The Ultima Products HK Limited

GUIDE TO STRUCTURED PRODUCTS

Note: This guide is intended to help investors and potential investors gain a better understanding and knowledge of how structured products work and how to better align possible outcomes with investment objectives.

This guide should not be used for providing investment advice and it is purely for educational and informational purposes only. This is not an offer of investment.

Risk Warning - When investing in structured products your investments are at risk, structured products are complex, difficult to understand, expose you to multiple risks and are designed to be held to maturity. Investments go up as well as down and you may also lose some or all of your investment.

The Ultima Products HK Limited does not provide financial advice. Please consult a financial adviser before investing if necessary. Past performance is not a guide to future performance.

The investment to any structured product is only possible via regulated financial services entity.

Contents

Introduction to Structured Products

What is a Structured Product?

Structured products have played a key role in international financial markets for years. However, they are considered as complex.

In a nutshell structured products are flexible alternative investment products, designed to provide a return at set dates that are pre-determined with reference to the performance of one or more 'underlying assets' and/or 'referenced entities', quite often they are issued in 'tranches', meaning they are closed ended (see glossary and definitions) and subject to the issuer of/counterparty to the product remaining solvent or it is otherwise able to pay.

What makes structured products attractive is the fact they can come with some attractive features such as capital protection, leverage, yield enhancement, participation or a combination of these.

It is important to highlight if the underlying assets perform well, you could make a higher profit than if you had invested directly in the assets themselves. However, if the underlying asset does not perform well there may be one of several outcomes: you may only have your initial capital returned, lose some of your investment, or in the worst case scenario, lose your entire investment.

Structured products are typically used as part of a wide investment portfolio, and can also be designed for a variety of investors to gain an indirect exposure to a particular asset. They are not appropriate for every investor and you should always check with a qualified financial services provider if you are unsure.

Generally structured products come in two forms: growth products (which could also provide an element of capital protection) and income products (that provide a fixed high income but with a risk to the capital return). However, you can also have a combination of growth and income in the same product. Additional to this, a structured product can also be wrapped in two types of ways for an investor to purchase. Firstly, as a Medium Term Note (MTN) and secondly as an Over-The-Counter (OTC) Derivative Contracts, which are defined in the 'glossary and definitions' section of this guide.

The International Organization of Securities Commissions (IOSCO) definition of a structured product is:

> "Structured products are compound financial instruments that have the characteristics of combining a base instrument (such as a note, fund, deposit or insurance contract) with an embedded derivative that provides economic exposure to reference assets, indices or portfolios. In this form, they provide investors, at predetermined times, with payoffs that are linked to the performance of reference assets, indices or other economic values."
> (https://www.iosco.org/library/pubdocs/pdf/IOSCOPD434.pdf)

The Ultima Products HK Limited offers investors structured products in the form of Over-The-Counter (OTC) Derivative Contract.

Structured Products are complex investments and can be difficult for an investor to understand. Therefore, it is absolutely essential, like with any investment, you carefully read this guide, along with the product literature provided to you, including the terms and conditions, so that you fully understand the risks before you invest. It is only possible to invest in any product with the assistance of licensed financial services provider only.

Advantages & Disadvantages

The main advantages of Structured Products:

- An accurate understanding of what profits you may receive, by setting the pre-determined parameters;
- You can hedge your downside risk;
- You can set the term of the investment, which may also pay out early if the underlying's have performed within the parameters set out in the product;
- Documentary confirmation of your investment with all transaction parameters via a term sheet, other terms document and/or a Key Information Document (KID), if applicable;
- A product can be designed for any risk profile in any market scenario in growing, retracing or sideways markets;
- Solutions are available with capital protection suit risk adverse investors, whilst more aggressive investors may prefer a leveraged product;
- They allow investors a facility to participate in areas normally only available to institutional investors, such as commodities, or other economies;
- An innovative solution compared to traditional investments such as stocks and bonds;
- Depending on what product you buy, you can profit even when the underlying investment has fallen, or has marginally increased;
- An income can be paid monthly, quarterly, semi-annually, annually or at the end of structured product's lifecycle.
- No ongoing annual management fees like in funds, or commissions like if you buy and sell stocks through a broker.

