CHAPTER XII

AUTOMATED TRADING SYSTEM

Introduction

1200. (a)   The Exchange shall operate HKATS for such Market or Markets as the Exchange may specify from time to time and references to Exchange Contracts and Orders in this Chapter shall be correspondingly limited to Exchange Contracts which may be executed on and Orders which may be placed in respect of such Market or Markets.

         (b)   For the avoidance of doubt, save where the context otherwise requires, all of the Rules, the Regulations and the Procedures shall apply to the operation of HKATS.

         (c)   All transactions in F/O Contracts effected through HKATS shall be conducted in accordance with these Rules, the Regulations and the Procedures from time to time specified by the Exchange as well as other Procedures and requirements including those specified in the HKFE-HKATS Agreement and shall be binding upon the parties to such F/O Contracts.

General Provisions

1201. (a)   Prior to the establishment of an electronic connection ("connection") of an Exchange Participant to HKATS, an HKFE-HKATS Agreement in a form prescribed by the Exchange from time to time shall be entered into.

         (b)   Equipment and software which are required for connection to HKATS shall be specified by the Exchange from time to time.

         (c)   The Exchange reserves the right to approve any equipment and software not specified by the Exchange in accordance with Rule 1201(b). In the event an Exchange Participant wishes to use any equipment and software other than that specified by the Exchange, the Exchange may require prior to connection that such equipment and software are thoroughly tested by the Exchange Participant and determined by the Exchange not to have any detrimental impact on the operation of HKATS.

         (d)   The Exchange reserves the right to limit the number of connections per Exchange Participant.

         (e)   The Exchange reserves the right immediately to disconnect a connection and prohibit any person (whether an Exchange Participant or not) from having access to HKATS, or to limit such person's access to or use of

HKATS, including but not limited to reducing the throughput rate of its connection, on such conditions as the Exchange thinks fit..

(f)   Exchange Participants shall install all applicable software specified by the Exchange in the latest version in force together with system program software in the latest version specified by the Exchange. Exchange Participants shall not alter, modify, reverse, change or copy programs supplied by the Exchange without the Exchange's prior written permission.

(g)   Exchange Participants shall grant the Exchange access for the inspection of equipment connected to or software installed on HKATS. Such inspections shall take place wherever practicable at an agreed time and in the presence of the Exchange Participant in question.

(h)   The cost for the requisite equipment supplied by the Exchange and the installation and maintenance thereof shall be borne by the Exchange Participant. The cost shall be debited as stated in the HKFE-HKATS Agreement.

(i)   Exchange Participants shall ensure that a technical contact person or a system contact person is available at the premises of the Exchange Participant or such other location as approved by the Exchange during the hours when such Markets operated through HKATS are open as well as one hour beforehand and one hour thereafter.

(j)   An Exchange Participant shall be liable for all orders and F/O Contracts arising from its connection or any connection granted by the Exchange through the Exchange Participant and recorded in the Central Orderbook and the Transaction Register respectively of HKATS or other consequences resulting from the use of such connection, regardless of whether or not such consequences resulted from the use of such connection by its Responsible Officers, Authorized Persons, Remote Access Clients of the Exchange Participant or any person who is allowed to have access to HKATS for performing market making activities.

(k)   An Exchange Participant shall follow such security procedures pertaining to the connection as are from time to time specified by the Exchange.

(l)   An Exchange Participant shall notify the Exchange immediately if it becomes aware of or if its trading activities are affected by any disruptions whether technical or otherwise.

(m) The Exchange may from time to time prescribe procedures which may impose such requirements on Exchange Participants as to the operation of and access to HKATS as the Exchange may think fit.

General Terms regarding Exchange Activity

1202. The placing and revocation of Orders and trading activity generally in HKATS will occur anonymously amongst Exchange Participants. However, the identity of Exchange Participants may be disclosed at the absolute discretion of the Exchange where it is considered appropriate.

Access to and Trading through HKATS

1203. Except as otherwise authorised by the Exchange, all trading in Exchange Contracts through HKATS must be carried out via an Exchange Participant's connection.

1204. Except as otherwise authorised by the Exchange, an Exchange Participant shall only allow its Authorized Persons and Remote Access Clients to have access to HKATS.

