, and has 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 the Appendix 16 of the Listing Rules. The AC therefore recommended the Board to approve the unaudited financial statements for the six months ended 30 June 2005 for public release.

Members of the Audit Committee

STRICKLAND, John Estmond (*Chairman*)

FONG Hup (*Deputy Chairman*)

CHEUNG Kin Tung, Marvin

FAN Hung Ling, Henry

LEE Kwan Ho, Vincent Marshall

Hong Kong, 12 August 2005