The main disadvantages of Structured Products:

- They are not suitable for all types of investors due to them being complex and may be difficult for some people to fully understand;
- The product is usually comprised of derivatives, bonds, and other instruments which are all affected by market movements;
- In general, the products themselves may have low or zero liquidity, meaning it may be difficult to sell them before the maturity date;
- If the structured product trade on a secondary market, they may have a wide bid/offer spread, impacting the amount of money you will get back if selling before maturity;
- During volatile periods in the stock market, the financial instruments in the product may be difficult to sell, increasing the risk of the manufacturer not being able to meet its obligations to you as an investor;
- Investors are also exposed to credit risk of the issuer;
- When purchasing products, which contain alternative currencies, the fluctuations in your home currency to that of one embedded in the product may mean you could lose, or make money due to fluctuating exchange rates;
- You are unable to change the parameters of the product once you have invested, unlike investing in a fund for instance;
- They are less transparent than a simple asset class such as a stock or bond;
- If a structured product has one or more underlying's wrapped within it, it can become more difficult to gauge the risk exposed to an investor;
- The charges and fees (custodial, administrative and management costs etc.) associated with the product are not explicitly made clear with specified figures in the product documentation.

Structured product features

When investing in structured products it is you who decides if they are suitable for your investment strategy and whether or not you are willing to take risks.

We have listed some key features below.

The ability to generate a higher return than directly holding the securities themselves

This is achieved due to the fact that if you meet the conditions for the strategy and the growth of the asset, you do not bear the costs of its initial purchase, commission or the commission a broker charges when you sell the asset, and in some cases the greater return is subject to one or more underlying also performing to the set parameters built in to the structured product. For example, if you have a structured product with 4 underlying assets such as shares, if those shares were to stay level, or only increase a few percent, you would make much more in the structured product. This would be determined by the parameters set out at the beginning of the product and so means the capital growth or income could be much more significant.

The ability to earn growth or income on any movement on the exchange

The value of securities can increase or decrease, fluctuate in a narrow trading range or remain for a prolonged period of time around the same level - for either of these variants of events there is a suitable product.

Diversify your investment strategy

Diversification of asset classes helps to decrease risk exposed to investors. An example of diversifying is when an investor may purchase more than 15-20 different securities such as shares, or bonds across multiple sectors with a negative correlation. In effect, this strategy may become difficult for the average investor due to having to keep a close eye on the investments on a day-to-day basis, on top of following the news flow and the financial markets! Additionally, when investing in stocks or bonds, you are reliant on them increasing in value and maintaining their dividends in order for you to still achieve a respectable return.

When considering structured products, these offer an excellent alternative which allow you to participate in the growth of domestic and foreign bonds, shares, Exchange Traded Funds (ETFs) and many other asset classes, whilst limiting the down side risk due to having a protective function embedded into your structured product. This means you can still receive a return if the underlying investments were to fall in value. You can also invest in a product which has several assets wrapped inside it, such as 6 different shares for example.

Receive monthly or quarterly income

When selecting structured products, you can specify the conditions under which every month or quarter you want to receive payments.

Capital Protection or Capital at Risk Products

Structured Capital Protected Products

Structured products can be designed to have 'capital protection' in place, or 'capital at risk'. Here, we will describe the difference between the two:

Structured 'capital protected' products are designed to have similar reward features like SCARPs (described later in the guide), but, if the underlying assets were to vastly underperform as anticipated, the original amount you invested would still be returned in full. You would, however, not receive any growth or income, and you would have experienced an erosion of the value of the capital you invested due to inflation (except in a rare event such as deflation). For instance, if you invest 10,000 EUR/USD/RUB and the underlying assets fall by 75%, and then as long as the pre-agreed level of protection is100%, you would still receive 100% of your capital back. This is, however, subject to the issuer (for example The Ultima Products HK Limited) remaining solvent for the entire term of the investment and being able to make payouts.

A drawback to capital protected products is that your upside potential is limited. As you can understand, it is a trade-off between risk and reward. The more risk you take on, the greater the potential return you could receive. Likewise, the less risky the product, the lower the potential return.

Structured Capital-At-Risk Products (SCARPs)

SCARPs are products which have defined levels of risk and reward features over a specified investment period and display several characteristics-

1. You are exposed to a range of outcomes (for example a product may be linked to several underlying assets, the issuer carries market risk, capital risk etc) in respect to the return of your capital you initially invested.
2. Your return of capital initially invested at the end of the term, or throughout the term is linked by a pre-set formula to the underlying assets (referenced assets), which for example could be a basket of shares, a single or multiple indices, or other asset classes.
3. If the performances of the underlying assets are within the pre-set specified limits (barrier- described in the next section of the guide), the repayment of capital invested occurs, along with the enhanced returns (growth, income or a combination of them). However, if the underlying assets do not perform along the lines of the specified limits, then your initial capital, and any anticipated returns are at risk, where you could lose some or all of your capital.

