

# Daiwa

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## Capital Markets

**Daiwa Capital Markets Hong Kong Limited**  
大和資本市場香港有限公司

### **Non-collateralised Structured Products**

to be issued by

**Daiwa Capital Markets Hong Kong Limited**  
*(incorporated with limited liability in Hong Kong)*

Daiwa Capital Markets Hong Kong Limited (**Issuer**) has published this document in respect of warrants on single equities (**single equities warrants**), warrants on a single fund (**fund warrants**), warrants on a single index (**index warrants**) and, together with the single equities warrants and the fund warrants, the **warrants**), callable bull/bear contracts on single equities (**equity callable bull/bear contracts**), callable bull/bear contracts on a single fund (**fund callable bull/bear contracts**) and callable bull/bear contracts on a single index (**index callable bull/bear contracts**, and, together with the equity callable bull/bear contracts and the fund callable bull/bear contracts, the **CBBCs**) and any other structured products approved by The Stock Exchange of Hong Kong Limited (**stock exchange**) from time to time (such other structured products, together with the warrants and the CBBCs, being referred to as the **structured products**) to be issued by the Issuer in series (each, a **series**) from time to time and listed on the stock exchange.

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited (**HKSCC**) take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

This document, for which the Issuer accepts full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the **rules**) for the purpose of giving information with regard to the Issuer. The Issuer, having made all reasonable enquiries, confirms that to the best of its knowledge and belief the information contained in this document is accurate and complete in all material respects and not misleading or deceptive, and there are not other matters the omission of which would make any statement herein or this document misleading.

Additional terms and conditions relating to each series of our structured products will be set out in a supplemental listing document (each, a **supplemental listing document**) which will be supplemental to, and should be read in conjunction with, this document.

The structured products involve derivatives. Investors should not invest in the structured products unless they fully understand and are willing to assume the risks associated with them.

**Investors are warned that the price of the structured products may fall in value as rapidly as it may rise and holders may sustain a total loss of their investment. Prospective purchasers should therefore ensure that they understand the nature of the structured products and carefully study the risk factors set out in this document and the relevant supplemental listing document and, where necessary, seek professional advice, before they invest in the structured products.**

**The structured products constitute general unsecured contractual obligations of the Issuer and are obligations of no other person and will rank equally among themselves with all the other unsecured obligations of the Issuer (save for those obligations preferred by law) upon liquidation. If you purchase the structured products you are relying upon the creditworthiness of the Issuer and have no rights under the structured products against, as applicable, the underlying asset, any company which has issued the underlying asset or any company which sponsors the underlying asset or whose securities are comprised in the underlying asset. If the Issuer becomes insolvent or defaults on its obligations under the structured products, you may not be able to recover all or even part of the amount due under the structured products (if any).**

## IMPORTANT

If you are in any doubt as to any of the contents of this document, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

This document may be updated from time to time, in which case we will publish an addendum. You should read this document, together with any addendum to it and the relevant supplemental listing document, before deciding whether to invest in the structured products.

We cannot give you investment advice. You must decide for yourself whether the structured products meet your investment needs, and take professional advice if appropriate. This document is not intended to be, and should not be considered as, a recommendation or advice by us or any of our affiliates that you should purchase any of our structured products, and you must make your own independent investigation of our financial condition and affairs and your own appraisal of our creditworthiness.

We undertake during the period in which our structured products are listed on the stock exchange to make available to you for inspection at the office of Daiwa Capital Markets Hong Kong Limited, which is presently at Level 28, One Pacific Place, 88 Queensway, Hong Kong:

- (a) a copy of this document and any addendum that we publish to this document (both the English version and the Chinese translation);
- (b) a copy of the applicable supplemental listing document in respect of any issue of structured products (both the English version and the Chinese translation);
- (c) a copy of our latest publicly available annual report and interim report or quarterly financial statements (if any); and
- (d) a copy of the consent letter from our auditors referred to in this document.

我們保證閣下可於我們結構性產品在聯交所上市的期間在大和資本市場香港有限公司辦事處(目前地址為香港金鐘道88號太古廣場1期28樓)查閱下列文件：

- (a) 本文件及我們就本文件刊發的任何增編(英文版本及中文譯本)；
- (b) 發行結構性產品的適用補充上市文件(英文版本及中文譯本)；
- (c) 我們最近期公開的年報及中期報告或季度財務報表(如有)；及
- (d) 本文件所述我們核數師的同意書。

The structured products are not available to, or for the benefit of, U.S. persons (as defined in the U.S. Securities Act of 1933, as amended) (the **Securities Act**).

All references in this document to **Hong Kong dollars** and to **HK\$** are to the lawful currency of Hong Kong, to **U.S. Dollars** and **U.S.\$** are to the lawful currency of the United States of America, to **EUR** or **euros** are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended and to **GBP**, **Sterling** or **£** are to the lawful currency of the United Kingdom. All references in this document to **Hong Kong** are to the Hong Kong Special Administrative Region of the People's Republic of China.



## OVERVIEW OF OUR PROGRAMME

We have set up this programme for the purpose of offering from time to time to the public in Hong Kong structured products listed on the stock exchange. The following is an overview of the main features of the programme.

<b>Who issues the structured products?</b>	Daiwa Capital Markets Hong Kong Limited is the <b>Issuer</b> of the structured products. References in this document to <b>we</b> , <b>our</b> and <b>us</b> are to the Issuer.
<b>Will the structured products be guaranteed?</b>	No. The Issuer's obligations under the structured products are neither guaranteed by any third party, nor collateralised with any of its assets or other collateral. When you purchase the structured products, you are relying on the creditworthiness of the Issuer only, and of no other person. If the Issuer becomes insolvent or default on its obligations under the structured products, you can only claim as an unsecured creditor of the Issuer. In such event, you may not be able to recover all or even part of the amount due under the structured products (if any).
<b>What types of structured products may be issued under the programme?</b>	We may issue warrants and CBBCs as described below. We may also issue from time to time under the programme other structured products approved by the stock exchange. The other structured products will be subject to the terms and conditions as set out in the relevant supplemental listing document.
<b>What types of warrants may be issued under the programme?</b>	The warrants which we may issue under the programme are: <ul style="list-style-type: none"><li>(a) warrants on single equities (<b>single equities warrants</b>);</li><li>(b) warrants on a single fund (<b>fund warrants</b>); and</li><li>(c) warrants on a single index (<b>index warrants</b>).</li></ul>
<b>What types of CBBCs may be issued under the programme?</b>	The callable bull/bear contracts (the <b>CBBCs</b> ) which we may issue under the programme are: <ul style="list-style-type: none"><li>(a) callable bull/bear contracts on single equities (<b>equity callable bull/bear contracts</b>);</li><li>(b) callable bull/bear contracts on a single fund (<b>fund callable bull/bear contracts</b>); and</li><li>(c) callable bull/bear contracts on a single index (<b>index callable bull/bear contracts</b>).</li></ul> <p>The CBBCs will be described in the relevant supplemental listing document as either "Category N" or "Category R". A <b>Category N CBBC</b> refers to a CBBC where the call price is equal to the strike price and you will not receive any payment upon the occurrence of a mandatory call event (as defined in the relevant conditions) while a <b>Category R CBBC</b> refers to a CBBC where the call price is different from the strike price and you may or may not receive a residual value upon the occurrence of a mandatory call event.</p>
<b>How are the structured products issued?</b>	The structured products will be issued in one or more <b>series</b> . The structured products within a series will have the same terms and conditions, but the terms and conditions of one series of structured products may be different from another.

<b>What is the legal status of the structured products?</b>	The structured products represent our general unsecured contractual obligations and are obligations of no other person and rank <i>pari passu</i> among themselves and (save for certain obligations required to be preferred by law) equally with all our other unsecured obligations.
<b>Will the structured products be listed?</b>	Yes. We will apply to the stock exchange to list each series of structured products which we issue under the programme. This document has been published for the purposes of obtaining a listing of each series of structured products which we issue under the programme.
<b>Will the structured products be admitted to CCASS?</b>	Yes. We will make arrangements to ensure that each series of structured products will be accepted by the Hong Kong Securities Clearing Company Limited ( <b>HKSCC</b> ) as eligible securities for deposit, clearance and settlement in the Central Clearing and Settlement System ( <b>CCASS</b> ). All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time (the <b>CCASS Rules</b> ).
<b>What are the listing documents for the structured products?</b>	<p>We have published this document to permit the listing of the structured products on the stock exchange. This document sets out the terms and conditions of the structured products, common features of the structured products, the legal terms relating to the programme and information about us. This document includes particulars given in compliance with the rules for the purpose of giving information with regard to us and the structured products.</p> <p>When we apply to list one or more series of structured products, we will publish a supplemental listing document, which will include information on the particular structured products to be listed. The supplemental listing document will be available in English and Chinese versions (which may be printed together in the same document).</p>
<b>What will a supplemental listing document specify?</b>	The supplemental listing document will, amongst other things, summarise the terms and conditions of the series of structured products being offered, which will include the following:
With respect to a series of warrants:	
<i>Board lot</i>	Minimum number at which our warrants trade
<i>Shares of the company</i>	Name of underlying share (for our single equities warrants only)
<i>Fund</i>	Name of the underlying trust or fund (for our fund warrants only)
<i>Index</i>	Name of the underlying index (for our index warrants only)
<i>Index compiler</i>	Name of company that maintains the index and calculates and publishes the index levels (for our index warrants only)
<i>Exercise price</i>	Predetermined exercise price of the underlying share/unit (for our single equities warrants and fund warrants only)
<i>Strike level</i>	Predetermined level of the underlying index (for our index warrants only)
<i>Expiry date</i>	Date on which our warrants expire

<i>Valuation date</i>	Date on which the closing price or the closing level of the underlying asset is determined for calculation of the cash settlement amount upon automatic exercise on expiry
<i>Entitlement</i>	Number of shares/units to which a specified number of warrants relates (for our single equities warrants and fund warrants only)
<i>Number of warrants per entitlement</i>	Number of warrants to which the entitlement relates (for our single equities warrants and fund warrants only)
<i>Divisor</i>	A predetermined amount which is used in the calculation of the cash settlement amount payable upon the exercise of a board lot of our warrants (for our index warrants only)
<i>Index currency amount</i>	An amount denominated in the currency in which the constituent stocks of the index are traded, which is used in the calculation of the cash settlement amount payable upon the exercise of a board lot of our warrants (for our index warrants only)
<i>European style</i>	European style warrants can only be exercised on the expiry date
<i>Listing date</i>	The date on which our warrants are scheduled to commence trading on the stock exchange
With respect to a series of CBBCs:	
<i>Category</i>	The category of our CBBCs: category N or category R
<i>Type</i>	The type of our CBBCs: bull or bear
<i>Board lot</i>	Minimum number at which our CBBCs trade
<i>Shares of the company</i>	Name of underlying share (for our equity callable bull/bear contracts only)
<i>Fund</i>	Name of the underlying trust or fund (for our fund callable bull/bear contracts only)
<i>Index</i>	Name of the underlying index (for our index callable bull/bear contracts only)
<i>Index compiler</i>	Name of company that maintains the index and calculates and publishes the index levels (for our index callable bull/bear contracts only)
<i>Call price</i>	Predetermined call price of the underlying share/unit (for our equity callable bull/bear contracts or fund callable bull/bear contracts only)
<i>Call level</i>	Predetermined call level of the underlying index (for our index callable bull/bear contracts only)
<i>Strike price</i>	Predetermined strike price of the underlying share/unit (for our equity callable bull/bear contracts or fund callable bull/bear contracts only)
<i>Strike level</i>	Predetermined strike level of the underlying index (for our index callable bull/bear contracts only)
<i>Expiry date</i>	Date on which our CBBCs expire

<i>Valuation date</i>	Date on which the closing price or the closing level of the underlying asset is determined for calculation of the cash settlement amount upon automatic exercise on expiry
<i>Entitlement</i>	Number of shares/units to which a specified number of CBBCs relates (for our equity callable bull/bear contracts or fund callable bull/bear contracts only)
<i>Number of CBBCs per entitlement</i>	Number of CBBCs to which the entitlement relates (for our equity callable bull/bear contracts or fund callable bull/bear contracts only)
<i>Divisor</i>	A predetermined amount which is used in the calculation of the cash settlement amount payable upon the exercise of a board lot of our warrants (for our index callable bull/bear contracts only)
<i>Index currency amount</i>	An amount denominated in the currency in which the constituent stocks of the index are traded, which is used in the calculation of the residual value or the cash settlement amount payable upon the occurrence of a mandatory call event or automatic exercise on expiry (for our index callable bull/bear contracts only)
<i>Listing date</i>	The date on which our CBBCs are scheduled to commence trading on the stock exchange
<b>How will the structured products be represented?</b>	Each series of the structured products will be represented by one or more global certificates which will be registered in the name of HKSCC Nominees Limited (or such other nominee company as HKSCC may specify from time to time) and will be deposited with CCASS in accordance with the CCASS Rules.
<b>Will you get any individual certificate representing an investment in a series of structured products?</b>	No, you will not receive any individual certificates.
<b>In the terms and conditions for the structured products, there are references to “holders”. Who are they?</b>	<p>The registrar will maintain a register showing the details of each person who is entitled to a particular number of structured products of a series. The person registered will be treated by us and the registrar as the absolute owner and “holder” of that number of structured products.</p> <p>The register for each series of structured products will record at all times that HKSCC Nominees Limited (or such other nominee company as HKSCC may specify for that series) is the holder of 100 per cent. of the structured products of that series.</p> <p>Accordingly you will not be recognised by us or the registrar as the holder of the structured products in which you invest, and you must refer to the records of CCASS and/or your brokers/custodians, and the statements that you receive, to determine your beneficial interest in the structured products.</p>
<b>How do we give notices and make payments under the structured products?</b>	We will make all payments that are due, under our structured products to the registered holder of the structured products, which will be HKSCC Nominees Limited (or such other nominee company as HKSCC may specify for that series). In this situation, the payments to which you are entitled will be made to you or to your broker/custodian, through CCASS in accordance with the CCASS Rules.

All notices to the registered holder of the structured products, will be validly given if published in English and in Chinese on the website of Hong Kong Exchanges and Clearing Limited.

**Can we repurchase the structured products?**

Yes, we or our affiliates may repurchase our structured products at any time, including in the grey market. We may offer for sale any structured products which we repurchase, and may do so at prevailing market prices or in negotiated transactions at our discretion. You should not therefore make any assumptions as to the number of the structured products which may be in issue from time to time.

## RISK FACTORS

The following summary does not necessarily set out all the risks related to the structured products and you should not rely on it without reference to the relevant conditions of this document. If you have any concerns or doubts about the structured products, you should obtain independent professional advice.

### General Risk Factors relating to us and the Structured Products

#### (1) *Non-collateralised structured products*

You should note that the structured products are not collateralised and are subject to our creditworthiness. The structured products are not secured on any of our assets or any collateral.

#### (2) *Our Creditworthiness*

You should note that the structured products are not rated.

The structured products constitute general, unsecured and unsubordinated contractual obligations of the issuer and are obligations of no other person and shall rank equally among themselves with our other existing and future unsecured, unsubordinated contractual obligations (save for certain obligations required to be preferred by law). If you invest in the structured products, you are relying on our creditworthiness and of no other person. If we become insolvent or default on our obligations under the structured products, you can only claim as our unsecured creditor regardless of the performance of the underlying asset and may not be able to recover all or even part of the amount due under the structured products (if any). You have no rights under the terms and conditions of the structured products against any company which has issued the shares (in respect of equity-linked structured products), any company constituting the index or the index compiler (in respect of index-linked structured products) or any fund which has issued the units, the index compiler of the underlying index which such fund is designed to track or the manager or trustee of such fund (in respect of fund-linked structured products).

We issue a large number of financial instruments on a global basis. We have no obligation to you other than to pay amounts in accordance with the terms and conditions set out in the applicable supplemental listing document. We do not underwrite or guarantee the performance of any structured product in any respect. We shall have the absolute discretion to put in place any hedging transaction or arrangement appropriate in connection with any structured product or the applicable underlying asset.

#### (3) *We are not the holding company of our group*

We are not the ultimate holding company of our group. The ultimate holding company of our group is Daiwa Securities Group Inc.

#### (4) *The price of the structured products may fluctuate to a great extent*

The price of the structured products may fall or rise rapidly in value and the structured products may expire or become worthless, resulting in a total loss of your investment. Before deciding whether to invest in the structured products, you should carefully consider, among other things, (i) the market price of the structured products; (ii) the value and volatility of the underlying asset as specified in the applicable supplemental listing document; (iii) the time remaining to expiration; (iv) any change(s) in interim interest rates and dividend yields; (v) any change(s) in currency exchange rates; (vi) the depth of the market or liquidity of the underlying asset as specified in the applicable supplemental listing document; (vii) our related transaction costs; and (viii) our creditworthiness.

#### (5) *The secondary market for the structured products may be limited*

We intend to apply to list each series of structured products on the stock exchange. If a series of structured products is listed on the stock exchange, there can be no assurance that any such listing can be maintained. In the event that such listing cannot be maintained, we will use our best efforts to list such structured products on another exchange. We (acting through the appointed liquidity provider) may be the only person quoting prices on the stock exchange for the structured products. Therefore, the secondary market may be limited.

#### (6) *Trading in the structured products may be affected by suspension of trading in the underlying asset*

If trading in the underlying asset is suspended on the stock exchange, trading in the structured products may be suspended for a similar period. If trading in the underlying asset is suspended for a prolonged period, trading in the structured products will be suspended for a similar prolonged period. In such circumstances, you should note that in the case of a prolonged suspension period, the market price of the structured products may be subject to a

significant impact of time decay of such prolonged suspension period and may fluctuate significantly upon resumption of trading after the suspension period of the structured products. This may adversely affect your investment in the structured products.

**(7) *There is a time lag between exercise of the structured products and payment to you***

Any delay between exercise of the structured products and payment to you will be specified in the applicable supplemental listing document or in the conditions. We will not compensate you for any loss you suffer as a result of any time lag.

**(8) *Gearing Effects***

Since our structured products are leveraged the percentage change in the price of a structured product is greater compared with that of the underlying asset. Investors may suffer higher losses in percentage terms if they expect the price of the underlying asset to move one way but it moves in the opposite direction.

**(9) *There could be conflicts of interests which may affect the structured products***

Various potential and actual conflicts of interest may arise from our overall activities or activities of our group companies, subsidiaries and affiliates. Such actions and conflicts may include, without limitation, the exercise of voting power, the purchase and sale of securities, financial advisory relationships and exercise of creditor rights. In the ordinary course of our business, we, our group companies, subsidiaries and affiliates may effect transactions on our own account, or the accounts of our customers, and hold positions in the underlying asset.

**(10) *Our structured products are issued in global registered form***

The structured products are issued in global registered form, in which case HKSCC Nominees Limited will be the only legal owner of the structured products. You are not entitled to any definitive certificates representing your beneficial interests in the structured products. You will have to rely on CCASS and/or your brokers/custodians to (a) determine your beneficial interest in the structured products, (b) receive announcements and/or information relating to the structured products and (c) receive payments under the structured products. Our obligation to you will be duly performed by the payment of the cash settlement amount in accordance with the conditions to HKSCC Nominees Limited as the registered holder of the structured products. The amounts will be paid to you or your broker/custodian

through CCASS participants in accordance with the general rules of CCASS and the CCASS operational procedures in effect from time to time.

**(11) *There may be an exchange rate risk***

You should note that there may be an exchange rate risk in the case of structured products where the cash settlement amount is converted from a foreign currency into the relevant settlement currency, for example, the underlying asset may be denominated in a currency other than the relevant settlement currency.

Changes in the exchange rate(s) between the currency of the underlying asset, the currency in which our structured products settle and/or the currency of your home jurisdiction may adversely affect the return of your investment in our structured products. We cannot assure that current exchange rates at the issue date of our structured products will be representative of the future exchange rates used in computing the value of our structured products. Fluctuations in exchange rates may therefore affect the value of our structured products.

**(12) *Two or more risk factors may simultaneously affect the structured products***

Two or more risk factors may simultaneously have an effect on the value of a structured product such that the effect of any individual risk factor may not be predicted. No assurance can be given as to the effect any combination of risk factors may have on the value of a structured product.

**(13) *Our hedging activities may affect the value of our structured products***

We may enter into hedging transactions in the market in order to enable us to meet our obligations under the structured products. Alternatively any of our group companies, subsidiaries or affiliates may enter into hedging transactions in the market in order to enable them to meet their obligations under the hedging arrangements between them and such group companies. These hedging transactions would typically involve contracts for the purchase and/or sale of the underlying asset (or, if the underlying asset is an index, constituent securities of such index), futures or option contracts over the relevant underlying asset, the establishment of long or short positions (or both) in the underlying asset, or some or all of the above. These transactions may be constantly adjusted. The unwinding or adjustment of those positions could itself affect the prices or levels of the underlying asset (or, if the underlying asset is an index, constituent securities of such index), particularly if there is otherwise low trading volume in the underlying asset (or, if the underlying asset is an index, its constituent securities) at that time. It is

possible that this activity could cause the price or level of an underlying asset to fall, resulting in a lower return or a loss for you on your investment in the structured products.

***(14) Impact of a market disruption event on a valuation date***

If we determine that a market disruption event relating to any of the structured products has occurred or exists on a valuation date in relation to such structured product, any consequential postponement of the valuation date or any alternative valuation may have an adverse effect on the value of such structured product.

***(15) We may terminate our structured products for illegality or impracticability***

We are entitled to terminate the structured products if we determine in good faith and in a commercially reasonable manner that, for reasons beyond our control, it becomes or it will become illegal or impracticable: (a) for us to perform our obligations under the structured products in whole or in part as a result of: (i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or (ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law); (each of (i) and (ii), a **Change in Law Event**); or (b) for us or any of our affiliates to maintain our hedging arrangements with respect to the structured products due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, we will, if and to the extent permitted by the applicable law or regulation, pay to each holder of structured products a cash amount that we determine in good faith and in a commercially reasonable manner to be the fair market value in respect of each structured product held by such holder of structured product immediately prior to such termination (ignoring such illegality or impracticability) less the cost to us of unwinding any related hedging arrangement as determined by us in our sole and absolute discretion.

***(16) We may terminate early our structured products for regulatory order***

If we determine that the Securities and Futures Commission, the stock exchange or any of their respective successors issues an order or direction to us or our affiliate requiring any structured products or the hedging arrangements in respect of any

structured products to be terminated early, we may at our discretion and without obligation terminate any structured products early.

If we terminate the structured products early, we will, if and to the extent permitted by applicable law, pay a cash amount to each holder of structured products in respect of each structured product held by such holder equal to the fair market value of the structured products notwithstanding such event less the cost of unwinding any underlying asset related hedging arrangements, as we determine in our sole and absolute discretion.

***(17) We may modify the terms and conditions of the structured products***

We may, without the consent of the holders of the structured products, modify the terms and conditions applicable to the structured products, in our opinion, if such modification is:

- (a) not materially prejudicial to the interests of the holders generally (without considering the circumstances of any individual holder or the tax or other consequences of such modification in any particular jurisdiction);
- (b) of a formal, minor or technical nature;
- (c) made to correct a manifest error; or
- (d) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong.

***(18) Risks in using the structured products for hedging***

If you intend to purchase our structured products to hedge against the market risks associated with investing in or having an exposure to any underlying asset, you should recognise the risks of utilising the structured products in this manner. There is no assurance that the value of the structured products will correlate with movements of the relevant underlying asset. You may therefore incur substantial losses by investing in our structured products for such purpose, notwithstanding any other losses already incurred with respect to your investments in or exposure to the relevant underlying asset.

**(19) Time decay**

The cash settlement amount of a series of structured products at any time prior to expiration is expected to be less than the market price of such structured product at that time. The difference will reflect, among other things, a “time value” of such series of structured product. The “time value” of such series of structured product will depend upon, among others, the length of the period remaining to expiration and the volatility of the underlying asset.

All other factors being equal, the value of a structured product is likely to decrease over time. Therefore, the structured products should not be viewed as a product for long term investments.

**Risk Factors relating to the underlying asset**

**(20) The value of the underlying asset may fluctuate**

An investment in the structured products involves risks relating to changes in the value of the underlying asset. The value of the underlying asset will vary over time, including as a result of corporate actions (where the underlying asset is a share), changes in computation (where the underlying asset is an index) or changes in the rules and strategy or regulatory actions (where the underlying asset is fund unit). Certain of such events which affect the value of the underlying asset may require an adjustment to the structured products. However, even if such event does not require an adjustment to the structured products, the price of the structured products or the return on an investment in the structured products may be affected.

**(21) Investments in the structured products are not the same as investments in the underlying asset**

The value of the structured products may not correlate directly with the price or level movements of the underlying asset and may be affected by the time remaining to expiry. Also, where the underlying asset is a share or a fund unit, as the holder of the structured products, you will not have the same rights (including voting rights and rights to dividends or distributions, as the case may be) as if you were a direct holder of the underlying asset.

**(22) Liquidation of underlying company**

In the case of structured products linked to shares, in the event of liquidation or dissolution of the company that issues the underlying shares or the appointment of a liquidator, receiver or administrator or analogous person under the laws of its

incorporation in respect of the whole or substantially the whole of its undertaking, property or assets, the relevant structured products shall lapse.

**(23) There may be certain events relating to a fund that affect fund-linked structured products**

Where the structured products are linked to fund units, neither we nor our affiliates have the ability to control or predict the actions of the manager of such funds. The manager is not involved in the offer of our structured products in any way and has no obligation to consider your interests in taking any action that might affect the market price of the linked fund and, in turn, affect our structured products.

The manager is responsible for making strategic, investment and other trading decisions with respect to the management of the fund assets, consistent with its investment objectives and/or investment restrictions as set out in its constitutive documents. The performance of the fund assets is significantly dependent upon the capabilities of the management team of the manager. The manner in which the fund assets are managed and the timing of such decisions will have a significant impact on the performance of the fund assets, and hence, on the performance of linked fund and our structured products.

There is also a risk that the investment objectives and/or investment restrictions as set out in the constitutive documents in relation to the fund are materially changed after the date when our structured products are offered or are not complied with or the method of calculating the net asset value of the fund assets is materially changed after the date when our structured products are offered. Such changes will impact on the performance of the fund assets and on the linked fund. The applicable laws and regulations governing the fund may restrict the operations of the fund and restrict its ability to achieve the investment objectives.

You should note that potential conflicts of interest may arise from the different roles played by us and our subsidiaries and affiliates in connection with certain funds in the market and our economic interests in each role may be adverse to your interests in our structured products. We have policies and procedures to minimise and manage such conflicts and we have certain information barriers between our different divisions or units, and, in any event, all such transactions or dealings in relation to such funds and our structured products will be transacted at arm’s length.

**(24) *Liquidation or termination of underlying trust or fund***

In the case of structured products linked to fund units, in the event of (i) a liquidation, dissolution or termination of the fund; (ii) the appointment of a liquidator, receiver or administrator or analogous person under Hong Kong law in respect of the whole or substantially the whole of its undertaking, property or assets; or (iii) the withdrawal of the Securities and Futures Commission's authorisation of the fund under the Securities and Futures Ordinance (Cap. 571), the relevant structured products shall lapse.

**(25) *Risks relating to structured products linked to fund units***

**(i) *Risks relating to structured products linked to exchange-traded funds***

Some of the structured products may be linked to an exchange-traded fund (**ETF**). An ETF is designed to replicate the performance of an underlying index (or in some cases, a group of assets such as commodities). In the case of our structured products linked to units of an ETF, you should note that:

- (a) an ETF is exposed to the economic, political, currency, legal and other risks of a specific sector or market related to the underlying asset pool or index or market that the ETF is designed to track;
- (b) there may be disparity between the performance of the ETF and the performance of the underlying asset pool or index or market that the ETF is designed to track as a result of, for example, failure of the tracking strategy, currency differences, fees and expenses; and
- (c) where the underlying asset pool or index or market that the ETF tracks is subject to restricted access, the efficiency in the unit creation or redemption to keep the price of the ETF in line with its net asset value may be disrupted, causing the ETF to trade at a higher premium or discount to its net asset value. Hence, the market price of the structured products will also be indirectly subject to these risks.

**(ii) *Risks relating to structured products linked to synthetic exchange-traded funds***

Additionally, where the underlying asset of our structured products comprises the units of an ETF adopting a synthetic replication investment strategy

to achieve its investment objectives by investing in financial derivative instruments linked to the performance of an underlying asset pool or index that the ETF is designed to track (**synthetic ETF**), you should note that:

- (a) investments in financial derivative instruments will expose the synthetic ETF to the credit, potential contagion and concentration risks of the counterparties who issued such financial derivative instruments. As such counterparties are predominantly international financial institutions, the failure of one such counterparty may have a negative effect on other counterparties of the synthetic ETF. Even if the synthetic ETF has collateral to reduce the counterparty risk, there may still be a risk that the market value of the collateral has fallen substantially when the synthetic ETF seeks to realise the collateral; and
- (b) the synthetic ETF may be exposed to higher liquidity risk if the synthetic ETF invests in financial derivative instruments which do not have an active secondary market.

Accordingly, investors in structured products the return on which is linked to such synthetic ETFs are also exposed to the credit risk of the counterparties who issued the derivatives in addition to the risks associated with the underlying indices the performance of which the synthetic ETFs are designed to replicate.

The above risks may have a significant impact on the performance of the relevant ETF or synthetic ETF and hence the market price of our structured products linked to such ETF or such synthetic ETF.

**(26) *There may be certain events relating to an index that affect index linked structured products***

In the case of index-linked structured products, a level for the index may be published by the index compiler (as defined in the relevant supplemental listing document) at a time when one or more shares comprised in the relevant index are not trading. If this occurs on a valuation date (as defined in the relevant conditions) and there is no market disruption event (as defined in the relevant conditions) under the terms and conditions of the relevant index-linked structured products, then the level of the index may be calculated by the index compiler with reference to the remaining shares comprised in the relevant index. Certain events relating to the index (including a material change in the formula or the method of

calculating the index) permit us to determine the level of the index on the basis of the formula or method last in effect prior to such change to formula.

**(27) *Risks relating to structured products linked to an overseas index***

In the case of structured products which relate to an overseas index, the level of the underlying overseas index is calculated and published during the trading hours of the index exchange. The trading hours of the index exchange may be different from the trading hours of the stock exchange. You should be aware of the time zone difference between Hong Kong and the location in which the index exchange is situated in assessing the level of the underlying overseas index. The level of the underlying overseas index may be volatile in response to the movements on the index exchange during which the stock exchange is not open for trading of the structured products.

