1. Risks Associated with Structured Products

   (a) Issuer default risk

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

   (b) Uncollateralised product risk

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

   (c) Gearing risk

   Structured products such as derivative warrants and callable bull/bear contracts (CBBCs) are leveraged and can change in value rapidly according to the gearing ratio relative to the underlying assets. The Customer should be aware that the value of a structured product may fall to zero resulting in a total loss of the initial investment.

   (d) Expiry considerations

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

   (e) Extraordinary price movements

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

   (f) Foreign exchange risk

   Customers trading structured products with underlying assets not denominated in Hong Kong dollars are also exposed to exchange rate risk. Currency rate fluctuations can adversely affect the underlying asset value, also affecting the structured product price.

   (g) Liquidity risk

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

2. Risks Involved in trading derivative warrants

   Derivative warrant trading involves high risks and is not suitable for every investor. The Customer should understand and consider the following risks before trading in derivative warrants:

   (a) Issuer Risk

   Derivative warrant holders are unsecured creditors of an issuer and have no preferential claim to any assets the issuer may hold. Therefore, the Customer is exposed to credit risk in respect of the issuer.

   (b) Gearing Risk

   Although derivative warrants may cost a fraction of the price of the underlying assets, a derivative warrant may change in value more or less rapidly than the underlying asset. In the worst case, the value of the derivative warrants may fall to zero and holders may lose their entire purchase price.

   (c) Limited Life

Unlike stocks, derivative warrants have an expiry date and therefore a limited lifespan. Unless the derivative warrants are in-the-money, they become worthless at expiration.

(d) Time Decay

One should be aware that other factors being equal the value of derivative warrants will decrease over time. Therefore, derivative warrants should never be viewed as products that are bought and held as long term investments.

(e) Volatility

Other factors being equal, an increase in the volatility of the underlying asset should lead to a higher warrant price, and subsequently a decrease in volatility should lead to a lower derivative warrant price.

(f) Market Forces

In addition to the basic factors that determine the theoretical price of a derivative warrant, derivative warrant prices are also affected by all other prevailing market forces including the demand for and supply of the derivative warrants. Supply and demand forces may be greatest when a derivative warrant issue is almost sold out and when issuers make further issues of an existing derivative warrant issue.

3. Risks involving in trading Callable bull/bear contracts ("**CBBC**")

(a) Mandatory call

CBBC are a type of leverage investment. They may involve a higher degree of risk and are not suitable for all types of investors. Customers should consider their risk appetite prior to buying CBBC. In any case, one should not trade in CBBC unless he/she understands the nature of the product and is prepared to lose the total amount invested, since a CBBC will be called by the issuer when the price of the underlying assets hits the Call Price, and that CBBC will expire early. The payoff for Category N CBBC will be zero when they expire early. When Category R CBBC expire early, the holder may receive a small residual value payment, but there may be no residual value payment in some situations. Dealers may charge their clients a service fee for the collection of the residual value payment from the respective issuers.

In general, the larger the buffer between the call price and the spot price of the underlying assets, the lower the probability of the CBBC being called, since the underlying assets of that CBBC would have to experience a larger movement in their price before it is called. However, the larger the buffer, the lower the leverage effect.

Once the CBBC is called, even though the underlying assets may bounce back in the right direction from the Customer's point of view, the CBBC which has been called will not be revived and the Customer will not be able to profit from the bounce-back.

Besides, the Mandatory Call Event ("**MCE**") of a CBBC with underlying assets overseas may be triggered outside the HKEx's trading hours.

(b) Gearing effects

Since a CBBC is a leveraged product, the percentage change in the price of a CBBC is greater compared with that of the underlying asset. Customer may suffer higher losses in percentage terms if they expect the price of the underlying assets to move one way but it moves in the opposite direction.

(c) Limited Life

A CBBC has a limited lifespan, as denoted by the fixed expiry date, of three months to five years. The life of a CBBC may be shorter if called before the fixed expiry date. The price of a CBBC fluctuates with the changes in the price of the underlying assets. A CBBC may become worthless after expiry or if the CBBC has been called early.

(d) Movement of underlying assets' price

Although the price of a CBBC tends to follow closely the price of its underlying assets, in some situations if may not (i.e. delta may not always be close to one). The price of a CBBC is affected by a number of factors, including demand for the CBBC and the supply, funding costs and time to expiry. Moreover, the delta for a particular CBBC may not always be close to one, in particular when the price of the underlying assets is close to the Call Price.

(e) Liquidity

Although CBBC have liquidity providers, there is no guarantee that the Customer will be able to buy/sell CBBC at their target prices any time they wish.

(f) Funding cost

When a CBBC is called, the CBBC holders will lose the funding cost for the full period, since the funding cost is built into the CBBC price upfront at launch, even though the actual period of funding for the CBBC turns out to be shorter when there is an MCE. In any case, the Customer should note that the funding costs of a CBBC after launch may vary during its life and the liquidity provider is not obliged to provide a quote for the CBBC based on the theoretical calculation of the funding costs for that CBBC at launch.

(g) Trading of CBBC close to Call Price

When the underlying assets are trading close to the call price, the price of a CBBC may be more volatile with wider spreads and uncertain liquidity. CBBC may be called at any time and trading will terminate as a result.

All trades executed after an MCE (i.e. Post MCE Trades) will not be recognized and will be cancelled. Since there may be a time lapse between the MCE and termination of trading of the CBBC, some Post MCE Trades may be cancelled even though they may have been confirmed by brokers. Customers should therefore apply special caution when a CBBC is trading close to the call price.

Issuer will announce the exact call time within 1 hour after the trigger of the MCE, and HKEx will send the list of Post MCE Trades to the relevant brokers who in turn will inform their clients accordingly. If the Customers are not clear whether their trades are Post MCE Trades or if they have been cancelled, they should check with their brokers.

(h) CBBC with overseas underlying assets

Customers trading CBBC with overseas underlying assets are exposed to an exchange rate risk as the price and cash settlement amount of the CBBC are converted from a foreign currency into Hong Kong dollars. Exchange rates between currencies are determined by supply and demand, which are affected by various factors.

Besides, CBBC issued on oversea underlying assets may be called outside the SEHK's trading hours. In such cases, the CBBC will be suspended from trading on the SEHK in the next trading session or soon after the issuer has notified the SEHK about the occurrence of the MCE. There will be no automatic suspension of CBBC by the trading systems of SEHK's securities market upon occurrence of an MCE. For Category R CBBC, valuation of the residual value will be determined on the valuation day according to the terms in the listing documents.