

## STOCK OPTIONS TRADING AGREEMENT

THIS AGREEMENT is made the date stated in the Account Mandate

BETWEEN

- (1) **AUGUSTINE SECURITIES COMPANY LIMITED**, a company incorporated in Hong Kong with its registered office at Suite 1803, 18/F, Tower 1, The Gateway, Harbour City, Tsim Sha Tsui, Hong Kong and a corporation licensed for Type 1 regulated activities under the Securities and Futures Ordinance with CE number BMR 576 (the "Broker"); and
- (2) **The party whose full name, address and other details are set out in the Account Mandate (the "Client").**

This Stock Options Trading Agreement ("this Agreement") is additional and supplemental to the Client Agreement for Securities Trading entered into by the Broker and the Client. The Stock Options Trading (as defined below) is effected, conducted, carried on and entered into by the Client with and through the Broker for and on the Stock Options Account and shall be subject to and upon this Agreement and the Client Agreement for Securities Trading. Where any conflict or inconsistency arises between the Client Agreement for Securities Trading and this Agreement, this Agreement shall prevail.

### 1 DEFINITIONS

1.1 In this Agreement, unless redefined herein or the context otherwise requires, all expressions defined in (a) the SEHK Rules (including the Options Trading Rules and the Operational Trading Procedures); and (b) the Client Agreement for Securities Trading shall, where applicable, have the same meanings when used herein.

1.2 In this Agreement, the following expressions, unless the context otherwise requires, shall have the following meanings : -

"**Contract**" means an Options Contract, a Client Contract, an Options Broker Client Contract, an OCH Contract or an NCP Contract, as the context may require;

"**Clearing Rules**" means the clearing rules of SEOCH as from time to time in effect;

"**Client**" means the person or persons who have signed and/or specified as such in the Account Mandate, and where the Stock Options Account (as defined below) is opened by more than one person means all of such persons collectively and any legal or personal representative, executor, successor in title or permitted assign thereof, and shall include the Authorised Person where the context permits;

"**Client Contract**" has the meaning as defined in the Options Trading Rules which means a contract validly made at the time when an order in respect of an option series is matched by the Options System with another order in respect of that option series and incorporates the terms and conditions of the Standard Contract for a particular option series;

"**Client Money Rules**" means the Securities and Futures (Client Money) Rules (Cap. 571I of the Laws of Hong Kong);

"**Client Securities Rules**" means the Securities and Futures (Client Securities) Rules (Cap. 571H of the Laws of Hong Kong);

"**NCP Contract**" has the same meaning as in the Clearing Rules;

"**OCH Contract**" has the same meaning as in the Clearing Rules;

"**Operational Trading Procedures**" means the Operational Trading Procedures for Options Trading Exchange Participants of Exchange as from time to time in force;

"**Options Broker Client Contract**" has the same meaning as in Options Trading Rule 411A;

"**Options Contract**" means a contract made pursuant to Options Trading Rule 513 incorporating the terms and conditions of the Standard Contract for a particular option series;

"**Options Trading Rules**" means the Options Trading Rules of Exchange as from time to time in force;

"**Premium**" means the amount payable by a holder and payable to a writer of a Contract in respect of the writing of that Contract;

"**SEOCH**" means the SEHK Options Clearing House Limited; and

"**Standard Contract**" means the standard terms and conditions applicable to an Options Contract as specified by the Exchange from time to time as set out in the Sixth Schedule to these Options Trading Rules;

"**Stock Options Account**" means any account now or in future opened and maintained in the name of the Client with the Broker for conducting Transactions in accordance with this Agreement, and/or all other account(s) of whatsoever nature now or in future opened and maintained in the name of the Client with the Broker in accordance with this Agreement or other agreement or document.

