RISK DISCLOSURE STATEMENTS AND DISCLAIMERS

The following risk disclosure statements and disclaimers apply to a client (whether an individual, a corporation or any other person) who opens an account (including a cash account, a margin account, a futures account and a stock options account) with the Broker, either be it Shenwan Hongyuan Securities (H.K.) Limited or Shenwan Hongyuan Futures (H.K.) Limited (as the case may be), (the "Client"). Terms not defined herein shall have the same meaning as defined in the relevant account opening forms including relevant terms and conditions. The use of one gender includes the other genders and the use of singular includes the plural.

A. Risks in Relation to Opening of a Cash Account

1. Risk of Securities Trading

1.1 Client acknowledges and understands that the prices of securities fluctuate, sometimes dramatically. The price of a security may move up or down, and may become valueless. It is as likely that losses will be incurred rather than profit made as a result of buying and selling securities.

2. Risks of Trading Growth Enterprise Market Stocks

2.1 Client understands that Growth Enterprise Market ("GEM") stocks involve a high investment risk. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Client is aware that GEM stocks may be very volatile and illiquid.

2.2 Client understands that he should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

2.3 Client acknowledges that current information on GEM stocks may only be found on the internet website operated by The Stock Exchange of Hong Kong Limited. Client understands that GEM Companies are usually not required to issue paid announcements in gazetted newspapers.

2.4 Client understands that he should seek independent professional advice if he is uncertain of or has not understood any aspect of this risk disclosure statement or the nature and risks involved in trading of GEM stocks.

3. Risk of Trading NASDAQ-AMEX Securities at the Stock Exchange of Hong Kong Limited

3.1 Client acknowledges that the securities under the Nasdaq-Amex Pilot Program ("PP") are aimed at sophisticated investors. Client should consult the Broker and become familiarized with the PP before trading in the PP securities. Client appreciates that he should be aware that the PP securities are not regulated as a primary or secondary listing on the Main Board or the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

B. Risks in Relation to Opening of a Margin Account

1. Risk of Margin Trading

1.1 Client fully understands that the risk of loss in financing a transaction by deposit of collateral is significant. Client may sustain losses in excess of Client's cash and any other assets deposited as collateral with the Broker. Market conditions may make it impossible to execute contingent orders; such as "stop-loss" or "stop-limit" orders. Client also understands that Client may be called upon at short notice to make additional margin deposits or interest payments. Client acknowledges that if the required margin deposits or interest payments are not made within the prescribed time, Client's collateral may be liquidated without Client's consent. Moreover, Client understands that Client will remain liable for any resulting deficit in Client's account and interest charged on Client's account. Client confirms and understands that Client should therefore carefully consider whether such a financing arrangement is suitable in light of Client's own financial position and investment objectives.

2. Risks of Providing an Authority to Repledge Client's Securities Collateral etc.

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

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

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

2.4 Client understands that Client is not required by any law to sign these authorities. But an authority may be required by the Broker, for example, to facilitate margin lending to Client or to allow Client's securities or securities collateral to be lent to or deposited as collateral with third parties. Client acknowledges and confirms that the Broker has explained to Client the purposes for which one of these authorities is to be used.

2.5 Client understands and confirms that if Client signs one of these authorities and Client's securities or securities collateral are lent to or deposited with third parties, those third parties will have a lien or charge on Client's securities or securities collateral. Client further understands that although the Broker is responsible to Client for Client's securities or securities collateral lent or deposited under Client's authority, a default by the Broker could result in the loss of Client's securities or securities collateral.

2.6 Client fully understands that a cash account not involving securities borrowing and lending is available from the Broker. If Client does not require margin facilities or does not wish Client's securities or securities collateral to be lent or pledged, Client should not sign the above authorities and should ask to open this type of cash account.