Essentially you are risking some or all of your initial capital to achieve a predetermined return, which is typically greater than the return you may achieve by simply leaving your funds in a bank account. As an investor, you are potentially being paid a higher income for taking greater risk. However, this greater risk you take can also be offset to a predetermined level, for instance, you may set the maximum downside an underlying can fall by before you lose any of your initial capital (also called 'your notional amount').

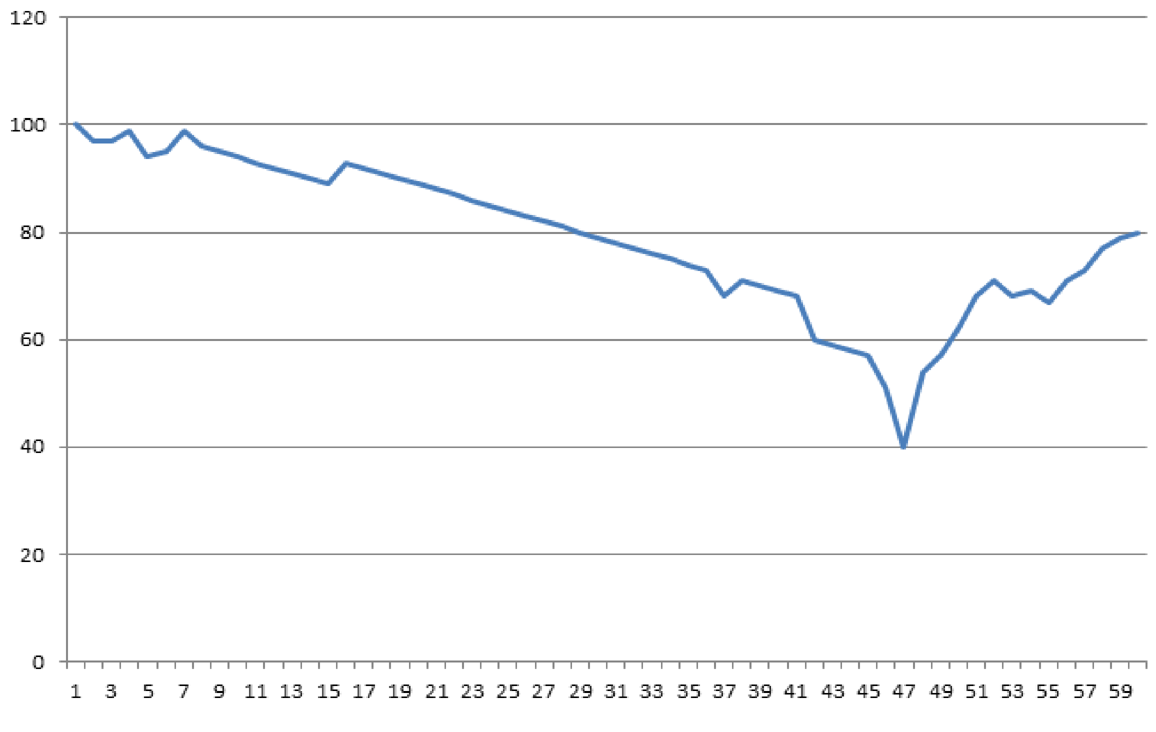
For instance, a structured product with a 40% barrier may not lose any of you capital if the underlying asset falls by 40%, but if it falls by 40.01%, then you would lose 40.01%.

Barrier Options

As briefly mentioned earlier, SCARPs can have a safety barrier embedded in them, to enable an investor's initial capital to be returned in full - as long as the underlying assets do not fall beyond a pre-determined amount(for instance, 25%, 35%, 45% and so on). The barriers are also able to have a feature exposing your capital at risk throughout the entire term or only on predetermined dates (observation dates).

Typically these barriers can also vary. For instance, if you invest in a product with a **European Style Option**, your capital is at risk at the end of the term, so on the last day the product is in existence, an observation of the underlying assets are taken and if the underlying has not breached the barrier of say 25%, then your capital is returned in full. However, if the product has been constructed with an **American Style Option**, then your capital is at risk through the whole term of investing.

An example of how a 50% European Barrier may give a different end result to a 50% American Barrier, when investing in a product linked to a single underlying is explained below



The graph above shows a product with a starting level (Strike Price) of 100, and over a 60-month (5-year term) falls to 40 (a 60% drop from starting level) and then recovers slightly to 80 (a 20% drop from starting level) on its final observation date.

