Risk Disclosure Statements for Exchange-traded Derivative Products

Trading of exchange-traded derivative products ("Derivative products") such as Callable Bull/Bear Contracts ("CBBC"), Derivative Warrants, Synthetic Exchange – Traded Fund ("Synthetic ETF"), Right Issues, involve significant risks. It is crucial for you as investors to fully understand the risks and consequences involved in trading these exchanged-traded derivative products before trading them.

Investor is reminded not to trade in Derivative Products unless fully understand the associated risks. In the absence of investor's written acknowledgement, the instructions for trading Derivative Products after 4 September 2011, shall be deemed to be your acknowledge of the associated risks of trading Derivative Products, including the following without limitation.

General Risk of Trading in Derivative Products

Issuer default risk - In the event that an Derivative Product issuer becomes insolvent and defaults on their issued products, investors will be considered as unsecured creditors and will have no preferential claims to any assets held by the issuer. Investors should therefore pay close attention to the financial strength and credit worthiness of Derivative Product issuers.

Note: "Issuers Credit Rating" showing the credit ratings of individual issuers is now available under the Issuer and Liquidity Provider Information sub-section under Derivative Warrants and under Callable Bull/Bear Contracts ("CBBCs") section on the HKEx corporate website.

Uncollateralised product risk - Uncollateralised Derivative Products are not asset backed. In the event of issuer bankruptcy, investors can lose their entire investment. Investors should read the listing documents to determine if a product is uncollaterallised.

Gearing risk - Derivative Products such as derivative warrants and CBBCs are leveraged 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 Derivative product may fall to zero resulting in a total loss of the initial investment.

Expiry considerations - Derivative Products have an expiry date after which the issue may become worthless. Investors should be aware of the expiry time horizon and choose a product with an appropriate lifespan for their trading strategy.

Extraordinary price movements - The price of a Derivative 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 Derivative Products with underlying assets not dominated in Hong Kong dollars are also exposed to exchange rate risk. Currency rate fluctuations can adversely affect the underlying asset value, also affecting the Derivative Product price.

Liquidity risk - The Exchange requires all Derivative 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, investors may not be able to buy or sell the product until a new liquidity provider has been assigned.

Additional Risks of Trading Derivative Warrants

Time Decay Risk – All things being equal, the value of a Derivative Warrant will decay over time as it approaches its expiry date. Derivative Warrants should therefore not be viewed as long term investments.

Volatility Risk – Prices of Derivative Warrants can increase or decrease in line with the implied volatility of underlying asset price. Investors should be aware of the underlying asset volatility.

Additional Risks of Trading Callable Bull/Bear Contracts ("CBBCs")

Mandatory Call Risk – Investors trading CBBCs should be aware of their intraday "knock out" or mandatory call feature. A CBBC will cease trading 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.

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 total funding costs. In the event that a CBBC is called, investors will lose the funding costs for the entire lifespan of the CBBC. The formula for calculating the funding costs are stated in the listing documents.

Additional Risk of Trading Synthetic Exchange Traded Funds (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. Investors must be prepared to bear the risk of loss and volatility associated with the underlying index/assets.

Tracking error risk – There may be 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.

Counterparty risks – Where a Synthetic ETF invests in derivatives to replicate the index performance, investors are exposed to the credit risk of the counterparties who issued the derivatives, in addition to the risks relating to the index. Further, potential contagion and concentration risks of the derivatives issuers should be taken into account (e.g. since derivative issuers are predominantly international financial institutions, the failure of one derivative counterparty of a Synthetic ETF may have a "knock on" effect on other derivative counterparties of the Synthetic ETF). Some Synthetic ETFs have collateral to reduce the counterparty risk, but there may be a risk that the market value of the collateral has fallen substantially when the Synthetic ETF seeks to realize the collateral.

Trading at discount or premium – Where the index/market that the Synthetic ETF tracks is subject to restricted access, the efficiency in unit creation or redemption to keep the price of the Synthetic ETF in line with its net asset value (NAV) may be disrupted, causing the Synthetic ETF to trade at a higher premium or discount to its NAV. Investors who buy a Synthetic ETF at a premium may not be able to recover the premium in the event of termination.

Risk relating to Rights issue

For exercising and trading of the right issue, investors have to pay attention to the deadline and other timelines. Rights issues that are not exercised will have no value upon expiry. But if investors decide to let the rights lapse, then investors will not need to take any action unless investors want to sell the rights in the market. In that case, the rights must be sold during the specified trading period within the subscription period, after which they will become worthless. If investors pass up the rights, the shareholding in the expanded capital of the company will be diluted.

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