

29<sup>th</sup> October 2020

Dear Valued Customer,

**Derivative Products and/or Structured Products Traded on the Exchange**

To duly comply with the regulatory requirements, we enclose the Additional Risk Disclosure Statement (the “Appendix”), effective from 20th November 2020 (“Effective Date”), for your reference. (Please be reminded that the Appendix is not and cannot be taken as a comprehensive or exhaustive list of all Exchange Traded Derivative and/or Structured Products and their possible risks.) We will only offer trade service of the derivative and/or structured products which are traded on the Exchange including but not limited to Futures-based ETF and Leveraged and Inverse Products (collectively, the “Derivative and/or Structured Products”) to customers who fully understand and accept the risks associated with them.

If you have any questions in relation to the risks associated with the Derivative and/or Structured Products as disclosed in the Appendix, you are advised to take independent advice. Please notify us in writing of your rejection of the said risks before the Effective Date if you do not accept the said risks so that appropriate arrangements can be made in accordance with the Terms and Conditions of Securities Margin Client Agreement to discontinue the services in relation to your Securities Margin Account. Please note that the Appendix shall be binding on you and you will be deemed to have accepted the risks disclosed therein if you continue using such services on and after the Effective Date.

Should you have any enquiries, please feel free to contact any of our branches or customer service hotline at 2815 9919.

Yours faithfully,

OCBC Wing Hang Bank, Limited

Remarks: Exchange means the limited company with the exclusive right to establish, operate and maintain a stock market or commodity exchange including but not limited to the Hong Kong Exchanges and Clearing Limited.

Appendix: Additional Risk Disclosure Statement - Exchange Traded Derivative Products and/or Structured Products

In case of inconsistency between the English version and the Chinese version of the Appendix, the English version shall prevail.

## **Additional Risk Disclosure Statement – Exchange Traded Derivative Products and/or Structured Products**

*“Exchange” – means the limited company with the exclusive right to establish, operate and maintain a stock market or commodity exchange including but not limited to the Hong Kong Exchanges and Clearing Limited.*

### **A. General risks of Derivative Products and/or Structured Products traded in Exchange**

**Issuer default risk:** In the event a structured product issuer becomes insolvent and defaults on its listed securities, I/we will be considered as unsecured creditors and will have no preferential claims to any assets held by the issuer. I/We should therefore pay close attention to the financial strength and credit worthiness of structured product issuers.

**Uncollateralised product risk:** Uncollateralised structured products are not asset backed. In the event of issuer becomes insolvent or bankrupt, I/we can lose my/our entire investment. I/We should read the listing documents to determine if a product is uncollateralised.

**Gearing risk:** Structured products such as derivative warrants and callable bull/bear contracts are leveraged and can change in value rapidly according to the gearing ratio relative to the underlying assets. I/We should be aware that the value of a structured product may fall to zero resulting in a total loss of the initial investment.

**Expiry considerations:** Structured products have an expiry date after which the issue may become worthless. I/We should be aware of the expiry time horizon and choose a product with an appropriate lifespan for my/our trading strategy.

**Extraordinary price movements:** The price of a structured product may not match its theoretical price due to outside influences such as market supply and demand factors. As a result, actual traded prices can be higher or lower than the theoretical price.

**Foreign exchange risk:** I/We trading structured products with underlying assets not denominated in Hong Kong dollars am/are also exposed to exchange rate risk. Currency rate fluctuations can adversely affect the underlying asset value, also affecting the structured product price.

**Liquidity risk:** The Exchange requires all structured product issuers to appoint a liquidity provider for each individual issue. The role of liquidity providers is to provide two way quotes to facilitate trading of their products. In the event that a liquidity provider defaults or ceases to fulfill its role, I/we may not be able to buy or sell the product until a new liquidity provider has been assigned.

### **B. Additional risks of Derivative Products and/or Structured Products traded in Exchange**

#### **B (1) Equity derivatives traded in the Exchange**

##### **Derivative Warrants**

Exchange traded derivative warrants fall under the category of derivative investment instruments or structured products. They have a life of six months to five years. The underlying assets of derivative warrants include ordinary shares, market indices, currencies and baskets of shares. Derivative warrants are issued by a third party, generally an investment bank, independent of the issuer of the underlying assets. The issuer of derivative warrants may not be the issuer of the underlying assets but should hold or have a right to hold the underlying assets.

