

HEDGING RULES

(AMENDMENT)

Chapter 1 GENERAL PROVISIONS

Article 1 These Hedging Rules are made, subject to the General Exchange Rules of the Shanghai Futures Exchange, to ensure the integrity of the hedging functions provided by the Exchange.

Article 2 Hedging positions in these Hedging Rules include regular month hedging positions and nearby delivery month hedging positions.

The hedging positions for copper, aluminum, zinc, lead, nickel, tin, steel rebar, wire rod, hot-rolled coil, gold, silver, natural rubber and bitumen futures include regular month hedging positions and nearby delivery month hedging positions. For purpose of these Hedging Rules, the term "regular month" here means months during the period from the date of listing of the contract till the last trading day of the second month prior to the delivery month, and the term "nearby delivery month" means the first month prior to the delivery month and the delivery month.

The hedging positions for fuel oil futures include regular month hedging positions and nearby delivery month hedging positions. For purpose of these Hedging Rules, the term "regular month" for fuel oil futures means months during the period from the date of listing of the contract till the last trading day of the third month prior to the delivery month, and the term "nearby delivery month" means the second and the first month prior to the delivery month.

Article 3 These Hedging Rules are binding on the members and customers who engage in hedging activities on or through the Shanghai Futures Exchange, or the Exchange.

Chapter 2 APPLICATION AND APPROVAL OF REGULAR MONTH HEDGING POSITIONS

Article 4 Application for regular month hedging positions for each futures product shall be approved by the Exchange. The regular month hedging positions applied for are either long or short positions.

Article 5 Each customer, who needs to take regular month hedging positions, shall apply to his carrying FF member, who shall, after reviewing and verifying the application, refer the application to the Exchange for approval. A non-FF member shall apply directly to the Exchange for approval.

Article 6 Each customer or non-FF member applying for regular month hedging positions shall be involved in the business whose nature is related to the products of those hedging positions.

Article 7 Each member or customer applying for regular month hedging positions shall complete an Application (Approval) Form for Regular Month Hedging Positions on the Exchange, and include the following documents:

- a photocopy of his business license;
- a profile of his business performance in actuals for the last calendar year;
- a business plan for the actuals for the current calendar year or the next calendar year; any sales and purchase contract in relation to hedging positions or any other documents evidencing the same;
- a plan for hedging, including a description of the source of risks, objectives for the hedge and anticipated amounts needed for delivery or close-out of positions; and
- any other documents as required by the Exchange.

Article 8 Regular month hedging positions for copper, aluminum, zinc, lead, nickel, tin, steel rebar, wire rod, hot-rolled coil, gold, silver, natural rubber and bitumen futures shall be applied for before the last trading day of the second month prior to the delivery month of the contract and the Exchange will not accept any applications for regular month hedging positions after the expiry of such period. Each member or customer may each time apply for regular month hedging positions in various contracts.

Article 9 Regular month hedging positions for fuel oil futures shall be

applied for before the last trading day of the third month prior to the delivery month of the contract and the Exchange will not accept any applications for regular month hedging positions after the expiry of such period. Each member or customer may each time apply for regular month hedging positions in various contracts.

Article 10 The Exchange will determine the amounts of the regular month hedging positions with regard to the attributes of each applicant including:

- qualification of the applicant;
- products for hedging;
- whether the hedging positions applied for are long or short positions;
- amounts of long or short positions;
- timing for hedging;
- profile of production and business operation;
- historical performances of business;
- financial conditions

The amounts of regular month hedging positions approved by the Exchange shall not exceed the amounts specified in the application documents.

Chapter 3 APPLICATION AND APPROVAL OF NEARBY MONTH HEDGING POSITIONS

Article 11 Application for nearby delivery month hedging positions for each futures product shall be approved by the Exchange. The nearby delivery month hedging positions applied are either long or short positions.

Article 12 Each customer, who needs to take nearby delivery month hedging positions, shall apply to his carrying FF member, who shall, after reviewing and verifying the application, refer the application to the Exchange for approval. A non-FF member shall apply directly to the Exchange for approval.

