大新銀行
DAH SING BANK

Additional Risk Disclosure Statement for Virtual Asset-related Products

Please read this Additional Risk Disclosure Statement for Virtual Asset-related Products ("Risk Disclosure Statement") carefully before trading in virtual asset-related products with or through Dah Sing Bank, Limited (the "Bank"). This Risk Disclosure Statement should be read in conjunction with the following documents:

- RISK DISCLOSURE STATEMENTS in relation to SECURITIES TRANSACTIONS and DERIVATIVE TRANSACTIONS [Applicable to Retail Banking customers]
- Personal Banking Services Agreement (US Stock Trading Services) [Applicable to Retail Banking customers with US Stock Trading Services]
- Private Banking Services Agreement [Applicable to Private Banking customers]

Virtual asset-related products are products that (a) have a principal investment objective or strategy to invest in virtual assets ("VAs"); (b) derive their value principally from the value and characteristics of VAs; or (c) track or replicate the investment results or returns which closely match or correspond to VAs("VA-related products"). These products are complex due to their structure, features, and characteristics, and may not be suitable for all investors. You should carefully consider whether trading is appropriate for you in light of your investment experience, investment objective, financial situation, risk appetite/tolerance and other relevant circumstances.

This Risk Disclosure Statement does not disclose all of the risks and other significant aspects of trading in VA-related products. It does not cover matters related to taxation or other legal implications of the transactions you may undertake. In light of the risks, you should undertake such transactions only if you fully understand the precise nature of the VA-related product, how it works, the extent of your exposure to risk, and the potential losses arising from the transactions. It is recommended that you consult with professional advisers, such as legal, tax, financial, or accounting experts, as appropriate. By entering into any transaction, you acknowledge that you assume full responsibility for all risks and outcomes of your transactions, and the Bank will not be held liable for any losses you may incur.

A. Risks Associated with the Underlying VAs

VA-related products obtain exposure to VAs by holding and investing in spot VAs and/or their derivatives. By investing in VA-related products, you may be indirectly exposed to the risks associated with the underlying VAs.

Risk Associated with the Nature and Characteristics of VAs

VAs are generally considered a form of digital commodity and are not recognized as legal tender in many jurisdictions, including Hong Kong. VAs are not guaranteed or backed by any government, issuing entity, or any physical asset to support their value or purchasing power, and do not possess any intrinsic value. The prices of VAs mainly rely on investor confidence and market demand and supply. Speculative trades around VAs are common, and the market may not be transparent. Prices of VAs are easily affected by market rumours. There also exists legal uncertainty on whether VAs can be regarded as "property" under Hong Kong law or foreign law.

Risk Associated with a New Asset Class

VAs are a relatively new innovation built on emerging technology and they operate within a rapidly evolving industry. As a result, VAs and the VA industry are subject to significant speculative interest, volatile price movements, and uncertainty. Additionally, VAs typically operate without a central authority, such as a bank, and are generally not backed by any government. A slowdown, halt, or reversal in the development or adoption of a specific VA could negatively impact its value.

Risk Associated with difficulty in verifying the ownership of VAs

Ownership of VAs is recorded on a distributed ledger and authenticated via public and private keys. The loss of a private key by either the investor or the custodian results in the irreversible loss of access to the VAs and their ability to prove ownerships. Furthermore, in the event of insolvency or bankruptcy of a custodian and/or manager, investors may also face difficulty in claiming their holdings.

Risks Associated with the Ongoing Development of VAs

The diverse and evolving nature of VAs means they may function as a payment method, grant rights to present or future earnings, or provide access to products or services, either individually or in combination. While VAs are gaining popularity in certain regions, the global regulatory environment remains uneven. Inconsistent or insufficient regulation, along with potential changes in legal, trade, fiscal, monetary, exchange control policies, or political factors, could negatively affect the value of VAs.

Regulatory Risk

Regulations on VAs are still developing and evolving. Regulatory changes or actions could significantly alter the nature of an investment in VAs, restrict the use and exchange of VAs, or limit the operations of blockchain networks or trading platforms. This could negatively impact

the value of VAs. Governmental interventions are unpredictable and, in extreme cases, may result in certain VAs becoming illegal.