C. Risks in Relation to Opening of a Futures Account

1. General Risks of Trading Futures and Options

1.1 Client acknowledges that the risk of loss in trading futures contracts or options is substantial. In some circumstances, Client may sustain losses in excess of Client's 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. Client understands that Client may be called upon at short notice to deposit additional margin funds. If the required funds are not provided within the prescribed time, Client's position may be liquidated. Client will remain liable for any resulting deficit in Client's account. Client understands that Client should therefore study and understand futures contracts and options before Client trade and carefully consider whether such trading is suitable in the light of Client's own financial position and investment objectives. If Client trades options Client should inform himself of exercise and expiration procedures and Client's rights and obligations upon exercise or expiry.

1.2 Client appreciates that this brief statement does not disclose all of the risks and other significant aspects of trading in futures and options. In light of the risks, Client should undertake such transactions only if Client understands the nature of the contracts (and contractual relationships) into which Client is entering and the extent of Client's exposure to risk. Trading in futures and options is not suitable for many members of the public. Client understands that Client should carefully consider whether trading is appropriate for him in light of his experience, objectives, financial resources and other relevant circumstances.

2. Risks of Futures Trading

2.1 <u>Effect of "Leverage" or "Gearing"</u>

Client understands that transactions in futures carry a high degree of risk. The amount of initial margin is small relative to the value of the futures contract so that transactions are "leveraged" or "geared". Client further understands that a relatively small market movement will have a proportionately larger impact on the funds Client has deposited or will have to deposit: this may work against Client as well as for Client. Client may sustain a total loss of initial margin funds and any additional funds deposited with the Broker to maintain Client's position. If the market moves against Client's position or margin levels are increased, Client may be called upon to pay substantial additional funds on short notice to maintain Client's position. Client fully understands that if Client fails to comply with a request for additional funds within the time prescribed, Client's position may be liquidated at a loss and Client will be liable for any resulting deficit.

2.2 <u>Risk-reducing orders or strategies</u>

Client acknowledges that the placing of certain orders (e.g. "stop-loss" orders, or "stop-limit" orders) which are intended to limit losses to certain amounts may not be effective because market conditions may make it impossible to execute such orders. Client also acknowledges that strategies using combinations of positions, such as "spread" and "straddle" positions may be as risky as taking simple "long" or "short" positions.

3. Risks of Options Trading

3.1 <u>Variable degree of risk</u>

Client acknowledges that transactions in options carry a high degree of risk. Client understands that purchasers and sellers of options should familiarize themselves with the type of option (i.e. put or call) which they contemplate trading and the associated risks. Client should calculate the extent to which the value of the options must increase for Client's position to become profitable, taking into account the premium and all transaction costs.

Client is aware that 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 option is on a futures contract, the purchaser will acquire a futures position with associated liabilities for margin (see the section "Risks of Futures Trading" above). Client also understands that if the purchased options expire worthless, Client will suffer a total loss of Client's investment which will consist of the option premium plus transaction costs. If Client is contemplating purchasing deep-out-of-the-money options, Client knows he should be aware that the chance of such options becoming profitable ordinarily is remote.

Client recognizes that 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 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, the seller will acquire a position in a futures contract with associated liabilities for margin (see the section "Risks of Futures Trading" above). 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.

Client understands that 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.

4. Additional Risks Common to Futures and Options

4.1 <u>Terms and conditions of contracts</u>

Client confirms that Client should ask the Broker about the terms and conditions of the specific futures or options which Client is trading and associated obligations (e.g. the circumstances under which Client may become obliged to make or take delivery of the underlying interest of a futures contract and, in respect of options, expiration dates and restrictions on the time for exercise). Client acknowledges that 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.

4.2 <u>Suspension or restriction of trading and pricing relationships</u>

Client understands that 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. Client understands that if Client has sold options, this may increase the risk of loss.

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

4.3 Deposited cash and property

Client understands that Client should familiarize himself with the protections given to money or other property Client deposits for domestic and foreign transactions, particularly in the event of a firm insolvency or bankruptcy. Client recognizes that the extent to which Client may recover his money or property may be governed by specific legislation or local rules. Client also understands that in some jurisdictions, property which had been specifically identifiable as Client's own will be pro-rated in the same manner as cash for purposes of distribution in the event of a shortfall.

