Explanation on Risks of Derivative Products

The following information is for reference only and by no means exhaustive. We endeavor to ensure the accuracy and reliability of the information provided, but does not guarantee its accuracy and reliability and accepts no liability for any loss or damage arising from any inaccuracies and omissions. Customer should read the relevant listing documents to obtain a thorough understanding of the features, risks and terms and conditions of the Derivative Products before making an investment decision. Customer may also go to the websites of HKEx (www.hkex.com.hk) and SFC (www.sfc.hk) for more information on Derivative Products.

Risks Associated with Trading **Equity Warrants / Derivative Warrants / Company Rights**

Issuer default risk : In the event that a warrant product issuer becomes insolvent and defaults on their listed securities, investors will be considered as unsecured creditors and will have no preferential claims to any assets held by the issuer.
Gearing risk : Warrants are leveraged products and can change in value more rapidly than its underlying assets. Investors should be aware that the value of a warrant product may fall to zero resulting in a total loss of the initial investment.
Last trading day considerations : Warrant products have a last trading day which is usually different from and prior to the Expiry Date. Warrant products will cease trading after the last trading day. Holders of Equity Warrants / Company Rights shall have the right to exercise the subscription rights.
Expiry considerations : Equity Warrants, Derivative Warrants and Company Rights all have an expiry date after which the issue may become worthless. To exercise the subscription rights of Equity Warrants / Company Rights, additional capital may be involved. Subscription rights, if not exercised, will lapse and become worthless even though it may have positive intrinsic value.
Extraordinary price movements : The price of a warrant 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 : Investors trading warrant products with underlying assets not denominated in Hong Kong dollars are exposed to exchange rate risk. Current rate fluctuations can adversely affect the underlying asset value, which also affects the warrant product price.
Liquidity risk : Although a liquidity provider is appointed for Derivative Warrants, an investor may not be able to trade the Derivative Warrants in a timely manner if the liquidity providers fail to fulfill its role.
Time decay risk : All things being equal, the value of a warrant product will decay over time as it approaches its expiry date.
Volatility risk : Prices of Derivative Warrants can increase or decrease in line with the implied volatility of the underlying asset price.

Risk Associated with Trading **Callable Bull / Bear Contracts (CBBCs)**

Issuer default risk : In the event that a CBBC product issuer becomes insolvent and defaults on their CBBC, investors will be considered as unsecured creditors and will have no preferential claims to any assets held by the issuer.

Gearing risk : CBBCs are leveraged products and can change in value rapidly according to the gearing ratio relative to the underlying assets. Investors should be aware that the value of a CBBC may fall to zero resulting in a total loss of the initial investment.

Last trading day considerations : CBBC products have a last trading day. CBBC products will cease trading after the last trading day.

Expiry considerations : CBBC products have an expiry date after which the issue may become worthless.

Extraordinary price movements : The price of a CBBC 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 : Investors trading CBBC products with underlying assets not denominated in Hong Kong dollars are exposed to exchange rate risk. Currency rate fluctuations can adversely affect the underlying asset value, which also affects the CBBC product price.

Liquidity risk: : Although a liquidity provider is appointed for CBBC products, an investor may not be able to trade the CBBC in a timely manner if the liquidity providers fail to fulfill their role.

Mandatory call (Knockout) risk : A CBBC will cease trading immediately when the underlying asset value equals the mandatory call price / level as stated in the listing documents. Investors will only be entitled to the residual value of the terminated CBBC as calculated by the product issuer in accordance with the listing documents. Investors should also note that the residual value can be zero.

Delay in announcement of Mandatory Call Event : A CBBC product issuer will notify the market as soon as practicable after the CBBCs have been called. The investor should be aware that there may be a time delay in the announcement and any executed trades during the time gap will be rendered void. Investors should understand and accept any potential losses caused by such non-recognition of post Mandatory Call Event Trades.

Funding costs : The issue price of a CBBC includes funding costs. Funding costs are gradually reduced over time as the CBBC moves towards expiry. The longer the duration 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.

Risk Associated with Trading **Exchange Traded Funds (ETFs)**

Market risk : ETFs are typically designed to track the performance of certain indices, market sectors, or groups of assets. Investors 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.

Trading at discount or premium : An ETF may be traded at a discount or premium to its Net Asset Value. This price discrepancy is caused by supply and demand factors, and during periods of high market volatility and uncertainty.

Foreign exchange risk : Investors 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 are Exchange Participants that provide liquidity to facilitate trading in the ETFs. In the event that the Securities Market Makers default or cease to fulfill their role, investors may not be able to buy or sell the product.

Counterparty risk : ETFs utilizing a synthetic replication strategy use swaps or other derivative instruments to gain exposure to a benchmark. Synthetic replication ETFs are subject to counterparty risk associated with the swap dealers or derivatives issuers and may suffer losses if the swap dealers or derivatives issuers default or fail to honor their contractual commitments.