Risk of High and Unpredictable Price Volatility

VA prices are highly volatile and can be influenced by numerous unpredictable factors which are potentially difficult to evaluate, including shifts in market sentiment, changes in acceptance of the VA, regulatory developments, security failures of the underlying network or related trading platforms, fraud, market manipulation, contagious effects from collapses of major players in the VA market and other further development of the underlying network. Additionally, the underlying network may continue to evolve, introducing further uncertainties. Unlike traditional securities, VAs may be held by a limited number of investors, making them more susceptible to price manipulation.

Liquidity Risk

VA prices on secondary markets are driven by supply and demand, and they are inherently short-term and volatile. The scale and number of users of many VAs are not large, and trading may not be active, leading to potentially higher volatility and liquidity risks to the investors and consequently making it more difficult for them to liquidate their VA positions, especially in extreme market conditions.

Market Risk

VA trading platforms are relatively new and, in most cases, largely unregulated. They are typically not subject to the same level of regulations and supervision as trading platforms in traditional financial markets, and they may not be required to protect investors and customers to the same extent as established, traditional and regulated exchanges for securities, derivatives and currencies. As a result, VA trading platforms may be more exposed to theft, fraud, failure, security breaches, market manipulation, and insider dealings. Some VA trading platforms have collapsed and closed due to these issues, and therefore, VA prices may be subject to more significant and/or frequent sudden price declines than assets traded on traditional exchanges.

Risk of Blockchain Failure

There is an additional risk that VAs may be lost if a blockchain network collapses, or VA issuers or managers go bankrupt, or if the market bubble bursts. In such cases, the value of the VA you invest in and hold could be significantly reduced or lost entirely.

Risk Associated with Asset Custody

VA trading platform operators and portfolio managers may store clients' assets in hot wallets connected to the internet, which can be prone to hacks and scams. Cyberattacks on VA trading platforms and theft of VAs are common, and investors may have difficulty recovering their assets or losses from hackers or operators of trading venues. Furthermore, the Bank does not offer custodial services for VAs. Accordingly, should you become entitled to receive VAs through any VA-related products, you will have to secure independent custody arrangements.

Risk of Potential Conflicts of Interest

VA trading platform operators may act as both agents for clients and principals. They may facilitate the initial distribution of VAs (e.g., through initial coin offerings) and secondary market trading, functioning similarly to traditional exchanges, alternative trading systems, or securities brokers. If these operators are not under the supervision of regulators in the relevant jurisdictions, it may be difficult to detect, monitor, and manage conflicts of interest.

Fraud Risk

VAs may be used as a tool for fraud. Trading platform operators may not have conducted sufficient due diligence before allowing VAs to be traded on their trading platforms or investing in a VA for their portfolios. Consequently, investors trading in such VAs may become victims of fraud and may lose all or part of their investments in such VAs.

Risk of Money Laundering

VAs are often transacted or held in an anonymous manner. Trading platforms that allow conversions between VAs and fiat currencies are particularly susceptible to money laundering and terrorist financing. VA investments may be the subject of law enforcement action as a result of criminal activities, and investors may not be able to recover any of their investments as a result.

Risk of Accounting and Auditing

There are currently no agreed standards and practices for auditors to verify the existence and ownership of VAs, and ascertain the reasonableness of their valuations.

Hacking and Technology-Related Risks

- **Risk of Cybersecurity Threats**

VAs are vulnerable to cybersecurity attack. Cybersecurity risks relating to VAs' underlying network and entities that provide custody or facilitate the trading of the VAs may result in a loss of public confidence in the VAs and a decline in the value of the VAs. In particular, malicious actors may exploit flaws in the VAs' underlying network to, among other things, steal VAs held by others, control the network or issue significant amounts of the VAs in contravention of the network protocols. VAs may also experience network outages which can delay transaction validation and prevent timely processing. The occurrence of any of these events is likely to have a significant adverse impact on the value and liquidity of the VAs.

