

Complex Product Risk Disclosure and Warning Statement

This risk disclosure statement does not purport to disclose or discuss all of the risks, or other significant aspects, of trading in derivatives products. In light of the risks involved, you (i.e. Client) should undertake a transaction only if you understand its nature, the contractual relationship into which you are entering, and the nature and extent of your exposure to risk. You should also consider whether a transaction is appropriate for you in light of your experience, objectives, financial resources and other relevant circumstances. While Emperor Securities Limited and its subsidiaries and affiliates (collectively referred to as “ESL”) proposes to give this general risk warning, it is not acting as your financial advisor and you must not regard ESL as so acting. You should consult your own independent legal, tax or financial advisors prior to entering into any transaction.

It is crucial to understand the specific forms and risks mentioned in the relevant offering documents (if applicable) before investing. Key risks include but are not limited to as stated on the next page:

Product Risk Level

Stock	Margin Ratio above or equal to 70%	Low		
	Margin Ratio above 0% and below 70%		Medium	
	Margin Ratio is 0% or Futures contracts traded on the HKFE or Equity derivatives traded on the SEHK (eg, DWs, CBBCs and listed share options) or Synthetic ETFs and futures-based ETFs authorized by the SFC and traded on the SEHK			High
Bonds*	Bonds of Grade A- (by S&P) or A3 (by Moody’s) or above	Low to Medium		
	Bonds of Grade BBB+ to BBB- (by S&P) or Baa1 to Baa3 (by Moody’s),		Medium	
	Perpetual Bonds, Callable Bonds, Puttable Bonds, Convertible Bonds, Structured Bonds, or bonds with complex structure		Medium to High	
	Un-rated Bonds, or Bonds of Grade BB+ (by S&P) or Ba1 (by Moody’s) or below		Medium to High	
Mutual Fund**	Authorised or Unauthorised Structured Funds			High
	SFC Authorised Mutual Funds (excluding Structured Funds)/ Unit Trusts (by Morningstar, Lipper, others FI, etc.)	Low (RR1 or RR2)	Medium (RR3 or RR4)	High (RR5)
	Unauthorised Mutual Funds (excluding Structured Funds)/ Unit Trusts		Medium to High	
Structured Product	Structured Products (including Dual Currency Returns Notes, Equity Linked Investment, etc.)			High

* Investment grade bond (product risk rating are Low and Medium) with the following characteristics / possibilities:

- The highest credit quality, extremely high credit quality, high credit quality or good credit quality.

Non-investment grade bonds (product risk rating is high) with the following characteristics / possibilities:

- Low credit quality, speculative, high probability of failing to meet debt repayment obligations, no interest paid, bankruptcy filing or failure to perform debt repayment obligations.

** RR means Risk Rating

RISKS OF TRADING IN EXCHANGE-TRADED STRUCTURED PRODUCTS (“STRUCTURED PRODUCTS”) E.G. DERIVATIVE WARRANTS (“WARRANTS”), CALLABLE BULL/BEAR CONTRACTS (“CBBC”)

1. Issuer default risk

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

Note: “Issuers Credit Rating” showing the credit ratings of individual issuers is now available under the Issuer and Liquidity Provider Information sub- section under Derivative Warrants and under CBBCs section on the HKEx corporate website.

2. Uncollateralised product risk

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

3. Gearing risk

Structured Products such as Warrants and CBBCs are leveraged and can change in value rapidly according to the gearing ratio relative to the underlying assets. Investors should be aware that the value of a Structured Product may fall to zero resulting in a total loss of the initial investment.

4. Expiry considerations

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

5. Extraordinary price movements

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

6. Foreign exchange risk

Investors trading Structured Products with underlying assets not denominated in Hong Kong dollars are also exposed to exchange rate risk. Currency rate fluctuations can adversely affect the underlying asset value, also affecting the Structured Product price.