1205. Except as otherwise authorised by the Exchange, an Exchange Participant shall ensure that only HKATS Participant Representatives whose registration is still in force may enter, amend and revoke orders or allocations.

Establishment of Prescribed Risk Controls in HKATS

1205A. Without prejudice to the right of the Exchange under Rule 1208B, an Exchange Participant shall establish, monitor and implement and if it is a Non-Clearing Participant, enable each HKCC Participant which clears its trades to establish, monitor and implement Prescribed Risk Controls using the HKATS Risk Functions for the Exchange Participant itself and its Authorized Persons, Remote Access Clients and any other person who is allowed to trade through HKATS via the Exchange Participant's connection or any connection granted by the Exchange through the Exchange Participant. An Exchange Participant acknowledges that orders entered into HKATS shall be subject to, and may be blocked or cancelled as part of such Prescribed Risk Controls, including the blocking or cancellation of orders by the HKCC Participant which clears its trades if it is a Non-Clearing Participant.

1205B. An Exchange Participant shall implement adequate procedures to ensure that all persons having access to HKATS through its connection or any connection granted through the Exchange Participant comply with such Prescribed Risk Controls as are applicable to them and will not use the HKATS Risk Functions for any purpose other than Prescribed Risk Control purposes.

1205C. An Exchange Participant shall notify the Exchange forthwith upon the execution by any of its Authorized Persons of an order blocking or

cancellation function using the HKATS Risk Functions or any other function as prescribed by the Exchange from time to time.

1205D. An Exchange Participant is responsible for the Prescribed Risk Controls that are set upon it. The Exchange, the Clearing House and a recognized exchange controller of the Exchange shall in no case be liable for the sufficiency or effectiveness of such Prescribed Risk Controls or any failure or unavailability of, or error or defect in the HKATS Risk Functions.

Unauthorised Usage of HKATS

1206. An Exchange Participant shall implement adequate procedures to ensure that any person (whether an Exchange Participant or not) who has access to HKATS through its connection or any connection granted by the Exchange through the Exchange Participant complies with Rule 807A(a). An Exchange Participant shall ensure that all persons having access to HKATS through its connection or any connection granted through the Exchange Participant shall exercise due care in operating HKATS and that HKATS is operated and orders are entered, amended or canceled, in accordance with the procedures and guidelines from time to time prescribed by the Exchange.

1206A. An Exchange Participant shall be fully responsible and liable for any unstable condition, breakdown or damage to HKATS or the Exchange Participant's HKATS workstations as a result of any unauthorised usage of HKATS by the Exchange Participant or any person having access to HKATS through the Exchange Participant or as a result of any non-compliance by such person with Rule 1206.

Order Entry

1207. All orders must be entered into HKATS in accordance with these Rules, applicable Regulations and Procedures, and the HKATS User's Guide.

1208. Every order entered into HKATS must comply with and contain such information as required by the Procedures and the HKATS User's Guide.

1208A. Except for Auction Orders which may be entered into HKATS by Exchange Participants during the pre-opening and pre-open allocation sessions of the Pre-Market Opening Period, Exchange Participants shall ensure that each Client order is associated with a price limit.

1208B. The Exchange may from time to time prescribe a maximum size limit for each order that may be entered into HKATS by an Exchange Participant. Such order size limit may be prescribed by the Exchange in relation to any Exchange Contract, any category or group of Exchange Participants or in relation to any particular Exchange Participant. Orders entered into HKATS which exceed the prescribed order size limit will be rejected by HKATS.

Matching and Ranking of Orders in HKATS

1209. The principle underlying the matching and ranking of orders processed by HKATS involves the application of a strict price/time priority methodology, which prioritizes orders based firstly on the best price and secondly by the time the order is processed by HKATS. Without prejudice to the foregoing, during the Pre-Market Opening Period where both Auction Orders and Limit Orders may exist, Auction Orders shall have priority over all Limit Orders and where Auction Orders are converted into Limit Orders immediately after Market open, the ranking of converted Auction Orders and Limit Orders with the same price shall be according to the time the orders are entered into HKATS during the Pre-Market Opening Period.

Recording of Orders

1210. Each order shall be validly entered into HKATS at the time when it has been recorded in the Central Orderbook of HKATS relating to the applicable Exchange Contract in respect of which the order has been entered.