- **Risk Associated with Software Updates and Forks**

As VA network is generally an open-source project, the developers may suggest changes to a particular VA's software from time to time. Such sudden and unforeseen changes may alter the functionality, usability, compatibility, value or even names of VAs. If the updated software is not compatible with the original software and a sufficient number (but not necessarily a majority) of users and miners elect not to migrate to the updated software, this would result in a "hard fork" of the VA's network, with one prong running the earlier version of the software and the other running the updated software, resulting in the existence of two versions of VA network running in parallel and a split of the blockchain underlying the VA network. This could impact demand for the VAs and adversely impact the VAs' prices.

- **Air Drop Risk**

VA developers may distribute free VAs to existing VA holders as part of a marketing campaign (i.e. "air drop"). A large-scale distribution could lead to an unexpected and significant decline in the VA's value.

- **Risk relating to the possible unavailability of Blockchain Network**

Blockchain networks may become inaccessible due to bugs, forks, or other unforeseen issues. Unlike traditional securities markets, VAs' prices fluctuate continuously throughout the day. Outages are not uncommon, and investors may be unable to execute trades or liquidate positions when the market price is changing rapidly.

- **Risk of Internet or Technology Failure**

VA trading depends on the internet and other technologies, such as distributed ledger systems. This exposes investors to risks associated with use of internet and technology failure such as

internet connectivity issues, bandwidth limitations, or hardware failures. These disruptions can cause delays or errors in executing trades and may prevent transactions from being processed for a period of time.

- **Risks Related to Price Differences and Execution Time**

Since VAs' prices are constantly changing, there is a risk that instructions related to VA products may not be executed at the intended market price or the market price while placing the instructions. This could result in losses if the trade is executed at an unfavorable price.

- **Evolving Technology Risk**

As cryptographic and technological advancements continue, VAs may face new or unforeseen risks related to their underlying technology in the future.

B. General Risks Related to VA-Related Products

Risk of Loss in Value

VAs and VA-related products may become worthless, potentially resulting in the complete loss of an investor's investment. In cases where VA-related products have leverage or margin features, investors may lose more than the initial principal amount.

Price Volatility

The valuation of VAs and VA-related products is often not transparent and highly speculative. These products are typically volatile, with prices subject to significant fluctuations over short periods. VAs may experience a significant depreciation or a total loss of value at any time. Such fluctuations may arise from a variety of systemic and external factors beyond the Bank's control, including but not limited to security breaches or the discovery of wrongful conduct, market manipulation, changes to the underlying technologies or properties of the VA, technological advancements and adverse governmental, regulatory, or legislative developments. Furthermore, value may be negatively impacted by the suspension or cessation of support by exchanges or service providers and shifts in public sentiment.

Risk of Potential Price Manipulation

Spot markets for VAs and related trading, lending, or dealing platforms are largely unregulated. Some VAs may be concentrated in the hands of a small number of holders, which may lead to investor protection issues such as lack of pricing transparency and potential market manipulation.

Risks relating to the Lack of a Secondary Market

Even if VAs or VA-related products are tradable in a secondary market, there may be limited liquidity due to insufficient active buyers and sellers, underdeveloped secondary markets, regulatory changes, cybersecurity issues, etc. These products may also lack widespread acceptance for transactional purposes, making it difficult for investors to liquidate their holdings. In some cases, investors may be unable to liquidate or utilise their VA-related assets at all.

Irreversibility of Transactions

VA transactions are typically irreversible, and lost or stolen VAs may be irretrievable. In the worst-case scenario, investors could suffer a total loss of their principal investment.

Risk of Unregulated Service Providers

VA-related services, including custody, trading platforms, lending services, and index providers, are often provided by private entities that may be unregulated or subject to minimal oversight (e.g., for payment purposes), and most are located overseas. As a result, these service providers may not be subject to the same level of regulatory scrutiny and transparency as traditional financial services. This increases counterparty risks, and VA-related products may be exposed to market manipulation or abusive practices. Besides, if these service providers cease to operate or collapse, investors may lose some or all of the VAs held by these platforms/providers (if any), and it may be difficult for them to seek recourse or recover the losses. Additionally, offering documents for VA-related products may not have undergone regulatory review. You should exercise caution in respect of any issuance or offer of such products.

