I. Characteristics of call warrants embedded with a floor price (abbreviated as callable bull contracts) and put warrants embedded with a cap price (abbreviated as callable bear contracts)

(I) Warrants designed with a stop-loss mechanism:
CBBCs are designed with a maturity date and cap/floor price. Before the maturity date, if the closing price of the underlying security touches the cap/floor price, the CBBC will become mature earlier and be ended for transaction, and investors can collect the residual cash (residual value). If the closing price of the underlying security does not touch the cap/floor price before the maturity date, investors may sell it on the market or hold it till maturity. Investors may acquire a fund upon maturity, which is the difference between the exercise price and the settlement price of the underlying security, multiplied by the conversion ratio.

(II) A high degree of linkage with the price of relevant assets linked thereby:
CBBCs are in-the-money warrants, i.e. they contain an intrinsic value upon issuance. The price change ratio of a CBBC to its underlying security is close to 1, which allows the CBBC holder to closely adhere to the trend of the underlying security without paying the full purchased amount of the underlying security. The price change of the CBBC draws near to the price change of its related assets, making it a financial instrument with higher transparency. Nevertheless, when the underlying security's price approaches the cap/floor price, the CBBC will undergo greater price volatility, which may lead to a deviation of the price change ratio from that of the underlying security.

(III) High transparency of pricing:
CBBC's price = Difference between the exercise price and the underlying security's market price x Exercise ratio + Financial expense
Financial expense formula = Annual rate of finance-related expenses x Exercise price x (No. of days to the maturity date/365) x Exercise ratio

(IV) Tradable in both bullish and bearish markets:
Investors making bullish bets may choose to buy callable bull contracts, while investors making bearish bets may choose to buy callable bear contracts.

(V) Underlying securities of CBBCs:
Underlying Instruments of CBBCs are securities announced by the TWSE every quarter and the TWSE Capitalization Weighted Stock Index, Finance and Insurance Index and Electronic Index.

II. Risk of callable bull/bear contracts

Mandatory call event: If the closing price of the underlying security touches the cap/floor price, the CBBC will become mature earlier and be

ended for transaction, and investors may only collect a small amount of residual value. When a mandatory call event occurs to the CBBC, even if the underlying security's price overturns, such CBBC will no longer be traded on the market. Therefore, investors shall take into account their risk tolerance before trading CBBCs. The odds of a CBBC being subject to a mandatory call event is lower when the CBBS has a larger difference between the underlying security's price and the cap/floor price; however, its leverage is relatively smaller. On the contrary, when a CBBC has a smaller difference between the underlying security's price and the cap/floor price, the odds of a mandatory call event is higher but the leverage is higher as well.

Leverage effect: CBBCs possess the leverage effect. In comparison with shares, through which investors can obtain profit in multi-folds; if the underlying security's trend falls short of expectation, investors thereby suffer a bigger loss.

Duration: The duration of CBBCs is three months to two years. If a mandatory event occurs before maturity, its duration will be immediately terminated and investors will lose all financial expenses.

Risk of approaching the cap/floor price: Although the price change of the CBBC closely trails the underlying security's price, its price remains affected by factors, such as its supply and demand, financial expenses and time to the maturity date. Especially when the underlying security's price approaches the cap/floor price, the CBBC will undergo greater price volatility and the price difference between bid and ask orders may be larger.

Liquidity: Although CBBCs are designed with the liquidity provider system, investors still need to pay attention to whether the liquidity of all CBBCs is sufficient.

III.Q&A

1. How to choose callable bull/bear contracts?

   Investors shall choose CBBCs with good liquidity and a low financial expense rate. For detailed information of CBBCs' financial expense, please refer to each CBBC's prospectus.

2. Can a CBBC continue to be traded after it touches the cap/floor price?

   After the CBBC touches the cap/floor price, its listing will immediately be terminated, and so investors cannot keep trading such CBBC on the next business day. The settlement price is a simple arithmetic mean of all trading prices of the underlying security on the next business day, so investors can collect the difference between the settlement price and the exercise price.

3. What is a CBBC code?
The code of callable bull contracts is from 03001C to 08999C.
The code of callable bear contracts is from 03001B to 08999B.

4. Are CBBCs designed with liquidity providers?
CBBCs are designed with liquidity providers. Please refer to the prospectus for relevant information.

5. If the underlying instrument goes ex-rights/ex-dividend, will the terms of the CBBC be adjusted?
When the underlying instrument goes ex-rights/ex-dividend, the cap/floor price, exercise price and exercise ratio of the CBBC will all be adjusted based on the terms and conditions stated in the listing document.

6. If the underlying instrument is suspended from trading, will the CBBC be suspended from trading?
When the underlying instrument is suspended from trading, the CBBC will also be suspended from trading.

7. Should investors making bullish bets buy callable bull contracts or callable bear contracts?
CBBCs are suitable for trading in both bullish and bearish markets. Investors making bullish bets may choose to buy callable bull contracts, while investors making bearish bets may choose to buy callable bear contracts.

8. If the investor does not have sufficient funds, can he or she buy CBBCs instead of engaging in margin trading?
CBBCs may serve as a tool for investors to earn the capital gain of the underlying security. The funds it requires are usually lower than those of margin trading, thus it has higher leverage. Therefore, investors shall evaluate their own risk tolerance ability first before choosing to buy CBBCs.

9. When the underlying security touches the cap/floor price, if the settlement price of the CBBC on the next business day is lower (higher) than the exercise price, is it required to cover the shortfall?
When the settlement price of the CBBC is lower (higher) than the exercise price, such CBBC does not possess a residual value. Nevertheless, CBBCs are products traded by using premiums, so investors will not be required to cover the shortfall after liquidation, as it does in margin trading.

10. In comparison with warrants, what is the difference in the linkage between a CBBC and its underlying instrument?
The ratio of CBBC's price change to the price change of the underlying security often

approaches one. Even in a situation where the exercise ratio is 1:1, when the underlying instrument rises NT$1, the CBBC may also rises NT$1. Nevertheless, the linkage of price change of a warrant and its underlying security shall depend on the warrant’s in-the-money or out-the-money degree. Warrants deep in-the-money have a higher degree of linkage, while warrants deep out-the-money have a lower degree of linkage.