50% European Barrier Scenario

The structured product is only measured on the start date (also known as the strike date or initial measurement period) at 100 and on the end date it is 80, and the difference between the start and the end level is 20%, then this 50% European Barrier has not been breached. Therefore, the investor would receive all of their initial capital back.

50% American Barrier Scenario

The structured product is measured on the start date (also known as the strike date or initial measurement period) and every business day throughout the term of the investment. During the term the underlying fell by 60%, which means the 50% American barrier was breached, and the investor will lose 60% of their initial capital (notional) invested. Essentially, structured products using American barriers are riskier than those using a European barrier. Additionally, if more than one underlying is used in the product, this also increases the risk/reward potential.

The main principle to consider here is as follows:-

The greater the level of the protection of capital (less risk to you as an investor), the lower yield potential and vice versa. See the graph below.

Types of structured products

There are several types of products; you may find that some are suitable for your investment requirements. Growth and income variants of structured products are explained further below.

Growth

There are several types of growth products available, and can have different features to one another. Essentially these products are put together to provide a fixed return depending on how the underlying asset performs over the term of the investment period (from when the plan starts to maturity). There is also an option to have 'participation' (also known as gearing), whereby an investor could potentially receive a gain equal to a multiple of any given rise (or fall) in the underlying asset. This multiple, is called the 'participation rate', it could be set to any figure but is usually capped at a maximum return. For instance, if the underlying asset increases by 10%, and the 'participation rate' is set at 2x any gain, then the investment would return 20%. Furthermore, regarding the use of a 'cap of 100%', using the same participation rate (2x any gain), but the underlying increased by 200%, the return would be capped at 100%.

Here are some examples of the features available:

Autocall: This product has the potential to 'autocall' every set number of months, or years during the term of the product. For this autocall to occur, the underlying asset(s) need to be at or above their start level on the strike date.

Participation (Gearing) Autocall: This product has similar characteristics to the autocall product, but is designed to pay you a multiple of the rise in the underlying asset(s). Basically, the investment return is calculated by the rise in the price of the underlying asset(s), but sometimes there may be a cap on the return (as described earlier).

Defensive Autocall: This product has the potential to 'autocall' every set number of months, or years during the term of the product. For this autocall to occur, the underlying asset(s) need to be at or above a reference level that decreases by a **small** amount on each subsequent observation date. On the final observation of where the underlying asset(s) is, the underlying only needs to be at or above a set percentage of the initial level (strike level) to generate a return on the investment.

Super Defensive Autocall: Similar to the 'Defensive Autocall', with the potential to 'autocall' every set number of months, or years during the term of the product. However, for this autocall to occur, the underlying asset(s) need to be at or above a reference level that decreases by a **significant** amount on each subsequent observation date. On the final observation of where the underlying asset(s) is, the underlying only needs to be at or above a relatively low percentage of the initial level (strike level) to generate a return on the investment.

Twin Win: This product can generate a return when the underlying asset increases or mildly decreases. The growth of the investment is usually capped on the upside, so if the underlying doubles in price, you would not get the same return, you may get the maximum of the cap. For instance, if it is capped at 25% growth, but the underlying increases by 50%, you would only receive 25%. However, if we use the same barrier on the downside of 25%, if the underlying asset falls by 24% you would receive 24% profit, but if the underlying asset falls by 26%, you would lose 26% ofyour initial investment.

Income

There is a wide range of income generating structured products which pay an income if certain pre-set conditions are met. The products can be designed to provide a steady stream of fixed income irrespective of the underlying asset(s) performance (commonly known as a reverse convertible). Typically, these products are designed to give a higher income than you would be able to receive from a deposit from a high street bank.

Here are a few examples of the features available:

Fixed Income (Reverse Convertible Product): This is when a fixed income is paid every period (quarterly, semi-annually, or annually), irrespective of the underlying asset's performance.

Participation Income: Income is paid on the condition of the underlying asset increases in value (growth) and may also be pre-set to a given amount. For example, if the underlying asset increases by 50%, then income may be equal to 50% of the growth of the underlying asset, therefore paying 25% income. The participation percentage is set before the plan starts, so you, as an investor, are aware of it right from the beginning.

Conditional Income: Income is paid on the condition that the underlying asset(s) are at, or above a pre-agreed level, after each pre-agreed date(s) (observation points).

Income Accrual: With most of our products, income accrued on a daily basis, according to how the underlying asset(s) perform.

Contingent Income Auto-Call (Phoenix Product): This product combines growth and income as a pay-out to investors. Income is paid after each pre-agreed observation point if the underlying asset is at or above a pre-determined level, there is a potential to pay growth via an 'autocall' (discussed in the growth section) after a given number of months (predetermined). However, when and if an autocall occurs, the product then matures (ends), no further coupons are paid and the initial capital invested is returned in full to the investor.

