Risk Disclosure Schedule

1. INTRODUCTION

1.1 The Client should read this risk disclosure schedule carefully. Unless otherwise stated, capitalised terms used in this risk disclosure schedule shall have the same meanings as those defined in the Glossary of the Terms and Conditions that are annexed to the Account Opening Form completed and signed by the Client.

1.2 CICCHKS believes that Clients who engage in any Transactions with or through CICCHKS should be aware, before they trade, of the risks which may be involved in such trading. The objective of this risk disclosure schedule is to explain briefly to the Client the nature and risks of such Transactions. In particular, the Client should be aware that the risk of loss in respect of such Transactions, and especially trading treasury and derivatives transactions or contracts, can be substantial.

1.3 However, this risk disclosure schedule does not purport to disclose or discuss all of the risks and other significant aspects of any Transaction. It is the Client's responsibility to understand the nature and risks of any proposed Transaction. Before entering into a Transaction, the Client should:

(a) understand fully the nature and economic fundamentals of the Transaction and the market or investment underlying such Transaction;

(b) understand fully the legal terms and conditions set out in the documentation for such Transaction, including:

(i) the terms as to price, tenor, expiration dates, restrictions on exercising an option and other terms material to the Transaction;

(ii) any terms describing risk factors, such as volatility, liquidity, the inability to exit the Transaction before its scheduled maturity or expiry date and so on; and

(iii) the circumstances under which the Client may become obliged to make or take delivery of the underlying interest of a derivatives contract;

(c) understand fully its rights and obligations under any documentation for such Transaction;

(d) understand fully the extent of the economic and associated risks to which the Client is exposed as a result of the Transaction;

(e) determine that the Transaction is suitable for the Client, its operations, business and organization in light of the Client's experience of similar transactions, the Client's financial situation, objectives and needs and all other relevant circumstances;

(f) understand fully the regulatory and tax treatment of the Transaction (which can be complex); and

(g) seek full and independent financial, tax, legal and/or other professional advice.

(h) CICCHKS will, in appropriate cases, furnish the Client with term sheets or other materials describing the product setting out the material terms, associated obligations, underlying assumptions, pricing basis and sensitivity analysis illustrating the Client's potential exposure to market movements, as well as any other such information as CICCHKS may think relevant. Any sensitivity analysis which may be provided is for the purpose of illustration only and is not to be treated as CICCHKS' view on future market movements. The Client is strongly advised to study and should understand fully the relevant term sheet before executing any specific Transaction. The provision of such term sheets shall not, however, detract from the Client's duty to make all necessary enquiries to ensure that the Client understands fully and is familiar with the proposed transaction.

2. GENERAL INFORMATION REGARDING RISKS

2.1 **Securities**: Securities can be traded either on organized exchanges or over-the-counter (**"OTC"**). For the purpose of this risk disclosure schedule, the term "securities" includes equities, bonds, interests in mutual funds, unit trusts and hedge funds, derivatives, notes, certificates and structured products.

2.2 **Trading OTC**: Non-listed securities and securities not available on organized exchanges may be traded OTC. OTC trading refers to direct negotiation between a buyer and a seller. Since there is no central market, the positions may only be unwound with the agreement of the counterparty. OTC traded products entail more risks than exchange traded products in terms of liquidity risk, credit (counterparty) risk and pricing transparency. Please refer to the "Other risks" section for more information on counterparty risk.

2.3 **Derivatives:** Derivatives are financial contracts the price of which is derived from assets or instruments (underlyings) such as equities, bonds, currencies, precious metals, commodities, interest rates, credit, benchmarks including indices, non-traditional asset classes, spot, forward contracts, swaps, options or any combination of the foregoing. For example, an equity option derives its value from the 'underlying' equity. This risk disclosure schedule identifies certain risks associated with different types of derivatives, including options, forwards, swaps and combinations of derivatives.

2.4 **Limited and unlimited risks**: Investments can have limited or unlimited risk. For example, the purchase of equities or options involves limited risk. At worst, the entire amount of the purchase price (or in the case of the purchase of an option, the premium) is lost. However, other derivatives can require an additional outlay of capital over and above the original investment. This obligation to make such additional payments can amount to many times the original investment. Unlimited risk is particularly associated with (a) writing an uncovered call option, (b) forwards, (c) swaps and (d) any other investments traded on a leveraged basis. At the time the Client makes the investment, the Client can take steps to limit or reduce the level of risk (in particular, by hedging against potential losses).

3. MARKETS AND TRADING

3.1 **Securities trading:** The prices of securities fluctuate, sometimes dramatically. The price of a security may move up or down, and may become valueless. It is as likely that losses will be incurred rather than profit made as a result of buying and selling securities.

3.2 **Market Forces:** The Client's payments or receipts under a Transaction will be linked to changes in the particular financial market or markets to which the Transaction is linked, and the Client will be exposed to price volatility in that market or markets. The Client may sustain substantial losses on the contract, trade, product or financial investment if the market conditions move against the Client's positions. It is in the Client's interest to understand fully the impact of market movements, in particular the extent of profit/loss the Client would be exposed to when there is an upward or downward movement in the relevant rates, and the extent of loss if the Client has to sell the securities or liquidate a currency or financial derivatives position if market conditions move against the Client. The Client's position may be liquidated at a loss, and the Client will be liable for any resulting deficit in the Client's account with CICCHKS.

Under certain market conditions CICCHKS may find it difficult or impossible to liquidate a position, to assess a fair price or assess risk exposure. This can happen, for example, where the market for a transaction is illiquid or where there is a failure in electronic or telecommunications systems, and where there is the occurrence of an event commonly known as "force majeure".

Because the prices and characteristics of OTC transactions are individually negotiated and there is no central source for obtaining prices, there are inefficiencies in transaction pricing. CICCHKS consequently cannot and does not warrant that CICCHKS' prices or the prices CICCHKS secures for the Client are or will at any time be the best price available to the Client. CICCHKS may make a profit from a transaction with the Client whatever the result of the transaction from the Client's point of view.

3.3 **Value Changes:** Specific market movements of the underlying instruments, e.g. fluctuations in foreign exchange rates, interest rates, movement in commodities prices and securities prices and indices etc., cannot be predicted accurately. The Client acknowledges and accepts that the Client may sustain a total loss in excess of his invested amount and any collateral held by CICCHKS.

3.4 **Risk-reducing orders or strategies:** Placing contingent orders, such as "stop-loss" or "stop-limit" orders, will not necessarily limit the Client's losses to the intended amounts, as it may be difficult or impossible to execute such orders either in accordance with the Client's instructions, or at all, under certain market conditions. Accordingly, the Client accepts and bears the risk, and releases and discharges CICCHKS from all liability, arising out of the execution or the non-execution of a "stop-loss" or "stop-limit" order and pursuant to such acceptance authorizes CICCHKS, should any such circumstances occur, to execute any order at such rate and in such manner as CICCHKS may deem appropriate. Strategies using combinations of positions, such as "spread" and "straddle" positions, may be as risky as taking simple "long" or "short" positions.

3.5 **Exchange traded instruments and the impact of electronic trading:** For Transactions involving underlying contracts or instruments which are traded on stock or futures exchanges, disruption of the normal market operations or conditions (e.g. illiquidity) of such exchanges and/or the rules of operation of such exchanges (e.g. discretion on the part of the exchange to suspend or limit trading of certain contracts or instruments because of price limits or 'circuit breakers') may increase the risk of loss by making it difficult or impossible to close out the Transactions or liquidate positions. If the Client has sold options, this may increase the risk of loss.

The Client shall also note that under certain circumstances, the specifications of outstanding contracts (excluding the exercise price of an option) may be modified by the exchange or clearing house to reflect changes in the underlying interest.

In addition, normal pricing relationships between the underlying interest and the futures contract, and the underlying interest and the option, may not exist. This can occur when, for example, the futures contract underlying the option is subject to price limits while the option is not. The absence of an underlying reference price may make it difficult to judge 'fair' value.

Trading on an electronic trading system may differ not only from trading in an open-outcry market but also from trading on other electronic trading systems. For Transactions in which the underlying contracts or instruments are supported by electronic trading facilities at the exchanges, e.g. computer based component systems for order-routing, execution, matching, registration, or clearing of trades, any temporary disruption or power/system failure of such electronic trading facilities could result in a disruption in the trading activities at the exchange and an unavailability of reference prices for the relevant Transaction. In such circumstances, the Client's order may not be executed according to the Client's instructions or at all, which may lead to losses to the Client. It is likely that such losses will not be recoverable from the relevant exchange as the rules of that exchange invariably exempt them from such liabilities.