Exchange traded derivative warrants can be linked to a single security or a basket of securities, stock indices, currencies, commodities or futures contracts (like crude oil futures). Almost all derivative warrants currently traded in Hong Kong are cash-settled. Warrants linked to a basket of securities, stock indices or securities listed in other jurisdictions will always be settled by cash. Similar to other securities, I/we can buy or sell derivative warrants anytime during the securities market's trading hours.

When a physically settled call derivative warrant on a single stock is exercised, the warrant holder will receive the underlying stock from the issuer. Unlike equity warrants, no new shares will be issued.

### **Risks involved in trading Derivative Warrants**

**Issuer Risk:** Derivative Warrant holders are unsecured creditors of the issuer and have no preferential claim to any assets an issuer may hold.

**Gearing Risk:** Although derivative warrants often cost less than the price of the underlying assets, a derivative warrant may change in value to a much greater extent than the underlying assets. Although potential return on derivative warrants may be higher than that on the underlying assets, it should be noted that in the worst case the value of derivative warrants may fall to zero and holders may lose their entire investment amount.

**Limited Life:** Unlike stocks, derivative warrants have an expiry date and therefore a limited life. Unless the derivative warrants are in-the-money, they become worthless at expiration.

**Time Decay:** So long as other factors remain unchanged, the value of derivative warrants will decrease over time. Therefore, derivative warrants should never be viewed as products that are bought and held as long term investments.

**Market Forces:** In addition to the basic factors that determine the theoretical price of a derivative warrant, derivative warrant prices are also affected by the demand for and supply of the derivative warrants. This is particularly the case when a derivative warrant issue is almost sold out and when there are further issues of an existing derivative warrant.

**Turnover:** High turnover should not be regarded as an indication that a derivative warrant's price will go up. The price of a derivative warrant is affected by a number of factors in addition to market forces, such as the price of the underlying assets and its volatility, the time remaining to expiry, interest rates and the expected dividend on the underlying assets.

**Volatility:** Prices of derivative warrants can increase or decrease in line with the implied volatility of underlying asset price. I/We should be aware of the underlying asset volatility.

**Obligation of liquidity providers:** The listing document lists the exact obligations of the liquidity provider. In normal circumstances, liquidity providers should provide liquidity for derivative warrant issues through continuous quotes or in response to quote requests from five minutes after the market opens until the market closes. The liquidity provider should provide liquidity for at least a certain number of board lots of the derivative warrant. An issuer must specify the maximum spread between the bid and offer prices for its derivative warrants in the listing document. Under the quote request system, I/we may request a quote from the liquidity provider. In the event that a liquidity provider defaults or ceases to fulfill its role, I/we may not be able to buy or sell the product until a new liquidity provider has been assigned.

### **Callable Bull/Bear Contracts (“CBBC”)**

Exchange traded CBBC are a type of structured product that tracks the performance of an underlying asset without requiring me/us to pay the full price required to own the actual asset. They are issued either as Bull or Bear contracts with a fixed expiry date, allowing me/us to take bullish or bearish positions on the underlying asset. CBBC are issued by a third party, usually an investment bank, independent of Exchange and of the underlying asset. Similar to other securities, I/we can buy or sell CBBC anytime during the securities market's trading hours.

Exchange traded CBBC are issued with the condition that during their lifespan they will be called by the issuers when the price of the underlying asset reaches a level (known as the “Call Price”) specified in the listing document. If the Call Price is reached before expiry, the CBBC will expire early and the trading of that CBBC will be terminated immediately. The specified expiry date from the listing document will no longer be valid.

For Bull contracts, the Call Price must be either equal to or above the Strike Price. For Bear contracts, the Call Price must be equal to or below the Strike Price. If the underlying asset's price reaches the Call Price at any time prior to expiry, the CBBC will expire early. The issuer must call the CBBC and trading of the CBBC will be terminated immediately. Such an event is referred to as a Mandatory Call Event (MCE).