An example of an income product paying a conditional coupon (income) would be a 'Digital Snowball Coupon'. This is where the coupon is only paid if the underlying is at or above a pre-agreed level. If it isn't, no coupon is paid, but it is then rolled up, or 'Snowballed' to the next coupon payment date. If the underlying returns to its pre-agreed level, or above it, then the coupon is paid along with the previously missed coupons.

Risks

Like any investment, structured products have their limitations and risks.

It is extremely important for us that investors understand the risks and how these risks could affect the value of their investment. Investment in structured products do not predominantly allow for quick simple withdrawal of funds without penalties, an early exit/redemption may cost you up to 35% in fees, not including any losses or gains the product may have achieved. Therefore, short term investors looking for highly liquid investments should not invest in a structured product, as most of our products are designed to run for between 3-6 years.

It is sensible to only invest an amount you are comfortable with, and with the expectation that you may not be ableto access it for the entire term of the product.

Below are some examples of risks; however, this list is not exhaustive, as some products may have more specific risks than others. You should refer to the Risk Description in the documentation specific to the structured product you intend to purchase (usually called the final terms regarding the note issuance, or you can also see our risk disclosure on our website: https://ultimaproducts.hk/). The Ultima Products HK Limited applies its own risk methodology to determine summary risk indicator as well as performance scenarios indicated in the product documentation (KID). This methodology whilst based on the Packaged Retail and Insurance-Based Investment Products (PRIIPs) requirements, it does not fully follow the requirements of the PRIIPS regulatory framework under Regulation (EU) No 1286/2014 which serves merely as a guidance and as an example of best practice.

Commodity Risk
Structured products using commodities as the underlying asset can be subject to much greater price fluctuations than traditional investments. Additionally, commodity markets may become subject to temporary illiquidity. This could result in a small or total loss of capital.

Counterparty (Issuer of the product) Risk
Counterparty risk is the risk to the investor that the counterparty that issued the structured product becomes bankrupt, it will not be able to honour the contractual obligations of the structured product. The counterparty(Issuer) provides the securities designed to deliver the anticipated returns set out in the structured product may become insolvent and may not be in a position to return your funds if they were to default. If this occursyou could become the owner of an illiquid asset, or lose some or all your entire investment. The way to gaugethe counterparty risk is to consider a counterparty credit score (also known as credit rating) for example from a rating agency such as Standard & Poor’s.

Counterparty Credit Ratings
Financial investment products such as stocks, bonds and derivatives carry counterparty risk. The said risk is gauged through a credit rating assessment. One of the largest “credit rating agencies” engaged in credit rating assessment is Standard and Poor's (S&P). The S&P agency uses a sliding scale from AAA (Investment Grade) to D (junk bond which is in Default). The said scale is widely used as a reference point by financial product issuers.

Bonds with high counterparty risk offer higher yield premiums. When counterparty risk is low, the premiums or interest rates are low.

The counterparty used in our Structured Products is The Ultima Products HK Limited. Counterparty risk should be considered when evaluating a structured product for investment. For example, if you purchase a capital protected product, the capital is only protected if the market counter party (The Ultima Products HK Limited) remains solvent, please read the risk chart to give you an indication of The Ultima Products HK Limited's credit score.

In most financial contracts, counterparty risk is also known as default risk. The chart below shows the example of Standard & Poor's credit rating scheme and position of the Company compared to the chart:

Bond Credit Ratings Quantifying Counterparty Risk	
Description	**Standard & Poor's Investment Grade to Non-Investment Grade**
Prime	AAA
High Grade	AA+ , AA , AA-
	A+ , A , A-
Lower Medium Grade	BBB+ , BBB , BBB-
Speculative	BB+ , BB , BB-
Highly Speculative	B+ , B , B-
	CCC+
Extremely Speculative	CCC
	CCC- , CC, C
In Default	D

Please note that the credit rating of The Ultima Products HK Limited is based on the credit rating review by an associated entity: The Ultima World (DIFC) Limited. As such the credit rating of The Ultima Products HK Limited has been determined to fall under "Speculative" credit grade.

Early Encashment (Cancellation) Risk

If an investor decides to encash (terminate) the investment before maturity, at any point during the term, they may lose some or a significant amount of their investment. This can occur due to a variety of factors such as the underlying assets may have decreased in value, the derivatives embedded in the product may have fallen in value or interest rates may have fallen (this is not an exhaustive list, but it mentions only a few). In addition, administration charges for early encashment will also further increase losses.