In addition, there may be less publicly available information about the underlying overseas index than those about indices in Hong Kong and some of that information may not be available in English or Chinese. If you do not understand any such information, you should obtain independent advice.

**Risk Factors relating to CBBCs**

**(28) *The CBBCs could automatically become worthless in certain circumstances***

In the case of CBBCs, you should note that you can lose your entire investment on or prior to the expiry date. If a mandatory call event occurs, the CBBCs will automatically be exercised. The Category N CBBCs will automatically become worthless upon the occurrence of a mandatory call event. The Category R CBBCs may also become worthless.

**(29) *The market price of a CBBC may not be the same as the theoretical value of such CBBC***

A CBBC will be exercised when the price or level of the underlying asset reaches or goes beyond the call price or call level. When the price or level of the underlying asset approaches the call price or call level (as defined in the relevant supplemental listing document), the market price and theoretical value of the CBBC will likely be more volatile. This is because it is more likely that a mandatory call event will occur.

Once a mandatory call event has occurred in respect of a Category R CBBC, the Category R CBBC will be settled at the residual value (as

defined in the relevant conditions), and you will not be able to benefit under that CBBC from any changes to the price or level of the underlying asset after the residual value is determined. In respect of a Category N CBBC, you will not receive any payment upon the occurrence of a mandatory call event.

Further, when you sell your CBBC holdings in the market at any time prior to the exercise of such CBBC, the price realised may not be the same as the theoretical value of the CBBC, as the price will be determined by the levels of supply and demand in the market at that time.

**(30) *Mandatory call event is irrevocable***

A mandatory call event is irrevocable unless it is triggered as a result of any of the following events:

- (i) report of system malfunction or other technical errors of Hong Kong Exchanges and Clearing Limited (**HKEx**) (such as the setting up of wrong call price or other parameters) by the stock exchange to us; or
- (ii) report of manifest errors caused by the relevant third party price source where applicable by us to the stock exchange,

and we agree with the stock exchange that such mandatory call event is to be revoked provided that such mutual agreement must be reached no later than 30 minutes before the commencement of trading (including the pre-opening session) (Hong Kong time) on the trading day of the stock exchange immediately following the day on which the mandatory call event occurs, or such other time as prescribed by the stock exchange from time to time.

In such case, the mandatory call event so triggered will be reversed and all trades cancelled (if any) will be reinstated and the trading of the CBBCs will resume.

**(31) *Delay in announcement of mandatory call event***

The stock exchange will notify the market as soon as practicable after the CBBCs have been called upon the occurrence of a mandatory call event. You should be aware that there may be a delay in the announcement of a mandatory call event due to technical errors, system failures and other factors that are beyond our control and the control of the stock exchange.

**(32) *Non-recognition of post MCE trades***

You should note that upon the occurrence of a mandatory call event, trading in the CBBCs will be suspended immediately and the CBBCs will be terminated and all Post MCE Trades will be invalid and will be cancelled and will not be recognised by us or the stock exchange. The term “**Post MCE Trades**” means, subject to such modification and amendment prescribed by the stock exchange from time to time, (a) in the case where the mandatory call event occurs during a continuous trading session, all trades in the CBBCs concluded via auto-matching or manually after the time of the occurrence of a mandatory call event, and (b) in the case where the mandatory call event occurs during a pre-opening session or a closing auction session (if applicable), all auction trades in the CBBCs concluded in such session and all manual trades concluded after the end of the pre-order matching period in such session.

The stock exchange and its recognised exchange controller, HKEx, will not incur any liability (whether based on contract, tort, (including, without limitation, negligence), or any other legal or equitable grounds and without regard to the circumstances giving rise to any purported claim except in the case of wilful misconduct on the part of the stock exchange and/or HKEx) for, any direct, consequential, special, indirect, economic, punitive, exemplary or any other loss or damage suffered or incurred by us or any other party arising from or in connection with the mandatory call event or the suspension of trading (**Trading Suspension**) or the non-recognition of trades after a mandatory call event (**Non-Recognition of Post MCE Trades**), including without limitation, any delay, failure, mistake or error in the Trading Suspension or Non-Recognition of Post MCE Trades.

We and our affiliates shall not have any responsibility for any losses suffered as a result of the Trading Suspension and/or Non-Recognition of Post MCE Trades in connection with the occurrence of a mandatory call event, notwithstanding that such Trading Suspension or Non-Recognition of Post MCE Trades may have occurred as a result of an error in the observation of the event.

**(33) *Residual value will not include residual funding cost***

Residual value (if any) will not include residual funding cost.

For Category R CBBCs, the residual value (if any) will not include any residual funding cost for the CBBCs.

**(34) *Fluctuation in funding cost***

The initial funding cost applicable to the CBBCs as set out in the relevant supplemental listing document will fluctuate during the term of the CBBCs as the funding rate changes from time to time. The initial funding cost is an amount determined by us based on one or more factors, including but not limited to the strike price or level, the prevailing interest rate, the expected term of the CBBCs, any expected notional dividends in respect of the underlying asset and the margin financing provided by us.

## **TERMS AND CONDITIONS OF THE SINGLE EQUITIES WARRANTS (CASH SETTLED)**

*The relevant Conditions will, together with the supplemental provisions contained in the relevant Supplemental Listing Document and subject to completion and amendment, be endorsed on the Global Certificate. The applicable Supplemental Listing Document in relation to the issue of any series of Warrants may specify additional terms and conditions which shall, to the extent so specified or to the extent inconsistent with the relevant Conditions, replace or modify the relevant Conditions for the purpose of such series of Warrants. Capitalised terms used in the relevant Conditions and not otherwise defined therein shall have the meaning given to them in the relevant Supplemental Listing Document.*

### **1. Form, Status, Transfer and Title**

#### *(a) Form*

The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 13) relating to the Shares of the Company are issued in registered form subject to and with the benefit of a global certificate by way of deed poll (the **Global Certificate**) dated the Issue Date, made by Daiwa Capital Markets Hong Kong Limited (the **Issuer**) and a base registrar's and structured product agency agreement (as amended, varied or supplemented from time to time or any successor document, the **Registrar's Agreement**) dated 13 September 2010 as supplemented by a Confirmation (as defined in the Registrar's Agreement) relating to the Warrants made between the Issuer and Computershare Hong Kong Investor Services Limited as registrar and agent for the Warrants (the **Registrar** and **Agent**, which expressions shall include any successors). Copies of the Global Certificate and the Registrar's Agreement are available for inspection at the specified office of the Registrar (the **Transfer Office**). The initial Transfer Office is set out below. The Holders (as defined below) are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Global Certificate and the Registrar's Agreement.

#### *(b) Status*

The Warrants represent general, unsecured, contractual obligations of the Issuer and of no other person and rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations of the Issuer.

#### *(c) Transfer*

Transfers of beneficial interests in the Warrants may be effected only in Board Lots or integral multiples thereof in CCASS (as defined below) in accordance with the CCASS Rules (as defined below).

#### *(d) Title*

Each person who is for the time being shown in the register kept by the Registrar as entitled to a particular number of Warrants shall be treated by the Issuer and the Registrar as the absolute owner and holder of such number of Warrants. The expression **Holder** shall be construed accordingly.

### **2. Warrant Rights and Exercise Expenses**

#### *(a) Warrant Rights*

Every Board Lot entitles each Holder, upon due exercise and compliance with Condition 3, the right to receive the payment of the Cash Settlement Amount (each as defined below), if any.

#### *(b) Exercise Expenses*

On exercise of the Warrants, Holders are required to pay all Exercise Expenses (as defined below). To effect such payment, an irrevocable authorisation to deduct all Exercise Expenses from the Cash Settlement Amount is deemed to be given by a Holder to the Issuer upon purchase of the Warrants.

(c) *Definitions*

For the purposes of these Conditions:

**Average Price** means the arithmetic mean of the closing prices of one Share (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustments to such closing price as may be necessary to reflect any capitalisation, rights issue, distribution or the like) in respect of each Valuation Date;

**Board Lot** has the meaning given to it in the relevant Supplemental Listing Document;

**Business Day** means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

**Cash Settlement Amount** means in respect of every Board Lot, an amount in the Settlement Currency calculated by the Issuer in accordance with the following formula:

- (1) in the case of a series of Call Warrants:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement} \times (\text{Average Price} - \text{Exercise Price}) \times \text{one Board Lot}}{\text{Number of Warrants per Entitlement}}$$

- (2) in the case of a series of Put Warrants:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement} \times (\text{Exercise Price} - \text{Average Price}) \times \text{one Board Lot}}{\text{Number of Warrants per Entitlement}}$$

provided that if the Cash Settlement Amount is a negative amount, it shall be deemed to be zero;

**CCASS** means the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited (**HKSCC**);

**CCASS Rules** means the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time;

**CCASS Settlement Day** has the meaning ascribed to the term “Settlement Day” in the CCASS Rules, subject to such modification and amendment prescribed by HKSCC from time to time;

**Designated Bank Account** means the relevant bank account designated by the relevant Holder for the purpose of procuring payment of the Cash Settlement Amount electronically through CCASS;

**Entitlement** means the number specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 5;

**Exercise Expenses** means any charges or expenses including any taxes or duties which are incurred in respect of the exercise of the Warrants;

**Exercise Price** means the price specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 5;

**Expiry Date** means the date specified as such in the relevant Supplemental Listing Document;

**Market Disruption Event** means:

- (1) the occurrence or existence on any Valuation Date during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in (a) the Shares; or (b) any options or futures contracts relating to the Shares if, in any such case, such suspension or limitation is, in the determination of the Issuer, material;
- (2) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a “BLACK” rainstorm signal on any day which either (a) results in the Stock Exchange being closed for trading for the entire day; or (b) results in the Stock Exchange being closed prior to its

regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the “BLACK” rainstorm signal having been issued; or

- (3) a limitation or closure of the Stock Exchange due to any unforeseen circumstances;

**Number of Warrants per Entitlement** has the meaning given to it in the relevant Supplemental Listing Document;

**Settlement Currency** means the currency specified as such in the relevant Supplemental Listing Document;

**Settlement Date** means the third CCASS Settlement Day after the later of: (i) the Expiry Date; and (ii) the day on which the Average Price is determined in accordance with these Conditions;

**Settlement Disruption Event** means an event beyond the control of the Issuer as a result of which the Issuer is unable to procure payment of the Cash Settlement Amount electronically through CCASS to the Designated Bank Account;

**Stock Exchange** means The Stock Exchange of Hong Kong Limited; and

**Valuation Date** means each of the five Business Days immediately preceding the Expiry Date, provided that if the Issuer determines, in its sole discretion, that a Market Disruption Event has occurred on any Valuation Date, then that Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event irrespective of whether that postponed Valuation Date would fall on a Business Day that is already or is deemed to be a Valuation Date. For the avoidance of doubt, in the event that a Market Disruption Event has occurred and a Valuation Date is postponed as aforesaid, the closing price of the Shares on the first succeeding Business Day will be used more than once in determining the Average Price, so that in no event shall there be less than five closing prices used to determine the Average Price.

If the postponement of the Valuation Date as aforesaid would result in the Valuation Date falling on or after the Expiry Date, then:

- (1) the Business Day immediately preceding the Expiry Date (the **Last Valuation Date**) shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and
- (2) the Issuer shall determine the closing price of the Shares on the basis of its good faith estimate of the price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

### **3. Exercise of Warrants**

(a) *Exercise of Warrants*

The Warrants are exercisable only on the Expiry Date.

(b) *Automatic Exercise*

All Warrants will automatically be exercised if the Cash Settlement Amount on the Expiry Date is greater than zero (without notice being given to the Holders). The Holders will not be required to deliver any exercise notice and the Issuer or its agent will pay to the Holders the Cash Settlement Amount (if any) in accordance with Condition 3(f).

(c) *Expiry*

Any Warrant which has not been automatically exercised in accordance with Condition 3(b) shall expire immediately without value thereafter and all rights of the Holder and obligations of the Issuer with respect to such Warrant shall cease.

(d) *Board Lots*

Warrants may only be exercised in a Board Lot or integral multiples thereof.

(e) *Cancellation*

The Issuer will procure that the Registrar will, with effect from the first Business Day following the Expiry Date, remove from its register the name of the person in respect of the Warrants which (i) are the subject of an automatic exercise in accordance with these Conditions; or (ii) have expired worthless and thereby cancel the relevant Warrants.

(f) *Cash Settlement*

Subject to and in accordance with these Conditions, the Issuer will make a payment, in respect of every Board Lot, to the relevant Holder equal to the Cash Settlement Amount (net of any Exercise Expenses).

The Cash Settlement Amount (net of any Exercise Expenses) shall be despatched not later than the Settlement Date by crediting that amount in accordance with the CCASS Rules, to the Designated Bank Account.

If as a result of a Settlement Disruption Event, it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of the Settlement Disruption Event.

#### 4. Registrar and Transfer Office

- (a) The initial Registrar and the Transfer Office, are set out below. The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the Registrar and to appoint another Registrar provided that it will at all times maintain a Registrar which, so long as the Warrants are listed on the Stock Exchange, shall be in Hong Kong. Notice of any such termination or appointment and of any change in the Transfer Office or the specified office of the Registrar will be given to the Holders in accordance with Condition 11.
- (b) The Registrar will be acting as agent of the Issuer in respect of any Warrant and will not assume any obligation or duty to or any relationship of agency or trust for the Holders.

#### 5. Adjustments

(a) *Rights Issues*

If and whenever the Company shall, by way of Rights (as defined below), offer new Shares for subscription at a fixed subscription price to the holders of existing Shares pro rata to existing holdings (a **Rights Offer**), the Entitlement will be adjusted to take effect on the Business Day on which trading in the Shares of the Company becomes ex-entitlement in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Component} \times E$$

Where:

$$\text{Adjustment Component} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer

S: Cum-Rights Share price determined by the closing price on the Stock Exchange on the last Business Day on which Shares are traded on a cum-Rights basis

- R: Subscription price per Share as specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Right
- M: Number of new Share(s) (whether a whole or a fraction) per existing Share each holder thereof is entitled to subscribe

Provided that if the adjustment to be made would result in the Entitlement being changed by one per cent. or less, then no adjustment will be made to the Entitlement. In addition, the Issuer shall adjust the Exercise Price in accordance with the following formula:

$$\text{Adjusted Exercise Price} = \text{Exercise Price} \times \frac{1}{\text{Adjustment Component}}$$

(rounded to the nearest 0.001)

This adjustment to the Exercise Price shall take effect on the same day that the Entitlement is adjusted.

For the purposes of these Conditions:

**Rights** means the right(s) attached to each existing Share or needed to acquire one new Share (as the case may be) which are given to the holders of existing Shares to subscribe at a fixed subscription price for new Shares pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

*(b) Bonus Issues*

If and whenever the Company shall make an issue of Shares credited as fully paid to the holders of Shares generally by way of capitalisation of profits or reserves (other than pursuant to a scrip dividend or similar scheme for the time being operated by the Company or otherwise in lieu of a cash dividend and without any payment or other consideration being made or given by such holders) (a **Bonus Issue**) the Entitlement will be increased on the Business Day on which trading in the Shares of the Company becomes ex-entitlement in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Component} \times E$$

Where:

$$\text{Adjustment Component} = (1 + N)$$

E: Existing Entitlement immediately prior to the Bonus Issue

N: Number of additional Shares (whether a whole or a fraction) received by a holder of existing Shares for each Share held prior to the Bonus Issue

Provided that if the adjustment to be made would result in the Entitlement being changed by one per cent. or less, then no adjustment will be made to the Entitlement. In addition, the Issuer shall adjust the Exercise Price in accordance with the following formula:

$$\text{Adjusted Exercise Price} = \text{Exercise Price} \times \frac{1}{\text{Adjustment Component}}$$

(rounded to the nearest 0.001)

This adjustment to the Exercise Price shall take effect on the same day that the Entitlement is adjusted.

*(c) Share Splits or Consolidations*

If and whenever the Company shall subdivide its Shares or any class of its outstanding share capital comprised of the Shares into a greater number of shares (a **Subdivision**) or consolidate the Shares or any class of its outstanding share capital comprised of the Shares into a smaller number of shares (a **Consolidation**), the Entitlement in effect immediately prior thereto will be increased (in the case of a Subdivision) or decreased (in the case of a Consolidation) accordingly in each case on the day on which the relevant Subdivision or Consolidation shall have taken effect. In addition, the Exercise Price (which shall be

rounded to the nearest 0.001) will be decreased (in the case of a Subdivision) or increased (in the case of a Consolidation) accordingly. This adjustment to the Exercise Price shall take effect on the same day that the Entitlement is adjusted.

*(d) Merger or Consolidation*

If it is announced that the Company is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of any corporation or controlled by any person or corporation) (except where the Company is the surviving corporation in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the Warrants may in the absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a **Restructuring Event**) (as determined by the Issuer in its absolute discretion).

The rights attaching to the Warrants after the adjustment shall, after such Restructuring Event, relate to the number of shares of the corporation(s) resulting from or surviving such Restructuring Event or other securities (**Substituted Securities**) and/or cash offered in substitution for the affected Shares, as the case may be, to which the holder of such number of Shares to which the Warrants related immediately before such Restructuring Event would have been entitled upon such Restructuring Event. Thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Issuer, be deemed to be replaced by an amount in the relevant currency equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected.

For the avoidance of doubt, any remaining Shares shall not be affected by this paragraph (d) and, where cash is offered in substitution for Shares or is deemed to replace Substituted Securities as described above, references in these Conditions to the Shares shall include any such cash.

*(e) Cash Distributions*

Generally, no capital adjustment will be made for an ordinary cash dividend (whether or not it is offered with a scrip alternative). For any other forms of cash distribution (each a **Cash Distribution**) announced by the Company, such as a cash bonus, special dividend or extraordinary dividend, no capital adjustment will be made unless the value of the Cash Distribution accounts for two per cent. or more of the Shares' closing price on the day of announcement by the Company.

If and whenever the Company shall make a Cash Distribution credited as fully paid to the holders of Shares generally, the Entitlement will be adjusted to take effect on the Business Day on which trading in the Shares of the Company becomes ex-entitlement in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Component} \times E$$

Where:

$$\text{Adjustment Component} = \frac{S - OD}{S - OD - CD}$$

provided that OD shall be deducted from S only if the Business Day on which trading in the Shares of the Company becomes ex-entitlement with respect to the Cash Distribution and the distribution of the ordinary cash dividend by the Company falls on the same date.

OD: Amount of the relevant ordinary cash dividend per Share

CD: Amount of the relevant Cash Distribution per Share

E: Existing Entitlement immediately prior to the Cash Distribution

S: Cum-Cash Distribution Share price being the closing price of the Shares on the Stock Exchange on the last Business Day on which the Shares of the Company are traded on a cum-Cash Distribution basis

In addition, the Issuer shall adjust the Exercise Price in accordance with the following formula:

$$\begin{array}{l} \text{Adjusted Exercise Price} \\ \text{(rounded to the nearest} \\ \text{0.001)} \end{array} = \text{Exercise Price} \times \frac{1}{\text{Adjustment Component}}$$

This adjustment to the Exercise Price shall take effect on the same day that the Entitlement is adjusted.

*(f) Other Adjustments*

Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the Warrants as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is:

- (i) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such adjustment in any particular jurisdiction); or
- (ii) determined by the Issuer in good faith to be appropriate and commercially reasonable.

*(g) Notice of Adjustments*

All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Holders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment and of the date from which such adjustment is effective by publication in accordance with Condition 11.

## **6. Illegality or Impracticability**

The Issuer is entitled to terminate the Warrants if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

- (a) for it to perform its obligations under the Warrants, in whole or in part as a result of:
  - (i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or
  - (ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),(each of (i) and (ii), a **Change in Law Event**); or
- (b) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the Warrants due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Holder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each Warrant held by such Holder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made to each Holder in such manner as shall be notified to the Holder in accordance with Condition 11.

## **7. Early Termination for Regulatory Order**

If the Issuer determines that the Securities and Futures Commission, the Stock Exchange or any of their respective successors issues an order or direction to the Issuer or its affiliate requiring the Warrants or the hedging arrangements in respect of the Warrants to be terminated early, the Issuer may at its discretion terminate the Warrants early by giving notice to the Holders in accordance with Condition 11.

If the Issuer terminates the Warrants early, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Holder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each Warrant held by such Holder immediately prior to such termination (ignoring such event) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made to each Holder in such manner as shall be notified to the Holder in accordance with Condition 11.

## **8. Purchases**

The Issuer and/or any of its subsidiaries and affiliates may at any time purchase Warrants at any price in the open market or by tender or by private treaty. Any Warrant so purchased may be held or resold or surrendered for cancellation.

## **9. Global Certificate**

The Warrants are represented by the Global Certificate registered in the name of HKSCC Nominees Limited and deposited with CCASS in accordance with the CCASS Rules. Holders will not be entitled to definitive certificates in respect of any Warrants issued or transferred to them.

## **10. Meetings of Holders; Modification**

### *(a) Meetings of Holders*

The Registrar's Agreement contains provisions for convening meetings of the Holders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Registrar's Agreement) of a modification of the provisions of the Warrants or of the Global Certificate. Any resolutions to be passed in a meeting of the Holders shall be decided by poll.

Such a meeting may be convened by the Issuer or by Holders holding not less than 10 per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Holders whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Holders as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Holders shall be binding on all the Holders, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Holders being held if passed unanimously.

### *(b) Modification*

The Issuer may, without the consent of the Holders, effect any modification of the terms and conditions of the Warrants or the Global Certificate which, in the opinion of the Issuer, is (i) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong. Any such modification shall be binding on the Holders and shall be notified to them by the Issuer as soon as practicable thereafter in accordance with Condition 11.

## **11. Notices**

All notices to Holders will be validly given if published in English and in Chinese on the website of Hong Kong Exchanges and Clearing Limited. If publication is not practicable, notice will be given in such other manner as the Issuer may determine.

## **12. Liquidation**

In the event of a liquidation or dissolution of the Company or the appointment of a liquidator, receiver or administrator or analogous person under the laws of its jurisdiction of incorporation in respect of the whole or substantially the whole of its undertaking, property or assets, all unexercised Warrants will lapse and shall cease to be valid for any purpose, in the case of voluntary liquidation, on the effective date of the relevant resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

## **13. Further Issues**

The Issuer shall be at liberty from time to time, without the consent of the Holders, to create and issue further warrants so as to form a single series with the Warrants.

## **14. Delisting**

- (a) If at any time the Shares cease to be listed on the Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments to the rights attaching to the Warrants as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Holders generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of any Holder or the tax or other consequences that may result in any particular jurisdiction).
- (b) Without prejudice to the generality of Condition 14(a), where the Shares are, or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Holders, make such adjustments to the entitlements of Holders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into the relevant currency) as may be appropriate in the circumstances.
- (c) The Issuer shall determine, in its absolute discretion, any adjustment or amendment and its determination shall be conclusive and binding on the Holders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Holders in accordance with Condition 11 as soon as practicable after they are determined.

## **15. Good Faith and Commercially Reasonable Manner**

Any exercise of discretion by the Issuer under these Conditions will be made in good faith and in a commercially reasonable manner.

## **16. Governing Law**

The Warrants, the Global Certificate, the Registrar's Agreement and any non-contractual obligations arising out of or in connection with them will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China (**Hong Kong**). The Issuer and each Holder (by its purchase of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants, the Global Certificate, the Registrar's Agreement and any non-contractual obligations arising out of or in connection with them to the non-exclusive jurisdiction of the courts of Hong Kong.

## **17. Language**

In the event of any inconsistency between the Chinese translation of these Conditions and the English version of these Conditions, the English version of these Conditions shall prevail.

### **Registrar, Agent and Transfer Office:**

#### **Computershare Hong Kong Investor Services Limited**

Rooms 1712-1716, 17th Floor, Hopewell Centre

183 Queen's Road East

Hong Kong

## TERMS AND CONDITIONS OF THE FUND WARRANTS (CASH SETTLED)

*The relevant Conditions will, together with the supplemental provisions contained in the relevant Supplemental Listing Document and subject to completion and amendment, be endorsed on the Global Certificate. The applicable Supplemental Listing Document in relation to the issue of any series of Warrants may specify additional terms and conditions which shall, to the extent so specified or to the extent inconsistent with the relevant Conditions, replace or modify the relevant Conditions for the purpose of such series of Warrants. Capitalised terms used in the relevant Conditions and not otherwise defined therein shall have the meaning given to them in the relevant Supplemental Listing Document.*

### 1. Form, Status, Transfer and Title

#### (a) Form

The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 13) relating to the Units of the Fund are issued in registered form subject to and with the benefit of a global certificate by way of deed poll (the **Global Certificate**) dated the Issue Date, made by Daiwa Capital Markets Hong Kong Limited (the **Issuer**) and a base registrar's and structured product agency agreement (as amended, varied or supplemented from time to time or any successor document, the **Registrar's Agreement**) dated 13 September 2010 as supplemented by a Confirmation (as defined in the Registrar's Agreement) relating to the Warrants made between the Issuer and Computershare Hong Kong Investor Services Limited as registrar and agent for the Warrants (the **Registrar** and **Agent**, which expressions shall include any successors). Copies of the Global Certificate and the Registrar's Agreement are available for inspection at the specified office of the Registrar (the **Transfer Office**). The initial Transfer Office is set out below. The Holders (as defined below) are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Global Certificate and the Registrar's Agreement.

#### (b) Status

The Warrants represent general, unsecured, contractual obligations of the Issuer and of no other person and rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations of the Issuer.

#### (c) Transfer

Transfers of beneficial interests in the Warrants may be effected only in Board Lots or integral multiples thereof in CCASS (as defined below) in accordance with the CCASS Rules (as defined below).

#### (d) Title

Each person who is for the time being shown in the register kept by the Registrar as entitled to a particular number of Warrants shall be treated by the Issuer and the Registrar as the absolute owner and holder of such number of Warrants. The expression **Holder** shall be construed accordingly.

### 2. Warrant Rights and Exercise Expenses

#### (a) Warrant Rights

Every Board Lot entitles each Holder, upon due exercise and compliance with Condition 3, the right to receive the payment of the Cash Settlement Amount (each as defined below), if any.

#### (b) Exercise Expenses

On exercise of the Warrants, Holders are required to pay all Exercise Expenses (as defined below). To effect such payment, an irrevocable authorisation to deduct all Exercise Expenses from the Cash Settlement Amount is deemed to be given by a Holder to the Issuer upon purchase of the Warrants.

(c) *Definitions*

For the purposes of these Conditions:

**Average Price** means the arithmetic mean of the closing prices of one Unit (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustments to such closing price as may be necessary to reflect any capitalisation, rights issue, distribution or the like) in respect of each Valuation Date;

**Board Lot** has the meaning given to it in the relevant Supplemental Listing Document;

**Business Day** means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

**Cash Settlement Amount** means in respect of every Board Lot, an amount in the Settlement Currency calculated by the Issuer in accordance with the following formula:

- (1) in the case of a series of Call Warrants:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement} \times (\text{Average Price} - \text{Exercise Price}) \times \text{one Board Lot}}{\text{Number of Warrants per Entitlement}}$$

- (2) in the case of a series of Put Warrants:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement} \times (\text{Exercise Price} - \text{Average Price}) \times \text{one Board Lot}}{\text{Number of Warrants per Entitlement}}$$

provided that if the Cash Settlement Amount is a negative amount, it shall be deemed to be zero;

**CCASS** means the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited (**HKSCC**);

**CCASS Rules** means the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time;

**CCASS Settlement Day** has the meaning ascribed to the term “Settlement Day” in the CCASS Rules, subject to such modification and amendment prescribed by HKSCC from time to time;

**Designated Bank Account** means the relevant bank account designated by the relevant Holder for the purpose of procuring payment of the Cash Settlement Amount electronically through CCASS;

**Entitlement** means the number specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 5;

**Exercise Expenses** means any charges or expenses including any taxes or duties which are incurred in respect of the exercise of the Warrants;

**Exercise Price** means the price specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 5;

**Expiry Date** means the date specified as such in the relevant Supplemental Listing Document;

**Market Disruption Event** means:

- (1) the occurrence or existence on any Valuation Date during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in (a) the Units; or (b) any options or futures contracts relating to the Units if, in any such case, such suspension or limitation is, in the determination of the Issuer, material;
- (2) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a “BLACK” rainstorm signal on any day which either (a) results in the Stock Exchange being closed for trading for the entire day; or (b) results in the Stock Exchange being closed prior to its

regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the “BLACK” rainstorm signal having been issued; or

- (3) a limitation or closure of the Stock Exchange due to any unforeseen circumstances;

**Number of Warrants per Entitlement** has the meaning given to it in the relevant Supplemental Listing Document;

**Settlement Currency** means the currency specified as such in the relevant Supplemental Listing Document;

**Settlement Date** means the third CCASS Settlement Day after the later of: (i) the Expiry Date; and (ii) the day on which the Average Price is determined in accordance with these Conditions;

**Settlement Disruption Event** means an event beyond the control of the Issuer as a result of which the Issuer is unable to procure payment of the Cash Settlement Amount electronically through CCASS to the Designated Bank Account;

**Stock Exchange** means The Stock Exchange of Hong Kong Limited; and

**Valuation Date** means each of the five Business Days immediately preceding the Expiry Date, provided that if the Issuer determines, in its sole discretion, that a Market Disruption Event has occurred on any Valuation Date, then that Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event irrespective of whether that postponed Valuation Date would fall on a Business Day that is already or is deemed to be a Valuation Date. For the avoidance of doubt, in the event that a Market Disruption Event has occurred and a Valuation Date is postponed as aforesaid, the closing price of the Units on the first succeeding Business Day will be used more than once in determining the Average Price, so that in no event shall there be less than five closing prices used to determine the Average Price.

If the postponement of the Valuation Date as aforesaid would result in the Valuation Date falling on or after the Expiry Date, then:

- (1) the Business Day immediately preceding the Expiry Date (the **Last Valuation Date**) shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and
- (2) the Issuer shall determine the closing price of the Units on the basis of its good faith estimate of the price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

### **3. Exercise of Warrants**

*(a) Exercise of Warrants*

The Warrants are exercisable only on the Expiry Date.

*(b) Automatic Exercise*

All Warrants will automatically be exercised if the Cash Settlement Amount on the Expiry Date is greater than zero (without notice being given to the Holders). The Holders will not be required to deliver any exercise notice and the Issuer or its agent will pay to the Holders the Cash Settlement Amount (if any) in accordance with Condition 3(f).

*(c) Expiry*

Any Warrant which has not been automatically exercised in accordance with Condition 3(b) shall expire immediately without value thereafter and all rights of the Holder and obligations of the Issuer with respect to such Warrant shall cease.

