

## 1. Purpose

The purpose of this Virtual Asset Risk Disclosure document is to provide prospective clients with a transparent overview of the inherent risks associated with trading and investing in virtual assets via HighBlock's platform. This document aims to ensure that all parties are fully informed of the potential risks before they engage in any transactions involving virtual assets. It serves to communicate the unpredictable and often volatile nature of virtual assets, the lack of regulatory oversight in certain aspects of virtual asset trading, and the importance of investors understanding their personal responsibility in safeguarding their investments.

We highlight the complexity of virtual assets, the technical and market-related challenges they present, and the absence of traditional investor protection schemes. This document is intended to advise clients to seek professional advice tailored to their specific financial circumstances and investment objectives, and to caution them about the various specific risks such as issuer default, market volatility, legal uncertainties, and technological vulnerabilities.

In providing this document, HighBlock underscores its commitment to ethical practices and the provision of necessary information to enable clients to make informed decisions. It is an essential part of our due diligence process and serves as a cornerstone of our client communication strategy.

## 2. Content

### IMPORTANT

Trading in virtual assets, including using HighBlock's trading and related services, involves significant risks. These risks, some of which are outlined below, along with potential future risks, could lead to the loss, impairment, or destruction of your assets, an inability to access benefits, other losses, or the termination of our services.

You should thoroughly assess whether the risks listed here, and all other pertinent risks, are acceptable before engaging in any virtual asset transactions.

Professional advice regarding your specific circumstances is strongly recommended before you trade in virtual assets or utilize our services.

**RISK OF LOSS:** The potential for substantial loss exists in virtual asset transactions. It's crucial to evaluate whether such transactions align with your investment goals, financial situation, risk tolerance, and investment experience. You must be prepared to bear the full loss of the amounts invested due to or associated with any virtual asset transaction, as well as any additional losses that may accrue.

When considering trading or investing, it's vital to understand the risks generally and to pay special attention to the specific risk factors applicable to any given virtual asset transaction.

Unless stated otherwise, capitalized terms in this document have the meanings assigned in the "Investor Business Terms."

If you plan to trade virtual assets (whether they qualify as "securities" under relevant laws or not), it's imperative to fully understand the risks associated with the products mentioned in this document.

- a) virtual assets are highly risky and investors should exercise caution in relation to the products;
- b) a virtual asset may or may not be considered "property" under the law, and such legal uncertainty may affect the nature and enforceability of a client's interest in such a virtual asset;

- c) the offering documents or product information provided by the issuer have not been subject to scrutiny by any regulatory body;
- d) the protection offered by the Investor Compensation Fund does not apply to transactions involving virtual assets (irrespective of the nature of the tokens);
- e) a virtual asset is not a legal tender, ie, it is not backed by the government and authorities;
- f) transactions in virtual assets may be irreversible, and, accordingly, losses due to fraudulent or accidental transactions may not be recoverable;
- g) the value of a virtual asset may be derived from the continued willingness of market participants to exchange fiat currency for a virtual asset, which means that the value of a particular virtual asset may be completely and permanently lost should the market for that virtual asset disappear. There is no assurance that a person who accepts a virtual asset as payment today will continue to do so in the future;
- h) the extreme volatility and unpredictability of the price of a virtual asset relative to fiat currencies may result in a total loss of the investment over a short period of time;
- i) legislative and regulatory changes may adversely affect the use, transfer, exchange and value of virtual assets;
- j) some virtual asset transactions may be deemed to be executed only when recorded and confirmed by the HighBlock, which may not necessarily be the time at which the client initiates the transaction;
- k) the nature of virtual assets exposes them to an increased risk of fraud or cyberattack; and
- l) the nature of virtual assets means that any technological difficulties experienced by the HighBlock may prevent clients from accessing their virtual assets.

