Introduction of Extendible Callable Bull/Bear Contracts

1. What are extendible Callable Bull/Bear Contracts (CBBCs)?

General callable bull contracts are call warrants embedded with a lower barrier (floor), and callable bear contracts are put warrants embedded with a higher barrier (cap). 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 underlying security's price, multiplied by the exercise ratio.

An extendible CBBC is the addition of the extension mechanism to a general CBBC issued deep in-the-money, which reduces the risk of early delisting because the underlying instrument's price touches the cap/floor price too early, thereby allowing the expiration date of the CBBC to be extended repeatedly and achieving the goal of mid-to-long-term investment.

An issuer will adjust the exercise price of an extendible CBBC upon maturity to allocate partial intrinsic value to the financial expense of the next period in order to facilitate an automatic extension. Investors can participate in an extension simply by holding the CBBC. If the investor does not want to take part in an extension, he or she only needs to sell the CBBC on the market.

2. Summary of extendible CBBCs

Ticker code	The first five digits are numbers, and the sixth digit is the English character X (callable bull contract) or Y (callable bear contract).
Terms and conditions of issue	Issued deep in-the-money (at least 30% in-the-money).
Setting of cap/floor prices	The difference between the cap/floor price and the closing price of the underlying security on the business day before issue shall reach 30%.
Setting of cap/floor prices during extension	The difference between the cap/floor price and the closing price of the underlying security on the last trading day shall reach 20%.
Finance-related expense rate	Please refer to the prospectus for the details, and fee rates may be adjusted upon each extension.
Duration	An issuer shall apply for an extension twenty business days before the maturity date; investors may pay attention to the announcement during such period or

	make inquiries on the Market Observation Post System.
Attribute of issued underlying instruments	Issued underlying instruments are mainly indices or high yield stocks of lower volatility.
Price volatility	Delta value is often one with a high degree of linkage with the underlying instrument's price.

3. **Advantages of investing in extendible CBBCs**

Convenient investment channel	Extendible CBBCs are securities products listed and traded on the TWSE and powered by liquidity providers. An investor only needs to open a securities account and sign a risk disclosure statement before placing an order. The trading method is the same as that of securities products, including stocks and warrants.
Low investment tax	The trading tax of extendible CBBCs is merely 0.1% of the trading value, far lower than the 0.3% securities transaction tax rate of stocks.
Saving of dividend tax	When a dividend is paid by an underlying security, the dividend value will be immediately reflected in the intrinsic value. Investors selling the CBBC after the price recovery only need to pay the 0.1% securities transaction tax for the dividend value without being imposed with the personal income tax.
Long duration	As long as the difference between the underlying instrument's price and the cap/floor price on the last trading day is 20% or more, the issuer needs to extend the maturity date.
High degree of linkage with the underlying instruments	An extendible CBBC is issued deep in-the-money and its price trend has a high degree of linkage with the underlying instrument.
Adequate leverage	The leverage of an extendible CBBC is around two times to four times, which is greater than margin purchases and short sales that require a high cost but far lower than the nearly ten-fold leverage of warrants, thereby making it suitable for investors with a small demand for leverage.

4. Functioning of the extension mechanism

If the difference between the underlying instrument's price and the cap/floor price of a CBBC is 20% or more on the last trading day, the issuer must conduct the extension operations and adjust the exercise price by deducting the next term’s financial expenses from the intrinsic value, thereby sparing investors from bothering about the delivery of finance-related expenses and smoothing the price of the CBBC.

5. Risk of investing in extendible CBBCs

Price volatility risk	Extendible CBBCs are leverage products. Although their risk is smaller than general warrants and options, their price volatility is still greater than stocks. Therefore, investors still need to evaluate their risk tolerance ability of price volatility before making investments.
Risk of underlying instruments touching cap/floor prices and getting delisted	When a closing price of an underlying instrument touches the cap/floor price, it will be the last trading day of the extendible CBBC and the settlement and delisting upon maturity will be conducted subsequently. Even if the underlying instrument's trend overturns, the investor can no longer trade it. Thus, investors shall especially pay attention to this product characteristic.