CBBC may be issued with a lifespan of 3 months to 5 years and are settled in cash only. There are two categories of CBBC, namely Category N CBBC and Category R CBBC.

i) A Category N CBBC refers to a CBBC where its Call Price is equal to its Strike Price, and the CBBC holder will not

receive any cash payment once the price of the underlying asset reaches or goes beyond the Call Price.

ii) A Category R CBBC refers to a CBBC where its Call Price is different from its Strike Price, and the CBBC holder may receive a small amount of cash payment (called “Residual Value”) upon the occurrence of an MCE but in the worst case, no residual value will be paid.

### **Risk involved in trading CBBC**

**Mandatory call:** CBBC are not suitable for all types of investors and I/we should consider my/our risk appetite prior to trading. In any case, I/we should not trade in CBBC unless I/we understand the nature of the product and am/are prepared to lose the total amount invested since a CBBC will be called by the issuer when the price of the underlying asset hits the Call Price and trading in that CBBC will expire early. Payoff for Category N CBBC will be zero when they expire early. When Category R CBBC expire early the holder may receive a small amount of Residual Value payment, but there may be no Residual Value payment in adverse situations. The Bank may charge its customers a service fee for the collection of the Residual Value payment from the respective issuers.

In general, the larger the buffer between the Call Price and the Spot Price of the underlying asset, the lower the probability of the CBBC being called since the underlying asset of that CBBC would have to experience a larger movement in the price before the CBBC will be called. However at the same time, the larger the buffer, the lower the leverage effect will be. Once the CBBC is called, even though the underlying asset may bounce back in the right direction, the CBBC which has been called will not be revived and I/we will not be able to profit from the bounce-back.

Besides, the MCE of a CBBC with overseas assets as underlying may be triggered outside the Exchange’s trading hours.

**Gearing effects:** Since a CBBC is a leveraged product, the percentage change in the price of a CBBC is greater compared with that of the underlying asset. I/We may suffer higher losses in percentage terms if I/we expect the price of the underlying asset to move one way but it moves in the opposite direction.

**Limited life:** A CBBC has a limited life, as denoted by the fixed expiry date, with a lifespan of 3 months to 5 years. The life of a CBBC may be shorter if called before the fixed expiry date. The price of a CBBC fluctuates with the changes in the price of the underlying asset from time to time and may become worthless after expiry and in certain cases, even before the normal expiry if the CBBC has been called early.

**Movement with underlying asset’s price:** Although the price of a CBBC tends to follow closely the price of its underlying asset, in some situations it may not (i.e. delta may not always be close to one). Prices of CBBC are affected by a number of factors, including its own demand and supply, funding costs and time to expiry. Moreover, the delta for a particular CBBC may not always be close to one, in particular when the price of the underlying asset is close to the Call Price.

**Liquidity:** Although CBBC have liquidity providers, there is no guarantee that I/we will be able to buy/sell CBBC at my/our target prices any time I/we wish. In the event that a liquidity provider defaults or ceases to fulfill its role, I/we may not be able to buy or sell the product until a new liquidity provider has been assigned.

**Funding costs:** The issue price of a CBBC includes funding cost and issuers are required to specify the formula for calculating the funding costs of their CBBC at launch in the listing documents. The funding cost of a CBBC includes the issuer's financing/stock borrowing costs after adjustment for expected ordinary dividends of the shares (if the underlying assets are dividend-paying shares) and the issuer's profit margin. These items fluctuate from time to time, therefore the funding costs are not fixed throughout the tenure of the contracts. In general, the longer the duration of the CBBC, the higher the funding costs. The funding costs decline over time as the CBBC moves towards expiry. I/We am/are advised to compare the funding costs of different issuers of CBBC with similar underlying assets and features.

When a CBBC is called, the CBBC holders (investors- e.g. I/we) will lose the funding cost for the full period since the funding cost is built into the CBBC price upfront at launch even though with the MCE, the actual period of funding for the CBBC turns out to be shorter.

In any case, I/we should 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 that CBBC at launch.

**Trading of CBBC close to Call Price:** When the underlying asset is trading close to the Call Price, the price of a CBBC

may be more volatile with wider spreads and uncertain liquidity. CBBC may be called at any time and trading will terminate as a result.

However, the trade inputted by me/us may still be executed and confirmed by me/us after the MCE since there may be some time lapse between the MCE time and suspension of the CBBC trading. Any trades executed after the MCE (i.e. Post MCE Trades) will not be recognized and will be cancelled. Therefore, I/we should be aware of the risk and ought to apply special caution when the CBBC is trading close to the Call Price.