7. Liquidity risk

The Exchange requires all Structured Product issuers to appoint a liquidity provider for each individual issue. The role of liquidity providers is to provide two way quotes to facilitate trading of their products. In the event that a liquidity provider defaults or ceases to fulfill its role, investors may not be able to buy or sell the product until a new liquidity provider has been assigned. There is no guarantee that investors will be able to buy or sell their Structured Products at their target price any time they wish.

SOME ADDITIONAL RISKS INVOLVED IN TRADING WARRANTS

1. Time decay risk

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

2. Volatility risk

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

3. Market Risk and Turnover

Other than basic factors that determine the theoretical price of a Warrant, Warrant price are also affected by all prevailing market forces including the demand for and supply of the Warrants. The market forces will be greatest when a Warrant issue is almost sold out and when issuers make further issues of an existing Warrant issue. High turnover should not be regarded as an indication the price of a Warrant will go up. The price of a Warrant is affected by a number of factors in addition to market forces, such as the price of the underlying assets and its volatility, the time remaining to expiry, interest rates and the expected dividend on the underlying assets.

SOME ADDITIONAL RISKS INVOLVED IN TRADING CBBCS

1. Mandatory call risk

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

2. Funding costs

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

3. Trading of CBBC Close to Call Price

When the underlying asset is 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. However, the trade inputted by the investor may still be executed and confirmed by the Exchange participants after the Mandatory Call Event ("MCE") since there may be some time lapse between the MCE time and suspension of the CBBC trading. Any trades executed after the MCE will not be recognised and cancelled. Therefore, investors should be aware of the risk and ought to apply special caution when the CBBC is trading close to the call price.

For more information on Warrants and CBBCs, please visit the HKEx corporate website:

Derivative Warrants, Products & Services Section : (<http://www.hkex.com.hk/eng/prod/secprod/dwrc/dw.htm>)

Callable Bull/Bear Contracts, Products & Services Section: (<http://www.hkex.com.hk/eng/prod/secprod/cbbc/Intro.htm>)

RISK OF TRADING IN STOCK OPTION(S) ("OPTION(S)")

The risk of loss in trading in 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, 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 such trading is suitable 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.

This brief statement does not disclose all of the risks and other significant aspects of trading in options. 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 risk. Trading in options is not suitable for many members of the public. You should carefully consider whether trading is appropriate for you in light of your experience, objectives, financial resources and other relevant circumstances.

1. 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 option (i.e. put or call) which they contemplate trading and the associated risks.

Warning to option holders

- Some options may only be exercised on an expiry day (European-Style Exercise) and other options may be exercised at any time before expiration (American-Style Exercise). I/We understand that upon exercise, some options require delivery and receipt of the underlying securities, and that other options require a cash payment.
- An option is a wasting asset and there is a possibility that as an option holder I/we may suffer the loss of the total premium paid for the option.

I/We acknowledge that, as an option holder, in order to realise a profit it will be necessary to either exercise the option or close the long option position in the market. Under some circumstances it may be difficult to trade the option due to lack of liquidity in the market. I/We acknowledge that you have no obligation either to exercise a valuable option in the absence of my/our instruction, or to give to me/us prior notice of the expiration date of the option.

Warning to option writers

- As a writer of an option I/we may be required to pay additional margin at any time. I/We acknowledge that as an option writer, unlike an option holder, I/we be liable for unlimited losses based on the rise or fall of the price of the underlying securities and my/our gains are limited to the option premium.
- Additionally, writers of American-Style Call (Put) Options may be required at any time before expiry to deliver (or pay for) the underlying securities to the full value of the strike price multiplied by the number of underlying securities. I/we recognise that this obligation may be wholly disproportionate to the value of premium received at the time the options were written and may be required at short notice.

You should calculate the extent to which the value of the options must increase for your position to become profitable, taking into account the premium and all transaction costs.

The purchaser of options may offset 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 purchased options expire worthless, you understand that you will suffer a total loss of your investment which will consist of the option premium plus transaction costs. If you are contemplating purchasing deep-out-of-the-money options, you should be aware that the chance of such options becoming profitable ordinarily is remote.

Under some circumstances it may be difficult to trade the option due to lack of liquidity in the market. You acknowledge that ESL has no obligation either to exercise a valuable option in the absence of your instruction, or to give to you prior notice of the expiration date of the option.