(d) *Board Lots*

Warrants may only be exercised in a Board Lot or integral multiples thereof.

(e) *Cancellation*

The Issuer will procure that the Registrar will, with effect from the first Business Day following the Expiry Date, remove from its register the name of the person in respect of the Warrants which (i) are the subject of an automatic exercise in accordance with these Conditions; or (ii) have expired worthless and thereby cancel the relevant Warrants.

(f) *Cash Settlement*

Subject to and in accordance with these Conditions, the Issuer will make a payment, in respect of every Board Lot, to the relevant Holder equal to the Cash Settlement Amount (net of any Exercise Expenses).

The Cash Settlement Amount (net of any Exercise Expenses) shall be despatched not later than the Settlement Date by crediting that amount in accordance with the CCASS Rules, to the Designated Bank Account.

If as a result of a Settlement Disruption Event, it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of the Settlement Disruption Event.

#### 4. Registrar and Transfer Office

- (a) The initial Registrar and the Transfer Office, are set out below. The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the Registrar and to appoint another Registrar provided that it will at all times maintain a Registrar which, so long as the Warrants are listed on the Stock Exchange, shall be in Hong Kong. Notice of any such termination or appointment and of any change in the Transfer Office or the specified office of the Registrar will be given to the Holders in accordance with Condition 11.
- (b) The Registrar will be acting as agent of the Issuer in respect of any Warrant and will not assume any obligation or duty to or any relationship of agency or trust for the Holders.

#### 5. Adjustments

(a) *Rights Issues*

If and whenever the Fund shall, by way of Rights (as defined below), offer new Units for subscription at a fixed subscription price to the holders of existing Units pro rata to existing holdings (a **Rights Offer**), the Entitlement will be adjusted to take effect on the Business Day on which trading in the Units of the Fund becomes ex-entitlement in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Component} \times E$$

Where:

$$\text{Adjustment Component} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer

S: Cum-Rights Unit price determined by the closing price on the Stock Exchange on the last Business Day on which Units are traded on a cum-Rights basis

- R: Subscription price per Unit as specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Right
- M: Number of new Unit(s) (whether a whole or a fraction) per existing Unit each holder thereof is entitled to subscribe

Provided that if the adjustment to be made would result in the Entitlement being changed by one per cent. or less, then no adjustment will be made to the Entitlement. In addition, the Issuer shall adjust the Exercise Price in accordance with the following formula:

$$\text{Adjusted Exercise Price (rounded to the nearest 0.001)} = \text{Exercise Price} \times \frac{1}{\text{Adjustment Component}}$$

This adjustment to the Exercise Price shall take effect on the same day that the Entitlement is adjusted.

For the purposes of these Conditions:

**Rights** means the right(s) attached to each existing Unit or needed to acquire one new Unit (as the case may be) which are given to the holders of existing Units to subscribe at a fixed subscription price for new Units pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

*(b) Bonus Issues*

If and whenever the Fund shall make an issue of Units credited as fully paid to the holders of Units generally by way of capitalisation of profits or reserves (other than pursuant to a scrip dividend or similar scheme for the time being operated by the Fund or otherwise in lieu of a cash dividend and without any payment or other consideration being made or given by such holders) (a **Bonus Issue**) the Entitlement will be increased on the Business Day on which trading in the Units of the Fund becomes ex-entitlement in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Component} \times E$$

Where:

$$\text{Adjustment Component} = (1 + N)$$

E: Existing Entitlement immediately prior to the Bonus Issue

N: Number of additional Units (whether a whole or a fraction) received by a holder of existing Units for each Unit held prior to the Bonus Issue

Provided that if the adjustment to be made would result in the Entitlement being changed by one per cent. or less, then no adjustment will be made to the Entitlement. In addition, the Issuer shall adjust the Exercise Price in accordance with the following formula:

$$\text{Adjusted Exercise Price (rounded to the nearest 0.001)} = \text{Exercise Price} \times \frac{1}{\text{Adjustment Component}}$$

This adjustment to the Exercise Price shall take effect on the same day that the Entitlement is adjusted.

*(c) Unit Splits or Consolidations*

If and whenever the Fund shall subdivide its Units or any class of its outstanding fund units comprised of the Units into a greater number of units (a **Subdivision**) or consolidate the Units or any class of its outstanding fund units comprised of the Units into a smaller number of units (a **Consolidation**), the Entitlement in effect immediately prior thereto will be increased (in the case of a Subdivision) or decreased (in the case of a Consolidation) accordingly in each case on the day on which the relevant Subdivision or Consolidation shall have taken effect. In addition, the Exercise Price (which shall be rounded to the nearest

0.001) will be decreased (in the case of a Subdivision) or increased (in the case of a Consolidation) accordingly. This adjustment to the Exercise Price shall take effect on the same day that the Entitlement is adjusted.

*(d) Merger or Consolidation*

If it is announced that the Fund is to or may merge or consolidate with or into any other fund or corporation (including becoming, by agreement or otherwise, a subsidiary of any corporation or controlled by any person or corporation) (except where the Fund is the surviving entity in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the Warrants may in the absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a **Restructuring Event**) (as determined by the Issuer in its absolute discretion).

The rights attaching to the Warrants after the adjustment shall, after such Restructuring Event, relate to the number of units of the fund(s) resulting from or surviving such Restructuring Event or other securities (**Substituted Securities**) and/or cash offered in substitution for the affected Units, as the case may be, to which the holder of such number of Units to which the Warrants related immediately before such Restructuring Event would have been entitled upon such Restructuring Event. Thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Issuer, be deemed to be replaced by an amount in the relevant currency equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected.

For the avoidance of doubt, any remaining Units shall not be affected by this paragraph (d) and, where cash is offered in substitution for Units or is deemed to replace Substituted Securities as described above, references in these Conditions to the Units shall include any such cash.

*(e) Cash Distributions*

Generally, no capital adjustment will be made for an ordinary cash dividend (whether or not it is offered with a scrip alternative). For any other forms of cash distribution (each a **Cash Distribution**) announced by the Fund, such as a cash bonus, special dividend or extraordinary dividend, no capital adjustment will be made unless the value of the Cash Distribution accounts for two per cent. or more of the Units' closing price on the day of announcement by the Fund.

If and whenever the Fund shall make a Cash Distribution credited as fully paid to the holders of Units generally, the Entitlement will be adjusted to take effect on the Business Day on which trading in the Units of the Fund becomes ex-entitlement in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Component} \times E$$

Where:

$$\text{Adjustment Component} = \frac{S - OD}{S - OD - CD}$$

provided that OD shall be deducted from S only if the Business Day on which trading in the Units of the Fund becomes ex-entitlement with respect to the Cash Distribution and the distribution of the ordinary cash dividend by the Fund falls on the same date.

OD: Amount of the relevant ordinary cash dividend per Unit

CD: Amount of the relevant Cash Distribution per Unit

E: Existing Entitlement immediately prior to the Cash Distribution

S: Cum-Cash Distribution Unit price being the closing price of the Units on the Stock Exchange on the last Business Day on which the Units of the Fund are traded on a cum-Cash Distribution basis

In addition, the Issuer shall adjust the Exercise Price in accordance with the following formula:

$$\begin{array}{l} \text{Adjusted Exercise Price} \\ \text{(rounded to the nearest} \\ \text{0.001)} \end{array} = \text{Exercise Price} \times \frac{1}{\text{Adjustment Component}}$$

This adjustment to the Exercise Price shall take effect on the same day that the Entitlement is adjusted.

*(f) Other Adjustments*

Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the Warrants as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is:

- (i) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such adjustment in any particular jurisdiction); or
- (ii) determined by the Issuer in good faith to be appropriate and commercially reasonable.

*(g) Notice of Adjustments*

All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Holders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment and of the date from which such adjustment is effective by publication in accordance with Condition 11.

## **6. Illegality or Impracticability**

The Issuer is entitled to terminate the Warrants if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

- (a) for it to perform its obligations under the Warrants, in whole or in part as a result of:
  - (i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or
  - (ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),(each of (i) and (ii), a **Change in Law Event**); or
- (b) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the Warrants due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Holder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each Warrant held by such Holder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made to each Holder in such manner as shall be notified to the Holder in accordance with Condition 11.

## **7. Early Termination for Regulatory Order**

If the Issuer determines that the Securities and Futures Commission, the Stock Exchange or any of their respective successors issues an order or direction to the Issuer or its affiliate requiring the Warrants or the hedging arrangements in respect of the Warrants to be terminated early, the Issuer may at its discretion terminate the Warrants early by giving notice to the Holders in accordance with Condition 11.

If the Issuer terminates the Warrants early, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Holder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each Warrant held by such Holder immediately prior to such termination (ignoring such event) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made to each Holder in such manner as shall be notified to the Holder in accordance with Condition 11.

## **8. Purchases**

The Issuer and/or any of its subsidiaries and affiliates may at any time purchase Warrants at any price in the open market or by tender or by private treaty. Any Warrant so purchased may be held or resold or surrendered for cancellation.

## **9. Global Certificate**

The Warrants are represented by the Global Certificate registered in the name of HKSCC Nominees Limited and deposited with CCASS in accordance with the CCASS Rules. Holders will not be entitled to definitive certificates in respect of any Warrants issued or transferred to them.

## **10. Meetings of Holders; Modification**

### *(a) Meetings of Holders*

The Registrar's Agreement contains provisions for convening meetings of the Holders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Registrar's Agreement) of a modification of the provisions of the Warrants or of the Global Certificate. Any resolutions to be passed in a meeting of the Holders shall be decided by poll.

Such a meeting may be convened by the Issuer or by Holders holding not less than 10 per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Holders whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Holders as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Holders shall be binding on all the Holders, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Holders being held if passed unanimously.

### *(b) Modification*

The Issuer may, without the consent of the Holders, effect any modification of the terms and conditions of the Warrants or the Global Certificate which, in the opinion of the Issuer, is (i) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong. Any such modification shall be binding on the Holders and shall be notified to them by the Issuer as soon as practicable thereafter in accordance with Condition 11.

## **11. Notices**

All notices to Holders will be validly given if published in English and in Chinese on the website of Hong Kong Exchanges and Clearing Limited. If publication is not practicable, notice will be given in such other manner as the Issuer may determine.

## 12. Termination or Liquidation

In the event of a Termination or the liquidation or dissolution of the trustee of the Fund (including any successor trustee appointed from time to time) (**Trustee**) (in its capacity as trustee of the Fund) or the appointment of a liquidator, receiver or administrator or analogous person under Hong Kong law in respect of the whole or substantially the whole of its undertaking, property or assets, all unexercised Warrants will lapse and shall cease to be valid for any purpose, in the case of (i) voluntary liquidation, on the effective date of the relevant resolution, (ii) an involuntary liquidation or dissolution, on the date of the relevant court order, (iii) a Termination, on the effective date of the Termination, (iv) the appointment of a liquidator or receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, on the date on which such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

For the purpose of this Condition 12, **Termination** means (i) the Fund is terminated, or the Trustee or the manager of the Fund (including any successor manager appointed from time to time) (**Manager**) is required to terminate the Fund under the trust deed (**Trust Deed**) constituting the Fund or applicable law, or the termination of the Fund commences; (ii) the Fund is held or is conceded by the Trustee or the Manager not to have been constituted or to have been imperfectly constituted; (iii) the Trustee ceases to be authorised under the Fund to hold the property of the Fund in its name and perform its obligation under the Trust Deed; or (iv) the Fund ceases to be authorised as an authorised collective investment scheme under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

## 13. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Holders, to create and issue further warrants so as to form a single series with the Warrants.

## 14. Delisting

- (a) If at any time the Units cease to be listed on the Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments to the rights attaching to the Warrants as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Holders generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of any Holder or the tax or other consequences that may result in any particular jurisdiction).
- (b) Without prejudice to the generality of Condition 14(a), where the Units are, or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Holders, make such adjustments to the entitlements of Holders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into the relevant currency) as may be appropriate in the circumstances.
- (c) The Issuer shall determine, in its absolute discretion, any adjustment or amendment and its determination shall be conclusive and binding on the Holders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Holders in accordance with Condition 11 as soon as practicable after they are determined.

## 15. Good Faith and Commercially Reasonable Manner

Any exercise of discretion by the Issuer under these Conditions will be made in good faith and in a commercially reasonable manner.

## 16. Governing Law

The Warrants, the Global Certificate, the Registrar's Agreement and any non-contractual obligations arising out of or in connection with them will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China (**Hong Kong**). The Issuer and each Holder (by its purchase of the Warrants) shall be deemed to have submitted for all purposes in

connection with the Warrants, the Global Certificate, the Registrar's Agreement and any non-contractual obligations arising out of or in connection with them to the non-exclusive jurisdiction of the courts of Hong Kong.

## **17. Language**

In the event of any inconsistency between the Chinese translation of these Conditions and the English version of these Conditions, the English version of these Conditions shall prevail.

### **Registrar, Agent and Transfer Office:**

#### **Computershare Hong Kong Investor Services Limited**

Rooms 1712-1716, 17th Floor, Hopewell Centre

183 Queen's Road East

Hong Kong

## TERMS AND CONDITIONS OF THE INDEX WARRANTS (CASH SETTLED)

*The relevant Conditions will, together with the supplemental provisions contained in the relevant Supplemental Listing Document and subject to completion and amendment, be endorsed on the Global Certificate. The applicable Supplemental Listing Document in relation to the issue of any series of Warrants may specify additional terms and conditions which shall, to the extent so specified or to the extent inconsistent with the relevant Conditions, replace or modify the relevant Conditions for the purpose of such series of Warrants. Capitalised terms used in the relevant Conditions and not otherwise defined therein shall have the meaning given to them in the relevant Supplemental Listing Document.*

### 1. Form, Status, Transfer and Title

#### (a) Form

The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 12) relating to the Index as published by the Index Compiler are issued in registered form subject to and with the benefit of a global certificate by way of deed poll (the **Global Certificate**) dated the Issue Date, made by Daiwa Capital Markets Hong Kong Limited (the **Issuer**) and a base registrar's and structured product agency agreement (as amended, varied or supplemented from time to time or any successor document, the **Registrar's Agreement**) dated 13 September 2010 as supplemented by a Confirmation (as defined in the Registrar's Agreement) relating to the Warrants made between the Issuer and Computershare Hong Kong Investor Services Limited as registrar and agent for the Warrants (the **Registrar** and **Agent**, which expressions shall include any successors). Copies of the Global Certificate and the Registrar's Agreement are available for inspection at the specified office of the Registrar (the **Transfer Office**). The initial Transfer Office is set out below. The Holders (as defined below) are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Global Certificate and the Registrar's Agreement.

#### (b) Status

The Warrants represent general, unsecured, contractual obligations of the Issuer and of no other person and rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations of the Issuer.

#### (c) Transfer

Transfers of beneficial interests in the Warrants may be effected only in Board Lots or integral multiples thereof in CCASS (as defined below) in accordance with the CCASS Rules (as defined below).

#### (d) Title

Each person who is for the time being shown in the register kept by the Registrar as entitled to a particular number of Warrants shall be treated by the Issuer and the Registrar as the absolute owner and holder of such number of Warrants. The expression **Holder** shall be construed accordingly.

### 2. Warrant Rights and Exercise Expenses

#### (a) Warrant Rights

Every Board Lot entitles each Holder, upon due exercise and compliance with Condition 3, to the right to receive the payment of the Cash Settlement Amount (each as defined below), if any.

#### (b) Exercise Expenses

On exercise of the Warrants, Holders are required to pay all Exercise Expenses (as defined below). To effect such payment, an irrevocable authorisation to deduct all Exercise Expenses from the Cash Settlement Amount is deemed to be given by a Holder to the Issuer upon purchase of the Warrants.

(c) *Definitions*

For the purposes of these Conditions:

**Board Lot** has the meaning given to it in the relevant Supplemental Listing Document;

**Business Day** means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

**Cash Settlement Amount** means, in respect of every Board Lot, an amount calculated by the Issuer in accordance with the following formula (and, if appropriate, either (i) converted (if applicable) into the Settlement Currency at the Exchange Rate or (ii) converted into the Interim Currency at the First Exchange Rate and then (if applicable) converted into the Settlement Currency at the Second Exchange Rate), as the case may be:

(1) in respect of a series of Call Warrants:

$$\text{Cash Settlement Amount per Board Lot} = \frac{(\text{Closing Level} - \text{Strike Level}) \times \text{one Board Lot} \times \text{Index Currency Amount}}{\text{Divisor}}$$

(2) in respect of a series of Put Warrants:

$$\text{Cash Settlement Amount per Board Lot} = \frac{(\text{Strike Level} - \text{Closing Level}) \times \text{one Board Lot} \times \text{Index Currency Amount}}{\text{Divisor}}$$

provided that if the Cash Settlement Amount is a negative amount, it shall be deemed to be zero;

**CCASS** means the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited (**HKSCC**);

**CCASS Rules** means the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time;

**CCASS Settlement Day** has the meaning ascribed to the term “Settlement Day” in the CCASS Rules, subject to such modification and amendment prescribed by HKSCC from time to time;

**Closing Level** means the level specified as such in the relevant Supplemental Listing Document subject to any adjustment in accordance with Condition 5;

**Designated Bank Account** means the relevant bank account designated by the relevant Holder for the purpose of procuring payment of the Cash Settlement Amount electronically through CCASS;

**Divisor** means the number specified as such in the relevant Supplemental Listing Document;

**Exchange Rate** means, if applicable, the rate specified as such in the relevant Supplemental Listing Document;

**Exercise Expenses** means any charges or expenses including any taxes or duties which are incurred in respect of the exercise of the Warrants;

**Expiry Date** means the date specified as such in the relevant Supplemental Listing Document;

**First Exchange Rate** means, if applicable, the rate specified as such in the relevant Supplemental Listing Document;

**Index Currency Amount** has the meaning given to it in the relevant Supplemental Listing Document;

**Index Exchange** means the index exchange specified as such in the relevant Supplemental Listing Document;

**Interim Currency** means, if applicable, the currency specified as such in the relevant Supplemental Listing Document;

**Market Disruption Event** means:

- (1) the occurrence or existence, on the Valuation Date during the one-half hour period that ends at the close of trading on the Index Exchange, of any of:
  - (i) the suspension or material limitation of the trading of a material number of constituent securities that comprise the Index; or
  - (ii) the suspension or material limitation of the trading of options or futures contracts relating to the Index on any exchanges on which such contracts are traded; or
  - (iii) the imposition of any exchange controls in respect of any currencies involved in determining the Cash Settlement Amount,

for the purposes of paragraph (1), (x) the limitation of the number of hours or days of trading will not constitute a Market Disruption Event if it results from an announced change in the regular business hours of any relevant exchange, and (y) a limitation on trading imposed by reason of the movements in price exceeding the levels permitted by any relevant exchange will constitute a Market Disruption Event; or

- (2) where the Index Exchange is the Stock Exchange, the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a “BLACK” rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the “BLACK” rainstorm signal having been issued; or
- (3) a limitation or closure of the Index Exchange due to any unforeseen circumstances; or
- (4) any circumstances beyond the control of the Issuer in which the Closing Level or, if applicable, the Exchange Rate, the First Exchange Rate or the Second Exchange Rate (as the case may be) cannot be determined by the Issuer in the manner set out in these Conditions or in such other manner as the Issuer considers appropriate at such time after taking into account all the relevant circumstances;

**Second Exchange Rate** means, if applicable, the rate specified as such in the relevant Supplemental Listing Document;

**Settlement Currency** means the currency specified as such in the relevant Supplemental Listing Document;

**Settlement Date** means the third CCASS Settlement Day after the later of: (i) the Expiry Date; and (ii) the day on which the Closing Level is determined in accordance with these Conditions;

**Settlement Disruption Event** means an event beyond the control of the Issuer as a result of which the Issuer is unable to procure payment of the Cash Settlement Amount electronically through CCASS to the Designated Bank Account;

**Stock Exchange** means The Stock Exchange of Hong Kong Limited;

**Strike Level** means the level specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 5; and

**Valuation Date** means the date specified in the Supplemental Listing Document, provided that if the Issuer determines, in its sole discretion, that a Market Disruption Event has occurred on the Valuation Date, then the Issuer shall determine the Closing Level on the basis of its good faith estimate of the Closing Level that would have prevailed on that day but for the occurrence of the Market Disruption Event, provided that the Issuer, if applicable, may, but shall not be obliged to, determine such Closing Level by having regard to the manner in which futures contracts relating to the Index are calculated.

### **3. Exercise of Warrants**

#### *(a) Exercise of Warrants*

The Warrants are exercisable only on the Expiry Date.

#### *(b) Automatic Exercise*

All Warrants will automatically be exercised if the Cash Settlement Amount on the Expiry Date is greater than zero (without notice being given to the Holders). The Holders will not be required to deliver any exercise notice and the Issuer or its agent will pay to the Holders the Cash Settlement Amount (if any) in accordance with Condition 3(f).

#### *(c) Expiry*

Any Warrant which has not been automatically exercised in accordance with Condition 3(b) shall expire immediately without value thereafter and all rights of the Holder and obligations of the Issuer with respect to such Warrant shall cease.

#### *(d) Board Lots*

Warrants may only be exercised in a Board Lot or integral multiples thereof.

#### *(e) Cancellation*

The Issuer will procure that the Registrar will, with effect from the first Business Day following the Expiry Date, remove from its register the name of the person in respect of the Warrants which (i) are the subject of an automatic exercise in accordance with these Conditions; or (ii) have expired worthless and thereby cancel the relevant Warrants.

#### *(f) Cash Settlement*

Subject to and in accordance with these Conditions, the Issuer will make a payment, in respect of every Board Lot, to the relevant Holder equal to the Cash Settlement Amount (net of any Exercise Expenses).

The Cash Settlement Amount (net of any Exercise Expenses) shall be despatched not later than the Settlement Date by crediting that amount in accordance with the CCASS Rules, to the Designated Bank Account.

If as a result of a Settlement Disruption Event, it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of the Settlement Disruption Event.

### **4. Registrar and Transfer Office**

- (a) The initial Registrar and the Transfer Office, are set out below. The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the Registrar and to appoint another Registrar provided that it will at all times maintain a Registrar which, so long as the

Warrants are listed on the Stock Exchange, shall be in Hong Kong. Notice of any such termination or appointment and of any change in the Transfer Office or the specified office of the Registrar will be given to the Holders in accordance with Condition 11.

- (b) The Registrar will be acting as agent of the Issuer in respect of any Warrant and will not assume any obligation or duty to or any relationship of agency or trust for the Holders.

## 5. Adjustments to the Index

### (a) *Successor Index Compiler Calculates and Reports Index*

If the Index is (i) not calculated and announced by the Index Compiler but is calculated and published by a successor to the Index Compiler (the **Successor Index Compiler**) acceptable to the Issuer or (ii) replaced by a successor index using, in the determination of the Issuer, the same or a substantially similar formula for and method of calculation as used in the calculation of the Index, then the Index will be deemed to be the index so calculated and announced by the Successor Index Compiler or that successor index, as the case may be.

### (b) *Modification and Cessation of Calculation of Index*

If:

- (i) on or prior to the Valuation Date the Index Compiler or (if applicable) the Successor Index Compiler makes a material change in the formula for or the method of calculating the Index or in any other way materially modifies the Index (other than a modification prescribed in that formula or method to maintain the Index in the event of changes in constituent stock, contracts or commodities and other routine events); or
- (ii) on the Valuation Date the Index Compiler or (if applicable) the Successor Index Compiler fails to calculate and publish the Index (other than as a result of a Market Disruption Event),

then the Issuer shall determine the Closing Level using, in lieu of a published level for the Index, the level for the Index as at that Valuation Date as determined by the Issuer in accordance with the formula for and method of calculating the Index last in effect prior to that change or failure, but using only those securities, contracts, commodities or currencies that comprised the Index immediately prior to that change or failure (other than those securities, contracts, commodities or currencies that have since ceased to be listed on the relevant exchange).

### (c) *Other Adjustments*

Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the Warrants as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is:

- (i) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such adjustment in any particular jurisdiction); or
- (ii) determined by the Issuer in good faith to be appropriate and commercially reasonable.

### (d) *Notice of Adjustments*

All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Holders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment and of the date from which such adjustment is effective by publication in accordance with Condition 11.

## 6. Illegality or Impracticability

The Issuer is entitled to terminate the Warrants if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

- (a) for it to perform its obligations under the Warrants, in whole or in part as a result of:
  - (i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or
  - (ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),(each of (i) and (ii), a **Change in Law Event**); or
- (b) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the Warrants due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Holder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each Warrant held by such Holder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made to each Holder in such manner as shall be notified to the Holder in accordance with Condition 11.

## 7. Early Termination for Regulatory Order

If the Issuer determines that the Securities and Futures Commission, the Stock Exchange or any of their respective successors issues an order or direction to the Issuer or its affiliate requiring the Warrants or the hedging arrangements in respect of the Warrants to be terminated early, the Issuer may at its discretion terminate the Warrants early by giving notice to the Holders in accordance with Condition 11.

If the Issuer terminates the Warrants early, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Holder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each Warrant held by such Holder immediately prior to such termination (ignoring such event) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made to each Holder in such manner as shall be notified to the Holder in accordance with Condition 11.

## 8. Purchases

The Issuer and/or any of its subsidiaries and affiliates may at any time purchase Warrants at any price in the open market or by tender or by private treaty. Any Warrant so purchased may be held or resold or surrendered for cancellation.

## 9. Global Certificate

The Warrants are represented by the Global Certificate registered in the name of HKSCC Nominees Limited and deposited with CCASS in accordance with the CCASS Rules. Holders will not be entitled to definitive certificates in respect of any Warrants issued or transferred to them.

## 10. Meetings of Holders; Modification

### (a) Meetings of Holders

The Registrar's Agreement contains provisions for convening meetings of the Holders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Registrar's Agreement) of a modification of the provisions of the Warrants or of the Global Certificate. Any resolutions to be passed in a meeting of the Holders shall be decided by poll.

Such a meeting may be convened by the Issuer or by Holders holding not less than 10 per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Holders whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Holders as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Holders shall be binding on all the Holders, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Holders being held if passed unanimously.

*(b) Modification*

The Issuer may, without the consent of the Holders, effect any modification of the terms and conditions of the Warrants or the Global Certificate which, in the opinion of the Issuer, is (i) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong. Any such modification shall be binding on the Holders and shall be notified to them by the Issuer as soon as practicable thereafter in accordance with Condition 11.

## **11. Notices**

All notices to Holders will be validly given if published in English and in Chinese on the website of Hong Kong Exchanges and Clearing Limited. If publication is not practicable, notice will be given in such other manner as the Issuer may determine.

## **12. Further Issues**

The Issuer shall be at liberty from time to time, without the consent of the Holders, to create and issue further warrants so as to form a single series with the Warrants.

## **13. Good Faith and Commercially Reasonable Manner**

Any exercise of discretion by the Issuer under these Conditions will be made in good faith and in a commercially reasonable manner.

## **14. Governing Law**

The Warrants, the Global Certificate, the Registrar's Agreement and any non-contractual obligations arising out of or in connection with them will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China (**Hong Kong**). The Issuer and each Holder (by its purchase of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants, the Global Certificate, the Registrar's Agreement and any non-contractual obligations arising out of or in connection with them to the non-exclusive jurisdiction of the courts of Hong Kong.

## **15. Language**

In the event of any inconsistency between the Chinese translation of these Conditions and the English version of these Conditions, the English version of these Conditions shall prevail.

### **Registrar, Agent and Transfer Office:**

#### **Computershare Hong Kong Investor Services Limited**

Rooms 1712-1716, 17th Floor, Hopewell Centre

183 Queen's Road East

Hong Kong

## TERMS AND CONDITIONS OF THE EQUITY CALLABLE BULL/BEAR CONTRACTS (CASH SETTLED)

*The relevant Conditions will, together with the supplemental provisions contained in the relevant Supplemental Listing Document and subject to completion and amendment, be endorsed on the Global Certificate. The applicable Supplemental Listing Document in relation to the issue of any series of CBBCs may specify additional terms and conditions which shall, to the extent so specified or to the extent inconsistent with the relevant Conditions, replace or modify the relevant Conditions for the purpose of such series of CBBCs. Capitalised terms used in the relevant Conditions and not otherwise defined therein shall have the meaning given to them in the relevant Supplemental Listing Document.*

### 1. Form, Status, Transfer and Title

#### (a) Form

The callable bull/bear contracts (the **CBBCs**, which expression shall, unless the context otherwise requires, include any further CBBCs issued pursuant to Condition 13) relating to the Shares of the Company are issued in registered form subject to and with the benefit of a global certificate by way of deed poll (the **Global Certificate**) dated the Issue Date, made by Daiwa Capital Markets Hong Kong Limited (the **Issuer**) and a base registrar's and structured product agency agreement (as amended, varied or supplemented from time to time or any successor document, the **Registrar's Agreement**) dated 13 September 2010 as supplemented by a Confirmation (as defined in the Registrar's Agreement) relating to the CBBCs made between the Issuer and Computershare Hong Kong Investor Services Limited as registrar and agent for the CBBCs (the **Registrar** and **Agent**, which expressions shall include any successors). Copies of the Global Certificate and the Registrar's Agreement are available for inspection at the specified office of the Registrar (the **Transfer Office**). The initial Transfer Office is set out below. The Holders (as defined below) are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Global Certificate and the Registrar's Agreement.

#### (b) Status

The CBBCs represent general, unsecured, contractual obligations of the Issuer and of no other person and rank pari passu among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations of the Issuer.

#### (c) Transfer

Transfers of beneficial interests in the CBBCs may be effected only in Board Lots or integral multiples thereof in CCASS (as defined below) in accordance with the CCASS Rules (as defined below).

#### (d) Title

Each person who is for the time being shown in the register kept by the Registrar as entitled to a particular number of CBBCs shall be treated by the Issuer and the Registrar as the absolute owner and holder of such number of CBBCs. The expression **Holder** shall be construed accordingly.

### 2. CBBC Rights and Exercise Expenses

#### (a) CBBC Rights

Every Board Lot entitles each Holder, (i) upon due exercise and compliance with Condition 3, the right to receive the payment of the Cash Settlement Amount (if any) or (ii) upon compliance with Condition 3, the right to receive the payment of the Residual Value (if any) following the occurrence of a Mandatory Call Event (all as defined below).

(b) *Exercise Expenses*

On exercise of the CBBCs or upon the occurrence of a Mandatory Call Event, Holders are required to pay the Exercise Expenses (as defined below). To effect such payment, an irrevocable authorisation to deduct all Exercise Expenses from the Cash Settlement Amount (if any) or the Residual Value (if any) (as the case may be) is deemed to be given by a Holder to the Issuer upon purchase of the CBBCs.

