CHAPTER 10

SETTLEMENT SERVICES

1001. Book-entry settlement

HKSCC may provide settlement services to Participants in relation to transactions accepted by it for settlement and/or clearance. The right to receive and the obligation to deliver Eligible Securities arising out of transactions accepted for settlement and/or clearance in CCASS or through an Appointed Depositary will be settled by credit and debit entries respectively made to the Stock Accounts of Participants.

1002. Transactions accepted for settlement

Transactions accepted for settlement and/or clearance by HKSCC may include:

(i) Exchange Trades (including TSF Exchange Trades) under the CNS System;

(ii) Exchange Trades under the Isolated Trades System;

(iia) China Connect Securities Trades under the CNS System;

(iii) Clearing Agency Transactions under the CNS System;

(iv) Clearing Agency Transactions under the Isolated Trades System;

(v) transactions arising out of matched Settlement Instructions by two counterparty Participants;

(vi) transactions arising out of input (and authorised, if required) of Investor Settlement Instructions (without affirmation) by Participants or affirmed Investor Settlement Instructions (with affirmation) by Investor Participants concerned;

(vii) Compulsory Stock Borrowing Transactions in CCASS;

(viii) transactions arising out of cleared Transfer Instructions and Cross-Border Transfer Instructions by Participants concerned; and

(ix) such other transactions as HKSCC may from time to time accept for settlement in CCASS (including TSF FX Transactions and Stock Release FX Transactions).

1003. Settlement by DIs or Batch-settlement-runs or on-line delivery

Subject to the Rules and to the availability of Eligible Securities in the relevant Stock Accounts of the delivering Participants, settlement of the right to receive and the obligation to deliver Eligible Securities arising out of transactions accepted for settlement in CCASS will be given effect on each Settlement Day either : -

(i) at the initiation of the delivering Participants by the input of Delivery

Instructions; or

(ii) pursuant to Batch-settlement-runs effected by HKSCC (except those Isolated Trades and those transactions accepted for settlement in CCASS by matched Settlement Instructions, which are specifically excluded from Batch-settlement-runs by either or both of the delivering and receiving Participants in accordance with the Operational Procedures, those transactions accepted for settlement in CCASS by input (and authorisation, if required) of Investor Settlement Instructions (without affirmation) or by affirmed Investor Settlement Instructions (with affirmation) which are specifically excluded from Batch-settlement-runs by the relevant Participant inputting the ISI in accordance with the Operational Procedures and those transactions accepted for settlement in CCASS by Investor Settlement Instructions (without affirmation) input (and authorised, if required) after 3:45 p.m. on a Settlement Day by Participants or by Investor Settlement Instructions (with affirmation) affirmed after 3:45 p.m. on a Settlement Day by Investor Participants); or

(iii) by way of on-line delivery by HKSCC upon input (and authorisation, if required) of an Investor Settlement Instruction (without affirmation) by the Participant or upon affirmation of an Investor Settlement Instruction (with affirmation) by the Investor Participant concerned, provided that there are sufficient Eligible Securities in the Stock Account of the delivering Participant concerned, and, in the case of settlement of an ISI Transaction or SI Transaction to be settled in CCASS on a RDP basis, upon receipt of confirmation of payment of such transaction from the Clearing House of HKAB, and, in the case of a Compulsory Stock Borrowing Transaction, upon matching of an automatic borrowing request by HKSCC with a lendable position of a Lender following the final Batch-settlement run on a Settlement Day, upon matching of a recall request inputted by the Lender or upon input of a return request by HKSCC

all in accordance with the provisions of the Rules.

For the avoidance of doubt, transactions accepted for settlement in CCASS by virtue of input (and authorisation, if required) of Investor Settlement Instructions (without affirmation) by Participants or by virtue of affirmed Investor Settlement Instructions (with affirmation) will, subject to (i) the Rules, (ii) the availability of Eligible Securities in the relevant Stock Accounts of the delivering Participants, and (iii) the payment method specified in the Investor Settlement Instructions, be settled on-line immediately following input (and authorisation, if required) of the Investor Settlement Instructions (without affirmation) by Participants or affirmation of the Investor Settlement Instructions (with affirmation) by the relevant Investor Participants, as the case may be. If there are insufficient Eligible Securities in the relevant Stock Accounts of the delivering Participants, settlement will, subject to the Rules and the availability of Eligible Securities as aforesaid, be given effect to by Batch-settlement-runs effected by HKSCC in accordance with the Operational Procedures.

