

ELEVENTH SCHEDULE

SHORT SELLING REGULATIONS (“REGULATIONS”)

- (1) These Regulations apply to short selling of securities other than Securities Market Maker Short Selling, Dual Counter Market Maker Short Selling, Structured Product Liquidity Provider Short Selling, Designated Index Arbitrage Short Selling, Stock Futures Hedging Short Selling, Structured Product Hedging Short Selling and Options Hedging Short Selling.

In these regulations, “short selling” or “short sale”:-

- (a) subject to paragraph (b), means the sale of a security in respect of which the 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 security in the purchaser by virtue of having:-
- (i) under a securities borrowing and lending agreement:-
 - (A) borrowed the securities; or
 - (B) obtained a confirmation from the counterparty to the agreement that the counterparty has the security available to lend to him;
 - (ii) a title to other security which is convertible into or exchangeable for the security to which the sale relates;
 - (iii) an option to acquire the security to which the sale relates;
 - (iv) rights or warrants to subscribe to and to receive the security to which the sale relates; or
 - (v) entered into with any other person an agreement or arrangement of a description prescribed by rules made under section 397 of the Ordinance, for the purposes of this sub-paragraph;
- (b) in relation to a(ii), (iii), (iv) or (v) above, does not include a sale where the seller, or the person for whose benefit or on whose behalf the sale is made, has, at the time of the sale, issued unconditional instructions to obtain the security to which the sale relates.
- (2) An Exchange Participant shall not short sell securities whether acting for its own account or for the account of its clients other than in accordance with the provisions of these Regulations.
- (3) A short selling transaction shall only be concluded in a Designated Security automatically struck through the System.

- (4) An Exchange Participant may short sell Designated Securities:-
 - (a) for its own account; or
 - (b) for the account of its clients.
- (5) A short selling order may be input into the System during the Pre-opening Session, 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.
- (6) [Repealed]
- (7) [Repealed]
- (8) [Repealed]
- (9) [Repealed]
- (10) [Repealed]
- (11) [Repealed]
- (12) [Repealed]
- (13) [Repealed]
- (14) The Chief Executive may restrict or prohibit an Exchange Participant from short selling Designated Securities provided 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 Exchange Participant, whether oral or written, shall take effect immediately upon communication to or service on such 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.
- (15) A short sale of a Designated Security shall not 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) except where the Designated Security is a Market Making Security approved by the Commission to be excluded from the application of this Regulation.

- (16) [Repealed]
- (17) The Exchange may from time to time exempt any orders, trades and Exchange Participants from all or any of the provisions of these Regulations.
- (18) An automatch stock may be designated by the Exchange as Designated Security from time to time if it falls within or is otherwise included in any one or more of the following categories:-
- (a) all constituent stocks of indices which are the underlying indices of equity index products traded on the Exchange;
 - (b) all constituent stocks of indices which are the underlying indices of equity index products traded on HKFE;
 - (c) all underlying stocks of stock options traded on the Exchange;
 - (d) all underlying stocks of Stock Futures Contracts (as defined in the rules, regulations and procedures of HKFE) traded on HKFE;
 - (e) stocks eligible for structured product issuance pursuant to Rule 15A.35 of the Main Board Listing Rules or underlying stocks of Structured Product traded on the Exchange;
 - (f) stocks with market capitalisation of not less than HK\$3 billion and an aggregate turnover during the preceding 12 months to market capitalisation ratio of not less than 60%;
 - (g) Exchange Traded Funds approved by the Board in consultation with the Commission;
 - (h) all securities traded under the Pilot Program;
 - (i) stocks that have been listed on the Exchange for not more than 60 trading days, with a public float capitalisation of not less than HK\$20 billion for a period of 20 consecutive trading days commencing from the second day of their listing on the Exchange and an aggregate turnover of not less than HK\$500 million during such period;
 - (j) [Repealed]
 - (k) applicable Market Making Securities (other than the securities described in categories (g) and (h) above) approved by the Board in consultation with the Commission; and
 - (l) applicable Dual Counter Securities approved by the Board in consultation with the Commission.

For the purposes of this Regulation (18), where the stocks of an issuer have been

accepted for trading on the Exchange in more than one currency under different designated stock codes, the Exchange may regard the stocks traded under all stock codes as a single automatch stock and calculate the public float capitalization, market capitalization and aggregate turnover referred to above on a combined basis so long as the stocks traded under different stock codes constitute securities of the same class of the issuer and the transfer of stocks between different stock codes is allowed.

- (19) The Exchange may from time to time review the list of Designated Securities and remove a Designated Security from the list of Designated Securities if the Designated Security no longer falls within and is no longer included in any of the categories under Regulation (18) at the time of review.