(c) *Definitions*

For the purposes of these Conditions:

**Board Lot** has the meaning given to it in the relevant Supplemental Listing Document;

**Business Day** means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

**Call Price** means the price specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 5;

**Cash Settlement Amount** means, in respect of every Board Lot, an amount in the Settlement Currency calculated by the Issuer in accordance with the following formula:

(1) in the case of a series of Bull CBBCs:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement} \times (\text{Closing Price} - \text{Strike Price}) \times \text{one Board Lot}}{\text{Number of CBBCs per Entitlement}}$$

(2) in the case of a series of Bear CBBCs:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement} \times (\text{Strike Price} - \text{Closing Price}) \times \text{one Board Lot}}{\text{Number of CBBCs per Entitlement}}$$

provided that if the Cash Settlement Amount is a negative amount, it shall be deemed to be zero;

**CCASS** means the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited (**HKSCC**);

**CCASS Rules** means the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time;

**CCASS Settlement Day** has the meaning ascribed to the term “Settlement Day” in the General Rules of CCASS, subject to such modification and amendment prescribed by HKSCC from time to time;

**Closing Price** means the closing price of one Share (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustments to such closing price as may be necessary to reflect any capitalisation, rights issue, distribution or the like) on the Valuation Date;

**Designated Bank Account** means the relevant bank account designated by the relevant Holder for the purpose of procuring payment of the Cash Settlement Amount or the Residual Value (as the case may be) electronically through CCASS;

**Entitlement** means the number specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 5;

**Exercise Expenses** means any charges or expenses including any taxes or duties which are incurred in respect of the exercise of the CBBCs or the occurrence of a Mandatory Call Event (as the case may be);

**Expiry Date** means the date specified as such in the relevant Supplemental Listing Document;

**Mandatory Call Event** occurs when the Spot Price of the Shares at any time on any Trading Day during the Observation Period is:

- (i) in the case of a series of Bull CBBCs, at or below the Call Price; or
- (ii) in the case of a series of Bear CBBCs, at or above the Call Price;

**Market Disruption Event** means:

- (1) the occurrence or existence, on any Trading Day during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in (a) the Shares; or (b) any options or futures contracts relating to the Shares if, in any such case, such suspension or limitation is, in the determination of the Issuer, material;
- (2) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a “BLACK” rainstorm signal on any day which either (a) results in the Stock Exchange being closed for trading for the entire day; or (b) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the “BLACK” rainstorm signal having been issued; or
- (3) a limitation or closure of the Stock Exchange due to any unforeseen circumstances;

**Maximum Trade Price** means the highest Spot Price of the Shares during the MCE Valuation Period;

**MCE Valuation Period** means the period commencing from and including the moment upon which the Mandatory Call Event occurs (the trading session during which the Mandatory Call Event occurs is the “**1st Session**”) and up to the end of the trading session on the Stock Exchange immediately following the 1st Session (“**2nd Session**”) unless, in the determination of the Issuer in its good faith, the 2nd Session for any reason (including, without limitation, a Market Disruption Event occurring and subsisting in the 2nd Session) does not contain any continuous period of 1 hour or more than 1 hour during which trading in the Shares is permitted on the Stock Exchange with no limitation imposed, the MCE Valuation Period shall be extended to the end of the subsequent trading session following the 2nd Session during which trading in the Shares is permitted on the Stock Exchange with no limitation imposed for a continuous period of at least 1 hour notwithstanding the existence or continuance of a Market Disruption Event in such postponed trading session, unless the Issuer determines in its good faith that each trading session on each of the four Trading Days immediately following the date on which the Mandatory Call Event occurs does not contain any continuous period of 1 hour or more than 1 hour during which trading in the Shares is permitted on the Stock Exchange with no limitation imposed. In that case:

- (i) the period commencing from the 1st Session up to, and including, the last trading session on the Stock Exchange of the fourth Trading Day immediately following the date on which the Mandatory Call Event occurs shall be deemed to be the MCE Valuation Period; and
- (ii) the Issuer shall determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) having regard to the then prevailing market conditions, the last reported Spot Price and such other factors as the Issuer may determine to be relevant in its good faith.

For the avoidance of doubt, all Spot Prices available throughout the extended MCE Valuation Period shall be taken into account to determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) for the calculation of the Residual Value.

For the purposes of this definition,

- (a) the pre-opening session, the morning session and, in the case of half day trading, the closing auction session (if any) of the same day; and

(b) the afternoon session and the closing auction session (if any) of the same day, shall each be considered as one trading session only;

**Minimum Trade Price** means the lowest Spot Price of the Shares during the MCE Valuation Period;

**Number of CBBCs per Entitlement** has the meaning given to it in the relevant Supplemental Listing Document;

**Observation Commencement Date** means the date specified as such in the relevant Supplemental Listing Document;

**Observation Period** means the period from (and including) the Observation Commencement Date to (and including) the Trading Day immediately preceding the Expiry Date;

**Post MCE Trades** has the meaning given to it in the relevant Supplemental Listing Document, subject to such modification and amendment prescribed by the Stock Exchange from time to time;

**Residual Value** means:

(1) in the case of a series of Category R CBBCs:

(i) in the case of a series of Bull CBBCs and in respect of every Board Lot, an amount in the Settlement Currency calculated by the Issuer in accordance with the following formula:

$$\text{Residual Value per Board Lot} = \frac{\text{Entitlement} \times (\text{Minimum Trade Price} - \text{Strike Price}) \times \text{one Board Lot}}{\text{Number of CBBCs per Entitlement}}$$

(ii) in the case of a series of Bear CBBCs and in respect of every Board Lot, an amount in the Settlement Currency calculated by the Issuer in accordance with the following formula:

$$\text{Residual Value per Board Lot} = \frac{\text{Entitlement} \times (\text{Strike Price} - \text{Maximum Trade Price}) \times \text{one Board Lot}}{\text{Number of CBBCs per Entitlement}}$$

provided that if the Residual Value is a negative amount, it shall be deemed to be zero;

(2) in the case of a series of Category N CBBCs, zero;

**Settlement Currency** means the currency specified as such in the relevant Supplemental Listing Document;

**Settlement Date** means the third CCASS Settlement Day after (i) the end of the MCE Valuation Period; or (ii) the later of: (a) the Expiry Date; and (b) the day on which the Closing Price is determined in accordance with these Conditions;

**Settlement Disruption Event** means an event beyond the control of the Issuer as a result of which the Issuer is unable to procure payment of the Residual Value (if any) or the Cash Settlement Amount (if any) (as the case may be) electronically through CCASS to the Designated Bank Account;

**Spot Price** means:

(a) in respect of a continuous trading session of the Stock Exchange, the price per Share concluded by means of automatic order matching on the Stock Exchange as reported in the official real-time dissemination mechanism for the Stock Exchange during such continuous trading session in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules); and

- (b) in respect of a pre-opening session or a closing auction session (if applicable) of the Stock Exchange, as the case may be, the final Indicative Equilibrium Price (as defined in the Trading Rules) of the Share (if any) calculated at the end of the pre-order matching period of such pre-opening session or closing auction session (if applicable), as the case may be, in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules),

subject to such modification and amendment prescribed by the Stock Exchange from time to time;

**Stock Exchange** means The Stock Exchange of Hong Kong Limited;

**Strike Price** means the price specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 5;

**Trading Day** means any day on which the Stock Exchange is scheduled to open for trading for its regular trading sessions;

**Trading Rules** means the Rules of the Exchange prescribed by the Stock Exchange from time to time; and

**Valuation Date** means the Trading Day immediately preceding the Expiry Date provided that, if the Issuer determines, in its sole discretion, that a Market Disruption Event has occurred on the Valuation Date, then the Valuation Date shall be the first succeeding Trading Day on which the Issuer determines that there is no Market Disruption Event, unless the Issuer determines that there is a Market Disruption Event occurring on each of the four Trading Days immediately following the original date which (but for the Market Disruption Event) would have been the Valuation Date. In that case:

- (i) the fourth Trading Day immediately following the original date shall be deemed to be the Valuation Date (regardless of the Market Disruption Event); and
- (ii) the Issuer shall determine the Closing Price having regard to the then prevailing market conditions, the last reported trading price of the Share on the Stock Exchange and such other factors as the Issuer determines to be relevant.

### **3. Exercise of CBBCs**

#### *(a) Exercise of CBBCs*

The CBBCs are exercisable on the Expiry Date, provided that a Mandatory Call Event has not occurred.

#### *(b) Mandatory Call Event*

Any CBBC in respect of which a Mandatory Call Event has occurred will automatically be exercised on the date on which a Mandatory Call Event occurs and every Board Lot will entitle the Holder to receive the Residual Value (if any) in accordance with Condition 3(g). Trading in the CBBCs will be suspended immediately upon the occurrence of a Mandatory Call Event and any Post MCE Trades will be cancelled and will not be recognised by the Issuer or the Stock Exchange.

#### *(c) Automatic Exercise*

Any CBBC which has not been automatically exercised upon the occurrence of a Mandatory Call Event will automatically be exercised on the Expiry Date (without prior notice being given to the Holders). The Holders will not be required to deliver any exercise notice and the Issuer or its agent will pay to the Holders the Cash Settlement Amount (if any) in accordance with Condition 3(g).

*(d) Issuer's Obligations*

For the avoidance of doubt, where the CBBCs have been exercised on the Expiry Date or have automatically exercised upon the occurrence of a Mandatory Call Event (as the case may be), payment of the Cash Settlement Amount (if any) or the Residual Value (if any) (as the case may be) shall constitute full and final settlement of the obligations of the Issuer with respect to the CBBCs. Subject to such payment having been made or if the Cash Settlement Amount or the Residual Value (as the case may be) is zero, the Issuer shall have no obligation towards the relevant Holder under the CBBCs subsequent to such Expiry Date or the date on which a Mandatory Call Event occurs (as the case may be).

*(e) Board Lots*

CBBCs may only be exercised in a Board Lot or integral multiples thereof.

*(f) Cancellation*

The Issuer will procure that the Registrar will, with effect from the first Business Day following the date on which a Mandatory Call Event occurs or the Expiry Date (as the case may be), remove from its register the name of the person in respect of the CBBCs which (i) are the subject of an occurrence of a Mandatory Call Event; or (ii) are the subject of an automatic exercise in accordance with these Conditions, and thereby cancel the relevant CBBCs.

*(g) Cash Settlement*

Following automatic exercise of CBBCs in accordance with these Conditions and notwithstanding cancellation of the CBBCs in accordance with Condition 3(f), the Issuer will make a payment, in respect of every Board Lot, to the relevant Holder equal to the Residual Value (if any) or the Cash Settlement Amount (if any) (as the case may be) (net of any Exercise Expenses).

The Residual Value (if any) or the Cash Settlement Amount (if any) (net of any Exercise Expenses) shall be despatched not later than the Settlement Date by crediting that amount in accordance with the CCASS Rules, to the Designated Bank Account.

If as a result of a Settlement Disruption Event, it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder on the original Settlement Date, the Issuer shall use its reasonable endeavours to (i) procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder and (ii) notify the Holder in accordance with Condition 11, as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of the Settlement Disruption Event, nor shall the Issuer be liable under any circumstances for any acts or defaults of CCASS in relation to the performance of its duties in relation to the CBBCs.

#### **4. Registrar and Transfer Office**

- (a) The initial Registrar and the Transfer Office, are set out below. The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the Registrar and to appoint another Registrar provided that it will at all times maintain a Registrar, which, so long as the CBBCs are listed on the Stock Exchange, shall be in Hong Kong. Notice of any such termination or appointment and of any change in the Transfer Office or the specified office of the Registrar will be given to the Holders in accordance with Condition 11.
- (b) The Registrar will be acting as agent of the Issuer in respect of any CBBCs and will not assume any obligation or duty to or any relationship of agency or trust for the Holders.

## 5. Adjustments

### (a) Rights Issues

If and whenever the Company shall, by way of Rights (as defined below), offer new Shares for subscription at a fixed subscription price to the holders of existing Shares pro rata to existing holdings (a **Rights Offer**), the Entitlement will be adjusted to take effect on the Business Day on which trading in the Shares of the Company becomes ex-entitlement in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Component} \times E$$

Where:

$$\text{Adjustment Component} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer

S: Cum-Rights Share price determined by the closing price on the Stock Exchange on the last Business Day on which Shares are traded on a cum-Rights basis

R: Subscription price per Share as specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Right

M: Number of new Share(s) (whether a whole or a fraction) per existing Share each holder thereof is entitled to subscribe

Provided that if the adjustment to be made would result in the Entitlement being changed by one per cent. or less, then no adjustment will be made to the Entitlement. In addition, the Issuer shall adjust the Call Price and Strike Price in accordance with the following formula:

$$\begin{aligned} \text{Adjusted Call Price} &= \text{Call Price} \times \frac{1}{\text{Adjustment Component}} \\ &\text{(rounded to the nearest} \\ &0.001) \end{aligned}$$

$$\begin{aligned} \text{Adjusted Strike Price} &= \text{Strike Price} \times \frac{1}{\text{Adjustment Component}} \\ &\text{(rounded to the nearest} \\ &0.001) \end{aligned}$$

This adjustment to the Call Price and Strike Price shall take effect on the same day that the Entitlement is adjusted.

For the purposes of these Conditions:

**Rights** means the right(s) attached to each existing Share or needed to acquire one new Share (as the case may be) which are given to the holders of existing Shares to subscribe at a fixed subscription price for new Shares pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

(b) *Bonus Issues*

If and whenever the Company shall make an issue of Shares credited as fully paid to the holders of Shares generally by way of capitalisation of profits or reserves (other than pursuant to a scrip dividend or similar scheme for the time being operated by the Company or otherwise in lieu of a cash dividend and without any payment or other consideration being made or given by such holders) (a **Bonus Issue**) the Entitlement will be increased on the Business Day on which trading in the Shares of the Company becomes ex-entitlement in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Component} \times E$$

Where:

$$\text{Adjustment Component} = (1 + N)$$

E: Existing Entitlement immediately prior to the Bonus Issue

N: Number of additional Shares (whether a whole or a fraction) received by a holder of existing Shares for each Share held prior to the Bonus Issue

Provided that if the adjustment to be made would result in the Entitlement being changed by one per cent. or less, then no adjustment will be made to the Entitlement. In addition, the Issuer shall adjust the Call Price and Strike Price in accordance with the following formula:

$$\begin{array}{l} \text{Adjusted Call Price} = \text{Call Price} \times \frac{1}{\text{Adjustment Component}} \\ \text{(rounded to the nearest} \\ \text{0.001)} \end{array}$$

$$\begin{array}{l} \text{Adjusted Strike Price} = \text{Strike Price} \times \frac{1}{\text{Adjustment Component}} \\ \text{(rounded to the nearest} \\ \text{0.001)} \end{array}$$

This adjustment to the Call Price and Strike Price shall take effect on the same day that the Entitlement is adjusted.

(c) *Share Splits or Consolidations*

If and whenever the Company shall subdivide its Shares or any class of its outstanding share capital comprised of the Shares into a greater number of shares (a **Subdivision**) or consolidate the Shares or any class of its outstanding share capital comprised of the Shares into a smaller number of shares (a **Consolidation**), the Entitlement in effect immediately prior thereto will be increased (in the case of a Subdivision) or decreased (in the case of a Consolidation) accordingly in each case on the day on which the relevant Subdivision or Consolidation shall have taken effect. In addition, the Call Price and Strike Price (which shall be rounded to the nearest 0.001) will be decreased (in the case of a Subdivision) or increased (in the case of a Consolidation) accordingly. This adjustment to the Call Price and Strike Price shall take effect on the same day that the Entitlement is adjusted.

(d) *Merger or Consolidation*

If it is announced that the Company is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of any corporation or controlled by any person or corporation) (except where the Company is the surviving corporation in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the CBBCs may in the absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a **Restructuring Event**) (as determined by the Issuer in its absolute discretion).

The rights attaching to the CBBCs after the adjustment shall, after such Restructuring Event, relate to the number of shares of the corporation(s) resulting from or surviving such Restructuring Event or other securities (**Substituted Securities**) and/or cash offered in substitution for the affected Shares, as the case may be, to which the holder of such number of Shares to which the CBBCs related immediately before such

Restructuring Event would have been entitled upon such Restructuring Event. Thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Issuer, be deemed to be replaced by an amount in the relevant currency equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected.

For the avoidance of doubt, any remaining Shares shall not be affected by this paragraph (d) and, where cash is offered in substitution for Shares or is deemed to replace Substituted Securities as described above, references in these Conditions to the Shares shall include any such cash.

*(e) Cash Distributions*

Generally, no capital adjustment will be made for an ordinary cash dividend (whether or not it is offered with a scrip alternative). For any other forms of cash distribution (each a **Cash Distribution**) announced by the Company, such as a cash bonus, special dividend or extraordinary dividend, no capital adjustment will be made unless the value of the Cash Distribution accounts for 2 per cent. or more of the Share’s closing price on the day of announcement by the Company.

If and whenever the Company shall make a Cash Distribution credited as fully paid to the holders of Shares generally, the Entitlement will be adjusted to take effect on the Business Day on which trading in the Shares of the Company becomes ex-entitlement in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Component} \times E$$

Where:

$$\text{Adjustment Component} = \frac{S - OD}{S - OD - CD}$$

provided that OD shall be deducted from S only if the Business Day on which trading in the Shares of the Company becomes ex-entitlement with respect to the Cash Distribution and the distribution of the ordinary cash dividend by the Company falls on the same date.

- OD: Amount of the relevant ordinary cash dividend per Share
- CD: Amount of the relevant Cash Distribution per Share
- E: Existing Entitlement immediately prior to the Cash Distribution
- S: Cum-Cash Distribution Share price being the closing price of the Shares on the Stock Exchange on the last Business Day on which the Shares of the Company are traded on a cum-Cash Distribution basis

In addition, the Issuer shall adjust the Call Price and the Strike Price, as applicable, in accordance with the following formulae:

$$\begin{aligned} \text{Adjusted Call Price} &= \text{Call Price} \times \frac{1}{\text{Adjustment Component}} \\ \text{(rounded to the nearest} & \\ \text{0.001)} & \end{aligned}$$

$$\begin{aligned} \text{Adjusted Strike Price} &= \text{Strike Price} \times \frac{1}{\text{Adjustment Component}} \\ \text{(rounded to the nearest} & \\ \text{0.001)} & \end{aligned}$$

The adjustments to the Call Price and the Strike Price, as applicable, shall take effect on the same day that the Entitlement is adjusted.

(f) *Other Adjustments*

Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the CBBCs as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is:

- (i) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such adjustment in any particular jurisdiction); or
- (ii) determined by the Issuer in good faith to be appropriate and commercially reasonable.

(g) *Notice of Adjustments*

All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Holders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment and of the date from which such adjustment is effective by publication in accordance with Condition 11.

## 6. **Illegality or Impracticability**

The Issuer is entitled to terminate the CBBCs if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

- (a) for it to perform its obligations under the CBBCs, in whole or in part as a result of:
  - (i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or
  - (ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),(each of (i) and (ii), a **Change in Law Event**); or
- (b) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the CBBCs due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Holder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each CBBC held by such Holder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made to each Holder in such manner as shall be notified to the Holder in accordance with Condition 11.

## 7. **Early Termination for Regulatory Order**

If the Issuer determines that the Securities and Futures Commission, the Stock Exchange or any of their respective successors issues an order or direction to the Issuer or its affiliate requiring the CBBCs or the hedging arrangements in respect of the CBBCs to be terminated early, the Issuer may at its discretion terminate the CBBCs early by giving notice to the Holders in accordance with Condition 11.

If the Issuer terminates the CBBCs early, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Holder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each CBBC held by such Holder immediately prior to such termination (ignoring such event) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made to each Holder in such manner as shall be notified to the Holder in accordance with Condition 11.

## **8. Purchases**

The Issuer and/or any of its subsidiaries and affiliates may at any time purchase CBBCs at any price in the open market or by tender or by private treaty. Any CBBCs so purchased may be held or resold or surrendered for cancellation.

## **9. Global Certificate**

The CBBCs are represented by the Global Certificate registered in the name of HKSCC Nominees Limited and deposited with CCASS in accordance with the CCASS Rules. Holders will not be entitled to definitive certificates in respect of any CBBCs issued or transferred to them.

## **10. Meetings of Holders; Modification**

### *(a) Meetings of Holders*

The Registrar's Agreement contains provisions for convening meetings of the Holders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Registrar's Agreement) of a modification of the provisions of the CBBCs or of the Global Certificate.

Any resolutions to be passed in a meeting of the Holders shall be decided by poll. Such a meeting may be convened by the Issuer or by Holders holding not less than 10 per cent. of the CBBCs for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 per cent. of the CBBCs for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Holders whatever the number of CBBCs so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Holders as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Holders shall be binding on all the Holders, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Holders being held if passed unanimously.

### *(b) Modification*

The Issuer may, without the consent of the Holders, effect any modification of the terms and conditions of the CBBCs or the Global Certificate which, in the opinion of the Issuer, is (i) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong. Any such modification shall be binding on the Holders and shall be notified to them by the Issuer as soon as practicable thereafter in accordance with Condition 11.

## **11. Notices**

All notices to Holders will be validly given if published in English and in Chinese on the website of Hong Kong Exchanges and Clearing Limited. If publication is not practicable, notice will be given in such other manner as the Issuer may determine.

## **12. Liquidation**

In the event of a liquidation or dissolution of the Company or the appointment of a liquidator, receiver or administrator or analogous person under the laws of its jurisdiction of incorporation in respect of the whole or substantially the whole of its undertaking, property or assets, all unexercised CBBCs will lapse and shall cease to be valid for any purpose, in the case of voluntary liquidation, on the effective date of the relevant resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under any

applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

### **13. Further Issues**

The Issuer shall be at liberty from time to time, without the consent of the Holders, to create and issue further CBBCs so as to form a single series with the CBBCs.

### **14. Delisting**

- (a) If at any time the Shares cease to be listed on the Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments to the rights attaching to the CBBCs as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Holders generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of any Holder or the tax or other consequences that may result in any particular jurisdiction).
- (b) Without prejudice to the generality of Condition 14(a), where the Shares are, or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Holders, make such adjustments to the entitlements of Holders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into the relevant currency) as may be appropriate in the circumstances.
- (c) The Issuer shall determine, in its absolute discretion, any adjustment or amendment and its determination shall be conclusive and binding on the Holders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Holders in accordance with Condition 11 as soon as practicable after they are determined.

### **15. Good Faith and Commercially Reasonable Manner**

Any exercise of discretion by the Issuer under these Conditions will be made in good faith and in a commercially reasonable manner.

### **16. Governing Law**

The CBBCs, the Global Certificate, the Registrar's Agreement and any non-contractual obligations arising out of or in connection with them will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China (**Hong Kong**). The Issuer and each Holder (by its purchase of the CBBCs) shall be deemed to have submitted for all purposes in connection with the CBBCs, the Global Certificate, the Registrar's Agreement and any non-contractual obligations arising out of or in connection with them to the non-exclusive jurisdiction of the courts of Hong Kong.

### **17. Language**

In the event of any inconsistency between the Chinese translation of these Conditions and the English version of these Conditions, the English version of these Conditions shall prevail.

#### **Registrar, Agent and Transfer Office:**

**Computershare Hong Kong Investor Services Limited**  
Rooms 1712-1716, 17th Floor, Hopewell Centre  
183 Queen's Road East  
Hong Kong

## **TERMS AND CONDITIONS OF THE FUND CALLABLE BULL/BEAR CONTRACTS (CASH SETTLED)**

*The relevant Conditions will, together with the supplemental provisions contained in the relevant Supplemental Listing Document and subject to completion and amendment, be endorsed on the Global Certificate. The applicable Supplemental Listing Document in relation to the issue of any series of CBBCs may specify additional terms and conditions which shall, to the extent so specified or to the extent inconsistent with the relevant Conditions, replace or modify the relevant Conditions for the purpose of such series of CBBCs. Capitalised terms used in the relevant Conditions and not otherwise defined therein shall have the meaning given to them in the relevant Supplemental Listing Document.*

### **1. Form, Status, Transfer and Title**

#### *(a) Form*

The callable bull/bear contracts (the **CBBCs**, which expression shall, unless the context otherwise requires, include any further CBBCs issued pursuant to Condition 13) relating to the Units of the Fund are issued in registered form subject to and with the benefit of a global certificate by way of deed poll (the **Global Certificate**) dated the Issue Date, made by Daiwa Capital Markets Hong Kong Limited (the **Issuer**) and a base registrar's and structured product agency agreement (as amended, varied or supplemented from time to time or any successor document, the **Registrar's Agreement**) dated 13 September 2010 as supplemented by a Confirmation (as defined in the Registrar's Agreement) relating to the CBBCs made between the Issuer and Computershare Hong Kong Investor Services Limited as registrar and agent for the CBBCs (the **Registrar** and **Agent**, which expressions shall include any successors). Copies of the Global Certificate and the Registrar's Agreement are available for inspection at the specified office of the Registrar (the **Transfer Office**). The initial Transfer Office is set out below. The Holders (as defined below) are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Global Certificate and the Registrar's Agreement.

#### *(b) Status*

The CBBCs represent general, unsecured, contractual obligations of the Issuer and of no other person and rank pari passu among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations of the Issuer.

#### *(c) Transfer*

Transfers of beneficial interests in the CBBCs may be effected only in Board Lots or integral multiples thereof in CCASS (as defined below) in accordance with the CCASS Rules (as defined below).

#### *(d) Title*

Each person who is for the time being shown in the register kept by the Registrar as entitled to a particular number of CBBCs shall be treated by the Issuer and the Registrar as the absolute owner and holder of such number of CBBCs. The expression **Holder** shall be construed accordingly.

### **2. CBBC Rights and Exercise Expenses**

#### *(a) CBBC Rights*

Every Board Lot entitles each Holder, (i) upon due exercise and compliance with Condition 3, the right to receive the payment of the Cash Settlement Amount (if any) or (ii) upon compliance with Condition 3, the right to receive the payment of the Residual Value (if any) following the occurrence of a Mandatory Call Event (all as defined below).

(b) *Exercise Expenses*

On exercise of the CBBCs or upon the occurrence of a Mandatory Call Event, Holders are required to pay the Exercise Expenses (as defined below). To effect such payment, an irrevocable authorisation to deduct all Exercise Expenses from the Cash Settlement Amount (if any) or the Residual Value (if any) (as the case may be) is deemed to be given by a Holder to the Issuer upon purchase of the CBBCs.

(c) *Definitions*

For the purposes of these Conditions:

**Board Lot** has the meaning given to it in the relevant Supplemental Listing Document;

**Business Day** means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

**Call Price** means the price specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 5;

**Cash Settlement Amount** means, in respect of every Board Lot, an amount in the Settlement Currency calculated by the Issuer in accordance with the following formula:

(1) in the case of a series of Bull CBBCs:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement} \times (\text{Closing Price} - \text{Strike Price}) \times \text{one Board Lot}}{\text{Number of CBBCs per Entitlement}}$$

(2) in the case of a series of Bear CBBCs:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement} \times (\text{Strike Price} - \text{Closing Price}) \times \text{one Board Lot}}{\text{Number of CBBCs per Entitlement}}$$

provided that if the Cash Settlement Amount is a negative amount, it shall be deemed to be zero;

**CCASS** means the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited (**HKSCC**);

**CCASS Rules** means the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time;

**CCASS Settlement Day** has the meaning ascribed to the term "Settlement Day" in the General Rules of CCASS, subject to such modification and amendment prescribed by HKSCC from time to time;

**Closing Price** means the closing price of one Unit (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustments to such closing price as may be necessary to reflect any capitalisation, rights issue, distribution or the like) on the Valuation Date;

**Designated Bank Account** means the relevant bank account designated by the relevant Holder for the purpose of procuring payment of the Cash Settlement Amount or the Residual Value (as the case may be) electronically through CCASS;

**Entitlement** means the number specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 5;

**Exercise Expenses** means any charges or expenses including any taxes or duties which are incurred in respect of the exercise of the CBBCs or the occurrence of a Mandatory Call Event (as the case may be);

**Expiry Date** means the date specified as such in the relevant Supplemental Listing Document;

**Mandatory Call Event** occurs when the Spot Price of the Units at any time on any Trading Day during the Observation Period is:

- (i) in the case of a series of Bull CBBCs, at or below the Call Price; or
- (ii) in the case of a series of Bear CBBCs, at or above the Call Price;

**Market Disruption Event** means:

- (1) the occurrence or existence, on any Trading Day during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in (a) the Units; or (b) any options or futures contracts relating to the Units if, in any such case, such suspension or limitation is, in the determination of the Issuer, material;
- (2) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a “BLACK” rainstorm signal on any day which either (a) results in the Stock Exchange being closed for trading for the entire day; or (b) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the “BLACK” rainstorm signal having been issued; or
- (3) a limitation or closure of the Stock Exchange due to any unforeseen circumstances;

**Maximum Trade Price** means the highest Spot Price of the Units during the MCE Valuation Period;

**MCE Valuation Period** means the period commencing from and including the moment upon which the Mandatory Call Event occurs (the trading session during which the Mandatory Call Event occurs is the “**1st Session**”) and up to the end of the trading session on the Stock Exchange immediately following the 1st Session (“**2nd Session**”) unless, in the determination of the Issuer in its good faith, the 2nd Session for any reason (including, without limitation, a Market Disruption Event occurring and subsisting in the 2nd Session) does not contain any continuous period of 1 hour or more than 1 hour during which trading in the Units is permitted on the Stock Exchange with no limitation imposed, the MCE Valuation Period shall be extended to the end of the subsequent trading session following the 2nd Session during which trading in the Units is permitted on the Stock Exchange with no limitation imposed for a continuous period of at least 1 hour notwithstanding the existence or continuance of a Market Disruption Event in such postponed trading session, unless the Issuer determines in its good faith that each trading session on each of the four Trading Days immediately following the date on which the Mandatory Call Event occurs does not contain any continuous period of 1 hour or more than 1 hour during which trading in the Units is permitted on the Stock Exchange with no limitation imposed. In that case:

- (i) the period commencing from the 1st Session up to, and including, the last trading session on the Stock Exchange of the fourth Trading Day immediately following the date on which the Mandatory Call Event occurs shall be deemed to be the MCE Valuation Period; and
- (ii) the Issuer shall determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) having regard to the then prevailing market conditions, the last reported Spot Price and such other factors as the Issuer may determine to be relevant in its good faith.