Article 13 Each member or customer applying for nearby delivery month hedging positions shall complete an Application (Approval) Form for Nearby delivery month Hedging Positions on the Exchange, and include the following documents with regard to the attributes of the customer if such customer is a:

i) producer

- production plan for the current calendar year or the last calendar year;
- warehouse receipts of actuals that are in the same amounts as those hedging positions or other valid certificates evidencing ownership of actuals

ii) processor

- production plan for the current calendar year or the last calendar year;
- if applying for hedging positions for long purpose, order forms for processing or sales and purchase contracts that are in the same amounts as those hedging positions;
- if applying for hedging positions for short purpose, warehouse receipts of actuals that are in the same amounts as those hedging positions or other valid certificates evidencing ownership of actuals, i.e., sales and purchase contracts or invoices.

iii) trader or others

- if applying for hedging positions for long purpose, sales and purchase contract that are in the same amounts as those hedging positions or other valid certificates evidencing ownership of actuals
- if applying for hedging positions for short purpose, warehouse receipts of actuals that are in the same amounts as those hedging positions, sales and purchase contract or invoice.

Article 14 The Exchange has the right to require any other documents apart from those listed in the Article 13 from the member or the customer as it deems necessary.

Article 15 Nearby delivery month hedging positions for copper, aluminum, zinc, lead, nickel, tin, steel rebar, wire rod, hot-rolled coil, gold, silver, natural rubber and bitumen futures shall be applied for in the period from the first trading day of the third month prior to the delivery month to the last trading day of the month prior to the delivery month of the contract and the Exchange will not accept any applications for nearby delivery month hedging positions after the expiry of such period.

Article 16 Nearby delivery month hedging positions for fuel oil futures shall be applied for in the period from the first trading day of the fourth month prior to the delivery month to the last trading day of the second month prior to the delivery month of the contract and the

Exchange will not accept any applications for nearby delivery month hedging positions after the expiry of such period.

Article 17 The Exchange will determine the amounts of the nearby delivery month hedging positions based on the following attributes of an applicant who is either a member or a customer:

- amounts of the hedging positions applied for and whether the hedging positions are long or short positions;
- business profile of actuals;
- open interest held in the contract;
- stock of the deliverable commodities at the Exchange;
- whether a divergence of price exists between the futures market and the cash market

The amounts of the nearby delivery month hedging positions approved by the Exchange shall not exceed the amounts that are specified in the application documents.

The aggregate amounts of nearby delivery month hedging positions for all the contract month of a calendar year shall not exceed the amounts of the production capacity or the production plan of the year, or the business profile of the last calendar year.

Article 18 If a non-FF member's or a customer's application is not approved by the Exchange for the nearby delivery month hedging positions for copper, aluminum, zinc, lead, nickel, tin, steel rebar, wire rod, hot-rolled coil, gold, silver, natural rubber and bitumen futures, the lower level of positions that is either the regular month hedging positions approved or the position limit of such futures product shall be applied when such regular month hedging positions enter into the month prior to the delivery month and the delivery month, and such regular month hedging positions will be converted into nearby delivery month hedging positions under such standard. In the nearby delivery month, those nearby delivery month hedging positions approved become applicable.

If a non-FF member's or a customer's application is not approved by the Exchange for the nearby delivery month hedging positions for fuel oil futures, the lower level of positions that is either the regular month hedging positions approved or the position limit of such futures product shall be applied when such regular month hedging positions enter into the second and the month prior to the delivery month, and such regular month hedging positions will be converted into nearby delivery month hedging positions under such standard. In the

nearby delivery month, those nearby delivery month hedging positions approved become applicable.

Chapter 4 HEDGE TRADING

Article 19 The member or customer who is approved to hold hedging positions shall establish positions pursuant to whether the positions approved are long or short positions and the amounts of the positions before the closing of the market of the third trading day prior to the last trading day specified in the contract. It shall be deemed a waiver of the hedging positions if the positions are not established in the prescribed time limit above.

