

## **Important Notes:**

The following Risk Disclosure Statement may not disclose all the risks involved. The following content is compiled in accordance with the latest information published by regulatory authorities. You should undertake your own research and study before you trade or invest. You should carefully consider whether trading or investment is suitable in light of your own financial position and investment objectives.

Chiyu Banking Corporation Limited (the "Bank") is appointed by fund houses as an agent. The investment fund is a product of fund houses, but not of the Bank. In respect to an eligible dispute (as defined in the Terms of Reference for the Financial Dispute Resolution Centre in relation to the Financial Dispute Resolution Scheme) arising between the Bank and the customer out of the selling process or processing of the related transaction, the Bank is required to enter into a Financial Dispute Resolution Scheme process with the customer; however, any dispute over the contractual terms of the fund product should be resolved directly between the fund house and the customer.

## **Risk Disclosure of Investment Funds**

Investment in Investment Funds involves significant risks. It is impossible to describe every risk associated with such an investment that is relevant to you. Before making your investment decision, you should carefully read the offering documents of the relevant Investment Fund including, in particular, the sections about risks and ensure you fully understand the nature and all the risks associated with an investment in the relevant Investment Fund and are willing to assume such risks.

Investment Funds or services are not equivalent to, nor should they be treated as a substitute for, time deposits. Although investment may bring opportunities for profit, each investment product or service involves potential risks. Due to dynamic changes in the market, the

price movement and volatility of investment products may not be what you expect. Your investment funds may increase or decrease due to the purchase or sale of investment products. The value of investment funds may go up as well as down, and the investment funds may become valueless. You may not receive any return from investment funds. You may not be able to liquidate parts of your investment immediately under certain market situation. The investment decision is yours, but you should not invest in these products unless the intermediary who sells them to you has explained to you that these products are suitable for you with regard to your financial situation, investment experience and investment objectives. Investment involves risks. Please refer to the relevant investment fund offering documents for further details, including risk factors. If you have any inquiries on the nature and risks involved in trading or investment funds, etc., you should seek advice from an independent financial adviser.

### **Risk of Foreign Currency(RMB) Trading**

Foreign currencies / RMB investments are subject to exchange rate fluctuations which may provide both opportunities and risks. The fluctuation in the exchange rate of foreign currencies / RMB may result in losses in the event that the customer converts the foreign currencies / RMB into HKD or other foreign currencies.

**RMB Conversion Limitation Risk (Only applicable to Individual Customers)**

- RMB is currently not fully freely convertible. Individual customers can be offered CNH rate to conduct conversion of RMB through bank accounts and may occasionally not be able to do so fully or immediately, for which it is subject to the RMB position of the banks and their commercial decisions at that moment. Customers should consider and understand the possible impact on their liquidity of RMB funds in advance.

**RMB Conversion Limitation Risk (Only applicable to Corporate Customers)**

- RMB is currently not fully freely convertible. Corporate customers that intend to conduct conversion of RMB through banks may occasionally not be able to do so fully or immediately, for which it is subject to the RMB position of the banks and their commercial decisions at that moment. Customers should

consider and understand the possible impact on their liquidity of RMB funds in advance.

## **RISK EXPLANATORY NOTE**

If you wish to trade exchange-traded derivative products (as defined below) mentioned below, you should read carefully and understand fully the relevant risks associated with the products as mentioned herein.

### **Common Types of Exchange-Traded Derivative Products and Relevant Risks**

#### **Derivative Warrants (“DWs”)**

DWs are issued by third parties such as financial institutions and are generally divided into Calls and Puts. Holders of call warrants have the right, but not the obligation, to purchase from the warrant issuer a given amount of the underlying asset at a predetermined price (also known as the exercise price) within a certain time period. Conversely, holders of put warrants have the right, but not the obligation, to sell to the warrant issuer a given amount of the underlying asset at a predetermined price within a certain time period. DWs in Hong Kong are usually settled in cash when they are exercised at expiry and are likely to have a unique expiry date.

The time value of a DW decreases over time. All things being equal, the value of a DW will decrease over time as it approaches its expiry date. DWs are not principal protected and the price of DWs may fall in value as rapidly as they may rise and investors may not be able to get back the principal and may lose all the investment.