For the avoidance of doubt, all Spot Prices available throughout the extended MCE Valuation Period shall be taken into account to determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) for the calculation of the Residual Value.

For the purposes of this definition,

- (a) the pre-opening session, the morning session and, in the case of half day trading, the closing auction session (if any) of the same day; and

(b) the afternoon session and the closing auction session (if any) of the same day,  
shall each be considered as one trading session only;

**Minimum Trade Price** means the lowest Spot Price of the Units during the MCE Valuation Period;

**Number of CBBCs per Entitlement** has the meaning given to it in the relevant Supplemental Listing Document;

**Observation Commencement Date** means the date specified as such in the relevant Supplemental Listing Document;

**Observation Period** means the period from (and including) the Observation Commencement Date to (and including) the Trading Day immediately preceding the Expiry Date;

**Post MCE Trades** has the meaning given to it in the relevant Supplemental Listing Document, subject to such modification and amendment prescribed by the Stock Exchange from time to time;

**Residual Value** means:

(1) in the case of a series of Category R CBBCs:

(i) in the case of a series of Bull CBBCs and in respect of every Board Lot, an amount in the Settlement Currency calculated by the Issuer in accordance with the following formula:

$$\text{Residual Value per Board Lot} = \frac{\text{Entitlement} \times (\text{Minimum Trade Price} - \text{Strike Price}) \times \text{one Board Lot}}{\text{Number of CBBCs per Entitlement}}$$

(ii) in the case of a series of Bear CBBCs and in respect of every Board Lot, an amount in the Settlement Currency calculated by the Issuer in accordance with the following formula:

$$\text{Residual Value per Board Lot} = \frac{\text{Entitlement} \times (\text{Strike Price} - \text{Maximum Trade Price}) \times \text{one Board Lot}}{\text{Number of CBBCs per Entitlement}}$$

provided that if the Residual Value is a negative amount, it shall be deemed to be zero;

(2) in the case of a series of Category N CBBCs, zero;

**Settlement Currency** means the currency specified as such in the relevant Supplemental Listing Document;

**Settlement Date** means the third CCASS Settlement Day after (i) the end of the MCE Valuation Period; or (ii) the later of: (a) the Expiry Date; and (b) the day on which the Closing Price is determined in accordance with these Conditions;

**Settlement Disruption Event** means an event beyond the control of the Issuer as a result of which the Issuer is unable to procure payment of the Residual Value (if any) or the Cash Settlement Amount (if any) (as the case may be) electronically through CCASS to the Designated Bank Account;

**Spot Price** means:

- (a) in respect of a continuous trading session of the Stock Exchange, the price per Unit concluded by means of automatic order matching on the Stock Exchange as reported in the official real-time dissemination mechanism for the Stock Exchange during such continuous trading session in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules); and
- (b) in respect of a pre-opening session or a closing auction session (if applicable) of the Stock Exchange, as the case may be, the final Indicative Equilibrium Price (as defined in the Trading Rules) of the Unit (if any) calculated at the end of the pre-order matching period of such pre-opening session or closing auction session (if applicable), as the case may be, in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules),

subject to such modification and amendment prescribed by the Stock Exchange from time to time;

**Stock Exchange** means The Stock Exchange of Hong Kong Limited;

**Strike Price** means the price specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 5;

**Trading Day** means any day on which the Stock Exchange is scheduled to open for trading for its regular trading sessions;

**Trading Rules** means the Rules of the Exchange prescribed by the Stock Exchange from time to time; and

**Valuation Date** means the Trading Day immediately preceding the Expiry Date provided that, if the Issuer determines, in its sole discretion, that a Market Disruption Event has occurred on the Valuation Date, then the Valuation Date shall be the first succeeding Trading Day on which the Issuer determines that there is no Market Disruption Event, unless the Issuer determines that there is a Market Disruption Event occurring on each of the four Trading Days immediately following the original date which (but for the Market Disruption Event) would have been the Valuation Date. In that case:

- (i) the fourth Trading Day immediately following the original date shall be deemed to be the Valuation Date (regardless of the Market Disruption Event); and
- (ii) the Issuer shall determine the Closing Price having regard to the then prevailing market conditions, the last reported trading price of the Unit on the Stock Exchange and such other factors as the Issuer determines to be relevant.

### **3. Exercise of CBBCs**

#### *(a) Exercise of CBBCs*

The CBBCs are exercisable on the Expiry Date, provided that a Mandatory Call Event has not occurred.

#### *(b) Mandatory Call Event*

Any CBBC in respect of which a Mandatory Call Event has occurred will automatically be exercised on the date on which a Mandatory Call Event occurs and every Board Lot will entitle the Holder to receive the Residual Value (if any) in accordance with Condition 3(g). Trading in the CBBCs will be suspended immediately upon the occurrence of a Mandatory Call Event and any Post MCE Trades will be cancelled and will not be recognised by the Issuer or the Stock Exchange.

#### *(c) Automatic Exercise*

Any CBBC which has not been automatically exercised upon the occurrence of a Mandatory Call Event will automatically be exercised on the Expiry Date (without prior notice being given to the Holders). The Holders will not be required to deliver any exercise notice and the Issuer or its agent will pay to the Holders the Cash Settlement Amount (if any) in accordance with Condition 3(g).

#### *(d) Issuer's Obligations*

For the avoidance of doubt, where the CBBCs have been exercised on the Expiry Date or have automatically exercised upon the occurrence of a Mandatory Call Event (as the case may be), payment of the Cash Settlement Amount (if any) or the Residual Value (if any) (as the case may be) shall constitute full and final settlement of the obligations of the Issuer with respect to the CBBCs. Subject to such payment having been made or if the Cash Settlement Amount or the Residual Value (as the case may be) is zero, the Issuer shall have no obligation towards the relevant Holder under the CBBCs subsequent to such Expiry Date or the date on which a Mandatory Call Event occurs (as the case may be).

#### *(e) Board Lots*

CBBCs may only be exercised in a Board Lot or integral multiples thereof.

(f) *Cancellation*

The Issuer will procure that the Registrar will, with effect from the first Business Day following the date on which a Mandatory Call Event occurs or the Expiry Date (as the case may be), remove from its register the name of the person in respect of the CBBCs which (i) are the subject of an occurrence of a Mandatory Call Event; or (ii) are the subject of an automatic exercise in accordance with these Conditions, and thereby cancel the relevant CBBCs.

(g) *Cash Settlement*

Following automatic exercise of CBBCs in accordance with these Conditions and notwithstanding cancellation of the CBBCs in accordance with Condition 3(f), the Issuer will make a payment, in respect of every Board Lot, to the relevant Holder equal to the Residual Value (if any) or the Cash Settlement Amount (if any) (as the case may be) (net of any Exercise Expenses).

The Residual Value (if any) or the Cash Settlement Amount (if any) (net of any Exercise Expenses) shall be despatched not later than the Settlement Date by crediting that amount in accordance with the CCASS Rules, to the Designated Bank Account.

If as a result of a Settlement Disruption Event, it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder on the original Settlement Date, the Issuer shall use its reasonable endeavours to (i) procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder and (ii) notify the Holder in accordance with Condition 11, as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of the Settlement Disruption Event, nor shall the Issuer be liable under any circumstances for any acts or defaults of CCASS in relation to the performance of its duties in relation to the CBBCs.

#### 4. Registrar and Transfer Office

- (a) The initial Registrar and the Transfer Office, are set out below. The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the Registrar and to appoint another Registrar provided that it will at all times maintain a Registrar, which, so long as the CBBCs are listed on the Stock Exchange, shall be in Hong Kong. Notice of any such termination or appointment and of any change in the Transfer Office or the specified office of the Registrar will be given to the Holders in accordance with Condition 11.
- (b) The Registrar will be acting as agent of the Issuer in respect of any CBBCs and will not assume any obligation or duty to or any relationship of agency or trust for the Holders.

#### 5. Adjustments

(a) *Rights Issues*

If and whenever the Fund shall, by way of Rights (as defined below), offer new Units for subscription at a fixed subscription price to the holders of existing Units pro rata to existing holdings (a **Rights Offer**), the Entitlement will be adjusted to take effect on the Business Day on which trading in the Units of the Fund becomes ex-entitlement in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Component} \times E$$

Where:

$$\text{Adjustment Component} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer

S: Cum-Rights Unit price determined by the closing price on the Stock Exchange on the last Business Day on which Units are traded on a cum-Rights basis

- R: Subscription price per Unit as specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Right
- M: Number of new Unit(s) (whether a whole or a fraction) per existing Unit each holder thereof is entitled to subscribe

Provided that if the adjustment to be made would result in the Entitlement being changed by one per cent. or less, then no adjustment will be made to the Entitlement. In addition, the Issuer shall adjust the Call Price and Strike Price in accordance with the following formula:

$$\begin{array}{l} \text{Adjusted Call Price} = \text{Call Price} \times \frac{1}{\text{Adjustment Component}} \\ \text{(rounded to the nearest} \\ \text{0.001)} \end{array}$$

$$\begin{array}{l} \text{Adjusted Strike Price} = \text{Strike Price} \times \frac{1}{\text{Adjustment Component}} \\ \text{(rounded to the nearest} \\ \text{0.001)} \end{array}$$

This adjustment to the Call Price and Strike Price shall take effect on the same day that the Entitlement is adjusted.

For the purposes of these Conditions:

**Rights** means the right(s) attached to each existing Unit or needed to acquire one new Unit (as the case may be) which are given to the holders of existing Units to subscribe at a fixed subscription price for new Units pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

*(b) Bonus Issues*

If and whenever the Fund shall make an issue of Units credited as fully paid to the holders of Units generally by way of capitalisation of profits or reserves (other than pursuant to a scrip dividend or similar scheme for the time being operated by the Fund or otherwise in lieu of a cash dividend and without any payment or other consideration being made or given by such holders) (a **Bonus Issue**) the Entitlement will be increased on the Business Day on which trading in the Units of the Fund becomes ex-entitlement in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Component} \times E$$

Where:

$$\text{Adjustment Component} = (1 + N)$$

E: Existing Entitlement immediately prior to the Bonus Issue

N: Number of additional Units (whether a whole or a fraction) received by a holder of existing Units for each Unit held prior to the Bonus Issue

Provided that if the adjustment to be made would result in the Entitlement being changed by one per cent. or less, then no adjustment will be made to the Entitlement. In addition, the Issuer shall adjust the Call Price and Strike Price in accordance with the following formula:

$$\begin{array}{l} \text{Adjusted Call Price} = \text{Call Price} \times \frac{1}{\text{Adjustment Component}} \\ \text{(rounded to the nearest} \\ \text{0.001)} \end{array}$$

$$\begin{array}{l} \text{Adjusted Strike Price} = \text{Strike Price} \times \frac{1}{\text{Adjustment Component}} \\ \text{(rounded to the nearest} \\ \text{0.001)} \end{array}$$

This adjustment to the Call Price and Strike Price shall take effect on the same day that the Entitlement is adjusted.

*(c) Unit Splits or Consolidations*

If and whenever the Fund shall subdivide its Units or any class of its outstanding fund units comprised of the Units into a greater number of units (a **Subdivision**) or consolidate the Units or any class of its outstanding fund units comprised of the Units into a smaller number of units (a **Consolidation**), the Entitlement in effect immediately prior thereto will be increased (in the case of a Subdivision) or decreased (in the case of a Consolidation) accordingly in each case on the day on which the relevant Subdivision or Consolidation shall have taken effect. In addition, the Call Price and Strike Price (which shall be rounded to the nearest 0.001) will be decreased (in the case of a Subdivision) or increased (in the case of a Consolidation) accordingly. This adjustment to the Call Price and Strike Price shall take effect on the same day that the Entitlement is adjusted.

*(d) Merger or Consolidation*

If it is announced that the Fund is to or may merge or consolidate with or into any other fund or corporation (including becoming, by agreement or otherwise, a subsidiary of any corporation or controlled by any person or corporation) (except where the Fund is the surviving entity in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the CBBCs may in the absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a **Restructuring Event**) (as determined by the Issuer in its absolute discretion).

The rights attaching to the CBBCs after the adjustment shall, after such Restructuring Event, relate to the number of units of the fund(s) resulting from or surviving such Restructuring Event or other securities (**Substituted Securities**) and/or cash offered in substitution for the affected Units, as the case may be, to which the holder of such number of Units to which the CBBCs related immediately before such Restructuring Event would have been entitled upon such Restructuring Event. Thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Issuer, be deemed to be replaced by an amount in the relevant currency equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected.

For the avoidance of doubt, any remaining Units shall not be affected by this paragraph (d) and, where cash is offered in substitution for Units or is deemed to replace Substituted Securities as described above, references in these Conditions to the Units shall include any such cash.

*(e) Cash Distributions*

Generally, no capital adjustment will be made for an ordinary cash dividend (whether or not it is offered with a scrip alternative). For any other forms of cash distribution (each a **Cash Distribution**) announced by the Fund, such as a cash bonus, special dividend or extraordinary dividend, no capital adjustment will be made unless the value of the Cash Distribution accounts for 2 per cent. or more of the Unit's closing price on the day of announcement by the Fund.

If and whenever the Fund shall make a Cash Distribution credited as fully paid to the holders of Units generally, the Entitlement will be adjusted to take effect on the Business Day on which trading in the Units of the Fund becomes ex-entitlement in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Component} \times E$$

Where:

$$\text{Adjustment Component} = \frac{S - OD}{S - OD - CD}$$

provided that OD shall be deducted from S only if the Business Day on which trading in the Units of the Fund becomes ex-entitlement with respect to the Cash Distribution and the distribution of the ordinary cash dividend by the Fund falls on the same date.

OD: Amount of the relevant ordinary cash dividend per Unit

CD: Amount of the relevant Cash Distribution per Unit

E: Existing Entitlement immediately prior to the Cash Distribution

S: Cum-Cash Distribution Unit price being the closing price of the Units on the Stock Exchange on the last Business Day on which the Units of the Fund are traded on a cum-Cash Distribution basis

In addition, the Issuer shall adjust the Call Price and the Strike Price, as applicable, in accordance with the following formulae:

$$\text{Adjusted Call Price} = \text{Call Price} \times \frac{1}{\text{Adjustment Component}}$$

(rounded to the nearest 0.001)

$$\text{Adjusted Strike Price} = \text{Strike Price} \times \frac{1}{\text{Adjustment Component}}$$

(rounded to the nearest 0.001)

The adjustments to the Call Price and the Strike Price, as applicable, shall take effect on the same day that the Entitlement is adjusted.

*(f) Other Adjustments*

Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the CBBCs as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is:

- (i) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such adjustment in any particular jurisdiction); or
- (ii) determined by the Issuer in good faith to be appropriate and commercially reasonable.

*(g) Notice of Adjustments*

All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Holders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment and of the date from which such adjustment is effective by publication in accordance with Condition 11.

## **6. Illegality or Impracticability**

The Issuer is entitled to terminate the CBBCs if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

- (a) for it to perform its obligations under the CBBCs, in whole or in part as a result of:
  - (i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or
  - (ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),(each of (i) and (ii), a **Change in Law Event**); or
- (b) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the CBBCs due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Holder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each CBBC held by such Holder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made to each Holder in such manner as shall be notified to the Holder in accordance with Condition 11.

## **7. Early Termination for Regulatory Order**

If the Issuer determines that the Securities and Futures Commission, the Stock Exchange or any of their respective successors issues an order or direction to the Issuer or its affiliate requiring the CBBCs or the hedging arrangements in respect of the CBBCs to be terminated early, the Issuer may at its discretion terminate the CBBCs early by giving notice to the Holders in accordance with Condition 11.

If the Issuer terminates the CBBCs early, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Holder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each CBBC held by such Holder immediately prior to such termination (ignoring such event) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made to each Holder in such manner as shall be notified to the Holder in accordance with Condition 11.

## **8. Purchases**

The Issuer and/or any of its subsidiaries and affiliates may at any time purchase CBBCs at any price in the open market or by tender or by private treaty. Any CBBCs so purchased may be held or resold or surrendered for cancellation.

## **9. Global Certificate**

The CBBCs are represented by the Global Certificate registered in the name of HKSCC Nominees Limited and deposited with CCASS in accordance with the CCASS Rules. Holders will not be entitled to definitive certificates in respect of any CBBCs issued or transferred to them.

## **10. Meetings of Holders; Modification**

### *(a) Meetings of Holders*

The Registrar's Agreement contains provisions for convening meetings of the Holders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Registrar's Agreement) of a modification of the provisions of the CBBCs or of the Global Certificate.

Any resolutions to be passed in a meeting of the Holders shall be decided by poll. Such a meeting may be convened by the Issuer or by Holders holding not less than 10 per cent. of the CBBCs for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 per cent. of the CBBCs for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Holders whatever the number of CBBCs so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Holders as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Holders shall be binding on all the Holders, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Holders being held if passed unanimously.

(b) *Modification*

The Issuer may, without the consent of the Holders, effect any modification of the terms and conditions of the CBBCs or the Global Certificate which, in the opinion of the Issuer, is (i) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong. Any such modification shall be binding on the Holders and shall be notified to them by the Issuer as soon as practicable thereafter in accordance with Condition 11.

## 11. Notices

All notices to Holders will be validly given if published in English and in Chinese on the website of Hong Kong Exchanges and Clearing Limited. If publication is not practicable, notice will be given in such other manner as the Issuer may determine.

## 12. Termination or Liquidation

In the event of a Termination or the liquidation or dissolution of the trustee of the Fund (including any successor trustee appointed from time to time) (**Trustee**) (in its capacity as trustee of the Fund) or the appointment of a liquidator, receiver or administrator or analogous person under Hong Kong law in respect of the whole or substantially the whole of its undertaking, property or assets, all unexercised CBBCs will lapse and shall cease to be valid for any purpose, in the case of (i) voluntary liquidation, on the effective date of the relevant resolution, (ii) an involuntary liquidation or dissolution, on the date of the relevant court order, (iii) a Termination, on the effective date of the Termination, (iv) the appointment of a liquidator or receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, on the date on which such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

For the purpose of this Condition 12, **Termination** means (i) the Fund is terminated, or the Trustee or the manager of the Fund (including any successor manager appointed from time to time) (**Manager**) is required to terminate the Fund under the trust deed (**Trust Deed**) constituting the Fund or applicable law, or the termination of the Fund commences; (ii) the Fund is held or is conceded by the Trustee or the Manager not to have been constituted or to have been imperfectly constituted; (iii) the Trustee ceases to be authorised under the Fund to hold the property of the Fund in its name and perform its obligation under the Trust Deed; or (iv) the Fund ceases to be authorised as an authorised collective investment scheme under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

## 13. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Holders, to create and issue further contracts so as to form a single series with the CBBCs.

## 14. Delisting

- (a) If at any time the Units cease to be listed on the Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments to the rights attaching to the CBBCs as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Holders generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of any Holder or the tax or other consequences that may result in any particular jurisdiction).
- (b) Without prejudice to the generality of Condition 14(a), where the Units are, or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Holders, make such adjustments to the entitlements of Holders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into the relevant currency) as may be appropriate in the circumstances.

- (c) The Issuer shall determine, in its absolute discretion, any adjustment or amendment and its determination shall be conclusive and binding on the Holders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Holders in accordance with Condition 11 as soon as practicable after they are determined.

#### **15. Good Faith and Commercially Reasonable Manner**

Any exercise of discretion by the Issuer under these Conditions will be made in good faith and in a commercially reasonable manner.

#### **16. Governing Law**

The CBBCs, the Global Certificate, the Registrar's Agreement and any non-contractual obligations arising out of or in connection with them will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China (**Hong Kong**). The Issuer and each Holder (by its purchase of the CBBCs) shall be deemed to have submitted for all purposes in connection with the CBBCs, the Global Certificate, the Registrar's Agreement and any non-contractual obligations arising out of or in connection with them to the non-exclusive jurisdiction of the courts of Hong Kong.

#### **17. Language**

In the event of any inconsistency between the Chinese translation of these Conditions and the English version of these Conditions, the English version of these Conditions shall prevail.

#### **Registrar, Agent and Transfer Office:**

#### **Computershare Hong Kong Investor Services Limited**

Rooms 1712-1716, 17th Floor, Hopewell Centre

183 Queen's Road East

Hong Kong

## TERMS AND CONDITIONS OF THE INDEX CALLABLE BULL/BEAR CONTRACTS (CASH SETTLED)

*The relevant Conditions will, together with the supplemental provisions contained in the relevant Supplemental Listing Document and subject to completion and amendment, be endorsed on the Global Certificate. The applicable Supplemental Listing Document in relation to the issue of any series of CBBCs may specify additional terms and conditions which shall, to the extent so specified or to the extent inconsistent with the relevant Conditions, replace or modify the relevant Conditions for the purpose of such series of CBBCs. Capitalised terms used in the relevant Conditions and not otherwise defined therein shall have the meaning given to them in the relevant Supplemental Listing Document.*

### 1. Form, Status, Transfer and Title

#### (a) Form

The callable bull/bear contracts (the **CBBCs**, which expression shall, unless the context otherwise requires, include any further CBBCs issued pursuant to Condition 12) relating to the Index as published by the Index Compiler are issued in registered form subject to and with the benefit of a global certificate by way of deed poll (the **Global Certificate**) dated the Issue Date, made by Daiwa Capital Markets Hong Kong Limited (the **Issuer**) and a base registrar's and structured product agency agreement (as amended, varied or supplemented from time to time or any successor document, the **Registrar's Agreement**) dated 13 September 2010 as supplemented by a Confirmation (as defined in the Registrar's Agreement) relating to the CBBCs made between the Issuer and Computershare Hong Kong Investor Services Limited as registrar and agent for the CBBCs (the **Registrar** and **Agent**, which expressions shall include any successors). Copies of the Global Certificate and the Registrar's Agreement are available for inspection at the specified office of the Registrar (the **Transfer Office**). The initial Transfer Office is set out below. The Holders (as defined below) are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Global Certificate and the Registrar's Agreement.

#### (b) Status

The CBBCs represent general, unsecured, contractual obligations of the Issuer and of no other person and rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations of the Issuer.

#### (c) Transfer

Transfers of beneficial interests in the CBBCs may be effected only in Board Lots or integral multiples thereof in CCASS (as defined below) in accordance with the CCASS Rules (as defined below).

#### (d) Title

Each person who is for the time being shown in the register kept by the Registrar as entitled to a particular number of CBBCs shall be treated by the Issuer and the Registrar as the absolute owner and holder of such number of CBBCs. The expression **Holder** shall be construed accordingly.

### 2. CBBC Rights and Exercise Expenses

#### (a) CBBC Rights

Every Board Lot entitles each Holder, (i) upon due exercise and compliance with Condition 3, the right to receive the payment of the Cash Settlement Amount (if any) or (ii) upon compliance with Condition 3, the right to receive the payment of the Residual Value (if any) following the occurrence of a Mandatory Call Event (all as defined below).

(b) *Exercise Expenses*

On exercise of the CBBCs or upon the occurrence of a Mandatory Call Event, Holders are required to pay the Exercise Expenses (as defined below). To effect such payment, an irrevocable authorisation to deduct all Exercise Expenses from the Cash Settlement Amount (if any) or the Residual Value (if any) (as the case may be) is deemed to be given by a Holder to the Issuer upon purchase of the CBBCs.

(c) *Definitions*

For the purposes of these Conditions:

**Board Lot** has the meaning given to it in the relevant Supplemental Listing Document;

**Business Day** means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

**Call Level** means the level specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 5;

**Cash Settlement Amount** means, in respect of every Board Lot, an amount calculated by the Issuer in accordance with the following formula (and, if appropriate, either (i) converted (if applicable) into the Settlement Currency at the Exchange Rate or (ii) converted into the Interim Currency at the First Exchange Rate and then (if applicable) converted into the Settlement Currency at the Second Exchange Rate), as the case may be:

- (1) in the case of a series of Bull CBBCs:

$$\text{Cash Settlement Amount per Board Lot} = \frac{(\text{Closing Level} - \text{Strike Level}) \times \text{one Board Lot} \times \text{Index Currency Amount}}{\text{Divisor}}$$

- (2) in the case of a series of Bear CBBCs:

$$\text{Cash Settlement Amount per Board Lot} = \frac{(\text{Strike Level} - \text{Closing Level}) \times \text{one Board Lot} \times \text{Index Currency Amount}}{\text{Divisor}}$$

provided that if the Cash Settlement Amount is a negative amount, it shall be deemed to be zero;

**CCASS** means the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited (**HKSCC**);

**CCASS Rules** means the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time;

**CCASS Settlement Day** has the meaning ascribed to the term “Settlement Day” in the General Rules of CCASS, subject to such modification and amendment prescribed by HKSCC from time to time;

**Closing Level** means the level specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 5;

**Designated Bank Account** means the relevant bank account designated by the relevant Holder for the purpose of procuring payment of the Cash Settlement Amount or the Residual Value (as the case may be) electronically through CCASS;

**Divisor** means the number specified as such in the relevant Supplemental Listing Document;

**Exchange Rate** means, if applicable, the rate specified as such in the relevant Supplemental Listing Document;

**Exercise Expenses** means any charges or expenses including any taxes or duties which are incurred in respect of the exercise of the CBBCs or the occurrence of a Mandatory Call Event (as the case may be);

**Expiry Date** means the date specified as such in the relevant Supplemental Listing Document;

**First Exchange Rate** means, if applicable, the rate specified as such in the relevant Supplemental Listing Document;

**Index Business Day** means any day on which the Index Exchange is scheduled to open for trading for its regular trading sessions;

**Index Currency Amount** has the meaning given to it in the relevant Supplemental Listing Document;

**Index Exchange** means the index exchange specified as such in the relevant Supplemental Listing Document;

**Interim Currency** means, if applicable, the currency specified as such in the relevant Supplemental Listing Document;

**Mandatory Call Event** occurs when the Spot Level of the Index at any time on any Index Business Day during the Observation Period is:

- (1) in the case of a series of Bull CBBCs, at or below the Call Level; or
- (2) in the case of a series of Bear CBBCs, at or above the Call Level;

**Market Disruption Event** means:

- (1) the occurrence or existence, on any Index Business Day during the one-half hour period that ends at the close of trading on the Index Exchange, of any of:
  - (a) the suspension or material limitation of the trading of a material number of constituent securities that comprise the Index; or
  - (b) the suspension or material limitation of the trading of options or futures contracts relating to the Index on any exchanges on which such contracts are traded; or
  - (c) the imposition of any exchange controls in respect of any currencies involved in determining the Cash Settlement Amount or the Residual Value (as the case may be),

for the purposes of paragraph (1), (x) the limitation of the number of hours or days of trading will not constitute a Market Disruption Event if it results from an announced change in the regular business hours of any relevant exchange, and (y) a limitation on trading imposed by reason of the movements in price exceeding the levels permitted by any relevant exchange will constitute a Market Disruption Event; or

- (2) where the Index Exchange is the Stock Exchange, the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a “BLACK” rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the “BLACK” rainstorm signal having been issued; or
- (3) a limitation or closure of the Index Exchange due to any unforeseen circumstances; or
- (4) any circumstances beyond the control of the Issuer in which the Closing Level or, if applicable, the Exchange Rate, the First Exchange Rate or the Second Exchange Rate (as the case may be) cannot be determined by the Issuer in the manner set out in these Conditions or in such other manner as the Issuer considers appropriate at such time after taking into account all the relevant circumstances;

**Maximum Index Level** means highest Spot Level of the Index during the MCE Valuation Period;

**MCE Valuation Period** means the period commencing from and including the moment upon which the Mandatory Call Event occurs (the trading session during which the Mandatory Call Event occurs is the “**1st Session**”) and up to the end of the trading session on the Index Exchange immediately following the 1st Session (“**2nd Session**”) unless, in the determination of the Issuer in its good faith, the 2nd Session for any reason (including, without limitation, a Market Disruption Event occurring and subsisting in the 2nd Session) does not contain any continuous period of 1 hour or more than 1 hour during which Spot Levels are available, the MCE Valuation Period shall be extended to the end of the subsequent trading session on the Index Exchange following the 2nd Session during which Spot Levels are available for a continuous period of at least 1 hour notwithstanding the existence or continuance of a Market Disruption Event in such postponed trading session, unless the Issuer determines in its good faith that each trading session on each of the four Index Business Days immediately following the date on which the Mandatory Call Event occurs does not contain any continuous period of 1 hour or more than 1 hour during which Spot Levels are available. In that case:

- (i) the period commencing from the 1st Session up to, and including, the last trading session of the fourth Index Business Day on the Index Exchange immediately following the date on which the Mandatory Call Event occurs shall be deemed to be the MCE Valuation Period; and
- (ii) the Issuer shall determine the Maximum Index Level or the Minimum Index Level (as the case may be) having regard to the then prevailing market conditions, the last reported Spot Level of the Index and such other factors as the Issuer may determine to be relevant in its good faith.

For the avoidance of doubt, all Spot Levels available throughout the extended MCE Valuation Period shall be taken into account to determine the Maximum Index Level or the Minimum Index Level (as the case may be) for the calculation of the Residual Value.

For the purposes of this definition,

- (a) the pre-opening session, the morning session and, in the case of half day trading, the closing auction session (if any) of the same day; and
- (b) the afternoon session and the closing auction session (if any) of the same day,

shall each be considered as one trading session only;

**Minimum Index Level** means the lowest Spot Level of the Index during the MCE Valuation Period;

**Observation Commencement Date** means the date specified as such in the relevant Supplemental Listing Document;

**Observation Period** means the period from (and including) the Observation Commencement Date to (and including) the Trading Day immediately preceding the Expiry Date;

**Post MCE Trades** has the meaning given to it in the relevant Supplemental Listing Document, subject to such modification and amendment prescribed by the Stock Exchange from time to time;

**Residual Value** means, in respect of every Board Lot, an amount calculated by the Issuer in accordance with the following formula (and, if appropriate, either (i) converted (if applicable) into the Settlement Currency at the Exchange Rate or (ii) converted into the Interim Currency at the First Exchange Rate and then (if applicable) converted into the Settlement Currency at the Second Exchange Rate, as the case may be):

- (1) in the case of a series of Category R CBBCs:
  - (i) in the case of a series of Bull CBBCs:

$$\text{Residual Value per Board Lot} = \frac{(\text{Minimum Index Level} - \text{Strike Level}) \times \text{one Board Lot} \times \text{Index Currency Amount}}{\text{Divisor}}$$

(ii) in the case of a series of Bear CBBCs:

$$\text{Residual Value per Board Lot} = \frac{(\text{Strike Level} - \text{Maximum Index Level}) \times \text{one Board Lot} \times \text{Index Currency Amount}}{\text{Divisor}}$$

provided that if the Residual Value is a negative amount, it shall be deemed to be zero;

(2) in the case of a series of Category N CBBCs, zero;

**Second Exchange Rate** means, if applicable, the rate specified as such in the relevant Supplemental Listing Document;

**Settlement Currency** means the currency specified as such in the relevant Supplemental Listing Document;

**Settlement Date** means the third CCASS Settlement Day after (i) the end of the MCE Valuation Period; or (ii) the later of: (a) the Expiry Date; and (b) the day on which the Closing Level is determined in accordance with these Conditions;

**Settlement Disruption Event** means an event beyond the control of the Issuer as a result of which the Issuer is unable to procure payment of the Residual Value (if any) or the Cash Settlement Amount (if any) (as the case may be) electronically through CCASS to the Designated Bank Account;

**Spot Level** means the spot level of the Index as compiled and published by the Index Compiler;

**Stock Exchange** means The Stock Exchange of Hong Kong Limited;

**Strike Level** means the level specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 5;

**Trading Day** means any day on which the Stock Exchange is scheduled to open for trading for its regular trading sessions; and

**Valuation Date** means the date specified as such in the relevant Supplement Listing Document, provided that if the Issuer determines, in its sole discretion, that a Market Disruption Event has occurred on the Valuation Date, then the Issuer shall determine the Closing Level on the basis of its good faith estimate of the Closing Level that would have prevailed on that day but for the occurrence of the Market Disruption Event provided that the Issuer, if applicable, may, but shall not be obliged to, determine such Closing Level by having regard to the manner in which futures contracts relating to the Index are calculated.

