



創興證券有限公司 CHONG HING SECURITIES LIMITED

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香港聯合交易所有限公司交易所參與者
Exchange Participant of The Stock Exchange of Hong Kong Ltd.

RISK DISCLOSURE STATEMENT

To: The Client
From: Chong Hing Securities Limited

This risk disclosure statement is given pursuant to the Code of Conduct for Persons Licensed by or Registered with Securities and Futures Commission (“Code”) and shall form an integral part of the Client Agreement.

A. Risk of Securities Trading

1. The prices of securities fluctuate, sometimes dramatically, and that any individual security may experience upward or downward movements, and may under some circumstances become valueless. It is as likely that losses will be incurred rather than profit made, as a result of buying and selling securities.

B. Risk of Trading Growth Enterprise Market (“GEM”) Stocks

1. 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.
2. GEM stocks may be very volatile and illiquid.
3. You should make the decision to invest only after due and careful consideration, and that the greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.
4. Current information on GEM stocks may only be found on the internet website operated by The Stock Exchange of Hong Kong Limited (“SEHK”). GEM companies are usually not required to issue paid announcements in gazetted newspapers.
5. You should seek independent professional advice if you are uncertain of or have not understood any aspect of this risk disclosure statement or the nature and risks involved in trading of GEM stocks.

C. Risk of Providing an Authority to Lend or Deposit your Securities with Third Party (*Applicable for Margin Client only*)

1. There is a risk if you provide us with an authority that allows us to apply your securities or securities collateral pursuant to a securities borrowing and lending agreement, repledge your securities collateral for financial accommodation or deposit your securities collateral as collateral for the discharge and satisfaction of our settlement obligations and liabilities.
2. If your securities or securities collateral are received or held by us in Hong Kong, the above arrangement is allowed only if you consent in writing. Moreover, unless you are a professional investor, your authority must specify the period for which it is current and be limited to not more than 12 months. If you are a professional investor, these restrictions do not apply.
3. Additionally, your authority may be deemed to be renewed (i.e. without your written consent) if we issue you a reminder at least 14 days prior to the expiry of the authority, and you do not object to such deemed renewal before the expiry date of your then existing authority.
4. You are not required by any law to sign these authorities, but that an authority may be required by us, for example, to facilitate margin lending to you or to allow your securities or securities collateral to be lent to or deposited as collateral with third parties. We shall explain to you the purposes for which one of these authorities is to be used.
5. If you sign one of these authorities and your securities or securities collaterals are lent to or deposited with third parties, those third parties will have a lien or charge on your securities or securities collaterals.
6. Although we are responsible to you for your securities or securities collaterals lent or deposited under your authority, a default by us could result in the loss of your securities or securities collaterals.
7. A cash account not involving securities borrowing and lending is available from us. If you do not require margin facilities or do not wish your securities to be lent or pledged, you should not sign the above authorities and should ask to open this type of cash account.

D. Risk of Margin Trading (*Applicable for Margin Clients only*)

1. The risk of loss in financing a transaction by deposit of collateral is significant and you may sustain losses in excess of your cash and any other assets deposited as collateral with us.
2. Market conditions may make it impossible to execute contingent orders, such as “stop-loss” or “stop-limit” orders.
3. You may be called upon at short notice to make additional margin deposits or interest payments, and that if the required margin deposits or interest payments are not made within the prescribed time, your collateral may be liquidated without your consent. You shall remain liable for any resulting deficit in your account and interest charged on your account. You should therefore carefully consider whether such a financing arrangement is suitable in light of your own financial position and investment objectives.

E. Risk of Trading Nasdaq-Amex Securities at SEHK

1. The securities under the Nasdaq-Amex Pilot Program (“PP”) are aimed at sophisticated investors and that you should consult your dealer and become familiarised with the PP before trading in the PP securities.
2. You should be aware that the PP securities are not regulated as a primary or secondary listing on the Main Board or the GEM of SEHK.

F. Risk of Electronic trading services

1. Trading on electronic trading system may differ from trading on other trading system. If you undertake transactions on an electronic trading system, you will be exposed to risks associated with 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.

G. Risk of Foreign Currency

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

H. Risk of Providing an Authority to Hold Mail or to Direct Mail to Third Parties

1. There is risk if you provide us with an authority to hold mail or to direct mail to third parties, you shall promptly collect in person all contract notes and statements of your account and review them in detail to ensure that any anomalies or mistakes can be detected in a timely fashion.

I. Nature and Risk of Derivatives Products

1. Derivative Products involves a high investment risk you should make the decision to invest only after due and careful consideration, especially for the nature and risks involved in trading of Derivatives Products as stated in 3 to 6 below.
2. You should seek independent professional advice if you are uncertain of or have not understood any aspect of this risk disclosure statement or the nature and risks involved in trading of Derivatives Products.
3. **Subscription Warrants** 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.

