South China Securities Limited ("SCSL")
Product Risk Disclosure Statements

Some Risks Associated with Derivative Products

1. **Issuer default risk**
   In the event that a derivative 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. Investors should therefore pay close attention to the financial strength and credit worthiness of derivative product issuers.

2. **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 uncollateralized

3. **Gearing risk**
   Derivative products such as derivative warrants and callable bull/bear contracts (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.

4. **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.

5. **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.

6. **Foreign exchange risk**

   Investors trading derivative products 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 derivative product price.

7. **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.

8. **Market risk**

   Derivative Products may also be exposed to the economic, political, currency, legal and other risks of a specific sector or market related to the single stock, basket of stocks, index, currency, commodity or futures contract that it is tracking.

Some Additional Risks Involved in Trading Derivative Warrants

1. 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.

2. 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.

Some Additional Risks Involved in Trading CBBCs

1. Mandatory call risk
Investors trading CBBCs should be aware of their intraday "knockout" 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.

2. 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.

Some Additional Risks Involved in Trading Exchange Traded Funds ("ETFs")

1. 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.

2. Trading at discount or premium
An ETF may be traded at a discount or premium to its Net Asset Value (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.

3. 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 utilising 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 honour 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.

Some Risks Associated with Mutual Fund

- Investing in mutual funds and unit trusts ("Fund") involves risks. Fund prices can go up or down, and even become worthless. Under certain circumstances, trading funds may not be able to make a profit, but will suffer losses.

- The Fund products that distribute dividend to investors are not equivalent to or should NOT be used to replace time deposits or any type of savings deposit.

- Before subscribing or purchasing any Fund products, investors should refer to the fund prospectus or sales documents of the investment products, especially the risk disclosure statements of the fund prospectus or sales documents.

- Investing in a Fund may involve, including but not limited to the following risks:

1. **Market Risk**
   Investment in Fund is subject to general market risks, whose value may fluctuate due to various factors, such as changes in government policies, economic condition or interest rates.

2. **Equities Securities Risk**
   The Fund may invest in equity securities and will be subject to market risk, the value of which may be volatile and fluctuate, sometimes dramatically, in response to the activities and performance of individual companies or because of investment sentiment, political environment, general market and economic conditions, regional and global instability and changes in currency exchange rates and interest rates. If the market value of equity securities in which the Fund invests in decreases, its Net Asset Value may be adversely affected and investors may suffer substantial losses.

3. **Liquidity Risk**
   Tying up investments in products which are hard to liquidate, or carry heavy costs for liquidation, can prove a burden. The value of investors' Fund may significantly decline if the underlying investment drop rapidly in a violate market and cannot be sold.

4. **Credit Risk**

   The possibility that companies or other issuers whose bonds are owned by the Fund may fail to pay their debts (including the debt owed to holders of their bonds).

5. **Concentration Risk**

   Funds which are concentrated its investment in certain markets or companies (e.g. emerging, commodity markets and smaller companies, etc.) may also involve a higher degree of risk and are usually more sensitive to price movements.

6. **Specific Risks of Investing in High-Yield (Non-Investment Grade and Unrated) Investments**

   The Fund may invest in fixed-income securities (including bonds). An issuer of such fixed-income securities may experience an adverse change in its financial condition which may in turn result in a decrease in the credit rating assigned by an internationally recognized statistical ratings organization to such issuer and fixed-income securities issued by such issuer. Credit ratings of fixed-income securities reflect the issuer's ability to make timely payments of interest or principal— the lower the rating, the higher the risk of default.

7. **Risk in investing in financial derivative instruments**

   If the Fund is entitled to use financial derivative instruments for hedging and efficient portfolio management purposes, which may involve additional risks such as counterparty risk. In adverse situations, the Fund's use of derivative instruments may become ineffective in hedging or efficient portfolio management and the Fund may suffer significant losses.

8. **Counterparty risk**

   Some Funds may be exposed to the default risks from failure of the counterparty to fulfill liabilities for holding positions in derivatives.

9. **Foreign Exchange Risk**

   The investment returns of investors' Fund may be subject to foreign exchange risks as some of the underlying funds may be denominated in another currency different from their own currency.

<u>Some Risks Associated with Bonds</u>

1. **Specific risk of Bonds**

   Bond investment is NOT equivalent to a time deposit. It is NOT protected under the Hong Kong Deposit Protection Scheme.