Article 20 As of the first trading day of the delivery month of each contract of copper, aluminum, zinc, lead, nickel, tin, steel rebar, wire rod, hot-rolled coil, gold, silver, natural rubber and bitumen futures, each member or customer shall not open new positions as hedging positions in that contract when the member or customer has already, in that delivery month, opened positions as hedging positions aggregately to the maximum of the hedging positions set forth by the Exchange for that member or customer.

Article 21 As of the first trading day of the month prior to the delivery month of fuel oil futures contract, each member or customer shall not open new positions as hedging positions in that contract when the member or customer has already, in that month prior to the delivery month, opened positions as hedging positions aggregately to the maximum of the hedging positions set forth by the Exchange for that member or customer..

Article 22 Measures of adjustment on the holding of hedging positions in multiples in the nearby delivery month can refer to those on the holding of speculative positions in multiples.

Article 23 In the delivery month, each member or customer, obtaining the nearby delivery month hedging positions, who is the seller of the hedging positions may apply the standard warrants as a warranty for the performance of the futures contract for a number of delivery months in accordance with the number of such standard warrants, and as a collateral for the trade margin deposited for the corresponding positions.

Chapter 5 REGULATION

Article 24 The Exchange shall, after receiving the application for the hedging positions, review the application within five (5) trading days and make a decision based on the following scenarios:

- i) approve the application if the requirements for the hedging positions are satisfied;
- ii) disapprove the application if the requirements for the hedging positions are not satisfied;
- iii) request additional documents from the applicant if the documents for certification are not sufficient.

Article 25 The Exchange shall look into the particulars of the business and production conditions, credit profile and trading activities in the futures and actuals that are provided by the member or customer. The member and the customer shall cooperate with the Exchange in this regard.

The Exchange has the right to require the member or customer who has hedging positions approved to report about the trading matters in futures or actuals.

Article 26 The Exchange supervises the usage of the hedging positions obtained by the member or the customer.

Article 27 The member or customer, while holding the hedging positions, shall report to the Exchange in a timely manner when some substantial changes happen to the enterprise. The Exchange has the right to adjust the hedging positions of the member or customer based on the market conditions and business and operation conditions of a hedger (corporate).

Article 28 The member or customer shall apply to the Exchange in a timely manner for adjustment in hedging positions.

Article 29 The member or customer shall make adjustments on his own initiative before the ending of the first session of trading on the following trading day; The Exchange has the right to exercise forced position liquidation if the adjustments are not made in the prescribed time limit or the requirements are still not satisfied after the adjustments.

Article 30 If the member or customer frequently opens and closes out

his positions within the limit amount of the hedging positions or use the hedging positions approved to or attempt to affect the market price, the Exchange has the right to:

- conduct an interview with him for warning;
- give a warning in writing;
- adjust or wipe out his hedging positions;
- limit the opening of new positions;
- close out positions for a limited period; or
- exercise forced position liquidation.

Article 31 In the event that the systematic risk of the market increases that may lead to the disruption of the market, the Exchange shall make reduction in the positions pursuant to the applicable rules of the Exchange. The Exchange shall reduce the speculative positions first and then reduce the hedging positions.

Article 32 The Exchange may, from time to time, request the member or customer for additional documents with regard to the hedging positions already approved based on the futures and cash market conditions and open interests held in the contracts.

Article 33 A member or customer that engages in fraud or other rule violations when applying for or conducting in hedge trading shall be subject to the sanctions provided in the Enforcement Rules of the Shanghai Futures Exchange, and the Exchange will not process his application for or adjustment in the hedging positions, or wipe out his hedging positions, and the existing hedging positions will be converted into speculative positions or the Exchange will impose forced position liquidation.

Article 34 The Exchange may make discounts on the trade margin or the transaction fee for the hedge trading.

Chapter 6 MISCELLANEOUS

Article 35 The Exchange reserves the right to interpret these Hedging Rules.

Article 36 These Hedging Rules are effective as of MMDDYY, and for the nickel and tin futures, the listing day.