4.4 Commission and other charges

Before Client begins to trade, Client should obtain a clear explanation of all commission, fees and other charges for which Client will be liable. Client acknowledges that these charges will affect Client's net profit (if any) or increase Client's loss.

4.5 Transactions in other jurisdictions

Client understands that transactions on markets in other jurisdictions, including markets formally linked to a domestic market, may expose Client to additional risk. Such markets may be subject to regulation which may offer different or diminished investor protection. Before Client trades Client should enquire about any rules relevant to Client's particular transactions. Client entirely understands that Client's local regulatory authority will be unable to compel the enforcement of the rules of regulatory authorities or markets in other jurisdictions where Client's transactions have been effected. Client confirms that Client should ask the Broker for details about the types of redress available in both Client's home jurisdiction and other relevant jurisdictions before Client starts to trade.

4.6 Currency risks

Client understands that the profit or loss in transactions in foreign currency-denominated contracts (whether they are traded in Client's 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.

4.7 Trading facilities

Client understands that 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. Client understands that Client's 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. Client also understands that such limits may vary. Client should ask the Broker for details in this respect.

4.8 Electronic trading

Client understands that trading on an electronic trading system may differ from trading on other electronic trading systems. If Client undertakes transactions on an electronic trading system, Client will be exposed to risks associated with the system including the failure of hardware and software. Client further understands that the result of any system failure may be that Client's order is either not executed according to Client's instructions or is not executed at all.

4.9 Off-exchange transactions

Client understands that in some jurisdictions, and only then in restricted circumstances, firms are permitted to effect off-exchange transactions. The firm with which Client deals may be acting as Client's 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 Client undertakes such transactions, Client knows that Client should familiarize himself with applicable rules and attendant risks.

4.10 Risk of Executing or clearing agent's default

Client understands that the Client's assets may be at risk when they are held by the Broker's executing or clearing agent, including that the Client may not be able to recover their assets or their market value when the Broker's executing or clearing agent defaults. Client also understands that the Broker shall not be liable for any loss or damage caused by the default of the Broker's executing or clearing agent.

4.11 Risk of Omnibus accounts

The Client acknowledges that the Client's rights to assets held by the Broker in its omnibus account with a clearing house may be subject to the Broker fulfilling its obligations to the clearing house, which may be further subject to its other clients fulfilling their obligations to the Broker, despite the fact that the Client did not default on its obligations to the Broker.

The Client further acknowledges that the Client's rights to assets held by the Broker in its omnibus account with an executing or clearing agent may be subject to the Broker, its other clients, the executing or clearing agent or their agents, and other clients of the executing or clearing agent or their agents fulfilling their obligations to their counterparties, despite the fact that the Client did not default on its obligations to the Broker.

D. Common Risks

1. Risk of Client Assets Received or Held Outside Hong Kong or Trading in a Market Outside Hong Kong

1.1 Client understands that assets received or held by the Broker for or on Client's behalf outside Hong Kong or when the Client conducts transactions in a market outside Hong Kong are subject to the applicable laws and regulations of the relevant overseas jurisdiction which may be different from the Securities and Futures Ordinance (Cap. 571) and the rules made thereunder. Consequently, Client or such assets may not enjoy the same protection as that conferred on Client's assets received or held in Hong Kong or trading in a Hong Kong market.

2. Risks of Using Online Services

2.1 In relation to online trading, Client is fully aware and accept that, because of the inherent characteristics of the internet, it may not be a completely secure and reliable means of telecommunication and there may be delay in data transmission and receipt of instructions or other information, delays in execution or execution of instructions at prices different from those prevailing at the time when the instructions are given. There are also risks of misunderstanding or errors in communication and it is usually not possible to cancel instructions once given.

2.2 In relation to the use of the access codes and/or passwords to the Online Services, Client acknowledges and fully understands that Client shall be solely responsible for any consequences arising from disclosure of the access codes and/or passwords to any third person or any unauthorized use of the access codes and/or passwords. So long as the access codes and/or passwords are used to identify the source of instructions, the instructions thereof shall be deemed to have originated from Client as authentic, complete and accurate instructions, and shall be binding on Client, whether or not such instructions was in fact given by Client.