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 that amount. The seller will be liable for additional margin to maintain the position if the market moves unfavorably. 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 “covered” by the seller holding a corresponding position in the underlying interest or a futures contract 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, exposing the purchaser to liability for margin payments not exceeding the amount of the premium. The purchaser is still subject to the risk of losing the premium and transaction costs. When the option is exercised or expires, the purchaser is responsible for any unpaid premium outstanding at that time.

2. Terms and conditions of contracts

You should ask ESL about the terms and conditions of the specific options which you are trading and associated obligations (e.g. 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.

3. Suspension or restriction of trading and pricing relationships

Market conditions (e.g. illiquidity) and/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. You acknowledge that if you have sold options, this may increase the risk of loss.

Further, normal pricing relationships between the underlying interest and the option may not exist. The absence of an underlying reference price may make it difficult to judge “fair” value.

4. Deposited cash and property

You should familiarise yourself with the protections given to money or other property you deposit for domestic and foreign transactions, particularly in the event of 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.

5. Commission and other charges

Before you begin to trade, you should obtain a clear explanation of all commission, fees and other charges for which you will be liable. These charges will affect your net profit (if any) or increase your loss. By commencing any trading activities with ESL, you acknowledge that you have been so informed by ESL.

6. Trading facilities

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 system provider, the market, the clearing house and/or participant firms. Such limits may vary: you understand that you should ask the firm with which you deal for details in this respect.

7. Electronic trading

Trading on an electronic trading system may differ 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 is not executed at all.

8. 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 regulation 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 regulatory authorities or markets in other jurisdictions where your transactions have been effected. You should ask the firm with which you deal for details about the types of redress available in both your home jurisdiction and other relevant jurisdictions before you start to trade.

9. Currency risks

The profit or loss in transactions in foreign currency-denominated 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.

10. Off-exchange transactions

In some jurisdictions, and only then in restricted circumstances, firms are permitted to effect off-exchange transactions. The firm with which you deal 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 applicable rules and attendant risks.

RISK OF TRADING IN SOME EXCHANGE TRADED FUND (ETF)

1. Market risk

ETFs are typically designed to track the performance of certain indices, market sectors, or groups of assets such as stocks, bonds, or commodities. ETF managers may use different strategies to achieve this goal, but in general they do not have the discretion to take defensive positions in declining markets. Investors must be prepared to bear the risk of loss and volatility associated with the underlying index/assets.

2. Counterparty risk

Synthetic passive ETFs typically invest in over-the-counter derivatives issued by counterparties to track an index's performance. Such a synthetic passive ETF may suffer losses potentially equal to the full value of the derivatives issued by the counterparty upon its default.

3. 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 uses financial derivative instruments, including structured notes and swaps, which are not actively traded in the secondary market and whose price transparency is not as easily accessible as physical securities. This may result in a bigger bid and offer spread. These financial derivative instruments also are susceptible to more price fluctuations and higher volatility. Hence, they can be more difficult and costly to unwind early, especially when the instruments provide access to a restricted market where liquidity is limited in the first place.

4. Tracking errors

Tracking errors refer to the disparity in performance between an ERF and its underlying index/ assets. Tracking errors can arise due to factors such as the impact of transaction fees and expenses incurred to the ETF, changes in composition of the underlying index/assets, and the ETF manager's replication strategy.

5. **Trading at discount or premium**

An ETF may be traded at a discount or premium to its Net Asset Value (NAV). This price discrepancy is caused by supply and demand factors, and may be particularly likely to emerge during periods of high market volatility and uncertainty. This phenomenon may also be observed for ETFs tracking specific markets or sectors that are subject to direct investment restrictions.

6. **Foreign exchange risk**

Investors trading ETFs 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 ETF price.