3.6 **Securities Trading on Alternative Stock Markets:** Alternative stock markets may have been established in a jurisdiction as a market designed to accommodate companies with higher investment risk. In particular, companies may list on an alternative stock market with neither a track record of profitability nor any obligation to forecast future profitability. There may be risks arising out of the emerging nature of companies listed on an alternative stock market and the business sectors or countries in which the companies operate. Such securities may be susceptible to higher market volatility and/or a lack of liquidity, as compared with main board listed securities.

The higher risk profile and other characteristics of an alternative stock market mean that it is a market more suited to professional and other sophisticated investors.

The principal means of information dissemination on an alternative stock market is generally publication on an internet website. Accordingly, the Client needs to have access to up-to-date information on the companies listed on an alternative stock market as published on the relevant internet website.

3.7 **Securities Trading on the Growth Enterprise Market of the SEHK ("GEM"):**

(a) The GEM has been established in Hong Kong as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on the GEM with neither a track record of profitability nor any obligation to forecast future profitability. There may be risks arising out of the emerging nature of companies listed on the GEM and the business sectors or countries in which the companies operate.

(b) There are intrinsic risks of investing in such companies and the Client should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of the GEM mean that it is a market more suited to professional and other sophisticated investors. The Client should make the decision to invest only after due and careful consideration.

(c) Given the emerging nature of companies listed on the GEM, there is a risk that securities traded on the GEM may be susceptible to higher market volatility compared to securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on the GEM.

(d) The principal means of information dissemination on the GEM is publication on the internet website operated by SEHK. Companies listed on the GEM are not generally required to issue paid announcements in gazetted newspapers. Accordingly, the Client needs to have access to up-to-date information on the GEM-listed companies as published on the GEM website.

(e) GEM stocks involve a high investment risk. The Client should seek independent professional advice if the Client is uncertain of or have not understood any aspect of this risk disclosure schedule or the nature and risks involved in trading of GEM stocks.

3.8 **Trading NASDAQ-AMEX securities on the SEHK**: The securities under the Nasdaq- Amex Pilot Program ("**PP**") are aimed at sophisticated investors. The Client should consult CICCHKS and become familiarised with the PP before trading in the PP securities. The Client should be aware that the PP securities are not regulated as a primary or secondary listing on the Main Board or the Growth Enterprise Market of the SEHK.

3.9 **Transactions in other jurisdictions**: Transactions on markets in other jurisdictions, including markets formally linked to the Client's domestic market, may expose the Client to additional risks. Such markets may be subject to regulation which may offer different or diminished investor protection. Before entering into any Transaction or Investment, the Client should enquire about any rules relevant to its particular Transaction or Investment. The Client's local regulatory authority will be unable to compel the enforcement of the rules of regulatory authorities or markets in other jurisdictions where the Client's Transactions have been effected. The Client should seek professional advice about the types of redress available in both the Client's home jurisdiction and other relevant jurisdictions before the Client enters into a Transaction or Investment.

3.10 **Emerging Markets:** Emerging markets are defined as markets in countries with moderate to low per capita national income. While Investments in emerging markets can yield large gains, they can also be highly risky and unpredictable. There may be inadequate regulations and safeguards available to investors. Besides the risks inherent in all investments, those associated with emerging markets include country risk where government intervention in markets, perhaps in the form of exchange control laws or restrictions in the repatriation of profits, may affect the value of an Investment or the Client’s ability to enjoy its benefits. In addition, events (for instance, natural disasters, fluctuations in commodity prices and/or exchange rates and political upheavals) which may have a minor or limited effect in more mature markets could affect emerging markets profoundly. Investments by the Client in emerging markets financial instruments or referencing an emerging markets underlying need careful and independent assessment of each Investment and the risks in relation thereto (including sovereign risk, issuer risk, price risk, political risk, and liquidity risk).

3.11 **Price indications in statements for derivative transactions and non-listed instruments in general**: For financial derivative Transactions and non-listed financial instruments, in particular in “combined” or “structured” transactions, the absence of a “market” or “common” reference price may make it impossible for CICCHKS to provide the precise value of the Transaction. Therefore the Client should be aware that price indications by CICCHKS are always based on the latest available market prices (if any) of the underlying instrument or have been derived from sources believed to be reliable. Consequently, price indications may not reflect the actual price at which a Transaction may be terminated or unwound, if this is possible at all. CICCHKS does not make any representation as to the accuracy or completeness of price indications for Transactions and does not accept liability for any loss arising from the use of them. Because the prices and characteristics of OTC transactions are individually negotiated and as there is no central source for obtaining prices, there are inefficiencies in transaction pricing. CICCHKS consequently cannot and does not warrant that CICCHKS' prices or the prices CICCHKS secures for the Client are or will at any time be the best price available to the Client.

3.12 **Non-Transferability and Non-Marketability**: A structured or OTC transaction generally cannot be assigned or transferred without the consent of the other party. CICCHKS is not obliged to terminate or unwind a Transaction it has entered into with the Client at the Client's request. Such Transactions are customized and not fungible. It may be difficult or impossible to liquidate an existing position, to assess the value, to determine a fair price or to assess the exposure to risk. For these reasons, these transactions may involve increased risks. Off-exchange Transactions may also be less regulated or subject to a separate regulatory regime. Before entering into such Transactions, the Client should be familiar with the applicable rules and attendant risks.

3.13 **Deposited Property and Cash**: The Client should familiarize himself with the protections accorded to money or other property that the Client deposits for any Transactions, particularly in the event of an insolvency or bankruptcy of CICCHKS, an issuer, counterparty, custodian or intermediary. The extent to which the Client may recover his money or property will be governed by local rules and regulations, and may result in the Client failing to recover all of such property or cash. In some jurisdictions, property which had been specifically identifiable as the Client's own will be pro-rated in the same manner as cash for purposes of distribution in the event of a shortfall.

3.14 **Transaction Costs**: Before making any Transaction or investment, the Client should request a clear explanation of all commissions, fees and other charges for which the Client will be liable. The Client's net returns from any Transaction or Investment will also be affected by the transaction costs (i.e. commission, fees and other charges) charged by CICCHKS or third parties and any relevant tax liabilities. These costs must be considered in any risk assessment made by the Client. In some cases, managed accounts may be subject to substantial charges for management and advisory fees. It may be necessary for those accounts that are subject to these charges to make substantial trading profits to avoid depletion or exhaustion of their assets.

3.15 **Risk of Margin Trading**: The risk of loss in financing a transaction by deposit of collateral is significant. You may sustain losses in excess of your cash and any other assets deposited as collateral with the licensed or registered person. Market conditions may make it impossible to execute contingent orders, such as "stop-loss" or "stop-limit" orders. You may be called upon at short notice to make additional margin deposits or interest payments. If the required margin deposits or interest payments are not made within the prescribed time, your collateral may be liquidated without your consent. Moreover, you will remain liable for any resulting deficit in your account and interest charged on your account. You should therefore carefully consider whether such a financing arrangement is suitable in light of your own financial position and investment objectives.

4. LEVERAGE AND COLLATERAL

4.1 The degree of leverage which is obtainable in connection with the Transactions can work against as well as for the Client. The Client acknowledges and accepts that the use of leverage can lead to large losses in excess of the original invested amount, as well as gains. Such leveraging may be by way of a loan, utilization of the trading facilities extended by CICCHKS, or may be embedded within an instrument such as a structured note. The risk of loss in leveraged foreign exchange trading can be substantial.

4.2 Where the Client transacts with CICCHKS utilizing the trading facilities extended by CICCHKS, The Client must provide CICCHKS with sufficient collateral cover in respect of the approved facility limit before entering into any of the Transactions. Once the collateral has been provided, the Client may utilize the trading facilities to enter into Transactions up to the lower of the approved facility limit or the aggregate value of the collateral (as determined in CICCHKS' sole and absolute discretion). Each Transaction entered into effects a notional utilization of the trading facility; the amount of the notional utilization varies with each type of Transaction and is determined by CICCHKS, from time to time, in its absolute discretion and may be changed at any time.

4.3 The trading facilities shall be secured by such assets (i.e. Collateral) and in such manner as may be determined and specified by CICCHKS from time to time.

