Preface

Objective

This document describes the procedures that an Options Exchange Participant and its staff should follow when trading options at the Exchange. In some context, the procedures is applicable to Options Trading Exchange Participants only as Options Broker Exchange Participants do not have access to the Options System. In such cases, the procedures will specifically make reference to Options Trading Exchange Participants.

Any preparatory work included before an Exchange Participant gets an Options Exchange Participantship, such as the Options Exchange Participantship application procedure, is not covered in this document.

Notation

By its operational nature, this document makes reference to many specific names and descriptions defined elsewhere.

For consistency within this document, names of documents are printed in *italics* and standard forms referred to in this document are published on the HKEX website.

Relationship to the Options Trading Rules

The *Options Trading Rules* govern how Options Exchange Participants should operate their options business and represent the authoritative position on all options matters at the Exchange.

These procedures explain how the services and facilities available from the Exchange enable Options Exchange Participants to operate their business in compliance with the Options Trading Rules.

Readership

All Options Exchange Participants and their staff involved in or responsible for options business should be familiar with these procedures.

Exchange Participants which are considering applying to become Options Exchange Participants are also advised to read these procedures.

Amendments

From time to time, these procedures may be amended and registered Options Exchange Participants will be informed of changes by circulars.

Copyright

The Exchange owns the copyright to these procedures. No unauthorized reproduction is permitted.

Chapter 1
The Options System: Operational and Service Schedule

1.1 The Options System

The Options System provides Options Trading Exchange Participants with screen-based facilities for the trading and clearing of stock options. Trading functions are performed through the Options Trading System, the Hongkong Futures Automated Trading System ("HKATS"), whereas clearing functions (including give-ups, acceptance of give-ups and exercise requests) and collateral management functions are performed through the Options Clearing System, which comprises the Derivatives Clearing and Settlement System ("DCASS") and the Common Collateral Management System ("CCMS").

1.2 Stock Options Trading

To carry out stock options trading, Options Trading Exchange Participants are required to submit orders and/or quotes for auto-matching through HKATS. Matched trades are automatically passed to DCASS for further processing.

1.3 Stock Options Clearing

The SEHK Options Clearing House Limited ("SEOCH"), a wholly-owned subsidiary of HKEX, is solely responsible for stock options clearing. It acts as the counterparty to all trades and guarantees contract performance in terms of money settlement and stock delivery.

As soon as a trade has been validly created in HKATS, the trade will be transmitted to DCASS and will be registered in DCASS as a position and thereafter monitored by SEOCH for the purposes of risk management through to delivery or expiry.

SEOCH Participants can enter exercise requests for Market Maker, house or client (including NCP) positions via DCASS. SEOCH will do the assignment and novation and the resultant stock transactions will be passed to CCASS for settlement, with SEOCH Participants and SEOCH itself as counterparties. On an expiry day, DCASS will automatically generate exercise requests in respect of all open long positions in expiring contracts which meet the exercise criterion prescribed (i) by the relevant SEOCH Participant; or (ii) if no such exercise criterion is prescribed by the SEOCH Participant, by SEOCH. SEOCH Participants can elect to deny such automatically generated exercise requests via DCASS at any time prior to the System Input Cutoff Time on the expiry day. For details please refer to the *Operational Clearing Procedures*.

1.4 Periods for Trading on HKATS

A trading day consists of a combination of the following periods for trading on HKATS:

Pre-Trading Period

This is the 30 minute-period prior to the commencement of each trading session during which Options Trading Exchange Participants may amend, cancel or inactivate orders resident in the Central Orderbook.

Trading Period

A trading day normally consists of a morning trading session and an afternoon trading session during which orders and quotes are auto-matched continuously as the order book changes based on price and time priority.

Lunch Period

This is the period between the morning trading session and the afternoon trading session during which trading on HKATS is halted as the underlying market is halted during lunch hours. The options market reverts to the Pre-Trading Period 30 minutes prior to the commencement of the afternoon trading session.

End of Trading

At the end of the trading day, HKATS is closed to all Options Trading Exchange Participants and remains unavailable until the next trading day.

1.4A   Periods for Clearing in DCASS

A trading day consists of a combination of time periods for accessing various clearing functions in DCASS. Please refer to the *Operational Clearing Procedures* for details.

1.5   Normal Trading Day

The following table describes the time schedule for the trading of stock options on HKATS on a normal trading day:

Time	Events in HKATS
9:00 a.m.	Pre-Trading starts for all classes.
9:30 a.m.	Trading starts for all classes.
12:00 noon	Trading stops for all classes.
1:00 p.m.	Pre-Trading starts for all classes provided that with effect from 5 March 2012, pre-trading shall start at 12:30 p.m.
1:30 p.m.	Trading starts for all classes provided that with effect from 5 March 2012, trading shall start at 1:00 p.m.
4:00 p.m.	Trading stops for all classes.

1.6   Half-Day Trading

On the eves of Christmas, New Year and Lunar New Year (and on any other days declared by the Exchange to be Half-Day Trading days for underlying securities), the trading hours will be in accordance with the following table:

Time	Events in HKATS
9:00 a.m.	Pre-Trading starts for all classes.
9:30 a.m.	Trading starts for all classes.
12:00 noon	Trading stops for all classes.

1.7   **Control of Trading Periods**

The Exchange may, whether or not in conjunction with SEOCH, vary the sequence and duration of each trading and clearing period in emergency situations, if necessary.

Although the Exchange endeavours to comply with the commencement and termination time for each trading period as given in 1.5 and 1.6, all timing figures are indicative only. The transition between various trading periods is controlled by the Exchange according to the time kept by the Exchange.

The Exchange may broadcast messages via HKATS terminals when a system state change is about to happen or has already happened. Appendix I describes some standard broadcast messages used by the Exchange regarding the state of stock options trading on HKATS.

1.8   [Repealed]

1.9   [Repealed]

1.10   [Repealed]

1.11   [Repealed]

1.12   [Repealed]

Chapter 2： Access to HKATS

2.1　　Means of Access

An Options Trading Exchange Participant can access HKATS for trading in stock options through its connection to HKATS.

2.2　　Notification of Change of Address or Means of Access

2.2.1　　HKATS

An Options Trading Exchange Participant that wishes to relocate its data lines for HKATS must notify the Exchange in writing by completing a telecommunication lines relocation form which can be obtained from the Exchange. The notification should be given at least 8 weeks prior to the intended relocation date.

After relocation, the Options Trading Exchange Participant will be required to perform to the Exchange's satisfaction a transaction test, a log in test and such other tests as the Exchange or Options System Operator may consider necessary to confirm that its connection to HKATS is in order.

2.2.2　　[Repealed]

2.3　　[Repealed]

2.4　　Passwords

A password must be entered with a HKATS Username in order to access HKATS.

The Exchange will distribute HKATS Username(s) and password(s) to the Options Trading Exchange Participant and its Authorized Person for gaining access to HKATS. Upon logging on for the first time, an Authorized Person should change the password to one he chooses and keep it strictly confidential.

An Options Trading Exchange Participant may request the Exchange to reset the password or to reissue the password notification letter subject to the payment of a fee specified by the Exchange. Such request shall be made by completing such form as may be prescribed by the Exchange from time to time.

2.5　　Application For HKATS Username

An Options Trading Exchange Participant must apply by completing such form as may be prescribed by the Exchange from time to time for assignment of HKATS Username(s) and password(s) for accessing HKATS.

The Options Trading Exchange Participant shall notify the Exchange of any change in the information provided, including any deletion of HKATS Username(s). For deletion of HKATS Username(s), the Exchange will endeavor to terminate the access of the HKATS username(s) to HKATS on the effective date as indicated on the form.

2.6　　[Repealed]

2.7　　Outside Services

The Exchange has no responsibility for, or involvement with, the services of bureau suppliers or other suppliers of services to Options Trading Exchange Participants, except where otherwise expressly stated. Options Trading Exchange Participants subscribing to these outside services should liaise directly with the service provider.

2.8   [Repealed]

Chapter 3：Trading Functionalities

The trading functionalities offered by HKATS and the procedural steps for executing those functionalities are set out in the *HKATS User's Guide* and the *HKATS Risk Functions User's Guide*.

3.0   HKATS Risk Controls and Functions

Options Trading Exchange Participants shall have arrangements in place to ensure that all orders transmitted to HKATS are subject to Prescribed Risk Controls and other appropriate risk controls and functions.

3.1   Central Orderbook

HKATS will maintain a Central Orderbook for each option series.

Orders that cannot be matched at the going market price, or any unmatched portion of an order, will be stored in the Central Orderbook. Options Trading Exchange Participants are advised to regularly refresh the data shown in the Central Orderbook even though the Central Orderbook will be automatically updated by the central database. As there may be differences between the central database and the local orderbooks of Options Trading Exchange Participants due to the time lag caused by data transmission between the central database and Options Trading Exchange Participants' local database, Options Trading Exchange Participants should check their order information in the Price Information Window and the Orderbook Window. Options Trading Exchange Participants should immediately report any discrepancies found to the Exchange via the HKATS Hotline at 2211 6360.

The Price Depth Window of HKATS displays the five best bid and offer prices of an option series as recorded in the Central Orderbook. The aggregate size of orders at each price is also displayed. HKATS can also display market depth down to 250 price queues for each option series.

3.1A   Trade Record

An Options Trading Exchange Participant can check details of its trades using the Order History Window and the Trade History Window. The Order History Window shows trade information of an Options Trading Exchange Participant's login users.

An Options Trading Exchange Participant should also check the Trade History Window for details of trades executed by it. Information shown in the Trade History Window is retrieved from the central system at login and is updated on a real-time basis.

Upon an Options Trading Exchange Participant noticing any discrepancy between the Order History Window and the Trade History Window, it is required to report the discrepancy to the Exchange via the HKATS Hotline immediately.

3.2   [Repealed]

3.3   Class Codes

Each option class will be allocated a unique 3 to 5 - letter class code by the Exchange. The same class code will be adopted by HKATS and DCASS for the same underlying stock.

In the event that the contract specifications of an option class need to be adjusted as a result of capital adjustment, HKATS will assign a new class code for the adjusted option class unless otherwise determined by the Exchange. New options classes generated after the capital adjustment may carry a different class code. Exchange Participants will be notified from time to time of any class codes or new class codes that are allocated by HKATS and DCASS for an option class via DCASS, the Market

Messages Window of HKATS, e-mail, HKEX website or such other means deemed appropriate by the Exchange.