"**Stock Options Trading**" means the purchase, trading, dealing, closing, exercise, settlement and discharge of long option transactions, and the writing of options through the Stock Options Account or otherwise creating any short open position;

### 2 APPLICABLE LAWS

2.1 All Exchange Traded Options Business shall be effected in accordance with all Applicable Laws applying to the Broker and the Client. This includes the Exchange Rules, the Options Trading Rules, the Clearing Rules of SEOCH and the rules of the HKSCC. In particular, SEOCH has authority under the Applicable Laws to make adjustments to the terms of the Client Contracts, and the Broker shall notify the Client of any such adjustments which affect Client Contracts to which the Client is a party. The Client agrees that all actions taken by the Broker, by Exchange, by SEOCH or by HKSCC in accordance with such Applicable Laws shall be valid, legally binding and enforceable on the Client.

2.2 The Client agrees that the terms of the Standard Contract for the relevant options series shall apply to each Client Contract between the Broker and the Client, and that all Client Contracts shall be created, exercised, settled and discharged in accordance with Applicable Laws.

### 3 INSTRUCTIONS AND DEALING PRACTICE

3.1 The Broker is hereby authorised to act upon the Instructions of the Client to create, exercise, settle and/or discharge Options Contracts for the Stock Options Account(s) and otherwise deal with any margin, collateral, Securities, Premium, Stock Options Contracts, receivables or monies held in or for the Stock Options Account(s) subject to the Client Money Rules and Client Securities Rules.

3.2 The Client acknowledges and consents that the Broker shall, at its absolute discretion, be entitled to claim margin offset for the Client's positions through the Client Offset Claim Account in DCASS.

3.3 The Client agrees to indemnify the Broker, and the Broker's employees and agents, against all losses and expenses resulting from breach of the Client's obligation

under this Agreement and the Client Agreement for Securities Trading, including costs reasonably incurred in collecting debts from the Client, and in closing the Stock Options Account.

#### **4 Margin**

4.1 The Client agrees to provide the Broker with cash and/or Securities and/or other assets and/or such collateral, guarantees and other security in such form and amount and on such terms as the Broker may in its absolute discretion require from time to time (the "Margin") as security for the Client's obligations to the Broker under this Agreement and maintain such Margin. The amounts required by way of Margin should not be less than, but may exceed the amounts as may be required by the Applicable Laws in respect of the Client's open positions and delivery obligations, and further Margin may be required to reflect changes in market value. The Broker may change any Margin in its sole discretion and at any time without prior notice to the Client. If the Broker determines that additional Margin is required, the Client agrees to deposit with the Broker such additional Margin forthwith upon demand. No previous Margin shall establish any precedent.

4.2 If the Broker accepts Securities by way of Margin, the Client shall on request provide the Broker with such authority as the Broker may require under the Applicable Laws to authorise the Broker to deliver such Securities, directly or through an Options Exchange Participant, to SEOCH as SEOCH Collateral in respect of Exchange Traded Stock Options Business resulting from the Client's Instructions to the Broker; and the Broker does not have any further authority from the Client to borrow or lend the Client's Securities or otherwise part with possession (except to the Client or on the Client's Instructions) of any of the Client's Securities for any other purpose.

#### **5 DEFAULT OF CLIENT**

5.1 If the Client fails to comply with any of the Client's obligations and/or to meet the Client's liabilities under this Agreement, including failure to provide Margin, the Broker may at its sole and absolute discretion, without prior notice to the Client, to:-

5.1.1 decline to accept further instructions from the Client in respect of Exchange Traded Options Business;

5.1.2 close out some or all of the Client Contracts with the Broker;

5.1.3 enter into Contracts, or into transactions in Securities, Futures/Options Contract, in order to settle obligations arising or to hedge the risks to which the Broker is exposed in relation to the Client's default; or

5.1.4 sell or dispose of the Margin (whole or any part thereof) in such manner and for such consideration (whether payable or deliverable immediately or by installments) as the Broker may think fit, and apply the proceeds thereof to discharge the Client's liabilities.

5.2 If there is any deficiency arising after the sale or disposal of the Margin, the Client hereby agrees to make good and pay on demand to the Broker such deficiency. Any proceeds remaining after discharge of all of the Client's liabilities to the Broker shall be paid to the Client.