Major Risks:

- i. Unlike stock, subscription warrants have an expiry date. If investors do not exercise it or sell it in the market prior to its expiry, it will become worthless at expiration.
 - ii. Subscription warrants may change in value more or less rapidly than the underlying share. In the worst case, its value may fall to zero.
 - iii. In addition to the basic factors that determine the theoretical price of a subscription warrant, subscription warrant prices are also affected by all other prevailing market forces including the demand for and supply of the subscription warrant.
4. **Derivative Warrants** are issued by financial institutions. Unlike subscription warrants which must be call warrants,

derivative warrants can be call or put warrants. Derivatives Warrants give investors the right - but not the obligation - to buy or sell the underlying asset including stocks, stock indices, currency, commodities, or a basket of securities at a pre-set price on or before a specified date. They may be sold prior to their expiry in the market provided by HKEx. At expiry, settlement is usually made in cash rather than a purchase or sell of the underlying asset.

Major Risks:

- i. Unlike stock, derivative warrants have an expiry date. If the warrants are out-of-the-money, they become worthless at expiration.
- ii. Derivative warrant holders are unsecured creditors of an issuer and they have no preferential claim to any assets an issuer may hold. Therefore, investors are exposed to the credit risk of the issuer. Investors should therefore pay close attention to the financial strength and credit worthiness of derivative warrants issuers.
- iii. Other factors being equal the value of derivative warrants will decrease over time. Therefore, derivative warrants should not be viewed as products that bought and held as long-term investments
- iv. Other factors being equal an increase in volatility of the underlying asset should lead to a higher warrant price and vice versa.
- v. Derivative warrants may change in value more or less rapidly than the underlying asset. In the worst case, its value may fall to zero and holders lose their entire investment amount.
- vi. In addition to the basic factors that determine the theoretical price of a derivative warrant, derivative warrant prices are also affected by all other prevailing market forces including the demand for and supply of the derivative warrants.
- vii. 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.

5. **Callable Bull/Bear Contracts (CBBC)** are structured product which has a fixed expiry date and tracks the performance of an underlying asset (such as a share or an index) on an almost one to one basis. It can be a Bull or Bear contract allowing investors to take a bullish or a bearish position on the underlying asset with a fraction of the price of the underlying asset. A significant feature of a CBBC is that the issuer must terminate the particular issue and its trading before expiry once the price of the underlying asset moves against the anticipated trend, and reaches or goes beyond the 'call price'.

Major Risks:

- i. 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. Category R CBBC 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. And Category N CBBC investor will not be entitled to the residual value of the terminated CBBC as its call price is equal to its strike price.
- ii. 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.
- iii. CBBCs holders are unsecured creditors of an issuer and they have no preferential claim to any assets an issuer may hold. Therefore, investors are exposed to the credit risk of the issuer. Investors should therefore pay close attention to the financial strength and credit worthiness of CBBC issuers.
- iv. Structured products such as 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.
- v. CBBCs have an expiry date and may become worthless at expiration.
- vi. The price of a CBBC may not match its theoretical price due to outside influences such as market supply and demand factors or the underlying asset price is very close to the call price. As a result, actual traded prices can be higher or lower than the theoretical price.

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.

6. **Exchange traded Funds (ETFs)** are passively-managed and open-ended funds, which are traded on the securities market of HKEx. All listed ETFs are authorized by SFC as collective investment scheme. ETFs are designed to track the performance of their underlying benchmarks (e.g. 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.

ETFs can be broadly grouped into two types, as Traditional ETFs which objective is to track, replicate or correspond to the performance of an underlying index. And Synthetic ETFs, it refers to an ETF which manager may adopt a strategy by investing in financial derivative instruments, such as swaps and performance-linked notes, to replicate the underlying index performance.

Major Risks:

- i. Tracking error risk refers to the disparity between the performance of the ETF as measured by its net asset value (NAV) and the performance of the underlying index. Tracking error may arise due to various factors. These include, failure of the ETF's tracking strategy, the impact of fees and expenses, foreign exchange differences between the base currency or trading currency of an ETF and the currencies of the underlying investments, or corporate actions such as rights and bonus issues by the issuers of the ETF's underlying securities.
- ii. Listing or trading on the HKEx does not in, and of itself, guarantee that a liquid market exists for an ETF. Besides, a higher liquidity risk is involved if an ETF invests in financial derivative instruments that are not actively traded in the secondary market and where price transparency is not as easily accessible as physical securities. This may result in a bigger bid and offer spread.
- iii. An ETF is exposed to the economic, political, currency, legal and other risks of a specific sector or market related to the index that it is tracking.
 - i. Synthetic ETFs typically invest in over-the-counter derivatives issued by counterparties. Such a synthetic ETF may suffer losses potentially equal to the full value of the derivatives issued by the counterparty upon its default. Synthetic ETFs are therefore exposed to both the risks of the securities that constitute the index as well as the credit risk of the counterparty that issues the financial derivative instruments for replicating the performance of the index.