### 3. Exercise of CBBCs

#### (a) Exercise of CBBCs

The CBBCs are exercisable on the Expiry Date, provided that a Mandatory Call Event has not occurred.

#### (b) Mandatory Call Event

Any CBBC in respect of which a Mandatory Call Event has occurred will automatically be exercised on the date on which a Mandatory Call Event occurs and every Board Lot will entitle the Holder to receive the Residual Value (if any) in accordance with Condition 3(g). Trading in the CBBCs will be suspended immediately upon the occurrence of a Mandatory Call Event and any Post MCE Trades will be cancelled and will not be recognised by the Issuer or the Stock Exchange.

#### (c) Automatic Exercise

Any CBBC which has not been automatically exercised upon the occurrence of a Mandatory Call Event will automatically be exercised on the Expiry Date (without prior notice being given to the Holders). The Holders will not be required to deliver any exercise notice and the Issuer or its agent will pay to the Holders the Cash Settlement Amount (if any) in accordance with Condition 3(g).

*(d) Issuer's Obligations*

For the avoidance of doubt, where the CBBCs have been exercised on the Expiry Date or have automatically exercised upon the occurrence of a Mandatory Call Event (as the case may be), payment of the Cash Settlement Amount (if any) or the Residual Value (if any) (as the case may be) shall constitute full and final settlement of the obligations of the Issuer with respect to the CBBCs. Subject to such payment having been made or if the Cash Settlement Amount or the Residual Value (as the case may be) is zero, the Issuer shall have no obligation towards the relevant Holder under the CBBCs subsequent to such Expiry Date or the date on which a Mandatory Call Event occurs (as the case may be).

*(e) Board Lots*

CBBCs may only be exercised in a Board Lot or integral multiples thereof.

*(f) Cancellation*

The Issuer will procure that the Registrar will, with effect from the first Business Day following the date on which a Mandatory Call Event occurs or the Expiry Date (as the case may be), remove from its register the name of the person in respect of the CBBCs which (i) are the subject of an occurrence of a Mandatory Call Event; or (ii) are the subject of an automatic exercise in accordance with these Conditions, and thereby cancel the relevant CBBCs.

*(g) Cash Settlement*

Following automatic exercise of CBBCs in accordance with these Conditions and notwithstanding cancellation of the CBBCs in accordance with Condition 3(f), the Issuer will make a payment, in respect of every Board Lot, to the relevant Holder equal to the Residual Value (if any) or the Cash Settlement Amount (if any) (as the case may be) (net of any Exercise Expenses).

The Residual Value (if any) or the Cash Settlement Amount (if any) (net of any Exercise Expenses) shall be despatched not later than the Settlement Date by crediting that amount in accordance with the CCASS Rules, to the Designated Bank Account.

If as a result of a Settlement Disruption Event, it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder on the original Settlement Date, the Issuer shall use its reasonable endeavours to (i) procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder and (ii) notify the Holder in accordance with Condition 11, as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of the Settlement Disruption Event, nor shall the Issuer be liable under any circumstances for any acts or defaults of CCASS in relation to the performance of its duties in relation to the CBBCs.

#### **4. Registrar and Transfer Office**

- (a) The initial Registrar and the Transfer Office, are set out below. The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the Registrar, and to appoint another Registrar provided that it will at all times maintain a Registrar, which, so long as the CBBCs are listed on the Stock Exchange, shall be in Hong Kong. Notice of any such termination or appointment and of any change in the Transfer Office or the specified office of the Registrar will be given to the Holders in accordance with Condition 11.
- (b) The Registrar will be acting as agent of the Issuer in respect of any CBBCs and will not assume any obligation or duty to or any relationship of agency or trust for the Holders.

## 5. Adjustments to the Index

### (a) Successor Index Compiler Calculates and Reports Index

If the Index is (i) not calculated and announced by the Index Compiler but is calculated and published by a successor to the Index Compiler (the **Successor Index Compiler**) acceptable to the Issuer or (ii) replaced by a successor index using, in the determination of the Issuer, the same or a substantially similar formula for and method of calculation as used in the calculation of the Index, then the Index will be deemed to be the index so calculated and announced by the Successor Index Compiler or that successor index, as the case may be.

### (b) Modification and Cessation of Calculation of Index

If:

- (i) on or prior to the Valuation Date the Index Compiler or (if applicable) the Successor Index Compiler makes a material change in the formula for or the method of calculating the Index or in any other way materially modifies the Index (other than a modification prescribed in that formula or method to maintain the Index in the event of changes in constituent stock, contracts or commodities and other routine events); or
- (ii) on the Valuation Date the Index Compiler or (if applicable) the Successor Index Compiler fails to calculate and publish the Index (other than as a result of a Market Disruption Event),

then the Issuer shall determine the Closing Level using, in lieu of a published level for the Index, the level for the Index as at that Valuation Date as determined by the Issuer in accordance with the formula for and method of calculating the Index last in effect prior to that change or failure, but using only those securities, contracts, commodities or currencies that comprised the Index immediately prior to that change or failure (other than those securities, contracts, commodities or currencies that have since ceased to be listed on the relevant exchange).

### (c) Other Adjustments

Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the CBBCs as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is:

- (i) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such adjustment in any particular jurisdiction); or
- (ii) determined by the Issuer in good faith to be appropriate and commercially reasonable.

### (d) Notice of Adjustments

All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Holders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment and of the date from which such adjustment is effective by publication in accordance with Condition 11.

## 6. Illegality or Impracticability

The Issuer is entitled to terminate the CBBCs if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

- (a) for it to perform its obligations under the CBBCs, in whole or in part as a result of:
  - (i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or

- (ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),

(each of (i) and (ii), a **Change in Law Event**); or

- (b) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the CBBCs due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Holder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each CBBC held by such Holder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made to each Holder in such manner as shall be notified to the Holder in accordance with Condition 11.

## **7. Early Termination for Regulatory Order**

If the Issuer determines that the Securities and Futures Commission, the Stock Exchange or any of their respective successors issues an order or direction to the Issuer or its affiliate requiring the CBBCs or the hedging arrangements in respect of the CBBCs to be terminated early, the Issuer may at its discretion terminate the CBBCs early by giving notice to the Holders in accordance with Condition 11.

If the Issuer terminates the CBBCs early, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Holder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each CBBC held by such Holder immediately prior to such termination (ignoring such event) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made to each Holder in such manner as shall be notified to the Holder in accordance with Condition 11.

## **8. Purchases**

The Issuer and/or any of its subsidiaries and affiliates may at any time purchase CBBCs at any price in the open market or by tender or by private treaty. Any CBBCs so purchased may be held or resold or surrendered for cancellation.

## **9. Global Certificate**

The CBBCs are represented by the Global Certificate registered in the name of HKSCC Nominees Limited and deposited with CCASS in accordance with the CCASS Rules. Holders will not be entitled to definitive certificates in respect of any CBBCs issued or transferred to them.

## **10. Meetings of Holders; Modification**

### *(a) Meetings of Holders*

The Registrar's Agreement contains provisions for convening meetings of the Holders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Registrar's Agreement) of a modification of the provisions of the CBBCs or of the Global Certificate.

Any resolutions to be passed in a meeting of the Holders shall be decided by poll. Such a meeting may be convened by the Issuer or by Holders holding not less than 10 per cent. of the CBBCs for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 per cent. of the CBBCs for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Holders whatever the number of CBBCs so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Holders as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Holders shall be binding on all the Holders, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Holders being held if passed unanimously.

*(b) Modification*

The Issuer may, without the consent of the Holders, effect any modification of the terms and conditions of the CBBCs or the Global Certificate which, in the opinion of the Issuer, is (i) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong. Any such modification shall be binding on the Holders and shall be notified to them by the Issuer as soon as practicable thereafter in accordance with Condition 11.

## **11. Notices**

All notices to Holders will be validly given if published in English and in Chinese on the website of Hong Kong Exchanges and Clearing Limited. If publication is not practicable, notice will be given in such other manner as the Issuer may determine.

## **12. Further Issues**

The Issuer shall be at liberty from time to time, without the consent of the Holders, to create and issue further CBBCs so as to form a single series with the CBBCs.

## **13. Good Faith and Commercially Reasonable Manner**

Any exercise of discretion by the Issuer under these Conditions will be made in good faith and in a commercially reasonable manner.

## **14. Governing Law**

The CBBCs, the Global Certificate, the Registrar's Agreement and any non-contractual obligations arising out of or in connection with them will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China (**Hong Kong**). The Issuer and each Holder (by its purchase of the CBBCs) shall be deemed to have submitted for all purposes in connection with the CBBCs, the Global Certificate, the Registrar's Agreement and any non-contractual obligations arising out of or in connection with them to the non-exclusive jurisdiction of the courts of Hong Kong.

## **15. Language**

In the event of any inconsistency between the Chinese translation of these Conditions and the English version of these Conditions, the English version of these Conditions shall prevail.

### **Registrar, Agent and Transfer Office:**

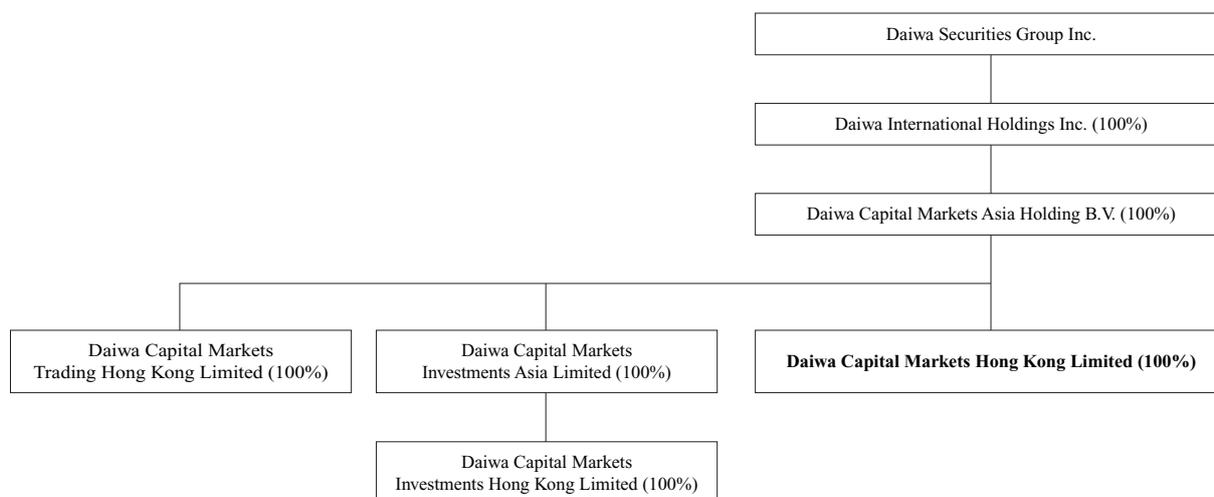
**Computershare Hong Kong Investor Services Limited**  
Rooms 1712-1716, 17th Floor, Hopewell Centre  
183 Queen's Road East  
Hong Kong

## INFORMATION ABOUT US

### History

Daiwa Capital Markets Hong Kong Limited (formerly known as Daiwa Securities SMBC Hong Kong Limited) was incorporated in Hong Kong pursuant to the Companies Ordinance (Cap. 32 of the Laws of Hong Kong) with company number 22505 on 28 December 1970 with limited liability and has its registered office and principal place of business at Level 28, One Pacific Place, 88 Queensway, Hong Kong. We became a public limited company in Hong Kong on 5 March 2010. We are a wholly owned subsidiary of Daiwa Capital Markets Asia Holding B.V., which is in turn wholly owned by Daiwa International Holdings Inc. whose ultimate shareholder is Daiwa Securities Group Inc. (**DSGI**, together with its subsidiaries, the **Daiwa Group**). DSGI has been in continuous operation in the financial services industry since 1902. DSGI is incorporated under Japanese law and its shares are listed on the First Section of the Tokyo Stock Exchange and the Nagoya Stock Exchange. As at 31 March 2014, the net asset value (being the difference between the total asset and total liabilities) of Daiwa Capital Markets Hong Kong Limited was US\$510,410,828.00.

The following is the partial organisation chart of the Daiwa Group:



### Licensing Status in Hong Kong

We are licensed under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities.

We are also an exchange participant of The Stock Exchange of Hong Kong Limited and Hong Kong Futures Exchange Limited, a broker participant of the Hong Kong Securities Clearing Company Limited and a clearing participant of the HKFE Clearing Corporation Limited.

### Business

We are part of a wide-ranging securities and financial services group headed by DSGI and we are currently engaged in, amongst others, securities and futures dealing (such as equities, institutional sales, fixed income), derivatives business, proprietary trading in listed investment and investment banking services (such as equity capital markets, debt capital markets and merger and acquisitions).

### Share Capital

As at the date of this document, our share capital is HK\$100,000,000 divided into 10,000,000 shares and US\$676,734,230.00 divided into 67,673,423 shares, all of which have been issued and fully paid.

## **Board of Directors**

The names and titles of the current members of our Board of Directors are set out below:

<i>Name</i>	<i>Title</i>
Tetsuo Akuzawa	Chairman
Hironori Oka	President and Chief Executive Officer
Terence Patrick Mackey	Deputy President and Chief Operating Officer
John Gerard Williams	Managing Director
Shinji Shibuya	Managing Director

The business and service of process address of each member of our Board of Directors is Level 28, One Pacific Place, 88 Queensway, Hong Kong, except for Shinji Shibuya whose business and service of process address is 1-9-1, Marunouchi, Chiyoda-ku, Tokyo, 100-6751, Japan.

## **Financial Statements**

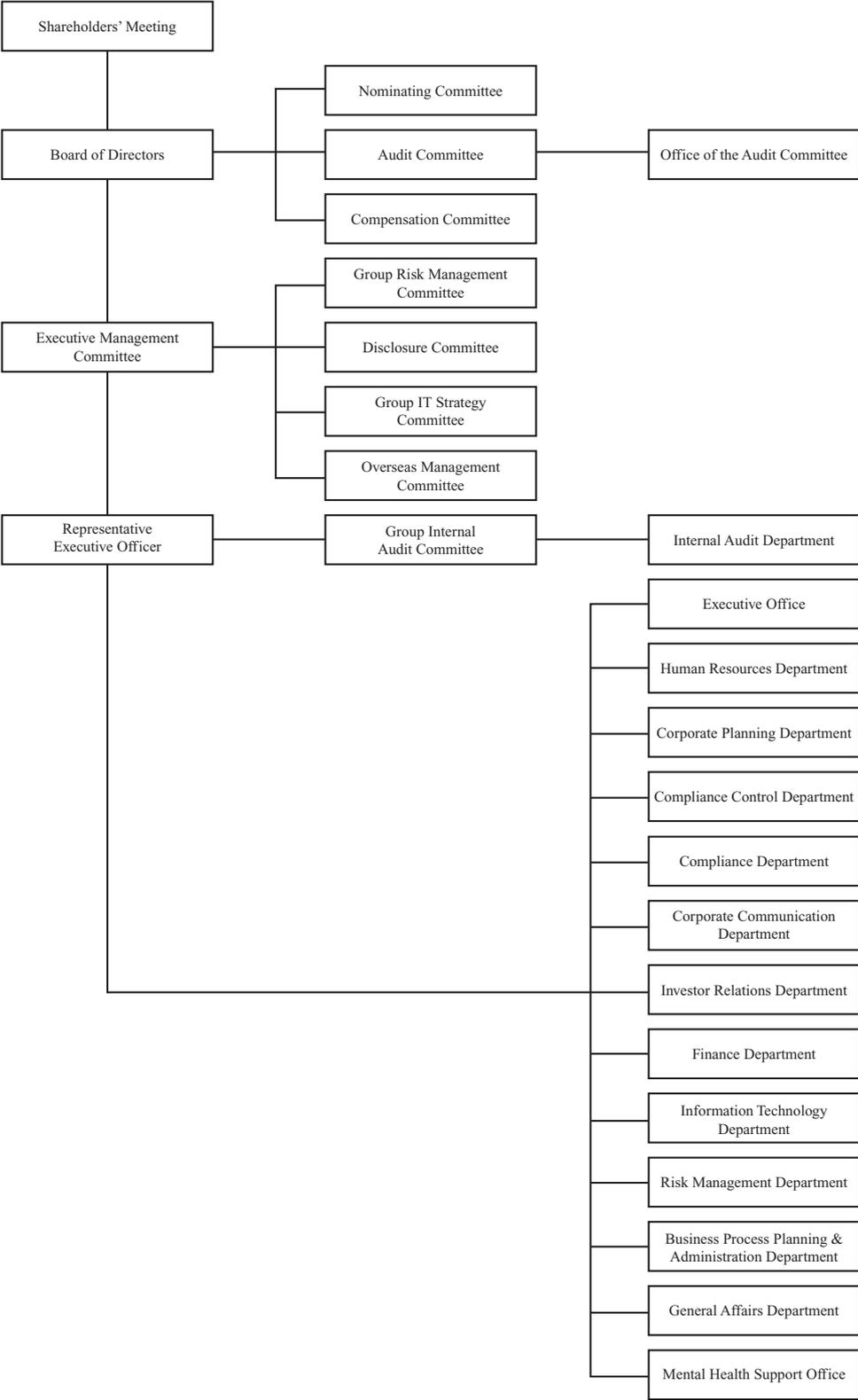
Our auditors are KPMG of 8th Floor, Prince's Building, 10 Chater Road, Central, Hong Kong. Our financial statements have been prepared for the years ended 31 March 2013 and 31 March 2014.

## **Risk Management**

The Daiwa Group has established a strong, independent and prudent risk management framework to manage the risks of the Daiwa Group on a global basis. The Group Risk Management Committee of DSGI in Tokyo, reports to the Executive Management Committee which in turn reports to the Board of Directors of DSGI in Tokyo.

The Risk Management Department is responsible for the overall supervision of the risk management function globally.

**Organisation Chart of DSGI (as of 1 April 2014)**



**Independence of risk management**

Effective management and organisational structure is established to ensure that businesses are conducted in a sound, efficient and effective manner.

Front and back office functions are independent and in line with segregation of duty requirements to create an appropriate control environment.

The risk management function is independent from all businesses. This set up ensures independent monitoring of risk taking activities and full objectivity when assessing the risk profile of the firm, including when assessing new business proposals or large transactions.

### **Risk management process**

The independent risk management process at the Daiwa Group can be decomposed into several steps:

- **Risk identification:** prior to developing new business initiatives, the new product approval process seeks to identify risks that have not affected the firm so far and to ensure that they can be handled appropriately. Also, risk managers review risk on an on-going basis to detect risks of a new nature that could affect the Daiwa Group's risk profile and to integrate these in the risk framework.
- **Risk quantification:** risk managers develop and maintain adequate methodologies to measure and monitor market and credit risks.
- **Risk reporting:** daily risk reporting, covering market risk and counterparty risk, ensures timely measurement and monitoring of risks and communication to senior management.
- **Risk controlling and mitigation:** the application of risk limits allows strict maintenance of actual risks within the risk appetite expressed by senior management. Risk limits impose built-in diversification across both market risk positions and asset classes, and, for counterparty risk, also across entities of the same group, the same industry sector, and/or similar ratings. When a risk concentration is detected, the Risk Management function may recommend a suitable hedging strategy, including an outright reduction in the offending position.

### **Senior management information**

The Group Risk Management Committee and the Executive Management Committee are duly kept informed of the risk profile of the Daiwa Group on a regular basis.

All detailed risk information is made available and is distributed to business heads and to senior management regularly.

Material changes in the risk profile and risk concentrations are highlighted to business heads and the Group Risk Management Committee members in a concise and contextual manner.

## **RISK CATEGORIES AND CONTROL PROCESS**

### **1 MARKET RISK**

Market risk is the exposure to potential losses resulting from adverse changes in the value of the positions held by the Daiwa Group on its trading books. Market movements impact the value of positions held across the various Daiwa Group's business units, including market making, proprietary trading, underwriting commitments and so on.

Several types of risk measures are used to assess, report and control market risk.

- **Value-at-Risk (VaR)** measures the maximum potential loss over a given period of time and with a given confidence level. The Daiwa Group uses a one day horizon, measuring the potential impact of adverse overnight market movements. The VaR is calculated using a 99% confidence level, which means that observed mark-to-market losses are expected to exceed the VaR predictions within a 1% probability.
- **Risk sensitivities** measure the value change of the portfolio as a function of small changes in individual market risk factors (for e.g. stock market levels, foreign exchange rates, interest rates etc). This measures the risk of the portfolio and quantifies the immediate value impact of market movements.

- **Stress testing** addresses potential changes in the value of the portfolio under extreme market movements, whether hypothetical or historical (applying past market crisis to today's market environment). The resulting overall change in portfolio value is a direct indication of the potential loss or profit that the business is exposed to, should the assumed scenario occur.

## **Policies and limit framework**

Market risk is controlled through policies and limits.

Policies establish responsibilities, mainly in terms of limit setting and transactional approval, while market risk limits materialize the risk appetite of the firm.

The market risk limit structure is a framework within which the various businesses of the Daiwa Group must operate. Its objective is to control and limit the amount and the nature of the market risk incurred by the firm. It relies on explicit limits applying to some of the market risk measures detailed above, namely VaR, risk sensitivities, and/or stress testing results.

Diversification of risk taking is imposed through limits, whereby the aggregate risk limit of the firm is lower than the sum of the individual risk limits applied to the various trading desks. Limit usage is calculated and reported on a daily basis, as part of the daily market risk reporting process. As soon as they are identified and verified, limit excesses follow a specific procedure aimed at resolving the breach through one of three possible outcomes: the risk falls back within the limit, or the limit is temporarily increased, or the limit is permanently increased.

Limit setting, as well as breach processing, follows a clearly defined procedure, with various levels of authority, from individual risk managers to the head of risk and senior management.

## **Risk mitigation**

The first and most important way to mitigate market risk taking is to set up adequate market risk limits, whether in terms of nature or magnitude. Enforcing strict diversification through limit setting, based on the trading mandates of the various businesses, is a powerful tool to reduce the aggregate market risk of the firm across all its desks.

The second way to mitigate market risk is by direct action. When a specific risk concentration not entirely captured by the limit framework is identified within a desk, the market risk function will make hedging or risk reducing recommendations to the head of the relevant business.

Alternatively, the market risk function may decide to reduce certain limits to reduce the firm's exposure to a level compatible with the declared risk appetite. As market conditions constantly change, the riskiness of positions will also change, and may result in a significant increase in the amount of risk present on the Daiwa Group's books although the nature and amount of positions has not changed. It is the role of the market risk function to identify such instances and to recommend remedial actions where appropriate.

## **2 OPERATIONAL RISK**

Operational risk is the risk of losses arising from failed internal processes and systems, from personnel's actions or from external events. Operational risk can lead to monetary losses, reputational damage or regulatory sanctions. Typical operational events include transaction errors and information technology system issues.

### **Risk measures**

History of observed monetary losses provides a view on the magnitude of past loss events. Loss estimates calculated under certain incident scenarios, help to quantify likely losses, especially for new businesses.

## Policy

The Daiwa Group manages operational risk by establishing clear policies and employing sufficient human and technological resources. Controls over operational risk are designed to ensure that all relevant transactions are appropriately approved and that checks and balances are in place over their processing, recording and reconciliation.

All transactions must be accurately recorded and properly reflected in the internal systems and records on a timely basis. Policies and procedures are reviewed and updated in light of changing market circumstances and regulatory requirements.

The operational risk policy defines the duty of care of all departments in the firm, whether business or support and control functions. It establishes in particular the process leading to the reporting of all incidents and sets up operational risk identification.

## Risk mitigation

Existing business activities are periodically reviewed through risk controls and self-assessments. This process aims to identify operational risks yet undetected and to ensure adequate remediation action is taken. Recommendations issued by the operational risk team as a result of an assessment are scrupulously followed up until satisfactory implementation.

Operational incidents are logged on an ongoing basis. Incidents must be reported by all businesses to the operational risk team of the Daiwa Group.

The Internal Audit Department of DSGI independently assesses DSGI's control environment, identifying opportunities for improvement and working with management to mitigate risk and drive change. The Internal Audit Department provides the Group Internal Audit Committee with an independent assessment of the control environment. The Internal Audit Department reviews and evaluates the adequacy of the firm's operating policies and procedures and the effectiveness of internal controls in accordance with established policies and procedures.

## 3 CREDIT RISK

Credit risk is broadly the potential loss resulting from a counterparty or an issuer failing to perform on its contractual obligations.

Counterparty risk arises in the context of transactions with other entities, whether security purchases or sales, or over-the-counter transactions.

Counterparty risk has four components:

- **Settlement risk:** this is the risk that payment instructions or security delivery instructions are not executed as required and may generate a loss.
- **Marked-to-market risk:** this is the instantaneous loss suffered in case of a counterparty defaulting. This corresponds to the cumulative value of the transaction, minus the sum of all margin calls posted to the Daiwa Group over the life of the trade.
- **Potential future exposure:** this is the likely future positive value of the marked-to-market exposure of the transaction; in other terms, it tells us how large our exposure to a counterparty may become in the future.
- **Liquidation risk:** this is the risk of potential losses arising from liquidation of assets held as collateral, after a counterparty has defaulted.

Issuer risk arises from securities such as bonds undergoing a credit event such as a rating downgrade, a default of coupon payment, or an outright default on the principal amount. Such events usually cause the price of the security to drop and cause a loss to the holder. Issuer risk is measured primarily using the marked-to-market exposure by the issuer.

## Risk measures

The Daiwa Group is exposed to various kinds of credit risk across its different business lines and operations. These credit risks are measured separately using dedicated methodologies.

Counterparty risk components are measured using true exposure for settlement risk and marked-to-market risks. Potential future exposure and liquidation risk are measured using statistical methods such as VaR.

## Policies and limit framework

Counterparty risk is controlled through their respective limit frameworks.

Counterparty risk is limited using across all components together, with the exception of settlement risk being limited separately since it is seen as fundamentally of different nature to other credit risks.

## Risk mitigation

Credit risk mitigation addresses issuer risk and counterparty risk separately.

Issuer risk can be hedged using credit default swaps, short stocks and long puts that will provide a positive pay off in case the issuer defaults.

All four components of counterparty risk can be mitigated to some extent.

- **Settlement risk** is reduced by imposing limits to the amount being settled on any given day with a counterparty. Delivering securities only after the corresponding payment has been delivered to the Daiwa Group removes the settlement risk.
- **Marked-to-market risk** is reduced or mitigated through daily margin call payments. Every day, the collateral management team, part of the risk management function, issues margin calls to relevant counterparties in order to bring back the Daiwa Group's exposure within the pre-agreed level as described in the documentation signed with the relevant counterparties. Netting of offsetting exposures across different transactions is also used.
- **Potential future exposure** can be mitigated by reducing the maximum time after which margin call payments are received from the counterparty. In addition, maximum tenor and/or product specific limits may be set against a counterparty.
- **Liquidation risk** is mitigated by imposing sufficient liquidity criteria on eligible collateral. In addition, collateral concentration guidelines strongly discourage the emergence of concentration risk in the collateral assets held on the back of relationships with various counterparties.

The counterparty on-boarding process contributes to the reduction of counterparty risk. The Daiwa Group credit risk team performs an internal review of the credit worthiness of each new counterparty based on a rigorous and comprehensive process.

For OTC derivatives transactions, external counterparties are usually required to enter into an ISDA Master agreement and a Credit Support Annex, where appropriate. In exceptional cases, where trade volume is expected to be limited, derivatives transactions may be transacted under a long form confirmation.

A credit approval process is carried out for all new counterparties covering:

- The financial status of client, including, but not limited to, capital, assets, management, earnings and liquidity.
- A review to ensure that the proposed transactions are appropriate for that counterparty.
- If necessary, a detailed due-diligence on that counterparty.
- Assignment of internal rating according to the internal credit rating methodology.

The above items are used collectively to determine an appropriate credit limit.

Legal documentation agreed between the relevant entities within the Daiwa Group and the counterparty defines, amongst other things, eligible collateral, margin call mechanism and early termination clauses.

#### **4 LIQUIDITY RISK**

Liquidity risk is the risk that the firm may become unable to repay its liabilities as they become due. Its core component is access to cash through available capital reserves or funding or access to assets with enough liquidity to be sold in the market within a very short period of time, including in times of heightened market volatility.

##### **Risk measures**

Liquidity gap measures potential funding requirements. The size of the cash buffer maintained by the treasury desk is also a direct measure of reserve cash.

##### **Policies and limit framework**

The liquidity policy determines the role and responsibility of the treasury desk as the central funding desk of the Daiwa Group. It also defines the relationship of the treasury desk with all businesses that have daily funding requirements to satisfy. Liquidity limits are in place and a daily liquidity report provides future funding needs and assesses them against the maximum allowable gap.

##### **Risk mitigation**

Sufficient contingent funding arrangements are put in place to ensure that the Daiwa Group can meet its liabilities in case access to cash became severely restricted. A liquid assets or outright cash is maintained at all times and monitored against a minimum acceptable level by the treasury desk.