2.3 Client understands that the Broker shall not be liable to Client for: (i) any delay or error in the execution of instructions, or (ii) nonexecution of instructions, due to any error, interruption or non-availability of any equipment, facilities or other circumstances which are not actually foreseen by or actually known to the Broker or which are beyond the control of the Broker and the Broker has not made any representations or guarantees in relation to the timeliness, accuracy, completeness, reliability of any information disseminated or accessible through the Online Services.

3. Risks of Providing an Authority to Hold Mail or to Direct Mail to Third Parties

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

3.2 Client understands that Client's authority to hold mail or to direct mail to third parties shall be deemed to be automatically renewed if the Broker issues a notification to the Client before the expiry date of the authority and Client does not specifically revokes such authority in writing before such expiry date.

4. Risks of Not Registering Securities or Securities Collateral in the Name of Client

Where Client's securities or securities collateral are registered in the name of the Broker or its associated entities, Client fully understands and acknowledges that:-

4.1 Client shall remain solely responsible for giving instructions to the Broker in relation to any rights (including but not limited to any voting rights) attached to and/or any corporate actions with regard to the Client's securities or securities collateral.

4.2 The Broker has no duty whatsoever to inform, remind or communicate to the Client any notices, announcements, communications or documents in respect of any rights attached to and/or any corporate actions with regard to the Client's securities or securities collateral, or any update, amendment or variation thereto. Client shall be solely responsible for receiving any such notices, announcements, communications or documents, or any update, amendment or variation thereto.

4.3 The Broker has no duty whatsoever to act on or inform the Client to act on any rights attached to and/or any corporate actions with regard to the Client's securities or securities collateral. Client shall be solely responsible for acting on or responding to any such rights and/or corporate actions with regard to the Client's securities or securities collateral.

4.4 If Client has, in accordance with Clause 4.1 above and relevant client agreement with the Broker, instructed the Broker or its associated entities before the deadline specified by the Broker to pass on Client's instructions to relevant third party processing agents, including but not limited to any exchange, clearing house, registrar or their related parties, either in Hong Kong or overseas, the Broker shall only be required to pass on such instructions to the relevant third party processing agents. The Broker has no duty whatsoever to follow up or check with any such processing agents the proper or timely execution of the instructions.

4.5 Client may register securities or securities collateral in Client's own name in order to avoid part of or all risks mentioned in this Clause 4.

E. Risks of Trading Specific Products

1. Risks of Trading Derivative Warrants

1.1 Issuer risk

Derivative warrant holders are unsecured creditors of the issuer and they have no preferential claim to any assets that an issuer may hold. Clients are therefore exposed to the credit risk of the issuer.

1.2 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 assets. There are possibilities that the value of the derivative warrants may fall to zero and holders may lose their entire purchase price in the worst case scenario.

1.3 Limited life

Derivative warrants have an expiry date. They may become worthless at expiration.

1.4 Time decay

The value of derivative warrants will decrease over time. Therefore, derivative warrants should not be regarded as investment products for long term investment purposes.

1.5 Volatility

An increase in the volatility of the underlying asset should lead to a higher warrant price whereas a decrease in volatility will lead to a lower price. Clients should know the volatility of underlying assets.

1.6 Market forces

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

1.7 Turnover

High turnover in a derivative warrant should not be viewed as an indication that its price will go up. The price of a derivative warrant is affected by a range of factors from market forces to technical matters such as the price of the underlying asset, the price volatility of the underlying asset, the time remaining to expiry, interest rates and the expected dividend of the underlying asset.

2. Risks of Trading Callable Bull/Bear Contracts ("CBBC")

2.1 Mandatory call

A CBBC will be called by the issuer when the price of the underlying asset hits the call price as specified in the listing document and s such, the trading in that CBBC will expire early. Payoff for Category N CBBCs will be zero when those CBBCs expire early. When Category R CBBCs expire early, the holder may receive a small amount of cash payment or residual value or may receive no residual value at all in adverse situations. Once the CBBC is called, it will not be revived and Clients will not be able to make profit even though the underlying asset may at the time bounce back.