3.4 Notation of Contract Specifications

An options contract on HKATS with a monthly expiry is represented by the following:

<Class ><Strike><Month><Year>

where	<Class >	denotes the 3 to 5-character code allocated to an options class in HKATS
	<Strike>	denotes the strike price with 2 decimal places
	<Month>	denotes the 1-character expiry month code
	<Year>	denotes the 1-digit contract year code.

For example, a put option on a stock of which the class code is HKZ and adjusted class code is HKY after one capital adjustment, and of which the expiry is in September 2021 and strike price is HK$10.00 is denoted as "HKY10.00U1" in HKATS.

An options contract on HKATS with a weekly expiry is represented by the following:

<Class ><Strike><Month><Year><Weekly><Expiry day>

where	<Class>	denotes the 3 to 5-character code allocated to an options class in HKATS
	<Strike>	denotes the strike price with 2 decimal places
	<Month>	denotes the 1-character contract month code
	<Year>	denotes the 1-digit contract year code
	<Weekly>	the 1-character "W" denotes that the options contract is a weekly option
	<Expiry day>	denotes the 2-digit expiry day.

For example a put option on a stock of which the class code is HKZ and of which the expiry is on 25 September 2023 and strike price is HK$10.00 is denoted as "HKZ10.00U3W25" in HKATS.

Appendix B sets out the detailed contract specifications.

3.5 Error Trades / Large-Scale Error Trades

If a trade takes place on HKATS at a level which deviates from the Price Parameters, an original party to the trade may lodge a claim, in accordance with *Options Trading Rule 540*, with the Exchange that it is an Error Trade. If the Error Trades claimed by an Options Trading Exchange Participant are of such magnitude or complexity that any claim in respect of such Error Trades may have to be handled in accordance with *Options Trading Rule 540A* as a Large-Scale Error Trade, the Exchange may in its absolute discretion determine if the claim should be handled as a Large-Scale Error Trade and if so, the Exchange will entertain such claim in accordance with *Options Trading Rule 540A*.

Important: There is a handling charge levied for each claim to correct an Error Trade regardless of whether the claim is approved by the Exchange. The Exchange may entertain an Error Trade claim as a Large-Scale Error Trade claim in accordance with *Options Trading Rule 540A*. The handling charge may exceed any financial benefit of handling the Error Trade / Large-Scale Error Trades. See Appendix A.

3.6   Order Types

Options Trading Exchange Participants may place only Limit Orders in HKATS during trading hours. Options Trading Exchange Participants may also specify certain conditions in respect of Limit Orders, including "Rest-of-Day", "Until Expiry", "Specified Time", "Fill and Kill" and "Fill or Kill".

3.7   Limit Orders

Limit orders are orders which are to be matched at a specific limit price or better.

The following "validity times" can be applied to limit orders:

- Rest-of-Day: This is the default. If the entire order has not been matched or cancelled by the end of the trading day, that portion of the order which remains open will be automatically cancelled.

- Until Expiry: An order of this kind is valid up to execution, series expiry, or until the Options Trading Exchange Participant cancels it.

- Specified Time: An order of this kind is valid until market close of the date specified in the order, until execution, series expiry, or until cancelled by the Options Trading Exchange Participant, whichever is earliest.

- Fill and Kill: Orders of this kind attempt to match as much of the order as possible up to the specified quantity. The part of the order which has not been filled is cancelled immediately.

- Fill-or-Kill: Orders of this kind are either filled immediately for the full quantity or, if this is not possible, cancelled entirely.

A limit order capable of being stored in the Central Orderbook (a limit order which does not have either a "Fill-or-Kill" or "Fill and Kill" condition attached) will remain in the Central Orderbook until one of the following events occurs:

1.   The order is matched either fully or partially with an incoming order. Where the order is fully matched, it will be removed from the Central Orderbook, and where it is only partially matched, the outstanding part will be stored in the Central Orderbook until it is matched, cancelled or for the applicable period, as the case may be.

2.   The Authorised User who input the limit order or another Authorised User of the same Options Trading Exchange Participant cancels the order or amends the order to the effect that the ranking priority will be affected.

3.   The order is cancelled by the Exchange upon the request of the Options Trading Exchange Participant.

4.   The order, and possibly all other orders, placed by the Options Trading Exchange Participant are cancelled by the Exchange in the event that misconduct is suspected.

5.   HKATS automatically purges the order when its specified validity time expires, when its specified SMP ID is no longer valid for the relevant Options Trading Exchange Participant or in accordance with the SMP Instruction for its specified SMP ID.

6.   HKATS automatically inactivates the order when all orders belonging to an Authorised User are inactivated due to a lost connection between the local trading workstation and the host computer.

7.   HKATS automatically cancels the order if trading in the relevant option class is suspended.

8.   The order and all other orders specifying a validity time of "Rest of Day" are cancelled by the Exchange where market conditions warrant such action.

3.8   [Repealed]

3.9   **Execution of Standard Combinations**

In the event an order for a spread or strategy combination listed in HKATS ("standard combination") is entered into HKATS, HKATS will automatically generate derived orders ("Bait Orders") based on the prevailing market price of each individual option series comprising the standard combination and the price of the order for the standard combination. Prices of these Bait Orders will be automatically adjusted according to price movement in the individual option series comprising the standard combination.

The ranking of Bait Orders shall be in accordance with the time the Bait Orders are generated. A Bait Order whose price is automatically adjusted according to the price movement and/or increase in quantity of the individual option series comprising the standard combination shall be treated as if the Bait Order were newly generated.

In the event an order for a standard combination is executed separately as Bait Orders in the individual option series, each stock options contract comprising the standard combination will be matched at the prevailing market price of the individual option series. Any matched contracts will be recorded in HKATS as separate trades in the individual option series.

In the event an order for a standard combination is executed in the standard combination market and not as Bait Orders in the individual option series, the executed price of the standard combination may not necessarily correspond with the prevailing market prices of the stock options contracts comprising the standard combination. The matched standard combination will be recorded in HKATS as separate trades in the individual option series.

3.9A   Creation, Execution, Deletion of Tailor-Made Combinations

Options Trading Exchange Participants can define and create a combination strategy ("Tailor-Made Combination") involving such Options Contracts and during such trading sessions as the Exchange may from time to time notify Options Trading Exchange Participants using the tailor-made combination function of HKATS. Once created, a Tailor-Made Combination can be traded like a normal market series.

Options Trading Exchange Participants shall ensure that the following criteria are satisfied when creating a Tailor-Made Combination:

- the Tailor-Made Combination is one of the strategy combinations prescribed by the Exchange;

- the number of option series ("legs") comprising the strategy is within the range prescribed by the Exchange;

- the ratio between these legs is within the range prescribed by the Exchange;

- the contract sizes of these legs must be identical;

- the Tailor-Made Combination is not at that time prescribed as a standard combination; and

- an active Order is submitted at the same time as the creation of the Tailor-Made Combination.

Tailor-Made Combinations created on a Business Day will not be carried forward to the next Business Day.

The executed price of a trade in a Tailor-Made Combination may not necessarily correspond with the prevailing market prices of the Options Contracts comprising the Tailor-Made Combination. The

matched trade in the Tailor-Made Combination will be recorded in HKATS as separate trades in the individual market series.

The Exchange may from time to time prescribe a maximum number of Tailor-Made Combinations that can be listed on HKATS on a Business Day and a throughput rate for each HKATS connection to create Tailor-Made Combinations to protect the integrity of HKATS and to ensure the proper operation of the Markets.

The Exchange may at any time at its sole discretion limit the number of Tailor-Made Combinations an Options Trading Exchange Participant may create on a Business Day by notice to the Options Trading Exchange Participant.

The Exchange reserves the right to delete any Tailor-Made Combination listed on HKATS and cancel any Order for that Tailor-Made Combination at any time if:

(i)   the Tailor-Made Combination does not satisfy the criteria as prescribed in 3.9A;

(ii)   there is no active Order for the Tailor-Made Combination;

(iii)   the total number of Tailor-Made Combinations listed on HKATS exceeds the maximum number prescribed and notified to Options Trading Exchange Participants by the Exchange from time to time;

(iv)   the Tailor-Made Combination is created by an Options Trading Exchange Participant which has exceeded the limit imposed on it under 3.9A; or

(v)   the Exchange determines that the Tailor-Made Combination is inappropriate.

Any trade in a Tailor-Made Combination that is not created in accordance with the criteria as prescribed in 3.9A will not be considered as a valid trade by the Exchange and, notwithstanding any provisions of the *Options Trading Rules* or the *Clearing Rules*, will not be registered or cleared by SEOCH. In the event that an Options Trading Exchange Participant has been notified by the Exchange that a Tailor-Made Combination trade is invalid on the Business Day during which the Tailor-Made Combination trade is executed, the Exchange in conjunction with SEOCH will, without being required to give further notice to the Options Trading Exchange Participant, delete the invalid Tailor-Made Combination trade from the Options System as if the Tailor-Made Combination trade had never been executed. No action shall lie against and no liability of whatsoever nature and howsoever arising, whether in contract, tort or otherwise, shall be incurred by the Exchange or SEOCH directly or indirectly in connection with the deletion of any invalid Tailor-Made Combination trade.

3.10   Order Allocation

An Options Trading Exchange Participant must specify the account to which an order is to be allocated at the time the order is entered into HKATS. A Client Account is designated "A1" and House Accounts are designated "P1" and "M1" by HKATS.

Where an Options Trading Exchange Participant holds a Market Maker permit in any one or more option classes, all orders entered by it with an invalid account will, upon matched, be allocated to its House Account which is designated as "M1" by HKATS. For an Options Trading Exchange Participant which does not hold any Market Maker permit, all such orders with an invalid account will, upon matched, be allocated to its Client Account. Options Trading Exchange Participants can however request to change the default account for holding such trades.

3.10A Order Amendment and Cancellation

An order in a stock options contract entered into the Central Orderbook on behalf of a client or an Options Exchange Participant and designated a particular order number may be amended or cancelled provided that the amendment or cancellation is made in compliance with the instructions of that client or Options Exchange Participant, as the case may be, in respect of that particular order.

Options Trading Exchange Participants may amend, cancel or inactivate orders resident in the Central Orderbook ("Valid Orders") only during trading hours and the pre-trading period of 30 minutes before the opening of each trading session.

A Valid Order that is amended in connection with a reduction in size, a change in the duration of validity, or modification of optional "free" text information shall not affect the time priority of the original Valid Order.

A Valid Order that is amended in connection with price or an increase in size will result in the loss of time priority of the original Valid Order if the amendment is made during trading hours. These amendments are not allowed to be made during the 30-minute pre-trading period.