Issuers will announce the exact call time within 1 hour after the trigger of MCE, and the Exchange will also send the list of Post MCE Trades to the Bank, and the Bank will inform the customers accordingly.

**CBBC with overseas underlying asset:** I/We trading CBBC with overseas underlying assets am/are exposed to an exchange rate risk as the price and cash settlement amount of the CBBC are converted from a foreign currency into Hong Kong dollars. Exchange rates between currencies are determined by forces of supply and demand in the foreign exchange markets which are affected by various factors.

Besides, CBBC issued on overseas underlying assets may be called outside the Exchange's trading hours. In such case, the CBBC will be terminated from trading on Exchange in the next trading session or soon after the issuer has notified Exchange about the occurrence of the MCE. There will be no automatic suspension of the CBBC trading.

## **B (2) Exchange Traded Funds("ETFs") and Future-based ETFs traded in the Exchange**

ETFs are passively managed and open-ended funds. All listed ETFs on the Exchange securities market are authorized by the Securities and Futures Commission as collective investment schemes.

Similar to other securities, I/we can buy or sell ETFs anytime during the securities market's trading hours.

ETFs can be broadly grouped into three types:

### **Physical ETFs (i.e. traditional or in-specie ETFs)**

Many of these ETFs directly buy all the assets needed to replicate the composition and weighting of their benchmark (e.g. constituents of a stock index). However, some only buy a portion of the assets needed to replicate the benchmark or assets which have a high degree of correlation with the underlying benchmark but are not part of it.

Some physical ETFs with underlying equity-based indices may also invest partially in futures and options contracts. Lending the shares they own is another strategy used by some physical ETFs. I/We should read the ETF prospectus carefully to ensure I/we understand how the fund operates.

### **Synthetic ETFs**

These ETFs do not buy the assets in their benchmark. Instead, they typically invest in financial derivative instruments to replicate the benchmark's performance. The ETFs are required to have collateral when investing in derivatives (details of the net and gross counterparty exposure and types and composition of the collateral are published on the ETF's website). An ETF's net risk exposure to any single counterparty (i.e. net of the value of any collateral provided) cannot be more than 10 per cent of its Net Asset Value ("NAV"). I/We should read the ETF prospectus carefully to ensure I/we understand how the fund operates.

### **Futures-based ETFs**

Futures-based ETFs are passively-managed index funds traded on an exchange which aim to replicate the performance of an underlying index by investing in futures contracts.

### **Excess return index and total return index**

A futures-based ETF may track a spot market index or a futures index. Typically, a futures index tracked by a futures-based ETF is either an excess return index or a total return index.

- An excess return index measures the changes in the prices of the underlying futures contracts during the period that they are held by the ETF as adjusted by, the gain or loss incurred from rolling the futures contracts as they approach maturity.
- A total return index measures the changes in prices of the futures contracts and the gain or loss incurred from rolling the futures contracts, as well as the notional interest earnings from the ETF's cash holding and margin deposits based on various assumptions.

### **Benefits and risks of investing in futures-based ETFs**

As one of the different types of ETFs, futures-based ETFs have the key benefits of a typical ETF, such as easy to trade, diversified, transparent and cost-effective. At the same time, it also benefits from the use of futures contracts in gaining exposure to a wide range of underlying assets including commodities (such as precious metals and other physical commodities), fixed income securities and equities. However, investing in futures-based ETFs is subject to common risks of ETFs as well as relevant risks involved in futures funds.

### **Risk involved in trading ETFs**

**Market risk:** ETFs are typically designed to track the performance of certain indices, market sectors, or groups of assets such as stocks, bonds, or commodities. ETF managers may use different strategies to achieve this goal, but in general they do not have the discretion to take defensive positions in declining markets. I/We must be prepared to bear the risk of loss and volatility associated with the underlying index/assets.

**Tracking errors:** Tracking errors refer to the disparity in performance between an ETF and its underlying index/assets. Tracking errors can arise due to factors such as the impact of transaction fees and expenses incurred to the ETF, changes in composition of the underlying index/assets, and the ETF manager's replication strategy. (The common replication strategies include full replication/representative sampling and synthetic replication which are discussed in more details below.)