2.2 Gearing effects

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

2.3 Limited life

A CBBC has a limited life, as denoted by the fixed expiry date. The life of a CBBC may be shorter if it is called before the fixed expiry date. The price of a CBBC fluctuates with the changes in the price of the underlying asset from time to time and may become worthless after expiry, and in certain cases, even before the normal expiry if the CBBC has been called early.

2.4 Movement with underlying asset

Although the price of a CBBC tends to follow closely with the price of its underlying asset, it may not be the case in certain circumstances. Prices of CBBC are affected by a range of factors, including its own demand and supply, funding costs and remaining time to expiry. In addition, the delta for a particular CBBC may not always be close to one, particularly, when the price of the underlying asset is close to the call price.

2.5 Liquidity

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

2.6 Funding costs

The issue price of a CBBC includes funding costs and issuers will specify the formula for calculating such funding costs in the listing documents at the time of its launch. Since the funding costs for each CBBC issue may be different as they include the issuer's financing/stock borrowing costs after adjustment for expected ordinary dividend of the stock plus the issuer's profit margin, Clients should compare the funding costs of different issuers for CBBC with similar underlying assets and the terms. Funding costs are gradually reduced over time as the CBBC approaches its expiry. The longer the duration of the CBBC, the higher the total funding costs. When a CBBC is called, the Clients will lose the funding costs for the full period since the funding costs are built into the CBBC price upfront at launch even though with a mandatory call event, the actual period of funding for the CBBC turns out to be shorter.

2.7 Trading of CBBC close to the 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 as a result, the trading will cease. However, the trade inputted by the Client may still be executed and confirmed by the exchange participant after such mandatory call event since there may be some time lapse between such call event and the cessation of trading. Any trade executed after such call event will not be recognized and cancelled. Clients should therefore note such risk and ought to apply special caution when the CBBC is trading close to the call price.

2.8 CBBC with overseas underlying assets

Clients 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 forces of supply and demand in the foreign exchange markets which are affected by a range of factors. Also, CBBC issued on overseas underlying assets may be called outside the local exchange's trading hours.

3. Risks of Trading Listed Equity Linked Instruments ("ELI")

3.1 Exposure to equity market

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

3.2 Possibilities of losing investment

Clients may lose part or all of their investment if the price of the underlying security goes against their investment view.

3.3 Price adjustment

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

3.4 Interest rates

While most ELIs 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.

3.5 Potential yield

Client should consult the Broker 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 have not taken such fees and charges into consideration.

4. Risks of Trading Exchange Traded Funds ("ETF")

4.1 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 purpose, but in general they do not have the discretion to take defensive positions in declining markets. Clients must be prepared to bear the risk of loss and volatility associated with the underlying indices/assets.

4.2 Tracking errors

Tracking errors refer to the disparity in performance between an ETF and its underlying indices/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 indices/assets, and the ETF manager's replication strategy.

4.3 Trading at discount or premium

An ETF may be traded at a discount or premium to its net asset value. 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.

4.4 Foreign exchange risk

Clients 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 and also the ETF price.

4.5 Liquidity risk

Securities Market Makers ("SMMs") are Stock Exchange Participants that provide liquidity to facilitate trading in ETFs. Although most ETFs are supported by one or more SMMs, there is no assurance that active trading will be maintained. In the event that the SMMs default or cease to fulfill their role, Clients may not be able to buy or sell the product.

4.6 Counterparty risk involved in ETFs with different replication strategies

An ETF using a full replication strategy generally aims to invest in all constituent stocks/assets in the same weightings as its benchmark. ETFs adopting a representative sampling strategy will invest in some, but not all of the relevant constituent stocks/assets. Where ETFs utilizing a synthetic replication strategy use swaps or other derivative instruments to gain exposure to a benchmark, they are exposed to counterparty risk of the swap dealers or the derivative instruments' issuers and may suffer losses if such dealers or issuers default or fail to honour their contractual commitments.