In emergency situations where an Options Trading Exchange Participant loses connection to HKATS and wishes to delete any of its orders in the order book, it can request the Exchange to delete such orders on its behalf, subject to a charge (See Appendix A).

3.11 Trade and Integrated Clearing Process

Unless otherwise specified in these procedures, the *Clearing Rules* or the *Operational Clearing Procedures*, after a trade is validly created and successfully transmitted to DCASS, it is immediately registered with DCASS.

The *Operational Clearing Procedures* set out the details of how the clearing functions work.

3.12 Message Broadcast

The Exchange can send emergency and other short messages to Options Trading Exchange Participants via the Market Messages Window of HKATS. Please see 3.13A for more information about the Market Messages Window.

3.13 [Repealed]

3.13A Market Messages Window of HKATS

The Exchange will also release messages to Options Trading Exchange Participants via the Market Messages Window of HKATS. Messages posted on the Market Messages Window may relate to other products traded on HKATS. Options Trading Exchange Participants should read each message carefully to see whether or not it relates to stock options.

Since the Exchange will make use of this window to announce important notices and information to Options Trading Exchange Participants, Options Trading Exchange Participants should keep this window open at all times.

3.14 [Repealed]

3.15 Block Trades

Options Trading Exchange Participants may execute orders as a Block Trade provided that they are executed in the prescribed manner and the criteria laid down in the Third Schedule to the *Options*

Trading Rules, as may from time to time be revised by the Chief Executive thereunder, are satisfied. Any Block Trade which is not executed in the prescribed manner or does not satisfy any prescribed criteria will not be considered as a valid trade by the Exchange and will not be registered or cleared by SEOCH.

Chapter 4：Market Making

4.1 Market Maker Permit

An Options Trading Exchange Participant is a Market Maker for a particular option class (with a particular expiry if applicable) if it holds an effective Market Maker Permit for that class (with the particular expiry if applicable).

A Regular Market Maker Permit will have an effective date and will generally be granted for a period of one year, unless otherwise agreed. A Primary Market Maker Permit will have an effective date and will be for a duration as set out in relevant appointment letter which may vary from one Primary Market Maker to another.

An Options Trading Exchange Participant can simultaneously hold more than one Market Maker Permit for different classes.

A Market Maker Permit is conferred on an Options Trading Exchange Participant. The Options Trading Exchange Participant having the Permit shall be responsible for assigning qualified traders to assume the responsibilities of making the market in compliance with the terms and conditions of the Permit.

4.2 Application Procedures for Market Maker Permit

An Options Trading Exchange Participant that wants to obtain a Regular Market Maker Permit should submit Form OP004 to the Exchange.

An Options Trading Exchange Participant that wants to obtain a Primary Market Maker Permit should submit Form OP004 and go through a bidding process as administered by the Exchange. The Exchange shall send out invitations to Options Trading Exchange Participants by means of a circular which shall set out details of the bidding process. The bidding process shall be closed and a limited number of Primary Market Maker Permits shall be allocated based on the obligation level commitment of the bidders and any other criteria that the Exchange thinks appropriate. The Exchange shall have sole and absolute discretion in deciding on Primary Market Maker appointments.

4.3 Renewal of Regular Market Maker Permit

Unless a Regular Market Maker notifies the Exchange in writing at least 30 days before the expiry day of the Regular Market Maker Permit that it is not to be renewed, the Regular Market Maker Permit will be automatically renewed on terms identical to those of the current Regular Market Maker Permit. The only difference is that the commencement date will be the day immediately following the expiry date of the current Regular Market Maker Permit, unless otherwise agreed upon.

This automatic renewal mechanism will be repeatedly applied on any renewed Regular Market Maker Permit, unless otherwise agreed..

For the avoidance of doubt, Primary Market Maker Permits are awarded for a limited period and shall not be automatically renewed. Options Trading Exchange Participants that wish to apply for new Primary Market Maker Permits shall follow the application procedures set out in 4.2.

4.4 Surrender of Market Maker Permit

A Regular Market Maker can surrender its Regular Market Maker Permit in writing by submitting Form OP004 to the Exchange at least 30 days before the expiry date of the permit. A Regular Market Maker should continue to fulfil its quoting obligations until the Exchange has confirmed with it the effective date of the surrender.

Circumstances under which a Primary Market Maker can terminate its Primary Market Maker Permit are set out in the relevant appointment letter which may vary from one Primary Market Maker to another.

4.5 Revocation of Market Maker Permit

The Exchange can revoke a Regular Market Maker Permit at any time if the Regular Market Maker does not conform with its obligations, with the forfeiture of any accrued fee discounts.

Circumstances under which the Exchange can terminate or suspend a Primary Market Maker Permit are set out in the relevant appointment letter which may vary from one Primary Market Maker to another

4.6 Market Makers' Quotes

The quotes, other than zero-bid quotes, supplied by Market Makers are a pair of bid and ask price with quantities for a given option series, subject to the constraints as laid down in the Second Schedule of the *Options Trading Rules*. Once submitted, a quote behaves just like a pair of Rest-of-Day limit orders.

Quotes in the order book are not distinguished from limit orders.

4.7 Quote Requests

A trader can initiate a request in HKATS for Market Makers to quote for a particular series by using a Quote Request function, as described in the *HKATS User's Guide*. Options Trading Exchange Participants shall not abuse the Quote Request function. This would include the issuing of large quantities of quote requests for series which it has no intention of trading or for series which plainly have no value at all (normally far out-of-the-money series close to expiry). The Exchange may impose a fee of HK$50.00 in respect of each and every quote request which in the opinion and absolute discretion of the Exchange is considered to be an abuse of the Quote Request function.

A quote request can be seen by all Options Trading Exchange Participants via the Market Messages Window of HKATS.

4.8 [Repealed]

4.9 [Repealed]

4.10 Surveillance of Market Makers

The Exchange will closely monitor Market Maker performance in accordance with the *Options Trading Rules*.

4.11 Market Maker Accounts

A Market Maker shall be given an account denoted as "M1" in its House Account in HKATS to record trades resulting from Market Making activities, which are subject to a discount in trading tariffs.

Such trades recorded in the Market Maker's "M1" account in HKATS will be transmitted to its corresponding Market Maker Account in DCASS. Positions in a Market Maker Account in DCASS are recorded on a net basis after the System Input Cutoff Time, meaning long and short positions on the same option series will be consolidated to become a net long or short position. Please refer to the *Operational Clearing Procedures* for details.

4.11A   Separate Accounts for Designated Traders

A designated trader means a trader designated by a Market Maker to perform the market making obligations in the name and on behalf of that Market Maker in option class(es) (with particular expiry or expiries if applicable) specified by that Market Maker. In addition to the market making activities, trades in other option class(es) (with particular expiry or expiries if applicable) may be conducted by a designated trader for his own account.

In addition to the Market Maker Account mentioned above, a Market Maker may apply to SEOCH for using the enhanced accounting services of opening and keeping a separate Market Maker Account in DCASS for each of its designated traders. For the purpose of the calculation of margin requirement, positions recorded in each Market Maker Account for a designated trader in DCASS will be treated separately as a portfolio on its own and totally independent of the house positions of that Market Maker recorded in its other accounts.

A Market Maker that wishes to avail itself of the enhanced accounting services of SEOCH may apply to SEOCH in accordance with the *Operational Clearing Procedures* paragraph 1.7.

Upon the opening of a Market Maker Account for a designated trader in DCASS, all provisions of the Second Schedule of the *Options Trading Rules* shall apply to the named designated trader individually as if he was the Market Maker itself. The Market Maker shall be fully responsible for the conduct and performance of its designated traders. In particular, the Market Maker shall be liable for the discount claw-back in respect of each of its designated traders who has failed to meet the performance target as laid down in paragraph 7 of the Second Schedule of the *Options Trading Rules*.

4.12   Obligations of a Market Maker

The *Options Trading Rules* stipulate the obligations of a Market Maker. Further obligations of a Primary Market Maker are set out in the relevant appointment letter which may vary from one Primary Market Maker to another.

4.13   Obligations During "Unusual Market Conditions"

During Unusual Market Conditions, as defined in the *Options Trading Rules*, Market Makers have no obligation to quote.

For a persistent Unusual Market Condition, the Exchange may issue a broadcast message in the Market Messages Window of HKATS to the following effect:

"xxx UNUSUAL MARKET CONDITION : NO QUOTE OBLIGATION"

where xxx is the class code, to advise all Options Trading Exchange Participants that an Unusual Market Condition has developed. When the Unusual Market Condition is over, the Exchange may broadcast another message to the following effect:

"xxx UNUSUAL MARKET CONDITION OFF : QUOTES RESUME".

However, for a brief Unusual Market Condition, the Exchange may not be able to announce such messages. In any case, the Exchange will after system closure release Market Makers from the obligations during Unusual Market Conditions recorded for the day, and adjust the Market Maker performance statistics accordingly.

Important

The Exchange has full discretion in determining whether or not an Unusual Market Condition exists.

Chapter 5︰ Client Services Support

5.1 House Accounts

Each Options Trading Exchange Participant will be assigned a house account in HKATS, specifically designated as "P1", to hold all proprietary trades.

If an Options Trading Exchange Participant is a Market Maker, it will be assigned a Market Maker account, designated as "M1" in its House Account in HKATS (See Chapter 4).

House positions are maintained on a net basis (i.e. either the position is net long or net short exclusively) in DCASS. For margin calculation purposes, positions in a Market Maker's Market Maker Account in DCASS (other than that of a designated trader or an NCP) will be propagated to its House Account in DCASS and margined together by SEOCH on a net basis. The *Operational Clearing Procedures* set out the details.

5.2 Client Account

Each Options Trading Exchange Participant with client business will be assigned a Client Account in HKATS, specifically designated as "A1", to hold all client trades.

Positions arising from such Client Account will be maintained in DCASS in the Options Trading Exchange Participant or its designated GCP's Omnibus Client Account, Individual Client Accounts or Client Offset Claim Accounts.

Where the Options Trading Exchange Participant trades options for an Options Broker Exchange Participant, it is required to open with SEOCH two accounts in DCASS for that Options Broker Exchange Participant -- one Individual Client Account for the recording of positions from trades executed by it for the Options Broker Exchange Participant, and one Omnibus Client Account for the recording on an omnibus basis of positions from trades executed for clients of that Options Broker Exchange Participant. The Options Trading Exchange Participant may also open a Client Offset Claim Account for the Options Broker Exchange Participant in DCASS for the recording of positions from trades executed for clients of the Options Broker Exchange Participant which are eligible for margin offset.

