Effective from 1 December 2017

CLSA SECURITIES DEALING SERVICES: BOND ANNEX – CLSA LIMITED

1. Definitions and Interpretation

In this Securities Dealing Services: Bond Annex, including the Schedule, capitalised terms have the meaning given to them in the "CLSA Asia-Pacific Terms of Business" (the "**Terms of Business**"), the "CLSA Asia-Pacific Securities Dealing Services Annex" and the "CLSA Securities Dealing Services: Hong Kong Market Annex" (together referred to herein as the "**Existing Terms**"). In addition, the following capitalised terms have the following meaning:

"Back-to-back Transaction" means, in this Annex and in circumstances where an Affiliate of CLSA is a counterparty to a trade with you, where CLSA: (a) having received a purchase order from you, the Affiliate of CLSA purchases an investment product from another Affiliate of CLSA or a third party and then sells that investment product to you; or (b) having received a sell order from you, the Affiliate of CLSA purchases an investment product from you and then sells that same investment product to another Affiliate of CLSA or a third party, and in either case the Affiliate of CLSA with whom you are trading takes no market risk.

"Bonds" means (without limitation but including) any bond or note issued by a corporation or sovereign of any description whatsoever and wheresoever issued, quoted, dealt in or located, and includes without limitation bonds offered for subscription and listed as well as unlisted bonds offered for subscription via private placement.

"**CLSA**" means CLSA Limited.

"Professional Investor" has the meaning given to it in the "CLSA Securities Dealing Services: Hong Kong Market Annex".

1.2 In addition to the definition in the Terms of Business, "Securities" includes Bonds.

1.3 This Securities Dealing Services: Bond Annex – CLSA Limited is referred to herein as "this Annex".

1.4 References in this Annex to "we", "us" and "our" mean, unless the context otherwise requires, CLSA and where the context requires will also include any company in the CLSA Group, or persons connected with the CLSA Group.

2. Effect of Terms of Business; Amendment

2.1 The terms and conditions set out in this Annex shall apply to you if (a) you are a Professional Investor; and (b) any of the following apply: (i) you requested in your Application Form that we provide you with Securities Dealing Services in respect of Bonds and your account is opened with CLSA ; (ii) you otherwise request in writing that we provide you with Securities Dealing Services in respect of Bonds and your account is opened with

CLSA; or (iii) we currently provide you with Securities Dealing Services in respect of Bonds through CLSA.

2.2 The terms and conditions set out in this Annex shall apply to all Securities Dealing Services in respect of Bonds through an account opened with CLSA, provided by us to you in addition to, and supplemental to, the terms and conditions set out in the Existing Terms. Accordingly, the terms and conditions in this Annex are legally binding and take effect when you signify your acceptance by placing an order for Bonds through an account opened with CLSA. In the event of any inconsistency between this Annex and the Existing Terms, the provisions of this Annex shall prevail.

2.3 For the avoidance of doubt, the Existing Terms (including this Annex), the Application Form, the Confirmation, as well as any contract notes, trade confirmations, statement of accounts and/ or receipts of transactions (each document as amended and/or supplemented from time to time) constitute a legally binding contract and take effect when you signify your acceptance by placing an order with us.

2.4 The English version of the Terms of Business shall prevail unless you have confirmed in writing to us that the Chinese version shall prevail.

3. Trading with Affiliates of CLSA and Back-to-back Transactions

3.1 We may introduce you to Affiliates of CLSA for the purpose of effecting a Bonds transaction.

3.1 Where we arrange a Back-to-back Transaction involving Bonds, we or the Affiliate of CLSA may make a trading profit of up to 10% of the investment amount from the trade with you or as we otherwise notify you prior to entering into the transaction.

4. Risk Disclosure Statement

4.1 You have confirmed (whether in the Application Form, the acknowledgement letter or otherwise) that:

(a) you acknowledge and confirm that the terms and conditions applicable to the Services and the risk disclosure statements in the Schedule to this Annex (or otherwise provided) have been provided to you in a language that you prefer and understand; and

(b) you were invited to read the risk disclosure statements, to ask questions and take independent advice if you wish.

- End -

Securities Dealing Services: Bond Annex
Risk Disclosure Statement Schedule

This Risk Disclosure Statement Schedule (the "**Schedule**") does not disclose all of the risks and other significant aspects of trading in Bonds. In light of the risks, you should undertake such transactions only if you understand the nature of the contracts (and contractual relationships) into which you are entering and the extent of your exposure to risk. You should carefully consider whether trading is appropriate for you in light of your experience, objectives, financial resources and other relevant circumstances. Please read this Schedule carefully, and ask questions and take independent advice as you consider appropriate.