A DVP on hold mechanism operates where (i) an ISI Transaction is to be settled in CCASS on a DVP basis and (ii) the delivering Participant requires it to be operated. If

the on hold mechanism operates, the Eligible Securities to be credited to the paying Participant's Stock Account under the ISI Transaction will be put on hold. They will stay on hold until Negative Confirmation of Payment in response to the relevant debit EPI has been obtained from the paying Participant's Designated Bank. While the Eligible Securities are on hold they will remain the property of the delivering Participant and may not be withdrawn from CCASS or transferred or otherwise used by the delivering Participant or the paying Participant. Once the Negative Confirmation has been obtained, the Eligible Securities will become the property of the paying Participant and may be withdrawn from CCASS or transferred or otherwise used by the paying Participant. If Negative Confirmation has not been obtained and the paying Participant's Designated Bank does not make payment in response to the relevant debit EPI, HKSCC will recredit the Eligible Securities to the delivering Participant's Stock Account and the delivering Participant will be free to withdraw them from CCASS or transfer or otherwise use them.

An RDP on hold mechanism also operates where an ISI Transaction or an SI Transaction is to be settled in CCASS on an RDP basis. This on hold mechanism operates automatically. The Eligible Securities will be put on hold in the delivering Participant's Stock Account for a period determined by HKSCC in accordance with the Operational Procedures. Until the Eligible Securities ceased to be on hold they will remain the property of the delivering Participant and may not be withdrawn from CCASS or transferred or otherwise used by the delivering Participant or the paying Participant.

For the avoidance of doubt, settlement in CCASS on a RDP basis is subject to the availability of the Eligible Securities in the relevant Stock Accounts of the delivering Participants.

In respect of SI Transactions, a Participant may opt to apply an on hold mechanism to the Eligible Securities credited to its Stock Account upon the settlement of an SI Transaction for the specific purpose of settling another SI Transaction to which the Participant is the delivering party. Such Eligible Securities shall not be used for any purpose other than the settlement of the Participant's obligation to deliver under the relevant SI in accordance with the Operational Procedures. A Participant other than an Investor Participant may also opt to apply an on hold mechanism for holding settlement of an SI Transaction or an ISI Transaction. An SI Transaction subject to this on hold mechanism will be excluded from settlement by DI and the next Batch-settlement-run after successful matching. Settlement of such SI Transaction will not be effected until the matched on hold status has been released by the initiating party or parties, as the case may be, in accordance with the Operational Procedures. Similarly, an ISI Transaction subject to this on hold mechanism will be excluded from settlement by DI, Batch-settlement-runs and online settlement initiated by the input of an ISI (without affirmation) or affirmation of an ISI (with affirmation). Settlement of such ISI Transaction will not be effected until the on hold mechanism has been released by the initiating Participant.

In case a China Connect Clearing Participant has an overdue short CNS position in a China Connect Security, settlement of the Participant's delivering SI Transactions in

relation to such China Connect Security will only be effected under the circumstances as referred to in Section 12.1.6(vi)(e) of the Operational Procedures.

1004. Batch-settlement-runs: sequence of deliveries

The sequence of settlement of transactions in the same Eligible Security by the same delivering Participant included in the same Batch-settlement-run shall be made in accordance with the Operational Procedures or in such other manner as is considered by HKSCC to be appropriate in the circumstances.

HKSCC may, in relation to the settlement of the transactions of a Participant, give priority to, first the settlement of obligations to deliver Eligible Securities by the Participant under the CNS System and second, the settlement of obligations to deliver Eligible Securities by the Participant under the Isolated Trades System.

1005. Unsettled SI transactions

Without prejudice to the rights and liabilities as between the two Participants concerned, transactions accepted for settlement in CCASS by virtue of matched Settlement Instructions which remain unsettled after the relevant stipulated settlement dates may be rejected for settlement in CCASS by HKSCC in accordance with the Operational Procedures.

1006. Unsettled ISI transactions

Without prejudice to the rights and liabilities as between the two Participants concerned, transactions accepted for settlement in CCASS by virtue of input (and authorisation, if required) of Investor Settlement Instructions (without affirmation) or affirmed Investor Settlement Instructions (with affirmation) which remain unsettled after the relevant stipulated settlement dates may be rejected for settlement in CCASS by HKSCC in accordance with the Operational Procedures.

Unaffirmed ISI (with affirmation) or pending ISIs will be purged from CCASS by HKSCC in accordance with the Operational Procedures.

1007. Transfer Instructions

The settlement of Transfer Instructions and Cross-Border Transfer Instructions shall be effected in accordance with the Operational Procedures.

Without prejudice to the rights and liabilities as between the Participant and its counterparty Transfer Instructions and Cross-Border Transfer Instructions which remain unsettled after the stipulated settlement date will not be given effect by HKSCC.