The Options Broker Exchange Participant has to inform the Options Trading Exchange Participant whether the order placed is for its client account or for its proprietary account.

Positions in the Omnibus Client Account in DCASS are maintained and margined on a gross basis. Positions in an Individual Client Account will be maintained and margined on a net basis if such positions belong to one client only. Positions in a Client Offset Claim Account will be maintained on a gross basis but margined on a net basis. See the *Operational Clearing Procedures* for details.

5.3 Give-Up and Take-Up

A SEOCH Participant can upon request of its client transfer a trade to another SEOCH Participant, provided that the recipient SEOCH Participant is willing to accept the trade and that it has entered into a Clearing Agreement, an Options Client Agreement or an Options Broking Agreement with the client who has requested for the transfer. The transfer is performed with commands specifically provided by DCASS for this purpose, and is referred to as a give-up (and its acceptance is known as a take-up). The *Operational Clearing Procedures* describe the details.

5.4 Margining

<u>Margin Call</u>

A margin call occurs when the margin requirement for a SEOCH Participant or a client exceeds the collateral value the SEOCH Participant or the client has currently deposited for margin purposes. The margin amount to be called will be the difference between the current margin requirement and the current collateral value deposited.

SEOCH determines the margin requirement for each SEOCH Participant by using the Portfolio Risk Margining System ("PRiME"). A SEOCH Participant must pay the margin in accordance with the *Operational Clearing Procedures*. A non-clearing Options Trading Exchange Participant (NCP) will not be margined directly by SEOCH. The General Clearing Participant (GCP) clearing for an NCP will collect margin from the NCP.

Client Margin refers to the margin due from a client to an Options Exchange Participant, or from an NCP to its GCP.

Client Margin is calculated by the Options Exchange Participant. SEOCH does not calculate individual client margin for an Options Exchange Participant.

The minimum client margin that must be collected is the amount that is stated in Appendix H.

Options Exchange Participants can have the PRiME calculation algorithm as part of their back office systems to simulate exactly the calculation of SEOCH.

5.5 Notification of Client Margin

Options Trading Rules require that an Options Exchange Participant notify each of its clients as soon as possible of the margin amount due in respect of outstanding positions.

The notification can take the form of a telephone call (preferably taped), or sent by fax to a pre-arranged number, or by hand-delivery, or as stated in the client agreement.

Therefore, Options Exchange Participants should ensure that they know where their clients can be reached. Alternatively, adequate collateral should be posted by the client in advance if it is believed there may be difficulties contacting the client for any prolonged period.

If a client cannot be notified in any of the above ways of his margin requirements and his collateral kept with the Options Exchange Participant is inadequate to cover the margin requirements, the Options Exchange Participant should assume that the client is about to default.

If a client's collateral is sufficient to cover the margin, there is no obligation on the Options Exchange Participant to notify the client of his margin requirements on an urgent basis but the Options Exchange Participant is still required to notify the client of the new margin requirement.

5.6 Collection of Client Margin

Options Trading Rules stipulate when client margin should be collected.

If sufficient collateral is not collected when due, the Options Trading Exchange Participant must notify the Exchange immediately via such form as may be prescribed by the Exchange from time to time, and may take any steps as defined in Options Trading Rule 431 in respect of the defaulting client position.

The PRiME calculation algorithm is there to protect the Options Exchange Participant from suffering a final loss in liquidating a defaulting client position. If in doubt, an Options Exchange Participant is advised to collect sufficient margin up front before the order is executed.

5.7   Entry and Adjustment of Exercise Requests

A client can instruct his Options Exchange Participant to exercise a long position. The instruction can take the form of telephone, fax, letter or whatever means are laid down in the Client Agreement. Before the end of the Post-Trading Period subject also to the Client Agreement, a client can also give instructions to his Options Exchange Participant to reverse or modify an exercise instruction given earlier the same day.

An Options Broker Exchange Participant or an Options Trading Exchange Participant that is an NCP may, upon request of its clients, request its Options Trading Exchange Participant or designated GCP, as the case may be, to input exercise requests for its clients. Normally, an Options Trading Exchange Participant shall input, or, if it is an NCP, shall request its designated GCP to input, its exercise requests through DCASS in respect of each and every contract it wishes to exercise. DCASS will not automatically generate exercise requests in respect of in-the-money contracts on behalf of SEOCH Participants except on an expiry day.

On an expiry day, DCASS will automatically generate exercise requests in respect of all open long positions in expiring contracts which meet the exercise criterion prescribed (i) by the relevant SEOCH Participant; or (ii) if no such exercise criterion is prescribed by the SEOCH Participant, by SEOCH. SEOCH Participants can elect to deny such automatically generated exercise requests via DCASS at any time prior to the System Input Cutoff Time on the expiry day. For the purposes of the *Options Clearing Rules* and the *Operational Clearing Procedures*, exercise requests automatically generated by DCASS, if not so denied, are deemed as exercise requests input by SEOCH Participants and shall be binding and irrevocable. Please refer to the *Operational Clearing Procedures* for more details.

Options Exchange Participants should ensure their clients are aware that there is a possibility that their open long positions could be automatically exercised unless elected otherwise. Options Exchange Participants and their clients should note that on an expiry day, all open long positions expiring on that expiry day will expire worthless unless these positions have been exercised, either by exercise requests automatically generated by DCASS or via manual input of exercise requests by the Options Trading Exchange Participant or, if it is an NCP, by its designated GCP. Therefore an Options Exchange Participant shall ensure that it obtains timely instructions from its clients in respect of exercise of Options Contracts.

Instructions relating to exercise, exercise adjustment or the denying of an automatic exercise instruction on client or house positions must be entered before the System Input Cutoff Time on the expiry day in order to be processed.

NCPs will not have access to screens for entry of exercise requests and adjustments and must therefore instruct their designated GCPs to enter exercised requests and adjustments on their behalf. The *Operational Clearing Procedures* set out the details.

If an out-of-the-money client position is to be exercised, the Exchange advises the SEOCH Participant to obtain written exercise instructions from the client before input.

5.8   Settlement of Client Premium

Settlement of premium between a SEOCH Participant and SEOCH is described in the *Operational Clearing Procedures*.

DCASS calculates the premium payable and receivable as soon as a trade is done in HKATS and transmitted to DCASS. DCASS does not carry premium details at the individual client level and the Options Trading Exchange Participant must calculate such amounts in their back office system.

The *Options Trading Rules* requires that client premium be collected in cash promptly. The following are considered by the Exchange as cash settlement of client premium:

- cash receipt
- bank account transfer
- a cheque drawn on a bank, not post-dated

If the client has a net premium due from his Options Exchange Participant, the Options Exchange Participant should pay the client on the same day promptly, unless that premium is used to set off other liabilities that the same client has with the Options Exchange Participant.

5.9   Position Limit and Reporting Level

Subject to *Options Trading Rule 436A*, limits are imposed on the open positions any single party (Options Exchange Participant or client) can carry at any one time. Reporting levels, in excess of which a party (Options Exchange Participant or client) is required to report to the Exchange, are also prescribed. Without prejudice to the powers of the Exchange under *Options Trading Rules 435 and 439*, the position limits[Note 1] currently applicable are classified into 5 levels, namely 250,000, 200,000, 150,000, 100,000 and 50,000 open contracts per option class in any one market direction for all expiries combined. The applicable level of position limit is determined by reference to the methodology set out in 5.9A below. Reporting level[Note 2] for all option classes is 1,000 open contracts per option class per expiry.

Notes:
1.   *Position Limit* – this represents the maximum number of open contracts a single party can hold for any option class in any one market direction for all expiries combined (N.B. long calls/short puts combined are in one direction and short calls/long puts combined are in another direction).

Example A, if the limit is 50,000 and an Options Exchange Participant is long a total of 47,000 calls and short 3,000 puts in all the expiry months (and expiry weeks if applicable) of the same option class, it has reached the limit, but if it is long 47,000 calls and long 3,000 puts, it has not.

Example B, if the limit is 150,000 and an Options Exchange Participant is long a total of 135,000 calls and 15,000 puts and short a total of 10,000 puts and 132,000 calls in all the expiry months (and expiry weeks if applicable) of the same option class, it has not reached the limit, since the positions in one market direction will be 145,000 contracts (long 135,000 calls and short 10,000 puts) and 147,000 contracts (short 132,000 calls and long 15,000 puts).

A Market Maker or an Options Exchange Participant which is, or is holding positions for, a person specified under section 4A of the Securities and Futures (Contracts Limits and Reportable Positions) Rules may hold positions in excess of the limit prescribed by the Commission under the Securities and Futures (Contracts Limits and Reportable Positions) Rules provided that it is authorized to do so by the Exchange under 5.12 below.

2.   *Reporting level* – this is the number of open contracts in any one single expiry month (or week if applicable) of an option class, including all types, strike prices, long and short positions in excess of which a position shall be reported to the Exchange. Where positions exceeding this level are held for a client, the Options Exchange Participant must notify the Exchange of the client's identity. Positions arising from market making activities that are held by Market Makers in their Market Maker Accounts are treated as having been reported to the Exchange.

5.9A   Methodology for Setting the Position Limit

The position limit is set based on the contract-equivalent number and shall be calculated by reference to the market capitalization and liquidity of the underlying stock relating to that particular stock options contract.

Contract-equivalent number (X)	Position limit
250,000 contracts ≤ X	250,000 contracts
200,000 ≤ X < 250,000 contracts	200,000 contracts
150,000 ≤ X < 200,000 contracts	150,000 contracts
100,000 ≤ X < 150,000 contracts	100,000 contracts
X < 100,000 contracts	50,000 contracts

X = 5% of the outstanding shares divided by the contract size subject to the provisions set out below:

(i)   if 5% of the outstanding shares is less than 25% of the stock's turnover for the previous six months (the "25% Threshold"), X shall be deemed to be equal to the 25% Threshold divided by the contract size subject to (iii) below;

(ii) if 5% of the outstanding shares is greater than 33% of the stock's turnover for the previous six months (the "33% Threshold"), X shall be deemed to be equal to the 33% Threshold divided by the contract size subject to (iii) below; and

(iii) if X as calculated above is more than the Liquidity Threshold divided by the contract size, it shall be deemed to be equal to the Liquidity Threshold divided by the contract size. "Liquidity Threshold" means 6.7% of the stock's turnover in the previous six months.