RISK OF TRADING IN LEVERAGED AND INVERSE PRODUCTS ("L&I PRODUCTS")

L&I Products are issued in the form of Exchange traded Funds ("ETFs") as a type of collective investment schemes but they are in fact derivative products. Leveraged Products typically aim to deliver a daily return equivalent to a multiple of the underlying index return that they track. Inverse Products typically aim to deliver the opposite of the daily return of the underlying index that they track. In overseas markets, they are commonly known as Leveraged and/ or Inverse ETFs. To produce the specified leveraged or inverse return, L&I Products have to rebalance their portfolios, typically on a daily basis. As such, they do not share the buy-to-hold characteristics of conventional ETFs. Investors should understand how the performance of L&I Products is likely to be affected when they are held for more than one trading day and its compounding effect. They should be aware that any small variation in the underlying index return may have a large effect on the value of the product you hold.

Investors should note the following salient features about L&I Products:

- It is not advisable to hold L&I Products for longer than the rebalancing interval, typically one day;
- L&I Products are designed as a trading tool for short-term market timing or hedging purposes, and are not intended for long term investment;
- L&I Products are only suitable for sophisticated trading-oriented investors who constantly monitor the performance of their holdings on a daily basis; and
- The performance of L&I Products, when held overnight, may deviate from the underlying indices.

The risk of loss in trading in L&I Products is substantial. In particular, they are not suitable for investors who are unfamiliar with the features and risks of L&I Products, as they are designed for daily investment results, and/or investors who are looking for a long-term investment and cannot actively monitor their holdings. Therefore, L&I Products are normally not suitable for many members of the public who wish to invest in collective investment schemes or ETFs as a low risk exchange-listed product in order to diversify their investment risks. The regulatory authorities have, taking into account their special risk profile, prohibited and/or discouraged the use of margin finance for investment in L&I Products. Investors must carefully consider whether trading is appropriate for you in light of your experience, objectives, financial resources and other relevant circumstances. Whilst they are listed, there is no assurance that a liquid market always exists for the L&I Products concerned. A higher liquidity risk is involved if the product involves derivatives which do not have an active secondary market. Wider bid-offer spreads in the price of the products may result in losses. Therefore, they can be more difficult and costly to unwind early, when the instruments provide access to a restricted market where liquidity is limited. There may be disparity between the performance of the L&I Product concerned and the performance of the underlying indices due to, for instance, failure of the tracking strategy, currency differences, fees and expenses. L&I Products may currently be traded, cleared and settled in Hong Kong dollars, Renminbi and/or US dollars. Investors trading 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 product price. Like ETFs, the risk of L&I Products can include counterparty risk, market risk, tracking errors, trading at discount or premium, and liquidity risk.

The specific risks presented by L&I Products necessarily depend upon the terms of the issued product and your circumstances. In general, however, they all involve some combination of market risk, credit risk, funding risk and operational risk.

1. Market risk is the risk that the value of a transaction will be adversely affected by fluctuations in the level or volatility of or correlation or relationship between one or more market prices, rates or indices or other market factors or by illiquidity in the market for the relevant transaction or in a related market.
2. Credit risk is the risk that a counterparty will fail to perform its payment or other obligations when due.
3. Funding risk is the risk that, as a result of mismatches or delays in the timing of cash flows due from or to the counterparties in the relevant transaction in question or related hedging, trading, collateral or other transactions, the parties or a party to the relevant transactions will not have adequate cash available to fund current obligations.
4. Operational risk is the risk of loss arising from inadequacies in or failures of the issuer's and/or your internal systems and controls for monitoring and quantifying the risks and contractual obligations associated with the transaction in question, for recording and valuing the portfolio and related transactions, or for detecting human error, systems failure or management failure.

Although L&I Products are listed as ETFs, the Hong Kong Stock Exchange does not endorse any product or bear any responsibility and/or liability for any of their existence or performance.

You should therefore study and understand L&I Products before you trade and carefully consider whether such trading is suitable in the light of your own financial position and investment objectives.

This brief statement does not disclose all of the risks and other significant aspects of trading in L&I Products. 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 risk. You should not construe this generic disclosure statement as business, legal, tax or accounting advice or as modifying applicable law. You should consult your own business, legal, tax and accounting advisers with respect to proposed L&I Product transactions and you should refrain from entering into any transaction unless you have fully understood the terms and risks of the transaction, including the extent of your potential risk of loss.

