

Client's Declaration on Derivative Products

Part I: Client's Information	
Name of Client:	Account No.:
<div style="display: flex; justify-content: space-between;"> <div> <input type="checkbox"/> Individual/Primary Joint Account Holder <input type="checkbox"/> Authorized Person of Individual/Joint Account </div> <div> <input type="checkbox"/> 2nd Joint Account Holder <input type="checkbox"/> Authorized Person of Entity/Corporate Account <i>(Please answer the following questions based on the corporate/authorized person of the corporate's knowledge and experience of derivative products.)</i> </div> </div>	

Part II: Client's Knowledge on Derivative Products and Trading Experience
1. Have you ever undergone training or attended any courses or seminars on derivative product(s)? <input type="checkbox"/> Yes, I/We have undergone or attended the following courses or seminars: Name of courses / seminars: _____ Date: _____ <input type="checkbox"/> No
2. Do you have any working experience related to derivative product(s)? <input type="checkbox"/> Yes, my/our current or previous work experience related to derivative product(s) is as follows: Occupation: _____ Period: From _____ to _____ Name of Employer: _____ <input type="checkbox"/> No
3. Do you have any trading experience in derivative product(s)? <input type="checkbox"/> Yes, I/We have traded the following product(s) in the recent 3 years: <div style="display: flex; justify-content: space-between;"> <div> <input type="checkbox"/> Callable Bull/Bear Contracts <input type="checkbox"/> Futures & Options Contracts <input type="checkbox"/> Equity Linked Instruments </div> <div> <input type="checkbox"/> Derivative Warrants <input type="checkbox"/> Synthetic Exchange Traded Funds <input type="checkbox"/> Others _____ </div> </div> Total no. of transactions on derivative product(s) in the previous 3 years: <input type="checkbox"/> less than 5 times <input type="checkbox"/> 5 times or above <input type="checkbox"/> No
4. Have you seen the educational video provided by CPY on the Nature and Risks of Derivatives Products ("Educational Video") and understood all the content contained therein and have been given the opportunity to ask questions? <input type="checkbox"/> Yes, I/We have seen the Educational Video on: _____ Date: _____ <input type="checkbox"/> No

Part III: Client's Declaration
I/We declare and confirm that all the information provided in this Declaration is true, complete and correct. I/We hereby acknowledge and understand that Core Pacific-Yamaichi group of companies (collectively known as "CPY") will rely on and use the above information to assess my knowledge on derivative products. I/We further declare that: <input type="checkbox"/> I/We wish to trade derivative product(s) at CPY. I/We hereby confirm that based on the above assessment, I/We acknowledge I/we have experience and/or knowledge on derivative product(s). I/We further confirm that I/we fully understand the relevant risks of the derivative product(s) enclosed herewith which have been explained to me/us by CPY or I/we have seen the Educational Video. CPY has not solicited or provided recommendation to me/us on trading of derivative product(s). <input type="checkbox"/> I/We do not wish to trade derivative product(s) at CPY. <div style="display: flex; justify-content: space-between;"> <div>Account Holder / Secondary Joint Account Holder / Authorized Person (If applicable) Signature:</div> <div>Entity/Corporate account Client Signature (With company chop):</div> </div> <div style="display: flex; justify-content: space-between;"> <div>Signer name: _____</div> <div>Signer name: _____</div> </div> <div style="display: flex; justify-content: space-between;"> <div>Date: _____</div> <div>Date: _____</div> </div>

Assessing of client's knowledge on derivative products and characterization	(FOR OFFICE USE ONLY)
<input type="checkbox"/> Client has knowledge and fully understood the relevant risks of the derivative product(s) enclosed herewith or have seen the Educational Video and wish to trade derivative product(s)	Reviewed by AE: _____ Date: _____ Signature Verified by: _____ Date: _____
<input type="checkbox"/> Client is not vulnerable, e.g. below 65 years old, with education level higher than Primary, etc. or with D67A/B form.	Inputted by: _____ Date: _____
<input type="checkbox"/> Without AP, or AP has Derivative trading right	Checked by: _____ Date: _____

Nature of Exchange Traded Derivative Products

Derivative Warrant

Derivative warrants are an instrument which gives investors the right - but not the obligation - to buy or sell the underlying asset (e.g. a stock) at a pre-set price on or before a specified date. Derivative warrants are generally divided into two types: calls and puts. Derivative warrants can be linked with a single stock, a basket of stocks, an index, a currency, a commodity or a futures contract. Derivative warrants are usually settled in cash when they are exercised at expiry. Holder of call warrants have the right, but not obligation, to purchase from the 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 warrant have the right, but not obligation, to sell to the issuer a given amount of the underlying asset at a predetermined price within a certain time period. Investor should be aware that other factors being equal the value of derivative warrant will decrease over time. Derivative warrants should never be viewed as products that are brought and held as long term investments.