Even where collateral is obtained by an ETF, it is subject to the collateral provider fulfilling its obligations. There is a further risk that when the right against the collateral is exercised, the market value of the collateral could be substantially less than the amount secured resulting in significant loss to the ETF.

5. Risks of Trading Convertible Bonds

5.1 Issuer risk

Issuer may fail to pay interest or principal to bond holders on time.

5.2 Interest rate risk

The price of fixed rate bonds fluctuates according to changes in market interest rates. Prices for fixed rate bonds move inversely with changes in interest rates. In general, market interest rate movements have a larger impact on the price of bonds with a longer remaining period to maturity.

5.3 Liquidity risk

Liquidity of some bonds in the secondary market may be low. Clients may find it difficult to buy or sell such bonds and need to hold them to maturity.

5.4 Foreign exchange risk

Exchange rate risk exists if the bond is denominated in foreign currency.

5.5 Equity risk

If the bond is converted into shares of the issuing corporation, there may be equity risk associated with the stock.

6. Risks of Trading Listed Renminbi – Denominated Securities

6.1 Currency risk

In general, a non-PRC (including Hong Kong) Client who holds a local currency other than Renminbi will be exposed to currency risk if he/she invests in a Renminbi product. This is because Renminbi is a restricted currency and subject to exchange controls. Client may have to convert the local currency into Renminbi when he/she invests in a Renminbi product. When Client redeems/sells his/her investment, he/she may also need to convert the Renminbi received upon redemption/sale of his/her investment product into the local currency (even if redemptions/sale proceeds are paid in Renminbi). During these processes, Client will incur currency conversion costs (e.g. as a result of the fluctuations in the exchange rates between the relevant currencies) and Client will also be exposed to currency risk. In other words, even if the price of the Renminbi product remains the same when Client purchases it and when Client redeems/ sells it, he/she will still incur a loss when he/she converts the redemption/sale proceeds into local currency if Renminbi has depreciated. Like any currency, the exchange rate of Renminbi may rise or fall. Further, Renminbi is subject to conversion restrictions and foreign exchange control mechanism.

6.2 Liquidity risk

Renminbi products are also subject to liquidity risk as Renminbi products are new products and there may not be regularly traded or active in secondary market. Therefore Client may not be able to sell his/her investment in the product on a timely basis, or Client may have to sell the product at a deep discount to its value. In addition, Clients shall also find out whether the Renminibi product is subject to any lock-up period or heavy penalty or charges for early surrender or termination of the product.

6.3 Issuer/Counterparty risk

Renminbi products are subject to the credit and insolvency risks of their issuers. Client should consider carefully the creditworthiness of the issuers before investing. Furthermore, as a Renminbi product may invest in derivative instruments, counterparty risk may also arise as the default by the derivative issuers may adversely affect the performance of the Renminbi products and result in substantial losses.

6.4 Investment/Market risk

Like any investments, Renminbi products are subject to investment risk and may not be principal protected, i.e. the assets that the products invest in or referenced to may fall as well as rise, resulting in gains or losses to the product. Depending on the nature of the Renminbi product and its investment objective, there may be other risk factors specific to the product which Client should consider. Before making an investment decision, Client should always read the risk factors as set out in the offering documents and seek professional advice where necessary.

7. Risks associated with Over-the-counter ("OTC") Derivative Transactions

7.1 Market risk

The value of an OTC derivative 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.

7.2 Credit risk

A counterparty will fail to perform its obligations to Client when due.

7.3 Funding risk

In the case of mismatches or delays in the timing of cash flows due from or to Client's counterparties in OTC derivative transactions or related hedging, trading, collateral or other transactions, Client or his/her counterparty will not have adequate cash available to fund current obligations.

7.4 Operational risk

OTC derivative transactions are also subject to the risk of loss arising from inadequacies in or failures of Client's internal systems and controls for monitoring and quantifying the risks and contractual obligations associated with OTC derivative transactions, for recording and valuing OTC derivative and related transactions, or for detecting human error, systems failure or management failure.