### **3. Risks**

#### 1) Issuer Default Risks

HighBlock does not issue virtual assets; they are created by third parties. It's crucial for investors to thoroughly examine the terms and disclosures of these issuers before transacting. Investors must be aware that these documents are not reviewed by any regulatory authority. In case of issuer insolvency, investors face the risk of complete loss, as virtual assets are not backed by any government or legal tender and investors are treated as unsecured creditors. HighBlock cannot guarantee the perpetual listing of any virtual asset on its platform, and delisting can occur at our discretion. We advise investors to seek independent advice before investing.

#### 2) Market, Liquidity and Conversion Risks

In virtual asset transactions involving currencies different from the investor's primary reference asset, or when converting virtual assets, there's a risk of unfavorable market movements. This can significantly reduce the value of the investment upon maturity or during transactions. The value of virtual assets depends on market willingness to trade them for fiat currency, which can fluctuate or disappear, making the assets worthless. Liquidity risks involve losses due to limited market activity, potentially preventing timely transactions at expected prices. Currency depreciation and foreign exchange controls may also affect the value and recovery of investments.

#### 3) Volatility Risks

The volatility of virtual asset prices, influenced by factors like market manipulation, governmental actions, and public opinion, can lead to substantial losses in a short time. Changes in the asset's nature, technical advancements, and broader economic and political climates also contribute to rapid value fluctuations. Investors are advised to approach virtual asset trading with caution due to these high risks.

#### 4) Trading Suspension Risks

During trading suspensions, buying and selling of virtual assets on the platform are halted, affecting both current and potential investors. This suspension, aimed at maintaining market order and protecting investor interests, may also extend to subscriptions and redemptions of

the assets. Liquidating positions can become challenging or impossible under such circumstances. Rapid occurrences like Airdrops, Forks, or Network Events can impact transaction abilities, and information about these events is often hard to predict and may lack comprehensive oversight.

5) Investor Compensation Risks

Transactions involving virtual assets do not receive the protection offered by the Investor Compensation Fund under the Securities and Futures Ordinance or the Deposit Protection Scheme in Hong Kong. This means virtual assets or fiat currency in an account are not considered protected deposits, and thus, virtual asset transactions may have less protection compared to other financial products under Hong Kong law.

6) Not a Bank Deposit under Applicable Laws

Fiat currencies and virtual assets held by us or an associated entity are not considered "deposits" under the Banking Ordinance of Hong Kong, nor are they regulated as any other product or service by applicable laws. Additionally, neither our company nor the associated entity falls under the regulation of the Hong Kong Monetary Authority in this regard.

7) Jurisdiction Risks

Residents or those with connections to certain jurisdictions may be barred from conducting virtual asset transactions. Changes in an investor's domicile or applicable laws could lead to legal or regulatory violations. It's the investor's responsibility to ensure that their transactions remain compliant with the changing legal landscape and their personal circumstances.

8) Country Risks

Transactions involving virtual assets subject to foreign laws or conducted in other jurisdictions may face challenges in recovering invested sums and profits due to exchange controls, government actions, or other official measures. Investors should understand the relevant laws and obtain independent advice on available legal remedies in their and other jurisdictions. Local regulatory authorities cannot enforce rules in other jurisdictions. Restrictions in the investor's country may lead to suspension of account access or limitations on asset transfers until permitted by regulations.

9) Legal and Regulatory Risks

Legal and documentation risks include potential non-enforceability of transactions and violations of applicable laws. There's uncertainty regarding the legal classification of virtual assets as "property," affecting their enforceability. Legislative and regulatory changes could impact the usage, transfer, and value of virtual assets. Investors are responsible for understanding the laws related to their virtual asset activities and the associated tax implications.

10) Regulatory Measures

Securities are subject to global legal and regulatory oversight, which can change unpredictably. Authorities may issue directives, affecting the handling of these securities. The legal framework for cryptocurrencies and tokens is evolving, leading to potential new regulations. This uncertainty means that the legal status of virtual assets can vary, possibly resulting in restrictions or prohibitions in certain jurisdictions. Investors should be aware that the legal and regulatory landscape for virtual assets is fluid and can impact their investments at any time.