Callable Bull/Bear Contracts

Callable Bull/Bear Contracts ("CBBC") are a type of derivative 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. CBBC are issued with the condition that during their lifespan they will be called by the issuers when the price of the underlying asset reaches a level (known as the "Call Price") specified in the listing document. If the Call Price is reached before expiry, the CBBC will expire early and the trading of that CBBC will be terminated immediately. Once the CBBC is called, even though the underlying asset may bounce back in the right direction, the CBBC which has been called will not be revived and investors will not be able to profit from the bounce-back.

Exchange Traded Funds

Exchange Traded Funds ("ETFs") are passively-managed and open-ended funds, which are traded on the securities market of Hong Kong Exchanges and Clearing Limited (HKEx). All listed ETFs are authorised by the Securities and Futures Commission (SFC) as collective investment schemes. Most ETFs track a portfolio of assets to provide diversified exposure to selected market themes. However, ETFs may also track a single underlying asset.

ETFs can be broadly grouped into Physical ETFs and Synthetic ETFs. Many of Physical ETFs directly buy all the assets needed to replicate the composition and weighting of their benchmark (e.g. constituents of a stock index). However, some only buy a portion of the assets needed to replicate the benchmark or assets which have a high degree of correlation with the underlying benchmark but are not part of it. Some physical ETFs with underlying equity-based indices may also invest partially in futures and options contracts. Lending the shares they own is another strategy used by some physical ETFs. On the other hand, Synthetic ETFs do not buy the assets in their benchmark. Instead, they typically invest in financial derivative instruments to replicate the benchmark's performance. Synthetic ETFs are subject to counterparty risk associated with the derivatives issuers and may suffer losses if the derivatives issuers default or fail to honour their contractual commitments. Investors should read the ETF prospectus carefully to ensure they understand how the fund operates.

Risks of Exchange Traded Derivative Products

Some Risks Associated with Derivative Products

1. Issuer default risk

In the event that a derivative 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 derivative product issuers.

2. Uncollateralised product risk

Uncollateralised derivative 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

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

4. Expiry considerations

Derivative 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 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.

6. Foreign exchange risk

Investors trading 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, also affecting the derivative product price.

7. Liquidity risk

The Exchange requires all 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.

8. Market risk

Derivative Products may also be exposed to economic, political, currency, legal and other risks of a specific sector or market related to the single stock, basket of stocks, index, currency, commodity or futures contract that it is tracking.

Some Additional Risks Involved in Trading Derivative Warrants

1. Time decay risk

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

2. Volatility risk

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

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.

Some Additional Risks Involved in Trading ETFs

1. Tracking errors

Tracking errors refer to the disparity in performance between an ETF 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.

2. 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.

3. Counterparty risk involved in ETFs with different replication strategies

(a) Full replication and representative sampling 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. For ETFs that invest directly in the underlying assets rather than through synthetic instruments issued by third parties, counterparty risk tends to be less of concern.

(b) Synthetic replication strategies

ETFs utilising a synthetic replication strategy use swaps or other derivative instruments to gain exposure to a benchmark. Currently, synthetic replication ETFs can be further categorized into two forms:

i. Swap-based ETFs

Total return swaps allow ETF managers to replicate the benchmark performance of ETFs without purchasing the underlying assets. Swap-based ETFs are exposed to counterparty risk of the swap dealers and may suffer losses if such dealers default or fail to honor their contractual commitments.

ii. Derivative embedded ETFs

ETF managers may also use other derivative instruments to synthetically replicate the economic benefit of the relevant benchmark. The derivative instruments may be issued by one or multiple issuers. Derivative embedded ETFs are subject to counterparty risk of the derivative instruments' issuers and may suffer losses if such 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.