7.5 Other risks

There may be other significant risks that Clients should consider based on the terms of a specific transaction. Highly customized OTC erivative transactions in particular may increase liquidity risk and introduce other significant risk factors of a complex character. Highly leveraged transactions may experience substantial gains or losses in value as a result of relatively small changes in the value or level of an underlying or related market factor.

In evaluating the risks and contractual obligations associated with a particular OTC derivative transaction, Clients should also consider that an OTC derivative transaction may be modified or terminated only by mutual consent of the original parties and subject to agreement on individually negotiated terms. Accordingly, it may not be possible for Clients to modify, terminate or offset his/her obligations or his/her exposure to the risks associated with a transaction prior to its scheduled termination date.

While market makers and dealers generally quote prices or terms for entering into or terminating OTC derivative transactions and provide indicative or mid-market quotations with respect to outstanding OTC derivative transactions, they are generally not contractually obligated to do so. It may not be possible to obtain indicative or mid-market quotations for an OTC derivative transaction from a market maker or dealer that is not a counterparty to the transaction. Consequently, it may be difficult for Client t establish an independently value for an outstanding OTC derivative transaction.

As with all investments, returns on derivatives products are influenced by external factors such as inflation and political changes. Uncollateralized derivative products are not assets backed. In the event of issuer's liquidation, Clients can lose their entire investment. Clients should read the listing documents to check if a product is uncollateralized and to determine if such product is suitable to them in terms of their financial positions and investment objective.

F. Disclaimers

1. Exchange Disclaimer

1.1 Stock indices and other proprietary products upon which contracts traded on Hong Kong Futures Exchange Limited (the "Exchange") may be based and may from time to time be developed by the Exchange. The HKFE Taiwan Index is the first of such stock indices eveloped by the Exchange. The HKFE Taiwan Index and such other indices or proprietary products as may from time to time be developed by the Exchange (the "Exchange Indices") are the property of the Exchange. The process of compilation and computation of each of the Exchange Indices is and will be the exclusive property of and proprietary to the Exchange. The process and basis of compilation and computation of the Exchange Indices may at any time be changed or altered by the Exchange without notice and the Exchange may at any time require that trading in and settlement of such futures or option contracts based on any of the Exchange Indices as the Exchange may designate be conducted by reference to an alternative index to be calculated.

1.2 The Exchange does not warrant or represent or guarantee to any participant of the Exchange or any third party the accuracy or completeness of any of the Exchange Indices or their compilation and computation or any information related thereto and no such warranty or representation or guarantee of any kind whatsoever relating to any of the Exchange Indices is given or may be implied. Further, no responsibility or liability whatsoever is accepted by the Exchange in respect of the use of any of the Exchange Indices or for any inaccuracies, omissions, mistakes, errors, delays, interruptions, suspension, changes or failures (including but not limited to those resulting from negligence) of the Exchange or any other person or persons appointed by the Exchange to compile and compute any of the Exchange Indices in the compilation and computation of any of the Exchange Indices or for any economic or other losses which may be directly or indirectly sustained as a result thereof by any participant of the Exchange or any third party dealing with futures or option contracts based on any of the Exchange Indices. No claims, actions or legal proceedings may be brought by any participant of the Exchange or any third party against the Exchange in connection with or arising out of matters referred to in this disclaimer. Any participant of the Exchange or any third party engages in transactions in futures or option contracts based on any of the Exchange Indices in full knowledge of this disclaimer and can place no reliance on the Exchange in respect of such transactions.

2. Disclaimer in Relation to Trading of Stock Index Futures Contracts

2.1 Hang Seng Indexes Company Limited ("HSIL") currently publishes, compiles and computes a number of stock indices and may publish, compile and compute such additional stock indices at the request of Hang Seng Data Services Limited ("HSDS") from time to time (collectively, the "Hang Seng Indices"). The marks, names and processes of compilation and computation of the respective Hang Seng Indices are the exclusive property of and proprietary to HSDS. HSIL has granted to the Exchange by way of licence the use of the Hang Seng Indices solely for the purposes of and in connection with the creation, marketing and trading of futures contracts based on any of the Hang Seng Indices respectively (collectively, "Futures Contracts"). The process and basis of compilation and computation of any of the Hang Seng Indices and any of the related formula or formulae, constituent stocks and factors may at any time be changed or altered by HSIL without notice and the Exchange may at any time require that trading in and settlement of such of the Futures Contracts as the Exchange may designate be conducted by reference to an alternative index or alternative indices to be calculated.