5.3 The Broker and the Broker's nominee shall not be in any way responsible for any loss occasioned by any action taken pursuant to Paragraph 5.1, howsoever such loss may have been caused or arisen, and whether or not a better price could or might have been obtained on such action, by either deferring or advancing the date of taking such action.

5.4 The Client agrees to pay interest on all overdue balances in the Stock Options Account (including interest arising after a judgment debt is obtained against the Client) at such rates and on such other terms as the Broker may have notified the Client from time to time.

#### **6 CONTRACTS**

6.1 In respect of all Options Contracts effected on the Client's instructions, the Client shall pay the Broker, within the time period notified by the Broker, Premium, the Broker's commission and any other charges, and applicable levies imposed by the Exchange, as have been notified to the Client. The Broker is authorized by the Client to deduct such Premium, commissions, charges and levies from the Stock Options Account or any other account of the Client with the Broker or any subsidiary, affiliated or associated company of the Broker.

6.2 The Broker may from time to time place limits on the open positions or delivery obligations that the Client may have at any time without prior notice to the Client.

6.3 The Client acknowledges and agrees that:-

6.3.1 the Broker may close out Client Contracts to comply with position limits imposed by the Exchange;

6.3.2 if the Broker goes into default, the default procedures of the Exchange may result in Client Contracts being closed out, or replaced by Client Contracts between the Client and another Options Exchange Participant.

6.4 On exercise of a Client Contract by or against the Client, the Client shall perform the Client's delivery obligations under the relevant contract, in accordance with the Standard Contract and as notified by the Broker.

6.5 The Client acknowledges and agrees that only on the expiry day, the Options System will automatically generate exercise instructions in respect of all open long positions which are in-the-money by or above the percentage prescribed by SEOCH from time to time. The Client may instruct the Broker to override such an "automatically generated exercise instruction" before the System Closure on the expiry day in accordance with the Operational Clearing Procedures of SEOCH.

6.6 The Client acknowledges and agrees that the Broker may, at the Client's request, agree to the Client Contracts between the Broker and the Client being replaced, in accordance with the Applicable Laws, by Client Contracts between the Client and another Options Exchange Participant.

6.7 The Client acknowledges and agrees that, although all Options Contracts are to be executed on the SEHK, the Client and the Broker shall contract as principals under Client Contracts.

#### **7 RISK DISCLOSURE STATEMENT STATEMENTS**

7.1 The Broker refers the Client to the Risk Disclosure Statements in Appendix 1.

#### **8 REPRESENTATION AND WARRANTIES**

8.1 The Client warrants that:-

8.1.1 the Stock Options Account is operated solely for the Client's benefit, and not for the benefit of any other person; or

8.1.2 the Client has disclosed to the Broker in writing the name of the person(s) for whose benefit the Stock Options Account is being operated in accordance with the Applicable Laws; or

8.1.3 the Client has requested the Broker to operate the Stock Options Account as an Omnibus Account, and will immediately notify the Broker in writing, on request, of the identity of any person(s) ultimately and beneficially interested in the Client Contracts.