11) Risks of Assets Received or Held outside Hong Kong

Virtual assets and fiat currencies held outside Hong Kong by us or our associated entities are governed by the laws of the respective overseas jurisdictions, which may differ from Hong Kong's regulations. Consequently, these assets may not have the same level of legal protection as those within Hong Kong.

12) Risks Relating to Authorized Persons

Allowing others to operate or trade on your HighBlock account carries substantial risks. Unauthorized instructions may be issued, and you accept all risks of such actions, releasing HighBlock from liabilities arising from these instructions.

13) Complexity of Virtual Assets

Virtual assets can be complex, with intricate structures and reliance on technological features that might not be fully understood, increasing the risk.

- 14) **Commissions and Fees**  
Before engaging in transactions on HighBlock, understand all applicable fees, costs, and commissions. These charges vary based on transaction nature, size, and asset type.
- 15) **Tax and Accounting Uncertainties**  
Virtual asset transactions may be subject to varying tax laws and regulations. Tax treatment and accounting practices for these assets are evolving and lack standardization.
- 16) **Inflation Risks**  
The supply of virtual assets on HighBlock isn't fixed, subject to changes through events like Forks or Airdrops. Increased supply can lead to price declines.
- 17) **Concentration Risks**  
At any point in time, one or more persons may directly or indirectly control significant portions of the total supply of any particular virtual asset. Acting individually or in concert, these holders may have significant influence, and may be able to influence or cause Forks or Network Events which may have a detrimental effect on price, value or functionality of the virtual assets. Network Participants may make decisions that are not in your best interest as a holder of virtual assets.
- 18) **Conflicts of Interest**  
In the context of HighBlock, it's important to recognize that we or other virtual asset trading service providers might act both as your agents and as principals, which could lead to potential conflicts of interest. This dual role is common in the distribution of virtual assets, like initial coin offerings, and secondary market trading. The absence of regulatory oversight in some cases may make it challenging to identify and manage these conflicts.
- 19) **Cryptographic Protection**  
Cryptography, central to blockchain and virtual assets, is constantly evolving, making absolute security assurance impossible. Advances in technologies like AI and quantum computing pose risks to the security of cryptographic systems. Consequently, the security of HighBlock's trading platform cannot be guaranteed, given the unpredictable nature of future developments in cryptography and security technologies.
- 20) **Abandonment or Development Failure**  
HighBlock's trading platform, due to its technical complexity, may encounter unforeseeable or unresolvable issues. Such challenges could lead to development delays, failures, or termination, possibly due to factors like funding shortages. These issues might render virtual assets non-transferable, non-exercisable, or obsolete.
- 21) **Loss of Private Key is Permanent and Irreversible**  
Investors are solely responsible for the security of their private keys associated with virtual assets not held in accounts managed by HighBlock or its associated entities. Losing control of these private keys results in irreversible loss of access to these assets. Neither HighBlock nor any other party can retrieve or protect virtual assets if the private keys are lost, making it impossible to transfer or realize any value from these assets in the future.
- 22) **Cyber-attacks and Fraudulent Activity, including Theft of Digital Assets on the Trading Platform**  
Virtual assets and accounts on the trading platform are susceptible to various types of cyber threats, including hacking and fraud. These risks stem from vulnerabilities in technology, such as smart contracts, and human error. HighBlock implements industry practices like cold storage and multi-signature authentication for security, but the risk of cyber theft and other fraudulent activities remains. It is essential for investors to be vigilant in protecting their accounts and assets against such threats.
- 23) **Flaw in the Source Code**  
At HighBlock, quality assurance processes are in place to ensure source code accuracy. However, the perfection of these codes, especially open source ones, can't be guaranteed. They

may have bugs or flaws that could affect the platform's functionality, security, and stability. Open source nature relies on community engagement for identifying and resolving issues.