**Trading at discount or premium:** An ETF may be traded at a discount or premium to its NAV. This price discrepancy is caused by supply and demand factors, and may be particularly likely to emerge during periods of high market volatility and uncertainty. This phenomenon may also be observed for ETFs tracking specific markets or sectors that are subject to direct investment restrictions.

**Foreign exchange risk:** I/We trading ETFs with underlying assets not denominated in Hong Kong dollars are also exposed to exchange rate risk. Currency rate fluctuations can adversely affect the underlying asset value, also affecting the ETF price.

**Liquidity risk:** Securities Market Makers ("SMMs") are Exchange Participants that provide liquidity to facilitate trading in ETFs. Although most ETFs are supported by one or more SMMs, there is no assurance that active trading will be maintained. In the event that the SMMs default or cease to fulfill their role, I/we may not be able to buy or sell the product.

### **Specific risk involved in trading Futures-based ETFs**

**(I) Risk of rolling futures contracts:** Futures contracts are binding agreements that are made through futures exchanges to buy or sell the underlying assets at a specified time in the future. "Rollover" occurs when an existing futures contract is about to expire and is replaced with another futures contract representing the same underlying but with a later expiration date. When rolling futures contracts forward (ie. selling near-term futures contracts and then buying longer-term futures contracts) in a situation where the prices of the longer-term futures contract are higher than that of the expiring current-month futures contract, a loss from rolling (ie. a negative roll yield) may occur. Under such circumstances, the proceeds from selling the near-term futures contracts will not be sufficient to purchase the same number of futures contracts with a later expiration date which has a higher price. This may adversely affect the NAV of the futures-based ETF.

**(II) Risk of statutory restrictions on number of futures contracts being held:** There is a statutory position limit restricting the holding of futures contracts traded on the recognized exchange company to no more than a specific number of such futures contracts. If the holding of such futures contracts of a futures-based ETF grows to the limit, this may prevent the creation of

units of the ETF due to the inability to acquire further futures contracts. This may lead to differences between the trading price and the NAV of the ETF units listed on the exchange.

### (III) Key Risks involved in futures and options funds:

#### (a) Futures contracts/options risk

**Basis risk:** The prices of futures contracts/options may not always go in line with/be perfectly correlated to the value of the underlying assets in the spot markets. For example, an increase in the spot price of the underlying asset may not cause the NAV of the futures and options fund to rise by the same magnitude. In fact, the NAV of the futures and options fund may not change at all or may even fall.

**Volatility risk:** With substantial investment in futures contracts and options, the funds' prices may be subject to the risk of very volatile price movements of futures contracts and options. Futures contracts/options price movements may be caused by other factors such as changes in government policies, supply and demand, changes in interest rates and economic conditions. Futures contracts/options' prices are highly volatile, and so are prices of the futures and options funds. Furthermore, many futures and options funds may invest in futures contracts/options with underlying asset classes such as commodities and foreign currencies which are generally more volatile. Besides, some futures exchanges may impose limits on daily futures price movement. In this case, even if a futures and options fund tries to close out its futures position to limit loss, the orders may not be executed due to such limits.

**Margin risk & liquidity risk:** If the market moves against the futures position, the futures and options funds may be required to pay additional margins, to maintain the trading positions on short notice. The fund may need to liquidate its assets at unfavorable prices in order to meet these margin calls and suffer substantial losses. Some futures and options funds can only be redeemed at limited intervals (e.g. monthly). If you invest in such a fund, you may not be able to cash in on your investment at your desired price or when you are in need of cash.

#### (b) Leverage risk:

Trading of futures contracts and options may carry a high degree of risk. The amount of initial margin/premium for entering into futures contracts/options is small relative to the value of futures contracts/options so that transactions are leveraged. In this way, a small change in contracts prices may result in magnified profit or loss, depending on the extent of leverage employed by the funds. A futures and options fund may or may not be leveraged. Although a futures and options fund may not invest all of its assets in futures contracts/options, where a futures and options fund is leveraged, the fund may lose all of its assets in its entirety due to the leverage effect of futures contracts/options. You should pay attention to the leverage level of a futures and options fund in which you invest, as well as the attendant risks.

#### (c) Model risk

The performance of futures and options fund depends mainly on success of its investment strategy, which is generally model-based. However, the use of model does not guarantee positive performance and any unexpected changes in market could hurt the model's performance. Moreover, it is not guaranteed that the model can be fully executed in an accurate and timely fashion.

