

Rules of the Exchange

CHAPTER 14A

CHINA CONNECT SERVICE - SHANGHAI

Interpretation

14A02. (2) In this Chapter, unless the context otherwise requires:

“Short Selling” means the sale of ~~eligible China Connect Short Selling~~ Securities referred to in Rule 14A17(2)(a) in respect of which the China Connect Exchange Participant as seller, or the person for whose benefit or on whose behalf the sale is made, has a presently exercisable and unconditional right to vest the ~~China Connect Short Selling~~ Securities in the purchaser by virtue of having borrowed such securities under a Stock Borrowing and Lending Arrangement;

“Short Selling Ratio” means the number of shares sold via Short Selling orders for a Short Selling Security on a given CSC trading day divided by the number of shares of that Short Selling Security held by all investors through CCASS as at the commencement of that CSC trading day, expressed as a percentage rounded to 2 decimal places;

“Short Selling Securities” means any China Connect Securities which are from time to time included in the List of Eligible SSE Securities for Short Selling as eligible for Short Selling, as referred to in Rule 14A17(3);

Short Selling

~~14A17. (1) Unless otherwise determined by the Exchange, Short Selling of China Connect Securities may be conducted by China Connect Exchange Participants and their clients through the China Connect Service subject to the conditions set out in this Rule 14A17.~~

~~(2) Short Selling may be conducted subject to the following conditions:—~~

~~(a) only those China Connect Securities that are included in the List of Eligible SSE Securities for Short Selling published by the Exchange from time to time may be short sold through the China Connect Service;—~~

- ~~(b) Short Selling must not exceed the limit(s) set by the Exchange in respect of the relevant China Connect Security for each CSC trading day and for a rolling period of time specified by the Exchange;—~~
 - ~~(c) when inputting a Short Selling order into the CSC, China Connect Exchange Participants must:—
 - ~~(i) flag or indicate it as such in the manner prescribed by the Exchange; and—~~
 - ~~(ii) ensure that the input price must not be lower than the price level specified by the Exchange;—~~~~
 - ~~(d) Stock Borrowing and Lending for the purpose of Short Selling shall be subject to Rule 14A16(2)(a) and other restrictions as may be prescribed by the Exchange;—~~
 - ~~(e) China Connect Exchange Participants must comply with such reporting requirements as the Exchange may prescribe from time to time, including the reporting of open short positions;—~~
 - ~~(f) Short Selling may be suspended where the volume of short selling in respect of the relevant China Connect Security exceeds the threshold(s) specified by the Exchange, and may be resumed if the Exchange so permits;—~~
 - ~~(g) China Connect Exchange Participants must make appropriate arrangements to ensure that clients who wish to carry out Short Selling understand and are aware of the restrictions, requirements and conditions applicable to Short Selling;—~~
 - ~~(h) such other restrictions, requirements and conditions as the Exchange may prescribe from time to time; and—~~
 - ~~(i) the Exchange making detailed rules dealing with the matters referred to in paragraphs (a) to (h) of this Rule 14A17(2) and confirming when those rules will become effective.~~
- ~~(3) References to “China Connect Securities” in this Rule 14A17 do not include Special China Connect Securities.—~~
- ~~(4) For the avoidance of doubt, Stock Borrowing and Lending of China Connect Securities for the purpose referred to in Rule 14A16(2)(b) and the subsequent sale of the relevant China Connect Securities after the pre-trade checking requirement is met shall not be regarded as Short Selling as defined in Rule 14A02(2). Accordingly, unless the Exchange otherwise determines, the sale of the relevant China Connect Securities and the corresponding China Connect sell order shall not be subject to the conditions, restrictions and requirements set out in Rule 14A17.~~
- ~~(5) Unless otherwise determined by the Exchange, the Eleventh Schedule of these Rules does not apply to the Short Selling of China Connect Securities.—~~

~~(6) For the avoidance of doubt, references in this Rule 14A17 to “China Connect Exchange Participant” and “China Connect Exchange Participants” shall be read to include the Exchange Participants referred to in Rule 590(1) (Exchange Participants trading through China Connect Exchange Participants). Accordingly, such Exchange Participants may carry out Short Selling of China Connect Securities through China Connect Exchange Participants subject to the conditions, restrictions and requirements of this Rule; and this Rule shall apply to them as if they were China Connect Exchange Participants.~~

~~(7) This Rule 14A17 is made pursuant to Rule 1430.~~

(1) Unless otherwise determined by the Exchange, China Connect Exchange Participants shall not conduct Short Selling of China Connect Securities for their own account or for the account of its clients other than in accordance with this Rule 14A17.

