

Rules of the Exchange

CHAPTER 5

TRADING

Operational Trading Rules

Short Selling

- 563D. (2) Securities Market Maker Short Selling shall be limited to transactions in Market Making Securities effected on the Exchange by a Securities Market Maker for its own account or for the account of any of its affiliates or for the account of any of its Designated Specialists during the Pre-opening Session, the Continuous Trading Session and the Closing Auction Session. A Securities Market Maker engaged in Securities Market Maker Short Selling shall comply at all times with the Ordinance and the Regulations regarding Securities Market Maker Short Selling in the Fourteenth Schedule to these Rules as approved by the Exchange from time to time.

FOURTEENTH SCHEDULE

**SECURITIES MARKET MAKER REGULATIONS
("REGULATIONS")**

INTRODUCTION

- (1) In these Regulations:-

“affiliate” means (i) a company that is a subsidiary of a Securities Market Maker or (ii) a company of which a Securities Market Maker is a subsidiary or (iii) a company which shares a parent company with a Securities Market Maker and that parent company owns at least 40 percent of both companies, which satisfies such conditions and/or requirements as may be prescribed by the Exchange from time to time and is approved by the Exchange as an affiliate of the Securities Market Maker for whose account the Securities Market Maker may enter into the

System market making orders for Market Making Securities for which that Securities Market Maker holds a current Securities Market Maker permit;

“fast market” means a period of time, as determined by the Exchange, during which Securities Market Maker Obligations may be suspended;

“market making order” means an order ~~validly entered into to sell or buy a Market Making Security arising from the System during the Continuous Trading Session by an Exchange Participant acting in the capacity as a discharge of~~ Securities Market Maker Obligations as prescribed in or under the Appendix to this Schedule;

“maximum spread” means, in relation to two-sided market making orders, the maximum difference allowed between the bid price and the ask price input by a Securities Market Maker as may from time to time be specified by the Exchange;

“minimum participation rate” means the percentage of a period of time ~~in the Continuous Trading Session within a trading day~~ as may from time to time be specified by the Exchange, during which (i) in the Continuous Trading Session, a Securities Market Maker is required to input and maintain two-sided market making orders that are within the maximum spread and in no less than the minimum quote size; (ii) in the Pre-opening Session, a Securities Market Maker is required to input and maintain two-sided market making orders, which shall be at-auction limit orders, that are in no less than the minimum quote size until the end of the random matching period, upon which the length of time for counting the minimum participation rate is determined by the Exchange from time to time as prescribed in the Appendix to this Schedule; and (iii) in the Closing Auction Session, a Securities Market Maker is required to input and maintain two-sided market making orders, which shall be at-auction limit orders, that are in no less than the minimum quote size until the end of the random closing period, upon which the length of time for counting the minimum participation rate is determined by the Exchange from time to time as prescribed in the Appendix to this Schedule;

“minimum quote size” means, in relation to two-sided market making orders, the aggregate quote value per side of the market making orders that are within the maximum spread input by a Securities Market Maker as may from time to time be specified by the Exchange.

RIGHTS AND OBLIGATIONS OF SECURITIES MARKET MAKERS

- (8) Each Securities Market Maker shall enter market making orders for Market Making Securities, for which it holds a current Securities Market Maker permit into the System, for its own account or for the account of any of its affiliates or for the account of any of its Designated Specialists. Market making orders shall only be input into the System during the Pre-opening Session, the Continuous Trading Session or the Closing Auction Session.
- (9) Subject to Regulation (10), each Securities Market Maker (as the case may be) shall be obliged, in respect of a Market Making Security for which it holds a current Securities Market Maker permit, to:-
- (i) enter two-sided market making orders into the System in no less than the minimum quote size and each within the maximum spread; ~~and~~ during the Continuous Trading Session;
 - (ii) [Repealed]
 - (iii) enter two-sided market making orders, which shall be at-auction limit orders, into the System in no less than the minimum quote size during the Pre-opening Session and the Closing Auction Session; and
 - (iii) maintain such orders for a minimum period of time as specified by the Exchange from time to time.

SECURITIES MARKET MAKER SHORT SELLING

- (24) A Securities Market Maker Short Selling order ~~shall only~~may be input into the System for its own account or for the account of any of its affiliates or for the account of any of its Designated Specialists during the Pre-opening Session, the Continuous Trading Session or the Closing Auction Session. In respect of a Securities Market Maker Short Selling order, a Securities Market Maker shall when inputting the order into the System, indicate in such manner as the Exchange shall from time to time determine, that the order is a Securities Market Maker Short Selling order.
- (26) A Securities Market Maker Short Selling order could be made on the Exchange below the POS reference price (during the Pre-opening Session), the best current ask price (during the Continuous Trading Session) or the CAS reference price (during the Closing Auction Session).

APPENDIX TO FOURTEENTH SCHEDULE

SECURITIES MARKET MAKER OBLIGATIONS (“Obligations”)

2. The Exchange has absolute discretion to prescribe from time to time different Obligations with respect to different Market Making Securities. Such different Obligations will be notified to the Exchange Participants. Unless otherwise notified to the Exchange Participants, the Obligations with respect to each of the Market Making Securities may be prescribed by the Exchange within the following ranges:

	Ranges within which the Obligations may be prescribed
The maximum spread of two-sided market making orders entered by a Securities Market Maker into the System <u>during the Continuous Trading Session</u>	0.25 to 2.00 percent or where the nominal price of the security is under such price as the Exchange may from time to time specify, 1 spread
The minimum quote size of market making orders that a Securities Market Maker submits <u>during the Pre-opening Session, the Continuous Trading Session or the Closing Auction Session</u> in accordance with Regulation (9)	HKD50,000 to 1,000,000
	RMB50,000 to 1,000,000
	USD5,000 to 200,000
The minimum period of time for which a Securities Market Maker shall maintain a <u>pair of two-sided</u> market making order orders after initially entering it into the System <u>during (1) the Continuous Trading Session, (2) the Pre-opening Session until the end of the random matching period and (3) the Closing Auction Session until the end of the random closing period</u>	0 to 90 120 seconds

<p>The minimum participation rate of a Securities Market Maker <u>during the Pre-opening Session, the Continuous Trading Session and the Closing Auction Session</u> in one trading day</p>	<p>50 to 90 percent</p>
<p><u>The length of time for counting the minimum participation rate for two-sided market making orders that are in no less than the minimum quote size and are maintained in no less than the minimum period of time until the end of the random matching period of the Pre-opening Session</u></p>	<p><u>0 to 900 seconds</u></p>
<p><u>The length of time for counting the minimum participation rate for two-sided market making orders that are in no less than the minimum quote size and are maintained in no less than the minimum period of time until the end of the random closing period of the Closing Auction Session</u></p>	<p><u>0 to 360 seconds</u></p>