

Rules of the Exchange

CHAPTER 5

TRADING

Operational Trading Rules

Closing Auction Session

- 501L. (5) (a) During the order input period, at-auction orders and at-auction limit orders each with a specified price that does not deviate more than 5% from the CAS reference price may be input into the System provided that each short selling order input into the System during the Closing Auction Session shall be an at-auction limit order and in accordance with Rule 563D(1), 563D(5), 563D(6) or 563D(8). Except as provided in paragraph (b) below, all orders may be amended or cancelled provided that any outstanding short selling order carried forward to the Closing Auction Session that is amended in connection with the specified price shall only be made in compliance with Rule 563D(1), 563D(5), 563D(6) or 563D(8). An auction order that is amended in connection with a reduction in size shall not affect the time priority of the original auction order. An auction order that is amended in connection with the specified price or an increase in size will result in the loss of time priority of the original auction order.
- (b) An outstanding Securities Market Maker Short Selling order carried forward to the Closing Auction Session pursuant to Rule 501L(4) may be amended in connection with a reduction in size or cancelled. For the avoidance of doubt, such order shall not be amended in connection with the specified price or an increase in size during the order input period.
- (6) During the no-cancellation period and the random closing period up to the close of the Closing Auction Session, at-auction orders and at-auction limit orders each with a specified price (a) that does not deviate more than 5% from the CAS reference price; (b) (if available) within the range of the lowest ask price and the highest bid price of the orders recorded in the System at the end of the order input period; and (c) (in respect of short selling orders to be input into the System during the Closing Auction Session in accordance with Rule 563D(1) only) that is at or above the CAS reference price (except where the Designated Security is a Market Making Security approved by the Commission to be excluded from the application of Regulation (15) in the Eleventh Schedule to these Rules) may be input into the System but no order shall be amended or cancelled.

Short Selling

- 563D. (1) With the exception of Securities Market Maker Short Selling by a Securities Market Maker, Structured Product Liquidity Provider Short Selling by a Structured Product Liquidity Provider, Designated Index Arbitrage Short Selling by a Designated Index Arbitrage Short Selling Participant, Stock Futures Hedging Short Selling by a Designated Stock Futures Hedging Short Selling Participant, Structured Product Hedging Short Selling by a Structured Product Hedging Participant and Options Hedging Short Selling by a Market Maker or an Options Hedging Participant, short selling shall be limited to transactions in (a) Designated Securities effected on the Exchange during the Continuous Trading Session and (b) Designated Securities which are also CAS securities effected on the Exchange during the Closing Auction Session. For the avoidance of doubt, only at-auction limit orders may be input into the System as short selling orders during the Closing Auction Session. Exchange Participants engaged in short selling shall comply at all times with the Ordinance as amended from time to time, and the Regulations regarding short selling in the Eleventh Schedule to these Rules as approved by the Exchange from time to time.

ELEVENTH SCHEDULE

SHORT SELLING REGULATIONS (“REGULATIONS”)

- (5) A short selling order may only be input into the System during the Continuous Trading Session and the Closing Auction Session. An Exchange Participant which knows or is informed that an order to sell is a short sale shall:-
- (a) when passing the order to another Exchange Participant or any other person having access to the System (including but not limited to an employee of an Exchange Participant) with a view that he or it shall input the order into the System, inform him or it that the order is a short selling order;
 - (b) when inputting the order into the System, indicate such matters and in such manner as the Exchange shall from time to time determine, that the order is a short selling order.
- (15) A short sale of a Designated Security shall not be made on the Exchange below the best current ask price (during the Continuous Trading Session) or the CAS reference price (during the Closing Auction Session) except where the Designated Security is a Market Making Security approved by the Commission to be excluded from the application of this Regulation.

FIFTEENTH SCHEDULE

**DESIGNATED INDEX ARBITRAGE SHORT SELLING,
STOCK FUTURES HEDGING SHORT SELLING,
STRUCTURED PRODUCT HEDGING SHORT SELLING AND
OPTIONS HEDGING SHORT SELLING REGULATIONS
("REGULATIONS")**

DESIGNATED INDEX ARBITRAGE SHORT SELLING

- (11) Designated Index Arbitrage Short Selling could be made on the Exchange below the best current ask price (during the Continuous Trading Session) or the CAS reference price (during the Closing Auction Session).
- (16) An order involving Designated Index Arbitrage Short Selling may only be entered into the System during the Continuous Trading Session and the Closing Auction Session. Each order effected on the Exchange relating to a Designated Index Arbitrage Transaction shall be entered into the System by a Designated Index Arbitrage Short Selling Participant with a specific transaction indicator assigned by the Exchange followed by a transaction nature indicator and a transaction reference number in the trade reference field (in sequential order). In addition, orders involving Designated Index Arbitrage Short Selling must be entered into the System with a specific short sale indicator in the short sale indicator field. The Designated Index Arbitrage Short Selling Participant shall ensure that the same assigned transaction indicator, transaction nature indicator and transaction reference number are used by the relevant Designated Index Arbitrage Participant (as defined in the Rules of HKFE) when executing such parts of the Designated Index Arbitrage Transaction that correspond to such order on HKFE on its or its registered arbitrageur's behalf. It shall also ensure the same assigned transaction indicator, transaction nature indicator and transaction reference number are used when executing the purchase of TraHK Units as part of a Designated Index Arbitrage Transaction that correspond to the same sale order.

STOCK FUTURES HEDGING SHORT SELLING

- (25) Stock Futures Hedging Short Selling could be made on the Exchange below the best current ask price (during the Continuous Trading Session) or the CAS reference price (during the Closing Auction Session).
- (29) An order involving Stock Futures Hedging Short Selling may only be entered into the System during the Continuous Trading Session and the Closing Auction Session. Each order effected on the Exchange as part of a Stock Futures Hedging Transaction shall be entered into the System by a Designated Stock Futures Hedging Short Selling Participant with a specific transaction indicator assigned by the Exchange in the trade reference field. In addition, orders involving Stock Futures Hedging Short Selling must be entered into the System with a specific short sale indicator in the short sale indicator field.

STRUCTURED PRODUCT HEDGING SHORT SELLING

- (40) An order involving Structured Product Hedging Short Selling may only be entered into the System during the Continuous Trading Session. An order involving Structured Product Hedging Short Selling must be entered into the System with a specific short sale indicator in the short sale indicator field and in such manner as the Exchange shall from time to time determine.

OPTIONS HEDGING SHORT SELLING

- (46) Options Hedging Short Selling could be made on the Exchange below the best current ask price (during the Continuous Trading Session) or the CAS reference price (during the Closing Auction Session).
- (50) An order involving Options Hedging Short Selling may only be entered into the System during the Continuous Trading Session and the Closing Auction Session. An order involving Options Hedging Short Selling must be entered into the System with a specific short sale indicator in the short sale indicator field and in such manner as the Exchange shall from time to time determine.