4.4 The risk of loss in financing a Transaction by utilization of the trading facilities is significant. The Client may sustain losses in excess of the Client's cash and any other assets deposited as Collateral with CICCHKS. In some cases, a small market movement may lead to a proportionately larger impact on the notional utilization of the trading facilities thus increasing the Client's exposure. In addition, the Collateral provided by the Client may fall below the amount required by CICCHKS. However, if the market moves against the Client and market conditions make it impossible to execute contingent orders, such as "stop-loss" or "stop-limit" orders, the Client may not only sustain a total loss of its Collateral and any additional funds deposited with CICCHKS to maintain the Client's position, but the Client may also incur further liability to CICCHKS or sustain further or additional losses. If CICCHKS, in its absolute discretion, determines that the value of the Collateral is insufficient as regards the Client's exposure in any Transactions, CICCHKS may take such action as CICCHKS in its sole discretion deems fit. This may include, but is not limited to, calling upon the Client to provide "top-up" collateral by substantial amounts at short notice to maintain the Client's position, failing which CICCHKS may liquidate the Client's position at a loss and the Client would be liable for any amount as CICCHKS may certify to be necessary to compensate it for any loss or expense incurred in liquidating the Client's position or in terminating any such arrangement. If after such "topping-up", the amount of Collateral is still not adequate to collateralize the Client's utilization of the trading facilities, CICCHKS has the right to issue further "top-up" notices for the difference or to liquidate the Client's open positions.

4.5 The Client should therefore carefully consider whether such trading is suitable in light of the Client's own financial position and investment objectives. Accordingly, the Client should not commit itself to any Transaction which is beyond the Client's means.

5. AUTHORITY TO REPLEDGE THE CLIENT'S SECURITIES COLLATERAL, ETC.

5.1 There is risk if the Client provides CICCHKS with an authority that allows CICCHKS to apply the Client's securities or securities collateral pursuant to a securities borrowing and lending agreement, repledge the Client's securities collateral for financial accommodation or deposit the Client's securities collateral as collateral for the discharge and satisfaction of its settlement obligations and liabilities.

5.2 If the Client's securities or securities collateral are received or held by CICCHKS in Hong Kong, the above arrangement is allowed only if the Client consents in writing. Moreover, unless the Client is a professional investor, the Client's authority must specify the period for which it is current and be limited to not more than 12 months. If the Client is a professional investor, these restrictions do not apply.

5.3 Additionally, the Client's authority may be deemed to be renewed (i.e. without the Client's written consent) if CICCHKS issues the Client a reminder at least 14 days prior to the expiry of the authority, and the Client does not object to such deemed renewal before the expiry date of the Client's then existing authority.

5.4 The Client is not required by any law to sign these authorities. But an authority may be required by CICCHKS, for example, to facilitate margin lending to the Client or to allow the Client's securities or securities collateral to be lent to or deposited as collateral with third parties. CICCHKS should explain to the Client the purposes for which one of these authorities is to be used.

5.5 If the Client signs one of these authorities and the Client's securities or securities collateral are lent to or deposited with third parties, those third parties will have a lien or charge on the Client's securities or securities collateral. Although CICCHKS is responsible to the Client for securities or securities collateral lent or deposited under the Client's authority, a default by it could result in the loss of the Client's securities or securities collateral.

5.6 A cash account not involving securities borrowing and lending is available from most licensed or registered persons including CICCHKS. If the Client does not require margin facilities or do not wish its securities or securities collateral to be lent or pledged, do not sign the above authorities and ask to open this type of cash account.

6. RISKS OF THE CLIENT ASSETS RECEIVED OR HELD OUTSIDE HONG KONG

The Client assets received or held by CICCHKS outside Hong Kong are subject to the applicable laws and regulations of the relevant overseas jurisdiction which may be different from the Securities and Futures Ordinance (Cap.571 of the laws of Hong Kong) and the rules made thereunder. Consequently, such the Client assets may not enjoy the same protection as that conferred on the Client assets received or held in Hong Kong.

7. RISKS ASSOCIATED WITH SPECIFIC INVESTMENTS

Major risks associated with each investment product are described in the section below, however, it may not disclose all of the risks associated with each product. It is the Client’s responsibility to understand the nature and risks of any proposed product before entering into a transaction.

7.1 **Options**:

(a) Transactions in options involve a high degree of risk. Such Transactions should be entered into only by people or entities who understand fully and have familiarized themselves with the type of options (i.e. put or call), style of exercise, the nature and extent of rights and obligations and the associated risks. The Client should carefully calculate the price which the underlying contract would have to reach for the option position to become profitable. This price would include amounts by which the underlying contract would have to rise above or fall below the strike price to cover the sum of the premium and all other costs incurred in entering into and exercising or closing the option position or performing the Client’s obligations under the option. The Client acknowledges that exercising any option results either in a cash settlement, or in the acquisition or delivery of the underlying contract.

Buying options: The Client should not purchase any option unless it is able to sustain a total loss of the premium and transaction costs of purchasing the option.

Under certain market conditions, the purchased option can expire worthless. The Client who purchases, or intends to purchase, an option should be aware that:

(i) in order to realize any value from the option, it will be necessary either to offset the option position or to exercise the option; and

(ii) some option contracts may provide only a limited period of time for exercise of the option, and some option contracts may provide for the exercise of the option on a specified date only.

If the purchased options expire worthless, the Client will suffer a total loss of its investment which will consist of the option premium plus transaction costs. If the Client is contemplating purchasing deep-out-of-the money options, he should be aware that ordinarily, the chance of such options becoming profitable is remote. If the option is on a futures contract or leveraged foreign exchange transaction, the Client will have to acquire futures or leveraged foreign exchange position, as the case may be, with associated liabilities for margin.

Certain exchanges in some jurisdictions may permit deferred payment of the premium, limiting the liability of the buyer to margin payments not exceeding the amount of the premium. The Client acknowledges that the Client, as a buyer, is still subject to the risk of losing the premium and transaction costs. When the option is exercised or expires, the Client is responsible for any unpaid premium outstanding at that time.

(b) Selling options: The risks associated with selling ("writing" or "granting") an option is generally greater than purchasing an option. It is important for the Client to understand the risks to which the Client, as an option seller, would be exposed if the purchaser exercises the option and the Client is obliged to either settle the option in cash, or acquire or deliver the underlying contract. If the option is on a futures contract or leveraged foreign exchange transaction, the Client, as the option seller, will acquire future or leveraged foreign exchange position, as the case may be, with associated liabilities for margin. The risk may be mitigated (to a greater or lesser degree, depending on the facts) if the option is "covered" by a corresponding position in the underlying contract or another option. Conversely, if the option is not covered, then the possible loss may be unlimited. An option is described as "covered" if the option seller already has a corresponding quantity of the relevant underlying instrument at its disposal.

(i) *Selling (writing) covered call options*: The seller (writer) of a covered call option sells (writes) the call option for an underlying instrument which he already has available. If the option is exercised by the buyer, the writer does not profit from the price growth of the underlying instrument in excess of the exercise price. Thus a profit is missed by the writer of a covered call option. The profit missed is reduced only by the premium received. If the call option is not exercised by the buyer, the writer bears the full risk of a decline in the price of the underlying instrument. The decline in the price of the underlying instrument is reduced only the amount of the premium received.

(ii) *Selling (writing) uncovered call options*: The seller (writer) of an uncovered call option sells (writes) the call option without already having the underlying instrument available in the event it has to be delivered. The writer of an uncovered call option is required to deposit a security margin. If the price of the underlying instrument rises, the security margin increases. The writer firstly bears the risk of having to provide additional collateral to CICCHKS at any time in order to meet the increased margin requirements. If the call option is exercised by the buyer, the writer bears the risk of having to purchase the underlying instrument to be delivered at a market price which is higher than the exercise price. Since there is theoretically no limit to the amount by which the market price of the underlying instrument may exceed the exercise price, the writer of an uncovered call option runs the risk of incurring an unlimited loss. The loss thus arising is reduced only by the amount of the premium received.

(iii) *Selling (writing) put options*: The writer of a put option is required to deposit a security margin. If the price of the underlying instrument falls, then the security margin to be provided will increase. The writer runs the risk of being called upon at any time by CICCHKS to furnish additional collateral to satisfy the increased margin requirements. If the buyer exercises the put option, the writer runs the risk of having to purchase the underlying instrument offered to him at the exercise price which is higher than the market price of the underlying instrument. The exercise price may be considerably higher than the market price of the underlying instrument. The risk to the writer of a put option lies in the difference between the exercise price of the put option and the market price of the underlying instrument and is therefore limited to the amount of the exercise price. Any loss thus arising is reduced only by the amount of the premium received. If the buyer does not exercise the put option before its expiry, the security margin provided by the writer is released and the writer of the put option no longer faces the risk of having to purchase the underlying instrument at a price exceeding the market price. The writer of the put option retains the premium received.

(iv) *Selling (writing) KIKO options*: The seller (writer) of a KIKO option takes the risk that if the option is knocked-in and the underlying currency pair is trading beyond the break-even level, the writer will suffer a loss. This loss can be unlimited and is reduced only by the premium received. It is important for the Client to fully understand the mechanics of and the risks associated with selling KIKO options before undertaking such transactions.