## **9 GENERAL**

- 9.1 The Broker shall keep information relating to the Client's Stock Options Account private and confidential, but may provide any such information to the SFC, the Exchange, and any other regulatory authority to comply with their requirements or requests for information, and to any of its Associates, without any consent from or notification to the Client.
- 9.2 The Broker shall provide the Client, upon request, with the product specifications for Options Contracts.
- 9.3 The Broker shall notify the Client of any material changes in respect of the Broker's ordinary and usual course of business which may affect the services of the Broker to be provided to the Client.
- 9.4 If the Broker fails to meet its obligations to the Client under this Agreement and the Client thereby suffers a pecuniary loss, the Client shall have a right to claim under the Investor Compensation Fund (as defined in the SFO) established under the SFO, subject to the terms of the Investor Compensation Fund from time to time in force. The Client's right to claim under the Investor Compensation Fund shall be restricted to the extent provided for in the SFO.
- 9.5 The Client confirms that the Client has read, understood and agrees to be bound by the terms of this Agreement, which have been explained to the Client in a language that the Client prefers. And the Client has been invited to ask questions (if any) and take independent professional or legal advice if necessary. The Client confirms that the Client fully understand all the contents of this Agreement and the Risk Disclosure Statements and agree to be bound by the terms and conditions contained therein.
- 9.6 The Client hereby declares that the Broker has provided to the Client the following information in accordance with the Options Trading Rules:-
- 9.6.1 the category of Options Exchange Participant under which the Broker is registered; and
- 9.6.2 the full name and contact details of the Options Officer or Options Representative who will be primarily assigned by the Broker to provide the service to the Client.
- 9.7 This Agreement shall be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region. Each of the parties to this Agreement submits to the non-exclusive jurisdiction of the Courts of Hong Kong.

**APPENDIX 1**  
**RISK DISCLOSURE STATEMENTS FOR STOCK OPTIONS TRADING**

Due to the volatile nature of securities markets, the purchase and writing of options over securities involves a high degree of risk.

**1. VARIABLE DEGREE OF RISK**

Transactions in options carry a high degree of risk. Purchasers and sellers of options should familiarise themselves with the type of option (i.e. put or call) which they contemplate trading and the associated risks. You should calculate the extent to which the value of the options must increase for your position to become profitable, taking into account the premium and all transaction costs.

The purchaser of options may offset or exercise the options or allow the options to expire. The exercise of an option results either in a cash settlement or in the purchaser acquiring or delivering the underlying interest. If the option is on a futures contract, the purchaser will acquire a futures position with associated liabilities for margin. If the purchased options expire worthless, you will suffer a total loss of your investment which will consist of the option premium plus transaction costs. If you are contemplating to purchase deep-out-of-the-money options, you should be aware that the chance of such options becoming profitable ordinarily is remote.

Selling ("writing" or "granting") an option generally entails considerably greater risk than purchasing options. Although the premium received by the seller is fixed, the seller may sustain a loss well in excess of that amount. The seller will be liable for additional margin to maintain the position if the market moves unfavourably. The seller will also be exposed to the risk of the purchaser exercising the option and the seller will be obligated to either settle the option in cash or to acquire or deliver the underlying interest. If the option is on a futures contract, the seller will acquire a position in a futures contract with associated liabilities for margin. If the option is "covered" by the seller holding a corresponding position in the underlying interest or a futures contract or another option, the risk may be reduced. If the option is not covered, the risk of loss can be unlimited.

Certain Exchanges in some jurisdictions permit deferred payment of the option premium, exposing the purchaser to liability for margin payments not exceeding the amount of the premium. The purchaser is still subject to the risk of losing the premium and transaction costs. When the option is exercised or expires, the purchaser is responsible for any unpaid premium outstanding at that time.

**2. WARNING TO OPTION HOLDERS**

Some options may only be exercised on an expiry day (European-style exercise) and other options may be exercised at any time before expiration (American-style exercise). You understand that upon exercise some options require delivery and receipt of the underlying security and that other options require a cash payment.

An option is a wasting asset and there is a possibility that as an option holder you may suffer the loss of the total premium paid for the option. You acknowledge that, as an option holder, in order to realize a profit it will be necessary to either exercise the option or close the long option position in the market. Under some circumstances it may be difficult to trade the option due to lack of liquidity in the market. You acknowledge that the licensed or registered person has no obligation either to exercise a valuable option in the absence of your instruction or to give you prior notice of the expiration date of the option.

**3. WARNING TO OPTION WRITERS**

As a writer of an option you may be required to pay additional margin at any time. You acknowledge that as an option writer, unlike an option holder, it may be liable for unlimited losses based on the rise or fall of the price of the underlying security and its gains are limited to the option premium. Additionally, writers of American-style call (Put) options may be required at any time before expiry to deliver (pay for) the underlying securities to the full value of the strike price multiplied by the number of underlying securities. You recognize that this obligation may be wholly disproportionate to the value of premium received at the time the options were written and may be required at short notice.