RISK OF TRADING IN SOME BOND PRODUCTS

1. Credit Risk

Investors assume credit risk of the Issuer and the Guarantor (if applicable). Any changes to the credit rating of them will affect the price and value of the bonds. Bonds are subject to the risk of the issuer defaulting on its obligations, i.e. An issuer fails to make principal and interest payments when due. The worst case such as bankruptcy of the Issuer/Guarantor will result in the loss of your entire investment. In addition, high-yield bonds are typically rated below investment grade or are unrated and such, are often subject to a higher risk of issuer default. Credit ratings assigned by credit rating agencies do not guarantee the creditworthiness of the issuer.

2. Liquidity Risk

The bond may have limited liquidity and may not be actively traded and/or quoted by brokers in the market. As such,

- The value of bond and/or indicative bid/offer price will depend on market liquidity and conditions and may not be available at all times;
- It may take a longer time or impossible to sell the bond to the market; and;
- The executable sale price may be unfavourably different by large amounts from the indicative bid price quoted.

3. Interest Rate Risk

Bonds are more susceptible to fluctuations in interest rates and generally prices of bonds will fall when interest rates rise.

4. Market Risk

The value of investments may fluctuate due to changing political, legal, economic conditions and change in interest rate. This is common to all markets and asset classes. Investor may get back an amount substantially less than initially invested. In addition, high yield fixed income instruments will typically fall more in value than investment grade bonds during economic downturns; it is because (i) investors become more risk averse and (ii) default risk rises.

5. Currency Risk

For bonds denominated in a foreign currency, there may be an exchange loss when converting the redemption amount back to the local or base currency.

(For Product denominated in Renminbi (RMB) or with underlying assets that are denominated in RMB only):

Conversion between RMB and foreign currencies, including Hong Kong dollar, subject to PRC regulatory restrictions – RMB is currently not freely convertible and conversion of RMB through banks in Hong Kong is subject to certain restrictions such as daily conversion limit (not applicable to the Company). The PRC government regulates conversion between RMB and foreign currency both in Hong Kong SAR and mainland China, which as a result may affect the liquidity

6. Risk associated with perpetual debentures

Perpetual debenture does not have a maturity date, and the coupon payments pay-out depends on the viability of the issuer in the very long term, it may be deferred or even suspended subject to the terms and conditions of the issue. Furthermore perpetual debentures are often callable and/or subordinated, and bear reinvestment risk and/or subordinated bond risk.

7. Re-investment Risk of Callable Bond

If the bond is callable in which the issuer may redeem the bond before maturity, it is subject to reinvestment risk. The yield received when re-investing the proceeds may be less favorable.

8. Risk associated with subordinated debentures

Holders of subordinated debentures will bear higher risks than holders of senior debentures of the issuer due to a lower priority of claim in event of the Issuer's liquidation. Subordinated debentures are unsecured and have lesser priority than that of an additional debt claim of the same asset. They usually have a lower credit rating than senior bonds. Investor's specific attention is drawn to the credit information of this product, including the respective credit rating of the Issuer, the debenture and/or the guarantor, as the case may be.

9. Risk associated with variable coupon/ coupon deferral features

If the bonds contain variable and/or deferral of interest payment terms and investors would face uncertainty over the amount and time of the interest payments to be received.

10. Risk associated with extendable maturity date

If the bonds contain extendable maturity dates terms and investors would not have a definite schedule of principal repayment.

11. Risk associated with convertible or exchangeable debentures

They are convertible or exchangeable in nature and investors are subject to both equity and bond investment risk; and/or that have contingent write-down or loss absorption feature and the bond may be written-off fully or partially or converted to common stock on the occurrence of a trigger event.

12. Risk associated with contingent write down or loss absorption feature

The bonds have contingent write down or loss absorption feature and the bonds may be written-off fully or partially or converted to common stock on the occurrence of a trigger event.