#### **Equity Warrants / Subscription Warrants**

They are issued by a listed company and give holders the rights to

buy the underlying shares of the company. They are either attached to new shares sold in initial public offerings, or distributed together with declared dividends, bonus shares or rights issues. Upon exercise, the underlying company will issue new shares and deliver them to the warrant holders.

The time value of an equity warrant decreases over time. All things being equal, the value of an equity warrant/subscription warrant will decrease over time as it approaches its expiry date. Investors may not be able to get back the principal and may lose all the investment.

### **Callable Bull / Bear Contracts (“CBBCs”)**

CBBCs are a type of structured product that tracks the performance of an underlying asset without requiring investors to pay the full price required to own the actual asset. They are issued either as Bull or Bear contracts with a fixed expiry date, allowing investors to take bullish or bearish positions on the underlying asset.

CBBCs have a call price and a mandatory call feature - For bull contracts, the call price must be either equal to or above the Strike Price. For bear contracts, the call price must be equal to or below the Strike Price. If the underlying asset's price reaches the Call Price at any time prior to expiry, the CBBCs will expire early. The issuer must call the CBBCs and trading of the CBBCs will be terminated immediately. Such an event is referred to as a mandatory call event ("MCE"). However, when the underlying asset of a CBBC is trading at a price close to its call price, the change in the value of CBBCs may be more volatile and disproportionate with the change in the value of the underlying asset.

There are two categories of CBBCs, namely Category N CBBC and Category R CBBC. A Category N CBBC refers to a CBBC where its call price is equal to its Strike Price, and the CBBC holder will not

receive any cash payment once the price of the underlying asset reaches or goes beyond the call price. A Category R CBBC refers to a CBBC where its call price is different from its Strike Price, and the CBBC holder may receive a small amount of cash payment ("Residual Value") upon the occurrence of an MCE but in the worst case, no Residual Value will be paid. CBBCs can be held until maturity (if not called before expiry) or sold on the HKEx (as defined below) before expiry. Investors should not trade in CBBCs unless he/she understands the nature of the product and is prepared to lose his/her total investment.

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.

Although the price of a CBBC tends to follow closely the price of its underlying asset, but in some situations it may not (i.e. delta may not always be close to one). Prices of CBBCs are affected by a number of factors, including its own demand and supply, funding costs and time to expiry.

### **Inline Warrants**

Inline Warrants are a type of structured product that entitles the investors to receive a pre-determined fixed payment at expiry. Inline Warrants have upper and lower strikes, with no knockout barrier. Maximum upside and downside is known at the time of investment. Inline Warrants can be bought and sold before expiry or held until maturity. At expiry, investors will receive HK\$1 per Inline Warrant held when the underlying asset falls at or within the Upper and Lower Strikes (i.e. In-The-Range) or HK\$0.25 per Inline Warrant held when the underlying asset falls outside the Upper and Lower

Strikes (i.e. Out-of-The-Range). Hence, Inline Warrants are expected to trade between HK\$0.25 and HK\$1.

Due to the pre-determined fixed maximum payment at expiry of HK\$1, an inline warrant should not be traded above HK\$1. Investors will suffer a loss by buying an inline warrant above HK\$1.

Investors should note that profit potential is capped by the pre-determined payment, maximum loss is limited to initial investment and trading above HK\$1 may not reflect the true value of the inline warrant; any inline warrant trades executed at the price above HK\$1 will not be recognized and will be cancelled by HKEX.

### **Exchange Traded Funds ("ETFs") - including but not limited to listed on the HKEX securities market**

ETFs are passively managed and open-ended funds. All listed ETFs on an exchange in Hong Kong or in a specified jurisdiction are authorised by the SFC or regulatory authority in a specified jurisdiction (as defined below) as collective investment schemes. ETFs are designed to track the performance of their underlying benchmarks (eg an index, a commodity such as gold, etc) and offer investors an efficient way to obtain cost-effective exposure to a wide range of underlying market themes. Synthetic ETFs utilising a synthetic replication strategy use swaps or other derivative instruments to gain exposure to a benchmark.