(2) A China Connect Exchange Participant shall not input any Short Selling order unless at the time it inputs the order,

(a) it has or, where it is selling for the account of its client, its client has; or

(b) it believes and has reasonable grounds to believe that the seller has,

a presently exercisable and unconditional right to vest the relevant China Connect Securities in the purchaser by virtue of having borrowed such securities under a Stock Borrowing and Lending Arrangement. For the avoidance of doubt, the pre-trade checking requirements set out in Rule 14A06 apply to Short Selling orders.

List of Eligible SSE Securities for Short Selling

(3) Only those China Connect Securities that are included in the List of Eligible SSE Securities for Short Selling published by the Exchange from time to time may be the subject of a Short Selling order through the China Connect Service. China Connect Exchange Participants shall ensure that Short Selling is confined to those China Connect Securities that are included in the List of Eligible SSE Securities for Short Selling. A China Connect Exchange Participant who fails to comply with this Rule shall be liable to disciplinary or other actions taken by the Exchange under Rule 1437 or 14A17(23).

(4) The Exchange will publish the List of Eligible SSE Securities for Short Selling on the HKEx website or through such other means as it considers appropriate and may update or amend the list from time to time. Unless the Exchange otherwise determines, the List of Eligible SSE Securities for Short Selling will be compiled by reference to SSE’s list of eligible stocks for short selling for the SSE Market, excluding Special China Connect Securities.

Short Selling Order

(5) A Short Selling order shall only be input during the Opening Call Auction Session or a Continuous Auction session.

- (6) Before a China Connect Exchange Participant inputs a China Connect sell order for the account of a client, it shall ask its client to confirm whether it is a Short Selling order or have appropriate arrangements in place that require the client, when placing a Short Selling order, to inform the China Connect Exchange Participant that the order is a Short Selling order. A China Connect Exchange Participant shall establish effective procedures and keep proper records to ensure compliance with this Rule.
- (7) A China Connect Exchange Participant who knows or is informed that an order to be input into the CSC is a Short Selling order shall:
- (a) when passing the order to another China Connect Exchange Participant or any other person having access to the CSC (including but not limited to an employee of the China Connect Exchange Participant) with a view that it or he shall input the order into the CSC, inform it or him that the order is a Short Selling order; and
- (b) when inputting the order into the CSC, indicate such matters and in such manner as the Exchange shall from time to time determine.
- (8) Short Selling orders shall be input into the CSC only in multiples of 100 shares.

Price restriction

- (9) A Short Selling order for a Short Selling Security shall not be input into the CSC at a price lower than the most recent execution price for that Short Selling Security or, if there have been no executed trades for that Short Selling Security on the relevant CSC trading day, the previous closing price for that Short Selling Security.
- (10) As required by SSE, where shares in any Short Selling Security borrowed for the purpose of Short Selling remain outstanding and have not yet been returned, China Connect Exchange Participants shall, and shall require their relevant clients to, comply with the price requirement in Rule 14A17(9) in respect of any instructions for the sale of that Short Selling Security through the China Connect Service, except for those instructions that exceed the number of the outstanding and unreturned shares.
- (11) The Exchange and the SEHK Subsidiary may set price restrictions, at such thresholds as the Exchange and the SEHK Subsidiary may consider appropriate, in the CSC or related system connections to block the input of Short Selling orders at an artificially high price which has the effect of artificially using up the limits of the Short Selling Ratio specified in Rule 14A17(14).

Stock Borrowing for Short Selling

- (12) Stock Borrowing and Lending for the purpose of Short Selling shall be subject to Rule 14A16(2)(a) and other restrictions as may be prescribed by the Exchange.