Foreign Exchange Risk

The investor in the product is exposed to foreign exchange rate risk if the currency of the initial investment, the currency of the underlying assets, and the settlement currency are not identical, the value returned may vary greatly.

Hedging Risk

On or prior to and after the trade date, The Ultima Products HK Limited, through its affiliates or others, will likely hedge its anticipated exposure under the products by taking positions in the underlying, in option contracts on the underlying or positions in any other available securities or instruments. In addition, The Ultima Products HK Limited and its affiliates trade the underlying as part of their general business activities. Any of these activities could potentially affect the value of the underlying, and accordingly, could affect the payout to holders on the products.

Inflation Risk
This is known as the risk that inflation will reduce the real value of your investment over time.

Investment Risk
The risk that the market(s) or underlying asset(s) to which your investment(s) are linked to, fall in value, which could cause you to lose some or all of your money.

No Rights from Underlying Assets (Reference Entities)
Structured product investments do not give the investor any of the rights normally associated with ownership of the underlying securities themselves. For instance, with ordinary shares, you would be entitled to vote at an annual general meeting, have subscription rights, and be eligible for dividends; these are the types of rights you would lose.

Pricing Risk
This is the risk that a financial institution with whom the underlying investments have been arranged may not be able to quote regular prices making it difficult to value your investment and delaying any early termination request you may make.

Product Risk
The risk that the product design could produce a return that is lower than a direct investment in the market(s) or asset(s) to which the product is linked or may produce no return at all.

Secondary Market Risk
The changes in the price of underlying asset(s) are not directly proportional, or immediately priced in to the price of the structured product trading in the secondary market. The relationship depends on the product type, underlying(s) and residual term left in the product and many other factors as well. The secondary market is also subject to supply and the demand, which may lead to a significant price difference between the bid and the offer (prices offered to buy or sell the product, also known as the bid offer spread) and could result in the failure to sell the structured product, causing the structured product to be illiquid.

Tax Risk
Any potential tax reliefs depend on individual investor circumstances, including their tax residence, and are subject to any governmental changes to tax reliefs offered to investors.

Underlying Liquidity Risk
The underlying asset might be or become illiquid over the lifetime of the product. Illiquidity of the underlying asset may have negative impact on The Ultima Products HK Limited’s ability to provide a secondary market for the product. It may result in a temporarily or potentially even indefinitely increased bid/offer spread for the product or result in the early termination of the product. Any secondary market for the product will be made on a reasonable efforts basis only and subject to market conditions, law, regulation and internal policy. Even whilst there may be a secondary market in the product, it may not be liquid enough to facilitate a sale by the holder.

Glossary & Definitions

Autocall

If an investment meets the requirements of a product on a specified measurement date, it will 'Autocall', this is when it matures and the investor will receive a growth payment as defined by the conditions of the product. If it does not autocall on any measurement date, the investment will continue to maturity, at which time, if the criteria of the product are met, a growth payment will then be made and the original capital will be returned in full.

Barriers

American Barrier

Intra-day or daily observations of the underlying asset(s) are taken to determine whether the performance of them during the product term will affect the return of initial capital (notional). With daily observations the value of the underlying asset is noted at the close of business every business day, whilst intraday observations are taken continuously throughout every business day throughout the term of the investment.

European Barrier

The return of initial capital (notional) invested is determined by comparing only two value points of the underlying asset (reference entity), the opening level and the final level. Any movement in the underlying asset between these two points does not have any influence on the return of initial capital.

Barrier Level

A barrier or trigger level is a pre-determined level of the underlying that, if or when it is breached, it triggers a change in the potential return of the initial capital (notional). Typically, American barrier's, are a feature of a high-income product or 'reverse convertible' product. For these products, if the level is breached during the term of the product then the investor is exposed to a risk of capital being reduced if the underlying asset(s) finish below their opening level.

Bonds

Debt instrument(s) issued by either a corporate organization or a municipality, a state, a government to raise money and finance projects or activities. Most bonds pay a fixed interest payment (coupon) to investors which lent money to issuers. Credit ratings offer the investor an indication of the strength of the bond issuer and therefore, potentially the likelihood of a default occurring. Bonds are often used as a key component when creating structured products.

Cap

The trade-off for potentially enhanced returns and limiting the possibility of capital loss is that if the underlying asset(s) to which the product is linked were to increase by more than the potential investment return, an investor would not benefit from any growth above that return. Such a return is often called a 'cap' and such products may be called 'capped'. The initial capital the investor placed in the investment is exposed to risk and an investor may not receive some or any capital back upon maturity.

