Dear Client,

RE: Risks Relating to Listed Derivatives

In the spirit of enhanced investor protection and as part of our ongoing commitment to improve our services to our clients, we have prepared this client communication highlighting the key features and risks of trading in Derivative Warrants and Callable Bull/Bear Contracts (the "Listed Derivatives").

i. **Derivative Warrants**
Derivative Warrants are instructions which give investors the right - but not the obligation - to buy or sell an underlying asset at a pre-set price on or before a specified expiry date. A bullish investor may buy a call warrant to benefit from upward movements of the underlying asset value while a bearish investor may buy a put warrant to capitalize on the downward movements of the underlying asset value.

ii. **Callable Bull/Bear Contracts (CBBC)**
CBBC are a type of structured product whose price movement tends to follow closely the performance of an underlying asset. They are issued either as Bull or Bear contracts with a fixed expiry date and strike price, allowing investors to take bullish or bearish positions on the underlying asset. CBBC are issued with the condition that during their lifespan they will be called by the issuer when the price of the underlying asset reaches a level (known as the "Call Price"). If the Call Price is reached before expiry, the CBBC will expire early and the trading of that CBBC will be terminated immediately.

The Listed Derivatives involve a high degree of risks and may not be suitable for every investor. Before investing in any Listed Derivative, you must understand the key features and risks of such product so as to be sure that the product suits your investment objectives and financial profile. The following section highlights the key risks, but may not include all the risks, relating to an investment in the Listed Derivatives:

i. **Credit Risk**
You are subject to the full credit risk of the issuer and guarantor (if any) of the Listed Derivatives. Any payment to be made on the Listed Derivatives depends on the ability of the relevant issuer and guarantor (if any) to satisfy their obligations as they fall due.

ii. **Market Risk**
The returns of the Listed Derivatives are linked to the performance of the underlying asset. Past performance of the underlying asset is no indication of future performance. There is no guarantee that the underlying asset will perform in a manner that will result in a positive return on the Listed Derivatives. You could lose your entire invested amount if the Listed Derivatives are out-of-the-money at expiration (if not called before expiry in the case of CBBC).

The value of the Listed Derivatives, prior to their stated expiry date, could be affected by a number of factors including but not limited to the underlying asset price or level, the strike price or level, volatility of the underlying asset value, market interest rates, the remaining time to expiry, creditworthiness of the issuer and guarantee (if any) and prevailing market demand and supply conditions.

In the case of CBBC, when the underlying asset is trading close to the Call Price, the change in the value of CBBC may be more volatile and disproportionate with the change in the value of the underlying asset given that the CBBC may be called at any time and trading of the CBBC will be terminated as a result.

iii. **Mandatory Call Risk (applicable to CBBC only)**
CBBC are subject to an intraday “knockout” or a mandatory call feature. A CBBC will be called by the Issuer and cease trading when the underlying asset reaches the Call Price. Payoff for Category N CBBC (refers to those CBBC where Call Price is equal to Strike Price) will be zero when the CBBC is called. On the other hand, when a Category R CBBC (refers to those CBBC where Call Price is different from Strike Price) is called, you may receive a cash payment (known as the “Residual Value”) as calculated in accordance with the relevant listing documents although the Residual Value can be zero and you may lose the entire invested amount in the CBBC.

iv. **Gearing Risk**
The Listed Derivatives are leveraged products and may change in value in percentage terms to a much greater extent greater extent with that of the underlying asset. Gearing works both ways. The level of gearing may change as the underlying asset value changes. Although higher gearing may give you higher returns, it also exposes you to higher downside risk and may even result in a total loss of your initial investment if you expect the value of the underlying asset to move one way but it moves in opposite direction.

v. **Liquidity Risk**
Although liquidity providers are appointed for the Listed Derivatives, there is no guarantee that you will be able to buy/sell the Listed Derivatives or do so at a satisfactory price.

vi. **Event Risk**
The Listed Derivatives may be subject to certain event risks including but not limited to market disruption, settlement disruption, corporate actions or other events which affect the underlying asset. This may adversely affect the value of the Listed Derivatives and/or delay settlement and potentially lead to significant losses.

vii. **The Listed Derivatives differ from Investment in the Underlying Asset**
An investment in the Listed Derivatives is not the same as an investment in the underlying asset. You will not be entitled to voting rights, rights to receive dividends or distributions or any other rights under the underlying assets. The returns of the Listed Derivatives may be less than the returns on a direct investment in the underlying asset. In addition, if the market value of the underlying asset increases, the market value of the Listed Derivatives may not increase by the same amount or it is also possible for the value of the Listed Derivatives to decrease.

viii. **Funding Costs (applicable to CBBC only)**
The issue price of a CBBC includes funding costs charged upfront for the entire period from launch to expiry of the CBBC. Funding costs are gradually reduced over time as the CBBC moves towards expiry. In general, the longer the tenor of the CBBC, the higher the funding costs. In the event that a CBBC is called, investors will lose the funding costs for the entire

lifespan of the CBBC. You should also note that the funding costs of a CBBC after launch may vary during its life and the liquidity provider is not obliged to provide a quote for the CBBC based on the theoretical calculation of the funding costs for the CBBC at launch.

We strongly urge you to carefully review the relevant listing documents for the Listed Derivatives for further information, including a more detailed description of the risks relating to the Listed Derivative before deciding to invest in any such products.

Additional general information on the Listed Derivatives can be found on the HKSFC and HK Exchange websites:

http://www.invested.hk/invested/en/html/section/products/warrants/warrant_index.html
http://www.hkex.com.hk/eng/prod/secprod/dwrc/dw.htm
http://www.hkex.com.hk/eng/prod/secprod/cbbc/Intro.htm
http://www.hkex.com.hk/eng/prod/secprod/riskssp.htm

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