The risk of loss in trading options is substantial. In some circumstances, you may sustain losses in excess of your initial margin funds. Placing contingent orders, such as "stop-loss" or "stop-limit" orders, will not necessarily avoid loss. Market conditions may make it impossible to execute such orders. You may be called upon at short notice to deposit additional margin funds. If the required funds are not provided within the prescribed time, your position may be liquidated. You will remain liable for any resulting deficit in your account. You should therefore study and understand options before you trade and carefully consider whether such trading is suitable in the light of your own financial position and investment objectives. If you trade options you should inform yourself of exercise and expiration procedures and your rights and obligations upon exercise or expiry.

**4. ADDITIONAL RISKS COMMON TO STOCK OPTIONS TRADING**

**(a) Terms and conditions of contracts**

You should ask the firm with which you deal about the terms and conditions of the specific futures or options which you are trading and associated obligations (e.g. the circumstances under which you may become obliged to make or take delivery of the underlying interest of a futures contract and, in respect of options, expiration dates and restrictions on the time for exercise). Under certain circumstances the specifications of outstanding contracts (including the exercise price of an option) may be modified by the exchange or clearing house to reflect changes in the underlying interest.

**(b) Suspension or restriction of trading and pricing relationships**

Market conditions (e.g. illiquidity) and/or the operation of the rules of certain markets (e.g. the suspension of trading in any contract or contract month because of price limits or "circuit breakers") may increase the risk of loss by making it difficult or impossible to effect transactions or liquidate/offset positions. If you have sold options, this may increase the risk of loss.

Further, normal pricing relationships between the underlying interest and the futures, and the underlying interest and the options may not exist. This can occur when, for example, the futures contract underlying the option is subject to price limits while the option is not. The absence of an underlying reference price may make it difficult to judge "fair" value.

**(c) Deposited Cash and Property**

You should familiarise yourself with the protections given to money or other property you deposit for domestic and foreign transactions, particularly in the event of a firm insolvency or bankruptcy. The extent to which you may recover your money or property may be governed by specific legislation or local rules. In some jurisdictions, property which had been specifically identifiable as your own will be pro-rated in the same manner as cash for purposes of distribution in the event of a shortfall.

**(d) Commission and other charges**

Before you begin to trade, you should obtain a clear explanation of all commission, fees and other charges for which you will be liable. These charges will affect your net profit (if any) or increase your loss.

**(e) Transactions in other jurisdictions**

Transactions on markets in other jurisdictions, including markets formally linked to a domestic market, may expose you to additional risk. Such markets may be subject to regulation which may offer different or diminished investor protection. Before you trade you should enquire about any rules relevant to your particular transactions. Your local regulatory authority will be unable to compel the enforcement of the rules of regulatory authorities or markets in other jurisdictions where your transactions have been effected. You should ask the firm with which you deal for details about the types of redress available in both your home jurisdiction and other relevant jurisdictions before you start to trade.

**(f) Currency Risks**

The profit or loss in transactions in foreign currency-denominated contracts (whether they are traded in your own or another jurisdiction) will be affected by

fluctuations in currency rates where there is a need to convert from the currency denomination of the contract to another currency.

**(g) Trading Facilities**

Electronic trading facilities are supported by computer-based component systems for the order-routing, execution, matching, registration or clearing of trades. As with all facilities and systems, they are vulnerable to temporary disruption or failure. Your ability to recover certain losses may be subject to limits on liability imposed by the system provider, the market, the clearing house and/or participant firms. Such limits may vary: you should ask the firm with which you deal for details in this respect.

**(h) Electronic Trading**

Trading on an electronic trading system may differ from trading on other electronic trading systems. If you undertake transactions on an electronic trading system, you will be exposed to risks associated with the system including the failure of hardware and software. The result of any system failure may be that your order is either not executed according to your instructions or is not executed at all.