RISK OF TRADING IN SOME COMPLEX BOND PRODUCTS (Subordinated, Perpetual bond, etc.)

1. Suffer whole principal losses

Investors who invest Subordinated, Perpetual bond or called COMPLEX BOND/ HIGH RISK BOND may not receive the coupon interest or even suffer whole principal losses

2. Priority of claims

Subordinated bondholders have lower priority of claims than other bondholders in case of liquidation of the issuer. You could only get back the principal after other senior creditors are paid.

3. Maturity

Perpetual bonds do not have a fixed maturity date. The interest pay-out of these bonds depends on the viability of the issuer in the very long term. Some bonds may have extendable maturity dates. Hence, you do not have a definite schedule of principal repayment, which may adversely affect your liquidity.

4. Contingent write down or loss absorption feature

Bonds with these features may be written-off fully or partially, or converted to common stock on the occurrence of a trigger event. You should understand these additional features and the implications of the trigger event specified under the bonds' terms and conditions.

5. Interest payment terms

Some bonds have variable interest payment terms such as from fixed rate to floating rate. Some bonds also allow the issuer to defer payment of interests in whole or in part for a period of time under certain conditions. You would face uncertainty over the amount and time of the interest payments to be received.

6. Callable, convertible or exchange in nature

Some bonds are callable in nature and contain an option which grants the issuer the right to redeem the bond before it matures. A) If you hold a callable bond, when the interest rate goes down, the issuer may redeem the bond before maturity. If this happens and you have to re-invest the proceeds, the yields on other bonds in the market will generally be less favourable. B) If your bond is "convertible" or "exchangeable", you also face equity risk associated with the stock. A fall in the stock price will usually cause the bond price to fall.

A perpetual bond comes with an embedded call option. Investors should note that:

1. The bondholder may face reinvestment risk when the issuer exercises its right to redeem the bond before it matures. This usually occurs when interest rates have fallen substantially since the issuance date; ;
2. Reinvestment risk refers to the risk that the rate at which coupon and principal cash flows from a bond are reinvested will be lower than the expected rate in effect when the bond was purchased;
3. The predictability of cash flow pattern of a callable bond may be uncertain due to the embedded option;
4. The price appreciation potential of a callable bond would be limited relative to a comparable option-free bond since the upside of the bond price is capped at the call price;
5. As time passes, uncertainties over the creditworthiness of the issuer increase;
6. Interest rate may rise substantially since the issuance date. Under such situation, the coupon rate paid by the perpetual bond may be significantly lower than the prevailing interest rate.

RISKS OF INVESTING IN HIGH-YIELD BONDS

1. Credit risk

Bonds are subject to the risk of the issuer defaulting on its obligations. It should also be noted that credit ratings assigned by credit rating agencies do not guarantee the creditworthiness of the issuer;

2. Liquidity risk

Some bonds may not have active secondary markets and it would be difficult or impossible for investors to sell the bond before its maturity;

3. Interest rate risk

Bonds are more susceptible to fluctuations in interest rates and generally prices of bonds will fall when interest rates rise.

4. Higher credit risk

Since they are typically rated below investment grade or are unrated and as such are often subject to a higher risk of issuer default;

5. Vulnerability to economic cycles

During economic downturns such bonds typically fall more in value than investment grade bonds as (i) investors become more risk averse and (ii) default risk rises.

RISKS OF INVESTING IN HIGH-YIELD BONDS FUND

The net asset value of a fund that invests in high-yield bonds may decline or be negatively affected if there is a default of any of the high yield bonds that it invests in or if interest rates change. The special features and risks of high-yield bond funds may also include the following:

1. Capital growth risk - some high-yield bond funds may have fees and/ or dividends paid out of capital. As a result, the capital that the fund has available for investment in the future and capital growth may be reduced;
2. Dividend distributions - some high-yield bond funds may not distribute dividends, but instead reinvest the dividends into the fund or alternatively, the investment manager may have discretion on whether or not to make any distribution out of income and/ or capital of the fund. Also, a high distribution yield does not imply a positive or high return on the total investment; and
3. Other key risks that may relate to the relevant fund including concentration of investments in particular types of specialized debt or a specific geographical region or sovereign securities.