- **The price of Bonds can and does fluctuate and the price of any individual Bonds or note may experience upward or downward movements. There is a risk that losses may be incurred rather than profits made as a result of trading Bonds. A Bond may even become valueless.**

- **A Bond is not an alternative to ordinary savings or time deposits.**

<u>Key Product Risks</u>

In particular, you should be aware of the following risk factors:

- **Credit risk** – Bonds are subject to the risk of the issuer (being the entity issuing the Bonds) and the guarantor (if applicable, being an entity guaranteeing the issuer's debt) defaulting on its obligations. Any changes to the credit rating of the issuer or guarantor will affect the price and value of the Bonds. The lower the credit rating (for example, non-investment grade Bonds), the higher the risk of default or possibility of happening of the other adverse credit events (for example defaults on coupon, debt restructuring, etc.). If a Bond is not rated by credit agencies (i.e. in respect of an unrated Bond), investor will not be able to track the change of the credit worthiness of the Bond/issuer. Credit ratings assigned by credit rating agencies do not guarantee the creditworthiness of the issuer. Loss of your entire investment is possible if the issuer / guarantor becomes insolvent.

- **Liquidity risk** - The secondary market for Bonds is considerably less liquid than the secondary market for equity securities. There can be no assurance that an active secondary market in the Bonds shall exist or that any available bid price will represent fair value. Accordingly, in the event you wish to sell Bonds prior to their maturity it may be difficult or even impossible to find a buyer, either at all or in some cases without a significant discount to fair value. Investors may incur significant costs or losses in this regard.

- **Interest rate risk** – Bonds are more susceptible to fluctuations in interest rates and generally prices of Bonds will fall when interest rates rise.

- **Currency risk** – Where the Bonds are denominated in a foreign currency, there may be an exchange loss when converting the redemption amount back to the local or base currency.

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Key Product Risks For High-Yield Bonds

In circumstances where you invest in high-yield Bonds (such as non-investment grade Bonds or unrated Bonds), you should be aware of the following additional risks:

- **Higher credit risk** – high-yield bonds are typically rated below investment grade or are unrated and as such are often subject to a higher risk of issuer default; and

- **Vulnerability to economic cycles** - during economic downturns high-yield Bonds typically fall more in value than investment grade Bonds as (i) investors become more risk averse and (ii) default risk rises.

Key Product Risks For Sovereign Bonds

Sovereign Bonds are debt securities issued by a government. Such bonds are subject to the risk that the sovereign will either fail or refuse to meet debt repayments. A sovereign's ability to repay will be impacted by the sovereign's economy and its willingness to pay will be impacted by its political system, leadership and stability. Investors in sovereign Bonds also face risk from hyperinflation in relation to that sovereign's currency, which could result in the devaluation of principal and coupon payments.

Key Product Risks For Perpetual Bonds

Perpetual Bonds do not have a maturity date and can only be monetised by a sale in the secondary market or if the security is callable, where it is called at the sole option of the issuer. Perpetual Bonds are not principal protected. The making of coupon payments will depend on the viability of the issuer in the very long term and such payments may be deferred and may also be non-cumulative, subject to the terms and conditions of the issue. Where the security is redeemed by the issuer, proceeds received by the investor may be much less than the initial investment amount.

Furthermore, in such a situation, investors will be faced with reinvestment risk, which means that prevailing market conditions may have changed and investors may not be able to reinvest the proceeds at the same rate or for the same return at such point in time. In addition, compared to investors in senior bonds, perpetual Bonds are subordinated in ranking and investors in perpetual Bonds will have a lower priority of claim (and consequently bear higher risk) in the case of liquidation of the issuer.

Key Product Risks For Subordinated Bonds

Subordinated Bonds are unsecured and have a lower priority of claim than an additional senior debt claim in the same asset. Investors in subordinated Bonds will bear higher risks than investors in senior bonds of the issuer due to a lower priority of claim in the event of the issuer’s liquidation. In addition, subordinated Bonds usually also have a lower credit rating than senior Bonds. Investors should pay specific attention to the credit information on this product, including the credit rating of the issuer, the subordinated Bonds and/or the guarantor, as the case may be.

Key Product Risks For Bonds denominated in Renminbi (RMB) or with underlying assets that are denominated in RMB

You should note that the value of Renminbi against other foreign currencies fluctuates and will be affected by, amongst other things, the government of the People's Republic of China's regulation of conversion between Renminbi and foreign currencies. This may adversely affect your return under this product when you convert Renminbi into your home currency. Renminbi is not a freely convertible currency. Any conversion of Renminbi through banks in Hong Kong may be subject to certain restrictions prevailing at the relevant time.

Key Product Risks For Other Bonds With Special Features

The terms of features and risks of Bonds are not uniform and some Bonds may contain special features and risks. You should read the terms of any Bonds prior to investing. In particular you should be aware that Bonds may in some circumstances:

- be **callable**, meaning investors face reinvestment risk when the issuer exercises its right to redeem the Bond before it matures, as the call proceeds may be substantially below the amount of the initial investment;
- have **variable and/or deferral of interest payment terms**, meaning investors would face uncertainty over the amount and time of the interest payments received;
- have **extendable maturity dates**, meaning investors would not have a definite schedule of principal repayment;
- be **convertible or exchangeable** in nature, meaning investors are subject to both equity and Bond investment risk;
- have **contingent write down or loss absorption features**, meaning the Bond may be written-off fully or partially or converted to common stock on the occurrence of a trigger event; and/or
- be supported by a **Keepwell agreement** which is a contract between the parent company and its subsidiary to maintain solvency and financial backing throughout the term set in the agreement. The Keepwell agreement is not a guarantee, and there is the risk that timely payments may not be made if there are changes to capital control laws or other regulations in the other country.

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