(13) Before inputting a Short Selling order into the CSC, a China Connect Exchange Participant shall:

(a) where acting for the account of a client:

(i) ensure that its client has borrowed sufficient Short Selling Securities to settle the Short Selling order if executed;

(ii) to the extent that it has borrowed Short Selling Securities from another Exchange Participant or a Qualified Institution to on-lend to the client for purposes of Short Selling, have complied with the requirement in Rule 14A16(11) to provide the Exchange with a specified confirmation; and

(iii) to the extent that its client has borrowed Short Selling Securities from a Stock Lender other than the China Connect Exchange Participant, have required the client to inform it (if and after the Short Selling order is executed on the SSE Market) of the client's return of the Short Selling Securities which are the subject of the Short Selling order to the Stock Lender (including the relevant date or dates of return and the number of shares being returned); and

(b) where acting for its own account, have complied with the requirement in Rule 14A16(11) to provide the Exchange with a specified confirmation and have borrowed sufficient Short Selling Securities to settle the Short Selling order if executed.

Short Selling Ratio Limits

(14) The Short Selling Ratio for any Short Selling Security shall not exceed 1% on any CSC trading day, and the cumulative Short Selling Ratios for a Short Selling Security in any period of 10 consecutive CSC trading days shall not exceed 5%. Any Short Selling order that, if executed, will cause the 1% daily limit or the 5% cumulative limit for a Short Selling Security to be exceeded during the course of a CSC trading day will be rejected by the CSC.

(15) The Exchange will publish on the HKEx website or through such other means as the Exchange considers appropriate the following information:

(a) prior to the start of a CSC trading day, the quantity of each Short Selling Security that may be the subject of Short Selling orders for the CSC trading day;

(b) after market close, the Short Selling turnover (including the number of shares and the value) and the Short Selling Ratio of each Short Selling Security for that CSC trading day, and the cumulative Short Selling Ratios of each Short Selling Security over the previous 10 consecutive CSC trading days.

(16) The Exchange may, upon the request of SSE or otherwise, adjust the limits of the Short Selling Ratio referred to in Rule 14A17(14) or suspend the acceptance or routing of Short Selling orders.

Reporting Requirements

- (17) China Connect Exchange Participants shall submit reports to the Exchange on the open short position of any Short Selling Security and other information required by the Exchange, at such intervals as the Exchange may from time to time require. For the purposes of this Rule 14A17, “open short position” means the total number of shares of a Short Selling Security that have been short sold by the China Connect Exchange Participant (whether as principal or agent) through the China Connect Service less the total number of shares borrowed for the purpose of Short Selling that have already been returned to the relevant Stock Lender.
- (18) In addition to the reports referred to in Rule 14A17(17), a China Connect Exchange Participant shall submit a report to the Exchange if the open short position of any Short Selling Security it has executed for its own account or for the account of any of its clients exceeds the reporting thresholds prescribed by the Exchange from time to time.
- (19) The reports referred to in each of Rules 14A17(17) and 14A17(18) shall be in a prescribed form and contain such particulars as the Exchange may require. The Exchange may publish on the HKEx website, or via other channels as it deems appropriate, any information submitted by China Connect Exchange Participants on an aggregate and no-names basis.
- (20) China Connect Exchange Participants must comply with such other reporting requirements as the Exchange may prescribe from time to time.

Suspension and Resumption of Short Selling Activities

- (21) Notwithstanding any other provision in this Rule 14A17, where SSE decides to suspend or has suspended short selling activities in respect of a Short Selling Security in the SSE Market, the Exchange may, as soon as practicable after being notified by SSE, require any or all China Connect Exchange Participants to stop inputting Short Selling orders, through the publication of a notice on the HKEx website or such other means as the Exchange considers appropriate. Short Selling of the relevant Short Selling Securities by China Connect Exchange Participants shall not resume and China Connect Exchange Participants shall not submit Short Selling orders until the Exchange are notified by SSE that short selling of the relevant Short Selling Securities will resume in the SSE Market, and after the Exchange has published a notice on the HKEx website to that effect. China Connect Exchange Participants shall comply with the restrictions set out in this Rule and all relevant notices issued pursuant to this Rule.
- (22) The Exchange may, upon the request of SSE, the Commission or otherwise, direct a China Connect Exchange Participant to apply restrictions on the number of shares of any Short Selling Security that can be short sold by the China Connect Exchange Participants or particular clients and to report information about its or such clients’ Short Selling activity as the Exchange, the SSE or the Commission may direct.