(c) **Combinations**: An acquisition of two or more options, based on the same underlying contract, which differ in either the option type (call or put), the quantity, the strike price, the expiration date or the type of position (buy or sell), is referred to as a combination. Given the large number of possible combinations, the Client should before entering into any such Transaction, obtain independent advice so as to understand and be familiar with the particular risks involved.

(d) **Exotic options**: Unlike “plain vanilla” put and call options described above, exotic options are subject to additional conditions and agreements. There is no limit to the structures exotic options may take. Exotic options come in the form of tailor-made OTC options or as warrants. Given the special composition of exotic options, their price movements can vary markedly from those of their “plain vanilla” cousins.

(e) **Deferred payment of option premium**: Certain exchanges in some jurisdictions permit deferred payment of the option premium, exposing the purchaser to liability for margin payments not exceeding the amount of the premium. The purchaser is still subject to the risk of losing the premium and transaction costs. When the option is exercised or expires, the purchaser is responsible for any unpaid premium outstanding at that time.

(f) This statement is not an exhaustive guide on the risks involved in any particular option Transaction. The Client is strongly advised to seek independent advice about the particular risks involved in relation to any of the Transactions referred to above.

7.2 **Structured products**:

(a) Structured products are formed by combining two or more financial instruments, including one or more derivatives. Structured products may carry a high degree of risk and may not be suitable for all investors, as the risks associated with the financial instruments may be interconnected, thus magnifying the effect of a market movement or event. As such, the extent of loss due to market movements can be substantial. Prior to engaging in structured product Transactions, the Client should understand the inherent risks involved. Each structured product has its own risk profile and given the unlimited number of possible combinations, it is not possible to detail in this risk disclosure schedule all the risks which may arise in any particular case. The Client should note that with structured products, buyers can only assert their rights against the issuer, hence particular attention should be paid to issuer risk. The Client should also be aware that a total loss of its investment is possible if the issuer or its counterparty should default.

(i) *Capital protected products*: Capital protection does not mean that an investment is guaranteed. Capital protection generally implies that the issuer of the product will invest part of the proceeds of issue into securities or assets that will be liquidated on maturity or the occurrence of certain events to provide the issuer with the funds to repay capital invested. Capital protection does not therefore mean 100 per cent. repayment of the purchase price for all products. Furthermore, capital protection is generally only available to an investor that holds a structured product to maturity.

(ii) *Dual currency investments ("**DCI**")*: DCI are exchange rate-related instruments that enable the buyer to obtain a higher return than on a money market instrument by taking on exchange rate risk. A DCI can be viewed as a bond combined with grant of a call option on the primary currency. If on maturity, the option is out-of-the-money, the buyer will receive the principal plus interest in the primary currency. On the other hand, if the option is in- the-money, the issuer of the DCI will exercise the call option and pay the holder of the DCI in the alternative currency at the pre-agreed strike price. DCIs are suitable for buyers who wish to see a high return on their investments and accept the risk of repayment in the alternative currency at the strike rate.

(iii) *Equity-linked instruments ("**ELI**")*: ELI carry a high degree of risk. An ELI may be viewed as combining a debt instrument with an option that allows a bull (rising), bear (falling) or range bet. ELI may come in different forms: equity-linked notes, equity-linked deposits and equity-linked contracts. The return on an ELI is usually determined by the performance of a single security, a basket of securities or an index. While the maximum return on investment is usually limited to a predetermined amount of cash, an investor stands to potentially lose up to the entire investment amount if the underlying share price moves substantially against the investor's view. A bull ELI combines a traditional deposit with the sale of a put option on the chosen securities. If the value of these securities falls to a level less than the strike price minus the premium received, the buyer will suffer a loss. The maximum potential loss could be the entire capital sum invested.

A bear ELI combines a deposit with the sale of a call option on the chosen securities. Upon maturity, the amount that the issuer of a bear ELI will repay the investor depends on the strike price and the market value of the securities at maturity. Buyers of a bear ELI must feel comfortable with the risk of losing the entire capital invested, in the event that the market value of the securities is above the strike price.

A range ELI combines a traditional deposit with the premium received by selling both a put option and a call option on the chosen securities.

The Client should also note that the return on investment of an ELI is predetermined, so that even if the Client's view of the direction of the underlying market is correct, the Client will not gain more than the specified amount. The Client should also note that there is no guarantee that the Client will derive any return on its investment in an ELI. In addition, there is a limited secondary market for outstanding ELI issues.

(iv) *Callable Bull/Bear contracts (**"CBBC"**)*: CBBCs are a type of structured product that tracks the performance of an underlying asset. They are issued either as Bull or Bear contracts with a fixed expiry date, allowing investors to take bullish or bearish positions on the underlying asset. The price movement of a CBBC correlates to the movement of the price of the underlying asset. CBBCs are not bank deposits.

CBBCs have an intraday "knockout" or a 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. The Client will only be entitled to the residual value of the terminated CBBC as calculated by the product issuer in accordance with the listing documents. The residual value can be zero, and the Client may lose all of its investments in the CBBCs. The Client should exercise special caution when a CBBC is trading close to its call price.

CBBCs constitute general unsecured contractual obligations of the issuer and of no other person. The Client relies on the creditworthiness of the issuer and, if applicable, the guarantor. In the event that the issuer or, if applicable, the guarantor defaults, the potential maximum loss could be 100% of the investment amount and no return may be received. The Client has no rights under CBBCs against any company which issues or comprises the underlying asset of the relevant issue of CBBCs or the sponsor of any underlying asset that is an index.

Purchasing CBBCs is not the same as buying the underlying asset or having a direct investment in the underlying asset. The Client will not be entitled to have voting rights, rights to receive dividends or distributions or have any other rights under the underlying assets.

The values of a CBBC at any time prior to expiry is governed by a number of factors, such as the time left until expiry, the price or level of the underlying asset compared with the exercise price or strike level of derivative warrants, the volatility of the underlying asset, market interest rate movements, credit quality of the issuer and the guarantor etc. There can be no assurance that a change in value or market price of CBBCs will correspond in direction or magnitude with the change in price or level of the underlying asset. The Client is warned that prices of derivative warrants may fall in value as rapidly as it may rise and holders may sustain a total loss of their investment.

Assuming all other factors are held constant, the value of CBBCs will decline over time. If the Client holds CBBCs until expiry and no mandatory call event occurs during the observation period, the cash settlement amount payable upon exercise at expiry will depend on how much the closing price or level of the underlying asset is above (in the case of bull CBBCs) or below (in the case of bear CBBCs) the strike price or level. The cash settlement amount may be substantially less than the Client's initial investment in the CBBCs and may even be zero.

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.

CBBCs may be illiquid. Although CBBCs have liquidity providers, there is no guarantee that the Client will be able to liquidate its position whenever the Client wishes to do so.

The Client should recognize the complexities of utilizing CBBCs to hedge against the market risk associated with investing in an underlying asset. The issuer or sponsor of the underlying asset will have no involvement in the offer and sale of CBBCs and no obligation to the investors of CBBCs. In addition, their decisions on corporate actions may have adverse impact on the value and market price of CBBCs.

Investors trading CBBCs with underlying assets not denominated in the currency of the Client's home jurisdiction are exposed to exchange rate risk. Currency rate fluctuations can adversely affect the return of the Client's investment.

7.3 **Swaps**:

(a) Different instruments may be swapped, resulting in an exchange of future payment streams, and occasionally also an exchange of principal on commencement and/or maturity date (more frequently if the Transaction is an amortising swap). The risk that one of the parties to the swap will default or otherwise fail to perform its obligations is typically greater in swaps where both principal and income streams are exchanged.

(b) For an uncovered contract, there is a risk which is directly related to the risks of the different instruments swapped. It is important to note that these risks may not be offsetting in effect, and should be viewed instead in aggregate.

7.4 **Interest Rate Swaps**:

(a) An interest rate swap is an agreement between two parties to make reciprocal payments over a specific period of time. The payments are determined by reference to a notional principal amount and fixed or floating rate(s) of interest. Floating rates are typically based on some published index of market rates.

(b) The Client may be a receiver of fixed rate interest and payer of floating rate interest, or vice versa. In either case, movements in the referenced rates could have a significant impact on The Client's cash flow as well as on the cost of unwinding the swap position.

(c) For uncovered contracts, there is an unlimited interest rate risk, computed on the full amount(s) contracted.

7.5 **Credit-linked Products ("CLPs")**:

(a) The Client understands that CLPs may carry a high degree of risk. The Client undertakes to understand fully all the features associated with CLPs which include the credit events, reference obligations, settlement mechanics and deliverable obligations referred to in the documentation of the issuers of the CLPs (which contains the definitive terms of the CLPs) and any related documentation as may be provided by CICCHKS before investing in CLPs.

(b) The Client acknowledges that if it invests in CLPs, it is fully capable of assuming all risks generally associated with CLPs. These risks include the occurrence of a credit event, the issuer of the CLPs not fulfilling their obligations under the terms of the CLPs for any reason, or becoming insolvent. The Client further agrees that CICCHKS will not be liable to fulfil the obligations of the issuers of the CLPs.

(c) The Client acknowledges that CLPs are generally not principal protected products and the Client may lose part or all of the amounts which the Client invests in the CLPs. The Client further acknowledges that CLPs may not be transferable and/or there may not be a secondary market for the CLPs; and that even if there is a secondary market, there can be no guarantee as regards the value of the CLPs in such a market.

(d) The Client acknowledges that it will make its own independent decision whether to invest in CLPs and as to whether CLPs are appropriate for it based upon its own judgment and upon advice from its professional advisers. The Client will not be relying on any communication (written or oral) of CICCHKS as investment advice or as a recommendation to invest in CLPs; it being understood that information and explanations related to the terms and conditions of the CLPs shall not be considered investment advice or a recommendation to invest in CLPs. No communication (written or oral) received from CICCHKS shall be deemed to be an assurance or guarantee as to the expected results of the CLPs.

7.6 Renminbi ("RMB") Services and Products

(a) Before providing services to the Client in products denominated or settled in RMB **("RMB Products")**, the Client is required to have an RMB bank account for settlement purposes unless otherwise agreed between the Client and CICCHKS. For Hong Kong-listed RMB Products, if the Client has an Investor Participants Account in the Central Clearing and Settlement System **("CCASS")** or settles through the Client's custodian who is a CCASS Participant, the Client or the Client's custodian is required to set up RMB Designated bank accounts at CCASS for CCASS money settlement purposes.

(b) The settlement of transactions in RMB Products (including brokerage commissions, stamp duty, transaction levy and trading fee) will be in RMB. To facilitate the Client's settlement of RMB Products, CICCHKS may offer currency conversion services to the Client at a mutually agreed exchange rate and such exchange rate will be shown in the daily statement of accounts to be sent to the Client.

(c) The Client acknowledges that RMB Products may involve high risks as listed below. However, the following risk factors are not intended to be exhaustive. Depending on the nature of the RMB Product and its investment objectives, there may be other risk factors specific to the product which the Client should consider.

(i) Currency risk: At present, RMB is subject to conversion restrictions and an exchange control mechanism. The Client may have to convert the local currency into RMB when investing in an RMB Product. When the Client sells or redeems its investment, it may also need to convert the sale or redemption proceeds in RMB into the local currency (even if the proceeds are paid in RMB). During these processes, the Client will incur currency conversion costs and also be exposed to currency risk. For RMB Products with underlying investments which are not RMB-denominated, such products will be subject to multiple currency conversion costs involved in making investments and liquidating investments, as well as the RMB exchange rate fluctuations and bid/offer spreads when assets are sold to meet redemption requests and other capital requirements.

(ii) Limitation on the provision of RMB funding: If the Client does not have sufficient RMB funding to subscribe RMB Products, subject to compliance with all applicable laws, rules and regulations, CICCHKS may assist the Client in converting other currencies to RMB. However, CICCHKS does not guarantee that sufficient RMB funding can be provided to the Client due to the limitation on the flow of RMB funds in Hong Kong. CICCHKS may unwind the Client's trade due to insufficient RMB funding and the Client's investment may be adversely affected if the Client suffers losses due to the resulting settlement failure.

(iii) Exchange rate risk: The RMB exchange rate against the Hong Kong dollar (or any other foreign currency) fluctuates and is affected by changes in the People's Republic of China (**the "PRC"**) and international political and economic conditions and by many other factors. For RMB Products, the value of the investment in Hong Kong dollar terms may decline if the value of RMB depreciates against the Hong Kong dollar.

(iv) Interest rate risk: The Government of the PRC has gradually liberalized the regulation of interest rates in recent years. Further liberalization may increase interest rate volatility. For RMB Products which are, or may invest in, RMB debt instruments, such instruments are susceptible to interest rate fluctuations, which may adversely affect the return and performance of the RMB Products.

(v) Investment/market risk: Like any investments, RMB Products are subject to investment risk and may not be principal protected (i.e. the assets that the products invest in or are referenced to may fall as well as rise), resulting in

(vi) gains or losses to the product. This means that the Client may suffer a loss even if RMB appreciates.

(vii) Liquidity risk: RMB Products are subject to liquidity risk as these products are a new type of product and there may not be regular trading or an active secondary market. Therefore the Client may not be able to sell its investment in the product on a timely basis, or the Client may have to sell the product at a deep discount to its value.

(viii) Issuer/counterparty risk: RMB Products are subject to the credit and insolvency risks of their issuers. The Client should consider carefully the creditworthiness of the issuers before investing. For RMB Products invested in RMB debt instruments which are not supported by any collateral, such products are fully exposed to the credit risk of the relevant counterparties. Furthermore, as a RMB Product may invest in derivative instruments, counterparty risk may also arise as the default by the derivative issuers may adversely affect the performance of the RMB Products and result in substantial losses.

(ix) Limited availability of underlying investments denominated in RMB: For RMB Products that do not have access to invest directly in the PRC, their available choice of underlying investments denominated in RMB outside the PRC may be limited. Such limitation may adversely affect the return and performance of these products.

(x) Projected returns which are not guaranteed: For some RMB Products, their return may not be guaranteed or may only be partly guaranteed. The Client should read carefully the statement of illustrative return attached to such products and in particular, the assumptions on which the illustrations are based, including, for example, any future bonus or dividend declaration.

(xi) Long term commitment to investment products: For RMB Products which involve a long period of investment, if the Client redeems its investment before the maturity date or during the lock-up period (if applicable), it may incur a significant loss of principal where the proceeds may be substantially lower than the Client's invested amount. The Client may also suffer from early surrender / withdrawal fees and charges as well as the loss of returns (where applicable) as a result of redemption before the maturity date or during lock-up period.

(xii) Possibility of not receiving RMB upon redemption: For RMB Products with a significant portion of non-RMB-denominated underlying investments, there is a possibility of not receiving the full amount in RMB upon redemption. This may be the case if the issuer is not able to obtain sufficient amount of RMB in a timely manner due to the exchange controls and restrictions applicable to the currency.

7.7 Listed Derivative Warrants

(a) Derivative warrants are instruments which give investors the right to buy or sell an underlying asset such as stock at a pre-set price prior to a specified expiry date. Derivative warrants are not bank deposits.

(b) Derivative warrants constitute general unsecured contractual obligations of the issuer and of no other person. The Client relies on the creditworthiness of the issuer and, if applicable, the guarantor. In the event that the issuer or, if applicable, the guarantor defaults, the potential maximum loss could be 100% of the investment amount and no return may be received. Further, the Client has no rights under derivative warrants against any company which issues or comprises the underlying asset of the relevant issue of warrants or the sponsor of any underlying asset that is an index.

(c) Purchasing derivatives warrants is not the same as buying the underlying asset. The Client will not be entitled to have voting rights, rights to receive dividends or distributions or any other rights under the underlying assets.

(d) The values of derivative warrants at any time prior to expiry are governed by a number of factors, such as the time left till expiry, the price or level of the underlying asset compared with the exercise price or strike level of derivatives warrants, the volatility of the underlying asset, market interest rate movements, credit quality of the issuer and the guarantor etc. There is no assurance that a change in value or market price of derivative warrants will correspond in direction or magnitude with the change in price or level of the underlying asset.

(e) The Client is warned that prices of derivative warrants may fall in value as rapidly as it may rise and holders may sustain a total loss of their investment.

(f) Assuming that all the other factors are held constant, the value of the derivative warrant will decay over time and may have no value upon expiry. The Client should not view derivative warrants as long term investments.

(g) Derivative warrants may be illiquid. Although listed derivative warrants have liquidity providers, there is no guarantee that the Client will be able to liquidate its position whenever the Client wishes to do so.

(h) The Client should recognize the complexities of utilizing derivative warrants to hedge against the market risk associated with investment in an underlying asset or shares comprising any underlying asset that is an index. The issuer or sponsor of the underlying asset will have no involvement in the offer and sale of derivative warrants and no obligation to the investors in such derivative warrants. In addition, their decisions on corporate actions may have adverse impact on the value and market price of derivative warrants.

(i) Investors trading listed derivative warrants with underlying assets not denominated in the currency of the Client's home jurisdiction are exposed to exchange rate risk. Currency rate fluctuations can adversely affect the return of the Client's investment.

7.8 Exchange Traded Notes ("ETNs")

(a) ETN is a type of unsecured, unsubordinated debt security issued by an underwriting bank, designed to provide investors access to the returns of various market benchmarks. The returns of ETNs are usually linked to the performance of a market benchmark or strategy, minus applicable fees. Similar to other debt securities, ETNs have a maturity date and are backed only by the credit of the issuer.

(b) Investors can buy and sell the ETNs on the exchange or receive a cash payment at the scheduled maturity or may early redeem the ETNs directly with the issuer based on the performance of the underlying index less applicable fees, with redemption restrictions, such as the minimum number of ETNs for early redemption, may apply.

(i) Although ETNs are linked to the return of a benchmark index, ETNs as debt securities do not actually own any assets they are tracking, but just a promise from the issuer to pay investors the theoretical allocation of the return reflected in the benchmark index.

(ii) In the event that the ETN issuer defaults, the potential maximum loss could be 100% of the investment amount and no return may be received, given ETN is considered as an unsecured debt instrument.

(iii) The value of the ETN may drop despite no change in the underlying index, instead due to a downgrade in the issuer’s credit rating. Therefore by buying ETNs, investors get direct exposure to the credit risk of the issuer and would only have an unsecured bankruptcy claim if the issuer declares bankruptcy.

(iv) There is no guarantee that investors will receive at maturity, or upon an earlier repurchase, investors’ initial investment back or any return on that investment. Significant adverse monthly performances for investors’ ETNs may not be offset by any beneficial monthly performances.

(v) ETNs provide limited portfolio diversification with concentrated exposure to a specific index and the index components.

(vi) The issuer of ETNs may have the right to redeem the ETNs at the repurchase value at any time. If at any time the repurchase value of the ETNs is zero, investors’ investment will expire worthless.

(vii) The principal amount is subject to the periodic application of investor fee or any applicable fees which can adversely affect returns.

(viii) Investors may have leveraged or unleveraged exposure to the underlying index, depending on the product feature. The value of ETNs can change rapidly according to the gearing ratio relative to the underlying assets. The Client should be aware that the value of an ETN may fall to zero resulting in a total loss of the initial investment.

(ix) Liquidity risk: ETNs may be illiquid. There is no guarantee that the Client will be able to liquidate its position whenever it wishes to.

(x) Exchange rate risk: Investors trading ETNs with underlying assets not denominated in local currencies are also exposed to exchange rate risk. Currency rate fluctuations can adversely affect the underlying asset value, also affecting the ETN price.

7.9 Unit trusts investing in financial derivative instruments

(a) The Client acknowledges that some unit trusts may invest in financial derivative instrument such as options, futures, warrants, swaps, forward contracts, with an aim to reduce risks or costs or to generate additional capital or income, or generate a certain payoff structure in order to meet the investment objectives of the fund.

(b) Investing in financial derivative instrument may involve additional risks, including, without limitation, counterparty credit risk, leverage risk, market risk, liquidity risk, which may lead to a higher volatility to the net asset value of the unit trusts, and expose the unit trusts to potential significant losses.

(i) Counterparty credit risk: A loss may be sustained by the unit trusts as a result of the failure of another party to a derivatives (usually referred to as a "counterparty") to comply with the terms of the derivative contract.

(ii) Leverage risk: Many derivatives have a leverage component, adverse changes in the value or level of the underlying asset, rate or index can result in a loss substantially greater than the amount invested in the derivative itself.

(iii) Market risk: Where the value of the underlying asset of a derivative instrument changes, the value of the derivative instrument will become positive or negative, depending on the performance of the underlying asset.

(iv) Liquidity risk: If a derivative transaction is particularly large or if the relevant market is illiquid, it may not be possible to initiate a transaction or liquidate a position at an advantageous price.

7.10 **Funds**:

7.8.1 **Exchange traded funds ("ETF")**

(a) Market risk: The net asset value ("**NAV**") of ETFs will change with changes in the market value of the securities it holds. The price of Interests and the income from the Interests may go down as well as up. ETFs are not principal protected products and the Client may not get back his original investment. The Client should note that ETFs may not make any dividend distributions, even if the securities it holds do so.

(b) Concentration risk: An ETF may concentrate its investments in issuers of one or more particular industries/geographical regions to the same extent that its underlying index is so concentrated and to the extent permitted by applicable regulations. If the particular industry or geographic location in which the ETF's investments are concentrated performs poorly, this will magnify the negative impact on the value of the ETF.

(c) Passive investments: Most ETFs are not actively managed. 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 the ETF manager does not attempt to select securities individually or to take defensive positions in declining markets. Accordingly, ETFs may be adversely affected by a decline in the market segments relating to its underlying index. Investors must be prepared to bear the loss and volatility associated with the underlying index/assets.

(d) Correlation risk: A number of factors may affect an ETF's ability to achieve a high degree of correlation with its underlying index, and there can be no guarantee that an ETF will achieve a high degree of correlation. A failure to achieve a high degree of correlation may prevent an ETF from achieving its investment objective. The factors include fees, expenses, transaction costs, costs associated with the use of leveraged investment techniques, income items, accounting standards and disruptions or illiquidity in the markets for the securities or financial instruments in which an ETF invests. An ETF may not have investment exposure to all securities in its underlying index, or its weighting of investment exposure to such securities may be different from that of the index. The underlying index of an ETF is subject to fluctuations, including changes in the composition of and weightings in the underlying index. The price of the ETF units may rise or fall as a result of such changes. An investment in units will generally reflect the underlying index as its constituents changes from time to time, and not necessarily the way it is comprised at the time of an investment in the units. There can be no guarantee that a particular ETF will at any given time accurately reflect the composition of the relevant underlying index. In addition, an ETF may invest in securities or financial instruments not included in the underlying index. An ETF may be subject to large movements of assets into and out of the ETF, potentially resulting in the ETF being overexposed or underexposed to its benchmark. Activities surrounding annual index reconstitutions and other index rebalancing or reconstitution events may prevent an ETF from achieving a high degree of correlation with the underlying index.

(e) Risk of investing in futures, options and other derivatives: ETFs may invest in stock index future contracts and other derivatives. Compared to traditional securities, derivatives may be more sensitive to sudden fluctuations in market prices or changes in interest rates. This is due to both the low margin deposits required and the extremely high degree of leverage involved in futures pricing. As a result, a relatively small price movement in a futures contract may result in immediate and substantial gain/loss to an ETF. Thus there is the risk that an ETF's losses may be greater if a substantial portion of its investments is in derivatives and the market moves against the ETF.

(f) Counterparty (credit) risk: Counterparty (credit) risk arises when an ETF purchases financial instruments from and/or enters into agreements with other counterparties, and these counterparties become bankrupt or otherwise fail to perform their obligations for any reason. The value of an ETF may decline as a result of such counterparty (credit) risks. In addition, where an ETF invests in derivatives (i.e. synthetic ETF) or uses total return swaps to replicate the index performance, investors may be exposed to the credit risk of the counterparties issuing the derivatives, in addition to the risks relating to the index such as political, economical and currency risks. A synthetic ETF may suffer losses equal to the full value of the derivatives issued by the counterparty upon its default or if such counterparty fail to honour their contractual commitments.

(g) Debt instruments risk: ETFs may invest in, or seek exposure to, debt instruments. Debt instruments may have varying levels of sensitivity to changes in interest rates, credit risk and other factors. Typically, the value of outstanding debt instruments falls when interest rates rise. Debt instruments with longer maturities may fluctuate more in response to interest rate changes than instruments with shorter maturities. Many types of debt instruments are subject to prepayment risk, which is the risk that the issuer of the security will repay principal prior to the maturity date. Debt instruments allowing prepayment may offer less potential for gains during a period of declining interest rates. In addition, changes in the credit quality of the issuer of a debt instrument can also affect the price of a debt instrument, as can an issuer's default on its payment obligations. Such factors may cause the value of an ETF who invests in such debt instruments to decrease.

(h) Equity risk: Equity markets are generally volatile, and the value of securities, futures, options contracts and other instruments correlated with equity markets may fluctuate dramatically from day-to-day. This volatility may cause the value of an ETF to decrease.

(i) Early close/trading halt risk: An exchange or market may close early or issue trading halts on specific securities, or the ability to buy or sell certain securities or financial instruments may be restricted, which may result in an ETF being unable to buy or sell certain securities or financial instruments. In such circumstances, an ETF may be unable to rebalance its portfolio, may be unable to accurately price its investments and/or may incur substantial trading losses. Furthermore, investors and potential investors will not be able to buy, nor will investors be able to sell, units on the relevant exchange during any period in which trading of the units is suspended. An exchange may suspend the trading of units whenever it determines that it is appropriate in the interests of a fair and orderly market to protect investors. The subscription and redemption of units may also be suspended if the trading of units is suspended.

(j) Foreign investments risk: ETFs may invest in securities of foreign issuers (i.e. issuers outside the jurisdiction in which the ETF is established) or other investments that provide ETFs with exposure to foreign issuers (collectively, "**foreign investments**"). Certain factors related to foreign investments may prevent an ETF from achieving its goals. These factors include the effect of (i) foreign currency fluctuations and the uncertainty associated with the cost of converting between various currencies, particularly when currency hedging techniques are unavailable; (ii) lack of market liquidity, differences in settlement practices, or delayed settlements in some foreign markets; (iii) the uncertainty associated with evidence of ownership of investments in some foreign countries; (iv) brokerage commissions and fees and other investment related costs that may be higher than those applicable to domestic investments; (v) the possibility that a foreign government may withhold portions of interest and dividends at the source; (vi) taxation of income earned in foreign nations or other taxes imposed with respect to investments in foreign nations; and (vii) foreign exchange controls, which may include suspension of the ability to transfer currency from a given country. In some foreign countries, the availability of publicly available information about issuers may vary widely. The degree of government supervision and regulation may also vary widely for some of these foreign markets. Foreign issuers may not be subject to uniform accounting, auditing and financial reporting standards. Furthermore, the issuers of foreign investments may be closely controlled by a small number of families, institutional investors or foreign governments whose investment decisions might be difficult to predict. An ETF may encounter difficulties or be unable to pursue legal remedies and obtain judgments in foreign courts. In some countries, information about decisions of the judiciary, other government branches, regulatory agencies and tax authorities may be less transparent. Moreover, enforcement of such decisions may be inconsistent or uncertain. Foreign investments also may be more susceptible to political, social, economic and regional factors.

(k) Foreign currency exchange risk: ETFs may be exposed to foreign currency exchange risk if the ETFs make foreign investments in a currency other than the currency in which the ETF is denominated.

(l) Liquidity risk: In certain circumstances, such as the disruption of the orderly markets for the securities or financial instruments in which an ETF invests or that the market makers default or cease to fulfil their role, an ETF might not be able to dispose of certain holdings quickly or at market value prices. Such a situation may prevent an ETF from limiting losses, realizing gains or achieving a high correlation or inverse correlation with its underlying index. Separately, although most ETFs are supported by one or more market makers, there is no assurance that an active trading market will be maintained for units of ETFs and in the event that the market makers default or cease to fulfil their role, it may not be possible to sell or dispose of units of ETFs in such circumstances. A higher liquidity risk is involved if a synthetic ETF involves derivatives which do not have an active secondary market. In such circumstances, a loss with a wider bid-offer spread in the price of the derivatives may be suffered. 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.

(m) Market price variance risk: Individual Interests in ETFs will be listed for trading on the exchange and can be bought and sold in the secondary market at market prices. The market prices of Interests will fluctuate in response to changes in NAV and supply and demand for units. Differences between secondary market prices and the NAV of the units may be due largely to supply and demand forces in the secondary market, which may not be the same forces as those influencing prices for securities or instruments held by an ETF at a particular time. There may, however, be times when the market price and the NAV vary significantly and the Client may pay more than NAV when buying Interests on the secondary market, and may receive less than NAV when sell those units. The market price of units, like the price of any exchange-traded security, includes a “bid-ask spread” charged by the exchange specialist, market makers or other participants that trade the particular security. In times of severe market disruption, the bid-ask spread often increases significantly. This means that units may trade at a discount to NAV, and the discount is likely to be greatest when the price of units is falling fastest, which may be the time that the Client needs to sell its units.

(n) Fund management risk: This is the risk that the ETF manager's strategy, the implementation of which is subject to a number of constraints, may not produce the intended results. This risk is especially pertinent when the ETF does not fully replicate its underlying index, but instead holds non-index stocks or other financial instruments. The index providers do not have any obligation to take the needs of the ETF manager or investors into consideration in determining, composing or calculating the relevant underlying index. The process and the basis of computing and compiling each underlying index and any of its related formulae, constituent companies and factors may at any time be changed or altered by the index providers without notice. Consequently, there can be no guarantee that the actions of an index provider will not prejudice the interests of the relevant ETF, managers or investors. The Client may also be exposed to tracking errors (i.e. the disparity in performance between an ETF and its underlying index/assets, due to, for instance, failure of tracking strategy, currency differences, fees and expenses). In addition, as an ETF manager is normally granted a licence by each of the index providers to use the relevant underlying index, an ETF may be terminated if the relevant licence agreement is terminated, or if the relevant underlying index ceases to be compiled or published. Further, a regulator reserves the right to withdraw the authorisation granted to an ETF or impose such conditions as it considers appropriate and such withdrawal may make it illegal, impractical or inadvisable to continue an ETF.

(o) Redemption risk: The creation and redemption of units of an ETF may only be effected through participating dealers. Participating dealers will not be able to create or redeem units during any period when, among other things, dealings on the relevant exchange are restricted or suspended, settlement or clearing of securities through the clearing system is disrupted or the underlying index is not compiled or published. In addition, as the number of participating dealers at any given time will be limited, there is a risk that investors may not always be able to create or redeem units freely. Furthermore, where the index/market that the ETF tracks is subject to restricted access, the efficiency in unit creation or redemption to keep the price of the ETF in line with its NAV may be disrupted, causing the ETF to trade at a higher premium or discount to its NAV. Investors who buy an ETF at a premium or sells when the market price is at a discount to NAV, may sustain losses.

*Inverse/leveraged/inverse leveraged ETFs (collectively, **"Non-traditional ETFs"**)*

(p) Short selling risk: Selling short is a technique that may be employed by certain Non-traditional ETFs to achieve investment exposure consistent with its investment objective. Short selling involves borrowing a security and then selling it. If such an ETF buys back the security at a price lower than the price at which it sold the security plus accrued interest, that ETF will earn a positive return (profit) on the difference. If the current market price is greater when the time comes to buy back the security plus accrued interest, that ETF will incur a negative return (loss) on the transaction. The use of short sales may involve additional transaction costs and other expenses. As a result, the cost of maintaining a short position may exceed the return on the position, which may cause the ETF to lose money. Under certain market conditions, short sales can increase the volatility and decrease the liquidity of certain securities or positions and may lower the ETF's return or result in a loss. Entering into short positions through financial instruments such as futures, options and swap agreements may also cause an ETF to be exposed to short sale risk.

Separately, ETFs that employ short selling strategies may also face the risk of securities regulators prohibiting short sales of publicly traded securities. Such orders by regulators may severely limit the ability of managers of ETFs to employ certain portfolio techniques, including the use of certain short selling financial instruments. This may prevent such ETFs from realizing their investment objectives. Daily rebalancing and market volatility risk: Non-traditional ETFs seek to provide a return which is either a multiple and/or an inverse of the daily performance of its underlying index. Non-traditional ETFs do not attempt to, and Non-traditional ETFs should not be expected to, provide returns which are a multiple and/or an inverse of the return of the benchmark for periods other than a single day. A Non-traditional ETF rebalances its portfolio on a daily basis, increasing exposure in response to that day's gains or reducing exposure in response to that day's losses. An index's volatility rate is a statistical measure of the magnitude of fluctuations in the returns of an index. At higher ranges of volatility, there is a chance of a near complete loss of the value of the ETF even if the performance of the underlying index is flat. Non-traditional ETFs are designed as short term trading vehicles for the Clients who intend to actively monitor and manage their portfolios. They are not intended to be used by, and are not appropriate for, the Clients who do not intend to actively monitor and manage their portfolios.

(q) Leverage risk: If the Client invests in Leveraged ETFs, the Client is exposed to the risk that any adverse daily performance of an ETF's underlying index will be leveraged. This means that, if a 3X Leveraged ETF's underlying index experiences adverse daily performance, the Client's investment in the 3X Leveraged ETF will be reduced by an amount equal to 3% for every 1% of adverse performance, not including the cost of financing the portfolio and the impact of operating expenses, which would further lower the Client's investment (if compounding over time is taken into account, it could be greater than 3X index losses).

(r) Inverse correlation risk: Inverse ETFs are negatively correlated to their underlying indices and should lose money when their indices rise – a result that is the opposite from conventional ETFs. Because each inverse ETF seeks daily returns which are inverse to the performance of its underlying index, the difference between an inverse ETF's daily return and the price performance of its underlying index may be negatively compounded during periods in which the markets move adversely over that period.