The Liquidity Threshold could be revised from time to time as deemed appropriate by the Exchange.

The position limits will be reviewed regularly on an annual basis to adjust for any substantial changes due to market development. The formula above will be applied to all option classes at the end of November each year, and if revisions are required, the updated position limits will be announced in December in the same year, and they will take effect on the first business day of April in the next calendar year.

Following a corporate action which results in a material change in the value of an underlying stock, the Exchange may consider adjusting the contract size of the affected stock option to substantively maintain its notional value. The decision as to whether or not an adjustment will be made to the terms of an options contract and the nature of that adjustment will be announced no later than the tenth trading day after the company announcement of the relevant corporate actions is made.

5.10   Responsibility of Reporting Excess in Reporting Level

1.   If the Options Exchange Participant is aware that a number of its client accounts are held for the same beneficial owner, all open positions of these accounts shall be aggregated.

2.   [Repealed]

3.   Options Exchange Participants shall inform their clients of the reporting requirements and the responsibilities of reporting set out in 5.9 and in the Securities and Futures (Contracts Limits and Reportable Positions) Rules and related guidance notes issued by the Commission.

4.   Where a client's positions are in excess of the reporting level, he may choose to report the positions to the Exchange directly or through an Options Exchange Participant. Where positions are held by a client with more than one Options Exchange Participant and notwithstanding that positions separately held by each of these Options Exchange Participants for the client may not have exceeded the reporting level, the client may instruct any of these Options Exchange

Participants to report positions he holds to the Exchange on his behalf such that the total number of positions reported shall represent the total number of positions held by the client in excess of the reporting level.

5.11 Reporting Excess in Reporting Level

1. [Repealed]

2. [Repealed]

3. Any Options Exchange Participant holding positions in excess of the reporting level for its own account or for any client shall file a written report with the Exchange using such form as may be prescribed by the Exchange from time to time, no later than 12:00 noon of the next business day after the positions are opened or accumulated, and continue to file a report for as long as the Options Exchange Participant holds positions in excess of the reporting level.

Example

The reporting level for CKH is 1,000 contracts. A client buys 1,100 September CKH calls on Day 1. These positions will have to be reported by no later than 12:00 noon of Day 2. However, the client does not need to file a written report on or before Day 2 if he sells 150 September CKH calls on Day 1, thereby reducing his positions to below the reporting level.

So long as the client holds more than 1,000 September CKH calls on Day 2 or succeeding days, he will need to report his positions daily even though his positions remain unchanged.

5.12 Increasing a Position Limit

Subject to *Options Trading Rules 436A and 436B*, an Options Exchange Participant or a client may request the Exchange to increase the position limit imposed by the Exchange or, in the case of a person specified under section 4A of the Securities and Futures (Contracts Limits and Reportable Positions) Rules, to authorize it to hold positions in excess of the limit prescribed by the Commission thereunder (the "Commission's prescribed limit"). Where applicable, an Options Exchange Participant (if it is not a SEOCH Participant) or a client may also submit a request to increase the position limit imposed on behalf of the SEOCH Participant which clears its trades together with its own request. Such requests shall be made in writing to the Exchange. The Options Exchange Participant or its client or the person that made the request may be required to justify the increase of the limit imposed by the Exchange or the holding of positions in excess of the Commission's prescribed limit. The Exchange may at its absolute discretion grant or refuse the request. Approval from the Exchange must be received prior to entering into positions which exceed the position limit imposed by the Exchange or the Commission's prescribed limit. In the event that approval to hold or control excess position limit is granted by the Exchange under s4A of the Securities and Futures (Contracts Limits and Reportable Positions) Rules in respect of any option class, the Options Exchange Participant or client shall appoint only one SEOCH Participant to hold its positions in such option class.

Chapter 6 : [Repealed]

Chapter 7 : Contingency Procedures

7.1   **[Repealed]**

7.1A   **[Repealed]**

7.1B   **System Failure**

The Exchange has installed a parallel set of production and back up computer facilities, either of which can support the operation of HKATS.

In the event of a disaster or other event affecting the production facilities which results in the failure in whole or in part of HKATS and system recovery fails, the Exchange may temporarily suspend trading on HKATS until failover of the system to the backup facilities has been completed and the operation of HKATS can be resumed.   Options Trading Exchange Participants should refer to the HKATS User's Guide for further particulars and procedures regarding system malfunction or failure.

7.1C   **Equipment Failure**

In case of a failure, error or defect in any of the equipment relating to the trading of an Options Trading Exchange Participant on HKATS (including but not limited to network equipment and communication lines), whether installed at the Options Trading Exchange Participant's office premises or any other location, the Options Trading Exchange Participant shall report the incident to the HKATS hotline immediately. Options Trading Exchange Participants are requested to follow the procedures stipulated in the HKATS User's Guide regarding equipment failure.

An Options Trading Exchange Participant experiencing a temporary loss of connectivity to HKATS may also request the Exchange to delete orders from or conduct other processes on HKATS on its behalf ("On-Behalf-Of Processing").   On-Behalf-Of Processing is principally intended for real contingency situations to reduce the financial risk of an Options Trading Exchange Participant when there is an unexpected temporary failure in system access.   It is not intended to be a long-term alternative for the Options Trading Exchange Participant. The Options Trading Exchange Participant is expected to restore its access to HKATS in the shortest time practicable.   On-Behalf-Of Processing is subject to the availability of the resources of the Exchange at the time of an Options Trading Exchange Participant's request.   The Exchange will appraise each request for On-Behalf-Of Processing on a case-by-case basis and shall have the absolute discretion to turn down any request which it deems inappropriate.   The Exchange shall not be liable to any Options Trading Exchange Participant for any On-Behalf-Of Processing conducted on its behalf.

A fee shall be payable by an Options Trading Exchange Participant for any On-Behalf-Of Processing executed by the Exchange on its behalf.

7.2   **[Repealed]**

7.3   **[Repealed]**

7.4   **[Repealed]**

7.5   **[Repealed]**

7.5A   **[Repealed]**

7.6   **[Repealed]**

Chapter 8: Special Events

8.1 Capital Adjustments

Adjustments to the share price are a common phenomenon arising naturally in the market when a company announces a share sub-division or a share consolidation or makes changes to its capital structure by way of rights issues, bonus issues, cash dividend payments etc. This adjustment occurs naturally in the market place as soon as the share trades ex-entitlement or the corporate action takes effect.

The value of an option portfolio on those shares will be changed unless an appropriate adjustment is made to the terms of the option contracts. Adjustment to the exercise prices and the number of shares of option contracts will keep the option contract value unchanged before and after the ex-entitlement day or the corporate action effective day.

The Exchange, in consultation with SEOCH and where applicable the Commission, is responsible for determining the adjustments to be made to the terms of the options contracts which are currently traded. The required changes will be executed in DCASS. The Exchange and SEOCH generally refer to the processes surrounding this as "capital adjustments".

8.2 Circumstances Which May Give Rise to Capital Adjustment

The procedures below consider two common types of events in which the Exchange will make standard adjustments to the terms of the options contract. They are **entitlement** events and **corporate action** events.

Special events like offering of shares in another company and change of domicile are not common entitlement or corporate events and standard adjustments may not be applicable. Under such circumstances, the Exchange, in consultation with SEOCH and the Commission, will decide on a case by case basis whether an adjustment is needed, and if so, the adjustment method.

8.2.1 Entitlement Events

Entitlement events generally take the form of a dividend payment, cash bonus, rights issue, bonus issue of shares, bonus issue of warrants or spin-off (with entitlement).

Generally, the Exchange will not perform any capital adjustment on option positions for an ordinary cash dividend (whether or not it is offered with a scrip alternative). For any other forms of cash distribution described by a company, such as a cash bonus, special dividend or extraordinary dividend, the Exchange will not perform any capital adjustment on option positions unless the value of the payment is 2 per cent or more of the share's closing price on the day of the announcement.

Under exceptional circumstances, the Exchange reserves its right to consider making capital adjustments on a case by case basis as it deems appropriate, after consultation with SEOCH and the Commission. For example, an exceptional circumstance may include a dividend payment described as a special dividend but which in essence is a regular payment arising from the normal course of business or an exceptionally large ordinary cash dividend payment involving a return of capital.

For rights issues, bonus issue of shares, bonus issue of warrants and spin-off, the Exchange will perform a capital adjustment irrespective of its size in relation to the underlying market price.

In the case of a combined entitlement event, for example, a bonus issue plus a simultaneous special dividend, the Exchange will conduct a combined capital adjustment only if the special dividend in isolation is 2 per cent or more of the share's closing price on the day of the announcement.

8.2.2 Corporate Action Events

Corporate action events may take the form of share sub-division, share consolidation, merger and privatisation.

The Exchange will **always** perform a capital adjustment irrespective of the corporate action's effect on the underlying market price.

8.3 Standard Adjustment Methodology

For each capital adjustment, there will be an adjustment ratio. In each case, the old exercise price of the option contract will be **multiplied** by this adjustment ratio to obtain the **adjusted exercise price**. The corresponding **adjusted contract size** is obtained by **dividing** the old contract value by the adjusted exercise price, unless otherwise specified. The old contract value is simply the product of the old exercise price and the old contract size.

The following table describes the rules for all the standard capital adjustment events.