Investors are exposed to the political, economic, currency and other risks related to the underlying asset pool or index or market that the ETF tracks. There may be disparity between the performance of the ETF and the performance of the underlying asset pool or index or market due to, for instance, failure of the tracking strategy, currency differences, fees and expenses. Where the underlying asset pool/index/market that the ETF tracks is subject to restricted access,

the efficiency in unit creation or redemption to keep the price of the ETF in line with its net asset value (NAV) may be disrupted, causing the synthetic ETF to trade at a higher premium or discount to its NAV. Investors who buy an ETF at a premium may not be able to recover the premium in the event of the termination. Where a synthetic ETF invests in derivatives to replicate the index performance, customers are exposed to the credit risk of the counterparties who issued the derivatives, in addition to the risks relating to the index. Further, potential contagion and concentration risks of the derivative issuers should be taken into account (e.g. since derivative issuers are predominantly international financial institutions, the failure of one derivative counterparty of a synthetic ETF may have a "knock-on" effect on other derivative counterparties of the synthetic ETF). Some synthetic ETFs have collateral to reduce the counterparty risk, but there may be a risk that the market value of the collateral has fallen substantially when the synthetic ETF seeks to realize the collateral. A higher liquidity risk is involved if a synthetic ETF involves derivatives which do not have an active secondary market. Wider bid-offer spreads in the price of the derivatives may result in losses.

## **Rights Issue**

For exercising and trading of the rights issue, investors have to pay attention to the deadline and other timelines. Rights issues that are not exercised will have no value upon expiry. But if investors decide to let the rights lapse, then investors will not need to take any action unless investors want to sell the rights in the market. In that case, the rights must be sold during the specified trading period within the subscription period, after which they will become worthless. If investors pass up the rights, the shareholding in the expanded capital of the company will be diluted.

## **Leveraged and Inverse Investment Product**

Certain Products are collective investment scheme falling within Chapters 8.6 and 8.4A and Appendix I of the Code on Unit Trusts and Mutual Funds (the "Code"). Certain Products may also be

subject to additional Chapters of the Code. Certain Trust and Products are authorized by the SFC in Hong Kong under Section 104 of the Securities and Futures Ordinance. The Leveraged Products will utilise leverage to achieve a daily return equivalent to (x) times the return of the Index. Both gains and losses will be magnified. The risk of loss resulting from an investment in the Products in certain circumstances including a bear market will be substantially more than a fund that does not employ leverage. The Inverse Products track the inverse daily performance of the Index. Should the value of the underlying securities of the Index increase, it could have a negative effect on the performance of the Products. Unitholders could, in certain circumstances including a bull market, face minimal or no returns, or may even suffer a complete loss, on such investments.

**General Major Risks Associated with Exchange-Traded Derivative Products (including but not limited to the following)**

1. Issuer default risk

In the event that an exchange-traded derivative product issuer becomes insolvent and defaults on their issued products, 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 exchange-traded derivative product issuers. Since exchange-traded derivative products are not asset backed, in the event of issuer bankruptcy, investors can lose their entire investment.

2. Gearing risk

Exchange-traded derivative products such as DWs, CBBCs and Leveraged and Inverse Investment Products are leveraged and can change in value rapidly according to the gearing ratio relative to the underlying assets. Investors should be aware that the value of an exchange-traded derivative product may fall to



zero resulting in a total loss of the initial investment.

3. Limited life

Most of the exchange-traded derivative products have an expiry date after which the products may become worthless. Investors should be aware of the expiry time horizon and choose a product with an appropriate lifespan for their trading strategy.

4. Extraordinary price movements

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

5. Foreign exchange risk

Investors trading exchange-traded derivative products with underlying assets not denominated in Hong Kong dollars are also exposed to exchange rate risk. Currency rate fluctuations can adversely affect the underlying asset value and thereby also affect the exchange-traded derivative product price.

6. Liquidity risk

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

7. Volatility risk

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

8. Intraday investment risk

Leveraged and Inverse Investment Products are normally rebalanced at day end. As such, return for investors that invest for periods of less than a full trading day will generally be greater than or less than (x) times leveraged investment exposure to the Index, depending upon the movement of the Index from the end of one trading day until the time of purchase.

9. Portfolio turnover risk

Daily rebalancing of Leveraged and Inverse Investment Products' holdings causes a higher level of portfolio transactions than conventional ETFs. High levels of transactions increase brokerage and other transaction costs.