#### (d) Performance fee risk

The manager of a futures and options fund may charge a performance fee, which is payable to the manager annually if a pre-determined net appreciation of the fund's NAV is achieved. As the performance fee usually accrues on a daily basis and if payable, is deducted from the fund's net assets value on a daily basis, this gives rise to the risk that an investor redeeming his/her units may still need to bear a performance fee in respect of those units, even though a loss in the investment capital has been suffered by such redeeming investor.

#### (e) Counterparty risk

When a futures and options fund invests in options or other derivative instruments that are traded over-the-counter, the fund will be subject to the risk of default of its counterparties in performing any of their obligations. It may result in losses to the fund.

### **Counterparty risk involved in ETFs with different replication strategies:-**

#### **(a) Full replication and representative sampling strategies**

An ETF using a full replication strategy generally aims to invest in all constituent stocks/assets in the same weightings as its benchmark. ETFs adopting a representative sampling strategy will invest in some, but not all of the relevant constituent stocks/assets. For ETFs that invest directly in the underlying assets rather than through synthetic instruments issued by third parties, counterparty risk tends to be less of concern.

#### **(b) Synthetic replication strategies**

ETFs utilizing a synthetic replication strategy use swaps or other derivative instruments to gain exposure to a benchmark. Currently, synthetic replication ETFs can be further categorized into two forms:

##### **i) Swap-based ETFs**

Total return swaps allow ETF managers to replicate the benchmark performance of ETFs without purchasing the underlying assets.

Swap-based ETFs are exposed to counterparty risk of the swap dealers and may suffer losses if such dealers default or fail to honor their contractual commitments.

##### **ii) Derivative embedded ETFs**

ETF managers may also use other derivative instruments to synthetically replicate the economic benefit of the relevant benchmark. The derivative instruments may be issued by one or multiple issuers.

Derivative embedded ETFs are subject to counterparty risk of the derivative instruments' issuers and may suffer losses if such issuers default or fail to honor their contractual commitments.

Even where collateral is obtained by an ETF, it is subject to the collateral provider fulfilling its obligations. There is a further risk that when the right against the collateral is exercised, the market value of the collateral could be substantially less than the amount secured resulting in significant loss to the ETF.

### **B (3) Leveraged and Inverse Product (“L&I Products”) traded in the Exchange**

L&I Products are issued in the form of Exchange traded Funds (“ETFs”) as a type of collective investment schemes but they are in fact derivative products.

Leveraged Products typically aim to deliver a daily return equivalent to a multiple of the underlying index return that they track. Inverse Products typically aim to deliver the opposite of the daily return of the underlying index that they track. In overseas markets, they are commonly known as Leveraged and/or Inverse ETFs.

To produce the specified leveraged or inverse return, L&I Products have to rebalance their portfolios, typically on a daily basis. As such, they do not share the buy-to-hold characteristics of conventional ETFs. Investors should understand how the performance of L&I Products is likely to be affected when they are held for more than one trading day and its compounding effect. They should be aware that any small variation in the underlying index return may have a large effect on the value of the product you hold.

Investors should note the following salient features about L&I Products:

- It is not advisable to hold L&I Products for longer than the rebalancing interval, typically one day;
- L&I Products are designed as a trading tool for short-term market timing or hedging purposes, and are not intended for long term investment;

- L&I Products are only suitable for sophisticated trading-oriented investors who constantly monitor the performance of their holdings on a daily basis; and - the performance of L&I Products, when held overnight, may deviate from the underlying indices.

The risk of loss in trading in L&I Products is substantial. In particular, they are not suitable for investors who are unfamiliar with the features and risks of L&I Products, as they are designed for daily investment results, and/or investors who are looking for a long-term investment and cannot actively monitor their holdings.

Therefore, L&I Products are normally not suitable for many members of the public who wish to invest in collective investment schemes or ETFs as a low risk exchange-listed product in order to diversify their investment risks. The regulatory authorities have, taking into account their special risk profile, prohibited and/ or discouraged the use of margin finance for investment in L&I Products. Investors must carefully consider whether trading is appropriate for you in light of your experience, objectives, financial resources and other relevant circumstances.