1211. The recorded details of each order maintained in the Central Orderbook of HKATS shall be conclusive evidence of the terms of each order entered into HKATS. No other evidence shall be admissible or otherwise recognised by any person in relation to determining whether an order has been entered into HKATS or in relation to determining the terms of any such order.

1212. Except as otherwise permitted by the Exchange, no Exchange Participant shall, apart from the ability to check its own orders through HKATS, be entitled to have access to any information stored in the Central Orderbook of HKATS or be able to enquire as to, or be entitled to discover, the identity of any person who has entered an order into the Central Orderbook.

Amendment and Cancellation of Orders

1213. An Authorized Person of the Exchange Participant may amend and cancel any order which has been entered into the Central Orderbook of HKATS on behalf of a Client or the Exchange Participant provided that the amendment or cancellation is made in compliance with the instructions of that Client or the Exchange Participant, as the case may be, and in accordance with the order number designated in respect of that particular order. The Exchange shall permit the amendment or cancellation of an order in accordance with the Procedures. Notwithstanding any provisions in the Procedures which limit the amendment or cancellation of orders to specified time periods, inactive orders of Clients or the Exchange Participant may be amended or canceled at any time provided that the amendment or cancellation is made in compliance with the instructions of Clients or the Exchange Participant, as the case may be.

1214. Quote Requests may, at any time during the trading hours applicable to any Market operated through HKATS, be entered into HKATS by using the Quote Request function of HKATS, in response to which Market Makers shall (subject to, and in accordance with the applicable Rules, Regulations, Procedures and HKATS User's Guide) provide Quotes.

Recording of Transactions

1215. An F/O Contract shall be executed at the time when an order in respect of an Exchange Contract in a futures delivery month or option series is matched by HKATS with another order in respect of an Exchange Contract in the same futures delivery month or option series and the details of such matched orders relating to the F/O Contract are recorded in the Transaction Register of HKATS. Immediately upon such recording, and provided that the F/O Contract has been validly executed in accordance with these Rules, the F/O Contract shall be subject to the process of novation in accordance with the Clearing House Rules unless otherwise determined by the Exchange. Notwithstanding the foregoing, no matched order recorded in the Transaction Register during the Pre-Market Opening Period of a Market shall be registered with the Clearing House or novated until the opening of the Market and no Block Trade or Tailor-Made Combination trade recorded in the Transaction Register shall be registered with the Clearing House or novated until the Clearing House is satisfied that the recorded Block Trade or Tailor-Made Combination trade is a valid trade and all criteria applicable to it have been satisfied. Unless an Exchange Participant receives any oral or written notice from the Exchange or the Clearing House that a Block Trade or Tailor-Made Combination trade is not valid or not all criteria applicable to it have been satisfied or that it will not be registered with or cleared by the Clearing House for any reason, the Block Trade or Tailor-Made Combination trade shall be deemed to be registered with the Clearing House and subject to the process of novation in accordance with the Clearing House Rules immediately upon the recording of such trade in the Transaction Register. The Exchange will endeavour to notify the Exchange Participant of any issue concerning the Block Trade or Tailor-Made Combination trade within 30 minutes of its execution by the Exchange Participant.

1216. Subject to Rule 1215, the recorded details of F/O Contracts maintained in the Transaction Register of HKATS resulting from matched orders, or such other record as the Exchange may, in its discretion accept, shall be conclusive evidence of the terms of each F/O Contract.

1217. Except as otherwise permitted by the Exchange, no Exchange Participant shall, apart from the ability to check details of its own F/O Contracts executed through HKATS have access to any information stored in the Transaction Register

regarding the identity of any person who has executed an F/O Contract recorded in the Transaction Register.

Block Trades

1218. An Exchange Participant shall only effect Block Trades in HKATS in accordance with Rules 815, 815A and 815B and such other procedures as may be prescribed by the Exchange from time to time.

Adjustments

1219. All matters relating to adjustment of F/O Contracts effected through HKATS which have been novated by the Clearing House shall be subject to the Clearing House Rules.

1220. (*deleted*)

Limitation of Liability

1221. The Exchange and a recognized exchange controller which is the controller of the Exchange shall in no case be liable for the loss of data, non-payment of profits or other damage relating to activities conducted through or associated with HKATS, of any Exchange Participant or any of its Clients or any third party whatsoever.