2. **Issuer Risk**

   Bond is subject to both the actual and perceived measures of credit worthiness of the issuer. There is no assurance of protection against a default by the issuer in respect of payment or repayment obligations. Investors might not be able to recover the principal and any coupon if the issuer defaults on bond. Different bonds represent and comprise different obligations on the part of the issuer, for example the obligations may be direct, unsubordinated,

subordinated, unsecured or secured obligations of the relevant issuer. Holders of a certain type or class of bonds may bear higher risks than holders of other types of bonds or securities if their bond has a lower priority of claim in the event of the issuer's default or insolvency or liquidation. Investors should therefore apprise themselves of the nature of the obligations of a particular bond issue and what claim priority exists in the event of the default or insolvency or liquidation of the issuer.

3. Risk of Change in Credit Rating

Some bonds are rated as 'investment grade' or 'non-investment grade' by independent credit rating agencies. Such credit ratings may change or cease during the lifetime of a bond. Investors must continuously apprise themselves of credit rating information and status to ensure that the bond, in which they have invested, remains suitable for them. Investors are encouraged to contact their Investment Consultant for assistance if necessary.

4. Liquidity Risk

Bonds are mainly for medium to long term investment, and are not for short term speculation. Investors should be prepared to invest their funds in bonds for the full investment tenor; they could lose part or all of their investment if they choose to sell their bonds prior to maturity.
The secondary market for bonds may not provide significant liquidity or may trade at prices based on the prevailing market conditions and may not be in line with the expectations of the bondholders.

5. Credit Risk

The issuer is responsible for payment of interest and repayment of principal of bonds. If the issuer defaults, the holder of bonds may not be able to receive interest and get back the principal. The holder of bonds bears the credit risk of the issuer.

6. Risk

Indicative bond prices are available and bond prices do fluctuate when market changes. Factors affecting market price of bonds include, and are not limited to, fluctuations in interest rates, credit spreads, and liquidity premiums. The fluctuation in yield generally has a greater effect on prices of longer tenor bonds. There is an inherent risk that losses may be incurred rather than profits made as a result of buying and selling bonds.

7. Interest Rate Risk

When the interest rate rises, the price of a fixed rate bond will normally drop, and vice versa. If investors want to sell their bond before it matures, they may get less than their purchase price.

8. Non-Investment Grade Bonds or Unrated Bonds Risk

For the non-investment grade bonds or unrated bonds, the credit risk is higher. The bond is subject to a higher risk and higher chance to default. During economic downturns, non-investment grade bonds or unrated bonds may be more vulnerable to the impact of price fluctuations. Due to (i) investors become more risk adverse; and (ii) default risk of the bond rises; as a result, the bond price may drop more than the bond price of investment grade.

9. Exchange rate risk

There may be exchange rate risks if investors choose to convert payments made on the bonds to a different currency from its denominated currency.

10. Renminbi Risk

Renminbi (RMB) is subject to foreign exchange control. Exchange control imposed by the relevant authorities may adversely affect the applicable exchange rate. Should the central government tighten the control, the liquidity of RMB or even RMB bonds in Hong Kong will be affected and investors may be exposed to higher liquidity risk. Investors should be prepared to invest their funds in bonds for the full investment tenor.

11. Reinvestment Risk

If investors cannot reinvest the future interest incomes generated from a bond at the prevailing interest rate when the bond was initially purchased, the rate of the return (yield-to-maturity) of the bond will be affected.

12. Call Risk

If investors hold a callable bond, when the interest rate goes down, the issuer may redeem the bond before maturity. If this happens and investors have to re-invest the proceeds, the yields on other bonds in the market will generally be less favourable.

13. Perpetual Bond Risk

Perpetual bonds do not have a maturity date, and the coupon payments may be deferred or even suspended subject to the terms and conditions of the issue. Perpetual bonds are often callable and / or subordinated, investors should pay attention to the reinvestment risk, and / or a lower priority of claims (e.g. on liquidation of the issuer).

14. Other Risks

In general, bond transactions involve various risks including credit and settlement risks. Issuers, market-makers or other relevant parties may fail to perform obligations when due. Investors should not invest in the product unless they are satisfied that it is suitable for they having considered it carefully and in the context of their overall financial situation, investment experience and objectives, and risk appetite. They should assure themselves that they understand the nature and risks of bond, and that they have sufficient net worth to be able to assume the risks and bear the potential losses that are associated with it.
Liquidity Risk

Some Risks Associated with Bonds Financing

Investors can obtain financing for purchasing their bond by entering repurchase agreements ("repo") with SCSL. The major risks in repo transactions are summarized as below:

1. Interest Rate Risk

For open repos, the investors face interest rate risk since economically the investor has locked-in the cost of obtaining cash at a fixed rate. If prevailing market interest rates fall during the life of the repo, investors will suffer losses and it may be cheaper for them to terminate the repo and fund cash through other means.