2.2 Neither the Exchange nor HSDS nor HSIL warrants or represents or guarantees to any participant or any third party the accuracy or completeness of the Hang Seng Indices or any of them and the compilation and computation thereof or any information related thereto and no such warranty or representation or guarantee of any kind whatsoever relating to the Hang Seng Indices or any of them is given or may be implied. Further, no responsibility or liability whatsoever is accepted by the Exchange, HSDS or HSIL in respect of the use of the Hang Seng Indices or any of them for the purposes of and in connection with the Futures Contracts or any of them and/or dealings therein, or for any inaccuracies, omissions, mistakes, errors, delays, interruptions, suspension, changes or failures (including but not limited to those resulting from negligence) of HSIL in the compilation and computation of the Hang Seng Indices or any of them or for any economic or other losses which may be directly or indirectly sustained as a result thereof by any participant or any third party dealing with the Futures Contracts or any of them. No claims, actions or legal proceedings may be brought by any participant or any third party against the Exchange and/or HSDS and/or HSIL in connection with or arising out of matters referred to in this disclaimer. Any participant or any third party deals in the Futures Contracts or any of them in full knowledge of this disclaimer and can place no reliance whatsoever on the Exchange, HSDS and/or HSIL. For the avoidance of doubt, this disclaimer does not create any contractual or quasi-contractual relationship between any participant or third party and HSIL and/or HSDS and must not be construed to have created such relationship.

3. Disclaimer in Relation to Trading of Stock Index Option Contracts

3.1 HSIL currently publishes, compiles and computes a number of stock indices and may publish, compile and compute such additional stock indices at the request of Hang Seng Data Services Limited ("HSDS") from time to time (collectively, the "Hang Seng Indices"). The marks, names and processes of compilation and computation of the respective Hang Seng Indices are the exclusive property of and proprietary to HSDS. HSIL has granted to the Exchange by way of licence the use of the Hang Seng Indices solely for the purposes of and in connection with the creation, marketing and trading of option contracts based on any of the Hang Seng Indices respectively (collectively, the "Option Contracts"). The process and basis of compilation and computation of any of the Hang Seng Indices and any of the related formula or formulae, constituent stocks and factors may at any time be changed or altered by HSIL without notice and the Exchange may at any time require that trading in and settlement of such of the Option Contracts as the Exchange may designate be conducted by reference to an alternative index or alternative indices to be calculated.

3.2 Neither the Exchange nor HSDS or HSIL warrants or represents or guarantees to any participant or any third party the accuracy or completeness of the Hang Seng Indices or any of them and the compilation and computation thereof or any information related thereto and no such warranty or representation or guarantee of any kind whatsoever relating to the Hang Seng Indices or any of them is given or may be implied. Further, no responsibility or liability whatsoever is accepted by the Exchange, HSDS or HSIL in respect of the use of the Hang Seng Indices or any of them for the purposes of and in connection with the Option Contracts or any of them and/or dealings therein, or for any inaccuracies, omissions, mistakes, errors, delays, interruptions, suspension, changes or failures (including but not limited to those resulting from negligence) of HSIL in the compilation and computation of the Hang Seng Indices or any of them or for any economic or other losses which may be directly or indirectly sustained as a result thereof by any participant or any third party dealing with the Option Contracts or any of them. No claims, actions or legal proceedings may be brought by any participant or any third party against the Exchange and/or HSDS and/or HSIL in connection with or arising out of matters referred to in this disclaimer. Any participant or any third party deals in the Option Contracts or any of them in full knowledge of this disclaimer and can place no reliance whatsoever on the Exchange, HSDS and/or HSIL. For the avoidance of doubt, this disclaimer does not create any contractual or quasi-contractual relationship between any participant or third party and HSIL and/or HSDS and must not be construed to have created such relationship.