Figure 1: Standard Terms of Capital Adjustments		
Event	**Adjusted Exercise Price (AEP) =**	**Adjusted Contract Size (ACS) =**
Rights Issue 'A' new shares for 'B' old shares at C amount per share; where it closes at closing price S on the last trading day prior to ex-rights day.	Old Exercise Price (OEP) times[1]: $$\dfrac{B + (A*C/S)}{A+B}$$	$$\dfrac{OEP * \text{Old Contract Size}}{AEP}$$
Bonus Issue of Shares 'A' new shares for 'B' old shares.	Old Exercise Price (OEP) times: $$\dfrac{B}{A+B}$$	$$\dfrac{OEP * \text{Old Contract Size}}{AEP}$$
Bonus Issue of Warrants W is the theoretical value of bonus warrant entitlement per share one day prior to ex-date [2]. OD is ordinary cash dividend. The share closes at closing price S on the last trading day prior to the ex-date.	Old Exercise Price (OEP) times: $$\dfrac{S - OD - W}{S - OD}$$ Note: OD shall be deducted from S only if OD and the bonus warrants have the same ex-date.	$$\dfrac{OEP * \text{Old Contract Size}}{AEP}$$
Share Consolidation X shares consolidate into Y shares.	Old Exercise Price (OEP) times: $$\dfrac{X}{Y}$$	$$\dfrac{OEP * \text{Old Contract Size}}{AEP}$$
Share Sub-division X shares sub-divided into Y shares.	Old Exercise Price (OEP) times: $$\dfrac{X}{Y}$$	$$\dfrac{OEP * \text{Old Contract Size}}{AEP}$$

Merger (Shares+Cash) Y shares in new company and Z amount of cash for every X shares in old company; where it closes at closing price S on its last trading day.	Old Exercise Price (OEP) times: $$\dfrac{X - Z/S}{Y}$$	$$\dfrac{OEP * \text{Old Contract Size}}{AEP}$$
Merger (Shares Only) Y shares in new company for X shares in old company.	Old Exercise Price (OEP) times: $$\dfrac{X}{Y}$$	$$\dfrac{OEP * \text{Old Contract Size}}{AEP}$$
Privatisation / **Merger (Cash Only)**	• The Exchange will announce a Last Day of Dealing ("LDD") on the contracts, which is subject to conditions of the offer being satisfied. • Contracts will be cash-settled based on the share offer price/cancellation price immediately after the LDD if the offer has become unconditional. • No physical delivery of the underlying shares will be involved.	
Spin-off[3] **(with Entitlement)** E is the value of the entitlement of the spin-off calculated using VWAP[4] on its first trading day. S is the value of the share calculated using VWAP[4] on E's first trading day.	Old Exercise Price (OEP) times: $$\dfrac{S}{S + E}$$	If $S/S+E$ is equal to or above the Exchange's prescribed limit[5] $$\dfrac{OEP * \text{Old Contract Size}}{AEP}$$ If $S/S+E$ is below the Exchange's prescribed limit[5] $$\dfrac{\text{Old Contract Size}}{\text{the Exchange's prescribed limit}[5]}$$
Other forms of Cash Distribution (CD), such as a special dividend, cash bonus or extraordinary dividend No capital adjustment unless CD is 2% or more of the share's closing price on the dividend announcement day. OD is ordinary cash dividend.	Old Exercise Price (OEP) times: $$\dfrac{S - OD - CD}{S - OD}$$ Note: OD shall be deducted from S only if OD and CD have the same ex-date.	$$\dfrac{OEP * \text{Old Contract Size}}{AEP}$$

The share closes at closing price S on the last trading day prior to the ex-date.		

The shaded area is the "adjustment ratio"

[1] Capital adjustment will only be made if the adjustment ratio is smaller than 1.

[2] The theoretical value is determined by SEOCH based on such pricing parameters from such market makers as it may consider appropriate.

[3] No capital adjustment will be made in respect of any preferential offering arising from a spin-off as entitlement will not be extended to all shareholders. Capital adjustments in respect of spin-offs which do not involve the listing of the relevant company's shares will be considered on a case-by-case basis.

[4] The Volume Weighted Average Price (VWAP) is determined by calculating the summation of the value of each transaction (i.e. price multiplied by number of shares traded) and then dividing it by the total shares traded for the day.

[5] The Exchange's prescribed limit shall be such adjustment ratio floor value as may be prescribed by the Exchange from time to time.

In cases where a cash or scrip alternative is offered, the capital adjustments will be based on the cash version of the payout. If the cash payment is in a currency other than that in which the underlying securities are traded, it will be converted to that currency at the conversion rate determined by SEOCH.

8.4 Capital Adjustment Announcement

As soon as the company makes an announcement which may require a capital adjustment, the Exchange, in consultation with SEOCH and where applicable the Commission, will determine what effect it will have on the options contracts. The decision as to whether or not an adjustment will be made to the terms of all existing options contracts, and the nature of that adjustment, will be announced no later than the tenth trading day after the company announcement is made.

For details regarding the capital adjustment process conducted by SEOCH in DCASS, please refer to the *Operational Clearing Procedures*.

8.5 Effective Day of Capital Adjustment

The adjustment will take effect on the ex-date of the entitlement events or on the effective date of the corporate action events. In case of typhoon or rainstorm, the adjustment timing will follow the guidelines in Practice Note 8 of the Rules Governing the Listing of Securities, where applicable.

8.6 Changes to Capital Adjustment Announcement by Company

If there is any change to the corporate action events announced by the company after the underlying stock has traded ex-all entitlements, the Exchange, in consultation with SEOCH and where applicable the Commission, will determine on a case by case basis any necessary further action.

APPENDIX A: FEES & COSTS PAYABLE TO THE EXCHANGE

A1   [Repealed]

A2   **Training Fees**

Training Fees	Amount
Course fee (Part I) - Exchange Participant	HK$300
Course fee (Part II) - Exchange Participant	HK$300
Course fee (Part I) - non-Exchange Participant	HK$300
Course fee (Part II) - non-Exchange Participant	HK$300

A3   **Trading Expenses**
For HK$-denominated option classes

Fee Type	Charge Scale
Trading Tariff	
a. Contract Premium > Tick Size*	
(I) For Tier 1 Stocks	
Non-Market Maker	HK$3 per contract side
Regular Market Maker	
1. which has responded to 70 percent or more of quote requests in a month	HK$1.50 per contract side
2. which has responded to less than 70 percent of quote requests in a month	HK$3 per contract side
3. which has provided continuous quotes on the required number of option series for 70 percent or more of the trading hours in a month	HK$1.50 per contract side
4. which has provided continuous quotes on the required number of option series for less than 70 percent of the trading hours in a month	HK$3 per contract side
Primary Market Maker	
1. which has fulfilled all of its relevant Primary Market Maker Obligations with respect to both providing continuous quotes and responding to quote requests for that month as set out in its relevant appointment letter	HK$1.20 per contract side or such lesser amount as the Exchange may from time to time agree with the relevant Exchange Participant
2. which has not fulfilled its relevant Primary Market Maker Obligations for that month as set out in its relevant appointment letter but has at least attained a performance level of a Regular Market Maker with respect to either providing continuous quotes or responding to quote requests for that month	HK$1.50 per contract side or such lesser amount as the Exchange may from time to time agree with the relevant Exchange Participant
3. which has neither fulfilled its relevant Primary Market Maker Obligations for that month as set out in its relevant appointment letter nor attained a performance level of a Regular Market Maker	HK$3 per contract side

(II) For Tier 2 Stocks	
Non-Market Maker	HK$1 per contract side
Regular Market Maker	
1. which has responded to 70 percent or more of quote requests in a month	HK$0.80 per contract side
2. which has responded to less than 70 percent of quote requests in a month	HK$1 per contract side
3. which has provided continuous quotes on the required number of options series for 70 percent or more of the trading hours in a month	HK$0.80 per contract side
4. which has provided continuous quotes on the required number of option series for less than 70 percent of the trading hours in a month	HK$1 per contract side
Primary Market Maker	
1. which has fulfilled all of its relevant Primary Market Maker Obligations with respect to both providing continuous quotes and responding to quote requests for that month as set out in its relevant appointment letter	HK$0.60 per contract side or such lesser amount as the Exchange may from time to time agree with the relevant Exchange Participant
2. which has not fulfilled its relevant Primary Market Maker Obligations for that month as set out in its relevant appointment letter but has at least attained a performance level of a Regular Market Maker with respect to either providing continuous quotes or responding to quote requests for that month	HK$0.80 per contract side or such lesser amount as the Exchange may from time to time agree with the relevant Exchange Participant
3. which has neither fulfilled its relevant Primary Market Maker Obligations for that month as set out in its relevant appointment letter nor attained a performance level of a Regular Market Maker	HK$1 per contract side
(III) For Tier 3 Stocks	
Non-Market Maker	HK$0.50 per contract side
Regular Market Maker	
1. which has responded to 70 percent or more of quote requests in a month	HK$0.40 per contract side
2. which has responded to less than 70 percent of quote requests in a month	HK$0.50 per contract side
3. which has provided continuous quotes on the required number of options series for 70 percent or more of the trading hours in a month	HK$0.40 per contract side
4. which has provided continuous quotes on the required number of option series for less than 70 percent of the trading hours in a month	HK$0.50 per contract side
Primary Market Maker	
1. which has fulfilled all of its relevant Primary Market Maker Obligations with respect to both providing continuous quotes and responding to quote requests for that month as set out in its relevant appointment letter	HK$0.30 per contract side or such lesser amount as the Exchange may from time to time agree with the relevant

	Exchange Participant
2. which has not fulfilled its relevant Primary Market Maker Obligations for that month as set out in its relevant appointment letter but has at least attained a performance level of a Regular Market Maker with respect to either providing continuous quotes or responding to quote requests for that month	HK$0.40 per contract side or such lesser amount as the Exchange may from time to time agree with the relevant Exchange Participant
3. which has neither fulfilled its relevant Primary Market Maker Obligations for that month as set out in its relevant appointment letter nor attained a performance level of a Regular Market Maker	HK$0.50 per contract side
b. Contract Premium = Tick Size (Cabinet Trade)*	Nil

* Trading Tariff for Options Contracts with Contract Premium equal to or less than HK$0.01 will be waived.