#### **5 LEGAL AND COMPLIANCE RISK**

The senior management of the Daiwa Group has the ultimate responsibility for establishing and maintaining an appropriate and effective legal and compliance functions within the Daiwa Group and clear policies covering all relevant aspects of the business and operations of the Daiwa Group. The Legal and Compliance Departments within the Daiwa Group in conjunction with senior management are responsible for identifying, measuring and monitoring the key legal and regulatory requirements of the Daiwa Group and assist in the management of such requirements and compliance risks.

The Legal and Compliance Departments exercise independent oversight and control over the business activities of the Daiwa Group and are set up primarily to assist senior management in establishing, maintaining, communicating and enforcing effective legal and compliance policies and procedures of the Daiwa Group, and to ensure that business practice complies with the relevant laws and regulations and that material legal and compliance risks are identified.

The process includes but not limited to the following:

- (i) establish and implement relevant and effective legal and compliance policies, controls and procedures;
- (ii) review and monitor the business activities of the Daiwa Group, and its directors, officers and employees to ensure compliance with external and internal laws, rules, regulations, codes, policies and procedural requirements;
- (iii) act as liaison with relevant external auditors, regulatory authorities and agencies to deal with and resolve compliance issues; and
- (iv) provide information to senior management on applicable laws, rules, regulations, codes of conduct and requirements to assist them with their compliance responsibilities.

## SALES AND TRANSFER RESTRICTIONS

### General

We have not taken or will not take any action that would permit a public offering of structured products or possession or distribution of any offering material in relation to the structured products in any jurisdiction (other than Hong Kong) where action for that purpose is required. No offers, sales or deliveries of any structured products, or distribution of any offering material relating to the structured products, may be made in or from any jurisdiction except in circumstances which will result in compliance with any applicable laws or regulations and will not impose any obligations on the Issuer. You are required to inform yourself about, and to observe, all such applicable laws and regulations.

### United Kingdom

Each dealer has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (“FSMA”)) received by it in connection with the issue or sale of the structured products in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any structured products in, from or otherwise involving the United Kingdom.

### United States of America

The structured products have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended. Structured products, or interests therein, may not at any time be offered, sold, resold or delivered, directly or indirectly, in the United States or to, or for the account or benefit of, any U.S. person or to others for offering, sale or resale in the United States or to any such U.S. person. Offers and sales of structured products, or interests therein, in the United States or to U.S. persons would constitute a violation of United States securities laws unless made in compliance with the registration requirements of the Securities Act or pursuant to an exemption therefrom. The structured products will not be offered, sold or delivered with the United States or to U.S. persons. As used herein, **United States** means the United States of America (including the States and the District of Columbia), its territories, its possessions and other areas subject to its jurisdiction; and **U.S. person** means any national or resident of the United States, including any corporation, partnership or other entity created or organized in or under the laws of the United States or any political subdivision thereof, any estate or trust of which any fiduciary is a U.S. person, any estate or trust the income of which is subject to United States federal income taxation regardless of its source, any agency or branch located in the United States of an entity that is not a U.S. person, any non-discretionary account held by a dealer or other fiduciary for the account of a U.S. person, any discretionary account held by a dealer or other fiduciary that is a U.S. person unless no owner of the account is a U.S. person, and any other U.S. person as such term is defined in Regulation S under the Securities Act.

### European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), each dealer has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of structured products which are the subject of the offering contemplated by this base listing document as completed by the relevant supplemental listing document in relation thereto to the public in that Relevant Member State other than:

- (a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

- (b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive subject to obtaining the prior consent of the relevant dealer or dealers nominated by the Issuer for any such offer; or
- (c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Structured Products shall require the Issuer or any dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “**offer of the structured products to the public**” in relation to any structured products in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the structured products to be offered so as to enable an investor to decide to purchase or subscribe the structured products, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression “**Prospectus Directive**” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression “**2010 PD Amending Directive**” means Directive 2010/73/EU.

## **Japan**

The structured products have not been or will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended; the **FIEA**). No structured products has been or will be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident in Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)) or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

## TAXATION

The comments below are of a general nature and are only a summary of the stamp duty and stamp duty reserve tax laws and practice currently applicable in Hong Kong. The comments relate to the position of persons who are the absolute beneficial owners of the structured products and may not apply equally to all persons. If you are in any doubt as to your tax position on purchase, ownership, transfer or exercise of any structured product, you should consult your own tax advisers.

### **General**

You may be required to pay stamp duties, taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the issue price of each structured product.

### **Taxation in Hong Kong**

#### *Profits tax*

No tax is payable in Hong Kong by way of withholding or otherwise in respect of dividends of any company or in respect of any capital gains arising on the sale of any shares or structured products, except that Hong Kong profits tax may be chargeable on any such gains in the case of certain persons carrying on a trade, profession or business in Hong Kong.

#### *Stamp duty*

Stamp duty is not chargeable upon the transfer of a warrant (cash settled) or a CBBC (cash settled).

#### *Estate duty*

No estate duty is payable on any payment under the structured products in Hong Kong.

## GENERAL INFORMATION

### **Are we regulated by the Hong Kong Monetary Authority referred to in Rule 15A.13(2) or the Securities and Futures Commission referred to in Rule 15A.13(3)?**

We are regulated by the Securities and Futures Commission for the conduct of the business in dealing in securities in Hong Kong.

### **Have we been rated by any credit rating agency?**

As at the date of this document, we are not rated by any credit rating agency.

### **Are we involved in any litigation?**

As at the date of this document and except as set out in the “Information about us” section and/or the “Exhibit A” of this document, neither we nor any of our group companies are aware of any litigation or claims of material importance in the context of the issue of the structured products pending or threatened against us or our group companies.

### **Has there been any material adverse change?**

Except as set out in the “Information about us” section and/or the “Exhibit A” in this document, there has been no material adverse change in the financial or trading positions of us or our group companies since 31 March 2014.

If, after the date of this document, you receive this document or purchase any structured products issued pursuant to this document you should not assume that there have been no changes in our or our group companies’ affairs or financial conditions since the date of this document.

You should ask us if we have published any addenda to this document or any subsequent base listing document relating to the programme. Any such addenda will be available for inspection in the manner described under the section headed “Where can you find out information about us?” below.

### **Who is authorised to give information or make representations?**

No person has been authorised to give any information or make any representations other than those contained in this document and the applicable supplemental listing document. If any person gives any such information or makes any such representations you should not rely on them as having been authorised by us.

### **Who are the authorised representatives of the Issuer?**

Our authorised representatives are Venus Wong and Andrew Yu whose address is Level 28, One Pacific Place, 88 Queensway, Hong Kong.

### **Who has been authorised to accept service of process on us?**

Our authorised representative Andrew Yu whose address is Level 28, One Pacific Place, 88 Queensway, Hong Kong has been authorized to accept service of process and any other notices required to be served on us.

### **Who makes determinations and calculations?**

We will make any necessary determinations or calculations in respect of the structured products.

### **Where can you find out information about us?**

You can find out more about us on the website [www.hk.daiwacm.com](http://www.hk.daiwacm.com), and on the website of the group of companies to which we belong, which is [www.daiwa-grp.jp](http://www.daiwa-grp.jp).

You may also inspect copies of the following documents at Level 28, One Pacific Place, 88 Queensway, Hong Kong during the period in which the structured products are listed on the stock exchange:

- (a) a copy of this document and any addendum to this document (both the English version and the Chinese translation);
- (b) a copy of our latest publicly available annual report and interim report or quarterly financial statements (if any); and
- (c) a copy of the consent letter from our auditors referred to in this document.

### **Are there any experts/auditors involved?**

Our auditors, KPMG, have given and have not withdrawn their written consent to the reproduction of their auditor’s report dated 12 June 2014 on our financial statements for the year ended 31 March 2014 included in this document in the form and context in which it appears in this document. The auditor’s report was not prepared for incorporation in this document. Our auditors do not have any shareholding in our company or in any members of our group, nor do they have the right (whether

legally enforceable or not) to subscribe for or to nominate persons to subscribe for the securities or securities in any members of our group.

**Do the stock exchange and the Securities and Futures Commission charge any fees?**

The stock exchange charges a trading fee of 0.005 per cent. and the Securities and Futures Commission charges a transaction levy of 0.003 per cent. in respect of each transaction effected on the stock exchange payable by each of the seller and the buyer and calculated on the value of the consideration for the relevant securities. The levy for the investor compensation fund is currently suspended. Under the terms and conditions of the structured products, you are required to pay all charges arising on the transfer of underlying shares following the exercise of structured products.

**How are dealings in the structured products settled?**

Dealings in the securities on the stock exchange are required to be settled within two trading days from the transaction date. Such settlement can either be effected by physical delivery of the certificates and executed instruments of transfer or, if the securities are admitted for deposit, clearing and settlement in the CCASS, through CCASS. Dealings in the structured products will take place in the relevant Board Lots in the relevant settlement currency. You should refer to the terms and conditions of the relevant structured products for further details.

## **EXHIBIT A**

### **ANNUAL REPORT OF THE ISSUER FOR THE YEAR ENDED 31 MARCH 2014**

The independent auditor's report on the Issuer's financial statements for the year ended 31 March 2014 set out in this Exhibit A is reproduced from the annual report of the Issuer for the financial year ended 31 March 2014. Page references in this Exhibit A refer to pages in the annual report.



**Daiwa Capital Markets Hong Kong Limited**  
大和資本市場香港有限公司

31 March 2014

## Report of the directors

The directors submit herewith their annual report together with the audited financial statements for the year ended 31 March 2014.

### **Principal place of business**

Daiwa Capital Markets Hong Kong Limited (“the Company”) is a company incorporated and domiciled in Hong Kong and has its registered office and principal place of business at Level 28, One Pacific Place, 88 Queensway, Hong Kong.

### **Principal activities**

The principal activities of the Company are securities and futures dealing, provision of corporate finance advisory services and issuance of listed structured products.

The Company is a licensed corporation under the Hong Kong Securities and Futures Ordinance and is a corporate participant on The Stock Exchange of Hong Kong Limited and The Hong Kong Futures Exchange Limited.

### **Financial statements**

The loss of the Company for the year ended 31 March 2014 and the state of the Company’s affairs as at that date are set out in the financial statements on pages 6 to 47.

### **Transfer to reserves**

Losses attributable to shareholders, before dividends, of US\$18,134,798 (2013: US\$48,988,576) have been transferred to reserves. Other movements in reserves are set out in the statement of changes in equity.

During the year, no interim dividend was declared and paid in respect of the year ended 31 March 2014 (2013: US\$Nil). The directors do not recommend the payment of a final dividend for the year ended 31 March 2014 (2013: US\$Nil).

### **Fixed assets**

Details of movements in fixed assets are set out in note 10 to the financial statements.

### **Share capital**

Details of share capital of the Company are set out in note 22(a) to the financial statements. Shares were issued during the year to broaden the capital base of the Company.

## **Directors**

The directors of the Company during the year and up to the date of the report were:

Hironori Oka	
Terence Patrick Mackey	
John Gerard Williams	
Tetsuo Akuzawa	(appointed on 1 April 2013)
Takashi Chiba	(appointed on 1 November 2013 and resigned on 13 May 2014)
Shinji Shibuya	(appointed on 14 May 2014)
Masami Tada	(resigned on 30 June 2013)
Tsutomu Kobayashi	(resigned on 1 November 2013)

There being no provision in the Company's articles of association for the annual retirement of directors, all the remaining directors continue in office.

At no time during the year was the Company, any of its holding companies or its fellow subsidiaries or subsidiary a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## **Directors' interests in contracts**

No contract of significance to which the Company, any of its holding companies or its fellow subsidiaries or subsidiary was a party, and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## **Auditors**

KPMG will retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting.

By order of the board



Hong Kong, 12 JUN 2014



# Independent auditor's report to the shareholders of Daiwa Capital Markets Hong Kong Limited *(Incorporated in Hong Kong with limited liability)*

## **Report on the financial statements**

We have audited the financial statements of Daiwa Capital Markets Hong Kong Limited ("the Company") set out on pages 6 to 47, which comprise the balance sheet as at 31 March 2014, the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

### *Directors' responsibility for the financial statements*

The directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In addition, the directors also have a responsibility to ensure that the financial statements are in accordance with the records kept under the Hong Kong Securities and Futures (Keeping of Records) Rules and satisfy the requirements of the Hong Kong Securities and Futures (Accounts and Audit) Rules.

### *Auditor's responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 80 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), and to report to you on the other matters set out in the preceding paragraph, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.



Independent auditor's report to the shareholders of  
Daiwa Capital Markets Hong Kong Limited (continued)  
*(Incorporated in Hong Kong with limited liability)*

**Report on the financial statements (continued)**

*Auditor's responsibility (continued)*

We conducted our audit in accordance with Hong Kong Standards on Auditing and with reference to Practice Note 820 "The Audit of Licensed Corporations and Associated Entities of Intermediaries" issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement, and whether the Company's financial statements are in accordance with the records kept under the Hong Kong Securities and Futures (Keeping of Records) Rules and satisfy the requirements of the Hong Kong Securities and Futures (Accounts and Audit) Rules.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements give a true and fair view of the state of the Company's affairs as at 31 March 2014 and of its loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.



Independent auditor's report to the shareholders of  
Daiwa Capital Markets Hong Kong Limited (continued)  
*(Incorporated in Hong Kong with limited liability)*

**Report on matters under the Hong Kong Securities and Futures (Keeping of Records) Rules and Hong Kong Securities and Futures (Accounts and Audit) Rules of the Hong Kong Securities and Futures Ordinance**

In our opinion, the financial statements are in accordance with the records kept under the Hong Kong Securities and Futures (Keeping of Records) Rules and satisfy the requirements of the Hong Kong Securities and Futures (Accounts and Audit) Rules.

Certified Public Accountants

8th Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong

12 JUN 2014

**Statement of comprehensive income**  
**for the year ended 31 March 2014**  
*(Expressed in United States dollars)*

	<i>Note</i>	<i>2014</i>	<i>2013</i>
<b>Turnover</b>	3	\$ 104,127,697	\$ 90,342,433
Other revenue	4	46,531,995	55,438,039
Other net income	4	2,770,053	1,518,802
Staff costs	5	(59,096,194)	(74,611,026)
Depreciation	10	(9,862,541)	(9,208,048)
Other operating expenses		<u>(98,798,388)</u>	<u>(108,579,947)</u>
<b>Loss from operations</b>		\$ (14,327,378)	\$ (45,099,747)
Finance costs	6(a)	<u>(3,807,420)</u>	<u>(3,888,829)</u>
<b>Loss before and after taxation for the year</b>	6	<u>\$ (18,134,798)</u>	<u>\$ (48,988,576)</u>
<b>Other comprehensive income for the year</b>			
Items that may be reclassified subsequently to profit or loss:			
<i>Available-for-sale securities:</i>			
- Changes in fair value of available-for-sale securities		554,006	197,949
- Transfer from available-for-sale investment revaluation reserve to profit or loss on disposal of investments		<u>(69,957)</u>	<u>-</u>
<b>Other comprehensive income for the year, net of tax</b>		<u>\$ 484,049</u>	<u>\$ 197,949</u>
<b>Total comprehensive income for the year</b>		<u>\$ (17,650,749)</u>	<u>\$ (48,790,627)</u>

The notes on pages 12 to 47 form part of these financial statements.

## Balance sheet at 31 March 2014

*(Expressed in United States dollars)*

	<i>Note</i>	<i>2014</i>	<i>2013</i>
<b>Non-current assets</b>			
Intangible assets	9	\$ 383,582	\$ 383,377
Fixed assets	10	20,224,584	25,207,295
Investment in a subsidiary	11	-	2,284,581
Available-for-sale securities	12	3,017,287	2,538,044
Other non-current deposits		5,095,883	5,036,698
		\$ 28,721,336	\$ 35,449,995
<b>Current assets</b>			
Financial assets at fair value through profit or loss	13	\$ 15,676,914	\$ 16,573,912
Receivables from reverse repurchase agreements	14	38,946,641	31,342,456
Accounts receivable	15, 24	1,130,382,620	1,487,518,270
Other receivables and prepayments	24	20,087,716	24,930,309
Cash and cash equivalents	17	520,007,700	551,768,772
		\$ 1,725,101,591	\$ 2,112,133,719
<b>Current liabilities</b>			
Financial liabilities at fair value through profit or loss	18	\$ 15,676,094	\$ 16,573,086
Amount due to a fellow subsidiary	16	38,903,001	31,305,010
Amount due to a subsidiary	16	-	2,898,865
Subordinated loan	19	-	35,000,000
Accounts payable	20, 24	1,130,650,591	1,488,547,707
Accruals and other payables	24	58,182,413	80,197,469
		\$ 1,243,412,099	\$ 1,654,522,137
<b>Net current assets</b>		\$ 481,689,492	\$ 457,611,582
<b>Total assets less current liabilities</b>		\$ 510,410,828	\$ 493,061,577

## Balance sheet at 31 March 2014 (continued)

*(Expressed in United States dollars)*

	<i>Note</i>	<i>2014</i>	<i>2013</i>
<b>Non-current liability</b>			
Subordinated loan	19	\$ <u>                    -</u>	\$ <u>105,000,000</u>
<b>NET ASSETS</b>		<u>\$ 510,410,828</u>	<u>\$ 388,061,577</u>
<b>CAPITAL AND RESERVE</b>			
Share capital	22(a)	\$ 697,860,644	\$ 557,860,644
General reserve	23(a)	12,008,165	12,008,165
Investment revaluation reserve	23(b)	962,584	478,535
Accumulated losses		<u>(200,420,565)</u>	<u>(182,285,767)</u>
<b>TOTAL EQUITY</b>		<u>\$ 510,410,828</u>	<u>\$ 388,061,577</u>

Approved and authorised for issue by the board of directors on **12 JUN 2014**


}
Directors

The notes on pages 12 to 47 form part of these financial statements.

## Statement of changes in equity for the year ended 31 March 2014 *(Expressed in United States dollars)*

	<i>Note</i>	<i>Share capital</i>	<i>General reserve</i>	<i>Investment revaluation reserve</i>	<i>Accumulated losses</i>	<i>Total</i>
<b>At 1 April 2012</b>		\$ 557,860,644	\$ 12,008,165	\$ 280,586	\$ (133,297,191)	\$ 436,852,204
Loss for the year		\$ -	\$ -	\$ -	\$ (48,988,576)	\$ (48,988,576)
Other comprehensive income		-	-	197,949	-	197,949
Total comprehensive income for the year		\$ -	\$ -	\$ 197,949	\$ (48,988,576)	\$ (48,790,627)
<b>At 31 March 2013</b>		\$ 557,860,644	\$ 12,008,165	\$ 478,535	\$ (182,285,767)	\$ 388,061,577
<b>At 1 April 2013</b>		\$ 557,860,644	\$ 12,008,165	\$ 478,535	\$ (182,285,767)	\$ 388,061,577
Issue of capital	23(a)	\$ 140,000,000	\$ -	\$ -	\$ -	\$ 140,000,000
Loss for the year		\$ -	\$ -	\$ -	\$ (18,134,798)	\$ (18,134,798)
Other comprehensive income		-	-	484,049	-	484,049
Total comprehensive income for the year		\$ -	\$ -	\$ 484,049	\$ (18,134,798)	\$ (17,650,749)
<b>At 31 March 2014</b>		\$ 697,860,644	\$ 12,008,165	\$ 962,584	\$ (200,420,565)	\$ 510,410,828

The notes on pages 12 to 47 form part of these financial statements.

## Cash flow statement for the year ended 31 March 2014 *(Expressed in United States dollars)*

	<i>Note</i>	<i>2014</i>	<i>2013</i>
<b>Operating activities</b>			
Loss before taxation	\$	(18,134,798)	\$ (48,988,576)
Adjustments for:			
Depreciation		9,862,541	9,208,048
Loss on disposal of fixed assets		479,360	437,097
Reversal of provision of onerous contracts		(479,360)	-
Gain on disposal of a subsidiary		(616,777)	-
Net gain on sale of available-for-sale securities		(67,302)	-
Interest income		(2,189,966)	(6,847,096)
Interest expense		3,807,420	3,888,829
Exchange differences		(1,586)	(1,110)
		<hr/>	<hr/>
<b>Operating loss before changes in working capital</b>	\$	(7,340,468)	\$ (42,302,808)
Increase in other non-current deposits		(59,185)	(2,160,899)
Decrease in financial assets at fair value through profit or loss		896,998	6,032,344
(Increase)/decrease in receivables from reverse repurchase agreements		(7,604,185)	297,646,772
Decrease in accounts receivable		357,135,650	712,947,384
Decrease/(increase) in other receivables and prepayments		4,931,465	(1,183,207)
(Decrease)/increase in financial liabilities at fair value through profit or loss		(896,992)	1,426,872
Increase/(decrease) in amount due to a fellow subsidiary		7,597,991	(297,174,534)
(Decrease)/increase in amount due to a subsidiary		(2,898,865)	516,700
Decrease in accounts payable		(357,897,116)	(723,629,454)
Decrease in accruals and other payables		(20,721,984)	(41,729,003)
		<hr/>	<hr/>
<b>Net cash used in operating activities</b>	\$	(26,856,691)	\$ (89,609,833)

**Cash flow statement**  
**for the year ended 31 March 2014 (continued)**  
*(Expressed in United States dollars)*

	<i>Note</i>	<i>2014</i>	<i>2013</i>
<b>Investing activities</b>			
Dividend received	\$	-	\$ 2,902
Interest received		2,101,094	7,184,715
Payment for purchase of fixed assets		(5,359,190)	(4,509,938)
Proceeds from liquidation of a subsidiary		2,901,358	-
Proceeds from disposal of available-for-sale securities		73,489	-
		<hr/>	<hr/>
<b>Net cash (used in)/generated from investing activities</b>	<b>\$</b>	<b>(283,249)</b>	<b>\$ 2,677,679</b>
		<hr/>	<hr/>
<b>Financing activities</b>			
Proceeds from issue of shares	\$	140,000,000	\$ -
Proceeds from subordinated loan obtained from the ultimate holding company		-	105,000,000
Repayment of subordinated loan		(140,000,000)	
Interest paid		(4,621,132)	(3,092,301)
		<hr/>	<hr/>
<b>Net cash (used in)/generated from financing activities</b>	<b>\$</b>	<b>(4,621,132)</b>	<b>\$ 101,907,699</b>
		<hr/>	<hr/>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>\$</b>	<b>(31,761,072)</b>	<b>\$ 14,975,545</b>
<b>Cash and cash equivalents at 1 April 2013/2012</b>	<b>17</b>	<b>516,768,772</b>	<b>501,793,227</b>
		<hr/>	<hr/>
<b>Cash and cash equivalents at 31 March</b>	<b>17</b>	<b>\$ 485,007,700</b>	<b>\$ 516,768,772</b>
		<hr/>	<hr/>

The notes on pages 12 to 47 form part of these financial statements.

## Notes to the financial statements

*(Expressed in United States dollars unless otherwise indicated)*

### **1 Principal activities**

The principal activities of the Company are securities and futures dealing, provision of corporate finance advisory services and issuance of listed structured products.

The Company is a licensed corporation under the Hong Kong Securities and Futures Ordinance and is a corporate participant of The Stock Exchange of Hong Kong Limited and The Hong Kong Futures Exchange Limited.

### **2 Significant accounting policies**

#### **(a) Statement of compliance**

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies ordinance (Cap. 622), “Accounts and Audit”, which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. A summary of the significant accounting policies adopted by the Company is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Company. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Company for the current and prior accounting periods reflected in these financial statements.

## 2 Significant accounting policies (continued)

### (b) *Basis of preparation of the financial statements*

No consolidated financial statements are prepared for the current year as the subsidiary has been liquidated during the current year. The comparative figures in the financial statements represent the audited unconsolidated figures of the Company.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that financial instruments classified as held for trading and as available-for-sale securities are stated at their fair value as explained in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### (c) *Change in accounting policies*

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Company. Of these, the following developments are relevant to the Company's financial statements:

- Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*
- HKFRS 10, *Consolidated financial statements*
- HKFRS 13, *Fair value measurement*
- Amendments to HKFRS 7 – *Disclosures - Offsetting financial assets and financial liabilities*

The Company has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 31).

## 2 Significant accounting policies (continued)

### (c) Change in accounting policies (continued)

#### **Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income***

The amendments require entities to present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The presentation of other comprehensive income in the statement of comprehensive income in these financial statements has been modified accordingly.

#### **HKFRS 10, *Consolidated financial statements***

HKFRS 10 replaces the requirements in HKAS 27, *Consolidated and separate financial statements* relating to the preparation of consolidated financial statements and HK-SIC 12 *Consolidation – Special purpose entities*. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of HKFRS 10, the Company has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Company in respect of its involvement with other entities as at 1 April 2013.

#### **HKFRS 13, *Fair value measurement***

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. To the extent that the requirements are applicable to the Company, the Company has provided those disclosures in note 26. The adoption of HKFRS 13 does not have any material impact on the fair value measurements of the Company's assets and liabilities.

#### **Amendments to HKFRS 7 – *Disclosures – Offsetting financial assets and financial liabilities***

The amendments introduce new disclosures in respect of offsetting financial assets and financial liabilities. Those new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32, *Financial instruments: Presentation* and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with HKAS 32. The Company has provided those disclosures in note 26(g).

## 2 Significant accounting policies (continued)

### (d) *Subsidiaries*

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Company has power, only substantive rights are considered.

When the Company loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(j)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

### (e) *Investment in securities*

The Company's policies for investments in debt and equity securities, other than investment in a subsidiary are as follows:

Investments in securities held for trading are classified as current assets and are initially stated at fair value. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss.

Other investments in securities are classified as available-for-sale securities and are initially recognised at fair value plus transaction costs. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity, except for impairment losses (see note 2(j)) and in the case of monetary items, foreign exchange gains and losses which are recognised directly in profit or loss.

Investments are recognised/derecognised on the date the Company commits to purchase/sell the investments or they expire.

## 2 Significant accounting policies (continued)

### (f) *Investments in derivative financial instruments*

The Company's policies for investments in derivative financial instruments are as follows:

Trading financial instruments are financial assets or financial liabilities which are acquired or incurred principally for the purpose of trading, or are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivative financial instruments that do not qualify for hedge accounting are accounted for as trading instruments.

These financial assets and financial liabilities are carried at fair value. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in the profit or loss includes any dividends on these investments as these are recognised in accordance with the policies set out in note 2(r). Upon disposal or repurchase, the difference between the net sales proceeds or the net payment and the carrying value is included in the profit or loss.

#### *Fair value measurement principles*

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in the profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Subsequent measurement of the fair value of financial instruments is based on their quoted market prices at the balance sheet date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

If there is no publicly available latest traded price nor a quoted market price on a recognised stock exchange or a price from a broker/dealer for non-exchange-traded financial instruments, or if the market for it is not active, the fair value of the instrument is estimated using valuation techniques that provide a reliable estimate of prices which could be obtained in actual market transactions.

Investments are recognised/derecognised on the date the Company commits to purchase/sell the investments or they expire.

## 2 Significant accounting policies (continued)

### (g) Repurchase transactions

Securities sold subject to a simultaneous agreement to repurchase these securities at a certain later date at a fixed price (repurchase agreements) are retained in the financial statements and measured in accordance with their original measurement principles. The proceeds from the sale are reported as liabilities and are carried at amortised cost.

Securities purchased subject to a simultaneous agreement to resell these securities at a certain later date at a fixed price (reverse repurchase agreements) are not recognised in the financial statements. The payments for the purchase are reported as receivables and are carried at amortised cost.

Interest incurred on repurchase agreements and reverse repurchase agreements are recognised as interest expense/interest income over the life of each agreement using the effective interest method.

### (h) Fixed assets

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 2(j)). Depreciation is calculated to write off the cost of fixed assets on a straight line basis over their estimated useful lives as follows:

- Leasehold improvements	6 years or over the term of the lease, whichever is shorter
- Furniture, fixtures and office equipment	4 years
- Motor vehicles	4 years

Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

### (i) Exchange trading rights

Exchange trading rights represent the rights to trade on the relevant exchanges and are stated at cost less impairment losses (see note 2(j)).

The Company reviews annually whether the useful life of trading rights is indefinite.

## 2 Significant accounting policies (continued)

### (j) Impairment of assets

#### (i) Impairment of investments in securities and accounts and other receivables

Investment in securities and accounts and other receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

- For accounts and other receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for accounts and other receivables are reversed if in a subsequent period the amount of the impairment loss decreases.
- For available-for-sale securities, the cumulative loss that had been recognised directly in equity is removed from equity and is recognised in profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

Impairment loss in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

#### (ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- exchange trading rights;
- fixed assets; and
- investment in a subsidiary.

## 2 Significant accounting policies (continued)

### (j) Impairment of assets (continued)

#### (ii) Impairment of other assets (continued)

If any such indication exists, the asset's recoverable amount is estimated. In addition, for trading rights that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

##### - Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

##### - Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

##### - Reversals of impairment losses

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

### (k) Accounts and other receivables

Accounts and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 2(j)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 2(j)).

## 2 Significant accounting policies (continued)

### (l) *Cash and cash equivalents*

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

### (m) *Accounts and other payables*

Accounts and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

### (n) *Employee benefits*

Salaries, annual bonuses, contribution to defined contribution plans and cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

### (o) *Income tax*

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

## **2 Significant accounting policies (continued)**

### **(o) Income tax (continued)**

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset.

Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Company has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - Different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

## 2 Significant accounting policies (continued)

### (p) *Operating lease*

Leases of assets under which the lessor do not transfer all the risks and benefits of ownership to the Company are classified as operating leases.

Where the Company has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

### (q) *Provisions and contingent liabilities*

Provisions are recognised for liabilities of uncertain timing or amount when the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

### (r) *Revenue recognition*

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Company and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

- Commission and brokerage income is recognised on a trade date basis when the relevant securities transactions are executed.
- Underwriting commission is recognised when the obligation under the underwriting or sub-underwriting agreement has expired.
- Advisory fee income is recognised when the services are rendered.

## 2 Significant accounting policies (continued)

### (r) Revenue recognition (continued)

- Dividend income from listed investments is recognised when the share price of the investments is quoted ex-dividend.
- Interest income is recognised as it accrues using the effective interest rate method.
- Rental income received under operating leases is recognised as other operating income in equal instalments over the periods covered by the lease term.
- Research fee income and management fee income are recognised when the services are rendered.

### (s) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates ruling at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rate at the dates the fair value was determined. Exchange gains and losses are recognised in profit or loss.

### (t) Related parties

- (1) A person, or a close member of that person's family, is related to the Company if that person:
  - (i) has control or joint control over the Company;
  - (ii) has significant influence over the Company; or
  - (iii) is a member of the key management personnel of the Company or the Company's parent.
- (2) An entity is related to the Company if any of the following conditions applies:
  - (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.