Abnormal Short Selling Activities

- (23) Where the situation referred to in Rule 14A17(22) occurs, where there is reasonable cause to suspect or believe that abnormal short selling activities have taken place, or where the Exchange otherwise considers appropriate, the Exchange and/or the SEHK Subsidiary may, without prejudice to other powers that it/they may have under these Rules, take any of the following actions:
- (a) reject or suspend the routing of Short Selling orders at any time;
 - (b) require a China Connect Exchange Participant to stop accepting instructions from or act for or stop inputting China Connect orders originating from any of its clients;
 - (c) suspend or restrict a China Connect Exchange Participant's access to the China Connect Service; and
 - (d) restrict Short Selling to certain specified Short Selling Securities within the List of Eligible SSE Securities for Short Selling.

Exchange's Powers

- (24) Notwithstanding anything contained herein, the Exchange reserves the right in its absolute discretion to:
- (a) suspend, without giving prior notice, the Short Selling of any Short Selling Securities;
 - (b) impose limits on the number of shares of a particular Short Selling Security which may be the subject of Short Selling orders;
 - (c) impose open short position limits on the number of shares of a particular Short Selling Security which a China Connect Exchange Participant may hold on its own account or for the account of its clients;
 - (d) require a China Connect Exchange Participant to cease Short Selling whether temporarily or permanently and either generally or in relation to a particular Short Selling Security;
 - (e) require a China Connect Exchange Participant to liquidate any or all open short positions held on its own account or for the account of its clients either generally or in relation to a particular Short Selling Security and stipulate, for this purpose, the manner in which a China Connect Exchange Participant is to liquidate open short positions;
 - (f) require a China Connect Exchange Participant to disclose to the Exchange at any time the number of shares of a Short Selling Security in which the China Connect Exchange Participant holds an open short position either on its own account or for the account of its clients; and
 - (g) prescribe from time to time such other restrictions, requirements and conditions subject to which Short Selling and the related Stock Borrowing and Lending shall be conducted.

(25) The Chief Executive may restrict or prohibit a China Connect Exchange Participant from engaging in Short Selling provided that he has first obtained the approval of the Chairman of the Board, which may be given either orally or in writing. Notice of such restriction or prohibition to the China Connect Exchange Participant, whether oral or written, shall take effect immediately upon communication to or service on such China Connect Exchange Participant from the time specified in the notice and shall remain effective and in force until revoked, removed or modified by the Chief Executive after the approval, either oral or written, of the Chairman of the Board is obtained.

(26) The Exchange may from time to time exempt any Short Selling orders, related Stock Borrowing and Lending Arrangement, China Connect Securities Trades and China Connect Exchange Participants from all or any of the restrictions, requirements or conditions to which Short Selling shall be subject.

Others

(27) China Connect Exchange Participants must make appropriate arrangements to ensure that clients who wish to carry out Short Selling understand and are aware of the restrictions, requirements and conditions applicable to Short Selling. In particular, China Connect Exchange Participants shall ensure that their clients acknowledge the price requirements referred to in Rules 14A17(9) – (11).

(28) For the avoidance of doubt, references to “Short Selling Securities” in this Rule 14A17 do not include Special China Connect Securities.

(29) Unless otherwise determined by the Exchange, the Eleventh Schedule of these Rules does not apply to the Short Selling of China Connect Securities or Short Selling Securities.

(30) For the avoidance of doubt, references in this Rule 14A17 to “China Connect Exchange Participant” and “China Connect Exchange Participants” shall be read to include the Exchange Participants referred to in Rule 590(1) (Exchange Participants trading through China Connect Exchange Participants). Accordingly, such Exchange Participants may carry out Short Selling of China Connect Securities through China Connect Exchange Participants subject to the conditions, restrictions and requirements of this Rule. This Rule shall apply to them as if they were China Connect Exchange Participants.

(31) This Rule 14A17 is made pursuant to Rule 1430.