

香港聯合交易所有限公司
(香港交易及結算所有限公司全資附屬公司)

THE STOCK EXCHANGE OF HONG KONG LIMITED
(A wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited)

通告 CIRCULAR

Subject: Trading and Clearing Operational Arrangements Relating to the Capital Adjustment of Hengan International Group Company Limited Stock Option Contracts – Conditional Distribution

Enquiry: HKATS Hotline Tel: 2211-6360
DCASS Hotline Tel: 2979-7222

Reference is made to the circular issued on 1 April 2016 (Ref. No.: MO/DT/041/16). On 17 June 2016, the board of directors of Hengan International Group Company Limited (“Hengan”) declared a conditional distribution in specie of the entire issued share capital of QinQin Foodstuffs Group (Cayman) Company Limited (“QinQin”) held by Hengan to the Qualifying Shareholders. Capital adjustment arrangements to the stock option contracts below will be made on the ex-date, if the Conditional Distribution becomes unconditional.

Underlying Stock Name of the Stock Option Contracts (Stock Code)	Hengan International Group Company Limited (01044)
HKATS Code	HGN
Corporate Action	Spin-off and separate listing of the QinQin Foodstuffs Group (Cayman) Company Limited on The Stock Exchange of Hong Kong Limited (“SEHK”) by way of a distribution in specie (“Entitlement”)
Entitlement Ratio	0.2 (1 QinQin Share for every 5 Hengan Shares)
Ex-date	28 June 2016
Listing Day of QinQin	To be announced

For details of the announcements made by Hengan on 31 March and 17 June 2016, please refer to the hyperlink below:

<http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0331/LTN20160331331.pdf>
<http://www.hkexnews.hk/listedco/listconews/sehk/2016/0617/LTN20160617387.pdf>

Trading Arrangements

The trading arrangements for the existing Hengan stock options under trading symbol HGN will be as follows:

1. Transfer of Outstanding Positions

Outstanding positions of Hengan stock option class under trading symbol HGN which exist after the market close on the business day immediately before the ex-date will be **transferred** on a **one-to-one** basis to temporary trading symbol HGA.

2. Suspension of Trading

Since the value of the Entitlement is not available until the value of QinQin is determined, trading of outstanding positions under temporary trading symbol HGA will be suspended from the ex-date (i.e. 28 June 2016) to the listing day of QinQin (both dates inclusive).

3. Introduction of New Stock Option Series for Trading

On the ex-date, new Hengan stock option series based on the standard contract size will be introduced for trading under the standard trading symbol HGN.

4. Adjustment to Outstanding Positions upon the Determination of QinQin's Value

The value of QinQin will be determined by the volume weighted average price (VWAP) of those auto-matched trades of QinQin on its listing day on the SEHK. When the value of the Entitlement has been determined, adjustment will be made to outstanding positions under trading symbol HGA. The adjusted positions will be transferred to trading symbol HGB. Positions under trading symbol HGB will commence trading from the business day immediately after the listing day of QinQin.

Details of the adjustment procedures for Hengan stock option series under trading symbol HGN are as follows:

Adjustment Term	Formula	Remarks
Adjustment Ratio (AR)	(Underlying stock closing price before ex-date minus Entitlement value) / Underlying stock closing price before ex-date	Rounded to the nearest 4 decimal places
Adjusted Exercise Price (AEP)	Exercise price of outstanding stock option series x AR	Rounded to the nearest 2 decimal places
Adjusted Contract Size (ACS)	Exercise price of outstanding stock option series x (500 shares / AEP)	Rounded to the nearest 4 decimal places

Remark: Entitlement is QinQin's value times the Entitlement Ratio for each Hengan Share

Below is a summary of the trading arrangement for all Hengan stock option contracts:

Contract	Trading Symbol	Underlying Stock	Contract Size (Shares)	Introduction Date	Availability For Trading	Addition of New Stock Option Series on and after ex-date
Standard	HGN	Hengan (Ex-Entitlement)	500	Ex-date	From ex-date onwards	Yes
Adjusted	HGA	Hengan & Entitlement	500	Ex-date	Nil	No
	HGB	Hengan (Ex-Entitlement)	ACS	The 1 st business day after the listing day of QinQin	From introduction date to 29 June 2017	

For stock options of Hengan under trading symbols HGN and HGB, both trading fee level shall be Tier 1 and the position limit shall be 30,000 contracts combined.

The adjusted and standard stock option contracts are distinct contracts and are represented by different trading symbols in HKATS/DCASS. Particulars of all existing and adjusted stock option series will be shown in DCASS report "Capital Adjustment Series" (TP011) after the DCASS batch processing on the business day immediately before the ex-date.

Capital adjustments, once being made, are conclusive and binding on all relevant stock option contracts. The capital adjustments made will not be reversed even if the proposed corporate action is subsequently disapproved by relevant authorities, including but not limited to regulatory authorities and the court.

Participants should pay particular attention that the settlement amount of adjusted and standard stock option series on the expiry day will be calculated using their respective contract sizes. There will not be any changes to the number of open positions after the transfer of positions.

Clearing, Settlement and Risk Management Arrangements

Position offset among the standard HGN, the adjusted HGA and HGB stock option series is **NOT allowed**.