## 2 Significant accounting policies (continued)

### (i) *Related parties (continued)*

(2) An entity is related to the Company if any of the following conditions applies:  
 (continued)

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company.

(vi) The entity is controlled or jointly controlled by a person identified in (1).

(vii) A person identified in (1)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

### (u) *Securities borrowing and lending*

Securities borrowing and securities lending transactions are generally entered into on a collateralised basis. The transfer of the securities themselves is not reflected on the balance sheet unless the risks and rewards of ownership are also transferred.

## 3 Turnover

	<i>2014</i>	<i>2013</i>
Brokerage commission income	\$ 81,579,814	\$ 69,214,908
Underwriting and selling commission income	18,410,850	17,462,239
Financial advisory fee and other commission income	<u>4,137,033</u>	<u>3,665,286</u>
	<u>\$ 104,127,697</u>	<u>\$ 90,342,433</u>

**4 Other revenue and other net income**

	<i>2014</i>	<i>2013</i>
<b>Other revenue</b>		
Dividend income	\$ 22,823	\$ -
Research fees income from group companies	8,187,358	9,486,709
Management fees and services fees income from group companies	33,180,665	38,265,003
Interest income	2,189,966	6,847,096
Rental income from related companies	2,951,183	839,231
	<u>\$ 46,531,995</u>	<u>\$ 55,438,039</u>
<b>Other net income</b>		
Net trading gain on securities and foreign currency transaction	\$ 1,584,934	\$ 2,471,658
Net exchange gain/(loss)	303,871	(771,176)
Loss on disposal of fixed assets	(479,360)	(437,097)
Gain on disposal of a subsidiary	616,777	-
Net gain on disposal of available-for-sale securities	67,302	-
Others	676,529	255,417
	<u>\$ 2,770,053</u>	<u>\$ 1,518,802</u>

**5 Staff costs**

	<i>2014</i>	<i>2013</i>
Salaries, wages and other benefits	\$ 57,493,374	\$ 73,247,674
Contributions to defined contribution plan	1,602,820	1,363,352
	<u>\$ 59,096,194</u>	<u>\$ 74,611,026</u>

**6 Loss before taxation**

Loss before taxation is arrived at after charging:

	<i>2014</i>	<i>2013</i>
<b>(a) Finance costs</b>		
Interest expenses on bank loans	\$ 115	\$ 128
Interest expenses to the ultimate holding company	3,102,828	1,824,180
Interest expenses to a fellow subsidiary	<u>145,265</u>	<u>1,583,390</u>
	\$ 3,248,208	\$ 3,407,698
Other financing expenses	<u>559,212</u>	<u>481,131</u>
	<u>\$ 3,807,420</u>	<u>\$ 3,888,829</u>
<b>(b) Other items</b>		
Commission and brokerage charges	\$ 50,503,957	\$ 46,357,678
Underwriting expenses	4,235,366	2,617,570
Operating lease charges on properties	14,881,858	15,788,671
Auditors' remuneration	<u>410,747</u>	<u>332,993</u>

**7 Income tax in the statement of comprehensive income**

**(a) Taxation in the statement of comprehensive income represents:**

The Company has not made any provision for Hong Kong Profits Tax as the Company sustained a loss for both the current and prior years.

**7 Income tax in the statement of comprehensive income (continued)**

**(b) Reconciliation between tax credit and accounting loss at applicable tax rates:**

	<i>2014</i>	<i>2013</i>
Loss before taxation	\$ (18,134,798)	\$ (48,988,576)
Notional tax on loss before taxation, calculated at 16.5%	\$ (2,992,242)	\$ (8,083,115)
Tax effect of non-deductible expenses	608,378	622,751
Tax effect of non-taxable income	(431,288)	(476,799)
Tax effect of unused tax losses and other deductible temporary differences not recognised	2,807,694	8,035,004
Others	7,458	(97,841)
Tax expense	\$ -	\$ -

**8 Directors' remuneration**

Directors' remuneration disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), is as follows:

	<i>2014</i>	<i>2013</i>
Directors' fees	\$ -	\$ -
Salaries, allowances and benefits in kind	1,984,416	2,599,137
Bonuses	622,565	350,187
Retirement scheme contributions	77,940	49,675

**9 Intangible assets**

	<i>Trading rights</i>	<i>Club debentures</i>	<i>Total</i>
<b>Cost:</b>			
At 1 April 2013	\$ 419,448	\$ 383,373	\$ 802,821
Exchange differences	<u>-</u>	<u>205</u>	<u>205</u>
At 31 March 2014	\$ 419,448	\$ 383,578	\$ 803,026
<b>Accumulated impairment loss:</b>			
At 1 April 2013 and 31 March 2014	<u>419,444</u>	<u>-</u>	<u>419,444</u>
<b>Net book value:</b>			
At 31 March 2014	<u>\$ 4</u>	<u>\$ 383,578</u>	<u>\$ 383,582</u>
	<i>Trading rights</i>	<i>Club debentures</i>	<i>Total</i>
<b>Cost:</b>			
At 1 April 2012	\$ 419,448	\$ 380,544	\$ 799,992
Exchange differences	<u>-</u>	<u>2,829</u>	<u>2,829</u>
At 31 March 2013	\$ 419,448	\$ 383,373	\$ 802,821
<b>Accumulated impairment loss:</b>			
At 1 April 2012 and 31 March 2013	<u>419,444</u>	<u>-</u>	<u>419,444</u>
<b>Net book value:</b>			
At 31 March 2013	<u>\$ 4</u>	<u>\$ 383,373</u>	<u>\$ 383,377</u>

## 10 Fixed assets

	<i>Leasehold improvements</i>	<i>Furniture, fixtures and office equipment</i>	<i>Motor vehicles</i>	<i>Total</i>
<b>Cost:</b>				
At 1 April 2013	\$ 9,252,194	\$ 43,277,864	\$ 315,379	\$ 52,845,437
Additions	918,945	4,440,245	-	5,359,190
Disposals	<u>(626,273)</u>	<u>(886,159)</u>	<u>-</u>	<u>(1,512,432)</u>
At 31 March 2014	<u>\$ 9,544,866</u>	<u>\$ 46,831,950</u>	<u>\$ 315,379</u>	<u>\$ 56,692,195</u>
<b>Accumulated depreciation:</b>				
At 1 April 2013	\$ 2,074,901	\$ 25,247,862	\$ 315,379	\$ 27,638,142
Charge for the year	1,524,440	8,338,101	-	9,862,541
Written back on disposals	<u>(147,870)</u>	<u>(885,202)</u>	<u>-</u>	<u>(1,033,072)</u>
At 31 March 2014	<u>\$ 3,451,471</u>	<u>\$ 32,700,761</u>	<u>\$ 315,379</u>	<u>\$ 36,467,611</u>
<b>Net book value:</b>				
At 31 March 2014	<u>\$ 6,093,395</u>	<u>\$ 14,131,189</u>	<u>\$ -</u>	<u>\$ 20,224,584</u>
<b>Cost:</b>				
At 1 April 2012	\$ 10,394,216	\$ 39,654,034	\$ 315,379	\$ 50,363,629
Additions	-	4,509,938	-	4,509,938
Disposals	-	(758,414)	-	(758,414)
Adjustment on cost in respect of prior year	<u>(1,142,022)</u>	<u>(127,694)</u>	<u>-</u>	<u>(1,269,716)</u>
At 31 March 2013	<u>\$ 9,252,194</u>	<u>\$ 43,277,864</u>	<u>\$ 315,379</u>	<u>\$ 52,845,437</u>
<b>Accumulated depreciation:</b>				
At 1 April 2012	\$ 596,313	\$ 17,839,719	\$ 315,379	\$ 18,751,411
Charge for the year	1,478,588	7,729,460	-	9,208,048
Written back on disposals	<u>-</u>	<u>(321,317)</u>	<u>-</u>	<u>(321,317)</u>
At 31 March 2013	<u>\$ 2,074,901</u>	<u>\$ 25,247,862</u>	<u>\$ 315,379</u>	<u>\$ 27,638,142</u>
<b>Net book value:</b>				
At 31 March 2013	<u>\$ 7,177,293</u>	<u>\$ 18,030,002</u>	<u>\$ -</u>	<u>\$ 25,207,295</u>

## 11 Investment in a subsidiary

Prior year balance represented the Company's investment in the unlisted shares of an entity, at cost.

Details of the subsidiary as at 31 March 2013 are as follows:

<i>Name of company</i>	<i>Place of incorporation</i>	<i>Percentage of ordinary shares held</i>	<i>Principal activity</i>
Daiwa Institute of Research (Hong Kong) Limited ("DIRHK")	Hong Kong	100%	Under liquidation*

\*The subsidiary has been liquidated during the current year.

## 12 Available-for-sale securities

	<i>2014</i>	<i>2013</i>
Club debentures	\$ 3,017,287	\$ 2,538,044

## 13 Financial assets at fair value through profit or loss

	<i>2014</i>	<i>2013</i>
Long positions in listed equity securities	\$ 820	\$ 826
Positive fair value of derivatives (note 25)		
– with a fellow subsidiary	<u>15,676,094</u>	<u>16,573,086</u>
	<u>\$ 15,676,914</u>	<u>\$ 16,573,912</u>

As at 31 March 2014, the market value of securities placed by a fellow subsidiary to the Company for over-the-counter derivatives transactions as collateral amounted to \$155,300,092 (2013: \$188,053,338).

The above financial assets were classified as held for trading.

## 14 Receivables from reverse repurchase agreements

	2014	2013
Receivables from reverse repurchase agreements	\$ 38,946,641	\$ 31,342,456

As of 31 March 2014, the fair value of collateral accepted in respect of the reverse repurchase transactions was \$45,916,106 (2013: \$40,642,959), the Company has not recognised this collateral in the balance sheet.

These transactions are conducted under terms that are usual and customary to securities repurchase transactions and borrowing and lending activities.

The carrying amount of receivables from reverse repurchase agreements approximates their fair values.

## 15 Accounts receivable

The Company maintains segregated accounts with The Hong Kong Futures Exchange Clearing Corporation Limited as a result of its normal business transactions. At 31 March 2014, segregated accounts not otherwise dealt with in these financial statements amounted to \$1,081,549 (2013: \$4,272,999).

The carrying amount of accounts receivable approximates their fair values.

All of the accounts receivable are expected to be recovered within one year. Further details on the Company's credit policy are set out in note 26(a).

## 16 Amounts due to group companies

Amounts due to group companies are unsecured, non-interest bearing and repayable on demand, except for amount due to a fellow subsidiary, which is unsecured, interest-bearing and have fixed terms of repayment.

The carrying amount of amounts due to group companies approximates their fair values.

## 17 Cash and cash equivalents

	<i>2014</i>	<i>2013</i>
Deposits with banks	\$ 459,019,250	\$ 445,170,483
Cash at bank and in hand	<u>60,988,450</u>	<u>106,598,289</u>
Cash and cash equivalents in the balance sheet	\$ 520,007,700	\$ 551,768,772
Less: pledged deposit	<u>(35,000,000)</u>	<u>(35,000,000)</u>
Cash and cash equivalents in the cash flow statement	<u>\$ 485,007,700</u>	<u>\$ 516,768,772</u>

The Company maintains segregated accounts with authorised institutions as a result of its normal business transactions. At 31 March 2014, segregated accounts not otherwise dealt with in these financial statements amounted to \$46,355,104 (2013: \$50,914,140). The carrying amount of cash and cash equivalents approximates their fair value.

## 18 Financial liabilities at fair value through profit or loss

	<i>2014</i>	<i>2013</i>
Negative fair value of derivatives (note 25)	<u>\$ 15,676,094</u>	<u>\$ 16,573,086</u>

The above financial liabilities were classified as held for trading.

## 19 Subordinated loan

The subordinated loan is due to the ultimate holding company. It is unsecured, interest bearing and repayable as follows:

	<i>2014</i>	<i>2013</i>
Repayable within one year	\$ -	\$ 35,000,000
Repayable after one year but within five years	<u>-</u>	<u>105,000,000</u>
	<u>\$ -</u>	<u>\$ 140,000,000</u>

Details of the terms of the subordinated loan at 31 March 2013 are as follows:

<i>Principal</i>	<i>Interest rate</i>	<i>Maturity date</i>
US\$35,000,000	LIBOR + 2.2%	1 March 2014
US\$105,000,000	LIBOR + 2.2%	20 December 2014

The Company has repaid the subordinated loan during the current year.

**20 Accounts payable**

The carrying amount of the accounts payable approximates their fair values.

**21 Income tax in the consolidated balance sheet**

**(a) Current taxation:**

The Company has not made any provision for Hong Kong Profits Tax as the Company sustained a loss for both the current and prior years.

**(b) Deferred tax assets not recognised**

The Company has not recognised deferred tax assets in respect of tax losses and other deductible temporary differences of \$322,522,843 (2013: \$305,506,518) as it is not probable that future taxable profits against which the losses can be utilised will be available. The tax losses do not expire under current tax legislation.

**22 Share capital**

**(a) Authorised, issued and fully paid:**

	<i>2014</i>		<i>2013</i>	
	<i>No. of shares</i>	<i>Amount</i>	<i>No. of shares</i>	<i>Amount</i>
<b>Authorised:</b> (note 1)				
Ordinary shares of HK\$10 each (note 2)	-	\$ -	10,000,000	\$ 21,126,414
Ordinary shares of US\$10 each (note 2)	-	-	53,673,423	536,734,230
	<u>-</u>	<u>-</u>	<u>63,673,423</u>	<u>\$ 557,860,644</u>

## 22 Share capital (continued)

(a) (continued)

	2014		2013	
	<i>No. of shares</i>	<i>Amount</i>	<i>No. of shares</i>	<i>Amount</i>
<b>Ordinary shares, issued and fully paid:</b>				
Ordinary shares of HK\$10 each				
At 1 April and 31 March	10,000,000	\$ 21,126,414	10,000,000	\$ 21,126,414
Ordinary shares of US\$10 each				
At 1 April	53,673,423	\$ 536,734,230	53,673,423	\$ 536,734,230
Shares issued (note 3)	14,000,000	140,000,000	-	-
At 31 March	67,673,423	\$ 676,734,230	53,673,423	\$ 536,734,230
	<u>77,673,423</u>	<u>\$ 697,860,644</u>	<u>63,673,423</u>	<u>\$ 557,860,644</u>

Note 1: Under the new Hong Kong Companies Ordinance (Cap. 622), which commenced operation on 3 March 2014, the concept of authorised share capital no longer exists.

Note 2: In accordance with section 135 of the new Hong Kong Companies Ordinance (Cap. 622), the Company's shares no longer have a par or nominal value with effect from 3 March 2014. There is no impact on the number of shares in issue or the relative entitlement of any of the members as a result of this transition.

Note 3: For the year ended 31 March 2014, the Company's creation of 14,000,000 ordinary shares of US\$10 each was approved by ordinary resolutions of shareholders on 18 December 2013. These new ordinary shares rank pari passu in all respects with the existing shares in the capital of the Company. 14,000,000 ordinary shares were issued to existing shareholders at par for cash on 20 December 2013.

## **22 Share capital (continued)**

### **(b) Capital management**

The Company's primary objectives when managing capital are to safeguard the Company's ability to continue as a going concern. As the Company is part of a larger group, the Company's sources of additional capital and policies for distribution of excess capital may also be affected by the larger group's capital management objectives.

The Company defines "capital" as including all components of equity plus loans from group companies with no fixed terms of repayment and subordinated loan, less unaccrued proposed dividends. On this basis the amount of capital employed at 31 March 2014 was \$510,410,828 (2013: \$528,061,577).

The Company's capital structure is regularly reviewed and managed with due regard to the capital management practices of the larger group to which the Company belongs. Adjustments are made to the capital structure in light of changes in economic conditions affecting the Company, to the extent that these do not conflict with the directors' fiduciary duties towards the Company or the requirements of the Hong Kong Companies Ordinance.

As a licensed corporation registered under the Hong Kong Securities and Futures Ordinance, the Company is also subject to the capital requirements of the Hong Kong Securities and Futures (Financial Resources) Rules ("FRR"). The minimum paid-up share capital requirement is HK\$10,000,000 and the minimum liquid capital requirement is the higher of HK\$3,000,000 and the variable required liquid capital as defined in the FRR. The Company monitors its compliance with the requirements of the FRR on a daily basis. The Company complied with the requirements of the FRR at all times during the year.

The Company is also an issuer of the Hong Kong listed structured products, it is required to maintain minimum of shareholders' equity of HK\$2,000,000,000 according to the Main Board Listing Rules under The Stock Exchange of Hong Kong Limited. The Company complied with this requirement at all times during the year.

## 23 Reserves

### (a) *General reserve*

The general reserve was established in accordance with the Hong Kong Banking Ordinance when the Company was a restricted license bank.

### (b) *Investment revaluation reserve*

The investment revaluation reserve comprises the cumulative change in the fair value of available-for-sale securities held at balance sheet date and is dealt with in accordance with the accounting policies in note 2(e).

## 24 Group companies

The following balances with ultimate holding and fellow subsidiary companies are included in the indicated balance sheet captions in addition to those balances with group companies indicated elsewhere in these financial statements:

	<i>2014</i>	<i>2013</i>
Accounts receivable	\$ 513,933,996	\$ 580,357,518
Other receivables and prepayments	5,519,093	11,642,230
Accounts payable	(608,829,628)	(899,401,507)
Accruals and other payables	<u>(1,185,736)</u>	<u>(4,959,173)</u>

## 25 Derivatives

The major derivative financial instruments traded by the Company are equity derivative contracts which are over-the-counter and exchange-traded derivative contracts. For financial reporting purposes, all derivative instruments are classified as held for trading.

	<i>2014</i>		<i>2013</i>	
	<i>Assets</i>	<i>Liabilities</i>	<i>Assets</i>	<i>Liabilities</i>
<b>Fair value of derivatives</b>				
Equity derivatives	<u>\$ 15,676,094</u>	<u>\$ 15,676,094</u>	<u>\$ 16,573,086</u>	<u>\$ 16,573,086</u>

## **26 Financial instruments**

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Company's business. These risks are limited by the Company's financial management policies and practices described below:

### **(a) Credit risk**

The Company's credit risk is primarily attributable to accounts receivable from clients, brokers and clearing houses. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of accounts receivable due from clients, credit evaluations are performed on all clients. Receivables arising from unsettled stock broking transactions are due on the settlement date commonly adopted by the relevant market convention, which is usually within few days from the trade date. Because of the short settlement period involved, credit risk relating to such accounts receivable is considered small.

In respect of accounts receivable from brokers and clearing houses, credit risk is considered low as the Company normally enters into transactions with brokers and clearing houses which are registered with regulatory bodies and with sound reputation in the industry.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

## 26 Financial instruments (continued)

### (b) Liquidity risk

The Company maintains sufficient reserves of cash and adequate committed lines of funding from reputable financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the balance sheet date of the Company's financial liabilities. These are based on undiscounted cash flows (including interest payments computed using contractual rates or if floating, based on rates current at the balance sheet date), except for the financial liabilities at fair value through profit or loss which are part of the trading portfolio and are short term in nature, the Company's financial liabilities at the balance sheet date are analysed by the remaining contractual maturities in the following table:

	2014				2013			
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year	More than 1 year but less than 5 years	Carrying amount	Total contractual undiscounted cash flow	Within 1 year	More than 1 year but less than 5 years
Amount due to a fellow subsidiary	\$ 38,903,001	\$ 38,903,001	\$ 38,903,001	\$ -	\$ 31,305,010	\$ 31,305,010	\$ 31,305,010	\$ -
Amount due to a subsidiary	-	-	-	-	2,898,865	2,898,865	2,898,865	-
Accounts payable	1,130,650,591	1,130,650,591	1,130,650,591	-	1,488,547,707	1,488,547,707	1,488,547,707	-
Accruals and other payables	58,182,413	58,182,413	55,843,731	2,338,682	80,197,469	80,197,469	71,968,928	8,228,541
Subordinated loan	-	-	-	-	140,000,000	144,703,417	38,015,833	106,687,584
	\$ 1,227,736,005	\$ 1,227,736,005	\$ 1,225,397,323	\$ 2,338,682	\$ 1,742,949,051	\$ 1,747,652,468	\$ 1,632,736,343	\$ 114,916,125



## 26 Financial instruments (continued)

### (d) Foreign currency risk

The Company is exposed to foreign currency risk primarily through its agency brokerage transactions that are denominated in currencies other than the functional currency of the operations to which they relate.

At 31 March 2014, the Company had the following major net assets/(liabilities) denominated in foreign currencies:

	2014	2013
Net assets in Japanese Yen	\$ 10,042,887	\$ 30,280,529
Net assets in Hong Kong Dollar	<u>45,726,770</u>	<u>54,924,607</u>

The Company ensures that the net exposure to foreign currencies is kept to an acceptable level by buying or selling foreign currencies at spot rates from time to time.

At 31 March 2014, the Company had the following major outstanding commitment to buy or sell foreign currencies.

	2014		2013	
	<i>Buy</i>	<i>Sell</i>	<i>Buy</i>	<i>Sell</i>
Commitment to buy/(sell)				
Japanese Yen	9,716,192	(19,432,384)	29,280	(29,385,814)
Commitment to buy/(sell)				
Hong Kong Dollar	<u>-</u>	<u>(45,014,752)</u>	<u>14,232,181</u>	<u>(69,159,953)</u>

As shown in the above analysis, the net foreign exchange exposure is not significant to the Company. The management does not expect there will be significant impact to the loss after tax and accumulated losses in respect of reasonably possible change in the exchange rates at the balance sheet date.

### (e) Equity price risk

The Company held short positions in derivative financial instruments of \$15,676,094 (2013: \$16,573,086) (note 25). It also held long positions in derivative financial instruments of \$15,676,094 (2013: \$16,573,086) (note 25) by entering into back-to-back transactions with its fellow subsidiary on these corresponding short positions. Therefore, the equity price risk on these derivative financial instruments is considered to be insignificant.

## 26 Financial instruments (continued)

### (f) Fair value measurement

*Financial instruments measured at fair value*

#### *Fair value hierarchy*

The following table presents the fair value of the Company's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

	<i>Fair value at 31 March 2014</i>	<i>Fair value measurements as at 31 March 2014 categorised into</i>		
		<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
<b>Recurring fair value measurement</b>				
<i>Assets</i>				
Available-for-sale				
- Club debentures	\$ 3,017,287	\$ -	\$ 3,017,287	\$ -
Financial assets at fair value through profit or loss	<u>15,676,914</u>	<u>820</u>	<u>15,676,094</u>	<u>-</u>
	<u>\$ 18,694,201</u>	<u>\$ 820</u>	<u>\$ 18,693,381</u>	<u>\$ -</u>
<i>Liabilities</i>				
Financial liabilities at fair value through profit or loss	<u>\$ (15,676,094)</u>	<u>\$ -</u>	<u>\$ (15,676,094)</u>	<u>\$ -</u>

## 26 Financial instruments (continued)

### (f) Fair value measurement (continued)

*Financial instruments measured at fair value (continued)*

*Fair value hierarchy (continued)*

	Fair value at 31 March 2013	Fair value measurements as at 31 March 2013 categorised into		
		Level 1	Level 2	Level 3
<b>Recurring fair value measurement</b>				
<i>Assets</i>				
Available-for-sale				
– Club debentures	\$ 2,538,044	\$ -	\$ 2,538,044	\$ -
Financial assets at fair value through profit or loss	<u>16,573,912</u>	<u>826</u>	<u>16,573,086</u>	<u>-</u>
	<u>\$ 19,111,956</u>	<u>\$ 826</u>	<u>\$ 19,111,130</u>	<u>\$ -</u>
<i>Liabilities</i>				
Financial liabilities at fair value through profit or loss	<u>\$ (16,573,086)</u>	<u>\$ -</u>	<u>\$ (16,573,086)</u>	<u>\$ -</u>

During the year ended 31 March 2014, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2013: Nil). The Company's policy is to recognise transfers between levels of fair value hierarchy as they occur.

#### *Valuation techniques and inputs used in Level 2 fair value measurements*

For financial instruments that are not traded in the active markets, the Company determines fair values using valuation techniques. Valuation techniques include net present value and discounted cash flow models and various market widely recognised option pricing models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, equity prices, foreign currency exchange rates, index prices, and historical or implied volatilities. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date, that would have been determined by market participants acting at arm's length.

The fair value of available-for-sale financial assets is determined based on quotes from brokers or alternative pricing sources supported by observable inputs, either directly or indirectly.

## 26 Financial instruments (continued)

### (g) Offsetting financial assets and financial liabilities

The Company has entered into transactions subject to an enforceable master netting arrangement or similar agreement with a counterparty. The gross amounts of recognised accounts receivable from and accounts payable to these counterparties and the net balance as shown on the balance sheet are disclosed as follows:

#### *Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements*

	<i>Gross amount of recognised accounts receivable</i>	<i>Gross amount of recognised accounts payable set off in the balance sheet</i>	<i>Net amount of accounts receivable presented in the balance sheet</i>	<i>Related amount not set off in the balance sheet</i>	<i>Net amount</i>
<b>As at 31 March 2014</b>					
Accounts receivable	\$1,177,624,348	\$ (47,241,728)	\$1,130,382,620	\$ (2,615,538)	\$1,127,767,082
<b>As at 31 March 2013</b>					
Accounts receivable	\$1,571,887,084	\$ (84,368,814)	\$1,487,518,270	\$ (2,657,064)	\$1,484,861,206

#### *Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements*

	<i>Gross amount of recognised accounts payable</i>	<i>Gross amount of recognised accounts receivable set off in the balance sheet</i>	<i>Net amount of accounts payable presented in the balance sheet</i>	<i>Related amount not set off in the balance sheet</i>	<i>Net amount</i>
<b>As at 31 March 2014</b>					
Accounts payable	\$1,177,892,319	\$ (47,241,728)	\$1,130,650,591	\$ (2,615,538)	\$1,128,035,053
<b>As at 31 March 2013</b>					
Accounts payable	\$1,572,916,521	\$ (84,368,814)	\$1,488,547,707	\$ (2,657,064)	\$1,485,890,643

## 27 Material related party transactions

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Company entered into the following material related party transactions.

	2014	2013
Brokerage commission earned from fellow subsidiaries	\$ 4,539,766	\$ 4,511,599
Underwriting and selling commission earned from fellow subsidiaries	3,018,385	5,288,636
Rental income earned from fellow subsidiaries	2,951,183	839,231
Research fee income earned from fellow subsidiaries	8,187,358	9,486,709
Management fees income and services fees earned from fellow subsidiaries	33,180,665	38,265,003
Brokerage commission paid to fellow subsidiaries	31,508,224	(18,158,703)
Interest expenses paid to		
– a fellow subsidiary	(145,265)	(1,583,390)
– the ultimate holding company	<u>(3,102,828)</u>	<u>(1,824,180)</u>

## 28 Credit facilities

The Company has aggregate credit facilities provided by authorised institutions and group companies amounting to \$288,378,000 (2013: \$294,688,000) and \$1,011,621,000 (2013: \$1,243,237,000) respectively. Among these credit facilities, \$195,736,000 (2013: \$195,632,000) provided by authorised institutions and \$971,619,000 (2013: \$1,063,236,000) provided by a group company were shared with a fellow subsidiary in Hong Kong. The Company has not utilised credit facilities provided by authorised institutions (2013: \$Nil) while \$38,864,000 (2013: \$171,263,000) of the credit facility provided by the group companies was utilised by the Company as at 31 March 2014.

## 29 Commitments

At 31 March 2014, the Company had the following commitments in the ordinary course of business:

- (a) Forward and swap transactions in the foreign exchange market are disclosed in note 26(d).
- (b) The total future minimum lease payments under non-cancellable operating leases are receivable as follows:

<i>From fellow subsidiaries:</i>	<i>2014</i>	<i>2013</i>
Within one year	\$ 642,078	\$ 608,783
After one year but within five years	<u>1,599,944</u>	<u>284,474</u>
	<u>\$ 2,242,022</u>	<u>\$ 893,257</u>
 <i>From others:</i>		
Within one year	\$ 1,807,690	\$ 1,053,931
After one year but within five years	8,439,234	8,278,654
More than five years	<u>-</u>	<u>1,962,876</u>
	<u>\$ 10,246,924</u>	<u>\$ 11,295,461</u>
	<u>\$ 12,488,946</u>	<u>\$ 12,188,718</u>

- (c) The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	<i>2014</i>	<i>2013</i>
Within one year	\$ 13,095,940	\$ 14,345,613
After one year but within five years	44,540,430	46,813,102
More than five years	<u>-</u>	<u>9,620,231</u>
	<u>\$ 57,636,370</u>	<u>\$ 70,778,946</u>

**29 Commitments (continued)**

At 31 March 2014, the Company had the following commitments in the ordinary course of business: (continued)

- (d) Committed facilities under reverse repurchase agreements entered into with counterparties are as follows:

	<i>2014</i>	<i>2013</i>
Within one year	<u>\$ 316,650,697</u>	<u>\$ 234,337,302</u>

At 31 March 2014, the counterparties have not utilised any of the facilities.

**30 Parent and ultimate holding company**

The directors consider the immediate parent and ultimate holding company at 31 March 2014 to be Daiwa Capital Markets Asia Holding, B.V., which is incorporated in Netherlands, and Daiwa Securities Group Inc., which is incorporated in Japan respectively. Daiwa Securities Group Inc. produces financial statements available for public use.

**31 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2014**

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments and a new standard which are not yet effective for the year ended 31 March 2014 and which have not been adopted in these financial statements. These include the following which may be relevant to the Company:

	<i>Effective for accounting periods beginning on or after</i>
<i>Amendments to HKAS 32, Offsetting financial assets and financial liabilities</i>	1 January 2014
<i>Amendments to HKAS 36, Impairment of assets – Recoverable amount disclosures for non-financial assets</i>	1 January 2014
<i>Amendments to HKAS 39, Novation of derivatives and continuation of hedge accounting</i>	1 January 2014
<i>HKFRS 9, Financial instruments</i>	To be determined

**31 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2014 (continued)**

The Company is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the financial statements.

In addition, the requirement of Part 9, "Accounts and Audit", of the new Hong Kong Companies Ordinance (Cap. 622) come into operation from the Company's first financial year commencing after 3 March 2014 (i.e. the Company's financial year which began on 1 April 2014) in accordance with section 358 of that Ordinance. The Company is in the process of making an assessment of the expected impact of the changes in the Companies Ordinance on the financial statements in the period of initial application of Part 9. So far it has concluded that the impact is unlikely to be significant and will primarily only affect the presentation and disclosure of information in the financial statements.

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