RISKS OF INVESTING IN EQUITY LINKED INVESTMENT (ELI)

1. Equity Linked Investment is not principal protected. You may suffer a loss if the prices of the underlying asset(s) of an Equity Linked Investment go against your view. In extreme cases, you could lose your entire investment.
2. The potential return on your Equity Linked Investment may be capped at a predetermined level specified by the issuer.
3. When you purchase an Equity Linked Investment, you rely on the credit-worthiness of the issuer. In case of default or insolvency of the issuer, you will have to rely on your distributor to take action on your behalf to claim as an unsecured creditor of the issuer regardless of the performance of the reference asset(s).
4. Equity Linked Investment is not secured on any assets or collateral.
5. Issuers may provide limited market making arrangement for their Equity Linked Investment. However, if you try to terminate an Equity Linked Investment before maturity under the market making arrangement provided by the issuer, you may receive an amount which is substantially less than your original investment amount.
6. During the investment period, you have no rights in the reference asset(s). Changes in the market price of such reference asset(s) may not lead to a corresponding change in the market value and/or potential payout of the Equity Linked Investment.
7. Issuer of an Equity Linked Investment may also play different roles, such as the arranger, the market agent and the calculation agent of the Equity Linked Investment. Conflicts of interest may arise from the different roles played by the issuer, its subsidiaries and affiliates in connection with the Equity Linked Investment.
8. Risk relating to forex: Currency exchange rates are affected by a wide range of factors, including national and international financial and economic conditions, 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.
9. Risk relating to RMB: RMB is subject to foreign exchange control by the central government of the People's Republic of China. There is currently a limited pool of RMB outside the PRC and any tightening of foreign exchange control by the PRC central government may adversely affect the liquidity of offshore RMB, and the market value of our RMB-denominated ELIs.
10. Unlisted Investment Product
Equity-linked investment is an unlisted structured investment product containing derivative instruments and is not the same as a time deposit.
11. Not protected by the Investor Compensation Fund
Equity-linked investments are not listed on any stock exchange, so they are not protected by the Hong Kong Investor Compensation Fund.
12. Issuers may only provide limited market making arrangement for their ELIs. However, if you try to terminate an ELI before maturity under the market making arrangement provided by the issuer, you may receive an amount which is substantially less than your original investment amount.

You understand that while most ELIs generally higher than the interest on an ordinary time deposit or traditional bonds, the potential gain on your ELI may be capped at a predetermined level specified by the issuer. During the investment period, you have no rights in the reference asset(s). Changes in the market prices of such reference asset(s) may not lead to a corresponding change in the market value and/or potential payout of the ELI.

You are fully aware that an investment in ELI exposes you to equity risk. You are exposed to price movements in the underlying security and the stock market, the impact of dividends and corporate actions and counterparty risks. You accept the legal obligation to take the underlying instrument at the pre-agreed conversion price instead of receiving the principal of the ELI, if the price of the underlying instrument falls below the conversion price. You will therefore receive an instrument that has fallen in value to the extent that it is less than your original investment, and might even lose the entire principal or deposit if the underlying instrument become worthless. ELIs are not secured on any assets or collateral.

You are fully aware that when you purchase an ELI, you rely on the credit-worthiness of the issuer. In case of default or insolvency of the issuer, you will have to rely on your distributor to take action on your behalf to claim as an unsecured creditor of the issuer regardless of the performance of the reference asset(s). Issuers may provide limited market making arrangement for their ELIs. However, if you try to terminate an ELI before maturity under the market making arrangement provided by the issuer, you may receive an amount which is substantially less than your original investment amount. Equity-linked instrument may be “nontransferable” and it may be impossible for you to close out or liquidate them. Issuer of an ELI may also play different roles, such as the arranger, the market agent and the calculation agent of the ELI. Conflicts of interest may arise from the different roles played by the issuer, its subsidiaries and affiliates in connection with the ELI.

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