

Rules, Regulations and Procedures of Hong Kong Futures Exchange Limited

REGULATIONS FOR TRADING STOCK FUTURES CONTRACTS

Circumstances Which May Give Rise to Capital Adjustment

- 010 (b) Special events like offering of shares in another company, change of domicile etc., which are not common entitlement or corporate events and standard Adjustments, may be dealt with by the Chief Executive in consultation with the Commission. Under such circumstances, the Chief Executive in consultation with the Commission, on a case by case basis, will decide whether an Adjustment is needed, and if so, the Adjustment method.

Entitlement Events

- 010A (a) 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).
- (c) 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.

Corporate Action Events

- 010B (a) Corporate action events may take the form of share sub-division, share consolidation, merger and privatisation.

Standard Adjustment Methodology

010D For each Adjustment, there will be an adjustment ratio. In each case, the old Contracted Price of the Stock Futures Contract will be multiplied by this adjustment ratio to obtain the adjusted Contracted Price. The corresponding adjusted Contract Multiplier is obtained by dividing the old Contracted Value by the adjusted Contracted Price. The old Contracted Value is simply the product of the old Contracted Price and the old Contract Multiplier.

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

Event	Adjusted Contracted Price (ACP) =	Adjusted Contract Multiplier (ACM) =
<p>Rights Issue</p> <p>‘A’ new shares for ‘B’ old shares at C per share; where it closes at S on the last trading day prior to ex-rights day.</p>	<p>Old Contracted Price (OCP) times¹:</p> $\frac{B + (A * C / S)}{A + B}$	$\frac{OCP * Old Contract Multiplier}{ACP}$
<p>Bonus Issue of Shares</p> <p>‘A’ new shares for ‘B’ old shares.</p>	<p>Old Contracted Price (OCP) times:</p> $\frac{B}{A + B}$	$\frac{OCP * Old Contract Multiplier}{ACP}$
<p>Bonus Issue of Warrants</p> <p>W is the theoretical value of bonus warrant entitlement per share one day prior to ex-date².</p> <p>OD is ordinary cash dividend.</p> <p>The share closes at closing price S on the last trading day prior to the ex-date.</p>	<p>Old Contracted Price (OCP) times:</p> $\frac{S - OD - W}{S - OD}$ <p>Note: OD shall be deducted from S only if OD and the bonus warrants have the same ex-date.</p>	$\frac{OCP * Old Contract Multiplier}{ACP}$

<p>Share Consolidation</p> <p>X shares consolidate into Y shares.</p>	<p>Old Contracted Price (OCP) times:</p> $\frac{X}{Y}$	<p>OCP * Old Contract Multiplier</p> $\frac{\text{-----}}{\text{ACP}}$
<p>Share Sub-division</p> <p>X shares sub-divided into Y shares.</p>	<p>Old Contracted Price (OCP) times:</p> $\frac{X}{Y}$	<p>OCP * Old Contract Multiplier</p> $\frac{\text{-----}}{\text{ACP}}$
<p>Merger (Shares+Cash)</p> <p>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 the last trading day.</p>	<p>Old Contracted Price (OCP) times:</p> $\frac{X-Z/S}{Y}$	<p>OCP * Old Contract Multiplier</p> $\frac{\text{-----}}{\text{ACP}}$
<p>Merger (Shares Only)</p> <p>Y shares in new company for X shares in old company.</p>	<p>Old Contracted Price (OCP) times:</p> $\frac{X}{Y}$	<p>OCP * Old Contract Multiplier</p> $\frac{\text{-----}}{\text{ACP}}$
<p>Privatisation / Merger (Cash Only)</p>	<ul style="list-style-type: none"> • 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. 	
<p>Spin-off³ (with Entitlement)</p> <p>E is the value of the entitlement of the spin-off calculated using VWAP⁴ on its first trading day.</p>	<p>Old Contracted Price (OCP) times:</p> $\frac{S - OD - E}{S - OD}$	<p>OCP * Old Contract Multiplier</p> $\frac{\text{-----}}{\text{ACP}}$

<p>OD is ordinary cash dividend.</p> <p>The share closes at closing price S on the last trading day prior to the ex-date.</p>	<p>Note: OD shall be deducted from S only if OD and the entitlement have the same ex-date.</p>	
<p>Other forms of Cash Distribution (CD), such as a special dividend, cash bonus or extraordinary dividend</p> <p>No capital adjustment unless CD is 2% or more of the share's closing price on the dividend announcement day.</p> <p>OD is ordinary cash dividend.</p> <p>The share closes at closing price S on the last trading day prior to the ex-date.</p>	<p>Old Contracted Price (OCP) times:</p> $\frac{S - OD - CD}{S - OD}$ <p>Note: OD shall be deducted from S only if OD and CD have the same ex-date.</p>	<p>OCP * Old Contract Multiplier</p> $\frac{\text{-----}}{\text{ACP}}$

¹ Adjustment will only be made if the adjustment ratio is smaller than 1.

² The theoretical value is determined by HKCC 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. 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.

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 which is not the Settlement Currency, it will be converted to the Settlement Currency at the exchange rate determined by the Clearing House.