- 24) **Unpermissioned, Decentralized and Autonomous Ledger**  
HighBlock's trading platform, supporting various unpermissioned distributed ledger systems, faces risks inherent to this technology. These risks include potential technical flaws, security threats, changes in consensus protocols, fluctuating asset values, and evolving competitive landscapes. The platform's open and decentralized nature relies on community support for its operation, governance, and development, making it susceptible to challenges associated with such systems.
- 25) **Compromised Security**  
HighBlock's platform relies on open source software and decentralized ledgers like Ethereum. This exposes it to risks where core infrastructure could be compromised, either intentionally or accidentally, leading to potential loss of digital assets and system failure.
- 26) **Inadequacy of Processing Power**  
As HighBlock's trading platform grows, the increase in transactions could strain processing power. If demand exceeds forecasts, this may destabilize or slow down the network, potentially leading to security issues like unauthorized transactions. Such scenarios could impact the platform's functionality and security.
- 27) **Unauthorized Claim of virtual assets**  
Investors are responsible for securing their wallets, emails, and accounts on HighBlock's platform. Digital assets are vulnerable to unauthorized claims if someone gains access through hacking or other methods. These unauthorized transactions are irreversible. Investors should implement strong security measures to protect their assets and personal information.
- 28) **Forking and Attacks**  
Cryptographic tokens on HighBlock, often built on the Ethereum blockchain, face risks due to the blockchain's open-source nature, which allows anyone to propose changes. These changes can lead to a "fork" in the blockchain, disrupting the trading platform's operation and potentially its sustainability. Additionally, virtual assets are susceptible to network security attacks. Such events, including forks, can significantly impact asset values and functionality, and might be beyond HighBlock's control or contrary to its decisions.
- 29) **Reliance on the Internet and Other and Technology-related Risks**  
Virtual asset transactions on HighBlock depend on the internet and technology, which can be unreliable. This may lead to transaction delays, data loss, or security breaches. Technological difficulties could also prevent access to virtual assets. No technology is entirely secure, and internet-based communications are inherently unstable, potentially affecting the execution of transactions.
- 30) **Transactions Deemed Executed Only when Recorded or Confirmed**  
**Transactions Recorded and Confirmed:** HighBlock acknowledges that certain virtual asset transactions are considered executed only when recorded and confirmed by HighBlock. This may not necessarily align with the time at which investors initiate the transactions. It's important to be aware that confirmation may take some time.
- 31) **Timing Risks**  
HighBlock wants investors to understand that a virtual asset transaction becomes binding upon completing the steps outlined in the Investor Business Terms. Once this occurs, the transaction cannot be reversed. There is a risk that the final binding transaction may not align with the provided Instructions, potentially resulting in losses if the transaction is not executed at the desired time.
- 32) **Unauthorized Access**  
HighBlock cautions investors about the possibility of unauthorized third parties gaining access to their accounts and conducting virtual asset transactions without their knowledge or authorization. This can occur through various means, including the compromise of other devices or accounts used by the investor.

33) Irreversible Transactions

HighBlock wants investors to be aware that virtual asset transactions can be irreversible. Once a transaction is verified and recorded on the blockchain, losses resulting from accidental or fraudulent transactions may not be recoverable. It's crucial to exercise caution to prevent such transactions.

34) Additional Important Notes:

- a. Evolution of Virtual Assets: HighBlock reminds investors of the ongoing evolution of virtual assets and how this can be influenced by global regulatory developments.
- b. Unregulated Platforms: HighBlock notes that most trading, lending, and other dealing platforms, as well as custodians of virtual assets, are currently unregulated. Investors should be aware of the lack of regulatory oversight in these areas.
- c. Counterparty Risks: HighBlock emphasizes the importance of considering counterparty risks when engaging in transactions with issuers, private buyers and sellers, or through various trading, lending, or dealing platforms.
- d. Risk of Loss: HighBlock highlights the risk of losing virtual assets, particularly when held in hot wallets. Security measures are essential to mitigate this risk.
- e. Emerging Risks: HighBlock cautions that new risks may emerge from investing in new types of virtual assets or engaging with market participants involved in more complex transaction strategies.