Legal and Regulatory Uncertainty

The legal and regulatory framework for VAs and VA-related products is evolving and may vary significantly across jurisdictions. Certain VAs and VA-related products may be classified as securities under the Securities and Futures Ordinance (Cap. 571, the Laws of Hong Kong) or similar laws elsewhere. Where this is the case, failure to comply with applicable securities offering, licensing and conduct requirements may result in regulatory action or other legal

consequences, which in turn may adversely affect the legal treatment and enforceability of related arrangements. Governments may change their regulatory policies or tighten regulations for VAs and their activities. This could create uncertainty to the future development of VA markets. Furthermore, there also exists legal uncertainty on whether VAs can be regarded as "property" under Hong Kong law or foreign law, and such legal uncertainty could impact the enforceability of investor rights in such VAs.

Counterparty Risk

Transactions involving VA-related products often involve multiple parties, including issuers, traders, and platform operators. There is a risk that these counterparties may become insolvent or fail to meet their obligations. You should evaluate the comparative credit risk of the counterparties and undertake appropriate due diligence prior to entering into any transactions. Before entering into a VA or VA-related product transaction, you should read the applicable terms, information and risk disclosure provided by the related issuers.

Risk of Assets Held Outside Hong Kong

VAs or VA-related products may be held by entities located outside Hong Kong. These entities may not be licensed or registered under the laws of their respective jurisdictions, and as a result, such assets may not be afforded the same level of protection as those held within Hong Kong.

Tax Risks

Transactions involving VAs or VA-related products may carry tax implications across various jurisdictions. There is currently no universally accepted standard for the taxation of VAs and/or VA-related products, and tax treatment may vary significantly across regions. Investors are advised to seek independent professional advice.

Cross-Border Risks

VA-related transactions are cross-border in nature and may not be confined to one jurisdiction. It may be difficult to verify the authenticity and trace service providers of VA or VA-related Products. In cases of fraud, default, or insolvency, it may be unclear under which legal framework investors can seek redress. Local regulatory authorities may also lack the power to enforce foreign regulations or market rules.

Conversion Risk

If VA-related product transactions are denominated in a specific VA or fiat currency other than the primary reference asset, or where VAs are converted upon carrying out a VA-related product transaction, there is a risk that exchange rate fluctuations may significantly reduce net proceeds upon maturity or early exit when compared to the initial invested amount in the primary reference asset. Any gains or income from the transaction could be entirely offset by adverse currency movements.

Lack of Statutory Protection

VAs and VA-related products may not be covered by statutory investor protection schemes, such as investor compensation, deposit protection, customer asset protection or other similar schemes.

Unknown and Emerging Risks

As a relatively new asset class, VAs and VA-related products may carry risks that have not yet been fully identified. As the market evolves, new types of VA-related products may emerge with associated risks that are not yet fully understood. Additionally, as market participants develop more complex strategies, investors may be exposed to new or heightened risks.

Risks Related to Selling Restrictions

Certain VA-related products may be classified as complex or high-risk and, therefore, subject to restrictions on who can invest. These limitations may prevent certain investors from accessing these products.

Risk of Dealing with Unregulated Products

VA-related products offered in overseas markets may not be authorized by the Hong Kong Securities and Futures Commission ("SFC"). As a result, these products may not be subject to SFC's regulation or oversight. On the other hand, investors should also note that SFC's authorization does not constitute a recommendation or endorsement of the product, nor does it guarantee the commercial merits of the product or its performance. It does not mean that the product is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors.

C. Other Key Risks Associated with VA Futures Exchange Traded Funds ("ETF(s)")

Risk Related to the Nature of VA Futures ETFs

VA futures ETFs are derivative products that track the performance of VA futures contracts. These instruments can be highly volatile and speculative due to:

(a) High price volatility of VA futures, which may decline sharply or even reach zero;

(b) Leverage used in futures trading, amplifying both potential gains and losses; and

(c) Risks associated with the underlying VA—such as regulatory changes, market manipulation, or technological issues—are magnified in futures-based products. Besides, the difficulty of valuing the underlying VA may also pose significant challenges for investors in reliably valuing VA future contracts.