For RMB-denominated option classes

Fee Type	Charge Scale
Trading Tariff	
a. Contract Premium > Tick Size*	
(I) For Tier 1 Stocks	
Non-Market Maker	RMB2.50 per contract side
Regular Market Maker	
1. which has responded to 70 percent or more of quote requests in a month	RMB1.30 per contract side
2. which has responded to less than 70 percent of quote requests in a month	RMB2.50 per contract side
3. which has provided continuous quotes on the required number of option series for 70 percent or more of the trading hours in a month	RMB1.30 per contract side
4. which has provided continuous quotes on the required number of option series for less than 70 percent of the trading hours in a month	RMB2.50 per contract side
Primary Market Maker	
1. which has fulfilled all of its relevant Primary Market Maker Obligations with respect to both providing continuous quotes and responding to quote requests for that month as set out in its relevant appointment letter	RMB1.00 per contract side or such lesser amount as the Exchange may from time to time agree with the relevant Exchange Participant
2. which has not fulfilled its relevant Primary Market Maker Obligations for that month as set out in its relevant appointment letter but has at least attained a performance level of a Regular Market Maker with respect to either providing continuous quotes or responding to quote requests for that month	RMB1.30 per contract side or such lesser amount as the Exchange may from time to time agree with the relevant Exchange Participant
3. which has neither fulfilled its relevant Primary Market Maker Obligations for that month as set out in its relevant appointment letter nor attained a performance level of a Regular Market Maker	RMB2.50 per contract side

(II) For Tier 2 Stocks	
Non-Market Maker	RMB0.90 per contract side
Regular Market Maker	
1. which has responded to 70 percent or more of quote requests in a month	RMB0.70 per contract side
2. which has responded to less than 70 percent of quote requests in a month	RMB0.90 per contract side
3. which has provided continuous quotes on the required number of options series for 70 percent or more of the trading hours in a month	RMB0.70 per contract side
4. which has provided continuous quotes on the required number of option series for less than 70 percent of the trading hours in a month	RMB0.90 per contract side
Primary Market Maker	
1. which has fulfilled all of its relevant Primary Market Maker Obligations with respect to both providing continuous quotes and responding to quote requests for that month as set out in its relevant appointment letter	RMB0.50 per contract side or such lesser amount as the Exchange may from time to time agree with the relevant Exchange Participant
2. which has not fulfilled its relevant Primary Market Maker Obligations for that month as set out in its relevant appointment letter but has at least attained a performance level of a Regular Market Maker with respect to either providing continuous quotes or responding to quote requests for that month	RMB0.70 per contract side or such lesser amount as the Exchange may from time to time agree with the relevant Exchange Participant
3. which has neither fulfilled its relevant Primary Market Maker Obligations for that month as set out in its relevant appointment letter nor attained a performance level of a Regular Market Maker	RMB0.90 per contract side
(III)For Tier 3 Stocks	
Non-Market Maker	RMB0.45 per contract side
Regular Market Maker	
1. which has responded to 70 percent or more of quote requests in a month	RMB0.35 per contract side
2. which has responded to less than 70 percent of quote requests in a month	RMB0.45 per contract side
3. which has provided continuous quotes on the required number of options series for 70 percent or more of the trading hours in a month	RMB0.35 per contract side
4. which has provided continuous quotes on the required number of option series for less than 70 percent of the trading hours in a month	RMB0.45 per contract side
Primary Market Maker	
1. which has fulfilled all of its relevant Primary Market Maker Obligations with respect to both providing continuous quotes and responding to quote requests for that month as set out in its relevant appointment letter	RMB0.25 per contract side or such lesser amount as the Exchange may from time to time agree with the relevant Exchange Participant

2.	which has not fulfilled its relevant Primary Market Maker Obligations for that month as set out in its relevant appointment letter but has at least attained a performance level of a Regular Market Maker with respect to either providing continuous quotes or responding to quote requests for that month	RMB0.35 per contract side or such lesser amount as the Exchange may from time to time agree with the relevant Exchange Participant
3.	which has neither fulfilled its relevant Primary Market Maker Obligations for that month as set out in its relevant appointment letter nor attained a performance level of a Regular Market Maker	RMB0.45 per contract side
b. Contract Premium = Tick Size (Cabinet Trade)*		Nil

* Trading Tariff for Options Contracts with Contract Premium equal to or less than RMB0.01 will be waived.

A4 HKATS-Related Charges

Fee Type	Fee
HKATS Online fee for connection through the central gateway	HK$2,600 per month/connection
OAPI sub-license fee for connection with a throughput rate of 5 transactions per second through the central gateway	HK$2600 per month per OAPI provided that no OAPI sub-license fee will be charged for either the first 2 connections with a throughput rate of 5 transactions per second or the first connection with a throughput rate of 10 transactions per second of an Options Trading Exchange Participant
OAPI sub-license fee for connection with a throughput rate of 10 transactions per second through the central gateway	HK$5200 per month per OAPI provided that no OAPI sub-license fee will be charged for either the first 2 connections with a throughput rate of 5 transactions per second or the first connection with a throughput rate of 10 transactions per second of an Options Trading Exchange Participant
HKATS Risk Functions sub-licence fee for connection through the central gateway	HK$1000 per month per connection provided that no fee will be charged for the first 3 connections of an Options Trading Exchange Participant or a GCP which is a Registered Institution as defined in Rule 101 of the Clearing Rules
Access to the testing environment	HK$100 per day or part thereof provided that no access fee will be charged for the first 5 business days
Performance of login test or transaction test outside of the hours from 9 a.m. to 6 p.m.	HK$1,000 per day or part thereof regardless of test results
OAPI certification	HK$2,000 per test regardless of test results

Resetting of password or reissuing of password notification letter	HK$200 per user per occurrence

A5 Emergency Costs

Service	Costs	Remarks
Re-Print of reports	HK$5 per page up to HK$1,000 per report	Subject to availability.
On-Behalf-Of processing except bulk deletion	HK$50 per accepted and executed transaction	1. Inclusive of Printed Trade Confirmation. 2. Exclusive of trading and clearing tariff.
On-Behalf-Of processing for bulk deletion	HK$1,000	This includes deletion of more than 20 orders in one class or in all classes.
Error Trades / Handling of Large-Scale Error Trades	HK$3,000 per trade payable by the party which initiated the claim	For handling of Large-Scale Error Trades, on trades to which the Options Trading Exchange Participant is a party only.

A6 Miscellaneous Costs

Fees for other services and facilities not specified here will be announced from time to time by the Exchange or upon request when needed.

The Exchange reserves the right to charge the Options Exchange Participants for any disbursements and out-of-pocket expenses it incurs in the delivery of services and facilities at the request of an Options Exchange Participant.

APPENDIX B: OPTIONS CONTRACT SPECIFICATIONS

B1   Options Contracts

The Chief Executive may, in consultation with the Commission, introduce an option class for trading from time to time. The options traded at the Exchange are conventional, American style put and call options on selected stocks which are listed on the Exchange, with physical delivery on exercise. Exchange Participants shall be notified of the introduction of any option classes accordingly.

A stock is eligible to be an underlying stock of an option class if it has been listed on the SEHK for a period of either:

a)   60 consecutive trading days during which dealing in the shares of the stock has not been suspended; or

b)   not more than 70 consecutive trading days comprising 60 trading days during which dealing in the shares of the stock has not been suspended, i.e. not more than 10 trading days of trading suspension during the 70 consecutive trading days; and

the public float capitalisation (i.e. stocks in the hands of the public pursuant to Chapter 8 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) of the stock is at least HK$4 billion (or an equivalent amount) except where the public float capitalisation of the stock exceeds HK$10 billion (or an equivalent amount), in which case the requirements set forth in paragraphs (a) and (b) above may be exempted.

B2   Options Contract Sizes

An options contract is the smallest unit that can be traded on the options market. Each option contract is generally listed with the same size as the board lot for the underlying stock, unless otherwise expressly specified by the Exchange. For example, if a board lot for a listed security currently contains 500 shares, the option contract on that security, at the time of listing, will give the holder an option over 500 shares.

However, subsequent capital adjustments on the underlying shares will render it necessary to adjust the contract size and the strike price of all unexpired series of that class to preserve the value of the options contract before the capital adjustment.

With each such adjustment, a new code will be assigned to the adjusted options contracts in HKATS. The Exchange will announce the new codes assigned upon capital adjustments prior to the effective date.   All contracts which undergo capital adjustment may have an adjusted contract size not necessarily equal to the current board lot size of the underlying share. Refer to Chapter 8 of the *Operational Trading Procedures* for details.

B3   Expiry Day

The last trading day for spot month contracts is the second last business day of the month which is a trading day (or such other day as may be specified by the Exchange). Option series for new contract months will become available for trading on the last business day of the month.

The last trading day for spot week contracts is the last business day of the week which is a trading day (or such other day as may be specified by the Exchange). Option series for new contract weeks will become available for trading on the first business day of the week.

B4   Expiries

Monthly expiries will be introduced for all option classes traded on the Exchange. The contract expiry months will be:

- the spot month (i.e. the month in which the next expiring date occurs);

- any of the next three calendar months; and

- any of the next three calendar quarter months (i.e. quarter months are March, June, September and December).

The Exchange may from time to time introduce weekly expiries for such option classes as it considers appropriate. The contract expiry weeks will be:

- the spot week (i.e. the week in which the next expiring date occurs); and

- the next week,

provided that no weekly contracts will be listed if such weekly contracts would expire on the same day as the expiry day for the spot month contract.

The Exchange may, in consultation with the Commission, introduce additional expiries in selected option classes as it deems necessary.

The increase in the number of expiries will be announced prior to the effective day of trading.

B5   **Strike Price Intervals**

The intervals between strike prices are as shown below.

Strike Price (amount in the Currency of the Contract)	Interval Group A (amount in the Currency of the Contract)	Interval Group B (amount in the Currency of the Contract)
From 0.01 and up to 2	0.10	0.05
Above 2 and up to 5	0.20	0.10
Above 5 and up to 10	0.50	0.25
Above 10 and up to 20	1.00	0.50
Above 20 and up to 50	2.00	1.00
Above 50 and up to 100	5.00	2.50
Above 100 and up to 200	5.00	2.50
Above 200 and up to 300	10.00	5.00
Above 300 and up to 500	20.00	10.00

B6   **Addition of New Strike Prices**

New series are added either automatically by HKATS or manually by the Exchange at its absolute discretion.

1.   Automatic addition of new series

        New series will be generated under the following conditions:

        a)   Upon addition of a new expiry

Upon expiry of a contract, call and put contracts for at least five new strike prices -- at least two out-of-the-money, one at-the-money (or nearest-the-money) and two in-the-money -- will be added for the new expiry in the cycle.

b)   Upon daily underlying price movements

Based on the closing price of the underlying security, new strike prices will be added such that there are at least two out-of-the-money strikes, one at-the-money (or nearest-the-money) and two in-the-money strikes for both puts and calls.

The at-the-money strike price is the closing price of the underlying security rounded off to the nearest strike price, unless the closing price is precisely midway between two strike prices in which case it shall be rounded off to the lower strike price.

2.   Manual addition of new series

The Exchange may at its absolute discretion manually add new series with strike prices at such intervals as it deems necessary, but only within the expiry months defined above.

All new series, automatically generated or manually added, will be announced prior to the effective day for trading.

B7   Tick Size

The tick size, or minimum price fluctuation, of the stock option premium is one minimum price fluctuation for all premium level. The tick size for HK$-denominated stock options shall be either HK$0.01 or HK$0.001. The tick size for RMB-denominated stock options shall be either RMB0.01 or RMB0.001. The Exchange will announce the applicable tick size for each option class by means of a circular.

B8   Exercise

Exercise is American style. This means that the holder of an option can exercise at any time during the life of the option. If the holder does exercise, the resulting contract obligations will be fulfilled by the delivery or purchase of the underlying stocks themselves.

