

Risk Disclosures of Exchange Traded Fund (ETF)

Trading in the ETF(s) may not be suitable for all members of the public. You are advised to carefully consider whether trading in the ETF(s) is/are appropriate for you in your understanding of the product nature and characteristics, your own investment objectives, skills and experience, financial resources, risk tolerance and other relevant circumstances prior to making any decision. There are a number of risks associated with the ETFs that investors should be aware of when considering to invest. These risks include (but not limited to) the following:

Market risks - An ETF is exposed to the economic, political, currency, legal and other risks of a specific sector or market related to the index and the market that it is tracking.

Passive investments risk - ETF is not "actively managed" and therefore, when there is a decline in the underlying index, the ETF that tracks the index will also decrease in value. The ETF Manager will not take defensive positions in declining markets, investors may lose a significant part of their respective investments if the underlying Index falls.

Credit/Counterparty risk - Synthetic ETFs typically invest in over-the-counter derivatives issued by counterparties to track an index's performance. 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.

Some synthetic ETFs invest in financial derivatives issued by a number of different counterparties in order to diversify the counterparty credit risk concentration. However, the more counterparties an ETF has, the higher the mathematical probability of the ETF being affected by a counterparty default. If any one of the counterparties fails, the ETF may suffer losses.

You should also be aware that the issuers of these derivatives are predominantly international financial institutions and this, in itself, may pose a concentration risk.

For example, if a crisis strikes, affecting the financial sector, it is possible that the failure of one derivative counterparty of an ETF has a "knock-on" effect on other

derivative counterparties of the ETF. As a result, an ETF could suffer a loss substantially more than its expected exposure in the event of a single counterparty default.

Some synthetic ETF managers, however, only acquire financial derivatives from one or a few counterparties. These managers may seek to reduce an ETF's net exposure to each single counterparty by requiring the counterparty(ies) to provide at least 100% collateralization to ensure there is no uncollateralized counterparty risk exposure arising from the use of financial derivatives to replicate index performance.

Investors should note in case where collateral is provided by counterparties to a synthetic ETF, the collateral may concentrate on particular market(s), sector(s) and/ or securities issued by specific sovereign or public issuer(s) which may not be related to the underlying index.

Furthermore, even if a synthetic ETF is fully collateralised, when the ETF seeks to exercise its right against the collateral, the market value of the collateral could be substantially less than the amount secured if the market dropped sharply before the collateral is realised, thereby resulting in significant loss to the ETF. Therefore, the relevant synthetic ETF managers have also been required to put in place a prudent haircut policy, in particular, where the collateral taken is in the form of equity securities, the market value of such equity collateral must be equivalent to at least 120% of the related gross counterparty risk exposure.

Tracking error - This refers to the disparity between the performance of the ETF (as measured by its 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.

Depending on its particular strategy, an ETF may not hold all the constituent securities of an underlying index in the same weightings as the constituent securities of the index. Therefore, the performance of the securities underlying the ETF as measured by its NAV may outperform or under-perform the index.

Trading at a discount or premium to NAV - Since the trading price of an ETF is typically determined by the supply and demand of the market, the ETF may trade at a price higher or lower than its NAV. Also, here the reference index or market that an

ETF tracks has restricted access, units in the ETF may not be created or redeemed freely and efficiently.

The supply and demand imbalance can only be addressed by creating and redeeming additional units. So, disruption to the creation or redemption of units may result in the ETF trading at a higher premium or discount to its NAV than may normally be the case for a traditional ETF with no such restriction.

In the event the ETF is terminated, investors may not be able to recover their investments.

Risks relating to ETF termination – An ETF, like any fund, may be terminated early under certain circumstances, for example, where the index is no longer available for benchmarking or if the size of the ETF falls below a pre-determined NAV threshold as set out in the constitutive documents and offering documents. Investors should refer to the section in the offering document relating to termination for further details.

Investors should also note that the market-making activities and the trading of ETF units may be adversely affected in the secondary market as the creation of units will cease once the termination of the ETF is announced. As a result, the trading price of such ETF units may become very volatile resulting in substantial losses to investors.

Furthermore, the NAV of an ETF may drop substantially once the expenses and costs of the termination is set aside upon announcement of the termination. Investors may suffer a substantial loss as a result of these expenses and costs associated with the termination.

For ETF that has provided for any potential tax liabilities, an investor may not be able to get any refund or further distribution from the tax provision upon termination of the ETF.

Liquidity risk - Listing or trading on the SEHK does not in and of itself guarantee that a liquid market exists for an ETF. Besides, a higher liquidity risk is involved if an ETF uses financial derivative instruments, including structured notes and swaps, which are not actively traded in the secondary market and whose price transparency is not as easily accessible as physical securities. This may result in a bigger bid and offer spread. These financial derivative instruments also are susceptible to more price fluctuations and higher volatility. Hence, they can be more difficult and costly to unwind early, especially when the instruments provide access to a restricted market where liquidity is limited in the first place.

Tax and other risks - Like all investments, an ETF may be subject to tax imposed by the local authorities in the market related to the index that it tracks, emerging market risks and risks in relation to the change of policy of the reference market.

Risks relating to Mainland capital gains tax liability - There are risks and uncertainties concerning the application of the Mainland capital gains tax ("CGT") regime on investments by foreign investors (including non-Mainland domiciled investment funds, QFIIs and RQFIIs) in Mainland securities, and such tax is not currently enforced.

It is a matter of professional and commercial judgement on the part of each fund manager, acting in the best interest of investors after taking professional tax advice, to consider and decide whether to make provision (and if so, the extent and provisioning policy) for the ETF's potential CGT liability or to change the ETF's existing CGT provisioning policy from time to time.

Depending on the tax advice obtained and other relevant factors, each ETF's tax provisioning policy may be different. There may be ETFs without making any CGT provision at all. Even if an ETF makes CGT provision, such provision may be excessive or inadequate. The Mainland tax rules and policies are subject to changes. There are risks that CGT may be enforced by the Mainland tax authorities and that such enforcement may be on a retrospective basis. If and when CGT is collected by the Mainland tax authorities, any shortfall between the provisions (if any) and actual tax liabilities will have to be paid out of the ETF's assets and could have a material adverse impact on the ETF's net asset value (NAV), whereby causing significant losses to investors.

Enforcement of the CGT by Mainland tax authorities and/or change in tax provisioning policy by a fund manager will impact investors remaining in the ETF. Investors who have sold/redeemed their interests prior to such enforcement and/or change will not be impacted. Likewise, such investors will not benefit from any release of tax provisions back into the ETF. Investors may be advantaged or disadvantaged depending upon whether and how the CGT will ultimately be taxed and when the investors invest in the ETF.

Investors should carefully read the CGT provisioning policy of an ETF (which may have substantial exposure to Mainland securities whether through RQFII, QFII or other Mainland market access derivative products) and the associated risks as

disclosed in the offering documents before investing in the ETF. If in doubt, they should consult their professional advisors.

Further information such as the prospectus and other documents issued by the manager is available on the HKEx news website (<http://www.hkexnews.hk>) and on the HKEx website (<http://www.hkex.com.hk>) under Products & Services/Securities Products/Exchange Traded Funds.

This risk disclosure is prepared in both English and Chinese. If there is any conflict or inconsistency, the English version shall prevail.