Capital-at-Risk
When money is invested in a bank deposit account, its original value doesn't change but the investor will receive interest. The return is usually quite low, because capital is not at risk. Capital-at-risk products could produce higher returns than bank deposits, but your capital is put at greater risk and an investor may end up with less than they had originally invested. Capital-at-risk products include: stock market based investments (i.e. equities); investment bonds and funds that invest in debt securities and investments linked to the performance of a stock market or some other factor such as a collection of shares.

Capital Protected
A capital protected structured product is one that is designed to return at maturity, the original sum invested. However, such products only provide this minimum return if the product provider itself (The Ultima Products HK Limited), or the underlying asset(s) that is purchased to provide the return, do not default (see Counterparty Risk).

Counterparty
A counterparty is essentially the participant who enters into an agreement or financial transaction with another market participant in order for the transaction to be completed. In the case of investing in structured products with The Ultima Products HK Limited, it is usually The Ultima Products HK Limited who is one of the counterparties, while the other is typically the investor.

Credit Ratings
Independent organisations called credit rating agencies research and monitor the ability of financial and other institutions to make payments due from the securities issued and/or guaranteed by them. A rating of 'AAA', according to Standard & Poor's, is given to a counterparty with a very strong capacity to meet its financial commitments. Credit ratings lower than BBB are generally not considered to be investment grade and are known collectively as junk. Credit ratings are 'opinions' of credit ratings agencies only and a high rating from one or more agencies does not guarantee that the institution will or can meet its financial or contractual obligations to the investor(s). In some instances, as in case with our products, the ratings may be applied by other entities, including those related or affiliated to us.

Final Level
The level of the underlying asset measured at the end of the investment term. This may be the level at the close of business on one specified day or it could be the average level of the asset calculated over given period of time.

Gearing
The exposure or leverage that a product has to movements in the underlying asset(s). Sometimes the term participation is used to refer to a product's 'gearing'.

Growth Payment
A growth payment occurs when a growth product matures either on an annual measurement date (see Autocall) or maturity date if the product's criteria are met. If the criteria are not met there will be no growth payment and the investor's initial capital may be at risk.

Growth Product
Structured products that produce their return at the date of maturity and do not offer any income payments (coupons) during the term of the investment. Some growth products may autocall on any specified measurement date (mature early), paying a growth payment and returning the initial capital in full.

Income Product
A type of structured product that provides a periodic payment of income under defined conditions. Often, the rate of income is higher than the general rate of interest available for fixed rate deposits and there is therefore a risk that the initial capital invested may not be returned in full.

Initial Capital
This is the original amount of capital you invest at the beginning. Itis also known in some legal contracts as the 'notional value'.

Initial Level
In order to measure the performance of the investment, the level of the underlying asset is recorded at the start of the investment term. There are a wide variety of methods for calculating this level. It may simply be the level of the underlying asset at the close of business on one specific day or it could be the average level calculated over the first month or more.

Initial Measurement Period
The period at the start of the investment, during which the opening level of the underlying asset is recorded. This could potentially be just one day or measured over several weeks or longer.

Issuer
This is the party who issues the structured product in the form of a Medium-Term-Note.

Maturity Date
This is the date when the product will mature. It is after the underlying assets have been observed and the amount of capital to be returned to the investor has been determined. For some products it may be 1 to3 weeks, however this timeframe for many products and their issuers may vary.

Medium Term Note ('MTN')
A debt note that usually matures in 3–10 years, but the term may be less than one year or as long as 50 years. MTNs can be issued with a fixed maturity date or can be issued with embedded call or put options and triggers where the notes will redeem early based on certain conditions. MTNs are most commonly issued as senior, unsecured debt of investment grade credit rated entities which have fixed rates. MTNs offer more flexibility to the issuer and investor both in terms of structure and documentation.

Notional
This is the original amount of capital you invest at the beginning. This is also known as the initial capital.

Observation Date
These dates are points in time when the underlying asset(s) are observed, and their values are recorded.

Options

Call Option
A call option is an agreement that gives the option buyer the right, but not the obligation, to buy a financial instrument such as a stock, bond, commodity or other instrument at a specified price within a specific time period. The bond, stock or commodity is then called the underlying asset.

Put Option
This is the opposite of a call option. In the case of a put option, it is an agreement that gives the option buyer the right, but not the obligation, to sell a financial instrument such as a stock, bond, commodity or other instrument at a specified price within a specific time period. The bond, stock or commodity is then called the underlying asset.