For clearing, settlement and risk management arrangements relating to shares collateral and exercise / assignment of adjusted stock option class, please refer to the Attachment for details.

Inform Your Staff and Clients

Participants should notify all clients holding positions in the captioned stock option class of the details of trading, clearing, settlement arrangements and the associated risk. **In particular, Participants should fully communicate with your clients on the transfer of outstanding positions to the temporary trading symbol HGA and its suspension from the ex-date until the listing day of QinQin (inclusive).** Please ensure that your back office systems are ready for a smooth operation in handling this capital adjustment. In addition, all your staff should be fully aware of the trading and clearing arrangements and should exercise caution when dealing with the standard and adjusted stock option contracts when advising your clients.

Sanly Ho
Head
Derivatives Trading
Markets Division

This circular has been issued in the English language with a separate Chinese language translation. If there is any conflict in the circulars between the meaning of Chinese words or terms in the Chinese language version and English words in the English language version, the meaning of the English words shall prevail.

Attachment

Clearing, Settlement and Risk Management Arrangements

Before ex-date

Pending stock positions resulting from exercise and assignment of HGN stock option series effected on or before the business day immediately before ex-date will be cum entitlement and settled via CCASS as usual.

All covered call positions of HGN stock option series will be discovered automatically after the day-end margin calculation on the business day immediately before the ex-date. Participants can use the ex-entitlement Hengan shares to cover the standard HGN stock option series introduced on the ex-date.

During the period from ex-date to the listing day of QinQin

Participants would **NOT** be allowed to cover the HGA stock option contracts using the ex-entitlement Hengan shares.

Participants can submit the exercise requests via DCASS in respect of the HGN and HGA stock option series from the ex-date (i.e. 28 June 2016) to the listing day of QinQin. However, on any expiry days before the listing day of QinQin, **the automatic exercise arrangement will NOT be applied for spot month HGA spot option series.** While all exercise and assignment arrangements of the standard HGN stock option contracts will be as normal.

Participants should note the following arrangements relating to the exercise and assignment of the HGA stock option series:

- (a) Settlement Amount: payment/receipt of the full settlement amount (according to the exercise price of the HGA stock option series) via CCASS;
- (b) Hengan shares portion: delivery/receipt of ex-entitlement Hengan shares via CCASS. Results of exercise and assignment of the HGA stock option series and the resulted settlement obligation of the full settlement amount and Hengan shares portion would be shown in the DCASS report "Exercise and Assign Summary" (TP009); and
- (c) Entitlement portion (QinQin shares): settlement in cash according to the Entitlement Ratio and QinQin value. The cash settlement would be pending until QinQin's value is determined and would be settled on the first business day after the listing day of QinQin. Written notification of the pending cash settlement relating to QinQin shares would be provided separately to Participants upon exercise and assignment.

The closing price difference¹ of Hengan shares on the ex-date (i.e. 28 June 2016) and the trading day prior to the ex-date (i.e. 27 June 2016) would be used as an estimate² of the value of Entitlement for the purpose of daily settlement price determination and margin calculation of the HGA stock option series. Participants should also note that the positions of HGA stock option contracts would be **margin ed separately from the standard HGN stock option series** since they would no longer be sharing the same underlying³.

For Participants with pending delivery obligations of QinQin shares to be settled in cash (i.e. exercised put or assigned call) after exercise/assignment of the HGA stock option positions, SEOCH would collect special margin on such pending delivery obligations based on the above-mentioned closing price difference of Hengan shares from the date of exercise/assignment + 1 business day to the date of Entitlement settlement (i.e. the first business day after the listing day of QinQin). Such special margin would be recorded under a CCMS special collateral account and concerned Participants would be notified by SEOCH individually for the collection/release of such special margin.

From the first business day after the listing day QinQin onwards

Exercise and assignment of the stock option series under the trading symbol HGB in adjusted Hengan stock option contracts will result in odd lots and fractional shares. The integral number of shares (including the odd lots) will be settled via CCASS under normal procedures. The fractional shares of each contract exercised will be settled in cash via CCMS on the day of exercise. The actual cash settlement amount of the fractional shares is the difference between the exercise price of the stock option contracts and the market closing price of the underlying stock on the day of exercise times the fractional shares quantity for each contract exercised/assigned.

The settlement of fractional shares in cash is not liable to stamp duty provided that the contract notes so executed by the party for the sale and purchase of shares arising from the exercise of a stock option contract only include the whole number of shares.

Exercise and assignment of standard HGN stock option series will result in stock settlement obligation of a standard board lot per contract and settle in CCASS under normal procedures.

Participants can use the Hengan shares to cover the adjusted HGB stock option series (which carry odd lots and fractional shares) using the exact odd quantity of stock.

The positions of standard HGN and adjusted HGB stock option series would be margined on a portfolio basis according to normal procedures as they would be sharing the same underlying (i.e. Hengan).

¹ Would be set to zero should the closing price on ex-date is higher than that on the trading day prior to ex-date.

² SEOCH may, in its discretion, adjust the value of such estimation.

³ The underlying of the HGA stock option series would be Hengan and the Entitlement (i.e. QinQin), while that of the HGN stock option series would be Hengan only.