2. Performance Risk

SCSL does not assure investors that any particular product, such as bond repo will provide them with a particular return, or achieve its objectives. This is because it is impossible to predict the performance of the factors that affect the product (including underlying reference rates, foreign exchange, equities, indices, commodities or other financial products); they are influenced by complex and interrelated political, economic, and financial factors, and are inherently volatile.

3. Bond Liquidity Risk

Starting from the purchase date, SCSL has ownership of and title to the bonds transferred to it. Investors at that point in time would no longer have ownership over the bonds, but rather it has a binding obligation to buy equivalent bonds from SCSL on the repurchase date at the repurchase price. Therefore before the repurchase date, SCSL cannot use the repo'ed bonds to settle any sale or other transaction (since it does not own them).

4. Bond Recall Risk

Under a repo, SCSL has ownership of and title to the bonds starting from the purchase date and investors have a binding obligation to buy back equivalent bonds from SCSL only on the repurchase date. If investors defaults under the terms of the Global Master Repurchase Agreement ("GMRA") (e.g. they fail to pay a margin call in a timely manner or fails to purchase the equivalent bonds on the repurchase date), SCSL will be entitled to close-out all outstanding repo trades with them in accordance with the close-out mechanism under the GRMA.

5. Counterparty risks

By entering the repo transaction with SCSL, investors might lose money if SCSL becomes insolvent, or defaults on its obligations SCSL is the owner of the bonds at all times after the purchase date, and may sell or use them for whatever purposes that it deems fit at any point in time. As such, there is a risk that on the repurchase date of a particular repo trade, SCSL may not be able to source an equivalent bond to deliver to investors. Although they will then be entitled in accordance with the GMRA, to exercise a "mini" close-out of the affected repo trade, this

close-out mechanism under the GMRA does subject them to the risk of loss (as to which see "Close-out Risk" below).

6. Close-out Risk

Close-out mechanism under the GMRA as described above may result in Investors suffering a loss as the then market value of the equivalent bond (due from SCSL to investors) which is crystallized at the time of close-out may be lower than the then carrying value of the bond in their books and records.

7. Early Termination Risk

For open repos or overnight repos, since SCSL has not made any commitment as to the tenor of funding, SCSL will have an unrestricted right and discretion to terminate the open repo at any time or elect not to enter into a new open or overnight repo to rollover the funding.

8. Credit Risk on the Issuer of the Bonds

Since investors have a binding obligation to buy equivalent bonds from SCSL on the repurchase date, ultimately, the credit risk on the issuer of the bonds remains with investors, notwithstanding the initial sale to SCSL on the purchase date. If the creditworthiness of the issuer of the bonds worsens during the tenor of the repo, the market value of the bonds will decrease and they may be required to post more margin with SCSL.

9. Margin Call Risk

As mentioned above, SCSL will call the investors for margin if the market price of the bonds falls before the repurchase date and as the price differential accrues over time. The Investors must ensure that it is fully aware of their obligation to meet and satisfy margin calls and the terms and conditions upon which margin calls maybe made by SCSL, in particular:

- Investors need to be prepared for meeting margin calls which may require to make additional payment to cover SCSL's exposure in respect of the outstanding repo transactions;
- Investors may have to meet margin calls at short notice and they could therefore face substantial liquidity problems;
- If investors do not satisfy any margin call in a timely manner, SCSL is entitled to close out all outstanding repo transactions and they may suffer substantial losses.
- Investors must have sufficient cash to deliver to SCSL to satisfy margin calls. All rights, title and interests in and to the margin will pass to SCSL upon payment or delivery.

10. Market Risk

This product is highly sensitive to changes in market conditions, including but not limited to changes in market parameters such as price, level, volatility or liquidity of the underlying bonds, interest rates or exchange rates. These changes can be unexpected, sudden and drastic, and render investors to suffer a substantial mark-to-market loss.

11. Concentration Risk

Investors should avoid using only one single type or over relying on a particular type of funding source or financing tool at any one time.