10. Difference in price limit risk

Leveraged and Inverse Investment Products' investment objective is to provide investment results that closely correspond to (x) times the daily performance of the Index. Although the Index is an equity index, the Products will invest in Index Futures. For example, the daily price limit for individual stocks of the Index at present is +/- 30% while the daily price limit for Index Futures is +/- 20%. As such, should the Index's daily price movement be greater than the price limit of the Index Futures, the Products may not be able to achieve its investment objective as the Index Futures are unable to deliver a return beyond their price limit.

11. Trading suspension risk

During the suspension of trading of the Products, investors and potential investors cannot buy and sell units in the Stock Exchange. In terms of providing a fair and orderly market with regarding the interests of investors, the Exchange may suspend

the units trading whenever it is appropriate. If the trading of units is suspended, the subscription and redemption of units may also be suspended.

12. Inverse performance risk

Inverse Investment Products track the inverse daily performance of the Index. Should the value of the underlying securities of the Index increase, it could have a negative effect on the performance of the Products. Unitholders could, in certain circumstances including a bull market, face minimal or no returns, or may even suffer a complete loss, on such investments.

13. Inverse Product vs. short selling risk

Investing in Inverse Investment Products is different from taking a short position. Because of rebalancing, the return profile of the Products is not the same as that of a short position. In a volatile market with frequent directional swings, the performance of the Products may deviate from a short position.

14. Long term holding risk

Some Products are not intended for holding longer than one day as the performance of the Products over a period longer than one day will very likely differ in amount and possibly direction from the leveraged performance of the Index over that same period (e.g. the loss may be more than (X) times the fall in the Index). The effect of compounding becomes more pronounced on the Product's performance as the Index experiences volatility. With higher Index volatility, the deviation of the Product's performance from the inverse performance of the Index will increase, and the performance of the Products will generally be adversely affected. As a result of daily rebalancing, the Index's volatility and the effects of compounding of each day's return over time, it is even possible that the Products will

lose money over time while the Index's performance falls or is flat.

15. Futures contracts risks

Some Products are futures based products. Investment in futures contracts involves specific risks such as high volatility, leverage, rollover and margin risks. The leverage component of futures contracts can result in a loss significantly greater than the amount invested in the futures contracts by the Products. Exposures to futures contracts may lead to a high risk of significant loss by the Products. A "roll" occurs when an existing futures contract is about to expire and is replaced with a futures contract representing the same underlying but with a later expiration date. The value of the Product's portfolio (and so the Net Asset Value per Unit) may be adversely affected by the cost of rolling positions forward (due to the higher price of the futures contract with a later expiration date) as the futures contracts approach expiry. There may be imperfect correlation between the value of the underlying reference assets and the futures contracts, which may prevent the Products from achieving their investment objectives.

16. Passive investments risks

Some Products are not "actively managed" and therefore the Manager will not adopt any temporary defensive position when the Index moves in an unfavourable direction. In such circumstances the Products will also decrease in value.

**Disclaimer**

This document does not disclose all risks and features of the common types of derivative products ("exchange-traded derivative products") mentioned herein which are traded on the Hong Kong Exchanges and Clearing Limited (the "HKEx"). This document has

been issued by Chiyu Banking Corporation Limited ("the Bank") for reference and information purposes only. You should not rely on this document alone to make any investment decision but should read carefully the related offering documentation and any other relevant documentation, in particular, detailed risks relating to each product contained in such documents. You should not deal in exchange-traded derivative products unless you understand the nature of the product and the extent of the exposure to risk. The Bank will not be responsible or liable for any loss caused by the investment in any products mentioned herein. You should not only consider the information contained in this document nor in the offering documentation but should undertake your own independent review and seek independent professional advice, if necessary, on whether entering into any transaction is suitable for you in light of your risk tolerance, financial situation, investment experience, investment objectives, investment horizon and investment knowledge. In case of doubt, you are strongly recommended to obtain independent professional advice.

The information contained in this document regarding exchange-traded derivative products are based on the information available on the websites of The Securities and Futures Commission (the "SFC"), the HKEx and the Hong Kong Monetary Authority (the "HKMA") etc.. For more detailed information regarding financial derivative products, you can refer to the websites of the SFC ([www.sfc.hk/sfc/html/EN](http://www.sfc.hk/sfc/html/EN)), the HKEx ([www.hkex.com.hk/eng/index.htm](http://www.hkex.com.hk/eng/index.htm)) and the HKMA ([www.info.gov.hk/hkma/](http://www.info.gov.hk/hkma/)).

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