

# Audit Committee Report

The Audit Committee (“AC”) comprises five Independent Non-executive Directors appointed by the Board who have extensive experience in financial matters. Dr Marvin K T Cheung, Mr Fong Hup and Mr Vincent K H Lee are Certified Public Accountants but none of them were employed by or otherwise affiliated with the former or existing auditors of HKEx.

The AC 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 external and internal audits. In performing its duties, the AC examines all matters relating to the Group 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 when necessary. The terms of reference of the AC explaining its role and authority are posted on HKEx’s corporate website.

In the process of considering the 2006 Internal Audit Plan, the AC stressed that Internal Audit should conduct surprise audits rather than scheduled assignments. At its meeting held on 8 May 2006, the AC reviewed the work of the external audit, considered the qualifications of the engagement team, and approved the proposed audit services fees for the 2006 fiscal year.

AC has reviewed the Group’s unaudited interim accounts for the six months ended 30 June 2006 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 84.

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 2006 for public release.

## **Members of the Audit Committee**

STRICKLAND, John Estmond (*Chairman*)

FONG Hup (*Deputy Chairman*)

CHENG Mo Chi, Moses (appointment effective 27 April 2006)

CHEUNG Kin Tung, Marvin

FAN Hung Ling, Henry (resigned on 27 April 2006)

LEE Kwan Ho, Vincent Marshall

Hong Kong, 16 August 2006