

AUDIT COMMITTEE REPORT

The Audit Committee

The Audit Committee (AC) comprises 5 INEDs appointed by the Board who have extensive experience in financial matters. Among them, Messrs John Harrison and John Williamson are chartered accountants, and Messrs Vincent Lee and Ignatius Chan are certified public accountants. None of the members is employed by or otherwise affiliated with the former or existing auditors of HKEx.

The AC is delegated by the Board with the responsibility to provide an independent review and supervision of financial reporting and to ensure the effectiveness of the Group's internal controls and the adequacy of the external and internal audits. To perform its duties, the AC is provided with sufficient resources and is supported by the Internal Audit Department (IAD) to examine all matters relating to the Group's adopted accounting principles and practices, and to review all material financial, operational, and compliance controls. The AC's terms of reference are available on the HKEx website.

The AC holds at least 4 regular meetings a year and convenes additional meetings when necessary. The external auditor, HKEx's Chief Executive, and other senior executives are invited to attend the AC meetings, as and when necessary. The AC is accountable to the Board and the minutes of all meetings are circulated to the Board for information. The AC held 6 meetings in 2012 and up to 22 February 2013. Each member's attendance record in 2012 is shown on page 98 of this Annual Report.

Summary of work done in 2012/2013

- Reviewed the financial statements for disclosure on a quarterly basis
- Reviewed the internal audit activities summary and approved the internal audit annual plan
- Reviewed the internal and external auditors' significant findings and management's response to the recommendations raised
- Reviewed the continuing connected transactions
- Reviewed the effectiveness of the internal control system and the adequacy of the accounting and financial reporting function
- Reviewed the external auditor's statutory audit scope for 2012 and the letter of representation to be given by the Board
- Considered and approved the 2012 external audit fees and engagement letters
- Reviewed and monitored the external auditor's independence and engagement to perform non-audit services
- Reviewed the finance, accounting, and audit matters in relation to the acquisition of the LME Group

Review of Internal Control System

HKEx's internal control system is reviewed regularly by management and the IAD. The AC assessed the effectiveness of the internal control system in detecting fraud and irregularities by reviewing the work of the IAD and its findings. Based on the IAD's findings, the AC concluded that for the year ended 31 December 2012: (i) HKEx's internal control system was effective, with reference to the COSO (Committee of Sponsoring Organizations of the Treadway Commission) standards; (ii) HKEx had adopted the necessary control mechanisms to monitor and correct non-compliance; and (iii) the Group had complied satisfactorily with the requirements of the Corporate Governance Code in respect of internal controls.

Review of 2012 Consolidated Financial Statements

The AC reviewed the 2012 consolidated financial statements in conjunction with HKEx's external and internal auditors. Based on this review and discussions with management, the AC was satisfied that the consolidated financial statements were prepared in accordance with applicable accounting standards, and fairly present the Group's financial position and results for the year ended 31 December 2012. The AC therefore recommended the consolidated financial statements for the year ended 31 December 2012 be approved by the Board.

Review of Group's Accounting and Financial Reporting Function

The AC reviewed and was satisfied with the adequacy of the resources, staff qualifications and experience, training programmes, and budget of the Group's accounting and financial reporting function.

Review of Continuing Connected Transactions

The AC also reviewed the "Continuing Connected Transactions" as set out in the Corporate Governance Report of this Annual Report, and confirmed that the continuing connected transactions entered into by the Group were in accordance with the conditions of the waiver granted by the SFC and the requirements of the Main Board Listing Rules.

Recommendation for Re-appointment of External Auditor

The AC was satisfied with the external auditor's work, its independence, and objectivity, and therefore recommended the re-appointment of PricewaterhouseCoopers (which has indicated its willingness to continue in office) as the Group's external auditor for 2013 for Shareholders' approval at the 2013 AGM.

Members of the Audit Committee

John Barrie HARRISON (Chairman)
LEE Kwan Ho, Vincent Marshall (Deputy Chairman)
CHAN Tze Ching, Ignatius
KWOK Chi Piu, Bill
John Mackay McCulloch WILLIAMSON

Hong Kong, 22 February 2013