Whilst they are listed, there is no assurance that a liquid market always exists for the L&I Products concerned. A higher liquidity risk is involved if the product involves derivatives which do not have an active secondary market. Wider bid-offer spreads in the price of the products may result in losses. Therefore, they can be more difficult and costly to unwind early, when the instruments provide access to a restricted market where liquidity is limited.

There may be disparity between the performance of the L&I Product concerned and the performance of the underlying indices due to, for instance, failure of the tracking strategy, currency differences, fees and expenses.

L&I Products may currently be traded, cleared and settled in Hong Kong dollars, Renminbi and/or US dollars. Investors trading with underlying assets not denominated in Hong Kong dollars are also exposed to exchange rate risk. Currency rate fluctuations can adversely affect the underlying asset value, also affecting the product price.

Like ETFs, the risk of L&I Products can include counterparty risk, market risk, tracking errors, trading at discount or premium, and liquidity risk.

The specific risks presented by L&I Products necessarily depend upon the terms of the issued product and your circumstances. In general, however, they all involve some combination of market risk, credit risk, funding risk, operational risk, risk of rebalancing activities and intraday investment risk.

1. Market risk is the risk that the value of a transaction will be adversely affected by fluctuations in the level or volatility of or correlation or relationship between one or more market prices, rates or indices or other market factors or by illiquidity in the market for the relevant transaction or in a related market.
2. Credit risk is the risk that a counterparty will fail to perform its payment or other obligations when due.
3. Funding risk is the risk that, as a result of mismatches or delays in the timing of cash flows due from or to the counterparties in the relevant transaction in question or related hedging, trading, collateral or other transactions, the parties or a party to the relevant transactions will not have adequate cash available to fund current obligations.
4. Operational risk is the risk of loss arising from inadequacies in or failures of the issuer's and/or your internal systems and controls for monitoring and quantifying the risks and contractual obligations associated with the transaction in question, for recording and valuing the portfolio and related transactions, or for detecting human error, systems failure or management failure.
5. Risk of rebalancing activities: There is no assurance that L&I Products can rebalance their portfolios on a daily basis to achieve their investment objectives. Market disruption, regulatory restrictions or extreme market volatility may adversely affect the rebalancing activities.
6. Intraday investment risk: Leverage factor of L&I Products may change during a trading day when the market moves but it will not be rebalanced until day end. The L&I Product's return during a trading day may be greater or less than the leveraged/opposite return of the underlying index.

Although L&I Products are listed as ETFs, the Hong Kong Stock Exchange does not endorse any product or bear any responsibility and/or liability for any of their existence or performance.

Unconventional return pattern (for inverse products only): Inverse products aim to deliver a daily return that is a multiple of

the opposite of the underlying index return. If the value of the underlying index increases for extended periods, or where the exchange rate of the underlying index denominated in a currency other than the inverse product's base currency rises for an extended period, inverse products can lose most or all of their value.

Inverse products vs short selling (for inverse products only): Investing in inverse products is different from taking a short position. Because of rebalancing, the performance of inverse products may deviate from a short position in particular in a volatile market with frequent directional swings.

You should therefore study and understand L&I Products before you trade and carefully consider whether such trading is suitable in the light of your own financial position and investment objectives.

This brief statement does not disclose all of the risks and other significant aspects of trading in L&I Products. In light of the risks, you should undertake such transactions only if you understand the nature of the contracts (and contractual relationships) into which you are entering and the extent of your exposure to risk. You should not construe this generic disclosure statement as business, legal, tax or accounting advice or as modifying applicable law. You should consult your own business, legal, tax and accounting advisers with respect to proposed L&I Product transactions and you should refrain from entering into any transaction unless you have fully understood the terms and risks of the transaction, including the extent of your potential risk of loss.

The information in relation to this Additional Risk Disclosure Statement – Exchange Traded Derivative Products and/or Structured Products is quoted from, including but not limited to the website of Hong Kong Exchange and Clearing Limited (“HKEx”). For further information, please refer to the website of HKEx (<http://www.hkex.com.hk/eng/index.htm>), Hong Kong Monetary Authority (<https://www.hkma.gov.hk/eng/>) and Securities and Futures Commission (<https://www.sfc.hk/web/EN/index.html>).

Please be reminded that the Appendix is not and cannot be taken as a comprehensive or exhaustive list of all Exchange Traded Derivative and/or Structured Products and their possible risks.