12. RMB Related Risk (Applicable if the product is denominated and/or settled in RMB)

Renminbi ("RMB") is currently not freely convertible and RMB conversion may be subject to certain restrictions. The amount of offshore RMB (deliverable outside Mainland China, informally known as "CNH") may be limited which may affect the liquidity of offshore RMB products. The market for offshore RMB is a different market to that of onshore RMB (deliverable in Mainland China, known as "CNY"). Apart from its own supply and demand, the offshore RMB exchange rate may be influenced by the onshore exchange rate (which currently trades within a band set by authorities in the onshore interbank market), and the two rates may converge with or diverge from each other. The Offshore RMB market may become illiquid, or offshore RMB may become inconvertible or non-transferable. The terms of the product may provide that RMB payments in this transaction may be delayed until such disruption event ceases, or if it persists, settled by converting and making the payment in another currency.

13. Foreign Exchange Risk

If the product involves exposure to foreign currency risk or is settled in a foreign currency, investors may suffer a loss as a result of exchange rate fluctuations.

Some Risks Associated with Structured products

1. Issuer Default Risk

In the event that a structured 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. They should therefore pay close attention to the financial strength and credit worthiness of structured product issuers.

2. Uncollateralised Product Risk

Uncollateralised structured products are not asset backed. In the event of issuer bankruptcy, investors can lose their entire investment. They should read the listing documents to determine if a product is uncollateralised.

3. Gearing Risk

Structured products such as derivative warrants and callable bull/bear contracts (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 structured product may fall to zero resulting in a total loss of the initial investment.

4. Expiry Considerations

Structured 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.

5. 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.

6. Foreign Exchange Risk

Investors trading structured products 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 structured product price.

7. 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, investors may not be able to buy or sell the product until a new liquidity provider has been assigned.

8. Specific Risk of Trading Accumulators

(a) Knock-out
When the market price of the underlying asset is at or above the knock-out price, the accumulator contract will terminate (i.e. the investor will cease to accumulate any further underlying asset from the knock-out date). Investors' potential profit therefore is capped by the knock-out feature.

(b) Potential losses are magnified and can be very substantial
Investors may suffer substantial loss as they are bound by the accumulator contract to take up periodically (e.g. daily) the agreed amount of the underlying asset (at the strike price) when the market price falls below the strike price. Investors are required to take up twice or multiple times of the agreed amount of the underlying asset when the market turns against them and the investor's maximum exposure after fully taking into account the "multiplier" condition.

(c) Early Termination
Investors have to aware that they may not be able to early terminate the accumulator contracts, and even if the request for early termination is accepted, Investors would likely need to bear unexpectedly high exit costs and losses.

(d) Contract tenor
Accumulator contracts with a longer tenor will be associated with higher risks and usually higher costs of early termination.

(e) Specific Risk when investing in Equity-linked Instrument ("ELI")

- ELIs are not principal protected. Investors may suffer a loss if the prices of the reference asset(s) of an ELI go against investors' view. In extreme cases, investors could lose their entire investment.
- The potential gain on their ELI may be capped at a predetermined level specified by the issuer.
- When investors purchase an ELI, they rely on the credit-worthiness of the issuer. In case of default or insolvency of the issuer, investors will have to rely on their distributor to take action on their behalf to claim as an unsecured creditor of the issuer regardless of the performance of the reference asset(s).
- ELIs are not secured on any assets or collateral.
- Issuers may only provide limited market making arrangement for their ELIs. However, if investors try to terminate an ELI before maturity under the market making arrangement provided by the issuer, they may receive an amount which is substantially less than their original investment amount.
- Investing in an ELI is not the same as investing in the reference asset(s). During the investment period, investors have no rights in the reference asset(s). Changes in the market price(s) of such reference asset(s) may not lead to a corresponding change in the market value and/or potential payout of the ELI.
- If an unforeseeable event occurs in relation to an ELI, the issuer may, at its sole and absolute discretion, adjust the terms of the ELI to account for that event. If no adjustment is able to preserve the economic equivalence of the ELI, the product may be early terminated by paying investors a fair market value as the issuer may determine. Such early termination amount may be substantially less than nvestors' original investment amount.

Client Declaration and Signature (All account holders of joint account must sign jointly)

I/We acknowledge that I/We have read and fully understood the risk statement – "Explanation of risk Associated with Exchange-Traded Derivative Products, Mutual Fund, Bond, Bond Financing and Structured Products provided by South China Securities Limited in a language of my/our choice (English or Chinese). I/We am/are willing to accept the risk associated with trading derivative products.

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Name of Account Holder(s):
Date: