Standard Chartered
Private Bank

# General Risk Disclosure Statement

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Standard Chartered Private Bank is the private banking division of Standard Chartered Bank (Hong Kong) Limited.

If you would like to obtain a Chinese translation of this document for reference, please contact your Private Banker.
倘若您需要索取有關此文件的中文版本以作參考，請與您的私人銀行家聯絡。

**PLEASE READ THIS GENERAL RISK DISCLOSURE STATEMENT CAREFULLY. IT IS PROVIDED TO YOU IN ACCORDANCE WITH THE CODE OF CONDUCT FOR PERSONS LICENSED BY OR REGISTERED WITH THE SECURITIES AND FUTURES COMMISSION (“SFC”).**

It sets out general risks associated with the various *investments*, *credit facilities* and *services* we offer as part of our private banking *service*, but is not meant to be an exhaustive list. This statement forms an integral part of our Account Opening Application, *booking centre terms and conditions* and *relationship centre terms and conditions*. Unless otherwise capitalized and defined herein, the definition of words used in this General Risk Disclosure Statement or printed italics like *this*, can be found in the applicable terms and conditions.

**The risk of loss in Trading Assets and other *investments* can be substantial. You should always carefully consider whether a particular *product or service* is in line with your risk tolerance, investment objectives, investment experience or sophistication, financial condition, financial needs, personal circumstances and other considerations that may be relevant to you.**

**You may wish to seek advice from an independent professional adviser before deciding whether to invest in, hold or dispose of any *investment* or to enter into any *product agreement* or *service agreement*.**

We offer *investments*, *credit facilities* and *services* to you on the basis that you understand the risks involved.

*Note:*

“**Trading Assets**” means any *securities*, contracts for the purchase and sale of *precious metals* or other commodities of any nature, and options on any of them or in respect of any indices relating to them or in any such combination of the foregoing, or in relation to any other contracts or financial instruments of any nature for the time being offered, traded and dealt in by us on your behalf or on any recognized *exchange* in any part of the world, or whose price is determined by any quotation by or price listed on an *exchange*.

In considering whether to trade or invest, you should inform yourself and be aware of the risks generally, and in particular should note the following:

## 1. General

### 1.1 Margin Financing

Trading by way of *margin* financing in any investment arrangement involves the risk that adverse market movements may give rise to losses substantially in excess of the sums deposited by way of *margin* and the placing of such a *margin* as security in no way limits your liability in the event of such losses being sustained. You will be liable without limit for all such losses. The use of leverage can therefore lead to large and unlimited losses as well as gains.

### 1.2 Loss of Margin and Other Amounts

In the event that, at the Bank’s discretion, you trade on a *margin* basis, you may sustain a total loss of the initial *margin* funds and any additional funds and assets that you deposit with the Bank to establish or maintain a position in the relevant market. If the market moves against your position, you may be called upon by the Bank to deposit substantial amounts of additional *margin* funds, on short notice, in order to maintain your position. If you do not provide the required additional funds or fail to make interest payments within the prescribed time or if the market moves against you further before the receipt by the Bank of the additional funds, notwithstanding that the prescribed time has not elapsed, the Bank at its sole discretion may (but it is not obliged to) close at market rate all or any of your positions that you may have, and liquidate your collateral without your consent or prior notice.

### 1.3 Liquidation May Not be Possible

Under certain market conditions, you may find it difficult or impossible to liquidate a position. This can occur, for example, when the market makes a “limit move” or trading is suspended by the relevant *exchange*. In addition, there may not be a ready market for certain investments and market traders may not be prepared to deal in certain investments. Some investments may have to be held to maturity, for instance, some index options can only be exercised on the expiry date, whilst other index options may be exercised at any time before expiry. Proper information for determining the value of certain investments may not be available.

### 1.4 Limitation Orders May Not Limit Loss

Placing contingent orders, such as “stop loss” or “stop limit” orders (subject to such services being offered by the Bank and such orders being accepted by the Bank) will not necessarily limit your losses to the intended amounts, since market conditions may make it impossible to execute such orders. Under certain circumstances, it may be difficult or impossible to assess the value of your position, determine a fair price or assess your exposure to risk.

### 1.5 Spreads

A "spread" position may not be less risky than a simply "long" or "short" position.

### 1.6 Warrants

Warrants often involve a high degree of gearing so that a relatively small movement in the price of the underlying *securities*, *structured investments* and Trading Assets to which the warrant relates may result in a disproportionately large movement, unfavourable or favourable, in the price of the warrant.

### 1.7 Custodian and Broker Risks

Instruments may be held or delivered for settlement to a custodian or broker appointed in good faith by the Bank, or by its nominees or sub-custodians. Such persons are not under the control of the Bank, and the Bank accepts no liability for any default of any nature by such third party custodians or brokers, or arising from the transfer of instruments to any such third party for any purposes, and in the event of any such default you may suffer total or partial loss in respect of your investment. You should familiarise yourself with the protections given to money or other property which the Bank deposits on your behalf for domestic and foreign transactions, particularly in the event of the insolvency or bankruptcy of a custodian or broker. The extent to which you may recover your money or property may be governed by specific legislation or local rules. In some jurisdictions, property which may be identified as your own will be pro-rated in the same manner as cash for purposes of distribution in the event of a shortfall.

### 1.8 General Securities, Structured Investments and Trading Assets Risks

Any trading in *securities*, *structured investments* and Trading Assets carries investment risks. In particular the price or value of any *securities*, *structured investments* and Trading Assets can and do fluctuate and may even become valueless, resulting in possible loss not only of profit but also of all or part of the principal sums invested. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling *securities*. Past performance of any investment is not necessarily indicative of future performance.

Every transaction concluded through and recognised by The Stock Exchange of Hong Kong Limited (the "**Exchange**" or "**SEHK**") is subject to a transaction levy or other levies from time to time imposed by the Exchange. Every broker is authorised to collect the appropriate transaction levy or other levies in accordance with the rules prescribed by the Exchange from time to time. All transactions duly concluded through and recognised by the Exchange are governed by the Rules of the Exchange relating to trading and settlement in particular and shall be binding on both you and the broker. A copy of the latest rule on this aspect is available from the Exchange on payment of the prescribed charges.

### 1.9 Issuer or Counterparty Risks

If the issuer of any *securities* and Trading Assets or counterparty to any *structured investments* or other instrument or a trading counter-party becomes unable to meet its obligations then such investments may become worthless and any trading costs and profits irrecoverable.

### 1.10 Country Risks

If an investment is made in any *asset* or issued by a party subject to foreign laws or transactions made on markets in other jurisdictions, including markets formally linked to a domestic market, recovery of the sums invested and any profits or gains may be reduced, delayed or prevented by exchanged controls, debt moratorium or other actions imposed by the government or other official bodies. Before you trade you should enquire about any rules relevant to your particular transactions. Your local regulatory authority will be unable to compel the enforcement of the rules of regulatory authorities or markets in other jurisdictions where your transactions have been effected. You should obtain details about the different types of redress available in both your home jurisdiction and other relevant jurisdictions before you start to trade.

### 1.11 Currency Risks

Where trading contracts or other *investments* are denominated in currencies other than your primary reference currency, or where you convert funds from another currency upon making an investment, there is the risk that if the foreign exchange markets move against you, then upon maturity or any earlier dealing, the net proceeds converted into your primary reference currency, or the currency from which the initial funds were converted (as the case may be), may be significantly less than the equivalent figure on the date the contract was entered into or the investment made, and that any income or gains made may be entirely negated. Where your indebtedness to the Bank is secured by assets denominated in a currency different from the currency of the indebtedness, the foreign exchange market may move against you and the risk of loss can be substantial. In the case of foreign currency deposits, the net return on your foreign currency deposit(s) will depend on market conditions prevailing at the time of maturity. In this regard, you may suffer loss as a result of depreciation of the value of the currency paid as a result of foreign exchange controls imposed by the country issuing the currency. Such loss may offset the net return on your deposit(s) and may result in losses to such deposit(s). Repayment or payment of amounts due to you may be delayed or prevented by exchange controls or other actions imposed by governmental or regulatory bodies.

### 1.12 Off-Exchange Transactions

Transactions may be traded off-exchange or on an over-the-counter basis. Non-exchange traded or "non-transferable" instruments may not be readily realisable and are not regulated by the rules of any exchange. Situations may arise where no market traders are prepared to deal in them or no proper information may be available to determine their value. Sometimes it may not be possible to obtain a price quotation. Minimum transaction amounts may be imposed and/or changed by traders from time to time.

### 1.13 Taxation

Income or profit from trading in any *investments* may be subject to withholding *tax* or capital gains *tax* or other *tax* of the country of the issuer or the country in which such *investments* are traded. In such event, unless the issuer agrees to gross-up the income or profit received by the investors, the investors will only receive the interest payment or proceeds of sale or redemption of the *investment* less the withholding *tax* or capital gains *tax* or other *tax*. You are responsible for all *taxes* on your *account*.

### 1.14 Bank Not Market Maker

We have no obligation to make a market price to you if your favourable price level cannot be obtained or there is no buyer in the market, nor to buy back any *securities*, *structured investments* and Trading Assets or other *investments* from you unless we have written an option requiring us to do so in certain circumstances.

### 1.15 Commissions and Other Charges

Before you begin to trade, you should obtain a clear explanation of all commissions, fees and other charges for which you will be liable. These charges will affect your net profit (if any) or increase your loss.

### 1.16 Risk of Client Property Held Outside Hong Kong

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

### 1.17 Hold Mail or Authority to Direct Mail to Third Parties

If you provide the Bank with an authority to hold mail or direct mail to third parties, it is important for you to promptly collect in person all contract notes and statements of your *account* and review them in detail to ensure that any anomalies or mistakes can be detected in a timely fashion.You may not be able to monitor your *account* or the *transactions* in your *account* for any fraud, omissions or errors, or to receive any communication from us in relation to your *account* or *transactions*.

## 2. Foreign Exchange/Commodities

### 2.1 Market Volatility

Trading in foreign exchange and/or commodities is entirely speculative and carries inherent risks not ordinarily experienced in less volatile investment arrangements. Foreign exchange markets and/or commodity markets may move abruptly or unpredictably and substantial losses may be incurred. The risk of loss in leveraged foreign exchange trading can be substantial.

Currency exchange rates are affected by a wide range of factors, including national and international financial and economic conditions and political and natural events. The effect of normal market forces may at times be countered by intervention by central banks and other bodies. At times, exchange rate may rise or fall rapidly.

Volatility (meaning how much a particular exchange rate moves over a given period) and price range (meaning the range within which a particular rate moves) are themselves liable to change and historical data may not be a reliable guide to future likely movements. Exchange controls or other monetary measures may be imposed by a government, sometimes with little or no warning. Such measures may have a significant effect on the convertibility or transferability of a currency and may have unexpected consequences for a foreign exchange product.

Foreign exchange transactions are generally conducted on a principal to principal basis and there may be no central source for obtaining prices from competing dealers. Where the Bank quotes a price for the exchange of one currency for another, it does not warrant that its price will at any time be the best price available to you. All prices quoted are merely indicative prices at which the Bank is willing to trade with you.

### 2.2 Alternative Currency Risks

Currency linked options are inherently speculative in nature and carry risks not ordinarily experienced in single currency deposit arrangements. In particular foreign currency market movements are unpredictable and may result in you receiving, at the determination of the Bank, on maturity of the deposit an amount in the pre-selected currency (the alternative currency) which, if converted at the prevailing exchange rate back to your original investment currency (the base currency), is less than the agreed amount in the base currency payable upon maturity. Other cross currency arrangements carry similar risks.

## 3. Debt Instruments

Should you wish to invest in certain debt instruments and any synthetic instruments in respect thereof (including, but not limited to government treasury bills, commercial paper issued or guaranteed by banks or institutions, government bonds and notes, bankers' acceptance and bills of exchange) ("**Instruments**") and whether we purchase or sell Instruments from or to you as principal or whether we act as agent, you should also pay special attention to the following further factors:

### 3.1 Market Movements

Instruments may be issued with fixed, floating or zero interest rates. Instruments bearing fixed interest payment or zero coupon instruments issued at a discount will be adversely affected by rising market interest rates and the longer the term of the Instrument, the greater the interest rate risk or benefit from the movement of the market interest rate.

### 3.2 Floating Interest Rate

Floating rate Instruments are issued with coupons based on a short-term rate index and are reset periodically. Interest rates are usually fixed at the beginning of each interest period and interest payments are effected at the end of that interest period. While fluctuations in the short-term interest rates will affect the price of floating rate notes, the impact is generally less pronounced when compared to that on bonds which have fixed or zero interest and longer maturities.

### 3.3 Pre-maturity Dealings

Market movements are unpredictable and unless the Instrument is held to maturity it may not be possible to realise the Instrument either at a reasonable price or at all.

### 3.4 Bills of Exchange/Negotiable Instruments

A few Instruments are issued in the form of "Bills of Exchange" or other negotiable Instruments and are subject to the relevant legislation relating to negotiable Instruments in force in the country where the Instrument is issued and/or accepted and/or paid. The liabilities and responsibilities of parties to the negotiable Instruments may vary among different countries. For example, if an Instrument is dishonoured at maturity, all parties who have been the holders and negotiated the Instrument to another party by endorsement may be responsible to effect payment to the subsequent holders of the Instrument. This may include you.

### 3.5 Synthetic Products

In circumstances where Instruments constitute synthetic products which have resulted in different currencies, investments and interest terms to that of the underlying Instrument itself, the swaps which may be so involved may mean additional risk or loss to you in the event that there are defaults or problems with the relevant underlying Instruments.

### 3.6 Emerging Markets Instrument

The purchase of the whole or part of a debt Instrument which is issued by an issuer from, or denominated in a currency of, an emerging market country may expose you to additional risks and requires careful and independent assessment by you. Emerging markets may include low and medium income countries or countries whose markets' regulatory systems or financial infrastructure are not fully developed. Further, while such investments can yield high gains, there may be additional risks, including without limitation sovereign risk, issuer risk, liquidity risk, foreign exchange controls and high market volatility.

### 3.7 Participations

(a) No Legal Title

In certain circumstances you may acquire an entitlement to receive amounts of money as a result of us having acquired an Instrument (for instance in circumstances where we have acquired a debt instrument with a certain principal value and you only wish to participate in an amount representing less than that principal sum). You will not, however, have any entitlement in respect of the Instrument itself. Accordingly, you will not be registered as the holder of the Instrument (or any part thereof) or, where the Instrument is held to bearer, you will not retain custody of the Instrument (or any part thereof).

(b) Limited Rights of Action

In these circumstances you will have no direct right of action against the issuer, drawee/payer, endorser or guarantor or any other related party of the Instrument upon any default of either such party.

(c) Liability Only to Account for What is Received

Our obligation to pay any principal or other amount to you on maturity will only arise if, and to the extent that, payment of principal or such other amount is actually received by us from or on behalf of the issuer of the Instrument.

### 4. Swap Transactions

Swap transactions involve the obligation to exchange revenue flows of different types. Movements in exchange rates, interest rates or the market price of the underlying instruments of the swap transaction may significantly affect your position. Movements in exchange rates, interest rates or the market price of the underlying instruments of the swap transaction can also be affected by various factors, including inflationary fears and weakening currency. There may not be any logical reason for markets to act in a certain way, making it difficult to anticipate such movements.

### 5. Precious Metals

In addition to risks related to foreign exchange and interest rate movements and commodity trading, trading in *precious metals* will expose you to the following additional risks:

(a) *Precious metals* markets are volatile and there is the possibility that a loss will be incurred from an investment in *Precious Metals*;

(b) An investment in *precious metals* provides no yield or interest;

(c) *Precious metals* prices have to rise over the purchase price in order to provide a return; and/or

(d) A deposit of *precious metals* does not represent a deposit of money.

### 6. Emerging and Growth Markets

#### 6.1 Emerging Markets Financial Instruments

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 as they could be unpredictable and there may be inadequate regulations and safeguards available to investors. For instance, investments may not be readily saleable and information to determine their current value may not be available in emerging markets. Besides the risks inherent in all investments, those associated with emerging markets include, but are not limited to, 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 your ability to enjoy its benefits. In addition, events (for instance, natural disasters, fluctuations in commodity prices and/or exchange rates and/or political upheavals) which may have a minor or limited effect in more mature markets could affect emerging markets profoundly.

In these circumstances, investments by you in emerging markets financial instruments (for instance, bank certificates of deposit, and debt or equity securities issued by public or private sector institutions available in emerging markets) need careful and independent assessment of the risks in relation thereto (including without limitation, sovereign risk, issuer risk, price risk, political risk, and liquidity risk).

You should make an independent appraisal of, and investigations into, and should from time to time review the financial condition and credit worthiness of the relevant issuer of the emerging market financial instruments. You should be aware of and be able to weigh the diverse risks, some of which are identified above, before investing in emerging market financial instruments.

#### 6.2 Growth Markets

Should you wish to invest in *securities*, *structured investments* and Trading Assets listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong ("**GEM**") or other similar markets elsewhere (collectively the "**Growth Markets**"), you should also pay special attention to the following factors:

(a) Risk

Growth Market *securities*, *structured investments* and Trading Assets involve a high investment risk. In particular, companies with neither a track record of profitability nor any obligation to forecast future profitability may list on Growth Markets.

(b) Suitability

You should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of Growth Markets mean that they are markets more suited to professional and other sophisticated investors.

(c) Volatility and liquidity

Given the emerging nature of companies listed on Growth Markets, there is a risk that *securities*, *structured investments* and Trading Assets traded on Growth Markets may be susceptible to higher market volatility compared to *securities*, *structured investments* and Trading Assets traded on the Main Boards of the relevant Stock Exchange or market and no assurance is given that there will be a liquid market in the *securities*, *structured investments* and Trading Assets traded on the particular Growth Market.

(d) Dissemination of Information

Where the principal means of information dissemination on the Growth Market is publication on an internet website, you need to have access to up-to-date information on the companies listed on the Growth Market as published on the website. Current information on *securities* on the GEM may only be found on the internet website operated by the *exchange*. Companies listed on GEM are not usually required to issue paid announcements in gazetted newspapers and this may be the case with other Growth Markets where the principal means of information dissemination is via an internet website.

(e) Professional Advice

You should seek independent professional advice if you are uncertain of or have not understood any aspect of this risk disclosure statement or the nature and risk involved in trading of GEM stocks.

**7. Debt Securities Trading**

The obligation to pay you any interest, principal and other amounts payable under, or to deliver to you any *securities* or underlying assets in accordance with the terms of debt *securities*, or any other obligations owed to you under the terms of the debt *securities*, lie with the issuer (or any other person responsible for those obligation under the terms of that debt *securities*). Except where the Bank is the issuer, the Bank is not responsible for ensuring that those obligations are satisfied.

You are exposed to market conditions and may be unable to sell debt *securities* at the desired time or at the desired price, or at all. The return of the debt *securities* may be linked to the performance of underlying assets, which may comprise a single or a basket of equity *securities* or an equity or commodity or other index or basket of indices. An investment in such debt *securities* is not an investment in the underlying assets and you have no rights in respect of such underlying assets or their dividends.

The value of the underlying assets may fluctuate affecting the price and/or repayment value of such debt *securities* and income derived therefrom (if any). Past performance is not an indication to future performance. The Bank has not performed, and will not at any time perform, any investigation of the underlying assets, nor does it guarantee or warrant the performance of the underlying assets.

You should consider carefully whether you want to invest in debt *securities* in light of your experience, financial circumstances, investment objectives and understanding of the debt *securities* markets.

Where the debt *securities* is not "principal protected", the principal amount invested will not be assured and you may end up receiving either (i) amounts less than the principal amount invested or (ii) assets with a value substantially below that of the principal amount invested. Where the debt *securities* is described as "principal protected", it means that only the income or other returns on the *product* may fluctuate due to, for example, movements in the value of the underlying assets and that the principal amount will be repayable in full at maturity date. However, the principal amount may be protected only to a certain extent or only upon fulfillment of certain conditions (e.g., that no early termination events has occurred).

**8. Bonds and Structured Notes**

The prices of Bonds/Structured Notes can and do fluctuate and the price of any individual Bonds/Structured Notes may experience upward or downward movements and may even become valueless. There is an inherent risk that losses may be incurred rather than profits made as a result of trading Bonds/Structured Notes. Independent assessment of the risk of the transaction in light of your own objectives and circumstances, including the possible risks and benefits of entering into such transaction, should be considered before entering into any transaction.

Please be reminded that Bonds/Structured Notes have complex features and are not low risk products. It is important for you as client to understand the specific terms and risks of the *products* including but not limited to credit risk/counterparty risk, market risk, liquidity risk, early withdrawal risk/cancellation risk etc. mentioned in the offering prospectus and/or relevant offering documents whichever is applicable before considering whether a particular *product* is suitable for you in light of your investment objective, risk tolerance level and financial position before deciding to invest.

The risks of investing in Bonds or Structured Notes, include but are not limited to the following key risks:

### 8.1 Credit/Counterparties Risk

Investors assume the risk of the issuer and/or the guarantor (if applicable) defaulting on its obligations. Any changes to the credit rating of the issuer and/or the guarantor will affect the price and value of the Bonds/Structured Notes. Credit ratings assigned by credit rating agencies do not guarantee the creditworthiness of the issuer and/or the guarantor. In the worst case, for instance in the case of bankruptcy of the issuer and/or guarantor of the Bonds/Structured Notes, the Bonds/Structured Notes will become valueless and you can assume entire loss of investment. High yield bonds are typically rated below investment grade or unrated and are subject to a higher risk of default by the issuer and/or the guarantor.

### 8.2 Liquidity Risk

There can be no assurance that a secondary market in the Bonds/Structured Notes shall exist or at which price a bid would be made. The price given, if any, may be affected by many factors including, but not limited to, the remaining term of the Bonds/Structured Notes, the performance of the reference basket, interest rates, fluctuations in exchange rates and credit spreads. You may not be able to sell the Bonds/Structured Notes before its maturity and must be prepared to hold such Bonds/Structured Notes for an indefinite period of time or until its maturity.

### 8.3 Market Risk

The value of the Bonds/Structured Notes will increase or decrease depending on the interest rates or performance of the reference basket. There can be no assurance that the Bond/Structured Notes will have higher return at maturity than the amount initially invested.

### 8.4 Early Withdrawal/Cancellation Risk

Any cancellation or withdrawal prior to the maturity date is subject to the consent of the Bank, and investors may incur costs or losses which may result in receiving a lower return than expected, or even a negative rate of return, or an amount less than the principal amount.

### 8.5 Interest Risk

Where you hold the investment until the maturity date, the interest or yield on the investment may also be affected by movements in the relevant reference values of the underlying assets. The total return on the investment may be zero (not applicable to the structure with minimum or fixed interest rates) or significantly less than the return which might be obtained on a normal time deposit in the event of an adverse movement in the relevant reference values of the underlying assets. Please refer to the relevant *product* materials for details. If you need to withdraw your funds from Bonds/Structured Notes before the maturity date, the *product* may not be suitable for you. As interest rates moves upwards, the value of Bonds/Structured Notes will generally fall.

### 8.6 Reinvestment Risk (Applicable to the structure notes with callable feature only)

Structured Notes provide you with an opportunity to earn the indicated interest subject to the issuer's right (but not the obligation) to redeem before its maturity. Hence, you will bear reinvestment risk; that is you may not be able to purchase an equally rated investment with a similar structure at the same cost.

## 9. Nasdaq-Amex Securities

The *securities* under the Nasdaq-Amex Pilot Program ("**PP**") at the Exchange are aimed at sophisticated investors. You should familiarise yourself with the PP and consult professional advisers before trading in the PP securities. You should also be aware that the PP *securities*, *structured investments* and Trading Assets are not regulated as a primary or secondary listing on the Main Board or GEM.

## 10. Funds

### 10.1 Non-Traditional Funds (Hedge Funds and Offshore Funds)

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. Despite its name, "hedge funds" do not necessarily involve 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 and 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. Although hedge funds are often marketed as "all weather" funds that are able to perform under different market conditions, they are not "sure-win" products. There are circumstances under which a particular strategy would work well, but there are also other circumstances where the strategy would not perform. Some hedge funds outperform the market while others lose money. Some deliver consistent returns, while others are volatile. You should always check whether you want to invest in hedge funds. Unless a hedge fund has a guarantee attached to it, nobody can give any absolute assurance about its future performance. Even then, you should check the level of guarantee provided. 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. You acknowledge 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 *securities* held by the Bank on behalf of you, which will reduce your holdings accordingly.

A Fund-of Hedge-Funds (FoHF) is a fund that exclusively invests in other hedge funds. Additional service in selecting the baby funds and monitoring their performance are provided by fund manager. A FoHF may have an extra layer of fees - one at the parent level and one at the baby funds level.

Hedge funds use alternative investment strategies and the risks inherent are often high and not typically encountered in traditional investment funds. 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. You acknowledge and accept that for such investments the entire amount of your investment can, under certain circumstances, be lost. It is common for there to be little information available concerning a non-traditional investment. The net asset value of hedge fund may be adversely affected because some of the underlying investment may not be actively traded and there may be uncertainties in valuation. Moreover, many investment strategies are highly complex and very difficult to understand. You 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. You should also check the background and experience of the hedge fund manager and the product features in the offering document and compare different products and see which one best fits your needs. You should consider your own financial circumstances and decide if you want to include hedge funds as part of your investment portfolio. You should consider the concentration risk and “don’t put all your eggs in one basket”.

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. The redemption price of hedge fund may be adversely affected by the fluctuations in value of the underlying investment during a relatively long redemption period. Fixed holding periods lasting many years are not unusual. Some hedge funds may have exit penalties i.e. a redemption charge depending on the length of time you have stayed in the fund. In addition, for hedge funds that offer a guarantee at maturity, the guarantee may not apply if you redeem before maturity. You should consider your liquidity needs carefully. 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, as a consequence, 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.

Funds can be registered in names of investors or nominees. Under a nominee arrangement, the fund units are legally owned by the nominees on your behalf. You should understand the types of services provided by nominees and the terms of the nominee arrangement.

SFC authorisation is not a recommendation. You should read the offering document, understand the nature of the authorised hedge funds and the risks involved, and assess whether you wish to invest in authorised hedge funds. Non-traditional investments can take countless different forms and involve a high degree of risk. They are not suitable for investors who cannot understand and afford to take on risks involved. Before making any such investments, you should seek independent professional advice about the particular risks involved and carefully study and understand the information memorandum and subscription agreement and other information on the relevant investments. You should also read the offering document of the hedge fund, the SFC leaflets, “Hedge Funds - Know the risk” and “Fund Investing - Ask the right questions” carefully and fully understand and agree to assume the risks involved and the exposure to potential loss (which could involve the complete loss of the investments).

### 10.2 Unauthorised Funds

Unauthorised funds are investment companies which differ from traditional equity and bond investments on account of their investment style. The most common form of an unauthorised fund is the hedge fund. Many unauthorised funds aim to make a profit and sometimes take on very high levels of risk. Unauthorised funds include all types of investment funds, investment companies and 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 unauthorised funds are their free choice of investment categories, markets (including emerging markets) and trading methods.

Unauthorised funds generally demand high minimum investments. They offer no more than limited subscription and redemption rights with lengthy notice periods.

Portfolio managers of unauthorised funds receive performance-linked bonuses and often have a personal stake in the fund. You acknowledge that performance fees may be charged in relation to an investment in an unauthorised funds, and this may be effected by way of deduction of *securities* held by the Bank on behalf of you, which will reduce your holdings accordingly.

Unauthorised funds may use alternative strategies and the risks inherent are often high. Due to leverage, a small movement in the market can lead to a major gain, but any losses will also be magnified sharply. You acknowledge and accept that for such investments the substantial or entire amount of your investment can, under certain circumstances, be lost.

It is common for there to be little information available concerning an unauthorised investment. The net asset value of unauthorised fund may be adversely affected because some of the underlying investment may not be actively traded and there may be uncertainties in valuation. Moreover, many investment strategies are highly complex and very difficult to understand. You 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 unauthorised investments can vary a great deal. Unauthorised fund issues and redemptions are often only monthly, quarterly or annually. The redemption price of a hedge fund may be adversely affected by the fluctuations in value of the underlying investment during a relative long redemption period. 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, as a consequence, 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. Funds can be registered in names of investors or nominees. Under a nominee arrangement, the fund units are legally owned by the nominees on your behalf. You should understand the types of services provided by nominees and the terms of the nominee arrangement.

Unauthorised investments can take countless different forms and involve a high degree of risk. They are not suitable for investors who cannot afford to take on risks. Before making any such investments, you should seek independent professional advice about the particular risks involved and carefully study and understand the information memorandum and subscription agreement and other information on the relevant investments, particularly the contents of the documents related to the unauthorised fund and that the fund has not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution. You should also read the SFC leaflet, "Fund Investing – Ask the right questions" carefully and fully understand and agree to assume the risks involved and the exposure to potential loss (which could involve the complete loss of the investments).

## 11. Products structured to return capital at maturity

Such structured products are structured with the objective of returning your initial investment amount only at maturity. Repayment of your initial investment amount does not apply if either you or the issuer (or counterparty) terminates the structured product prior to maturity. In other words, capital protection is only available if the buyer holds the structured product until maturity and the issuer or counterparty does not exercise its rights (reserved in the relevant product terms) to early terminate the structured product under a variety of circumstances such as for extraordinary reasons, illegality, impossibility, force majeure or the occurrence of a material hedging or disruption event, or taxation event etc. However, there is no unconditional guarantee of repayment as repayment is subject to the creditworthiness of the issuer (and/or its guarantor) or the counterparty i.e. if the issuer (and/or its guarantor) or counterparty defaults, you may lose some or all of your initial investment amount.

## 12. Structured Investments

*Structured investments* are formed by combining two or more financial instruments, including one or more derivatives. *Structured investments* may carry a high degree of risk and may not be suitable for many members of the public, as the risks associated with the financial instruments may be interconnected. As such, the extent of loss due to market movements can be substantial. Prior to engaging in *structured investment* transactions, you should understand the inherent risks involved. In particular, the various risks associated with each financial instrument should be evaluated separately as well as taking the *structured investment* as a whole.

**Each *structured investment* has its own risk profile and given the unlimited number of possible combinations, it is not possible to detail in this General Risk Disclosure Statement all the risks that may arise in any particular case.** Nonetheless, this General Risk Disclosure Statement attempts to provide a general description of the features and some of the risks applicable to a few common types of *structured investments*.

You should note that with *structured investments*, buyers can only assert their rights against the counterparty to the *structured investment*. Hence, particular attention needs to be paid to counterparty risk. You should therefore be aware that a total loss of your investment is possible if the counterparty should default.

*Structured investments* include (without limitation) the following products:

### 12.1 Currency Linked Accounts and Currency Linked Structured Investments

(a) Currency Linked Accounts

Currency Linked Accounts carry risks not normally associated with ordinary bank deposits and are generally not a suitable substitute for ordinary savings or time deposits. The return on Currency Linked Accounts will be dependent, to at least some extent, on movements on some specified currency exchange rate. Currency exchange rates are affected by a wide range of factors, including national and international financial and economic conditions and political and natural events. The effect of normal market forces may at times be countered by intervention by central banks and other bodies. At times, exchange rates, and prices linked to such rates, may rise or fall rapidly.

Exchange controls or other monetary measures may be imposed by a government, sometimes with little or no warning. Such measures may have a significant effect on the convertibility or transferability of a currency and may have unexpected consequences for a Currency Linked Account.

Where a Currency Linked Account is described as repayable in either the original currency of the *account* or in another currency, the principal amount of the *account* itself may be subject to variation by reference to the relevant currency exchange rate or may be repaid in a different currency. The total return on this type of *account* may be negative (when measured in terms of the original currency of the *account*), and, depending on the particular terms of a Currency Linked Account, the value of the principal repayable on maturity may be significantly less than the value of the original principal amount in the event of an adverse movement in the relevant exchange rate.

(b) Currency Linked Structured Investments

Currency Linked Structured Investments are a type of structured deposit where the amount of interest payable or the amount of principal repayable or the total return (or any combination) is to be calculated in whole or in part by reference to changes in a currency exchange rate or where the interest on the deposit may be paid in a different currency.

Similar to Currency Linked Accounts, Currency Linked Structured Investments carry risks not normally associated with ordinary bank deposits and are generally not a suitable substitute for ordinary savings or time deposits. Currency Linked Structured Investments are speculative and are not appropriate if you are not willing or able to accept the risk of adverse movements in the reference value. The return on a Currency Linked Investment will be dependent, to at least some extent, on movements in the reference value. Before deciding to place a Currency Linked Structured Investment, you should be familiar with the relevant reference value and understand the effect that movements in that reference value will have on the return on the Currency Linked Structured Investment. The relevant reference value may be affected by a wide range of factors including national and international financial and economic conditions and political and natural effects. The effect of normal market forces may at times be countered by intervention by central banks and other bodies. At times, currency exchange rates, and prices linked to such rates, may rise or fall rapidly. Exchange controls or other monetary measures may be imposed by a government, sometimes with little or no warning. Such measures may have a significant effect on the convertibility or transferability of a currency and may have unexpected consequences for a Currency Linked Structured Investment. Please note that past performance of a reference value is not necessarily a guide to its future performance.

Where a Currency Linked Structured Investment is described as “principal protected” or any analogous term (where the principal in Currency Linked Structured Investment is described as repayable only in the original currency of deposit), it means that only interest or yield on the deposit may be affected by movements in the relevant reference value and that the principal amount deposited will be repayable in full at the end of the deposit period. Subject to the next sentence, the total return on a principal protected Currency Linked Structured Investment cannot be negative (when measured in terms of the currency of the original deposit), but may be zero or significantly less than the return which might be obtained on a normal time deposit in the event of an adverse movement in the relevant reference value. Where a principal protected Currency Linked Structured Investment is repaid prior to its scheduled maturity date, the adjustment made by reason of early repayment may result in a negative return.

(c) Both Currency Linked Accounts and Currency Linked Structured Investments cannot generally be cancelled or withdrawn prior to the agreed maturity date without the consent of the Bank. If the Bank does consent to an early withdrawal, it will be a condition of such consent that the amount of any cost or loss suffered by the Bank by reason of early withdrawal is deducted from the *account(s)*. Any costs and losses suffered may include the cost of unwinding a hedging position taken by the Bank to cover the Currency Linked Accounts or the Currency Linked Structured Investments, and may result in a lower rate of return than might be expected, or even a negative rate of return.

**12.2 Investments which are Repayable in Either the Original Currency of the Account or in Another Currency (referred to as Premium Currency Investments and Enhanced Premium Currency Investments)**

Premium Currency Investments/Enhanced Premium Currency Investments are forms of structured investments in which the Bank has the right to elect to repay your proceeds at maturity either in the original currency of the investment or in the alternate currency converted at a target conversion rate. Premium Currency Investments carry risk not normally associated with ordinary bank deposits and are generally not a suitable substitute for ordinary savings or time deposits.

The interest rate on a Premium Currency Investment/Enhanced Premium Currency Investment is generally higher than that which would be payable on an ordinary time deposit in the original currency. In return for this enhanced yield, you accept exchange rate risk If the currency you have placed is a foreign currency, then you run the exchange rate risk associated with ordinary foreign currency deposits, namely that the value of the currency weakens over the term of the investment. Dual currency investments are subject to foreign exchange fluctuations which may affect the return of your investment. Exchange controls may also be applicable to the currencies your investment is linked to. You may incur a loss on your principal sum in comparison with the base amount initially invested.

If the alternate currency weakens over the term of the investment so that the spot exchange rate is beyond the agreed conversion rate, the Bank will choose to repay you in the alternate currency amount at the pre-agreed conversion rate. This means that the alternate currency amount when converted back into the original currency will be less than the original amount invested. Such reduction could be significant. In such circumstances, even taking into account the interest you receive, the total amount may still be less than the original amount invested.

If you need or intend to convert the proceeds of the investment after maturity into a third currency, you will be running an additional exchange rate risk.

If your Premium Currency Investment/Enhanced Premium Currency Investment is repaid in the alternate currency upon maturity, placing these proceeds in subsequent Premium Currency Investments/Enhanced Premium Currency Investments will continue to expose you to exchange rate risks. The exchange rate risks will be magnified with each additional Premium Currency Investment/ Enhanced Premium Currency Investment placement.

The return on Premium Currency Investments will be dependent, to at least some extent, on movements in some specified currency exchange rate. Currency exchange rates are affected by a wide range of factors, including national and international financial and economic conditions and political and natural events. The effect of normal market forces may at times be countered by intervention by central banks and other bodies. At times, exchange rates, and prices linked to such rates, may rise or fall rapidly.

Exchange controls or other monetary measures may be imposed by government, sometimes with little or no warning. Such measures may have significant effect on the convertibility or transferability of a currency and may have unexpected consequences for a Premium Currency Investments.

Premium Currency Investments cannot generally be cancelled or withdrawn prior to the agreed due date without the consent of the Bank. If the Bank does consent to an early withdrawal, it will be a condition for such consent that the amount of any cost or loss suffered by the Bank by reason of early withdrawal is deducted from the investment. Such costs and losses may include the cost of unwinding a hedging position taken by the Bank to cover the investment, and may result in a lower rate of return than might be expected, or even a negative rate of return.

You should consider carefully whether you want to invest in a Premium Currency Investment/Enhanced Premium Currency Investment in light of your financial circumstances and investment objectives, and in light of your understanding of the foreign exchange markets. You should also consider carefully how much of your available financial resources should be invested in a Premium Currency Investment/Enhanced Premium Currency Investment.

Premium Currency Investments are not "principal protected". The principal amount of the investment itself may be subject to variation by reference to the relevant currency exchange rate or may be paid in a different currency. The total return on the investment may be negative (when measured in terms of the currency of the original investment), and, depending on the particular terms of a Premium Currency Investments, the value of the principal payable on due date may be significantly less than the value invested in the event of an adverse movement in the relevant exchange rate. If the preservation of the value of your principal is a priority for you, a Premium Currency Investment or Enhanced Premium Currency Investment may not be a suitable investment.

### 12.3 Rate-Linked Structured Investments

Rate-Linked Structured Investments are a type of structured deposit where the amount of interest payable or the amount of principal repayable or the total return (or any combination thereof) is to be calculated in whole or in part by reference to changes in a specified interest rate or index. In addition, certain types of Rate-Linked Structured Investments may be extended beyond, or terminated prior to, the maturity date, in whole or in part.

### 12.4 Equity Linked Accounts

Equity Linked Accounts are accounts where the amount of interest payable or any other return is to be calculated in whole or in part by reference to changes in the market prices of a single share or other security or a basket of shares or other *securities*, or in the levels of a single index or a basket of indices. Equity Linked Accounts carry risks not normally associated with ordinary bank deposits and are generally not a suitable substitute for ordinary savings or time deposits. Equity Linked Accounts are speculative and are not appropriate if you are not willing or able to accept the risk of adverse movements in the reference value.

The return on Equity Linked Accounts will be dependent, to at least some extent, on movements in the reference value. The price of shares or the level of an index may go down as well as up and past performance is not necessarily a guide to future performance. A short-term investment in an equity linked investment such as an Equity Linked Account is likely to involve a greater risk of loss than a long-term investment.

An Equity Linked Account may be "principal protected" or "principal-at-risk". Where an Equity Linked Account is principal protected, only the interest or yield on the account may be affected by movements in the relevant reference value and the principal amount deposited will be repayable in full at maturity. The total return on this type of Equity Linked Account cannot be negative, but may be zero or significantly less than the return which might be obtained on a normal time deposit in the event of an adverse movement in the relevant reference value. However, where this type of Equity Linked Account is terminated prior to its scheduled maturity date, you will receive less than the principal amount invested.

Where an Equity Linked Account is principal-at-risk, interest or yield may be affected by movements in the relevant reference value and all or part of the principal may be lost as a result of loses caused by such movements. The total return on a principal-at-risk Equity Linked Account may be negative as well as zero or significantly less than the return which might be obtained on a normal time deposit in the event of an adverse movement in the relevant reference value.

In the case of either a principal protected or principal-at-risk Equity Linked Account, where an Equity Linked Account is withdrawn by you prior to its scheduled maturity date, the adjustment made by reason of early repayment may result in a negative return.

Equity Linked Accounts cannot be cancelled or withdrawn prior to the agreed maturity date without the consent of the Bank unless the terms of an Equity Linked Account expressly provide for it. If the Bank does consent to an early withdrawal, it will be subject to conditions that the Bank, in its absolute discretion, may impose, including the condition that the amount of any cost or loss suffered by the Bank by reason of early withdrawal or cancellation is deducted from the account. Such costs and losses may include the cost of unwinding a hedging position taken by the Bank to cover the account, and may result in a lower rate of return than might be expected, or even negative rate of return.

### 12.5 Equity-Linked Notes

Equity-linked notes may be viewed as combining a debt instrument with an option that allows a bull (rising), bear (falling) or range bet. The return on an Equity-linked note is usually determined by the performance of a single security, a basket of *securities* or an index. A bull Equity-linked note combines a traditional deposit with the premium received from writing 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. A bear Equity-linked note combines a deposit with the premium received by selling a call option on the chosen *securities*. Upon maturity, the amount that the issuer of a bear Equity-linked note will repay the investor depends on the strike price and the market value of the *securities* at maturity. Buyers of a bear Equity-linked note 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 Equity-linked note combines a traditional deposit with the premium received by selling both a put option and a call option on the chosen *securities*. You should also note that the return on investment of an Equity-linked note is predetermined, so that even if your view of the direction of the underlying market is correct, you will not gain more than the specified amount. You should also note that there is no guarantee that you will derive any return on your investment in an Equity-linked note. In addition, there is a limited secondary market for outstanding Equity-linked note issues.

### 12.6 Credit Linked Accounts

Credit Linked Accounts are a type of structured investment where, upon the occurrence of various agreed events (each a **"Credit Event"**), the amount of principal repayable or the amount of interest payable (or both) is to be calculated in whole or in part by reference to the value of a specified obligation (such as a security or debt instrument) of a specified reference entity. In addition, certain types of Credit Linked Accounts may incorporate an additional component to enhance the interest payable. In such cases, the interest payable may be calculated in whole or in part by reference to changes in interest rate, currency exchange rate, or some other specified rate, price or index.

Credit Linked Accounts are principal-at-risk investments. Credit Linked Accounts carry risks not normally associated with ordinary bank deposits and are generally not a suitable substitute for ordinary savings or time deposits. Credit Linked Accounts are speculative and are not appropriate if you are not willing or able to accept the risk of the occurrence of a Credit Event, the risk of adverse movements in the value of the reference obligation, or the risk of adverse movements in the reference rate.

You are subject to the credit risk of the reference entity. If a Credit Event occurs, the Credit Linked Account will mature early and the Bank's obligation to repay the Credit Linked Account will be replaced by the obligation to pay an early redemption amount which may be less than the principal amount of the Credit Linked Account and may be as low as zero. You should not transact a Credit Linked Account unless (1) you are familiar with the reference entity and the reference obligation and (2) the linkage of your rights to the reference entity and the reference obligation conforms with your own independent view of how the reference entity and the reference obligation will perform.

The Bank and its *affiliates* may have entered into and in the future may enter into transactions and agreements with the reference entity, their holding companies, their subsidiaries or other companies in their group. The Bank and its *affiliates* may have under such agreements the ability to accelerate payment obligations or call an event of default or take other action which may result in the occurrence of a credit event with respect to the reference entity or their subsidiaries. The Bank and its *affiliates* may have positions in the reference obligation or in other *securities* issued by the reference entity.

If the Credit Linked Account has an additional component where the interest payable is calculated in whole or in part by reference to changes in the reference rate, you take additional risk on the movements of the reference rate. The reference rate may be affected by a wide range of factors, including national and international financial and economic conditions and political and natural events. The reference rate (such as currency exchange rate and interest rate) may not be predictable and, at times may rise or fall rapidly.

## 13. Other Related Documentation

The Bank will, in appropriate cases, furnish you with term sheets setting out the material terms, associated obligations, underlying assumptions, pricing basis and sensitivity analysis to illustrate the impact of market movements on the proposed transaction (in particular, the profit and loss which you may be exposed to with fluctuations in market rates) and/or such other information regarding the said transaction as the Bank may think relevant. Any sensitivity analysis which may be provided is for the purpose of illustration only and is not to be treated as the Bank's view on how the market will move in the future. You are strongly advised to examine and should fully understand the relevant term sheet before executing any specific transaction. The provision of such term sheets shall not, however, detract from your duty to take all such steps and make all such enquiries as may be necessary or desirable to ensure that you fully understand and are familiar with the transaction concerned.

## 14. Futures, Options & Leveraged Foreign Exchange Trading

This statement does not disclose all the risks and other significant aspects of trading in futures, options and leveraged foreign exchange. In light of the risks, you should undertake such transactions only if you understand the nature of the contracts (and contractual relationships) into which you are entering and the extent of your exposure to the risks. Trading in futures, options and leveraged foreign exchange may not be suitable for many members of the public. You should carefully consider whether such trading is appropriate for you in the light of your experience, objectives, financial resources and other relevant circumstances. In considering whether to trade, you should be aware of the following:

### 14.1 Futures and Leveraged Foreign Exchange Trading

(a) Effect of "leverage" or "gearing"

Transactions in futures and leveraged foreign exchange carry a high degree of risk. The amount of initial *margin* is small relative to the value of the futures contract or leveraged foreign exchange transaction so that the transaction is highly "leveraged" or "geared". A relatively small market movement will have a proportionately larger impact on the funds you have deposited or will have to deposit; this may work against you as well as for you. You may sustain a total loss of the initial *margin* funds and any additional funds deposited with the firm to maintain your position. If the market moves against your position or *margin* levels are increased, you may be called upon to pay substantial additional funds on short notice in order to maintain your position. If you fail to comply with a request for additional funds within the specified time, your position may be liquidated at a loss and you will be liable for any resulting deficit in your *account*. Under certain market conditions, you may find it difficult or impossible to liquidate a position. Your ability to make a value or risk assessment, or to make a calculation of a fair price, may also be adversely affected. The high degree of leverage that is often obtainable in leveraged foreign exchange trading can work against you as well as for you. The use of leverage can lead to larger losses as well as gains.

(b) Risk-Reducing Orders or Strategies

The placing of certain orders (e.g. "stop-loss" orders, where permitted under local law, or "stop-limit" orders) which are intended to limit losses to certain amounts (subject to such services being offered by the Bank and such orders being accepted by the Bank) may not be effective because market conditions may make it impossible to execute such orders. At times, it is also difficult or impossible to liquidate a position without incurring substantial losses. Strategies using combinations of positions, such as "spread" and "straddle" positions may be as risky as taking simple "long" or "short" positions.

(c) Leveraged Foreign Exchange Trading

At times foreign exchange markets suffer a shortage of buyers and/or sellers and, at such times, effecting foreign exchange transactions and closing out a position may be difficult or impossible. Your ability to make a value or risk assessment, or to make a calculation of a fair price, may also be adversely affected.

### 14.2 Options

The risk of loss in trading options is substantial. In some circumstances, you may sustain losses in excess of your initial *margin* funds. Placing contingent orders, such as "stop-loss" or "stop-limit" orders (subject to such services being offered by the Bank and such orders being accepted by the Bank), will not necessarily avoid loss. Market conditions may make it impossible to execute such orders. You may be called upon at short notice to deposit additional *margin* funds. If the required funds are not provided within the prescribed time, your position may be liquidated. You will remain liable for any resulting deficit in your *account*. You should therefore study and understand options before you trade and carefully consider whether you wish to trade in options in the light of your own financial position and investment objectives. If you trade options you should inform yourself of exercise and expiration procedures and your rights and obligations upon exercise or expiry.

(a) Variable Degree of Risk

Transactions in options carry a high degree of risk. Purchasers and sellers of options should familiarise themselves with the type of options (i.e. put or call) which they contemplate trading and the associated risks. You should calculate the extent to which the value of the options would have to increase for your position to become profitable, taking into account the premium paid and all transaction costs.

The purchaser of options may offset its position by trading in the market or exercise the options or allow the options to expire. The exercise of an option results either in a cash settlement or in the purchaser acquiring or delivering the underlying interest. If the option is on a futures contract or leveraged foreign exchange transaction, the purchaser will have to acquire a futures or leveraged foreign exchange position, as the case may be, with associated liabilities for *margin* (see the section on Futures and Leveraged Foreign Exchange Trading above). If the purchased options expire worthless, you will suffer a total loss of your investment which will consist of the option premium paid plus transaction costs. If you are contemplating purchasing deep-out-of-the-money options, you should be aware that, ordinarily, the chance of such options becoming profitable is remote.

Selling ("writing" or "granting") an option generally entails considerably greater risk than purchasing options. Although the premium received by the seller is fixed, the seller may sustain a loss well in excess of the amount of premium received. The seller will be liable to deposit additional *margin* to maintain the position if the market moves unfavourably. The seller will also be exposed to the risk of the purchaser exercising the option and the seller will be obligated to either settle the option in cash or to acquire or deliver the underlying interest. If the option is on a futures contract or a leveraged foreign exchange transaction, the seller will acquire a futures or leveraged foreign exchange position, as the case may be, with associated liabilities for *margin* (see the section on Futures and Leveraged Foreign Exchange Trading above). If the option is "covered" by the seller holding a corresponding position in the underlying futures contract, leveraged foreign exchange transaction or another option, the risk may be reduced. If the option is not covered, the risk of loss can be unlimited.

Certain exchanges in some jurisdictions permit deferred payment of the option premium, limiting the liability of the purchaser to *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.

(b) Additional Risks Common to Futures, Options and Leveraged Foreign Exchange Trading

(i) Terms and Conditions of Contracts

You should ask the Bank for the terms and conditions of the specific futures contract, option or leveraged foreign exchange transaction which you are trading and the associated obligations (e.g. the circumstances under which you may become obligated to make or take delivery of the underlying interest of a futures contract or a leveraged foreign exchange transaction and, in respect of options, expiration dates and restrictions on the time for exercise). Under certain circumstances, the specifications of outstanding contracts (including the exercise price of an option) may be modified by the exchange or clearing house to reflect changes in the underlying interest.

(ii) Suspension or Restriction of Trading and Pricing Relationships

Market conditions (e.g. illiquidity) or the operation of the rules of certain markets (e.g. the suspension of trading in any contract or contract month because of price limits or "circuit breakers") may increase the risk of loss by making it difficult or impossible to effect transactions or liquidate/offset positions. If you have sold options, this may increase the risk of loss.

Further, 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, e.g., 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.

(iii) Deposited Cash and Property

You should familiarise yourself with the protection accorded to any money or other property which you deposit for domestic and foreign transactions, particularly in a firm's insolvency or bankruptcy. The extent to which you may recover your money or property may be governed by specific legislation or local rules. In some jurisdictions, property which had been specifically identifiable as your own will be pro-rated in the same manner as cash for purposes of distribution in the event of a shortfall.

(iv) Commission and Other Charges

Before you begin to trade, you should obtain a clear explanation of all commissions, fees and other charges for which you will be liable. These charges will affect your net profit (if any) or increase your loss.

(v) Transactions in Other Jurisdictions

Transactions on markets in other jurisdictions, including markets formally linked to a domestic market, may expose you to additional risk. Such markets may be subject to a rule which may offer different or diminished investor protection. Before you trade, you should enquire about any rules relevant to your particular transactions. Your local regulatory authority will be unable to compel the enforcement of the rules of the regulatory authorities or markets in other jurisdictions where your transactions have been effected. You should ask the firm with which you conduct your transactions for details about the types of redress available in both your home jurisdiction and other relevant jurisdictions before you start to trade.

(vi) Currency Risks

The profit or loss in transactions in foreign currency-denominated futures and options contracts (whether they are traded in your own or another jurisdiction) will be affected by fluctuations in currency rates where there is a need to convert from the currency denomination of the contract to another currency.

(vii) Trading Facilities

Most open-outcry and electronic trading facilities are supported by computer-based component systems for the order-routing, execution, matching, registration or clearing of trades. As with all facilities and systems, they are vulnerable to temporary disruption or failure. Your ability to recover certain losses may be subject to limits on liability imposed by the one or more parties, namely the system provider, the market, the clearing house or member firms. Such limits may vary. You should ask the firm with which you conduct your transactions for details in this respect.

(viii) Electronic Trading

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. If you undertake transactions on an electronic trading system, you will be exposed to risks associated with the system including the failure of hardware and software. The result of any system failure may be that your order is either not executed according to your instructions or not executed at all.

(ix) Off-Exchange Transactions

In some jurisdictions, firms are permitted to effect off-exchange transactions. The firm with which you conduct your transactions may be acting as your counterparty to the transaction. 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 be less regulated or subject to a separate regulatory regime. Before you undertake such transactions, you should familiarise yourself with the applicable rules and attendant risks.

**15. Futures, Options & Leveraged Foreign Exchange Trading in Managed Accounts**

This statement does not disclose all the risks and other significant aspects of the futures or leveraged foreign exchange markets. You should therefore carefully study futures and leveraged foreign exchange trading before you trade.

The intention of this statement is to inform you that the risk of loss in trading futures contracts, options, foreign exchange and leveraged foreign exchange transactions can be substantial. You should therefore carefully consider whether you wish to trade in futures, options, foreign exchange and leveraged foreign exchange contracts in light of your experience, objectives, financial condition and other relevant circumstances. In considering whether to trade or to authorise someone else to trade for you, you should be aware of the following:

(a) If you purchase or sell a futures contract or leveraged foreign exchange transaction, you may sustain a total loss of the initial *margin* funds and any additional funds that you deposit with the holder of a capital markets services licence to establish or maintain your position. If the market moves against your position, you may be called upon by the holder to deposit a substantial amount of additional *margin* funds on short notice in order to maintain your position. If you do not provide the required funds within the specified time, your position may be liquidated at a loss, and you will be liable for any resulting deficit in your account;

(b) Under certain market conditions, you may find it difficult or impossible to liquidate a position;

(c) The placement of contingent orders by you or the holder of a capital markets services licence authorised by you, such as a “stop-loss” or “stop-limit” order, will not necessarily limit your losses to the intended amounts, since market conditions may make it difficult or impossible to execute such orders;

(d) A “spread” position may not be less risky than a simple “long” or “short” position;

(e) The high degree of leverage that is often obtainable in futures and leveraged foreign exchange trading can work against you as well as for you. The use of leverage can lead to large losses as well as gains; and

(f) In some cases, managed accounts, such as yours, are 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.

**16. FX Forward**

The return on FX Forward will be dependent, to at least some extent, on movements in some specified currency exchange rate. Currency exchange rates are affected by a wide range of factors, including national and international financial and economic conditions and political and natural events. The effect of normal market forces may at times be countered by intervention by central banks and other bodies. At times, exchange rates, and prices linked to such rates, may rise or fall rapidly.

Exchange controls or other monetary measures may be imposed by a government, sometimes with little or no warning. Such measures may have a significant effect on the convertibility or transferability of a currency and may have unexpected consequences for currency switching.

Depending on the agreed exchange rate in such transactions, the value of the time deposit(s) repayable on the maturity date may be significantly less than the value of the original time deposit in the event of an adverse movement in the relevant exchange rate.

There are risks involved in entering into currency transactions due to currency and market movements. You should therefore carefully consider whether you wish to trade in FX Forward in light of your financial position and investment objectives and study the market before entering into such transactions.

**17. Providing an Authority to Repledge Your Securities Collateral**

There is risk if you provide the licensed or registered person with an authority that allows it to apply your *securities* or *securities* collateral pursuant to a *securities* borrowing and lending agreement, repledge your *securities* collateral for financial accommodation or deposit your *securities* collateral as collateral for the discharge and satisfaction of its settlement obligations and liabilities.

If your *securities* or *securities* collateral are received or held by the licensed or registered person in Hong Kong, the above arrangement is allowed only if you consent in writing. Moreover, your authority must specify the period for which it is current and be limited to not more than 12 months. If you are an institutional professional investor or a corporate professional investor that meets certain assessment criteria, amongst other things, these restrictions do not apply.

Additionally, your authority may be deemed to be renewed (i.e. without your written consent) if the licensed or registered person issues you a reminder at least 14 days prior to the expiry of the authority, and you do not object to such deemed renewal before the expiry date of your then existing authority.

You are not required by any law to sign these authorities. But an authority may be required by licensed or registered persons, for example, to facilitate *margin* lending to you or to allow your *securities* or *securities* collateral to be lent to or deposited as collateral with third parties. The licensed or registered person should explain to you the purposes for which one of these authorities is to be used.

If you sign one of these authorities and your *securities* or *securities* collateral are lent to or deposited with third parties, those third parties will have a lien or charge on your *securities* or *securities* collateral. Although the licensed or registered person is responsible to you for *securities* or *securities* collateral lent or deposited under your authority, a default by it could result in the loss of your *securities* or *securities* collateral.

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

**18. Internet**

If you operate the *services* via the internet, it is important that you should also be aware of the risks that transactions over the internet may be (a) subject to interruption, transmission blackout, system failure, delayed transmission due to internet traffic or incorrect data transmission due to the public nature of the internet; (b) limited or unavailable during periods of peak demand, market volatility, systems upgrades or maintenance or for other reasons; (c) accessed by unauthorised third parties including any communications and your personal data, and the result of which may be that your order is delayed so that they are executed at prices different from those prevailing at the time the instructions were given or may be executed without being subject to human review or is not executed at all.

**19. Non-Transferability and Non-Marketability**

A transaction generally cannot be assigned or transferred without the consent of the other party. The Bank is not obliged to repurchase a transaction from you. Because transactions are customised and not fungible, engaging in a transaction with another dealer to offset a transaction you have entered into with the Bank will not automatically close out those positions (as would be true in the case of equivalent exchange-traded futures and options) and will not necessarily function as a perfect hedge.

## 20. Renminbi Products

### 20.1 Currency Risk

RMB is currently not freely convertible and conversion of RMB from or to another currency through banks in Hong Kong is subject to certain restrictions, including without limitation a daily conversion limit for personal clients (such restrictions are subject to the prevailing regulatory requirements from time to time). In particular, you may need to allow time for conversion of RMB from or to another currency of an amount exceeding the daily limit. RMB *products* which are not denominated in RMB or RMB *products* with underlying investments which are not RMB-denominated 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 (e.g. settling operating expenses).

### 20.2 Limited availability of underlying investments denominated in RMB

For RMB *products* which do not have access to invest directly in Mainland China, their available choice of underlying investments denominated in RMB outside Mainland China may be limited. Such limitation may adversely affect the return and performance of the RMB *products*.

### 20.3 Projected or illustrative returns not guaranteed

Some RMB investment *products* may be attached with a statement of projected or illustrative return. Any such statement is produced for information only, is not indicative of future market performance or a complete analysis of all possible outcomes, and does not give any indication, representation, guarantee, warranty or other assurance as to the outcome of any investment. Actual results may vary from the projection or illustrative return, and variations may be material.

### 20.4 Long Term Commitment to Investment Products

Some RMB *products* may involve a long period of investment and/or with the objective of returning the principal only if the *product* is held to maturity. Early redemption of those *products* before maturity or during the lock-up period (if applicable) may result in a significant loss of the amount invested by you, and the proceeds may be substantially lower than the investment amount. You will also need to bear additional fees and charges as well as the loss of interest or premium (where applicable) as a result of such early redemption.

### 20.5 Credit Risk of Counterparties

Any changes to the credit rating of any of the relevant counterparties involved in a RMB *product* (including without limitation, the credit rating of the issuer and/or the guarantor) may affect the price and value of the RMB *product* and result in a substantial loss. Some RMB *products* may invest in RMB debt instruments not supported by any collateral. Such *products* are fully exposed to the credit risk of the relevant counterparties. Where a RMB *product* invests in derivative instruments, the *product* is exposed to the credit risk of the relevant derivative counterparties. If the issuer and guarantor become insolvent or go into liquidation, you may lose your entire investment irrespective of the performance of the underlying or the terms of the *product*.

### 20.6 Interest Rate Risk

Some RMB debt *instruments* are susceptible to interest rate fluctuations, and may adversely affect the return and performance of RMB products which are, or may invest in, such instruments.

### 20.7 Possibility of not receiving RMB upon redemption

When you invest in RMB *products* with a significant portion of non-RMB denominated underlying investments, you may not receive the full amount in RMB upon redemption. This may include the case where the issuer is not able to obtain a sufficient amount of RMB in a timely manner due to the exchange controls and restrictions applicable to the currency.

### 20.8 Liquidity Risk

There can be no assurance that a secondary market shall exist or at which price a bid would be made. The price given, if any, may be affected by many factors including without limitation, the remaining term of the RMB *product*, interest rates, fluctuations in exchange rates and credit spreads. You should be reminded of the possibility that you may suffer significant losses in liquidating the underlying investments, especially if such investments do not have an active secondary market and their prices have large bid/offer spreads. You must be prepared to hold the *product* until maturity before you invest in the *product*.

### 20.9 Risks associated with leveraged trading facilities (where applicable)

Leveraged trading facilities in respect of RMB *products* involve the risk that adverse market movements may give rise to losses substantially in excess of the initial *margin* investments, and the placing of such a *margin* as security in no way limits your liability in the event of such losses being sustained. You will be liable without limit for all such losses as well as any additional costs and assets that you deposit or place with the Bank to establish or maintain a position in the relative market. The use of leverage can therefore lead to large and unlimited losses.

Leveraged trading facilities are susceptible to interest rate fluctuations. In particular, the cost of borrowing will increase due to interest rate fluctuations.

If the market moves against your position, you may be called upon by the Bank to deposit substantial amounts of additional *margin* costs, on short notice, in order to maintain your position. If you do not provide the required additional funds or fail to make interest payments within the prescribed time or if the market moves against you further before the receipt by the Bank of the additional payments, notwithstanding that the prescribed time has not elapsed, the Bank at its sole discretion may (but is not obliged to) close all or any of your positions that you may have at market rate and liquidate your collateral without your consent or prior notice to you. You will be liable without limit for all such losses.

Under certain market conditions, you may find it difficult or impossible to liquidate a position. This can occur, for example, when the market makes a "limit move" or trading is suspended by the relevant *exchange* (where applicable). In addition, there may not be a ready market for certain investments and market traders may not be prepared to deal in certain investments. Some investments may have to be held to maturity, for instance, some foreign exchange options can only be exercised on the expiry date, whilst other foreign exchange options may be exercised at any time before expiry. Proper information for determining the value of certain investments may not be available.

Placing contingent orders, such as "stop loss" or "stop limit" orders (subject to such services being offered by the Bank and such orders being accepted by the Bank) will not necessarily limit your losses to the intended amounts, since market conditions may make it impossible to execute such orders. Under certain circumstances, it may be difficult or impossible to assess the value of your position, determine a fair price or assess your exposure to risk.

If the relevant counterparty including without limitation, the issuer and/or the guarantor of the RMB *product* becomes insolvent or goes into liquidation, you may lose your entire investment irrespective of the performance of the underlying or the terms of the *product*. You shall remain liable for the repayment in full of the loan used to leverage your investment in the *product*. As such you might lose much more than the initial capital you have invested.

## 21. Derivative Products Traded on an Exchange

Trading of exchange-traded derivative products such as Callable Bull/Bear Contracts (CBBC), Derivative Warrants, Exchange-Traded Fund (ETF, including Synthetic ETF), Equity linked instruments (ELI/ELN) and RMB products (REIT/RQFII) involve significant risks. It is crucial for you as investors to fully understand the risks and consequences involved in trading these exchange-traded derivative products before you trade them.

General major risks of trading exchange-traded derivative products include but are not limited to the following:

### 21.1 Issuer Default Risk

In the event that a derivative product issuer becomes insolvent and defaults on their listed *securities*, investors will be considered as unsecured creditors and will have no preferential claims to any assets held by the issuer. Investors should therefore pay close attention to the financial strength and credit worthiness of the issuers of derivative products.

### 21.2 Uncollateralised Product Risk

Uncollateralised derivative products are not asset backed. In the event of issuer bankruptcy, you can lose your entire investment. You should read the listing documents to determine if a product is uncollateralised.

### 21.3 Gearing Risk

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

### 21.4 Expiry Considerations

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

### 21.5 Extraordinary Price Movements

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

### 21.6 Liquidity Risk

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

### 21.7 Foreign Exchange Risk

Investors trading derivative products with underlying assets not denominated in Hong Kong dollars are also exposed to exchange rate risk. Currency rate fluctuations can adversely affect the underlying asset value, also affecting the price of the derivative product. RMB is not a freely convertible currency. Any conversion of RMB through banks in Hong Kong may be subject to certain restrictions.

In addition, there are risks pertaining to the particular type of derivative products:

## 22. Callable Bull/Bear Contracts (CBBC)

### 22.1 Mandatory Call Risk

Investors trading CBBCs should be aware of their intraday "knockout" or mandatory call feature. A CBBC will cease trading when the underlying asset value equals the mandatory call price/level as stated in the listing documents. Investors will only be entitled to the residual value of the terminated CBBC as calculated by the product issuer in accordance with the listing documents. Investors should also note that the residual value can be zero.

### 22.2 Funding Costs

The issue price of a CBBC includes funding costs. Funding costs are gradually reduced over time as the CBBC moves towards expiry. The longer the duration of the CBBC, the higher the total funding costs. In the event that a CBBC is called, investors will lose the funding costs for the entire lifespan of the CBBC. The formula for calculating the funding costs are stated in the listing documents.

## 23. Derivative Warrants

### 23.1 Time Decay Risk

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

### 23.2 Volatility Risk

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

## 24. Exchanged Traded Funds

The risks associated with exchange traded funds ("**ETFs**"), including Synthetic ETFs, include but are not limited to the following:

### 24.1 Counterparty Risk

Synthetic ETFs typically invest in over-the-counter derivatives issued by counterparties. Such a Synthetic ETF may suffer losses potentially equal to the full value of the derivatives issued by the counterparty upon its default. Synthetic ETFs are therefore exposed to both the risks of the *securities* that constitute the index as well as the credit risk of the counterparty that issues the financial derivative instruments for replicating the performance of the index.

Some Synthetic ETFs invest in financial derivatives issued by a number of different counterparties in order to diversify the counterparty credit risk concentration. However, the more counterparties an ETF has, the higher the mathematical probability of the ETF being affected by a counterparty default. If any one of the counterparties fails, the ETF may suffer losses.

You should also be aware that the issuers of these derivatives are predominantly international financial institutions and this, in itself, may pose a concentration risk. If a crisis strikes, affecting the financial sector, it is possible that the failure of one derivative counterparty of an ETF has a "knock-on" effect on other derivative counterparties of the ETF. As a result, an ETF could suffer a loss substantially more than its expected exposure in the event of a single counterparty default. Some synthetic ETF managers, however, only acquire financial derivatives from one or a few counterparties. These managers may seek to reduce an ETF's net exposure to each single counterparty by requiring the counterparty(ies) to provide collateral. In this case, you are still exposed to the counterparty risk, to the extent it is not covered by the collateral. Furthermore, when the ETF seeks to exercise its right against the collateral, the market value of the collateral could be substantially less than the amount secured if the market dropped sharply before the collateral is realised, thereby resulting in significant loss to the ETF.

**24.2 Liquidity Risk**

Listing or trading on the SEHK does not in and of itself, guarantee that a liquid market exists for an ETF. Besides, a higher liquidity risk is involved if an ETF invests in financial derivative instruments that are not actively traded in the secondary market and where price transparency is not as easily accessible as physical securities. This may result in a bigger bid and offer spread. These derivatives are also susceptible to more price fluctuations and higher volatility. Hence, they can be more difficult and costly to unwind early, especially when the derivatives provide access to a restricted market where liquidity is limited in the first place.

**24.3 Market Risk**

An ETF is exposed to the economic, political, currency, legal and other risks of a specific sector or market related to the index that it is tracking.

**24.4 Tracking Error**

This refers to the disparity between the performance of the ETF as measured by its net asset value (NAV) and the performance of the underlying index. Tracking error may arise due to various factors. These include: failure of the ETF's tracking strategy; the impact of fees and expenses; foreign exchange differences between the base currency or trading currency of an ETF and the currencies of the underlying investments; or corporate actions such as rights and bonus issues by the issuers of the ETF's underlying securities. Depending on its particular strategy, an ETF may not hold all the constituent *securities* of an underlying index in the same weightings as the constituent *securities* of the index. Therefore, the performance of the *securities* underlying the ETF as measured by its NAV may outperform or underperform the index.

**24.5 Trading at a discount or premium to NAV**

Since the trading price of an ETF is typically determined by the supply and demand of the market, the ETF may trade at a price higher or lower than its NAV. Also, where the reference index or market that an ETF tracks has restricted access, units in the ETF may not be created or redeemed freely and efficiently. The supply and demand imbalance can only be addressed by creating and redeeming additional units. So, disruption to the creation or redemption of units may result in the ETF trading at a higher premium or discount to its NAV than may normally be the case for a traditional ETF with no such restriction. In the event the ETF is terminated, investors who buy at a premium would not be able to recover the premium from the fund.

**24.6 Tax and other Risks**

Like all investments, an ETF may be subject to tax imposed by the local authorities in the market related to the index that it tracks, emerging market risks and risks in relation to the change of policy of the reference market which may in the worst case scenario result in the termination of the ETF.

**25. Listed Equity Linked Instruments ("ELI/ELN")**

**25.1 Exposure to Equity Market**

Investors are exposed to price movements in the underlying *securities* and the stock market, the impact of dividends and corporate actions and counterparty risks. Investors must also be prepared to accept the risk of receiving the underlying asset or a payment less than their original investment.

**25.2 Possibilities of Losing Investment**

You may lose part or all of their investment if the price of the underlying *securities* moves against your investment view.

**25.3 Price Adjustment**

You should note that any dividend payment on the underlying *securities* may affect its price and the payback of the ELI at expiry due to ex-dividend pricing. You should also note that issuers may make adjustments to the ELI due to corporate actions on the underlying *securities*.

**25.4 Interest Rates**

While most ELI offer a yield that is potentially higher than the interest on fixed deposits and traditional bonds, the return on investment is limited to the potential yield of the ELI.

**25.5 Potential Yield**

You should consult their brokers on fees and charges related to the purchase and sale of ELI and payment/delivery at expiry. The potential yields disseminated by the Hong Kong Exchanges and Clearing Limited (the "**HKEx**") have not taken fees and charges into consideration.

## 26. Real Estate Investment Trust ("REIT")

### 26.1 Investment Risk

A REIT is an investment product. There is no guaranteed return of investment in a REIT and you may suffer substantial losses of capital. Distributions received from a REIT may not be sufficient to recoup your investment capital.

### 26.2 Market Risk

Investments in real estate are subject to the risk of the general economic conditions. Any cyclical economic factors may cause fluctuations in occupancy and rental rates of the real estate held by a REIT. This will in turn adversely affect the income derived by a REIT from its real estate investment.

### 26.3 Concentration Risk

Where a REIT relies on a single real estate to generate all of its revenue, any circumstance that adversely affects the operations or business of that single real estate, or its attractiveness to tenants, may adversely affect the revenue generated and the REIT will not have income from other real estate to mitigate any ensuing loss arising from such circumstance. A concentration of investment in a single real estate causes the REIT to be highly susceptible to relevant real estate market conditions.

### 26.4 Interest Rate Risk

Fluctuations in interest rates may increase the interest costs incurred by a REIT in respect of its borrowings and may have an adverse effect on the level of activity in the property market. The financial position of the REIT and its ability to make distributions this may be adversely affected. Moreover, the trading price of the REIT units is likely to decline if there is an increase in interest rates.

### 26.5 Distribution Risk

The distributions of a REIT may be made out of capital. You should pay attention to the composition of distributions declared by a REIT (for example, the extent to which the distribution declared is composed of, and the types of, income and capital) as disclosed in the relevant results announcement and the financial reports of the REIT.

## 27. Renminbi Qualified Foreign Institutional Investor ("RQFII") A-Share ETF

RQFII A-share ETFs are subject to the risks which are applicable to ETFs in general. In addition, RQFII A-share ETFs are also subject to the following key risks unique to this new class of products.

### 27.1 RQFII Regime Risk

The RQFII policy and rules are subject to change and interpretation by Mainland authorities. The uncertainty and change of the laws and regulations on the Mainland (including the RQFII policy and rules) may adversely impact the RQFII A-share ETFs.

### 27.2 RMB Currency

RMB is currently not freely convertible and is subject to exchange controls and restrictions. Since RQFII A-share ETFs are denominated in RMB, non-RMB based investors are exposed to fluctuations in the RMB exchange rate against their base currencies. Like any currency, the exchange rate of RMB may rise or fall. Investors who choose to convert the redemption proceeds or dividends paid by the RQFII A-share ETF or sale proceeds into a different currency may incur substantial capital loss due to foreign exchange risk.

### 27.3 Mainland Markets and Concentration Risk

RQFII A-share ETFs primarily invest in *securities* in the Mainland markets and are subject to concentration risk.

Investing in the Mainland markets involve certain risks and special considerations as compared with investment in more developed economies or markets, such as greater political, tax, economic, foreign exchange, liquidity and regulatory risks.

### 27.4 RMB Trading and Settlement

The liquidity and trading price of the units of RQFII A-share ETFs may be adversely affected by the limited availability of RMB outside Mainland China and the restrictions on the conversion between foreign currency and RMB.

The HKEx has expanded the scope of the Renminbi Equity Trading Support Facility (TSF) to enable investors who have insufficient RMB to buy RMB-traded units of RQFII A-share ETFs in the secondary market with HK dollars.

### 27.5 Mainland Tax Regime

There are risks and uncertainties associated with the current Mainland tax laws applicable to capital gains realised by RQFIIs through their investments on the Mainland. Although RQFII A-share ETFs may have made a tax provision in respect of potential tax liability, the provision may be excessive or inadequate. Any shortfall between the provisions and actual tax liabilities may be covered by the RQFII A-share ETF's assets and may therefore adversely affect the RQFII A-share ETF's NAV.

### 27.6 Trading Differences

The trading days or hours of the Mainland and Hong Kong stock markets are not exactly the same. For example, there may be occasions when A-share markets are open while the Exchange is closed and RQFII A-share ETFs are not traded. As such, the value of the *securities* in the RQFII A-share ETF's portfolio may change but investors are not able to purchase or sell the units of the RQFII A-share ETF.

On the other hand, if a Mainland stock exchange is closed while the Exchange is open, the market price of underlying *securities* may not be updated while the RQFII A-share ETF is still trading, which may affect the level of premium/discount of the trading price of the ETF's units to its NAV.

While A-shares are subject to trading bands which restrict increases and decreases in the trading price, trading of RQFII A-share ETFs listed on the Exchange is not subject to such restrictions. This difference may affect the level of premium or discount of the trading price of the ETF's units to its NAV.

### 27.7 Government Intervention and Restrictions

The operation and market making activities of RQFII A-share ETFs may be affected by interventions by the governments and regulators in the financial markets, such as an imposition of trading restrictions, a ban on "naked" short selling or the suspension of short selling for certain stocks.

### 27.8 New Manager and Reliance on Parent Company

The manager of a RQFII A-share ETF may not be experienced in managing ETFs and may heavily leverage on the expertise and systems of its Mainland parent company to support the RQFII A-share ETF's investments in the A-share markets. Any disruption in the assistance from the Mainland parent company may adversely affect the operations of the RQFII A-share ETF.

### 27.9 Dual Counter RQFII A-share ETFs

#### (a) Inter-Counter Trading

Dual Counter RQFII A-share ETFs allow units to be traded on the Exchange in RMB and Hong Kong dollar under two separate counters.

If your intermediary (e.g. brokerage or bank) does not provide both Hong Kong dollar and RMB trading services at the same time or offer inter-counter transfer services to support Dual Counter trading, you will not be able to buy units traded in one counter and sell them in the other counter. Even if your intermediary is able to provide such service, it may impose an earlier cut-off time, other procedures and fees.

#### (b) Different Trading Prices in RMB and HKD counters

The RMB counter and HKD counter are two distinct and separate markets. The trading prices of units of the same RQFII A-shares ETF in the two counters may be different and may not always maintain a close relationship depending on factors such as market supply and demand, liquidity in each counter and the exchange rate between RMB and Hong Kong dollar in both onshore and offshore markets.

#### (c) Dividend Payment

Dividends of a Dual Counter A-share RQFII A-share ETF are declared in RMB but may be paid in RMB only or, where so offered by the manager, in RMB as well as Hong Kong dollar depending on an investor's election.

Depending on the distribution policy of individual Dual Counter RQFII A-share ETF, an investor of units traded in the HKD counter may receive dividend in RMB only. In such circumstances, if such investor does not have RMB account, he or she may have to bear the fees and charges associated with the conversion of such dividend from RMB into Hong Kong dollar or any other currency.

## 28. Renminbi Qualified Foreign Institutional Investor ("RQFII") Funds

Certain key risks specific to investing in an RQFII fund include but are not limited to the following:

### 28.1 RQFII Regime Risk

The RQFII policy and rules are subject to change and interpretation by Mainland authorities. The uncertainty and change of the laws and regulations on the Mainland (including the RQFII policy and rules) may adversely impact a RQFII fund.

### 28.2 Mainland Markets Risk

An RQFII fund invests in a single country, namely, Mainland China, and therefore there is a concentration risk that may result in greater volatility than portfolios which comprise broad-based global investments. There are also risks and uncertainties associated with the current Chinese *tax* laws applicable to investments made by an RQFII fund. Although some RQFII funds may have made tax provision in respect of potential *tax* liability that may arise from their investments, the provision may not be sufficient or may even be excessive. Any shortfall between the reserves and actual *tax* liabilities may have to be covered by the fund's assets and may adversely affect the fund's asset value.

### 28.3 Currency Risk

Investors converting a local currency (Hong Kong dollar) to take up units of an RQFII fund are exposed to fluctuations in the RMB exchange rate, as well as exposure to Mainland China's exchange controls and restrictions.

### 28.4 Market / Investment Risk

An RQFII fund is an investment fund product and not a bank deposit. In general, there is no guarantee of the repayment of principal or dividend payments. The underlying investments may fall in value and suffer loss even if the RMB appreciates.

**Additional risks pertaining to an RQFII Fund that invests substantially in bonds or other debt instruments issued in Mainland China:**

### 28.5 Interest Rate Risk

Any increase in interest rates or changes in macro-economic policies on the Mainland (including monetary and fiscal policies) may adversely impact the value of the fund's bonds or debt instruments portfolio.

### 28.6 Credit Risk

In the event of a default or credit rating downgrading of the issuers of the bonds or debt instruments held by the fund, valuation of the fund's portfolio may become more difficult and investors may suffer a substantial loss. The RQFII fund may also encounter difficulties or delays in enforcing its rights against bond or debt instrument issuers incorporated in the Mainland and therefore not subject to the laws of Hong Kong.

### 28.7 Investing in Mainland bond markets and unrated or non-investment graded bonds

Some of the bonds or debt instruments held by the RQFII fund may be rated below investment grade or may not be rated by any rating agency of an international standard. Such bonds or debt instruments are generally subject to higher credit risk and lower liquidity, which may result in greater fluctuations in their values, and consequently, the NAV of the fund.

### 28.8 Local Mainland Credit Ratings Risk

Some of the bonds or debt instruments held by the RQFII fund may have been assigned an investment grade rating by a local credit rating agency on the Mainland. However, the local rating process on the Mainland may lack transparency and the rating standards may be significantly different from those adopted by internationally recognised credit rating agencies.

### 28.9 Liquidity Risk

The bid and offer spread of RMB bonds may be high and the RQFII fund may therefore incur significant trading costs and may suffer losses when selling such investments. In the absence of a regular and active secondary market, the RQFII fund manager may not be able to sell its bond or debt instrument holdings at prices the fund manager considers advantageous and may need to hold the bonds or debt instruments until their maturity. Further, if sizable redemption requests are received, the fund may need to liquidate its bonds or debt instruments at a discount to satisfy such requests and the fund may suffer losses as a result.

## 29. Disclaimer

### 29.1 No Tax Advice

Please also note that we do not offer *tax* advice of any nature and whilst we may provide information or express opinions from time to time, such information or opinions are not offered as *tax* advice. You should decide upon any dealing only after having made all such enquiries and assessments as you consider appropriate, and you should place no reliance on us to give such *tax* advice.

### 29.2 Independent Advice

If you are in any doubt about the risks involved in any trading or investment arrangements or you are uncertain of or have not understood any aspect of this General Risk Disclosure Statement, you should seek independent professional advice.

## 30. Acknowledgement

By entering into any *investment* or any transaction relating to any Trading Assets, you confirm that you have read and fully understood this General Risk Disclosure Statement, the term sheets and all annexures pertaining to such *investment* or such transaction, the nature of the *investment* or the transaction and the terms and conditions governing the *investment* or the transaction as well as the *margin* requirements (if applicable). You further acknowledge that:

(a) you understand, are familiar with and are fully aware of the risks related to the *investment* or the transaction;

(b) you are willing to take all such risks; and

(c) you are capable of bearing a full loss of the amounts invested as a result of or in connection with any *investment* or transaction entered into with the Bank and any additional loss over and above the initial amounts invested.

Accordingly, you agree that you are and shall at all times be fully responsible for any *investment* or transaction you choose to enter into.