B9   Clearing and Settlement

Options

Unless otherwise specified in these procedures, the *Clearing Rules* or the *Operational Clearing Procedures,* all option contracts traded via the Exchange will be cleared by SEOCH.

Stocks

Any stock trades resulting from exercise and assignment of options are settled under CCASS (the clearing and settlement system of Hong Kong Securities Clearing Company Limited). Details are set out in the *Operational Clearing Procedures*.

B10   Adjustments for Capital Changes

In the event of a rights issue, bonus issue, unusually large dividend etc., the strike price and contract size will be adjusted to hold constant, as far as possible, the value of the option position. See the *Operational Clearing Procedures*.

B11 Tier Levels

All option classes are classified into three tiers. Different trading tariffs are applicable to Tier 1, Tier 2 and Tier 3 option classes as specified in Appendix A. Unless otherwise expressly specified by the Exchange, the tier level of an option class is determined by the nominal value* of the total number of shares of the underlying stock in respect of an option contract fixed before introduction of the option class. An option class with a nominal value above HK$25,000 (or an equivalent amount) will be classified as Tier 1, an option class with a nominal value of HK$25,000 (or an equivalent amount) or below but above HK$10,000 (or an equivalent amount) will be classified as Tier 2 and an option class with a nominal value of HK$10,000 (or an equivalent amount) or less will be classified as Tier 3.

The Exchange has absolute discretion to determine the tier level and will review the tier level either on a regular basis or as and when there are capital adjustments to the underlying stock of the option class.

Any determination of a tier level for a new option class will be notified to Options Trading Exchange Participants via HKATS, email or such other means as the Exchange considers appropriate.

* The nominal value will be determined according to the closing price of the underlying stock one trading day before the consultation with the Commission. When the underlying stock has no prior trading on the Exchange, the offer price per share of the public offering of the underlying stock (exclusive of brokerage, SFC Transaction Levy, AFRC Transaction Levy and Investor Compensation Levy) will be used and in the event that the offer price is not available, the lowest offer price of the indicative offer price range stated in the prospectus will be used.

APPENDIX C: [Repealed]

APPENDIX C: [Repealed]

APPENDIX D: [Repealed]

APPENDIX E: [Repealed]

APPENDIX F1:   FACSIMILE INDEMNITY

This Facsimile Indemnity ("the Indemnity") is made on _____ by

_____ (hereinafter referred to as "the Exchange Participant")

whose registered business is at _____

_____

1.   Facsimile Instruction Entry

In circumstances where access to HKATS by the Exchange Participant is suspended, restricted or withdrawn pursuant to the Options Trading Rules, The Stock Exchange of Hong Kong Ltd. ("the Exchange") may allow the Exchange Participant to transmit its instructions relating to HKATS functions by facsimile as authorized by the Options Trading Rules and Operational Trading Procedures to designated Exchange or Hong Kong Exchanges and Clearing Limited personnel.

2.   Authorisation

The Exchange is hereby authorised to act on any facsimile instruction permitted by the Options Trading Rules and the Operational Trading Procedures which in its sole discretion believes emanates from the Exchange Participant. The Exchange shall not be under any duty to verify the identity of the person or persons giving facsimile instructions purportedly made on the Exchange Participant's behalf.

3.   Exclusion of Liability

The Exchange and a recognized exchange controller which is the controller of the Exchange shall not incur any liability (whether based on contract, tort (including, without limitation, negligence), misrepresentation, warranty or any other legal or equitable grounds and without regard to the circumstances giving rise to any purported claim except in the case of wilfull misconduct) for, and the Exchange Participant hereby waives and releases any claims it might otherwise have to be compensated by the Exchange or a recognized exchange controller which is the controller of the Exchange for, any damages suffered or incurred by the Exchange Participant or any of its affiliates or any of their respective officers, directors, employees or agents or any other party as a result of approval and execution (or failure thereof) of facsimile instructions from the Exchange Participant to the Exchange, including but not limited to (1) direct, consequential, collateral, special or indirect damages (such as, without limitation, loss of revenue, loss of profit, loss of data, loss of use, loss of goodwill, loss of savings, interruption of business or claims of third parties), even if the Exchange has been advised of the possibility of such losses or damages, or (2) punitive or exemplary damages.

Signed by
Responsible Officer
(with company chop): _____

APPENDIX F2: FACSIMILE INDEMNITY

This Facsimile Indemnity ("the Indemnity") is made on _____ by

_____ (hereinafter referred to as "the SEOCH Participant") whose

registered business is at _____

_____

1. <u>Facsimile Instruction Entry</u>

   In circumstances where access to DCASS or CCMS by the SEOCH Participant is suspended, restricted or withdrawn pursuant to the Options Clearing Rules, The SEHK Options Clearing House Limited ("SEOCH") may allow the SEOCH Participant to transmit its instructions relating to DCASS or CCMS functions by facsimile as authorized by the Options Trading Rules, Operational Trading Procedures, Options Clearing Rules and the Operational Clearing Procedures to designated SEOCH or Hong Kong Exchanges and Clearing Limited personnel.

2. <u>Authorisation</u>

   SEOCH is hereby authorised to act on any facsimile instruction permitted by the Options Trading Rules, the Operational Trading Procedures, the Options Clearing Rules or Operational Clearing Procedures which in its sole discretion believes emanates from the SEOCH Participant. SEOCH shall not be under any duty to verify the identity of the person or persons giving facsimile instructions purportedly made on the SEOCH Participant's behalf.

3. <u>Exclusion of Liability</u>

   SEOCH, The Stock Exchange of Hong Kong Limited (the "Exchange") and a recognized exchange controller which is the controller of the Exchange shall not incur any liability (whether based on contract, tort (including, without limitation, negligence), misrepresentation, warranty or any other legal or equitable grounds and without regard to the circumstances giving rise to any purported claim except in the case of wilfull misconduct) for, and the SEOCH Participant hereby waives and releases any claims it might otherwise have to be compensated by SEOCH, the Exchange or a recognized exchange controller which is the controller of the Exchange for, any damages suffered or incurred by the SEOCH Participant or any of its affiliates or any of their respective officers, directors, employees or agents or any other party as a result of approval and execution (or failure thereof) of facsimile instructions from the SEOCH Participant to SEOCH, including but not limited to (1) direct, consequential, collateral, special or indirect damages (such as, without limitation, loss of revenue, loss of profit, loss of data, loss of use, loss of goodwill, loss of savings, interruption of business or claims of third parties), even if SEOCH has been advised of the possibility of such losses or damages, or (2) punitive or exemplary damages.

Signed by SEOCH Participant
(with company chop): _____

Name: _____

Title: _____

APPENDIX G: [Repealed]

G-1

APPENDIX H: CLIENT MARGINING USING THE PRiME CALCULATION ALGORITHM

H1. Margin Required in Respect of Client, NCP or Options Broker Exchange Participant

Client positions allocated to the Client Account or client positions allocated to the House Account (i.e. affiliate positions) being margined by an Options Exchange Participant, open positions of an NCP being margined by a GCP and open positions of an Options Broker Exchange Participant being margined by an Options Trading Exchange Participant should be margined by using the PRiME Calculation Algorithm. If positions of a client are allocated to the Client Account, the client must be margined gross in the same way as SEOCH margins the Omnibus Client Account. However, the open positions of a particular client of an Options Exchange Participant can be margined net provided that:

i   in the case of an Options Trading Exchange Participant which is a SEOCH Participant, it has maintained an Individual Client Account with SEOCH to record the open positions of a particular client on a net basis or, in respect of short open positions of a particular client which are eligible for margin offset, it has recorded such positions in a Client Offset Claim Account maintained by the Options Trading Exchange Participant with SEOCH;

ii   in the case of an Options Trading Exchange Participant which is an NCP, it has requested its designated GCP to maintain an Individual Client Account with SEOCH to record the open positions of a particular client on a net basis or, in respect of short open positions of a particular client which are eligible for margin offset, it has requested its designated GCP to record such positions in a Client Offset Claim Account maintained by the designated GCP with SEOCH, and the designated GCP has maintained an Individual Client Account or a Client Offset Claim Account with SEOCH in that regard; or

iii   in the case of an Options Broker Exchange Participant, it has requested the Options Trading Exchange Participant with whom it maintains an omnibus account to maintain with SEOCH an Individual Client Account to record the open positions of a particular client on a net basis or, in respect of short open positions of a particular client which are eligible for margin offset, to record such positions in a Client Offset Claim Account maintained by the Options Trading Exchange Participant with SEOCH, and the Options Trading Exchange Participant with whom it maintains an omnibus account has maintained an Individual Client Account or a Client Offset Claim Account with SEOCH in that regard.

In such case, that particular client of the Options Exchange Participant may be margined on a net basis.

Options Exchange Participants should margin their clients, NCPs or Options Broker Exchange Participants using the same algorithm as that employed by SEOCH but multiplied by a factor as prescribed by SEOCH from time to time. Please refer to the *PRiME Margining Guide* for illustration of the calculation.

H2. [Repealed]

H3. [Repealed]

APPENDIX I: STANDARD BROADCAST MESSAGES

This appendix shows an inventory of standard broadcast messages which may be used by the Exchange and seen by all Options Trading Exchange Participants.

In the Market Messages Window of HKATS

Daily Messages

yyyy-mm-dd hh:mm:ss 10 minutes until the STOCK OPTIONS Open
yyyy-mm-dd hh:mm:ss 5 minutes until the STOCK OPTIONS Open
yyyy-mm-dd hh:mm:ss Status for market STOCK OPTIONS changed to open.
yyyy-mm-dd hh:mm:ss 10 minutes until the STOCK OPTIONS Pause
yyyy-mm-dd hh:mm:ss 5 minutes until the STOCK OPTIONS Pause
yyyy-mm-dd hh:mm:ss Status for market STOCK OPTIONS changed to paused.
yyyy-mm-dd hh:mm:ss 10 minutes until the STOCK OPTIONS Close
yyyy-mm-dd hh:mm:ss 5 minutes until the STOCK OPTIONS Close
yyyy-mm-dd hh:mm:ss Status for market STOCK OPTIONS changed to close.

Special Messages

yyyy-mm-dd   hh:mm:ss   xxx UNUSUAL MKT COND:NO QUO OBLIGAT
yyyy-mm-dd   hh:mm:ss   xxx UNUSUAL MKT COND OFF:QUO RESUME

APPENDIX J: [Repealed]

APPENDIX K: [Repealed]

APPENDIX K: [Repealed]

APPENDIX L: [Repealed]

APPENDIX M: [Repealed]

APPENDIX N: [Repealed]