Over-The-Counter (OTC) Derivative Contracts
To define an OTC Derivative contract, it needs breaking in to two parts-

Derivative – this is a security whose price is 'derived' from one or more underlying assets. The assets could be bonds, stocks, commodities, interest rates and so on. The value of the 'derivative' is determined by the fluctuations in the underlying asset(s).

Over-The-Counter (OTC) – Securities can trade either on an exchange (CSE, NASDAQ, FTSE, MOEX), in which case they are 'listed', or off-exchange. When they are traded off-exchange, they are classified as OTC and can be tailored to each parties (buyer and seller) needs.

Over-The-Counter (OTC) Contract
An agreement between two parties to sell or buy an asset (stock, bond, commodity, MTN, Structured Product etc) or to make a cash settlement in regard of such asset at a specified date in the future under predetermined conditions which would be set at the start of the contract.This essentially makes it a type of derivative. The party who is buying the underlying asset is assuming a long position, and the party selling the underlying asset assumes a short position.

Protection
Hard protection barrier provides a cap on the maximum potential losses that an investment may incur based on the performance of the underlying asset. This will reduce the potential return the product can offer versus a soft protection barrier (see Soft protection barrier). For example, a product with a 75% hard protection barrier will protect 75% of the initial capital invested, exposing the remaining 25% to potential risk. If the value of the investment falls by 20%, then the value of the capital returned will be 80% of initial capital, representing a 20% loss. If, however, the investment breaches the barrier (i e, falls below 75% of the initial value of the investment, losses are capped at 25%).

Soft Protection Barrier
This is a feature of some structured products which provide a full return of initial capital (notional) subject to the underlying asset (reference entity) not falling below a set level prior to and on the maturity date. This level is sometimes called a 'barrier level', provides for a limited degree of capital protection such that even if the underlying asset falls during the term, as long as this level is not breached then capital is returned in full. In most cases, even if the level is breached, capital can be returned in full if the underlying subsequently recovers to a pre-determined level (usually its Opening level) at maturity.

Participation Rate
Some structured products provide a minimum fixed return plus an additional return calculated by multiplying any rise in the underlying asset by a fixed percentage. This percentage is often called the participation or participation rate.

Reverse Convertible
A type of high-income structured product. The typical structure offers a high fixed level of income and a full return of capital unless the underlying asset falls over the term of the investment. If the underlying asset does fall, the investor's capital return is reduced by the percentage fall in the underlying asset.

Secondary Market
The market in any financial product that allows investors to sell or buy more of an asset after the offer period has closed. Due to the bespoke nature of many structured products, secondary markets do not often exist and, if they do, liquidity is often poor. For this reason, investors are usually advised to hold their structured product for the term of the investment.

Starting level (Strike)
This is the recorded level, or price of the underlying asset(s) within the structured product. It is taken at the very start of the structured products term. Depending on the product, it is usually taken from the closing price observed on one day, however, this can also be taken over several days, weeks or months. This willbe explained in the product term sheet, marketing materials and by the investment broker. It is important to note, this will not be the same level when you invest in the secondary market, as the product will have already started and will have a starting level recorded.

Strike Date
This is the date on which the opening level of the underlying asset(s) / referenced entities is recorded.

Structured Product
An investment product that provides a return at set dates that is pre-determined with reference to the performance of one or more underlying assets. The performance of a structured product is therefore based only on the performance of this underlying asset and not on the discretion of the product provider. Often, but not always, the product relies on the use of derivatives to generate the return. Structured products typically come in two forms: growth products (which may provide an element of capital protection) and income products (that provide a fixed high income but with a risk to the capital return).

Term
The duration of time between the structured product's start date when the underlying asset has been observed, and the final observation is called the term. Structured products usually have fixed terms from three to six years.However, they could be made shorter and longer for bespoke/constructor plans.

Tranche
Many structured products are "tranche" products, meaning that they are only available for a limited period oftime and/or amount, implying they are closed ended. Structured products which accept investments for an unlimited period are called "open-ended products". Additionally, you could invest in an Over-the-Counter Forward Contract 'OTC Forward' which can be written against a Medium Term Note (MTN).

Underlying Asset
The financial instrument on which the price of a structured product is based. All structured products provide a return based on the performance of an underlying asset. Underlying assets can be baskets of individual listed shares, the prices of managed funds including hedge funds, commodity indices and a variety of other financial instruments.

Reference Entity
A reference entity can be the issuer of an underlying asset or an entity whose risk has been included in the underlying assets held within a structured product.

Getting in Touch

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