7.8.2 Non-traditional Funds (Hedge Funds, Alternative Investment Funds and Offshore Funds):

(a) Non-traditional funds are investment companies which differ from traditional equity and bond investments on account of their investment style. The most common form of a non-traditional fund is the hedge fund, which, despite its name, does not necessarily have anything to do with hedging. Many hedge funds aim to make a profit and sometimes take on very high levels of risk. Hedge funds include all types of investment funds, investment companies, partnerships and limited liability partnerships which use derivatives for investment rather than hedging purposes, which can carry out short sales or which can attain significant leverage from the investment of borrowed capital. Additional features of hedge funds are their free choice of investment categories, markets (including emerging markets) and trading methods. Hedge funds generally demand high minimum investments. They offer no more than limited subscription and redemption rights with lengthy notice periods. Portfolio managers of hedge funds receive performance-linked bonuses and often have a personal stake in the fund. The Client acknowledges that performance fees may be charged in relation to an investment in a non-traditional fund, and this may be effected by way of deduction of Interests held by CICCHKS on behalf of the Client, which will reduce the holdings of the Client accordingly.

(b) Investment strategies are often high-risk. Due to leverage, a small movement in the market can lead to a major gain, but any losses will also be magnified sharply. The Client acknowledges and accepts that for such investments the entire amount of the Client's investment can, under certain circumstances, be lost. It is not uncommon for there to be little information available concerning a non-traditional investment. Moreover, many investment strategies are highly complex and very difficult to understand. The Client should be aware that changes in strategy which can lead to a substantial increase in the level of risk are often overlooked, accorded too little attention or noticed too late. The liquidity and tradability of non- traditional investments can vary a great deal. Hedge fund issues and redemptions are often only monthly, quarterly or annually. Fixed holding periods lasting many years are not unusual. Provisions regarding trading frequency and holding periods may change frequently and rapidly. Liquidations can stretch over many years. Many funds in this category have an offshore domicile which earns them the name offshore funds. They are subject to less stringent legislation and supervision, which in turn offers poorer investor protection. Problems or delays may also arise in the settlement of buy and sell orders for units in such funds. There is no guarantee that an investor's legal rights will be enforceable.

(c) Non-traditional investments can take countless different forms and involve a high degree of risk. Before making any such investments, the Client should seek independent advice about the particular risks involved and carefully study the information memorandum and subscription agreement and other information on the relevant investments. The Client should fully understand and agree to assume the risks involved and the exposure to potential loss (which could involve the complete loss of the investments).

7.8.3 Private Equities:

Private equities ("**PE**") are participations into private companies and/or funds. The purpose of such participations is to provide such companies with capital in order to finance projects that are expected to generate higher returns involving higher risks ("**Projects**"). The PE participations are made either by a single payment or in other cases, by several payments over a certain period of time, known generally as "capital calls" by the private companies involved. PE are less liquid than other securities and in certain cases, fund holdings of PE cannot be sold and/or transferred freely. If transferred, this might take place at a discount. Returns on private equity generally occur in several ways such as: (i) a sale of the participations through eventual public listings on Exchanges, (ii) mergers with other companies, sale to another interested party or (iii) a recapitalization amongst others. Considerable losses, or even a total loss over the investments into PE might take place, when such private companies and/or funds are either wound up or declared insolvent, should the Projects fail and/or should commercial interest in the business of the private companies or Projects cease to exist.

8. TERMS AND CONDITIONS OF CONTRACTS

8.1 Any Transaction entered into by the Client will be governed by the contractual terms and conditions. The Client is responsible for understanding fully the terms and conditions of any Transaction to be undertaken, including:

(a) the terms as to price, tenor, expiration dates, restrictions on exercising an option and other terms material to the Transaction;

(b) any terms describing risk factors, such as volatility, liquidity, the inability to exit the transaction before its scheduled maturity or expiry date and so on; and

(c) the circumstances under which the Client may become obliged to make or take delivery of the underlying interest of a derivatives contract.

8.2 The Client should always familiarize itself with the terms and conditions of any written agreement, contract or confirmation that the Client may enter into with CICCHKS. The Client must fully understand its rights and obligations under that agreement, contract or confirmation.

9. RETENTION OF CORRESPONDENCE (OR HOLD MAIL) AND DIRECTING MAIL TO THIRD PARTIES

9.1 If the Client provides CICCHKS with an authority to hold mail or to direct mail to third parties, it is important for the Client to promptly collect in person all contract notes and statements of its account and review them in detail to ensure that any anomalies or mistakes can be detected in a timely fashion.

10. OTHER KEY RISK FACTORS

10.1 Market Risk

(a) Equity Risk: Equity risk arises from potential movements in the value of stock prices. The Clients' investments may depreciate because of stock market dynamics.

(b) Interest Rate Risk: Interest rate fluctuations may have an adverse impact on the value of certain investments, for example, investments comprising debt instruments, such as bonds and money market instruments.

(c) Credit Spread Risk: Credit spread represents a compensation for the loss due to default, plus perhaps a risk premium that reflects investor risk aversion. The movement of credit spread would bring potential losses if the Client invested in corporate bond, CDS and other products.

(d) Currency Risk: In respect of any Foreign Exchange Contracts and Transactions that are denominated in a foreign currency, or where the Client carries on its ordinary business or keeps its accounts in a currency other than the base currency in which the Transaction is denominated, movement in exchange rates may have either a favourable or an unfavourable effect on the gain or loss achieved on such Transactions. The weakening of a country’s currency relative to a benchmark currency or the currency of the Client’s portfolio will negatively affect the value of an investment denominated in that currency. Currency valuations are related to a factor-pool including economic, social and political factors and can fluctuate greatly, even during intra-day trading. Some countries have foreign exchange controls which may include the suspension of the ability to exchange or transfer currency, or the devaluation of the currency.

(e) Commodity Risk: Commodity risk arises from potential movements in the value of commodities, which include metals, agricultural products, energy products etc..

(f) Volatility: Volatility risk is the risk of the portfolio value change as a result of changes in the volatility of a risk factor (equity, interest rate, currency, commodity and others). It usually applies to derivatives, where the volatility of its underlying is a major influencer to the derivatives' prices.

(g) Correlation: For some financial derivatives, such as the structured product linked with a basket of stocks and nth-to-default swaps, the movement of correlations between different underlyings could also affect the mark-to-market of product.

10.2 Credit Risk

(a) Issuer Risk: Issuer risk is the potential loss caused by the issuer default. The Client will take issuer risk when there is a corporate bond or structured notes in the portfolio.

(b) Settlement Risk: Settlement risk is the risk that the counterparty does not deliver a security or its value in cash per agreement when the security was traded after the other counterparty or counterparties have already delivered security or cash value per the trade agreement. And it is of a much shorter-term nature.

(c) Counterparty Risk: For OTC transactions, if counterparty fails to meet the agreement of forward settlement, the Client may not earn the gain he should get from the trade.

(d) Custodian Bank and Broker Risk: Custodian bank and broker risk cause potential loss to the Client, which results from the default events of the custodian bank and broker.

10.3 Other Risks include but are not limited to the following:

(a) Liquidity and Marketability Risk: During certain time period or under certain market conditions, it could be difficult to liquidate a position, to assess value or to determine a fair price. Certain equity or debt securities and money market instruments and, in particular, structured notes or customized products may not be readily realizable or marketable. There can be no certainty that market traders will be prepared to deal at all time, and the Client should be aware that proper information for determining their current value may not be available.

(b) Inflation Risk: Inflation risk is that the return on bond or other products will lose purchasing power when there is inflation.

(c) Prepayment Risk: Prepayment risk is the risk that the principal will be repaid early. Usually in the case of a mortgage-backed security, earlier prepaid principal leaves investors vulnerable to the risk of reinvestment at lower rates.

(d) Tax Risk: Before entering into any Transaction, the Client should understand the tax implications (including the implications of any applicable income tax, goods and services or value added taxes, stamp duties and other taxes) of acquiring, enteringinto, holding and disposing of the relevant Investment or Transaction. Different Transactions may have different tax implications. The tax implications of any Transaction are dependent upon the nature of the Client's activities and the Transaction in question. The Client should, therefore, consult its independent tax adviser to understand the relevant tax considerations.

(e) Political Risk: Political risk refers to the complications that businesses and governments may face as a result of what are commonly referred to as political decisions—“any political change that alters the expected outcome and value of a given economic action by changing the probability of achieving business objectives.”

(f) Country Risk: The risk of loss arising when a sovereign state freezes foreign currency payments (transfer/conversion risk) or when it defaults on its obligations (sovereign risk).