New Product and Investment Risk

VA futures ETFs are relatively new investment products with limited historical performance data. These VA futures ETFs are not principal-protected and there is no guarantee that the ETFs will deliver the target returns according to their investment objectives.

Different from purchasing underlying VA

The performance of a VA futures ETF may significantly differ from the spot price of the underlying VA. Since these VA futures ETFs invest in futures contracts rather than the VAs themselves, these VA futures ETFs' value is influenced by futures pricing dynamics, which may not reflect the true market value of the VA.

Extreme Price Volatility

VAs like Bitcoin have experienced sharp and rapid price swings in the past. These volatility characteristics may also affect VA futures ETFs, exposing investors to substantial intra-day fluctuations and the risk of total loss within a single day.

Liquidity Risk

The market for VA futures is still developing and may be subject to periods of illiquidity. During such times it may be difficult or impossible to buy or sell a position at the desired price. Market disruptions or volatility can also make it difficult to find a counterparty willing to transact at a reasonable price and sufficient size. Also, unlike other futures markets, some VA futures, particularly the longer-term ones, may have very thin trading volume and the most liquid contracts are typically only available at near-term and next near-term. The significant size of positions held by a VA futures ETF may heighten illiquidity risks, making it difficult to exit

positions without incurring substantial losses. Furthermore, these large holdings could impede the ETF's rolling strategy and its ability to effectively diversify its futures position.

Risk of Substantial Loss

The risk of loss is significant, and under extreme market conditions, the value of VA futures may fall to zero rapidly. Investors should be prepared for potential losses exceeding their initial investment due to leverage and market volatility.

Leverage Risk

Futures trading involves leverage, meaning small price movements in the VA can result in disproportionate gains or losses. This risk is amplified for VA futures ETFs, which may suffer rapid financial loss within a short period of time, especially during periods of high volatility.

Risk of Volatility of a Single Asset or a Single Futures Contract

The ETF has risk exposure concentrated in the VA market. Unlike conventional equity ETFs, which typically track broad and diversified indices, a VA futures ETF is subject to the price volatility of a single asset only (e.g., bitcoin or ether). Such volatility can be extreme and substantially higher than the volatility experienced by equity indices or a commodity index which is made up of multiple types of commodities. If a VA futures ETF holds only a single futures contract (e.g. the ETF holds only a single month VA contracts), this may also result in large concentration risk and the price volatility of the ETF may be higher than that of an ETF which holds futures contracts with different expiry months.

High Concentration Risk

Investors may be subject to significant concentration risk in a single underlying asset (e.g., Bitcoin or Ether) or a single futures contract. This risk is further amplified for investors who invest substantially in VA futures ETFs.

Risk of Rolling Future Contracts

A VA futures contract is a commitment to buy or sell a predefined amount of the VA at a predetermined price on a specified future date. "Rollover" means selling existing futures contracts that are about to expire and replacing them with futures contracts that will expire at a later date (i.e. longer-term futures contracts). If the prices of the longer-term futures contracts are higher than those of the expiring futures contracts, also commonly known as a

"contango" market, the proceeds from selling the expiring futures contracts will not be sufficient to buy the same number of longer-term futures contracts. Given that a futures-based ETF needs to rollover the futures contracts to maintain the exposure to the VA, a loss may incur (i.e. a roll cost, or a negative roll yield) and would adversely affect the net asset value ("NAV") of the ETF. Historically, certain VA ETFs have experienced extended periods of contango, resulting in substantial roll costs. You should fully understand this risk before you invest in a VA futures ETF, particularly if you wish to adopt a buy-and-hold strategy.

Long-Term Holding Risk

Investors should read and understand the features, risks and operations of the VA future ETFs before adopting a long-term buy-and-hold strategy. The effects of rolling futures and negative roll yields may cause the VA futures ETF's performance to diverge significantly from the long-term spot price of the VA. Investors should ensure they possess a clear understanding of the mechanics and risks associated with VA futures contracts before investing in VA futures ETF.

Operational Risk

Relevant parties (such as clearing brokers, execution brokers, participating dealers and futures exchanges) may impose certain mandatory measures under extreme market circumstances. These measures may include limiting the size and number of the ETF's futures positions and/or mandatory liquidation of part or all of the ETF's futures positions without advance notice to the ETF manager. In response to such mandatory measures, the ETF manager may have to take corresponding actions, including suspension of creation of ETF units and/or secondary market trading, implementing alternative investment strategies and/or termination of the ETF. These corresponding actions may have an adverse impact on the operation, secondary market trading and the NAV of the VA futures ETF.

Margin Risk

If the market moves against the futures position, the VA futures ETF may be required to pay additional margins, to maintain the trading positions on short notice. Margin requirements for VA Futures may be substantially higher than margin requirements for other types of futures contracts. A VA futures ETF may need to liquidate its assets at unfavorable prices in order to meet these margin calls and suffer substantial losses.

Position Limit Risk

There is a statutory position limit restricting the holding of certain VA Futures contracts to no more than a specific number of such futures contracts. If the holding of such futures contracts

of a VA futures ETF grows to the limit, this may prevent the creation of units of the ETF due to the inability to acquire further futures contracts. This may lead to differences between the trading price and the NAV of the VA futures ETF units.

Price Limit Risk

VA futures contracts may be subject to daily price fluctuation limits (circuit breakers). If these limits are reached, trading may be paused or restricted, limiting the VA futures ETF's ability to adjust its positions.

D. Other Key Risks Associated with VA Spot ETFs

VA Custody Risk

While the custodians' safekeeping of the VA holdings of VA spot ETFs ("VA Custodians") are regulated by the SFC and Hong Kong Monetary Authority, there can be no assurance that their security procedures will actually work as designed or prove to be successful in safeguarding the ETFs' assets against all possible sources of theft, loss or damage.

While the VA Custodians are required to store most of their VAs in cold wallet (i.e. where the private keys to the wallet are kept in an offline environment), some of the VAs may be temporarily held online in hot wallet (i.e. where the private keys to the wallet are kept in an online environment) for the needs of creations and redemptions, which is more susceptible to cyber-attacks.

The VA spot ETF itself does not insure its holdings in VA while the VA Custodians are required to maintain a compensation arrangement to cover potential losses of client's VA. In case of theft or loss, the compensation arrangement of the VA Custodians may not be adequate to cover all VA held on behalf of the VA spot ETF.

The VA of VA spot ETFs may be held in an omnibus client account at the relevant SFC-licensed VA trading platforms ("VATPs") or authorised financial institutions, where the VA of the ETF may be commingled with the VA of other clients of the VATPs or authorised financial institutions. In the event of loss of VA due to theft, cyberattacks, loss or damage, investors may need to share the shortfall together with other clients whose VA are held in the omnibus account on a pro rata basis.

Risk of Volatility of a Single Asset

A VA spot ETF has risk exposure concentrated in the VA market. Unlike conventional ETFs that track equity indices which are typically diversified, a VA spot ETF may be subject to the price

volatility of a single asset only. Such volatility may be extremely high and substantially higher than the volatility experienced by equity indices or a commodity index which is made up of multiple types of commodities.

Difference Between Executable Price of VA on SFC-licensed VATPs and Valuation Price for Creation and Redemption

Given the executable price of VA on the SFC-licensed VATPs may not be the same as the traded prices of VA on the constituent platforms used by the VA index for valuation, depending on the circumstance, this may impact participating dealers and market makers' ability to conduct effective arbitrage and provide liquidity on VA spot ETFs, which may lead to higher premium or discount to NAV and/or higher bid-ask spread of the ETFs in secondary market. This may also lead to higher tracking difference.

Trading risks

Each of the SFC-licensed VATPs and the constituent platforms used by the VA index is a 24-hour marketplace. However, the VA spot ETFs in Hong Kong are only traded and priced during Hong Kong Stock Exchange ("HKEX") trading hours. As a result, the value of the VA in the ETFs' portfolio may change on such day or time when investors will not be able to purchase or sell the ETF units. Where the VA spot ETF's valuation point is outside Asian trading hours, there would be a higher likelihood for it to be traded at a substantial premium or discount to the day-end NAV, compared to funds investing in conventional underlying assets like equities or bonds.

In the event of any inconsistency between the English version and the Chinese version of this Risk Disclosure Statement, the English version shall prevail.